



THE CITY OF SAN DIEGO

# **COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

## **FY 2013 OPERATING MANUAL**

**CITY OF SAN DIEGO  
ECONOMIC DEVELOPMENT DIVISION  
CDBG PROGRAM OFFICE**



## INTRODUCTION

The U.S. Department of Housing and Urban Development's (HUD) provides the Community Development Block Grant (CDBG) Program to preserve and develop viable urban communities. The City of San Diego's Economic Development Division administers the CDBG Program. CDBG Program staff is responsible for grant compliance and the overall administration of the City's CDBG Program.

The City of San Diego has utilized CDBG funds to improve community facilities and services, revitalize neighborhoods, expand affordable housing, and expand economic opportunities that benefit low/moderate-income persons. The City must use at least 70% of the entitlement for activities that either directly benefit low/moderate-income persons or serves an area where the majority of the residents are low/moderate-income.

This manual applies to all CDBG funds awarded by the City of San Diego. The purpose of this manual is to provide management support to CDBG-funded Agencies, while ensuring that all Agencies adhere to federal and City of San Diego rules and requirements. "Agency" or "Agencies" refer to subrecipient entities that include nonprofits, City of San Diego departments, public agencies and other government organizations. It is designed to help Agencies understand the requirements that apply to the use of federal funds for the delivery of the CDBG Program and its eligible activities. It is a **supplement** to applicable regulations, standards, and policies. The basic program regulations, government management, and financial systems for the CDBG Program are contained in the Code of Federal Regulations Title 24 and various Office of Management and Budget (OMB) Circulars referenced in this manual.

This manual does not replace or amend any of the provisions included in the Agreement executed between the City and subrecipient Agencies and should not be used in lieu of reading the articles of the Agreement. Should there be any disagreement between the executed Agreement and this manual, the provisions contained within the Agreement shall take precedence. The Agreement refers to the executed contract, service level agreement or memorandum of understanding with the Agency.

The procedures prescribed in this manual represent minimum requirements and controls that must be embodied within the Agency's accounting, internal controls, and financial reporting systems. They are not intended to replace existing procedures used by the Agency that achieve the same results. The Operating Manual is incorporated in its entirety into the Agreements entered into by the City and Agencies for the operation of CDBG-funded projects. Each Agency must comply with the minimum requirements and procedures prescribed in this manual to the maximum extent feasible. In addition, each Agency must ensure that a copy of the Operating

Manual is accessible to all personnel responsible for compliance with requirements and procedures contained in the manual.

**The approval of the City's CDBG Program Office must be obtained for any deviation from the minimum requirements contained in this manual that may be necessitated by the organizational structure, staffing level, or other limitations of a particular Agency. Any proposed deviations shall be considered by the CDBG Program Office upon receipt of a written request submitted by the Agency that includes a completed Agreement/Operating Manual Exemption Request Form.**

This Operating Manual and any revisions that may be issued from time to time shall be effective until superseded or canceled by appropriate notice from the CDBG Program Office. Comments and suggestions for changes, modifications, or improvements are encouraged, and should be submitted in writing to the CDBG Program Office.

The CDBG Program's contact information is as follows:

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## **SECTION I**

### **BASIC REQUIREMENTS**

Agencies shall comply, and require each of its subcontractors to comply with the basic requirements (applicable laws, rules, regulations, ordinances, resolutions, permits, and policies of the federal, state, and local governments) of the Agreements entered into by the City and the Agency. The provisions listed herein do not in any way abrogate or modify any of the terms or conditions of the executed CDBG Agreements.

#### **A. FEDERAL REGULATIONS**

The key Federal regulations that form the basic administrative requirements of the CDBG programs are summarized in this section to provide a framework for the standards referenced in this manual. The regulations have been developed by HUD in order to carry out the Federal statutes that established the CDBG Program. The regulations address the CDBG Program itself, and other Federal laws or policies relevant to the CDBG Program (e.g. National Environmental Policy Act, Americans with Disabilities Act, Davis-Bacon Act, etc.).

##### **1. CDBG Program Management Regulations**

The basic program regulations governing management and financial systems for the CDBG program are disseminated by the Federal government in 24 CFR Part 570, Subparts J and K. They are applicable both to grantees (i.e. the City) and to public or private sector subrecipient agencies (i.e. nonprofit organizations):

- a. Subpart J (24 CFR 570.500-570.513) covers the general responsibilities for grant administration, including uniform administrative requirements, provisions of subrecipient agreements, program income, use of real property, recordkeeping and reporting, and closeout procedures.
- b. Subpart K (24 CFR 570.600-570.614) deals with other CDBG program requirements, including civil rights, labor standards, environmental standards, flood insurance, relocation, displacement, acquisition, employment and contracting opportunities, lead-based paint, use of debarred, suspended or ineligible agencies, uniform administrative requirements and cost principles, conflicts of interest and the Americans with Disabilities Act.

##### **2. General Federal Requirements**

In addition to the basic regulations of the CDBG program, there are three other categories of requirements that affect the administrative systems and procedures that Agencies must have in place in order to receive grant funds:

- Federal regulations governing administrative and audit requirements for grants and cooperative agreements (governmental subrecipients) for which HUD has oversight responsibilities;
- Administrative circulars from the Office of Management and Budget (OMB) and Department of the Treasury governing cost principles, administrative systems, fiscal procedures and audit requirements for public and private grantees and subrecipient agencies;
- Executive Orders from the Office of the President implementing various equal employment opportunity and environmental policies.

The applicability of these general requirements depends upon the kind of public or private nonprofit organizations that are awarded with CDBG funds.

a. Community-Based Nonprofit Organizations

For Agencies that are nonprofit organizations, the key regulations defining administrative requirements are:

- OMB Circular A-122 “Cost Principles for Non-Profit Organizations”: A publication of the U.S. Office of Management and Budget, this document establishes principles for determining costs that are allowed to be charged to Federal grants, under contracts and other agreements with non-profit organizations, except educational institutions; or
- OMB Circular A-21 “Cost Principles for Educational Institutions”: This document covers much of the same subject matter as OMB Circular A-122, but is designed for use by educational institutions (both public and private); and
- 24 CFR Part 84 “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations”: This document specifies standards relative to pre-award requirements, financial and program management, property standards, procurement standards, reports and records, termination and enforcement, and closeout procedures. 24 CFR Part 84 supersedes OMB Circular A-110.

b. Public Agencies

For “governmental Agencies” (a public agency that is independent of the City, such as a public housing authority, parks commission, or a cooperating city under the City’s CDBG grant), the key administrative requirements are:

- 24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally-Recognized Indian Tribal Governments” (also known as the “Common Rule”): For

government entities and public agencies, 24 CFR Part 85 details standards for financial management systems, payment, allowable costs, property management, procurement, monitoring and reporting program performance, financial reporting, record retention, and termination; and

- OMB Circular A-87 “Cost Principles for State and Local Governments”: For government entities receiving CDBG or other Federal funds, this document is the government’s version of OMB Circular A-122. Circular A-87 establishes the principles for determining the allowable costs of programs administered by public agencies under grants or contracts from the Federal government. The principles are designed to provide the basis for a uniform approach to determining costs and to promote efficiency.

## **B. GENERAL REQUIREMENTS**

Agencies must constantly monitor their performance to ensure that time schedules are being met, projected milestones are being accomplished, and other performance goals are being achieved in accordance with the executed Agreement. In addition, all activities must be conducted in compliance with the applicable federal and City requirements.

Problems, delays, or adverse conditions that shall affect the agency’s ability to meet its program objectives or its time schedules should be reported to the designated Project Manager as soon as determined or on the Agency’s Monthly Programmatic Report, as appropriate. The CDBG Program’s emphasis is on preventing and correcting problems before they develop into serious obstacles to program implementation and/or completion.

The CDBG Program Office reserves the right to cancel any grant award, temporarily suspend payments, or to take other actions in the event that a CDBG-funded Agency materially fails to comply with any of the terms of the executed Agreement.

Completion of program activities within the timeframes established in the approved application is extremely important. The CDBG Program Office may choose to exercise its right to submit unexpended CDBG funds to the City Council for reprogramming to another activity after 18 months of the date of the allocation by City Council or to take other steps to ensure timely expenditure of CDBG funds for eligible activities.

## C. KEY PROVISIONS

The following provisions are included in the executed Agreement. The provisions are repeated here for emphasis due to their importance. Each Agency must comply with these provisions in order to meet the specific City and Federal requirements.

### 1. Subcontracts

No portion of the program services or activities set forth in the Agency's Agreement may be subcontracted to another agency or entity, and no disbursements may be made to such an agency or entity without a written contractual agreement that has been submitted to the project's designated Project Manager for review and acceptance. In addition, any modifications or amendments to any subcontract must be submitted to the designated Project Manager upon their execution. In the case of CDBG-funded programs, the process for selecting subcontractors must comply with the target area preference requirements of HUD (see discussion of Section 3 requirements in Subsection F.5. for more information). The subcontract agreement must include the following:

- a. A description of specific project services to be provided.
- b. A provision whereby either party to the agreement may terminate the agreement upon receipt of written notice of not more than thirty (30) days.
- c. The total amount of compensation to be paid to the subcontractor.
- d. Requirement that the subcontractor submit an invoice or other supporting documentation to the agency, prior to receiving compensation for services rendered.
- e. Beginning and ending dates to the agreement. No subcontractor agreement paid for with City funds shall be entered into that has a term extending beyond the ending date of the Agreement between the City and the Agency. Additionally, in no event shall the subcontract commence prior to the beginning date of the Agreement between the Agency and the City.
- f. Terms and requirements mandated by the City and/or federal guidelines.

### 2. Conflict of Interest

The Agency must comply with all federal, state, and local conflict of interest laws, regulations, and policies applicable to public contracts and procurement practices. Agencies shall ensure that no person shall be employed under the Agreement if that person or member of the person's immediate family serves on a board or committee that has the authority to make personnel decisions that could affect the person's job, and no person shall be employed if a member of the person's immediate family would have supervisory authority over that person. A member of the immediate family includes spouse, children, mother, father, sister, brother, and the in-laws of any of these persons. In addition, subcontracts or lease agreements shall not be

awarded to any person employed by the Agency, or to any member of the person's immediate family, without prior approval by the City.

3. Client Confidentiality

The confidentiality of all clients (including the name of the client, services provided to a client, and the reason(s) for such services) must be maintained by Agencies at all times, except when disclosure of such information is authorized by provisions listed in the executed Agreement, prearranged agreement with the clients, or required by law for court order.

4. Volunteers

Agencies utilizing volunteers to assist in accomplishing any appropriate portions of the service provisions in the executed Agreement shall maintain a record for each volunteer containing the hours worked and activities performed on file. Agencies shall ensure that volunteers adhere to all program requirements, including the requirements for client confidentiality.

5. Rights and Remedies not Waived by Payment

In no event shall any payment by the City to the Agency constitute or be construed to be a waiver by the City of any breach of the terms or conditions of the executed Agreement, or of any default on the part of the Agreement that may then exist, and any payment or payments by the City shall in no way impair or prejudice any right or remedy available to the City with respect to such breach or default

6. Grievance Process

Agencies shall ensure that a grievance process is in place that stipulates how client grievances shall be resolved, and at the minimum contain the following elements:

- How the grievance shall be documented;
- Who (name and position title) shall be authorized to handle/look into the grievance;
- Appeal process if complainant is not satisfied with first level;
- Timeline for complaint resolution;
- Tracking of complaints (how status and results shall be documented and reported)

Agencies shall ensure this policy is displayed in an area accessible to all clients at each project site. Investigation results shall be maintained on file by the Agencies.

7. Availability of Records and Information

For the purpose of inspecting, auditing, monitoring, and/or evaluating the Agency's performance, or that of its subcontractors, in meeting their contractual requirements/obligations and compliance with applicable laws, rules, and regulations, the Agency must permit, and must require its subcontractors to permit, authorized City personnel, the U.S. Government, or their authorized agents to inspect and photocopy all books, accounting records, invoices, receipts, payroll

records, personnel records, and any other project data and/or records pertaining to all matters covered in the Agreement. Such records and information must be made available during normal business hours at a reasonable location within the County of San Diego, and as often as the aforementioned officials deem necessary. The City or U.S. Government officials must be permitted to make excerpts or copies of such records and data that are related in whole, or in part, to the executed Agreement. The City must keep any copies of the Agency's data and records in the strictest confidence allowed by law. If the Agency is unable to make all such data and records available for inspection within the County of San Diego, then the Agency must pay all of the City's travel related costs to inspect and/or audit the data and records at the location where the data and records are maintained.

8. Sectarian Control or Influence

Agencies must ensure that all programs and activities undertaken pursuant to the executed Agreement are free of sectarian control or influence, and that no monies, property, materials or services that are provided under the Agreement are applied to religious establishment or purpose.

9. Political Activity Prohibited

Agencies must not use or permit to be used any funds, property, materials or services that are directly or indirectly authorized by the executed Agreement for any partisan political purpose or activity, or to further the election or defeat of any candidate for public office.

10. Political Affairs or Activities

"Political affairs or activities" as used here means the expenditure of funds and/or use of personnel in a support or advocacy role concerning any matter currently pending or being proposed by a vote of the people or enactment by any legislative body of the City or County of San Diego, State of California, or the Federal Government.

11. Fair Housing

Agencies shall comply, and require its subcontractors to comply, with Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended, which prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability. In addition, Agencies shall comply with the regulations issued following Title VI of the 1964 Civil Rights Act (as amended by Executive Orders 11246, 11375, and 12086) and Section 109 of the 1975 Housing and Community Development Act that prohibits discrimination in HUD programs based on sex, race, color, national origin, and religion and administer all programs and activities in a manner to affirmatively further the policies of the Fair Housing Act.

12. Section 504

Agencies shall comply, and require its Subcontractors to comply, with any Federal regulations issued pursuant to compliance with Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination against persons with disabilities in any federally assisted program.

13. Procurement Requirements

Agencies receiving CDBG funds from the City shall purchase goods and services or subcontract for same to the maximum extent possible from firms which employ a substantial percentage of target areas residents, or are located within the target area, or are owned to a substantial degree by target area residents. Agencies shall follow a free and open competitive process in securing those products and services. Agencies shall also document the procurement activities and decisions, observe special rules for particular types of purchases (small purchases, competitive sealed bids, competitive proposals, and sole source procurement), properly bond and insure work involving large construction contracts and/or subcontracts, and contract with minority and/or women-owned businesses to the maximum extent feasible.

D. AGREEMENT AMENDMENTS

During the course of administering a project, situations may occur that require a change in original terms of the executed Agreement. An executed amendment to the original Agreement is required for any extension of the Agreement termination date. Agencies shall request approval from the CDBG Program for this type of amendment to the executed Agreement. When submitting a no-cost request for time extension request, Agencies must complete and submit the required Request for Scope Adjustment and/or Request for Budget Adjustment forms and documents and submit them to the project's designated CDBG Project Manager. Additional items and/or information may be required depending on the type of amendment request. The CDBG Project Manager and the CDBG Fiscal Section shall both review the amendment requests and make the determination of approval or denial of the request.

Extensions of the Agreement termination date will only be considered on a case-by-case exception basis and must be submitted to the CDBG Project Manager thirty (30) days prior to the Agreement expiration date. Due to the timeliness rule of spending, extensions may be denied, if it significantly affects the CDBG timeliness ratio. Agencies may not implement the requested amendment (i.e. implementation of program activities and/or expenditure of CDBG funds) during the time of the CDBG review and prior to receiving written approval from the City.

The City may also, in its discretion, amend Agreements to conform with Federal, State, or local guidelines, policies, and available funding amounts, or for other reasons. If such amendments result in a change in funding or the Scope of Work/Scope of Services, such modifications shall be incorporated only by written amendment and shall not become effective until the amendment is executed.

E. EXEMPTION REQUESTS

Agencies may submit to the CDBG Program exemption requests regarding Agreement and/or Operating Manual terms as applicable. However, this shall be limited to items such as submittal deadlines, frequency of report submittals, type of supporting documentation accepted, and/or records maintenance systems. The project's designated CDBG Project Manager shall review the exemption requests and notify the Agency regarding the determination of approval or denial of the request.

F. CDBG-FUNDED PROGRAM REQUIREMENTS

1. Identification Requirement

Agencies receiving CDBG funds from the City, and its subcontractors, shall ensure that all CDBG-funded programs and activities are clearly identified to participants and the public as those of the CDBG program, and that these programs and activities do not appear to be an extension of the programs and activities of any private organization or public institution. To comply with this requirement, a notification to be worded as follows shall be clearly posted or otherwise displayed: "This project is funded in whole or in part with Community Development Block Grant (CDBG) Program funds provided by the U.S. Department of Housing and Urban Development (HUD)." Agencies shall indicate this on all reports, data, brochures, newsletters, advertising, Internet web sites, fact sheets, news releases, and other materials, as applicable. In addition, Agencies conducting construction activities shall ensure the required funding source notification is prominently posted at the worksites.

2. Environmental Review

All projects and project activities undertaken with CDBG funds are subject to the provisions of the National Environmental Policy Act of 1969, as amended (NEPA), which established national policies, goals, and procedures for protecting, restoring and enhancing environmental quality. In addition to NEPA requirements, CDBG-funded projects are also subject to other related laws and Federal, State, and local authorities. Examples include historic preservation, clean air, and flood management. CDBG regulations require the preparation of a project Environmental Review Record (ERR) and environmental clearance before funds are expended or costs incurred. City staff shall prepare all environmental review documentation

required by HUD. However, Agencies may be asked to assist in the development of the ERR by providing additional information, maps, and site data. In some cases, Agencies may be asked to complete a biological assessment or gain project clearance from the state historic preservation office. Agencies shall comply with all terms and conditions and shall implement all required mitigation measures identified in the ERR completed for their project.

3. Labor Standards

The Davis-Bacon Act states that Agreements in excess of \$2,000 for construction, alterations, and/or repairs including painting and decorating, that employ laborers and/or mechanics adhere to the federal fair labor and wage requirements as established by the Act. Davis-Bacon law applies to the entire project, no matter how small the CDBG contribution. HUD has a guidebook entitled, “Making Davis-Bacon Work: A Contractor’s Guide to Prevailing Wage Requirements for Federally-Assisted Construction Projects” that further assists those Agencies involved in construction projects. This can be accessed at: [www.hud.gov/offices/olr/library](http://www.hud.gov/offices/olr/library). Exceptions to the Davis-Bacon Act include:

- The prime construction contract funded in whole or in part with CDBG funds is less than \$2,000;
- The entire project consists solely of demolition;
- The entire project consists of rehabilitating property that was designed for fewer than eight units;
- The project consists solely of delivery of goods or services (non-construction Agreement);
- There are no federal monies in the construction project; or
- The funds shall be used for acquisition ONLY and there is no construction.

4. Relocation

All acquisition of real property, rehabilitation, demolition, conversions, permanent easements requiring relocation of families, individuals, businesses, nonprofits, or farms are to be conducted in accordance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (Uniform Act or URA). If CDBG funds are used for any part of the project, agencies must comply with the URA, even if local or other non-CDBG funds are used to pay the acquisition costs. The purpose of the URA is to provide displaced persons with fair, equitable treatment and protection from disproportionate injury by projects designed to benefit the public as a whole. The URA applies to the following actions:

- Displacement of persons/businesses that must move permanently as a direct result of acquisition, demolition, or rehabilitation for CDBG-funded projects;

- Acquisition of real estate for CDBG-funded projects, whether publicly or privately undertaken; and
- Temporary relocation of persons/businesses who are required to move for a relatively short time because of a CDBG-funded project, but who may return to the building once the work is complete.

5. Section 3 Compliance

The requirements for Section 3 of the Housing and Urban Development Act of 1968, as amended (Section 3) applies to capital projects and housing development projects that exceed \$200,000 in HUD funding. Subcontractors receiving an excess of \$100,000 from projects required to comply with Section 3 shall also be required to comply with Section 3 requirements. These requirements are listed in the CDBG Agreement.

6. Income Eligibility Guidelines

Agencies shall ensure that actual verification of the household income is completed as applicable. In order to document eligibility, an application must be completed by each client served. If the client is under the age of 18, the form should be completed by the client's parent or legal guardian. Unless the clients are presumed by HUD to be low-income (as defined in Page 56), documentation of income must be obtained for each client prior to providing project services funded with CDBG. Income must be verified at least every 12 months. The income limits for which the clients must meet are adjusted for family size and are included in the executed Agreement. These limits are set by HUD on an annual basis.

7. Timeliness

Entitlement jurisdictions that receive CDBG funds, such as the City, are required to use their funds in a timely manner. The HUD standard requires that entitlement jurisdictions not have more than 1.5 of its annual grant in its line of credit 60 days prior to the close of the program year. That date is April 30<sup>th</sup> for the City of San Diego. The penalty for noncompliance can be the loss of future CDBG funding. As such, CDBG funds are subject to reprogramming by the City if an activity or project is no longer feasible and/or remain unexpended within 18 months of the date of the allocation. In addition, Agencies shall ensure Requests for Reimbursements are submitted to the CDBG Program on a monthly basis as described in Page 20 (Section III, A.).

8. Playing by the Rules Handbook

Agencies receiving CDBG funds shall adhere to all other requirements set forth in the Playing by Rules Handbook, as provided through the City's CDBG Program.

## **SECTION II**

### **PROGRAM PROCEDURES**

Agencies are required to maintain a system that accurately accounts for and/or fully documents all program activities undertaken with CDBG funds. Agencies must comply with the following program procedures to the maximum extent feasible.

#### **A. REPORTING REQUIREMENTS**

Agencies shall submit the following documents and reports to the City at the times indicated, and in the format prescribed by the CDBG Program. Deviations from this requirement must be approved by the CDBG Project Manager.

1. **Administrative File Requirements**

Prior to the beginning of each fiscal year, Agencies shall submit to the City a copy of its insurance coverage, a list of additional funding sources, and other documents required by the City. Agencies are provided with a checklist form that list all the documents required to be submitted during the application process and/or Agreement execution process.

2. **Monthly Programmatic Reports**

Agencies shall maintain records on clients as specified in the Scope of Work/Scope of Services included in the executed Agreement, as well as other records necessary to document all services provided and/or activities conducted. Using the primary and secondary records, Agencies shall prepare and submit a Monthly Programmatic Report for each applicable reporting period and submit that report on or before the 15th day of each following month to the project's designated CDBG Project Manager. The purpose of this report is to demonstrate compliance with stated Agreement objectives and goals, and to justify the reimbursement of funds. This report can also be used to demonstrate the services the community receives through CDBG funding.

- a. The required Monthly Programmatic Report form is based on the approved activity/service category (i.e. Public Services, Public Facilities and Improvements, Microenterprise Assistance, Minor Residential Rehabilitation, etc.) and the Scope of Work/Scope of Services included in the executed Agreement. The required report forms are presented during a Reporting Requirement Technical Assistance Workshop. However, the CDBG Project Manager may also develop additional report forms, if deemed necessary to report additional statistical information referenced in the approved Scope

Work/Scope of Services. The CDBG Project Manager shall make the final determination regarding the programmatic report form to be utilized. In addition, Agencies may also be required to submit a Client Demographics form as applicable. The Client Demographics form provides the following information: a) total number of unduplicated new clients/households served; b) of the new clients/households served; c) total number of new clients/households that are female head of household as defined in Page 55; d) ethnicity and race as defined in Pages 55-56; e) family income levels based on the ranges listed in the executed Agreement; and d) identification of clients/households qualified as presumed low-income as defined in Page 56.

- b. For construction projects, a copy of weekly certified payroll documents and construction photos shall be submitted with the Monthly Programmatic Report as applicable and/or as requested by the CDBG Project Manager.
- c. All submitted reports are subject to review, and acceptance of that information is tentative pending verification by the CDBG Project Manager.
- d. On a monthly basis, the CDBG Project Manager:
  - Determine if the reports are submitted on a timely basis (on or before the 15th day of each month);
  - Determine if reports are completed in a satisfactory manner (no issues with totals reported and/or missing information);
  - Determine whether cumulative totals reported for each month match the totals noted in CDBG records, if applicable;
  - Determine if the Agency is significantly behind in the completion of benchmark schedules or the provision of services listed in the executed Agreement; and
  - Determine whether technical assistance shall need to be provided to Agency staff.

The City reserves the right to delay the processing of Requests for Reimbursement until all required programmatic reports and demographic information have been submitted, and where necessary, approved.

- e. For any non-compliance issues identified during the review of Monthly Programmatic Reports, a Notice of Non-Compliance form shall be issued to the Agency.

### 3. Year-End Programmatic Reports

Agencies shall submit year-end reports at the close of each fiscal year, regardless of the start and end dates listed in the executed Agreement. These reports shall provide information covering each applicable fiscal year period (July 1<sup>st</sup> – June 30<sup>th</sup>). The year-end reports shall be submitted by July 30<sup>th</sup>. In the event of a termination date after fiscal year-end date of June 30th, final year-end reports shall

also be submitted to the City within thirty calendar days of such termination. Year-end reports shall be reviewed against the monthly reports submitted by the Agencies for accuracy and consistency.

- Year-End Programmatic Report - Agencies shall submit a narrative report that summarizes the project's goals and objectives accomplished during the term of the executed Agreement. It shall also summarize whether or not the Agency feels it attained all goals and objectives of the project, and describe any procedures or actions that may be undertaken in the future to increase the effectiveness of the project. This report shall be limited to two pages in length.
- Year-End Client Demographics Report - Agencies, as applicable, shall submit a demographics report that provides confirmation of the number of unduplicated clients/households served during the term of the executed Agreement, the head of household totals, the race and ethnicity totals, and the income level totals.
- The CDBG Project Manager may also require additional information and/or confirmations, if deemed necessary to ensure all reporting requirements have been met.
- For any non-compliance issues identified during the review of Year-End Programmatic Reports, a Notice of Non-Compliance form shall be issued to the Agency.

4. As-Occurring Reports

Changes to any of the documents submitted in the initial project report shall be submitted to the CDBG Project Manager at the time the changes occur. The CDBG Project Manager may also request for additional reports and/or documents as deemed necessary during the Agreement period.

B. PROGRAM SCOPE ADJUSTMENTS

During the course of administering a project, situations occur that may require a change in original terms of the Scope of Work/Scope of Services. Agencies shall request approval from the CDBG Program for **any** scope adjustment, including change orders for construction projects. When submitting this request, Agencies must complete and submit the required Request for Scope Adjustment forms and documents as applicable. Additional items and/or information may be required depending on the type of adjustment request. The CDBG Project Manager shall review all documents received notify the Agency regarding the determination of approval or denial of the request.

#### C. SUSPENSION OR TERMINATION OF AGREEMENT

The CDBG Program Office reserves the right to suspend or terminate project activities based on determination of non-compliance with any term or condition of the executed CDBG Agreement. This includes, but is not limited to, non-compliance with CDBG program requirements, recordkeeping requirements, and/or reporting requirements.

#### D. GENERAL RECORDS

Maintenance of adequate documentation for CDBG-funded activities is critical to the effectiveness and overall performance of a program. Adequate documentation includes knowing: 1) what information needs to be collected and why; 2) when that information should be collected (and how often); 3) how the information should be acquired, organized, and stored; 4) how the information should be reported; and 5) the retention period for records.

Agencies shall maintain, and require its subcontractors to maintain, all administrative and program records required in connection with the provision of activities/services required by the Scope of Work/Scope of Services of the executed Agreement.

Such records shall include but not limited to:

- Records providing a full description of each activity undertaken;
- Records demonstrating that each activity undertaken meets the National Objective of the CDBG Program that is listed in the executed Agreement;
- Records required to determine the eligibility of activities;
- Records required to document the acquisition, improvement, use or disposition of real property acquired or improved with CDBG funds;
- Records documenting compliance with the fair housing, Section 504 and equal opportunity components of the CDBG Program;
- Other records necessary to document compliance with Subpart K of 24 CFR 570.

Agencies may maintain any additional records that it deems to be appropriate. However, such additional records should not replace any of the CDBG Program required records.

#### E. PROGRAM RECORDS

Agencies shall maintain project data collection systems that clearly demonstrate the Agency's capability of having project activities and services tracked and validated. Agencies are required to maintain verifiable records on clients and client services. Program records maintained must document compliance with the CDBG eligibility criteria specified by HUD guidelines. Hard copies must be available to support reliable internal controls over client

records. The following represents specific records to be maintained for various types of projects:

1. Construction Projects

For construction projects, Agency project files shall include, but not be limited to:

- a. If leased property, documentation of owner's approval of the proposed improvements;
- b. Bid documents, including documentation of contractor solicitation and selection;
- c. Permits, as applicable;
- d. Compliance with Lead-Based Paint requirements, if applicable;
- e. HUD wage determination;
- f. Weekly HUD certified payroll sheets;
- g. Payroll deduction authorizations;
- h. Employee field interviews;
- i. Progress and final inspections, including documentation of the Agency's periodic on-site inspections and final inspection;
- j. Approved change orders;
- k. All correspondence related to construction;
- l. Records of disbursements made for completed and approved work (Agency should ensure that data in the project file agrees with financial records);
- m. Pre- and Post-construction photos of CDBG-funded work completed;
- n. Notice to Proceed (original copy); and
- o. Notice of Completion (original copy).

2. Acquisition Projects

Land and building purchases require extensive documentation. Acquisition and Relocation projects are managed by the City's Real Estate Assets Department. Agency project files shall include, but not be limited to:

- a. Identification of property and property owner(s);
- b. Evidence that owner was informed on a timely basis about the acquisition and his/her rights (copy of letter and acknowledgement of receipt);
- c. Copy of each appraisal report or the explanation of the basis for the estimate of fair market value;
- d. Copy of the written purchase offer and the date of delivery to the owner;
- e. Copy of the purchase contract and document conveying the property including, but not limited to, evidence of liens to secure loans;
- f. Copy of closing statement identifying incidental expenses and evidence that owner received net proceeds due from sale including, but not limited to:
  - (1) Evidence of any owner contribution or private loan match; and/or

- (2) Underwriting costs;
  - g. Copy of any appeal or complaint filed and agency response.
- 3. Minor Residential Rehabilitation Projects

For minor residential rehabilitation activities conducted, Agency project files shall include, but not be limited to:

  - a. Procedures for determining the households to be served through the approved project;
  - b. Identification of property, property owner(s), and renter(s) as applicable;
  - c. If renter-occupied household, evidence of owner approval of work to be completed;
  - d. Compliance with Lead-Based Paint requirements, if applicable;
  - e. Permits, as applicable;
  - f. Detailed description of work to be completed with CDBG funds for each household served, including location of the work to be performed (such as bedroom, kitchen, bathroom, etc.);
  - g. If Davis-Bacon requirements apply:
    - (1) HUD wage determination;
    - (2) weekly HUD certified payroll sheets;
    - (3) payroll deduction authorizations;
    - (4) employee field interviews;
  - h. Documentation of all individuals completing the work, separating labor charged to the CDBG Agreement and the labor not charged to the CDBG Agreement; and
  - i. Pre- and Post-construction photos of CDBG-funded work completed.
- 4. Nonprofit Organizational Capacity Building and Technical Assistance Projects

For nonprofit organizational capacity building and technical assistance activities conducted, Agency project files shall include, but not be limited to:

  - a. Procedures for determining the nonprofit agencies to be served through the approved project;
  - b. Identification of each nonprofit agency to be served (such as name, location, target population served, services/programs available to target population);
  - c. Date, type, and method of all client contacts and contacts made on behalf of the client; and
  - d. Detailed description of assessed needs of each nonprofit agency to be addressed through project services, the anticipated result/impact of the services to be provided, the timeline for completion of services, the actual services provided, and the actual result/impact of the services provided.

5. Direct Financial Assistance Projects

For direct financial assistance activities conducted as housing assistance, Agency project files shall include, but not be limited to:

- a. Procedures for determining the clients to be served through the approved project;
- b. Detailed description of the actual project services provided;
- c. Date, type, and method of all client contacts and contacts made on behalf of the client;
- d. Loan documents, as applicable; and
- e. Information regarding the total number of grants and/or loans executed, including type of loan (amortized or deferred), loan amount, average interest rate, and amortization period as applicable.

6. Direct Client Services Projects

Agencies that provide direct individual client services shall keep a record on each client served by the project under the Agreement. The actual design of the project data system is at the discretion of the Agencies. However, the project data system shall include the following at the minimum:

a. Primary Records

Records shall be maintained by the project to record services provided directly to, or on behalf of, the project client. Primary records are typically the client case files. All client case files maintained by the project shall be clearly identified as “CDBG Files” and must not be reported to any other funding source with regard to the services listed in the City Agreement. All projects providing direct client services shall have primary records containing the following information on **all** clients receiving services:

- (1) Client's name and identification number assigned by project
- (2) Referring agency when applicable
- (3) Client's family size
- (4) Client's head of household status
- (5) Client's gender
- (6) Client's ethnic origin
- (7) Client's parent's name when applicable
- (8) Client's address
- (9) Client's phone number and message number if available
- (10) Client's age or date of birth
- (11) Client's annual or monthly income, or that of the family if client is a dependent
- (12) Problem statement
- (13) Proposed description of services to be provided

- (14) Proposed frequency and length of services to be rendered
- (15) Description of actual services rendered
- (16) Date, type, and method of all client contacts and contacts made on behalf of the client
- (17) Approximate length of each contact
- (18) Reassessment of client's problem (halfway through services) to determine how well client is responding to services
- (19) Termination date
- (20) Reason for termination
- (21) Planned follow-up date(s)
- (22) Actual follow-up date(s) and outcome of follow-up contact  
(Follow-up shall be attempted on all clients after termination of client services, unless otherwise stipulated in the Scope of Services.)

b. Secondary Records

Examples are project logs, sign-in/attendance sheets, appointment book, etc. Agencies who do not provide direct services to individual clients shall maintain secondary records to document the services provided to the targeted population. Agencies providing services in group settings shall also maintain secondary records. In addition, written records documenting project volunteer activities shall be maintained as secondary records.

7. Microenterprise Assistance Projects

In addition to the items listed in 6.a. and 6.b., for microenterprise assistance activities conducted, Agency project files shall also include, but not be limited to:

- 1. Number new businesses assisted;
- 2. Number of existing businesses assisted;
- 3. Of the number of existing businesses assisted, number of businesses expanding;
- 4. Of the number of existing businesses assisted, number of businesses relocating;
- 5. Number of businesses assisted that provide goods or services to meet the needs of a service area, neighborhood, or community; and
- 6. Name of business, number of employees and DUNS numbers of each microenterprise business assisted.

- 8. For other projects in which client records are not required, Agencies shall maintain documentation to support activities and services provided to the target population as specified/identified in the executed Agreement.

**All Program Records shall be subject to scheduled and unscheduled reviews by City staff, and acceptance of information submitted in monthly reports is tentative pending verification acquired by the review of project records.**

**F. AGENCY PROGRAM COMPLIANCE**

Agencies shall ensure that assessments/evaluations of program effectiveness, efficiency, internal control, and compliance with the terms of the executed Agreement (including CDBG Program, federal, and City requirements) are conducted with regard to CDBG project activities implemented and completed.

## SECTION III

### FISCAL PROCEDURES

Agencies must constantly monitor their performance to ensure that HUD's timeliness ratio is met and budgeted expenditures are being effectively used to complete all projects. This is monitored by the CDBG Program Office as workshops are conducted, Agreements are negotiated, and reimbursement requests are received. In addition, all activities must be conducted in compliance with the applicable federal and City requirements.

#### A. REQUEST FOR REIMBURSEMENT (RFR) PROCESS

All CDBG-funded Agencies must attend at least ONE mandatory RFR workshop session. Advances are not allowed for CDBG funding (See below) and all agencies are required to submit monthly reimbursement requests for expenditures incurred in the past month.

- All Agencies must submit completed RFR package to the CDBG Fiscal Unit by the 15<sup>th</sup> of each month.
- CIP/Residential Rehabilitation Improvement projects will submit RFRs on a monthly basis, once an eligible reportable expenditure is incurred, during the construction activity period.
- All monthly programmatic reports must also be submitted by the 15<sup>th</sup> of each month to the CDBG Project Manager. These reports must be in the HUD's IDIS database for HUD Staff to review during the year.
- Additional information will be provided on the RFR coversheet listing submittal requirements.
- Any missing support documents, signatures or ineligible expenditures may cause the reimbursement to be reduced and a Disallowance Report will be sent to the agency.
- Any delay in submitting programmatic reports during the year and/or at year end will result in reimbursement of funding being held. For CIP/ Residential Rehabilitation Improvement projects, a 10% retainage of payment will be held until final programmatic reports are submitted.
- Only the current year forms will be accepted.
- Forms will also be available on the CDBG website.

**Please see the RFR and Program Income Guidelines handout presented at the Reimbursement and Program Income workshop for further details.**

## B. GENERAL FISCAL POLICIES AND PROCEDURES

### 1. Fund Advances Prohibited

- The CDBG Program cannot advance any funds for any CDBG-funded projects to the Agency approved for funding.
- The City cannot draw from the Federal government, until there is eligible supportive documentation and statistical/programmatic reports supporting expenditures.
- The City is not advanced any funds from HUD.
- Agencies may not charge expenditures to a credit card or borrow the funds and expect the City to reimburse expenses based on the charge card statement or to the person/institute loaning the funds.
- The CDBG Program cannot pay any Agency's approved vendor directly as the CDBG Agreement is executed with only the Agency.
- Agencies are also prohibited from advancing or loaning CDBG funds received from the City to any individual or organization for any purpose, project, or activity.

### 2. Fiscal Documents Required

During the application and Agreement execution process and at the end of the Agreement period the Agency must provide a copy of the Agency's immediate prior fiscal year end financial statements including the Single audit (if expenditures of federal funding exceeds \$500,000), State tax form 199 and Federal Tax form 990. The financial statement **must** have an unqualified opinion. Other opinions may indicate solvency issues and are not accepted to execute the Agreement. These documents will be used to determine the Agency's ability to fund the CDBG project in the time allowed in the Agreement using the "Three (3) Month Rule".

### 3. Three (3) Month Rule

The three (3) month rule is used as a guideline to determine whether an Agency is solvent and has enough available cash to take a CDBG project from beginning to end in the twelve (12) or eighteen (18) months allowed in the executed agreement. CDBG projects should not harm the day-to-day operations of the Agency, so enough funds must be available for both purposes. This rule was implemented to ensure that the Agency has the capital to execute Agency operations and the CDBG project on a reimbursement basis:

- Cash balance from the Balance Sheet will be used to compute the 3 month rule;
- The opinion represents an independent certified analysis of the Agency's cash status for the past year and the current year;

- Reserved funds and receivables are **not used** to determine cash per Generally Accepted Accounting Principles (GAAP);
- The cash flow statement is also reviewed to determine solvency and track cash patterns;
- Tax forms are also reviewed for exemption and status compliance and to assure they match the financial statements;
- The most recent financial statement (immediate prior year fiscal end) **MUST** be submitted before the final agreement can be executed; and
- An Agency should have the financial statements available five (5) months after their fiscal year end.

**Example:**

- 1) If the Agency's fiscal year ends 6/30/10, then the Agency should have the financial statements available in December 2010/January 2011 or
- 2) If the fiscal year ends 12/31/10, then the Agency should have financial statement in May 2011/June 2011.

The 3 month Cash rule is determined by the following:

- 1) One (1) month to expend funds on the project;
- 2) One (1) month to report the expended funds with proper supportive documents due on the 15<sup>th</sup> (monthly) or 30<sup>th</sup> (annually for final project submission); and
- 3) One (1) month for the City to review documents, resolve issues, and pay Agency/department by mail or transfer of funds to Agency banking institution.

The 3 month Cash rule is calculated by:

- 1) Dividing the Agreement funding amount requested by 4. If cash balance is equal to or greater than this amount you can request that amount, OR
- 2) Multiplying the cash in the balance sheet times 4 and that is the most you can request.

**Example:** Application requests \$100,000. Agency Balance Sheet Cash is \$32,000.

- 1)  $(100,000/4 = \$25,000)$  The cash balance is greater than \$25,000 and complies with the test.
- 2) If you can't decide maximum to apply for  $(\$32,000 * 4 = \$128,000)$ , Agency can apply for up to \$128,000.
- 3) If Agency Balance Sheet Cash is \$22,000;  $22,000 * 4 = \$88,000$  which is less than the \$100,000.

#### Agency Appeal Process of the Three (3) Month Rule:

If the Agency has any major adjustments to cash, since the balance sheet date of the financial statement submitted, the Agency may contact the CDBG Fiscal Unit and present supporting documents for review. The Agency must prove this increase of cash has not been used and is available and sufficient for ongoing day-to-day activities, as well as the CDBG-reimbursed project. This will require bank statement(s), Board-approved financial statements, and Board minutes of Agency activity. Bottom Line: CDBG staff must be able to ascertain from the documents submitted that the Agency is able to complete the project within the timeframe of the executed agreement and not affect the CDBG timeliness ratio negatively or harm their own operations.

#### 4. Budget Increase

Overall Budget increases are not allowed. Appropriations of federal CDBG funding and reprogramming of unused funding of the prior years is conducted per the CDBG timeline each year. Each allocation of funding by Council is considered a separate project with separate scope and budget. Banking of funds to create a larger funding amount for the project is not allowed due to the CDBG timeliness rules and regulations.

#### 5. Budget Modifications

Budget modifications are to be submitted only once a year for all projects. Use forms provided at the request for reimbursement workshop:

- This modification cannot change the scope, or a full Agreement will need to be negotiated.
- Public services and projects spending CDBG funding will submit by April 15<sup>th</sup> and be effective May 1<sup>st</sup> if approved by CDBG staff.
- CIP/Tenant Improvement and Residential Rehabilitation projects can submit once, before the final request for payment at project end.
- Agency must verify that the change will allow them to report without further budget changes through year end.
- During the year, expenditures can exceed the individual line items within each category [(i.e. Personnel Expenditure (PE) and Non-personnel Expenditure (NPE)] by small amounts that are explained in an attached note, but they may not cross PE or NPE categories (See below Sections a through i).
- CDBG Fiscal Unit may question expenditures that are significantly large and require more details. Agencies will be notified if additional information is required.

The accumulation of these amounts will be submitted for CDBG Fiscal Unit review and approval. These amounts must be clearly explained in the budget modification request. The following is expected during the Agreement period:

- a. The total of the category PE and the category NPE does not exceed the total budget for each category, even though small line item overages are on the RFR month-to-month.
- b. The modification will require detailed explanations of the changes to be modified and cannot cross the categories of PE, NPE, and Indirect Cost/Administrative Overhead (IC/AO).
- c. **Examples:**
  - 1) Personnel category: Fringe is in excess of the budget, but the salaries and wages are not. The total budget for personnel (salaries and wages and fringe benefits) is not exceeded.
  - 2) Non-personnel category: Utilities and transportation are in excess of line item budget, but the total Non-personnel category budget is not in excess of budget.
- d. Indirect Costs/Administrative Overhead (IC/AO) category **cannot** exceed budget at any time. CDBG regulations require closely monitoring of the approved administration percentage allowed.
- e. All line item expenditures in excess of the executed budget for each line item must meet the budget justification in the executed agreement.
- f. Any new expenditure, not included in the original budget justification in the executed Agreement package, will not be reimbursed.
- g. Agencies may submit to the CDBG Program exemption requests regarding Agreement and/or Operating Manual terms as applicable. However, this shall be limited to unusual one-time adjustments required due to an unusual event. The CDBG Fiscal Unit will review the exemption requests and work with the CDBG Project Manager to notify the Agency regarding the determination of approval or denial of the request.
- h. To modify the agreement, use the budget modification form package provided at the request for reimbursement workshops and also available on the CDBG website.
- i. Submit budget modification to:

**CDBG Fiscal Unit  
1200 Third Ave, Ste 1400  
San Diego, CA 92101**

## 6. ELIGIBLE AND INELIGIBLE EXPENDITURES

Agencies should rely on the Playing by the Rules Handbook (2005) and federal regulations to determine eligible and ineligible expenditures. It is not possible for the CDBG Program Office to develop a detailed list of all eligible and ineligible expenditures for all CDBG-funded projects. Due to the various rules and regulations adhered to by the CDBG Program Office, and the diversity of services that are funded, expenditures that may be eligible for one project may not be eligible for another. However, the following basic guidelines are applicable to **all** Agencies and shall serve to facilitate decisions in regard to the eligibility of expenditures. In the event of uncertainties, **anticipated** expenditures should be referred to the CDBG Fiscal Unit for decisions, **before** the expenditures are incurred.

### a. Eligible Expenditures

Project expenditures must meet the following requirements to be eligible for reimbursement:

- 1) They must be approved in detail as part of the executed agreement, budget justification forms and cost allocation plan.
- 2) They must be essential to the proper and efficient performance of the service as required by the Agreement.
- 3) The invoices, receipts and other supportive documents should be dated during the month requested for reimbursement.
- 4) During fiscal monitoring and/or audits, original receipts/invoices must be reviewed for authenticity and funding sources that reimbursed the expense. All original, unmarked documents **MUST** be maintained at the local office address listed in the CDBG Agreement for immediate monitoring review and/or audits. CDBG staff will not travel to national offices for this purpose.
- 5) They must be reasonable and comparable to the expenditures incurred by the Agency or other Agencies providing similar services.
- 6) They must be expended against the authorized line items in each category contained in the Agreement project budget that has been approved by the City. **NOTE:** New expenditures are not allowed to be included in a one-time modification of the budget. Unsupported disbursements shall be disallowed upon review of the RFR for payment.
- 7) They must be thoroughly documented, and the net expenditures must reflect all applicable credits to the Agency, such as purchase discounts, rebates, and allowances, receipts from the sale of publications or materials, and any other types of income or credits. Unsupported

disbursements shall be disallowed upon review of the RFR for payment.

- 8) They must comply with the written policies of the Agency, as approved by its governing body, in regard to the employment, salaries and wage rates, working hours, holidays, fringe benefits, vacation and sick leave privileges, military leave, jury duty, travel, and other personnel matters as stated in the detailed budget forms in the executed agreement. If a unique payment is made for an employee, document and explain clearly how it relates to the project, how the Agency policies support the payment and what funding source would normally pay this item. Example: Fringe Payment made to an Agency other than an insurance company or other fringe provider.
- 9) Agency is to keep in mind that the expenditure must be for direct services to the project or client. **TEST:** Is the expense paid as part of Agency operating expenditures, if CDBG funding was not available? If it is, then this would be considered too high a level for indirect or direct cost and would be ineligible.

b. Ineligible Expenditures

Anticipated expenditures that do not clearly meet the eligibility requirements stated above are ineligible for reimbursement. Any of these expenditures submitted for payment will be disallowed and cannot be resubmitted. Ineligible costs include, but are not limited to the following:

1) Bad Debts

Loss resulting from uncollectible accounts or claims.

2) Commingling of Funds

Expenditures related to services funded by sources other than the CDBG funds are ineligible if they are charged against the CDBG funds.

- For Agencies who operate many programs, or have more than one funding source, the Agency shall allocate expenditures to the various programs or funding sources according to an approved Cost Allocation Plan as required in the application, Agreement and reimbursement packages.
- The costs should be allocated on the basis most appropriate and feasible under the circumstances. Examples: include number of hours spent, number of employees, or square footage.

- The Agency shall maintain proper documentation related to the allocation of expenses (i.e., time cards, time summaries, square footage measurements, etc.).
- 3) Contingency Funds  
The transfer or contribution of funds to a contingency reserve, or similar provisions for meeting future unforeseen expenses.
- 4) Fund Raising  
Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions for the project and/or Agency, regardless of the purpose for which the funds shall be used. In addition, expenditures to solicit contributions or donations for the project and/or Agency, including salary expenses.
- 5) Contributions and Donations  
Cash or in-kind contributions or donations to any Agency or cause.
- 6) Entertainment/Agency Events  
Expenditures for social activities, amusement, entertainment, and general Agency events (i.e., space rentals, flyers/brochures, staff time/salaries, lodging, meals, refreshments, beverages, and gratuities). Examples of such events include, but are not limited to, Agency fundraising events, groundbreaking events, open house events, Agency staff meetings or staff development meeting/retreats, and staff/client birthday or other parties.
- 7) Fines and Penalties  
Expenditures to pay fines or penalties resulting from violations or noncompliance with Federal, State, or local laws, rules, or regulations.
- 8) Late Fees and Interest  
Late fees and interest charged by vendors for invoices paid after the due date and/or fees associated with returned checks. Also credit card interest or fees cannot be paid using CDBG funds.
- 9) Interest and Professional Fees  
Interest on any type of loan, bond discounts, financing and refinancing fees, and legal/professional fees related thereto.
- 10) Membership Fees/Subscriptions  
Fees for membership in any organization that is substantially involved in advocacy, lobbying and other activities which are intended to influence legislation at the Federal, State, or local levels, as well as fees for membership for which the purpose does not support the scope of work/scope of services of the executed Agreement. Any

memberships or subscriptions that is not directly associated with the clients in the project or project completion.

11) Meeting Attendance Fees

Fees and/or salaries claimed for attending meetings that are not open to attendees on a non-segregated basis.

- In addition, fees and/or salaries for attending workshops and/or training sessions that do not support the scope of work/scope of services of the executed Agreement; or
- Are attended by personnel not budgeted under the Agreement or are attended by project volunteers.

12) Training/Conference Expenses

Training/conference expenses and/or salaries that do not clearly support the scope of services/scope of work of the executed Agreement.

13) Out of Area Training

Expenditures for travel outside the San Diego metropolitan area for administrative and/or project staff to attend training activities or conferences.

14) Credit Cards

Credit Cards, business or personal, cannot be used to purchase materials or services to be reimbursed by CDBG. Many credit cards have points, mileage, percent reductions on purchases or other bonuses for use of the card. All of these benefits are considered program income and would have to be returned to CDBG. To track this for all agencies is too difficult to measure and detail. Therefore, the use of the credit cards is ineligible.

15) Gift Certificates/Cash Awards

Gift Certificates and/or cash awards given to clients and/or staff, including cash payments to staff for compensatory time earned or bonus payments to employees, subcontractors or consultants.

NOTE: Any project related gift certificates must be approved in the executed Agreement, inventoried and detailed documents of how they are used for the clientele are required monthly to be submitted with the RFR for payment.

16) Deposits

Deposits for rent, equipment, utilities or other Agency expenditures are not allowed. Expenditures to pay for a past deposit for rent, equipment, or any other items are not eligible.

17) General Expenses

General expenses incurred in carrying out the non-project-related functions of the Agency or expenses unrelated to the direct scope of work/scope of services.

18) Purchases Paid with Personal Accounts

Expenses paid by Agency personnel utilizing personal cash, personal checking accounts and/or personal credit cards.

19) Services for Other City Departments/Agencies

Expenses incurred in performing services for any other City department, or governmental, nonprofit, or private Agency during the current Agreement period or any previous Agreement period.

20) Costs for Goods or Services

Costs for goods or services not incurred within the Agreement period. (Incurred expenses are defined as those expenses that have actually occurred and may or may not have been paid.)

- Expenditures incurred prior to the start date and/or after the end date listed in the executed Agreement between the City and the Agency.
- In addition, costs for goods or services to be utilized in future fiscal years.

21) Mortgage Payments and Property Taxes

Mortgage payments and property taxes are not eligible expenditures. CDBG funds can only reimburse rent or lease payments to property owners.

22) Automobile Purchase

An automobile purchase is not an eligible expenditure.

23) Accrued Vacation and Sick Leave

If applicable, Agencies must track accrued vacation and sick leave during the Agreement period for each CDBG-funded staff. This record must be included with the reimbursement request, when utilized and claimed to CDBG. CDBG funds will not be reimbursed for any vacation time, sick leave, pay-in-lieu or other labor-related cash distributions not accrued during the Agreement period when terminating the CDBG-funded employee and/or when the CDBG-funded employee submits it on their labor card/time sheet.

24) Any expenditure not approved as part of the Agency contract agreement and clearly explained in the expense justification will be disallowed and the reimbursement will be reduced to reflect this

expense. Reminder: A budget modification can be made once, three months before the end of the contract. (See page 23, item #5.)

#### 7. ACCELERATED SPENDING

Excessive spending during the last 90 days of the Agreement period is **not** allowed.

- All project-related equipment must be purchased in the first six (6) months of the Agreement, so the equipment can be utilized for the project during the Agreement period.
- All other supplies and purchases need to be purchased prior to April so they can be used for the project by the end of the Agreement. Examples include large quantities of project supplies, or any significant increases to the allocated portions/percentages charged to the CDBG Program for any of the budget line items.
- Only small purchases as needed should be submitted in the last 90 days. Examples include small supplies for direct use of the client, emergency project-related supplies, etc.

#### 8. YEAR END FISCAL REPORTS

- **Financial Summary Report:** Agencies shall submit a financial summary report that provides confirmation of project expenditures claimed to, and reimbursed by the City for costs incurred during the term of the executed Agreement.
- **Audited Current Fiscal Documents:** The Agencies will also submit an up-to-date copy of the immediate prior fiscal year end financial statements including the OMB Circular A-133 Single Audit Certificate of Compliance verifying compliance with audit requirements of OMB Circular A-133 and current tax forms. If a copy of the updated financial statements, single audit, and tax forms were sent during the Agreement period another copy will not be necessary.
- **Confirm All Project Funding Sources:** Agencies shall provide confirmation of all funding sources utilized for the project funded with CDBG funds, including fees and donations. This information shall be entered into HUD's IDIS and ACCESS database systems.
- **Signed Reprogramming Form:** If the agency has remaining funds at the end of the Agreement the reprogramming form will need to be SUBMITTED FOR THE REMAINING AMOUNT. (See REPROGRAMMING CDBG FUNDING below)
- **Property Records Report:** Agencies shall submit a property records report that identifies any real property acquired or improved in whole or in part with

CDBG funds in excess of \$25,000 or personal property acquired or improved in whole or in part with CDBG funds in excess of \$500.

- For Agencies responsible for the operation of City Programs, a property record detailing all property with a useful life of one year or more purchased with CDBG funds, including those purchased in prior fiscal years, shall be maintained and included in the report submitted to the City.
- The report shall include the CDBG tag number.
- The report shall also include property located at the project site(s) on the initial date of Agency operations.
- In addition, the report shall include property stored temporarily by Agency off-site when not being utilized on-site.

9. REPROGRAMMING CDBG FUNDING

After twelve (12) or eighteen (18) months, depending on the Agency's executed agreement from the date of award by City Council, if funding is not used and/or statistical/accomplishment reports are not provided as indicated in the agreement, the CDBG Program Office may choose to exercise its right to submit unexpended CDBG funds to the City Council for reprogramming to another activity.

- a. No extensions that allow banking of funds or combining of funds not used in the prior executed agreement will be allowed, as this will create funds sitting idle and affects the timeliness ratio.
- b. A signed reprogramming form will be submitted by the Agency requiring their signature as acknowledgement and acceptance of the reprogramming action.
- c. Once all reimbursements are completed and the funds are set to be reprogrammed, a letter of confirmation will be sent to confirm the reprogramming amount.

10. AUDITS DURING THE AGREEMENTT PERIOD

- a. Agency audits conducted during the period of the executed agreement from a source other than the City shall provide a copy of the audit to the City within thirty (30) calendar days of completion of the audit.
- b. The City, at its sole discretion, may conduct an annual review of any such third party audit(s).
- c. Agencies shall fully cooperate with any such annual review by providing the City with any and all documentation associated with any such third-party audit(s) within fourteen (14) calendar days, unless otherwise specified by the City.

#### 11. SUSPENSION OR TERMINATION OF AGREEMENT

Besides reprogramming, the CDBG Program Office reserves the right to:

- cancel any grant award;
- temporarily suspend payments; or
- implement other actions in the event that a CDBG-funded Agency materially fails to comply with any of the terms of the executed Agreement.

Other reasons for these actions include but are not limited to:

- Not having an unqualified audit on the financial statement; Adverse, Qualified and Disclaimer of Opinion are not acceptable;
- Most recent financial statement shows significant drop in cash and not enough cash to meet the three (3) month rule;
- Not submitting the most recent audited financial statements and filed taxes;
- Any forgery of documents or indications of fraud in reports submitted;
- Non-compliance in reporting monthly, **both** programmatic and fiscal documents; or
- Excessive disallowances of requests for reimbursement.

#### 12. PROGRAM INCOME

Program income is defined by Federal 24 CFR 570.500(a) as any gross income received by the Agency that was directly generated from the use of CDBG funds.

This includes, but is not limited to proceeds or gross income from:

- Proceeds from the sales or lease of property purchased or improved with federal funds;
- Proceeds from the sale or lease of equipment purchased with federal funds;
- Gross income from the use or real or personal property acquired, constructed or improved by the grantee (or a Agency), less costs incidental to the generation of income;
- Payments of principal and interest on loans made using federal funds;
- Interest earned on program income pending its disposition (NOTE: interest earned on revolving loan funds, as described below, must be remitted to the U.S. Treasury at least annually); and
- Funds collected through special assessments on properties not owned and occupied by low to moderate income (LMI) households in order to recover the CDBG portion of a public improvement.

Program income **does not include**:

- Income earned on grant advances from the U.S. Treasury;

- Payments made by Agency of principal and/or interest on CDBG-funded loans received from grantees, if such payments are made using program income received by the Agency:
  - Any income received in a single program year by the grantee *and* its subrecipient Agencies that does not exceed \$25,000; and
  - Income generated by certain Section 108 activities (refer to 570.500(a)(4) (ii));
  - Proceeds from Agency fundraising activities;
- Funds collected through special assessments to recover non-federal outlays of capital improvements; and
- Proceeds from the disposition of real property by an Agency that was acquired or improved with CDBG funds five (5) years after the termination of the grant agreement with the Agency. Certain conditions apply. Refer to 570.503(b)(8).

All CDBG-funded Agencies will estimate any program income in their cost allocation plan submitted with the Agreement.

- If the total for the year is estimated to exceed the \$25,000 limit, all of the program income will be sent to the CDBG office for Council determined distribution to projects as part of the reprogramming required by federal regulations.
- Funding under the \$25,000 limit will be used in the project it was earned. A report of the program income used this way must be documented in the monthly fiscal and programmatic reports, so CDBG staff can report to HUD.

**Please see the RFR and Program Income Guidelines handout presented at the Reimbursement and Program Income workshop for further details.**

## C. FINANCIAL SYSTEMS

Agencies must comply with the following fiscal procedures as a means of maintaining sound control over project expenditures and CDBG-funded assets to the maximum extent feasible.

### 1. ACCOUNTING SYSTEM

Agencies are required to maintain an accounting system that controls and accounts for all funds, property and other assets as a result of the contractual relationship with the City based on Code of Federal Regulations and Sarbanes-Oxley. New federal rules and Sarbanes-Oxley have been implemented to meet required internal controls and reporting requirements. The system must also be secure for payroll and other sensitive documents used for the CDBG-funded project. Back up of the accounting system also needs to be addressed and performed regularly so documentation is not

lost. All data should be retained for five (5) years following the completion of the project in the accounting system, as well as all supportive hard copies of original documentation. Therefore, this system should be flexible enough to:

- implement internal controls;
- maintain accounting records;
- clearly record costs so eligibility can be determined;
- reference transactions to source documentation and tracking notes;
- include a budget mechanism to assure funds are not over expended;
- maintain subsidiary records for accounts payable, accounts receivable and cash transactions;
- produce integrated reports that can be updated as needed to meet reporting requirements monthly or at monitoring visit; and
- maintain original reports with original supporting documents for funding expenditures and monitoring or audit purposes.

## 2. TRACKING SYSTEM REQUIREMENT

Agencies are required to have an integrated and secure accounting system in place to meet the requirements of HUD and the City of San Diego. These requirements include:

- Agencies are required to establish a system of tracking deposits and expenditures related to the CDBG funds received from the City.
- A separate set of records for each individual funded project awarded by the City must be maintained.
- The funds allocated to each individual project administered by the CDBG Program Office should not be commingled with funds received from sources other than the City, as well as with other non-CDBG funds received from other City divisions or departments.
- A Cost Allocation Plan is required with the application and Agreement execution process to show how expenditures are broken out amongst other funding, if the project is not 100% funded with CDBG. As funding changes during the project period, this plan must be updated and re-submitted with any modification of the budget. This plan may be reviewed during monitoring visits and needs to be available for audit of the project.

## 3. FINANCIAL RECORDS

Agencies should maintain accounting records per the Playing by the rules Handbook (2005) Section 2 for the purpose of recording the financial transactions related to the project.

- These records are essential to the maintenance of sound fiscal control, preparation and submission of reports to the City, processing of program income, and preparation for monitoring, and auditing functions.
- All documents for the CDBG project(s), including books of original entry, source documents, supporting documents, and canceled checks should be maintained in an orderly manner, and must not be intermingled with the records of any other funding sources.
- These records and documents are required to be protected against loss, fire, or other damages.
- All documents must be kept for five (5) years past the completion of the project.

#### 4. INTERNAL CONTROL PROCEDURES

Internal Controls should be established for each Agency applying for CDBG funding. The Agency should use a combination of procedures, specified job responsibilities, qualified personnel and records that create accountability in the organizations' financial system to safeguard its cash, property and other assets.

Sarbanes-Oxley also requires the Board and management (CEO, CFO or equivalent) to be responsible for proper reporting and internal controls to protect against fraud, forgery or reports that are inaccurate. The following internal control procedures shall be utilized by the Agency to the maximum extent feasible, as determined by the number of personnel employed and the size and complexity of the project:

- a. The Agency's functional organization and personnel responsibilities shall be clearly established and closely observed using clearly defined job descriptions, written accounting procedures, organization charts, and periodic review of financial system by staff and annually by independent certified auditor, and personnel evaluations.
- b. Employees should be rotated through various assignments as feasible and vacations taken at least once a year.
- c. Work should flow from one employee to another, so that the work of the second shall provide a check upon the first, without duplicating the work of the first.
- d. Separation of duties where no employee shall have complete control over all phases of any significant transaction.
- e. The function of receiving cash should be centralized to one (1) employee, and the employee should not be involved in any way with processing vouchers, preparing deposits, making disbursements, or keeping accounting records. In

this connection, only the employee who keeps the accounting records should have access to those records.

- f. Established formal system of authorization and supervision.
- g. Control over access to assets, blank forms, and confidential documents should be limited to only those individuals having record keeping or supervisory responsibility for them.
- h. All accounting systems must be secured when not in use, regularly backed up and stored securely by assigned staff, and not be available to any staff or volunteers without authorization.
- i. Record keeping and the handling and custody of assets should be separated from operational functions.
- j. Sensitive documents must be handled properly, secured in locked area, and not be available to anyone other than those authorized to work with the forms.
- k. All records must clearly identify the source and application of CDBG funds and have clear explanations for unusual accounting adjustments.
- l. All reports should be reviewed by management and presented to Board.
- m. Signatures of the Designated Agency Administrator AND Board signature will be required for all reports, reimbursement requests, budget modifications and other CDBG documents per regulations of Sarbanes-Oxley.

#### D. FISCAL RECORDS

Maintenance of adequate documentation for expenditure of CDBG-funded activities is critical to the effectiveness and overall performance of the program. Program income and receipt of CDBG revenue requires adequate documentation. To choose the method of accounting that best fits your Agency's needs includes knowing:

- what information needs to be collected and why;
- when that information should be collected (and how often);
- how the information should be acquired, organized, and stored;
- how the information should be reported;
- how storage of documents is secured; and
- what maintenance and retention is used for past records.

This information has been presented to you in the mandatory workshops for the application, contracting and reimbursement processing.

#### E. ACCOUNTING RECORDS

Detailed accounting records are required for all transactions related to the project without co-mingling with other projects or funding. Reports must be generated as needed. Most Agencies are currently using some type of automated accounting system, PC software and/or consultant accounting services to comply with the CDBG reporting requirements. No matter

which type of accounting system is used the Agency must keep all reports and supportive original documents safely secured and available for monitoring or audit upon notice.

The following is a description of the accounting records considered to be the minimum required for recording transactions relating to the City-funded project. Agencies may establish any additional accounting records it considers necessary to provide adequate financial control of its assets and liabilities and to account for project costs. Agencies shall maintain the following ledgers for the purposes indicated:

1. General Ledger

A General Ledger shall be used to record all transactions related to the project. Posting should be done at least weekly for in-house staff or monthly, if consultant or other accounting service is used. Requests for Reimbursement should be based on the monthly Cash Disbursements Register information posted each month to this ledger.

2. Cash Receipts Register

A Cash Receipts Register shall be maintained to record all funds (cash, checks, money orders, etc.) received in connection with the project. Deposit slips shall contain sufficient information so that the required entries may be made in the Cash Receipts Register or General Ledger. The Cash Receipts Register shall be balanced each month and posted to the General Ledger. (NOTE: The Cash Receipts Register may be combined with the Cash Disbursements Register described in Section 3 below.)

- a. Pre-printed and pre-numbered receipt forms shall be used for all types of funds received by the Agency.
- b. All checks and other negotiable items received by the Agency shall be immediately stamped with a restrictive endorsement and receipted for. All cash received by the Agency shall be receipted for, with a duplicate copy of the receipt forwarded to the employee responsible for bank reconciliation reports.
- c. Each check, negotiable item, or cash receipt shall be individually recorded in sufficient detail in the Cash Receipts Register at the time of receipt and not combined with other receipts as a total amount.
- d. All checks, negotiable items, and cash receipts shall be deposited in the bank no later than the following business day.
- e. Cash balances shall be periodically checked by employees who do not handle or record cash receipts, and do not prepare signed checks.
- f. All receipts, checks and other sensitive documents need to be secured during the day and overnight in secure locked locations determined by the Agency.

### 3. Cash Disbursements Register

A Cash Disbursements Register shall be maintained to record all checks issued for the withdrawal of funds from the project's bank account. The Cash Disbursements Register shall be balanced each month and posted to the General Ledger. Requests for Reimbursement should be based on the monthly Cash Disbursements Register information posted monthly. (NOTE: The Cash Disbursements Register may be combined with the Cash Receipts Register described in 2.)

- a. All disbursements other than petty cash shall be made by pre-printed and pre-numbered checks, and if feasible, the amounts shall be imprinted by a check-writing machine.
- b. Each expenditure shall be carefully reviewed and approved, and if the expenditure is for items that have been purchased, disbursement shall be made only after the items have been received, inspected, and the quantities verified.
- c. Disbursements for travel shall be supported by detailed documentation that includes places visited, purpose, itinerary, mode of travel, and receipts for all eligible expenditures.
- d. Each disbursement check shall be approved and signed by an authorized official of the Agency and countersigned by a second authorized official of the Agency or its governing body.
- e. Each disbursement shall be individually recorded in sufficient detail in the Cash Disbursements Register at the time of disbursement and not combined with other disbursements as a total amount.
- f. Checks shall not be made payable to "Cash," "Bearer," or any other unidentifiable person or entity.

### 4. Petty Cash Records

Vouchers and supporting documents shall be maintained for each disbursement from the petty cash fund. The total amount of monies in the petty cash fund shall not exceed Two Hundred and Fifty Dollars (\$250), and individual disbursements for the purchase of miscellaneous items shall not exceed Fifty Dollars (\$50) per purchase.

- a. The petty cash custodian shall keep the petty cash funds in a locked box within a locked drawer, and shall be responsible for the custody and disbursement of the funds.
- b. A voucher containing the following information shall be prepared in blue ink (to distinguish from xerox copy) for each disbursement of petty cash:
  - 1) Date.
  - 2) Amount of the disbursement (not to exceed \$50).
  - 3) Item detailed with purpose that is directly related to the CDBG project budget.
  - 4) Invoice or receipt to support expense.

- 5) Project account to be charged.
- 6) Signature of the petty cash custodian or other person approving the disbursement.
- 7) Signature of the person receiving the petty cash.
  - a) Each purchase with petty cash shall be verified by a receipt of invoice to be appended to the disbursement voucher.
  - b) The petty cash custodian shall periodically (at least once a week even if not used) reconcile the fund to ensure that it is in balance, and that sufficient funds are available to cover miscellaneous purchases.
  - c) When the petty cash fund has been significantly reduced, a check shall be issued to the custodian in an amount that shall restore the funds to the maximum level established by the Agency, which shall not exceed a total of \$250.
  - d) At the end of the Agreement period the petty cash account must be closed out so all expenditures are charged to the correct Agreement period.

5. Cost Control Ledger and Subsidiary Ledger

A separate cost control (expenditure) ledger shall be maintained for each funding source (CDBG funds, In-Kind Agency funds, Ineligible Costs, etc.). A Subsidiary Ledger shall be maintained for each cost control ledger, showing costs by budget category and object of expenditures to classify costs according to activity classifications shown in the latest approved budget. The Subsidiary Ledgers may be part of the automated accounting system, or it may be a manual columnar ledger spreadsheet with a separate column for each subsidiary account.

6. General Journal

The General Journal shall be used to document and record transactions in the General Ledger and/or Subsidiary Cost Ledger that are not recorded from Cash Receipts and Disbursement Registers such as correcting entries, adjusting entries (accruals), and closing entries. Entries in the General Journal shall be consecutively numbered and the number shall be recorded as a part of the entry in the General Ledger or the Subsidiary Ledger. Each entry shall contain a complete explanation of the transaction being recorded and references to related documents if applicable. All General Journal entries shall be approved by an authorized official of the Agency.

7. Payroll Records

Payroll records shall be used to record salaries and wages and employer/employee contributions and withholdings, as applicable, including check numbers.

- a. Time and attendance reports shall be individually maintained for each employee. ***Automated payroll system:*** *If the payroll system in place is fully*

*computerized with signatures on time cards being replaced with approval based on employee submission and supervisors review and approval in the system, reports generated by the system will be used in place of time cards and time sheets. **Supervisor must review and initial/date to authorize document is correct, when used to support wages and fringe expenditures on reimbursement documents.** Otherwise, the time and attendance report form shall include the following information:*

1. Pay period.
  2. Employee name and/or employee number.
  3. Employee title. (Employee positions shall conform to the Personnel Schedule of the approved Agreement budget.)
  4. Number of hours worked each day.
  5. Number of hours worked during the pay period. Fractional positions are those positions that are charged to two or more funding sources. Documentation must show at a minimum, the daily hours worked and the funding sources charged. Documentation for fractionalized positions must reflect actual hours worked per funding source and not budgeted hours. Failure to maintain records of daily labor hours worked by funding source may result in disallowed salary expenditures.
  6. Employee's signature.
  7. Supervisor's signature attesting to verification and approval of the information entered on the time and attendance report form.
  8. **Time and attendance records or automated system report for the Executive Officer of the Agency must have the signature of an appropriate designee of the Agency's Governing Board of Directors.**
- b. Salary or wage payments to each employee shall be handled in the following manner:
- 1) Total gross pay is computed on the basis of the total time worked, as shown on the time and attendance reports and recorded in the Payroll Journal.
  - 2) Payroll deductions are computed and recorded in the appropriate columns of the Payroll Journal. The net pay is then determined and recorded.
  - 3) The amount of each payroll check and the check number are recorded in the Cash Disbursements Register.
  - 4) Persons who keep the payroll records should not handle or distribute the related paychecks.

- c. A U.S. Treasury Department, Internal Revenue Service, Form W-4 must be completed and signed by each employee for Federal and State income tax and Federal Social Security (FICA) tax withholding purposes.
- d. Agencies and/or their employees are subject to a variety of contributions or income withholdings such as Federal and State income taxes, Federal Social Security (FICA) taxes, and State unemployment compensation taxes, disability insurance, and worker's compensation insurance. Each Agency can determine its status and responsibilities in regard to these contributions and withholdings by obtaining Federal and State publications that are available to employers for this purpose. In the event of uncertainties, Agencies shall obtain advice and assistance from representatives of the appropriate Federal or State departments, or from a competent private source.
- e. CDBG funds cannot be used as pay in lieu of vacation or as payoff of employee as the project is completed. Annual leave cannot be paid into a reserve and distributed after the project is over. All CDBG funding should be used for direct client or project expenditures.

8. Bank Reconciliation Records

Bank statements shall be delivered unopened to an employee whose responsibilities do not include receiving or depositing cash receipts or authorizing, preparing, or signing checks. This employee shall prepare the bank reconciliation immediately after receiving the bank statement. All bank statements must be reconciled monthly to the cash account in the General Ledger and should include the signatures and dates of persons preparing, reviewing, and approving the reconciliation. Agencies shall maintain a copy of the monthly bank account reconciliation for review at monitoring or for audits.

A copy of the Treasurer's report to the Agency's Board with the bank reconciliation and monthly financial statements need to be approved by the Board monthly and also be available for review at monitoring visits.

9. Property Records

When CDBG funds are used to acquire real property (i.e., land, buildings) or personal property (i.e., equipment, supplies intangible property), federal regulations make the Agency responsible for ensuring that:

- a. the property continues to be used for its intended (and approved) purpose;
- b. that the Agency keeps track of it and takes care of the property; and
- c. that if the Agency sells the property, the Agency reimburses the City for the share of the property's value according to the contractual obligation.

Site visits to monitor this requirement will be conducted at least once during the year. Agencies shall maintain a written inventory of all property (fixed assets and minor equipment)

- purchased through the executed Agreement, or
- belonging to the City,
- having a value of Five Hundred Dollars (\$500) or more
- a useful life of one year or more,
- not consumed or lose its identity by being incorporated into another item of property.

Property purchased with CDBG funds must be included in the approved Agreement budget. All property paid for with any CDBG funding will be tagged by the Project Manager when payment is complete. Agencies shall conduct a sight inventory of all such property at least once a year.

- a. Each property record shall include the following information:
  - 1) A description of the item of equipment, a serial number or other identification number, the City property tag number, the source of the equipment, who holds title.
  - 2) The date of acquisition and cost, or assigned value.
  - 3) The location of the item.

The total cost of all items of non-expendable property as shown on the property record shall equal the balance in the account for equipment purchases. The annual inventory of non-expendable property shall be reconciled to the property record.

- b. A control system shall be developed to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft shall be investigated. Stolen or vandalized property shall be reported to the San Diego Police Department and the City's Project Manager immediately. A copy of the police report shall be submitted to the City within fourteen (14) working days after filing.
- c. Adequate maintenance procedures shall be developed to keep the property in good condition.
- d. Upon conclusion of the project, or earlier termination for any reason, all property purchased with City and/or Federal funds and those belonging to the City shall revert to the City upon request.
- e. Property discovered to be missing shall be reported to the City's Project Manager, and a missing property report shall be completed and submitted to

the City within five (5) working days after the date of discovery of the missing property.

- f. Property that is no longer needed or has been damaged to the extent that it is no longer usable must be reported to the designated Project Manager for a determination as to its disposition. Under no circumstance may the property be disposed of prior to obtaining City authorization.
- g. If the property is sold, proper sales procedures must be established to ensure the highest possible return and/or adherence to Program Income requirements as applicable.

## **SECTION IV MONITORING**

HUD requires monitoring of subrecipient Agencies on an annual basis. Monitoring is an on-going process of reviewing performance using Agency data and to assist in improving that performance, if applicable.

The fiscal and program compliance monitoring performed by CDBG Program staff is different from an annual audit. Monitoring is not an audit of the Agency, but rather is focused on the “project” that is CDBG-funded. The Agency is encouraged to discuss issues about the program or fiscal requirements.

To meet HUD requirements, the City shall periodically monitor records of Agencies, typically one (1) to two (2) times per year. General site visits and/or monitoring reviews shall be conducted at Agency and subcontractor sites to observe operations. During these visits, CDBG staff will provide technical assistance, review service delivery processes, and review administrative and financial records to audit, monitor, and/or evaluate Agency’s, and/or subcontractor’s performance of its obligations and duties in connection with the executed Agreement terms, completion of project activities and/or delivery of services. Program and fiscal monitoring may be scheduled concurrently. In some cases, it may be necessary to perform a follow-up monitoring visit. CDBG staff may also make unannounced site visits. An unannounced site visit is based on a specific monitoring purpose, such as verification of project hours and other Agreement compliance concerns. A written record of all site visits, announced or unannounced, shall be prepared and provided to the Agency. Any concerns and/or findings identified are discussed with Agency staff, along with recommendations and/or requirements for compliance with CDBG regulations and executed Agreement requirements.

### **A. GENERAL SITE VISITS**

General site visits at Agency and/or subcontractor sites to observe project operations or construction status, provide technical assistance, review service delivery or construction processes, and review documentation to ensure compliance with Agreement terms and delivery of quality services shall also be conducted by the CDBG Project Manager during the Agreement period. A report documenting the results that include concerns and/or corrective actions identified shall be completed and a copy sent to the Agency. Follow-up visits may be conducted, as required to ensure compliance issues were addressed satisfactorily.

## **B. PROGRAM MONITORING GOALS**

1. To review Agencies to determine if services are being delivered in accordance with Agreement requirements as to type of services and number of units of services.
2. To review records of Agencies to determine if systems are in place to properly document the client eligibility, provision of services, and compliance with any other Agreement requirements.
3. Determine if the prior year's monitoring findings have been corrected and are not being repeated.

## **C. PROGRAM MONITORING PROCESS**

1. The designated Project Manager shall contact the Agency to schedule a monitoring visit. The Agency shall be notified about the records that shall be reviewed. These records should be ready for review upon the CDBG staff's arrival. Agencies shall ensure that a working space is set up for the CDBG staff to complete the monitoring visit.
2. The CDBG staff shall meet with the Agency director and/or staff to answer any questions regarding the monitoring process. CDBG staff shall then meet with staff responsible for the intake process, preparation of program reports, and delivery of direct project services (including subcontractor staff).
3. CDBG staff shall review records selected for monitoring and discuss record keeping methods with Agency staff responsible for maintaining them. Blank copies of program documents utilized by the Agency may be requested as applicable. Records to be reviewed include, but are not limited to:
  - a. Programmatic reports sent to the City for the period under review.
  - b. Daily logs, time sheets, or other documents used to determine the number of units reported.
  - c. A list of clients served during the Agreement period. A sample of client records from this list shall be requested for review. These client records should include eligibility documentation and records of services provided.

During the monitoring visit, CDBG staff shall choose 2-4 Agency programmatic reports to sample and review Agency records against City records for the following:

- a. Determine if totals listed in the sample months match the totals noted in City records and matches the information listed in the Agency's supporting documents reviewed.

- b. Determine the method used to distinguish CDBG from the clients not claimed to the executed Agreement. Determine if this method is satisfactory in meeting recordkeeping requirements.
- c. Determine whether the activities conducted and/or services provided matches the information listed in the Scope of Work/Scope of Services (Exhibit A) portion of the executed Agreement.
- d. Determine provision of quality services and compliance with recordkeeping requirements.

In addition, individual client files shall be reviewed, as applicable, for:

- a. Documentation of eligibility, including City residency and annual income verifications;
- b. Documentation of the provision of services per the terms of the Agreement;
- c. Determination of whether the date of service and type of service provided that are listed in logs, spreadsheets and/or databases are also recorded in the client files;
- d. Determine whether client notes are dated, reflect the service units provided, include Agency staff signatures, are complete and documents the client's progress; and
- e. Determine whether files are complete and properly maintained.

At the conclusion of the monitoring visit, CDBG staff shall meet with the Agency director and/or staff to discuss the monitoring results and answer any questions.

- a. Observations made during the monitoring visit shall be discussed.
- b. If there are concerns or findings, corrective actions needed to address each concern or finding shall be discussed.
- c. Technical assistance shall be offered, where applicable.

- 4. Within thirty (30) days after the completion of the monitoring visit, a written report detailing the results of the program and/or fiscal monitoring visit shall be sent to the Agency. If the program and fiscal monitoring were conducted concurrently, the reports for both shall be combined under a single cover letter. The monitoring report shall contain the following:

- a. A detailed list of areas reviewed;
- b. Confirmation of compliance, as applicable;
- c. [NOTE: If the monitoring visit does not result in any concern or finding, the Agency's program and/or fiscal monitoring for the year under review are considered to be complete.]
- d. A detailed list of concerns, as applicable;

- e. A recommendation shall be listed for each concern that explains how to eliminate the concern;
  - f. A detailed list of findings, as applicable;
  - g. A requirement for corrective action shall be listed for each finding that explains how the deficiency needs to be corrected;
  - h. If findings are severe, the Agency may be notified that future reimbursements shall be placed on hold until the findings are cleared.
5. Within thirty (30) days after receipt of a monitoring report that contains concerns and/or findings, the Agency shall submit a written response to the monitoring report. The response should be addressed to the CDBG Program Administrator and include the following:
- a. A response to each individual concern and/or finding issued; and
  - b. Copies of any documentation needed to support the response to the concerns and/or findings, as applicable.
6. Upon receipt of the Agency's response to the monitoring report, the designated Project Manager and/or CDBG Fiscal Manager, as applicable, shall review the response to determine whether the concerns and/or findings have been satisfactorily addressed. Determinations on whether Agency responses were satisfactory shall be forwarded to the CDBG Program Administrator for final approval. A written response to the Agency's response shall be sent to the Agency by the CDBG Program Administrator and shall include the following:
- a. Concerns and/or findings that have been satisfactorily addressed shall be noted as closed. If all findings are closed, the Agency's program and/or fiscal monitoring for the year under review shall be considered complete.
  - b. Findings that are not satisfactorily addressed shall remain open and shall require further response or action on the Agency's part.
  - c. The Agency shall be given an adequate period of time to take any further action needed to correct the findings and respond in writing.
    - 1) If these actions are satisfactorily addressed, the findings shall be noted as closed and the monitoring is considered to be complete.
    - 2) If these actions are not satisfactorily addressed, further correspondence shall be required until such a time as all findings are closed and the monitoring is concluded.

**NOTE: The close of the executed Agreement does not necessarily close the monitoring. Correspondence shall continue until all findings are closed.**

#### **D. FISCAL MONITORING REQUIREMENTS**

A grantee is responsible for ensuring that all CDBG funds under its oversight are used in accordance with all financial management guidelines, fiscal policies and reporting. Per the Playing by the rules Handbook (2005) Chapter 2, the purpose of these requirements is to insure that a subrecipient receiving Federal funds has a financial management system sufficient to:

1. Provide effective control over and accountability for all funds, property and other assets.
2. Identify the source and application of funds for Federally-sponsored activities assuring reasonableness, allowability, and allocability of costs.
3. Verify that the funds have not been used in violation of any of the restrictions or prohibitions that apply to this Federal assistance.
4. Assure the accurate, complete, and timely disclosure of financial results is in accordance with the reporting requirements of the grantee or HUD.
5. Minimize the time elapsing between the transfer of the funds from the U.S. Treasury and disbursement by the subrecipient.
6. Review the prior site visit monitoring finding to determine if the Agency has implemented the suggested changes for compliance of CDBG.

#### **E. TYPES OF FISCAL MONITORING**

To insure the subrecipient meets the requirements, CDBG fiscal staff will be conducting four (4) types of monitoring:

1. **First Monitoring Visit on-site (two (2) – three (3) hours).** This is normally the first site visit to the Agency and the first opportunity to offer assistance with future fiscal issues, as well as to answer any questions of Agency staff. Monitoring team will review the:
  - a. Accounting system in place to properly document financial transactions;
  - b. Reporting processes;
  - c. Use of allocated funds;
  - d. Use of program income;
  - e. Report and supporting documents storage and maintenance; and
  - f. Agency's use of Playing by the Rules Handbook (2005) Chapter 2.
  - g. Assist the subrecipient to become familiar with all of the regulations.
2. **Annual Monitoring Visit on-site (one(1) – three (3) hours)** - At least one (1) site visit every two (2) years is required to review the subrecipient's ongoing fiscal reporting of the use of CDBG funds for the projects approved by Council. Review of any fiscal documents related to the issues listed below will be covered at the site visit. Subrecipient must be prepared to show original documentation to support reimbursement reports and updated cost allocation plan of all funding received and used by the Agency. CDBG staff will be looking at the areas of the subrecipient's operation where:
  - a. New activities are required for the current Agreement;
  - b. Any areas of the project where the regulations have been changed or been clarified;

- c. Any issues or findings noted in the previous monitoring visit(s);
  - d. Any issues noted by the Project Manager;
  - e. Staff turnover of key positions has occurred;
  - f. Any changes in goals or direction on the project;
  - g. Multiple CDBG activities and funding has changed;
  - h. Changes in compliance with monthly request for reimbursement report;
  - i. Any major change in overall funding indicated in the cost allocation plan; and
  - j. High risk activities are contracted with CDBG and other funding.
3. **Request by Project Manager or noted Agency non-compliance/fiscal performance problems through desk review of reports: meeting may be on-site or in CDBG office (hours vary depending on issue) - this visit is “as needed”.**
- a. CDBG staff will attempt to meet with the Agency within a week of the notification of problems;
  - b. Project Manager will be included in the meeting if needed.
  - c. Staff will go over all documents involved and assess the situation to determine whether additional follow-up or other action, such as suspension or cancellation of Agreement may be required.
4. **In House Review in CDBG office** - Desk audit of subrecipient request for reimbursement package and supportive documentation is reviewed in detail. CDBG staff will:
- a. Prepare a written list of errors, questions and findings of issues;
  - b. Call the subrecipient into the CDBG office to discuss all issues; and
  - c. Require a response from the Agency within three (3) business days.
    - i. If this deadline is not met, all or part of the expenditures requested for reimbursement may be permanently disallowed; or
    - ii. Agreement may be suspended or terminated.

#### F. FISCAL MONITORING PROCESS

The CDBG staff shall meet with the Agency director and/or staff to answer any questions regarding the monitoring process. CDBG staff shall need to meet with staff responsible for the fiscal transactions of the project.

The following procedures will be followed:

- 1. CDBG fiscal staff shall contact the Agency to schedule a monitoring visit. An Email is sent to the director or the fiscal administrator with a choice of 2 dates and times for the monitoring visit.
- 2. When staff has agreed to a date and time, a confirmation of monitoring visit email will be sent. It will include:
  - a. Date and time;
  - b. Fiscal On-Site Monitoring Checklist;

- c. Request for Agency staff associated with internal controls and fiscal matters are present to answer questions. This should include staff responsible for preparing the request for reimbursement, processing payroll, and maintaining accounting records;
  - d. The Playing by the Rules Handbook (2005) Chapter 2- Financial Management will be the main guideline to follow for monitoring;
  - e. Records should be ready for review upon the CDBG staff's arrival;
  - f. Agencies shall ensure that a working space is set up for the CDBG staff to complete the monitoring visit, if records are to be reviewed in detail; and
  - g. Records to be reviewed may include, but are not limited to:
    - Time and attendance reports (time sheets or time cards);
    - Payroll register;
    - Cash receipts journal;
    - Check disbursement journal or check register;
    - Bank statements, canceled checks, and/or direct deposit verification;
    - General ledgers;
    - Original invoices and purchase orders;
    - Bank reconciliation; and/or
    - Any additional item (vouchers, documents, financial reports, records, etc.) needed to verify transactions.
3. Fiscal monitoring team will bring copy of the budget and two (2) to three (3) RFRs to the monitoring to review and see original documents of the Agency.
  4. The monitoring may take two (2) to three (3) hours depending on the issues or the type of monitoring visit. A nine (9) page questionnaire is used for the first two (2) types of monitoring visits to generally cover the accounting and internal controls used by the subrecipient. Other monitoring visits will depend on the detailed needs of the subrecipient to meet the CDBG and HUD requirements noted from review of reimbursement documents and supportive details.
  5. After completion of the monitoring visit, CDBG fiscal monitoring team will complete the questionnaire and review the fiscal team's combined responses by the subrecipient:
    - Observations made during the monitoring visit shall be discussed;
    - If there are concerns or findings, corrective actions needed to address each concern or finding shall be discussed; and
    - Technical assistance shall be offered, where applicable.
  6. Within thirty (30) days a letter will be sent via email to the management person present at the monitoring visit and/or a meeting may be held if details need to be

discussed with other staff members/board of the Agency. The detailed letter will include:

- A copy of the questionnaire and any findings, observations or concerns discussed at the monitoring site or with CDBG management requiring corrective action;
- Request for subrecipient to review questionnaire and submit any questions, corrections of details documented;
- Prepare response to findings that need corrective action;
- Updates on actions already taken to amend; and
- Request to reply to findings/details of the questionnaire within thirty (30) days of the date of the letter; and
- The response should be addressed to the CDBG Fiscal Unit and include: 1) a response to each individual concern and/or finding issued and 2) copies of any documentation needed to support the response to the concerns and/or findings, as applicable.

7. **Noncompliance with procedures/documentation:**

- If a response is not received within thirty (30) days from the date of the letter; a reminder letter is sent to submit within fifteen (15) days;
  - If no response is received, CDBG staff may suspend funding reimbursements depending on the finding.
8. Copies of all documents will be maintained in the CDBG central file. The Project Manager will be given a copy of the monitoring package, so they are aware of any findings/suggestions, then observe/review that the Agency has complied and continue to comply accordingly.
9. Upon receipt of the Agency's response to the monitoring report, the CDBG Fiscal staff shall review the response to determine whether the concerns and/or findings have been satisfactorily addressed.
10. A written response to the Agency's response shall be sent to the Agency by the CDBG Program Administrator and shall include the following:
- a. Concerns and/or findings that have been satisfactorily addressed shall be noted as closed. If all findings are closed, the Agency's program and/or fiscal monitoring for the year under review shall be considered complete.
  - b. Findings that are not satisfactorily addressed shall remain open and shall require further response or action on the Agency's part, until such a time as all findings are closed and the monitoring is concluded.
  - c. The Agency shall be given an adequate period of time to take any further action needed to correct the findings and respond in writing.

**NOTE: The close of the executed Agreement does not necessarily close the monitoring. Correspondence shall continue until all findings are closed.**

**G. APPEALS**

In the event that the Agency and the CDBG staff cannot come to an agreement on one or more of the findings of a general site visit and/or monitoring visit, an appeal may be made in writing to the Economic Development Deputy Director. The appeal should state clearly the finding being appealed, and the basis for the appeal. The Economic Development Deputy Director shall issue a written response that includes final determinations of compliance.

**NOTE: HUD does not accept appeals of decisions by the City regarding monitoring issues.**

## **SECTION V**

### **TECHNICAL ASSISTANCE**

Technical assistance is the transfer of expertise from the CDBG Program staff to Agencies for the development or improvement of program systems, fiscal systems, and service delivery systems. The purpose of technical assistance is to resolve general or specific concerns that the CDBG Program or Agency has regarding the funded project. Agencies may request technical assistance from the CDBG Program at anytime during the Agreement period. CDBG Program staff shall provide the technical assistance directly, but may also ask other departmental personnel or other resources to provide the assistance if appropriate.

Technical assistance may include:

- Clarification and interpretation regarding policies and procedures;
- Assistance in completing required reporting forms;
- Assistance in developing systems;
- Referrals to appropriate resources; and/or
- Providing information.

Technical assistance does not include research, development or preparation of applications, proposals or concept papers.

#### **KEY AGENCY STAFF CHANGES**

Agencies shall notify the project's designated CDBG Project Manager of any key Agency staff changes impacting the administration of the project funded with CDBG funds. It is highly recommended that Agencies request a technical assistance meeting with the CDBG Project Manager when new staff is given the responsibility of the oversight, administration, and/or the reporting of project activities/services and/or expenditures. The information that the CDBG Project Manager will discuss shall include, but not be limited to, the following:

1. Agreement terms;
2. Funding source requirements;
3. CDBG Operating Manual;
4. Reporting forms and timelines; and
5. Monitoring process.

## TERMS AND DEFINITIONS

ADA:	Americans with Disabilities Act
CAPER:	Consolidated Annual Performance and Evaluation Report
CDBG:	Community Development Block Grant
CEQA:	California Environmental Quality Act
CFR:	The Code of Federal Regulations is the codification of the general and permanent rules published in the Federal Register
DOL:	Department of Labor
EO:	Executive Order
ERR:	Environmental Review Record
FHEO:	Fair Housing and Equal Opportunity
HUD:	U.S. Department of Housing and Urban Development
IDIS:	Integrated Disbursement and Information System
IO#:	SAP's Internal Order #
FICA:	Federal Insurance Contribution Act
FIT:	Federal Income Tax
GAAP:	Generally Accepted Accounting Principles
MOU:	Memorandum of Understanding
NEPA:	National Environmental Policy Act
NPE:	Non Personnel
OIG:	Office of Inspector General
OMB:	Office of Management and Budget
PE:	Personnel
PO:	Purchase Order
PR:	Purchase Requisition
SAP:	Systems, Applications, Products (City of SD Accounting software)
SIT:	State Income Tax
SLA:	Service Level Agreement
SSI:	Supplemental Security Income
URA:	Uniform Relocation Act
USC:	United States Code
WBS#:	Work Breakdown Structure (Construction Agreement)

**OMB Circulars:** Instructions or information issued by the Office of Management and Budget

**City of San Diego Municipal Code:** Contains all ordinances for the City of San Diego

**Consolidated Plan:** Prepared every three to five years with updates required annually. The purpose of the Consolidated Plan is: 1) To identify a city's or state's housing and community development (including neighborhood and economic development) needs, priorities, goals and strategies; and 2) To stipulate how funds will be allocated to housing and community development activities. The current approved Plan covers FY 2010-FY2014.

**City:** City of San Diego

**Agency/Agencies:** Subrecipient/nonprofit organization/Agency awarded with CDBG funding from the City and enters into an Agreement with the City

**Subcontractor:** Any organization, Agency, or firm that furnishes supplies and/or services (other than office space, standard commercial supplies, or printing services) to the Agency in connection with the Agency's Agreement with the City of San Diego.

**Area Benefit Activities:** An activity that benefits all residents in a particular area, where at least 51% of the residents are low- or moderate-income persons. Such an area need not be coterminous with census tracts or other officially recognized boundaries, but the entire area must be served by the activity. An activity that serves an area that is not primarily residential in character shall not qualify under this criterion. CDBG regulations required documentation of area boundaries served.

**LMI Clientele Activities:** An activity which benefits a limited clientele, at least 51% of whom are low- or moderate-income persons or benefit a client presumed to be low- or moderate-income persons. CDBG regulations require the subrecipient to document the demographics and income levels of clientele provided such activities.

**Housing Activities:** An activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, shall be occupied by 51% low- or moderate-income households. CDBG regulations require the subrecipient to document number of households served, number of units completed and demographics and income level of the household occupying the unit.

**Job Creation or Retention Activities:** An activity designed to create or retain permanent jobs, where at least 51% of the jobs, computed on a full time equivalent basis, involve the employment of low- or moderate-income persons. CDBG regulations require the subrecipient to document one of the following: 1) for an activity that creates jobs, the recipient must document that at least 51% of the jobs shall be held by, or shall be available to, low- or moderate-income persons; and 2) for an activity that retains jobs, the recipient must document that the jobs would have been lost without CDBG assistance and that either both the job is known to be held by a low- or moderate-income person or the job can reasonably be expected to turn over within the following two years and that steps shall be taken to ensure that it shall be filled by, or made available to, a low- or moderate-income person upon turnover.

**Unduplicated Client:** A client refers to a person served by the funded project. Clients may receive multiple units of service per year from one project. Regardless of the number of units of service per year received by the client, the client is tracked and reported as one unduplicated client.

**Head of Household:**

A person is considered Head of Household if he/she is legally unmarried (including certain married persons who live apart) or is legally separated and meets the requirements set forth in “A” or “B” below:

- A. He/she pays more than half the cost of keeping up a home which was the principal residence of his/her father or mother whom he/she claims as a dependent.
- B. He/she pays more than half the cost of keeping up a home in which he/she lives and in which one of the following also lives all year (except for temporary absences for vacation or school):
  - a. His/her unmarried child, grandchild, foster child, or stepchild. (This person does not have to be his/her dependent.)
  - b. His/her dependent child, grandchild, foster child, or stepchild.
  - c. Any other person listed below whom he/she can claim as a dependent.

Grandparent	Brother	Sister
Stepbrother	Stepsister	Stepmother
Stepfather	Mother-in-Law	Father-in-Law
Brother-in-Law	Sister-in-Law	Son-in-Law
Daughter-in-Law	Uncle (Blood)	Aunt (Blood)
Nephew (Blood)	Niece (Blood)	

NOTE: If he/she received payments under the Temporary Aid to Needy Families (TANF) program and used them to pay part of the cost of keeping up his/her home, he/she may not count these amounts as furnished by him/her.

**Ethnic Categories/Racial Categories:**

The two ethnic categories as revised by the OMB are defined as follows:

- 1. Hispanic or Latino - A person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin, regardless of race. The term, “Spanish Origin,” can be used in addition to “Hispanic or Latino.”
- 2. Not Hispanic or Latino - A person not of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish Culture or original, regardless of race.

Definitions for the Five Racial Categories as revised by the OMB are as follows:

- 1. White - A person having origins in any of the original people of Europe, the Middle East or North Africa.
- 2. Black or African American - A person having origins in any of the black racial groups of Africa. Terms such as “Haitian” or “Negro” can be used in addition to “Black” or “African American.”

3. Asian - a person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, India and the Philippines Islands.
4. American Indian or Alaska Native - A person having origins in any of the original peoples of North and South America (including Central America), and who maintains tribal affiliation or community attachment.
5. Native Hawaiian or other Pacific Islander - A person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands.

**Presumed Low/Moderate Income Persons:** This includes the following: abused children, battered spouses, elderly persons (62 years or older), severely disabled adults (as defined by the Bureau of Census), homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers.

**Census definition of “severely disabled”:**

Persons are classified as having a severe disability if they:

- a. Used a wheelchair or another special aid for six months or longer;
- b. Are unable to perform one or more “functional activities” or need assistance with activities of daily life such as getting around the home, bathing, cooking, eating, and toileting. It includes seeing, hearing, having one’s speech understood, lifting and carrying, walking up a flight of stairs, and walking;
- c. Are prevented from working at a job or doing housework; or
- d. Have a selected condition including autism, cerebral palsy, Alzheimer’s disease, senility or dementia, or mental retardation.

Persons under 65 years of age and who are covered by Medicare or receive SSI are also considered to have a severe disability.

**Microenterprise:** A business having five or fewer employees, one of whom owns the business.

**Project Closeout:** The Project Closeout is the process by which the CDBG Program determines that all required work under the executed Agreement has been completed. This means that all financial, administrative and performance issues related to the activities undertaken by the Agency must be resolved to the satisfaction of the CDBG Program and the Agency.

