

## CHAPTER 3

### FINANCIAL OVERVIEW

#### FINANCIAL MANAGEMENT SYSTEMS

Congress created the Single Audit Act of 1984 (Act) to improve auditing and management of federal funds provided to state and local governments. The Act requires a single organization-wide financial and compliance audit for state and local governments. The Act is intended to promote sound financial management, including effective internal controls, with respect to federal awards administered by state and local governments and nonprofit organizations. Internal controls encompass a system of accounting and administrative controls, including management and program policies, procedures and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse, and the reliability of financial reporting.

In addition to internal controls, the Act focuses on compliance with laws and regulations governing federal awards. Compliance refers to how well the respective agency receiving federal funds complies with the requirements in federal law, regulations, contracts, and grants applicable to each of its federal programs. The Single Audit Act Amendments of 1996 were to reduce burdens on State and local governments, and to ensure that federal departments and agencies rely on and use the audit work.

All non-federal entities that expend \$750,000 or more in federal awards in a year are required to have a single audit for that year in accordance with the Act, Single Audit Act Amendments of 1996 and 2 CFR Part §200 Subpart F-Audit Requirements.

Each year, California receives and expends billions of dollars in federal funds for numerous programs. As a condition of receiving these funds, an annual independent audit must be conducted of the State's financial statements. This audit must also include California's compliance with the federal program regulations.

The California State Auditor (State Auditor), the State's independent and nonpartisan audit, evaluation, and investigative arm of the Legislature, plays a critical role in the oversight for federal funds received by the State each year.

As the State's external independent auditor, the State Auditor is the only entity that has, by statute, full access to all records, accounts, correspondence, property or other files of state and local agencies, special districts, public contractors, and school districts. The State Auditor's general powers include the ability to subpoena records, take depositions, and administer oaths. The State Auditor's Office (office) is responsible for evaluating departments' administration and management of public funds and programs to assure that the proper checks and balances are in place. In addition, the office evaluates departments' compliance with laws and regulations. Although our audits encompass a wide range of topics, our staff are highly trained professionals with a depth and breadth of experience that allows them to evaluate programs and recommend ways to make government more efficient, improve management controls, and instill best

practices.

In addition to conducting high risk assessments as authorized by statute, investigations of misconduct by state employees, and audits mandated in statute or requested and approved by the Joint Legislative Audit Committee, the State Auditor is statutorily responsible for annually conducting the statewide Single Audit.

If an outside audit firm is procured to perform any of the audit functions, California Contract Code Sections 10330 through 10334 apply to the procurement and contracting of the firm(s).

State statutes also mandate that the State Audit be:

- a) conducted in accordance government and industry auditing standards,
- b) the independent audit of the State's basic financial statements, and
- c) the independent compliance audit of numerous federal programs administered by California.

As required by the Act and Single Audit Amendments of 1996, the State Auditor complies with Generally Accepted Government Auditing Standards (GAGAS) when conducting the financial and federal compliance audit. The U. S. General Accounting Office issues these standards. In addition, the U. S. Office of Management and Budget (OMB) issues guidance for auditors to follow when conducting the Single Audit. This guidance is intended to provide for consistency and uniformity for the audit of the expenditure of federal awards by states, local governments and nonprofits.

The California Single Audit Report encompasses all state agencies that expend federal funds. HCD is committed to ensuring that policies and practices are in place to make certain that all federal, state and local program rules, regulations, statutes and best practice standards are being met. If HCD-managed programs are named in any Single Audit Reports as a finding, HCD reviews the issue and the practices that lead to the finding, determines what process changes are needed to become compliant, and implements the necessary changes. Process changes will include adequate oversight and monitoring to assure ongoing compliance.

The State of California's annual financial statements and single audit reports are available to the public on the State Controller's Office (SCO) website. Financial reports are located at [http://www.dof.ca.gov/reports\\_and\\_periodicals/](http://www.dof.ca.gov/reports_and_periodicals/); single audit reports are located at [http://www.dof.ca.gov/single\\_audit\\_reports/](http://www.dof.ca.gov/single_audit_reports/).

This comprehensive annual Single Audit fulfills the provisions of the federal Single Audit Act of 1984, Single Audit Act Amendments of 1996, and 2 CFR Part §200 Subpart F-Audit Requirements.

## **FINANCIAL MANAGEMENT REPORTING SYSTEMS**

California's State Accounting & Reporting System (CALSTARS) is the State's financial management system. The CALSTARS manual is located on the Department of Finance website at

<http://www.dof.ca.gov/accounting/calstars/view.php>), while the general financial policies are available at <http://www.dof.ca.gov/accounting/fscu/>.

HCD staff track grant awards, obligations, unobligated balances, and expenditures, using the Department's Consolidated Automated Program Enterprise System (CAPES), HUD's Integrated Data Information System (IDIS) or Disaster Recovery Grant Reporting System (DRGR), as well as CALSTARS and internal Department reports.

California's accounting procedures are in accordance with Generally Accepted Accounting Standards (GAAS) and require that source documentation be entered into CALSTARS. A review and approval of documents to ensure that the expenditures are eligible and valid is required before transactions are recorded in CALSTARS.

HUD requires each Grantee to use the online Disaster Recovery Grant Reporting (DRGR) system to process draw requests, report progress and program narratives for each project expenditure and administration draws. HCD will report a recap of the progress and expenditures, as well as any challenges or obstacles in the required quarterly progress reports in DRGR. HUD will use DRGR data to monitor for anomalies or performance problems that suggest fraud, abuse of funds, and duplication of benefits; to reconcile budgets, obligations, fund draws, and applicable administrative and public service limitations and the overall percent of benefit to low- and moderate-income persons, and as a basis for risk analysis in determining a monitoring plan.

## **HCD FINANCIAL OVERVIEW**

The Department of Housing and Community Development has eight divisions: Administration and Management, Audit & Evaluation, Codes and Standards, Executive, Financial Assistance, Housing Policy, Legal Affairs, and Legislation. The Financial Assistance Division manages the federal programs.

The Department's Standard Agreement, the contractual document between HCD and the entities that are awarded funds to carry out specific, eligible activities (contractors), details the financial and recordkeeping requirements and standards for the Grantees.

Grantees must permit the State, federal government, the Bureau of State Audits, the Department and/or their representatives, upon reasonable notice, unrestricted access to any or all books, records, accounts, documentation, and all other materials relevant to the agreement for the purpose of monitoring, auditing, or otherwise examining said materials.

All records, books, accounts, documentation and all other materials relevant to the federal funding must be maintained for a minimum period of five (5) years after the Department notifies Grantees that the HUD/HCD contract has been closed.

Once the federal fiscal year budget has been enacted and HUD announces the formula allocation amounts for the CDBG, HOME and ESG programs, HCD's Financial, Reporting, Evaluation and

Disbursements (FRED) Section prepares a request for a program cost account (PCA) code that allows tracking of all activity for the funds, including encumbrances (when funds are committed to a Standard Agreement), disencumbrances, expenses or payments, and/or return of funds associated to the HUD grant. The request is routed through Accounting, Legal, and Budgets offices as it is completed.

The NDR Program will have separate PCA codes per activity in order to efficiently track expenditures and available funding. In addition, separate PCA codes will be assigned to the administration funds for each agency administering NDR activities (HCD, Tuolumne, Sierra Nevada Conservancy), allowing the identification of each organization's administrative expenditures and budget.

Occasionally Grantees discover they have requested reimbursement funds in excess of the actual amount necessary and return the overage amount to HCD. Any cash associated with the programs are maintained in a bank account, and are tracked by the PCA code. Returned funds are to be used prior to drawing any additional program funds from the US Treasury.

HCD has an approved Cost Allocation Plan. Any expenditures for real property, such as computer equipment, is distributed to each fund source based on the amount of authorized personnel position per program. The annual dollar amount for any costs is determined by the scheduled expenditures. When the computer equipment has reached the end of its useful life, it is surplus (there is no income or revenues generated), and the computer equipment either goes to the Prison Industry Authority, to the State of California Department of General Services or is identified as waste.

#### **ADMINISTRATION AND MANAGEMENT DIVISION'S (A & M) BUDGETS OFFICE FEDERAL FUNDING PROCEDURES**

When the Budgets Office receives the PCA information for the program/year, Budgets staff compare the total of all federal programs to the Authority given by the State Legislature in that fiscal year budget. If the existing Authority is insufficient to include the expenditures, Budgets contacts FRED, notifying them that additional Authority is needed. Insufficient expenditure authority would prompt HCD to submit a Budget Change Proposal (BCP) to the Department of Finance in order to increase the spending authority.

Once Budgets has established there is sufficient authority, Budgets approves the PCA and provides a copy of the approval to the Accounting office and FRED.

The Budgets Office establishes an annual budget for the Department, including a breakdown by division. The Division of Financial Assistance (DFA) budgets are set up by Section (Loan Closing, Contract Management, FRED, Policy & Evaluation, NOFA and Asset Management Compliance (AMC) - Occupancy and AMC -Fiscal). Each Section has a specific index code, which is used to track their expenditures and available funds. Costs are charged against the specific index/PCA combination, based on the work being performed. For example, salaries for Contract Management Section staff working on CDBG-NDR Standard Agreements are billed against index code 2720 and PCA code 44107 (Contract Management Section index and CDBG-NDR PCA codes).

Indirect costs are billed, based on the approved Cost Allocation Plan in place for the Department.

On a quarterly basis, Budgets Office staff meets with DFA Section Chiefs to review their Section's budgets. The purpose of the review is to verify accuracy, address any needs or gaps reflected, and to ensure cost savings, where available, are being maximized.

## **CONTRACT MANAGEMENT REPRESENTATIVE AND MANAGER OVERSIGHT**

HCD's Division of Financial Assistance will assign one full time staff person to oversee the contract management of the CDBG-NDR funding. This position, known as the CDBG-NDR Contract Management Representative (CDBG-NDR Rep), will work closely with the Tuolumne County and the Sierra Nevada Conservancy staff involved in carrying out the CDBG-NDR activities. In addition, HCD will contract for a third-part consultant to support the CDBG-NDR Rep in contract oversight work, provide guidance to fiscal staff in relation to the Disaster Recovery Grant Reporting (DRGR) System, build HCD compliance capacity, and to build capacity for HCD's sub-Grantees in CDBG-NDR requirements and regulatory compliance through frequent on-site visits.

The CDBG-NDR Rep will work closely with the consultant to set up a communications and reporting plan that will allow HCD to accurately track progress and expenditures for each of the funded CDBG-NDR activities. The consulting firm will provide grant management software that will facilitate the transfer of information between the state and federal systems to track milestones, outcomes and beneficiary data for each CDBG-NDR activity, as outlined in the Action Plan approved by HUD.

The CDBG-NDR Rep will review all draft agreements between HCD and its CDBG-NDR sub-Grantees prior to execution to ensure that all required federal language is in place. Upon execution of the sub-Grantee agreements, Grantees must submit the documentation listed on the "General Conditions Checklist" for HCD to review and approve. No funds requests will be processed (for reimbursements or advance requests) prior to HCD issuing a General Conditions clearance letter.

Each Standard Agreement and Inter-Agency Agreement will outline the required reporting schedule and documentation. The HCD CDBG-NDR Rep and consultant staff will work with the sub-Grantee to ensure timely and accurate reporting. In addition to the formal reports, the CDBG-NDR Rep will contact the Grantees on a regularly scheduled basis to obtain progress updates and to provide technical assistance as the projects progress forward through completion.

Each project will be tracked in a shared web-based Micro Soft Share Point file and will include a Micro Soft Project program that tracks construction scheduling and progress. The parties involved in the project, as well as HCD staff (HCD CDBG-NDR Rep, Manager along with other interested parties) will have access to the shared file(s). Continued evaluation of each project will be performed by the HCD, primarily managed by the HCD CDBG-DDR Rep, and will be

compared to the data contained in the weekly updates received and quarterly reports submitted.

The CDBG-NDR Rep will coordinate all labor compliance for CDBG-NDR projects. Each Grantee and/or agency is required to name an employee as Labor Standard Compliance Officer to monitor federal and state prevailing wage compliance for each public construction project. The Grantee and/or agency may hire a Labor Standards Coordinator to perform day to day compliance oversight of the federal and state labor standards and equal opportunity provisions. The CDBG-NDR Rep will be responsible for ensuring Grantees follow federal procurement processes, including the incorporation of all prevailing wage language and processes for public construction activities in all bid and contract documents. (See the Procurement chapter for specifics.) The CDBG-NDR Rep will coordinate with the HUD Region IX Labor Specialist for all construction activity implementation, including the submission of all labor reports.

The CDBG-NDR Rep will establish a meeting prior to the bidding of any jobs for projects implemented by local jurisdictions. The meeting(s) will include the CDBG-NDR Rep, the HCD consultant, the Labor Compliance Officer (Grantee or agency employee), any staff involved in the project from administration through public works departments, and any hired Labor Standards Coordinator(s). The CDBG-NDR Rep and/or HCD Consultant will ensure labor compliance oversight for projects, in addition to labor compliance performed by the Grantee.

Funds requests, along with any required supporting documentation, will be completed and submitted by the Grantee/partner to HCD via the method outlined and described in the CDBG-DR or CDBG-NDR Standard Agreement or Inter-Agency Agreement. Each funds request will be associated to a specific activity; funds requests may not include expenditure information for more than one project outlined in the Standard Agreement/Interagency Agreement. General Administration expenses will be drawn on a separate funds request designed exclusively for general administration costs.

Upon receipt, HCD staff will note the receipt of the funds request in the CAPES system. The assigned CDBG-NDR Rep will review all submitted documentation for compliance to the federal and state requirements, compare the activity amounts available to the CAPES system to ensure funds are available, validate that any advanced funds have been fully reconciled, and that the funds request certifications are signed by the authorized signor, per the resolution or Agreement. The CDBG-NDR Rep will work with the submitting agency to obtain any information/documentation necessary (if needed) to complete the funds request documentation. Communications will be documented (notes taken for verbal conversations, emails printed and maintained in the contract file). Once all information/documentation is received, the CDBG-NDR Rep will indicate that they have approved the funds request by entering their initials and date in the appropriate box on the request and will submit the approved request to the Contract Management Manger (CM Mgr.).

The CM Mgr. will review the funds request documentation and approve the request by entering their initials and date in the box on the request. The approval of the funds request will be entered into the CAPES system and the funds request will be submitted to the FRED Section for payment processing. Details regarding payment processing is detailed in the "Payments Requirements" section of this chapter.

At minimum, one funds request per Standard Agreement or Inter-Agency Agreement per quarter will be randomly selected for monitoring by the CDBG-NDR Rep and/or HCD Consultant. The monitoring of the funds request(s) will require all source documentation for all costs listed on the funds request to be review. Desk and/or on-site monitorings will be announced, along with the funds request selected. This monitoring will be support HCD's oversight, verification of accuracy, identify any areas needing improvement, and to ensure cost savings, where available, are maximized. Funds request status will be discussed during the regularly scheduled coordination and update communications, in order to ensure timely expenditure of the CDBG-NDR funds.

The HCD Consultant, CDBG-NDR Rep, CM Mgr. and FRED staff will review the performance measures and outcomes for CDBG-NDR activities. This information will be shared with sub-Grantees each quarter to keep Grantees informed as to the progress being reported to HUD on each of the activities.

After the project has been completed, all beneficiary data reported to HCD, and the analysis of the outcomes and resilience standards has been performed, the CDBG-NDR Rep and HCD Consultant will work with the Grantees to close out the grants. Note that HUD has yet to announce the program closeout requirements; HCD will issue a Management Memo outlining the documentation needed for grant closeout upon receipt of the CPD Notice.

## **PROPOSED PROJECT CHANGES**

HUD awarded CDBG-NDR projects based on the descriptions submitted in the State's NDRC Application. Tuolumne County, the Sierra Nevada Conservancy Agency and/or any subrecipients or subgrantees must submit full project descriptions to HCD for approval. Projects must be implemented in accordance with HCD approval plans, specifications and budgets.

Any changes to the HCD approved project plans and/or budget must be submitted for approval. HCD will review the requested changes to determine that the project remains programmatically and financially feasible and eligible under the CDBG-NDR program requirements, and will still meet the identified National Objective.

No substantial changes are allowed in the project intent, general purpose, activity, and/or budget without HUD approval. If necessary, HCD will submit the proposed to HUD for approval.

HCD will issue an approval or denial letter for the proposed changes, which must be maintained in the permanent program file.

## **DISPUTE RESOLUTION**

All involved parties are required to attempt to resolve disputes by seeing consensus through informal discussion and negotiation. Such informal discussions will typically include staff and their immediate and second level supervisors, as necessary. If either party determines that it is

necessary to elevate an issue, that party should submit notification to the other initiating the formal dispute resolution process described below. The agencies may resolve the dispute by mutual agreement and withdraw from the formal dispute resolution process at any time.

Prior to invoking the “Formal Disputes Resolution Procedures,” documentation substantiating the attempts, efforts and failure to resolve the issue based on the informal discussions and negotiations must be submitted to HCD.

### **Formal Dispute Resolution Procedure**

HCD commits to resolving Formal Disputes using the following procedure:

1. Within 30 calendar days, second level supervisors agree to meet to attempt to resolve the dispute.
2. If HCD and the Tuolumne County and/or Sierra Nevada Conservancy second level supervisors fail to reach agreement on the disputed matter, they agree to prepare a joint memorandum describing the following:
  - a. The nature of the dispute;
  - b. The resolution preferred by each party
  - c. Pros and cons to the preferred resolutions
  - d. Alternative resolutions; and
  - e. A date by which the issue should be resolved, not to exceed 30 calendar days (10 working days for oversight agency selection) from the date it is submitted.

The memorandum is to be submitted to the HUD within 15 calendar days from the date this second step is initiated. HUD’s determination regarding the dispute will be implemented.

## **SINGLE AUDIT COMPLIANCE**

Per the State Administrative Manual (SAM) Section 20070, the State Controller’s Office (SCO) is the Pass-Through Entity for California and is responsible for coordinating Single Audit compliance with local governments for all Pass-Through Federal Funding (State CDBG-DR and/or CDBG-NDR Program funding is pass-through funding). Any CDBG-DR and/or CDBG-NDR Grantees and/or agencies that are a non-federal entity must be in compliance with the Single Audit requirements. Compliance which must be reported to both the State of California Controller’s Office and the Federal Audit Clearinghouse.

Documentation showing compliance with the federal single audit requirements include:

1. If the entity expends *less than* \$750,000 in federal awards, it is required to submit written notification of its exempt status to the State Controller’s Office (SCO).

2. If the entity expends *equal to or in excess of \$750,000* in federal awards and that amount does **not** include any state pass-through funds, the entity must submit either the audit report or an explanation letter to the SCO. If the entity is currently being monitored by the SCO, a “No Review Letter” will be issued to the entity in return.
3. If the entity expends *equal to or in excess of \$750,000* in federal awards and that amount **includes** any state pass-through funds, then the SCO requires a complete single audit reporting package to be submitted for review. Reporting packages are reviewed on a first-in, first-out basis.

Per OMB Regulations 2 CFR Part 200.512, the California Department of Finance electronically submits the State’s Single Audit Report data in the prescribed format to the Federal Audit Clearinghouse within the earlier of 30 calendar days after receipt of the auditor’s report or nine months after the end of the audit period.

## **MANAGEMENT DECISIONS FOR HCD SUBRECIPIENT SINGLE AUDIT FINDINGS**

The State Controller’s Office notifies HCD of single audits that have Findings associated to the federally funded programs administered by HCD. Upon notification, HCD’s Audit Branch (Audits) notifies the program manager when Grantees have submitted Single Audits reflecting Audit Findings. Within 30 days of Audits’ notification, a Management Decision Letter, signed by the CDBG Program Manager will be sent to the entity with a response due date. The Management Decision Letter will outline the deficiency(ies) and the corrective actions required to clear the finding(s). Once the Program Representative receives and reviews the submitted documentation and determines it is sufficient to clear the finding(s), a Clearance letter is prepared, signed by the Program Manager and sent to the Grantee to be maintained in their records.

## **PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION (PII)**

In the normal course of grant administration, HCD and their grant recipients may receive personally identifiable information (PII), such as names, addresses, income verification documents, disability status, employment status, etc., from applicants and/or beneficiaries. CDBG-DR and CDBG-NDR activities most likely to result in HCD’s and their grant recipients’ receipt of PII include: housing assistance, small business assistance, and public services. HCD and their grant recipients will take the following steps to protect personally identifiable information:

- Maintain hard copies of PII records in locked filing cabinets
- Password protect electronic folders and/or files containing PII

Filing cabinet keys and electronic passwords are shared with HCD staff only. HCD releases records containing PII upon request, after verification, by the following entities:

- Federal and state auditors
- Other federal or state agencies for duplication of benefits analyses

If records containing PII are subject to Freedom of Information Act or California Access to Public Records requests, such records shall only be released in accordance with state and federal law.

All active HCD records are maintained in limited access areas. Employee keycard access is required to enter office areas containing paper records. Electronic records are stored on restricted access shared drives supported by state computer servers.

## **HCD'S FINANCIAL, REPORTING, EVALUATION AND DISBURSEMENTS (FRED) SECTION GRANT MAINTENANCE AND AWARDING PROCESS**

For recurring HUD programs administered within HCD, in addition to establishing the program-specific PCA codes, FRED staff calculates an estimated amount of funds available per program, which includes any new, non-awarded and/or disencumbered funds. Estimated funds available amounts are provided to the Policy and Evaluation (P&E) Branch to be used in the Notices of Funding Availability issued each year, or in the methods of distribution detailed in the State's Consolidated Plan.

After the applications have been received, reviewed for threshold, rated and ranked, the award packet, outlining the amount, name, activities, etc. will be generated and submitted to Budgets and Accounting offices. Each Standard Agreement includes the amount of funding and the PCA(s) committed to that award.

For the CDBG-NDR Program, HCD applied to HUD through a competitive NOFA for specific activities, located in specific locations, and related to the 2013 Rim Fire. HUD awarded HCD funds for those specific activities, which are going to be contracted with the entities that will carry out the work involved. HCD will enter into an inter-agency agreement with the Sierra Nevada Conservancy for the forest and watershed restoration and development of a biomass plant, and will execute a Standard Agreement with Tuolumne County for the development of a public facility.

Information regarding each federally funded award is entered and tracked in the federal Integrated Data and Information System (IDIS) or Disaster Recovery Grant Reporting (DRGR) system, whichever is appropriate for the program.

Staff in the FRED Section will reconcile each HUD grant (identified by PCA) by using HUD reports (either IDIS or DRGR, depending on the program), Accounting's monthly Reconciliation Reports, and data maintained in CAPES. Each Reconciliation Report contains the following categories: total grant amount, expenditures, encumbrances, and available balances. Each category is broken into Local Assistance, Technical Assistance, and Support (HCD's administration allocation).

The FRED section is responsible to close out the HUD grants, based on each program's specific requirement.

Payments for eligible costs are processed as submitted to the Department as reimbursements are needed by the Standard Agreement contractors. Funds requests are received and approved

for payment by the Operations Branch (either Loan Closing or Contract Management) and forwarded to the FRED section to have the payment set up in CAPES and IDIS/DRGR system. The CAPES form titled “Request for Funds” (RFF) is generated and forwarded to Accounts Payable (along with any special handling instructions, if applicable).

## **A & M ACCOUNTS PAYABLE DEPARTMENT FEDERAL PAYMENT PROCESSING**

Upon receipt of an approved Request for Funds (RFF) that includes an IDIS/DRGR issued HUD voucher number and a memorandum to use Returned Funds and/or Program Income (if applicable), the General Ledger unit staff specializing in Federal Drawdowns insures funds exist within the fiscal year that is being requested. If funds are not available in the identified fiscal year, the Federal Drawdown staff will prepare a memo requesting SCO to transfer funds into the identified fiscal year. Once SCO completes the transfer, the memo is marked as “okay to pay” and submitted to the Payables staff.

Accounts Payables staff process payment requests through CALSTARS and prepares a physical claim schedule package per payment which is reviewed and approved by the Payables Accounting Admin I or Senior Accounting Officer. Claim schedules are bundled and given to the Federal Drawdown staff in the General Ledger unit. Each IDIS/DRGR voucher, once the claim is audited, is updated to reflect a release date for that same week’s Friday date and approved.

Claims are batched by like grants and audited against IDIS/DRGR by voucher number to insure the dollar amounts and payees match the claim schedule information. CALSTARS printouts are audited to determine which Federal Award year to post the payment to, based on PCA.

Claim schedules are couriered to SCO on Wednesday mornings, in order for them to arrive at the same time as the federal funds are being processed, minimizing the time between the federal funds being drawn from the US Treasury and being sent to the recipient. SCO forwards to HCD a report reflecting journal entry postings of the federal funds received that week (the report is typically sent on Wednesdays). Accounts Payables staff update the CAPES system showing the warrant issue dates.

IDIS and DRGR User Guides are located at <https://www.portal.hud.gov>.

Claim Schedule instructions and guidance are located on the SCO website at: [http://www.sco.ca.gov/ard\\_state\\_claim\\_sched.html](http://www.sco.ca.gov/ard_state_claim_sched.html)

## **PROGRAM COMPLIANCE – FINANCIAL REQUIREMENTS**

HCD is responsible for awarding program funds to eligible applicants, which include cities, towns, or counties, or other state agencies. These entities, known as Grantees, shall ensure program compliance, efficiency, and effectiveness in compliance with the terms of their agreement (contract) with HCD.

CDBG applications describe the programs, projects, funding and beneficiaries of CDBG activities, if awarded. HCD incorporates the application by reference into the contract; any anticipated changes require prior written HCD approval. Changes would include any alternations to the program or project budget, scope of work, location, design, beneficiaries, or any other component of the awarded activity.

By executing the HCD Standard Agreement or Inter-Agency Agreement, the Grantee agrees to comply with all federal and state statutes, regulations, rules that apply to the CDBG activities, as well as the requirements listed within the contract, in exchange for receiving the grant for the awarded activities. Some requirements must be fulfilled prior to incurring costs, and/or prior to requesting funds from the Department.

The Department's contract includes, but is not limited to, the following components:

- Scope of work, which includes a description of the work to be performed, a schedule for completing the work and a budget; and
- Reports and recordkeeping requirements, defining the specific reports and the reporting dates, along with the particular records and the timeline for maintaining them in order to assist HCD in meeting the Department's recordkeeping and reporting requirements; and
- Program income restrictions and requirements for any funds generated as result of the activities funded in the contract, including HCD approval of any program income expenditures, along with reporting requirements; and
- Uniform administrative requirements, as outlined in both the federal Office of Management and Budget (OMB) and the California's State Administrative Manual (SAM); and
- Suspension and termination clauses if the Department finds that any Grantee materially fails to comply with the terms of the contract, and that the contract may be terminated for convenience; and
- Reversion of assets clause, stating that upon contract expiration, the Grantee will transfer any CDBG funds on hand to HCD, along with any accounts receivable attributed to the use of the CDBG funds (where they do not meet the definition of Program Income).

HCD Grantees may work with developers, subrecipients, contractors, or any combination of these entities to implement the contracted CDBG activities. However, different sets of HUD and OMB rules apply to these entities in certain situations. (See the "Procurement" section of this manual.)

The Department's role is to ensure compliance. This is achieved by working closely with Grantees to have a clear understanding of the progress of each funded activity. This includes reviewing documentation submitted and providing written approvals or denials, telephone and email communications regarding program and/or project status, technical assistance, trainings and monitoring of the Grantees' work.

Grantees are required to submit various reports to document the progress of the awarded activities; the required reports and their frequency are defined in the contract. Inaccurate,

incomplete or missing reports impact the Department's ability to report the progress of the activities to HUD.

For CDBG-NDR funding, HUD approved the Department's application to sub-grant funds to the Sierra Nevada Conservancy (SNC), a California agency, in order for the SNC to carry out the activities covering the Forest and Watershed Health Program and the Biomass and Wood Products Campus project. The Department will also sub-grant funds to Tuolumne County for the public facility activity of developing and constructing a Community Resilience Center.

For the Forest and Watershed Health program and the Biomass facility, Sierra Nevada Conservancy staff, along with the help of a CDBG-DR consultant and HCD, is responsible for verifying that each proposed project fulfills at least one CDBG national objective, and meets threshold and eligibility requirements and federal regulations, and that CDBG-DR funds are the best available resource for implementation of the proposal.

For the Community Resilience Center project, HCD staff is responsible for verifying that each proposed project fulfills at least one CDBG national objective, and meets threshold and eligibility requirements and federal regulations, and that CDBG-DR funds are the best available resource for implementation of the proposal.

## **PAYMENT REQUIREMENTS (REIMBURSEMENTS AND/OR ADVANCES)**

All payments shall be made on a project-by-project basis according to the terms of the Standard Agreement or Inter-Agency Agreement between HCD and the entity (jurisdiction or agency) carrying out the CDBG activities. All requests for payment must be supported with proper documentation and shall be certified by the Authorized Signor identified in the Resolution. Funds requests, along with all required supporting documentation, will be reviewed and approved by the appropriate Operations and FRED Representatives and Managers. Based on the request for payment, information is entered into HCD's Consolidated Automated Program Enterprise System (CAPES). Upon completion, payment requests are forwarded to the Accounts Payable unit in the Accounting Department to complete the payment processing through the State Controller's Office.

On January 6, 2016, HUD's regulations were conformed to the "Federal Awarding Agency Regulatory Implementation of Office of Management and Budget's Uniform Administrative Requirements for Federal Awards" (OMB Uniform Requirements).

These OMB Uniform Requirements, found at 2 CFR §200, are the result of combining previously individual federal regulations and OMB circulars into a joint government-wide rule. Prior to the OMB Uniform Regulations, HUD's programs and requirements were covered were in various locations; 24 CFR §85.36 (known as the "common rule"); A-87, A-110, and A-122 (2 CFR Parts §220, §225, §215, and §230); circulars A-89, A-102, and A-133; and the guidance in circular A-50 on Single Audit Act follow-up, to name a few.

In the OMB Uniform Requirements, 2 CFR §200.3 defines an advance payment as a payment that a Federal awarding agency or pass-through entity makes by any appropriate payment mechanism, including a predetermined payment schedule, before the non-Federal entity disburses the funds for program purposes.

Alternatively, a reimbursement payment is where the Grantee has disbursed funds for the costs of work invoiced, completed, and inspected before requesting funds from HCD.

In the CDBG Final Rule, effective May 23, 2012 [Federal Register Volume 77, Number 78, Monday, April 23, 2012, Rules and Regulations Pages 24139-24146], in an effort to streamline the States CDBG Program and make it more aligned to the Entitlement Program, HUD amended the grant repayment language to remove references to advances. Specifically, 24 CFR §570.489(c) states:

*“Federal grant payments. The state’s requests for payment, and the Federal Government’s payments upon such requests, must comply with 31 CFR Part §205. The state must use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the state to units of general local government. States must also have procedures in place, and units of general local government must use these procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for CDBG activities.”* (Underline added.) (31CFR Part §205 describes the US Treasury/State agreements and requirements.)

## **HCD PAYMENT POLICY:**

1. Advances are defined as payments where the funds to pay invoiced, completed and inspected work have not been paid out by the Grantee. Work not completed, regardless of Grantee payment status, is not eligible for advance payment, with the exception of Housing Rehabilitation contracts requiring escrowed payments (see # 12 below).
2. Payments for construction work shall be made at no more than 95% of invoiced amount, requiring a minimum 5% retention (unless the payment is the final retention payment) and the advance request shall be the net (95%) amount; the invoice amount less the retention.
3. Grantees may only request “advance” activity funds from their CDBG-NDR or DRI contract if they have adequately demonstrated the willingness and ability to minimize the time lapsing between the receipt of Departments funds and the Grantee’s disbursement CFR §215.2 (b)(5)] and [24 CFR §570.489 (c)(1)].
4. Advances may only cover invoices received for work that has actually been completed, inspected and approved for payment by the Grantee, and are limited to the amount necessary to pay for actual immediate cash needs, all of which must be documented prior to submitting an advance Funds Request. Advances will not be processed for work that has not been completed or

invoiced. Grantees must have internal policies and procedures in place that sufficiently document when invoices are received, as well as when the invoiced work was completed and inspected.

5. *Within two (2) business days of receipt of the State of California's warrant for the CDBG-DR or CDBG-NDR payment, the Grantee must place all advanced funds into an interest-bearing, insured account, where the funds must remain until expended.*
6. Grantees must pay all invoices identified in the advance request within 5 business days of receipt of funds from the Department.
7. Interest earned on advanced funds, prior to expenditure, is not considered program income and must be returned to HCD each month.
8. Grantees are required to complete and submit the reconciliation of each advance within 30 days of the date the warrant for the advanced funds was received. Grantees must complete the "Advance Reconciliation" section of the Funds Request to include the date the warrant was received, details of the expenditures covered by the advanced funds, adequately identify the Source and Uses of all advanced funds, and must identify any excess cash on hand. Unspent funds (excess cash on hand) must be returned to the Department immediately. Any earned interest and any excess cash must be returned to HCD with the Advance Reconciliation, no later than 30 days from the date the warrant was received. Note: excess cash should rarely occur, since the advance request must be based on actual invoices received for completed work already inspected by the Grantee.

Reconciliations are not completed until HCD has reviewed and approved them; upon approval, HCD will provide the Grantee an "approved" copy for their program records.

9. Per the Standards for Financial Management Systems, accounting records must be supported by source documentation such as cancelled checks, invoices and demands, payrolls, time and attendance records, contract and sub-grant award documents, etc.
10. Grantees, sub-Grantees and/or development partners are required to maintain financial records and submit the financial reports sufficient to ensure that all Grantees, sub-Grantees and/or development partners comply with all recordkeeping and reporting requirements.
11. Escrow Accounts for Housing Rehabilitation [24 CFR §570.511] shall not be used unless the contract between the property owner and the selected rehabilitation contractor specifically requires that payment to the contractor shall be made through an escrow account. No advanced funds can be

deposited into the escrow account until after the contract between the property owner and rehabilitation contractor has been fully executed. [24 CFR §570.511 (a)(2)].

- a) Escrowed accounts funded with advanced funds are only eligible for housing rehabilitation projects [24 CFR §570.511a].
- b) Escrowed funds are limited to only paying actual rehabilitation costs (no soft or administrative costs), and payments made to contractors must withhold a 10% retention payment, unless the payment is the final payment due (retention release).
- c) The amount of funds deposited into an escrow account shall be limited to the amount expected to be disbursed within 10 working days from the date of the deposit into the escrow account [24 CFR §570.511 (a)(4)].
- d) If, for any reason and at any time, the escrow account contains funds exceeding 10 days of cash needs, the Grantee shall immediately return the excess funds back to the Department [24 CFR §570.511 (a)(4)].
- e) Funds deposited into an escrow account shall be used only to pay the actual rehabilitation costs incurred by the owner under the contract with a private contractor. Other eligible costs related to the rehabilitation loan or grant, i.e., the Grantee's administrative costs or rehabilitation activity delivery costs, are not permissible uses of advanced escrowed funds. Such costs may only be paid under the Department's reimbursement process [24 CFR §570.511 (a)(5)].
- f) Non-compliance – If the Department determines that the Grantee has failed to use an escrow account in accordance with regulations, the Department may require the Grantee to discontinue the use of the escrow accounts [24 CFR 570.511 (c)].

## **PROCEDURES:**

To ensure advance requests are made in accordance with the policy and regulations noted above, Grantees requesting advance funds must submit:

1. Funds Request identifying the funds are being requested as an **advance**:  
All requests for advances must be submitted on the Funds Request form, which must be entirely completed, including a declaration of cash on hand and certification regarding Program Income and/or Revolving Loan Fund balances.

2. Advance Request Form/Supporting Documentation:

An Advance Request detailing what the advanced funds will be used for, specifics about the invoice(s) for the advance request (invoice date, date received by the Grantee, vendor name, project name, location, total amount due, work covered in invoice), a certification stating the work was inspected (naming inspector and providing their position, date of inspection, description of work inspected and certification that the work was completed in a workmanlike manner) and when the funds will be disbursed. Supporting documentation must be attached to the justification (project budget, copies of third party contracts, copy of the invoice, inspection, etc.).

3. Certification to Process Form:

On the Certification form the Authorize Signor certifies that:

- a) The funds will be deposited into an interest bearing account within 3 days of receipt; *and*,
- b) The funds will be expended within 5 days of deposit; *and*,
- c) The documentation supporting the Advance request is true and correct.

**INDIRECT COSTS**

CDBG-DR and CDBG-NDR will only reimburse or pay for expenses that are directly related to the approved project(s), and that all costs are reasonable and necessary costs of operating the program or completing the CDBG-assisted project. Appendix VII of Part 200 (OMB regulations) states:

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.
2. Indirect costs include:
  - (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards, and
  - (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix V to Part 200—State/Local Government and Indian

Tribe-Wide Central Service Cost Allocation Plans) and not otherwise treated as direct costs.

3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "*A Guide for States and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government.*" A copy of this brochure may be obtained from HHS Cost Allocation Services or at their Web site at <https://rates.psc.gov>.

Since governmental entities must support indirect costs with an approved cost allocation plan or an indirect cost proposal prepared in accordance with the circular, indirect costs must be allocated in a manner which will result in the grant program bearing only its fair share of total indirect costs.

HCD must have received and acknowledged a copy of any current approval from the governing agency for the Grantee's indirect allocation plan for any indirect costs to be covered with CDBG-DR or CDBG-NDR funds.

#### **WAGES AND SALARIES**

Wages and salaries of any staff persons being charged to the program must be documented with timesheets and evidence the work being performed is related to the program (if staff work on multiple programs, functional timesheets that have been approved by a senior position must be documented in the files).

#### **HOUSING REHABILITATION LUMP SUM DRAWDOWNS AND/OR ESCROW ACCOUNTS**

The general Treasury rules for drawing federal funds require that funds not be drawn until needed. There are, however, two regulatory provisions that allow drawing funds from the Treasury in advance which apply with respect to rehabilitation. They are: (a) Lump Sum Drawdown; and (b) Escrow Accounts.

Escrow accounts are not expressly authorized in the HCDA. States wishing to allow the use of escrow accounts are advised to follow the provisions of 24 CFR 570.511 of the CDBG Entitlement program regulations.

#### **LUMP SUM DRAWDOWNS**

Section 104(h) of the HCDA requires HUD to establish standards governing the use of lump sum drawdowns; these standards are at 24 CFR 570.513 of the Entitlement program regulations, and states operating the CDBG program may choose to adopt these regulations.

A state may allow one their grant recipients to draw, as a single amount, the total amount needed for specific rehabilitation project if it enters into an agreement with a financial institution that meets the requirements set forth in 24 CFR 570.513(b)(2) and if it complies with other requirements under 24 CFR 570.513. Some of the key requirements outlined in that provision include:

- the agreement may not exceed two years; and
- the financial institution must agree to provide certain benefits in conjunction with the activities paid for from the account; and
- there are time benchmarks for when the rehabilitation carried out with funds in the account must begin and the pace at which the funds must be used; and
- there are limits to what the funds can be used; and
- Lump Sum Drawdowns are subject to all Advance Payment policy requirements.

HCD only allows CDBG Grantee jurisdictions to request funds in a lump sum to establish a rehabilitation fund with a financial/lending institutions (bank or credit union) for the purpose of financing eligible housing rehabilitation activities (administration and activity delivery funds are not allowed to be drawn in the lump sum). Lump sum draw requests may not be made or processed prior to the execution of the Standard Agreement and the clearance of all Housing Rehabilitation activity conditions (including guidelines, environmental review, procurement, relocation, real property acquisition, lead based paint, labor, etc.) has been issued by the Department.

Housing Rehabilitation Lump Sum (HRLS) funds may not be used to make grants. HRLS funds are subject to the following limitations:

- Funds **may not** be used to make grants;
- Deposits into a rehabilitation fund cannot exceed the amount of the rehabilitation (construction only) costs required for the project, based on the approved work write-up that has been validated by a professional that does not have a financial interest in the project or program;
- No grant funds may be deposited into the fund solely for the purpose of investment, notwithstanding that the interest or other income is to be used for the rehabilitation activities; and
- Housing rehabilitation program administrative costs and the administrative costs of the financial institution may not be funded through lump sum draw down.

➤ The following standards apply to all lump sum draw-downs of CDBG funds for rehabilitation:

- States must execute a written agreement with one or more private financial institutions for the operation of the rehabilitation fund.

- The agreement must specify:
  - The obligations and responsibilities of the parties;
  - The terms and conditions on which CDBG funds are to be deposited and used or returned;
  - The anticipated level of rehabilitation activities by the financial institution;
  - The rate of interest and other benefits to be provided by the financial institution, in return for the lump sum deposit;
  - The agreement must provide that the rehabilitation fund may only be used for authorized activities during a period of no more than two years; and
  - Such other terms as are necessary for compliance with the provisions of this section.
  
- The lump sum deposit shall be made only after the agreement is fully executed.
  
- Upon execution of the agreement, a copy must be provided to the HUD field office for its record and use in monitoring. Modifications made during the term of the agreement must also be provided to HUD.
  
- The CDBG regulations include time limits on the use of funds deposited:
  - The use of funds for rehabilitation financing assistance must start (i.e., the first loan must be made, subsidized or guaranteed) within 45 days of the deposit; and
  - Substantial disbursements from the fund must occur within 180 days of the receipt of the deposit.
  - Deposited funds or program income derived from deposited funds may be used to subsidize or guarantee repayments of rehab loans made with non-CDBG funds but the rehabilitation activity would be considered to be CDBG-assisted and subject to the requirements applicable to the type of activity undertaken. (NOTE: The repayment of the non-CDBG funds is not considered program income.)
  - The private financial institution receiving the lump sum deposits must provide specific consideration to the state in exchange for such deposits. The minimum requirements for such benefits are as follows:
    - States shall require the financial institution to pay interest on the lump sum deposit;
    - The interest rate paid by the financial institution

- shall be no more than three points below the rate on one-year Treasury obligations at constant maturity;
  - When an agreement sets a fixed interest rate for the entire term of the agreement, the rate should be based on the rate at the time the agreement is executed;
  - The agreement may provide for an interest rate that would fluctuate periodically during the term of the agreement, but at no time shall the rate be established at more than three points below the rate on one-year Treasury obligations at constant maturity;
  - In addition to the payment of interest, at least one of the following benefits must be provided by the financial institution:
    - Leverage of the deposited funds so that the financial institution commits private funds for loans in the rehabilitation program in an amount substantially in excess of the amount of the lump sum deposit;
    - Commitment of private funds by the financial institution for rehabilitation loans at below market interest rates, at higher than normal risk, or with longer than normal repayment periods; or
    - Provision of administrative services in support of the rehabilitation program by the participating financial institution at no cost or at lower than actual cost.
- Interest earned on lump sum deposits and payments on loans made from such deposits are considered program income. During the period of the agreement, program income must be used for rehabilitation activities in accordance with the requirements covering the rehabilitation fund.
- States must provide the HUD field office with written notification of the amount of funds to be distributed to a private financial institution before the distribution occurs.

## **ESCROW ACCOUNTS**

To ensure that small and minority contractors or subcontractors are able to participate in the CDBG, CDBG-DR and/or CDBG-NDR programs, with prior HCD approval Grantees may establish escrow accounts for housing rehabilitation (either multi-family or single family) projects. The escrow accounts will ensure there are no delays in making payments for work that has been invoiced, since small contractors cannot afford to wait for payment for completed work.

Escrow account requirements are set forth at 24 CFR 570.511 and include:

- escrow accounts are restricted to residential rehabilitation projects only; and
- the account may not hold more funding than the amount that is required to be disbursed within the next 10 business days; and
- the amount of funds included in the account may be used for project “activity” expenses only, not “activity delivery” costs; and
- there are time benchmarks for when the rehabilitation must be carried out and at what pace at which the funds will be disbursed; and
- a written agreement that outlines all parties’ roles and responsibilities, and details who is required to authorize payment (both the Grantee jurisdiction and the property owner) to ensure work has been accepted; and
- Escrow Accounts are subject to all Advance Payment Requirements.

## **ACCURACY OF INFORMATION**

The State’s policy on miscellaneous accounting procedures, including minimum reporting requirements, is documented in the State Administrative Manual (SAM), section 8760, and is available at <http://sam.dgs.ca.gov/>. At minimum, quarterly financial and performance reporting is required. CDBG-DR and CDBG-NDR report formats will be supplied to the Grantees by the Contract Management Representative.

All Grantees must maintain detailed accounting records which form the basis for the grant reports, and must retain these accounting records and make them available for audit for a minimum of three years from the HUD grant closeout (this requirement is longer than the SAM requirement of 3 years from the date of report date; HCD must use the more stringent requirement whenever conflicts occur between federal and state requirements).

If any CDBG-DR or CDBG-NDR payments have been made for ineligible costs or activities, the total amount of CDBG-DR or CDBG-NDR funds must be repaid in full (activity, activity delivery and/or administrative funds). HCD will return the funds to the Standard Agreement for use for eligible activities if the Standard Agreement is still in effect. If the Standard Agreement has expired, HCD will contact HUD to determine the appropriate action.

## **REQUIRED STANDARDS FOR ASSET MANAGEMENT**

All HCD subrecipients, inter-agencies, and contractors, as well as their subrecipients, inter-agencies, and contractors must have internal controls to safeguard any and all CDBG-DR and/or CDBG-NDR cash, property and other assets. Documentation must be maintained in the files to support oversight. A combination of written policies, procedures, detailed job responsibilities, named personnel and their chain of command, along with reports showing the control of all assets purchased with CDBG-DR or CDBG-NDR funds are required. Documentation must include the communication and training of any changes in policies and procedures.

Loan portfolio management policies and procedures, as well as evidence of regular, ongoing

compliance review for all program assets must be maintained.

Upon grant closeout, a report showing the status of any cash, as well as each asset financed or purchased with CDBG-DR or CDBG-NDR funds, and restrictions in use for those assets, must be submitted to HCD.

## **REQUIRED RECORDS - ACCOUNTING**

All HCD subrecipients, inter-agencies, and contractors as well as their subrecipients, inter-agencies, and contractors must maintain accounting records that adequately identify the sources and application of CDBG-DR or CDBG-NDR funds. For each CDBG-DR or CDBG-NDR funding award, each organization must have a:

- 1) chart of accounts which includes general assets, liabilities, expenses and revenues; and
- 2) cash receipts and disbursement journal; and
- 3) payroll journal; and
- 4) general ledger.

For each CDBG-DR or CDBG-NDR award, records must contain reliable and up-to-date information. At a minimum, the records must include:

- 1) A copy of the grant received from HCD; and
- 2) Current authorizations and obligations of CDBG-DR and/or CDBG NDR funds; and
- 3) Unobligated balances (funds remaining available for distribution); and
- 4) Assets and liabilities; and
- 5) Program income, if any; and
- 6) Actual outlays or expenditures, with a breakdown of the
  - a. Grant program the funds were derived from, and
  - b. Clear evidence indicating the use of program funds belongs to the eligible activity; and
- 7) Evidence each expenditure is necessary, reasonable and directly related to the project.

For construction projects, files must contain all of the following information:

- 1) Full description of the project;
- 2) Project budget;
- 3) Evidence of obligated and committed funding (all sources);
- 4) Work specifications;
- 5) Bid documents, including the request for proposal, cost estimate, evidence of contractor solicitation, scoring, evidence of non-debarment, and selection;

- 6) HCD wage determination;
- 7) Weekly HUD payroll certifications and back up documentation;
- 8) Payroll deduction authorizations;
- 9) Employee Field Interviews;
- 10) Progress and final inspections, including documentation of the subrecipient's periodic on-site inspections and final inspection;
- 11) Change orders, including evidence of necessity and approval prior to work being completed;
- 12) All correspondence related to construction; and
- 13) Progress and final disbursements records. Files must contain documentation that payments were paid only for completed work, and data in the project file must agree with the project financial records.

A detailed list of all of the programmatic documentation needed for each CDBG-DR or CDBG-NDR project is listed in the 'Monitoring' chapter.

## **PROGRAM INCOME**

The CDBG-DR and/or CDBG-NDR funded activities may generate program income. If Program Income has been received, all Program Income on hand must be used for eligible project or administration costs before additional grant dollars will be drawn from the US Treasury.

Program Income must be reported to HCD on a regular basis, as detailed in the Standard Agreement or Inter-Agency agreement between HCD and CDBG-DR or CDBG-NDR Grantees.

The CDBG Grant Management Manual ([Grant Management Manual, Chapter 14](#)) outlines the State's policies and procures regarding program income for the CDBG funded activities.

## **REQUIRED FIDELITY BONDS**

All HCD subrecipients, inter-agencies, and contractors as well as their subrecipients, inter-agencies, and contractors must obtain fidelity bonds sufficient to safeguard against fraud and misuse of funds, per 2 CFR Part 200.304(b).

In accordance with Government Code section 11007.4, the State of California has elected to be self-insured for liability exposures. The State and its employees acting in the course and scope of their employment are insured for tort liability arising out of official State business.

Any HCD subrecipients, inter-agencies, and contractors that are not state agencies must provide evidence of fidelity bonding to meet the OMB requirements listed in 2 CFR Part 200.304(b) and 31 CFR Part 223, *Surety Companies Doing Business with the United States*, or provide a self-insurance certification to HCD for the activities associated with any CDBG-DR or CDBG-NDR activities.

## LEVERAGE REPORTING

Federal CDBG-DR and/or CDBG-NDR dollars for community development allows small local governments to complete projects that once seemed unimaginable. The success of the program lies in its flexibility. CDBG-DR and CDBG-NDR funds can attract other sources of funding, increasing the impact of the federal dollars. Local governments create and design key infrastructure and economic development projects to fit their needs, and leveraging private sector capital allows the completion of projects with a public purpose. Potential leverage sources are citizen donations, bank loans, private investments, state funds, and local general funds. It is clear that CDBG money instills a sense of investor confidence and public hope.

Several sources of leveraging funds are:

- Private Sector Capital - Developer contributions, venture capitalists, philanthropic foundations and non-profit donations are all excellent places to look for funding,
- State Programs - These differ from state-to-state, but Lawrence, MA received funding from the Executive Office of Elder Affairs for the redevelopment of Manchester Street Park.
- Other Federal Programs - Supportive Housing and HOME funds from HUD as well as a Brownfield Grant from EPA were leveraged to help complete the projects in our examples
- Tax Credits - Developers can receive historic, low-income and other tax credits to help make projects more affordable in the long run.

Leverage funds associated in any CDBG-DR and CDBG-NDR projects must be reported to HCD in the required update reports. The leverage funds reported to HCD will be reported to HUD through the DRGR system.