
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.157 SUPPORTIVE HOUSING FOR THE ELDERLY (SECTION 202)****I. PROGRAM OBJECTIVES**

The objective of Supportive Housing for the Elderly is to provide Federal capital advances and project rental assistance under Section 202 of the National Housing Act of 1959 for development of housing projects serving elderly households.

II. PROGRAM PROCEDURES**Prior to 1991 - Elderly and Disabled***Loans*

Prior to 1991 the Department of Housing and Urban Development (HUD) provided direct loans to finance the construction or rehabilitation of supportive housing for the elderly and disabled, including the cost of real property acquisition, conversion, demolition, relocation, and other related expenses.

Assistance

The project-based rental assistance is provided under Section 8 (not part of this CFDA 14.157) and is the calculation of project operating costs including debt servicing. Hence, the rental assistance includes payments to principal and interest on the direct loan. The Fair Market Rent (FMR) is used as an upper limit constraint on the amount of rental assistance. Generally, the rental assistance may not exceed FMR; unless the project obtains HUD approval to apply a factor of up to 120 percent of gross rent.

The borrower receives assistance from HUD on vacant rental assistance units at a rate 80 percent of the contract rent under for the first 60 days of vacancy, given certain conditions are met (24 CFR section 891.650). For vacancies exceeding 60 days, the owner may apply for payment in an amount equal to the debt servicing principle and interest payments required to amortize that portion of the debt service attributable to the vacant unit (24 CFR section 891.650).

Subsequent to 1990 - Elderly Only*Capital Advances*

After 1990, under Pub. L. No. 101-625 (November 28, 1990), HUD capital advances replaced the direct loan method of funding project construction and the assistance to projects for the disabled were moved to CFDA 14.181 Supportive Housing for Persons with Disabilities (Section 811). The capital advances are awarded to non-profit organizations and are used to finance the construction or rehabilitation of supportive housing for the elderly, including the cost of real property acquisition, conversion, demolition, relocation, and other related expenses.

The owner-entity is required to put up a minimum capital investment under the capital advance program. This amount is one-half of one percent of the HUD-approved capital advance. The owner's investment may not exceed \$10,000, or \$25,000 if the owner has a national sponsor or co-sponsor (24 CFR section 891.145).

The amount of the capital advance approved by HUD may not exceed an appropriate development cost limit, determined by HUD. Owners incurring total development costs under this limit may retain 50 percent of this difference, which is required to be deposited into a reserve for replacement account. A 75 percent retention is allowed, where the owner adds energy efficiency features (24 CFR section 891.140).

No repayment is required under the Capital Advance Program so long as the owner complies with the Regulatory Agreement with HUD to make available rental housing to very low income elderly persons for 40 years (24 CFR section 891.170).

Rental Assistance

The project-based rental assistance is provided under a Project Rental Assistance Contract (PRAC) and is calculated based on operating cost standards established by HUD (24 CFR 891.150). The owner submits monthly vouchers to HUD for payment of rental assistance. The total amount of assistance equals total HUD-approved operating expenses for the project minus the tenant payments received for all units (PRAC paragraph 2.4(f)(1)).

Tenants are generally required to pay rent which is the highest of 30 percent of adjusted gross income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs (42 USC 1437a).

The owner receives assistance from HUD on vacant rental assistance units at a rate of 50 percent of Operating Expense for a unit under PRAC (PRAC paragraph 2.4 b) for the first 60 days of vacancy, given certain conditions are met (24 CFR section 891.445).

Source of Governing Requirements

This program is authorized under Section 202 of the Housing Act of 1959, as amended, which is codified at 12 USC 1701q. Implementing regulations for this program are 24 CFR part 891, subparts A, B, and D.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed and Unallowed

1. The project shall provide the necessary services for the occupants which may include, but not limited to: health, education, welfare, informational, recreational, homemaking, meals, counseling, and referral services (12 USC 1701q; 24 CFR sections 891.225 and 891.500).
2. Project funds may be used only for expenses that are reasonable and necessary to the operation of the project as provided for in the Regulatory Agreement between HUD and the project owner.
3. Project facilities may not include infirmaries, nursing stations, or spaces for overnight care (24 CFR section 891.220).
4. Project must be modest in design and as such, the following are not to be funded with capital advance funds; individual unit balconies or decks, dishwashers, washers, dryers, trash compactors, swimming pools, saunas, jacuzzis. Sponsors may include certain excess amenities but these must be paid for with other than capital advance funds. Associated operating costs must also be paid for by sources other than the project rental assistance contract (24 CFR section 891.120).

E. Eligibility**1. Eligibility for Individuals**

Section 202 (CFDA 14.157) of the National Housing Act was designed to provide housing for the elderly and disabled (prior to 1991). Section 811 (CFDA 14.181) of The National Housing Act was created to provide separate funding for housing for persons with disabilities (subsequent to 1990).

To qualify as elderly, one or more members of the household must be 62 years of age or more at the time of initial occupancy (24 CFR section 891.205).

To qualify as disabled (prior to 1991 Section 202's), the household must consist of at least one person who is an adult (18 years or older) with a disability, two or more persons with disabilities living together, or a surviving household member under certain circumstances (42 USC 1437a(b)(3); 24 CFR section 891.505).

Very low-income eligibility applies to the elderly subsequent to 1990 and the owner is responsible to annually reexamine incomes for households occupying assisted units or residential space and make appropriate adjustments to the tenant payment and the project rental assistance payment (24 CFR section 891.410). Assistance applicants shall submit signed consent forms upon initial application and at reexamination (24 CFR section 5.230).

2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable**L. Reporting****1. Financial Reporting**

- a. *SF-269, Financial Status Report - Not Applicable*
- b. *SF-270, Request for Advance or Reimbursement - Not Applicable*
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program - Not Applicable*
- d. *SF-272, Federal Cash Transactions Report - Not Applicable*

2. Performance Reporting - Not Applicable**3. Special reporting - Not Applicable****N. Special Tests & Provisions****1. Use of Project Funds**

Compliance Requirements - Owners are required to establish and maintain a separate project account in Federally-insured depository. All rents, charges, income, and revenues arising from the project operation shall be deposited into this account. Project funds must be used for the operation of the project (including required insurance coverage), to make required principal and interest payments on the Section 202 loan, and to make required deposits to replacement reserve and the residual receipts accounts (24 CFR sections 891.400(e) and 891.600(e)).

Audit Objectives - Determine whether the project fund was properly established, required deposits were made into this fund, and disbursements were only for allowed purposes.

Suggested Audit Procedures

- a. Ascertain if the project funds receipts account has been established in a Federally-insured depository.
- b. Perform tests to ascertain if all rents, charges, income, and revenues arising from the project operation were deposited into the fund.
- c. Test a sample of disbursements from the fund ascertain if they were used only for the operation of the project or to make required deposits to the replacement reserve or the residual receipts account.

2. Replacement Reserve

Compliance Requirements - Owners shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The replacement reserve funds must be deposited in a Federally-insured depository in an interest-bearing account. All earnings including interest on the reserve must be added to the reserve. An amount as required by HUD will be deposited monthly in the reserve fund (Regulatory Agreement, item 5 A). All disbursements from the reserve must be approved by HUD (24 CFR sections 891.405 and 891.605).

Audit Objectives - Determine whether the replacement reserve was properly established, required monthly deposits were made, and disbursements were only for HUD approved purposes.

Suggested Audit Procedures

- a. Ascertain if a replacement reserve account has been established in a Federally-insured depository in an interest bearing account.
- b. Ascertain if the required monthly deposits have been made to the replacement reserve account.
- c. Ascertain if interest earnings from the reserve were retained in the replacement reserve account.
- d. Test a sample of disbursements from the replacement reserve account and ascertain if they were approved by HUD and were made for the approved purpose.

3. Residual Receipts Account

Compliance Requirements - Any funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited in a Federally-insured account within 60 days following the end of the fiscal year. Withdrawals from this account may be made only for project purposes and with the approval of HUD (24 CFR sections 891.400(e) and 891.600(e)).

Audit Objectives - Determine whether the residual receipts account was properly established, the required deposit was made within 60 days following year end, and disbursements were only for project purposes and the approval of HUD.

Suggested Audit Procedures

- a. Ascertain if residual receipts account has been established in a Federally-insured depository.
- b. Ascertain if the required annual deposit was made within 60 days following year end.

- c Test a sample of disbursements from the residual receipts account and ascertain if they were used for project purposes and approved by HUD.

IV. OTHER INFORMATION

To protect its interest in a capital advance, HUD requires a note and mortgage, generally for a 40 year term. The owner is not required to repay the principal or pay interest and the note is forgiven at maturity, as long as the owner provides housing for the designated class of people in accordance with applicable HUD requirements. However, the full outstanding balance on the note should be considered Federal awards expended, included in determining Type A programs, and reported as loans on the Schedule of Expenditures of Federal Awards or accompanying notes in accordance with OMB Circular A-133.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.182 SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION****CFDA 14.195 SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM-- SPECIAL ALLOCATIONS****CFDA 14.856 LOWER INCOME HOUSING ASSISTANCE PROGRAM-SECTION 8 MODERATE REHABILITATION****I. PROGRAM OBJECTIVES**

The objective of the Section 8 rental assistance programs is to help eligible low-income families or individuals obtain decent, safe, and sanitary housing through a system of rental subsidies (24 CFR sections 880.101, 881.101, 882.401, 883.101, 884.101, 886.101, and 886.301).

II. PROGRAM PROCEDURES

Under this project-based cluster, the rental subsidy is tied to a specific unit and when a family moves from the unit, it has no right to continued assistance.

Certain project-based programs are administered by State, local, or other governmental entities qualifying as Public Housing Agencies (PHAs). The Department of Housing and Urban Development (HUD) enters into annual contributions contracts with PHAs which enter into Housing Assistance Payments (HAP) contracts with private owners. The owners rent housing to eligible low-income families who typically pay rent which is the highest of 30 percent of adjusted gross income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs. The remaining portion of the rent for the unit is paid to the owner by the PHA or HUD through the HAP contract. The PHA is then reimbursed by HUD through the annual contributions contract. HUD also provides funds for PHA administration of the Section 8 programs.

PHAs are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly housing assistance payments. This record shall provide information as to: the name and address of the family; the name and address of the owner; dwelling unit size; the effective and expiration dates of the lease; the monthly contract rent payable to the owner; monthly rent payable by the family; and the monthly housing assistance payment. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any. This requirement is applicable to PHAs that are administering Housing Assistance Payments Program Projects pursuant to the provisions of Annual Contributions Contracts. It is not applicable to Section 8 projects on which HUD has executed a HAP contract directly with an owner or PHA.

The moderate rehabilitation program assists low income families in affording decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families. The PHA and the owner execute an Agreement to Enter into Housing Assistance Payments Contract under which the owner agrees to rehabilitate the unit to be subsidized and the PHA agrees to subsidize the units upon satisfactory

completion of rehabilitation. Upon completion of the rehabilitation, the PHA and the owner execute a HAP contract. The PHA refers interested eligible families on its Section 8 waiting list to the owner to fill vacancies in moderate rehabilitation units.

The moderate rehabilitation program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. A family that moves from a unit with project-based assistance does not have any right to continued assistance.

Source of Governing Requirements

The program is authorized by the U.S. Housing Act of 1937, as amended (42 USC 1437a, c, and f; 42 USC 3535(d); 42 USC 12701; and 42 USC 13611 through 13619). Implementing regulations are 24 CFR parts 880 through 884 and 24 CFR part 886.

Availability of Other Program Information

HUD maintains a home page on the Internet (<http://www.hud.gov/hudprog.html>), which provides general information about these programs.

III. COMPLIANCE REQUIREMENTS

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

E. Eligibility

1. Eligibility for Individuals

- a. The PHA or owner, as applicable, must:
 - (1) Verify the eligibility of applicants by: (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full time student and immigration status, and unusual medical expenses) through third parties; (c) document inspections and tenant certifications, as appropriate; and, (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction, as shown in HUD's published notice transmitting the Limits for Low-Income and Very Low-Income Families Under the Housing Act of 1937 (24 CFR sections 880.603, 881.601, 882.514, 833.701, 884.214, 886.119, and 886.318)

- (2) Determine the total tenant rent payment in accordance with 24 CFR section 5.613.
- (3) Select participants from the waiting list in accordance with the admission policies in its administrative plan and maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list (24 CFR sections 880.603, 881.601, 883.701, 884.214, and 886 subparts A and C).
- (4) Reexamine family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary (24 CFR sections 5.617, 880.603, 881.601, 882.515, 884.218, 886.124, and 886.324).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable

L. Reporting

1. Financial Reporting

- a. *SF-269, Financial Status Report - Not Applicable*
- b. *SF-270, Request for Advance or Reimbursement - Not Applicable*
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program - Not Applicable*
- d. *SF-272, Federal Cash Transactions Report - Not Applicable*
- e. In lieu of the standard reports, the following reports are required on Section 8 project-based programs involving PHA/private-owners and HUD/PHA owners.
 - (1) *HUD-52663, Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0149) - submitted quarterly;*
 - (2) *HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0149) - submitted annually;*
 - (3) *HUD-52595, Balance Sheet for Section 8 and Public Housing (OMB No. 2577-0169) - submitted annually; and*

- (4) The reporting requirements for project-based programs involving HUD/private-owners are contained in the agreement between HUD and the owner (*OMB No. 2577-0149 and 2577-0067*).

2. Performance Reporting - Not Applicable

3. Special Reporting

- a. HUD-50058, *Family Report (OMB No.2577-0083)* - The PHA is required to submit this form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

Key Line Items: The following line items contain critical information:

- (1) Line 2b - *Effective Date of Action*
 - (2) Lines 3b, 3c - *Names*
 - (3) Line 3e - *Dates of Birth*
 - (4) Line 3n - *Social Security Numbers*
 - (5) Line 5a - *Unit Address*
 - (6) Lines 5g, 5h - *Unit Inspection Dates*
 - (7) Line 7m - *Total Annual Income*
 - (8) Line 11n or 12q - *Gross Rent of Unit*
 - (9) Lines 2e and 16a - *Family's Participation in the Family Self-Sufficiency (FSS) Program*
 - (10) Line 16d(2) - *FSS Account Balance*
- b. HUD-50059, *Owner's Certification of Compliance With HUD's Tenant Eligibility and Rent Procedures (OMB No. 2502-0204)* - This report is submitted electronically to HUD.

N. Special Tests and Provisions

1. Contract Rent Adjustments

Compliance Requirement -The PHA or owner applies or ensures annual adjustments to contract rents are applied. The HAP contract specifies the method to be used to determine rent adjustments. Adjustments must not result in material differences between rents charged for assisted units and comparable unassisted units except as those differences existed at contract execution. Special adjustments to contract rents may also be made to the extent deemed necessary by the PHA or HUD (24 CFR sections 880.609, 881.601, 882.410, 883.701, 884.109, 886.112, and 886.312).

Audit Objective - Determine whether contract rents are being adjusted properly.

Suggested Audit Procedures

- a. Review the procedures for applying annual adjustment factors and handling special adjustment requests.
- b. Select a sample of contracts and the related files with annual and special rent adjustments and test the supporting data and certifications that were submitted to support the adjustments.
- c. Review the selected HAP contract files or tenant files to verify that annual and special adjustments were applied correctly and that rent adjustments did not result in material differences between the rents charged for assisted and comparable unassisted units.

2. Tenant Utility Allowances

Compliance Requirement - The PHA or owner must establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types and fuel types and make an annual review of tenant utility allowances to determine their reasonableness, and adjust the allowances, when appropriate (24 CFR sections 5.603, 880.610, 881.601, 882.510, 883.701, 884.220, 886.126, and 886.326).

Audit Objective - Determine whether tenant utility allowances are properly established.

Suggested Audit Procedures

- a. Examine the procedures used to establish and annually review utility allowances, handle adjustment requests, and notify tenants of utility allowance adjustments.
- b. Select a sample of units with tenant utility allowances and their related tenant files for review.

- c. Test owner requests, PHA determinations, and supporting documentation for utility determinations.
- d. Verify that the allowances were applied to tenants correctly.

3. Housing Quality Standards

Compliance Requirement - The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary (24 CFR sections 880.612, 881.601, 882.516, 883.701, 884.217, 886.123, and 886.323).

Audit Objective - Determine whether the PHA or owner performs the required inspections to assure that units meet housing quality standards.

Suggested Audit Procedures

- a. Examine the procedures used by the PHA or owner to identify those units on which housing quality inspections are due.
- b. Select a sample of units on which HAP contracts were executed and examine inspection reports.
- c. Examine records and ascertain that the PHA or owner assures that the inspections and any needed repairs are completed timely.
- d. Verify that the PHA reviewed the evidence of completion submitted by the owner on newly constructed or rehabilitated units accepted for occupancy.

4. Vacant Units

Compliance Requirement - The PHA or owner must reduce claims for assistance on vacant units under certain circumstances. However, there are instances where special claims are allowed for vacancy losses, unpaid rent, and tenant damages on eligible units (24 CFR sections 880.611, 881.601, 882.411, 883.701, 884.106, 886.109, and 886.309).

Audit Objective - Determine whether payments to owners are reduced for vacant units and whether payments for special claims are proper.

Suggested Audit Procedures

- a. Examine the procedures used by the PHA or owner to provide the current occupancy status of the units receiving Section 8 assistance.
- b. Select a sample of units that were vacated during the audit period and verify that payments to owners were reduced, as prescribed.

- c. Select a sample of payments for special claims and verify that documentation exists to support the payments.

5. Management Reviews

Compliance Requirement - The PHA is required to perform annual on-site inspections and complete the *Management Reviews of Multifamily Projects*, Form HUD-9834 (OMB 2502-0178). This review is a comprehensive assessment of the owners procedures for directing and overseeing project operations (24 CFR sections 880.612, 881.601, 883.701, 884.217, 886.123, and 886.323).

Audit Objective - Determine whether the PHA documented the required annual reviews.

Suggested Audit Procedures

- a. Review the procedures used by the PHA to identify the projects subject to annual review.
- b. Test a sample of projects subject to annual review and verify that the PHA completed the *Management Reviews of Multifamily Projects* form.

6. Replacement Reserve

Compliance Requirements - The owner shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance and repair and replacement of capital items. The replacement reserve funds must be deposited in an interest-bearing account. All earnings including interest on the reserve must be added to the reserve. All disbursements from the reserve must be as approved or directed by HUD or the State Agency for 24 CFR part 883 projects, as applicable. An amount as required by HUD or the State Agency for 24 CFR part 883 projects, as applicable; shall be deposited monthly in the reserve fund in accordance with the Regulatory Agreement or HAP contract (24 CFR sections 880.601, 880.602, 881.601 and 883.701).

Audit Objectives - Determine whether the replacement reserve was properly established, required monthly deposits were made, and disbursements were only for approved purposes.

Suggested Audit Procedures

- a. Ascertain if reserve has been established in an interest bearing account.
- b. Ascertain if the required monthly deposits have been made to the reserve.
- c. Ascertain if interest earnings from the reserve were retained in the reserve.
- d. Test a sample of disbursements from the reserve and ascertain if they were made for an approved purpose.

7. Residual Receipts Account

Compliance Requirements - Any project funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited with the mortgagee or other HUD-approved depository in an interest bearing account. For projects under 24 CFR part 883, the funds must be deposited with the State Agency or other Agency-approved depository in an interest bearing account. Withdrawals from this account may be made only for project purposes and with the approval of HUD or the State Agency for 24 CFR part 883 projects, as applicable (24 CFR sections 880.601, 881.601, and 883.701).

Audit Objectives - Determine whether the residual receipts account was properly established, the required deposit was made within 60 days following year end, and disbursements were only for approved project purposes.

Suggested Audit Procedures

- a. Ascertain if residual receipts account has been established in an interest-bearing depository.
- b. Ascertain if the required annual deposit was made within 60 days following year end.
- c. Test a sample of disbursements from the residual receipts account and ascertain if they were used for an approved project purpose.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- CFDA 14.218** **COMMUNITY DEVELOPMENT BLOCK GRANTS/
ENTITLEMENT GRANTS**
- CFDA 14.219** **COMMUNITY DEVELOPMENT BLOCK GRANTS/SMALL
CITIES PROGRAM (HUD-Administered Small Cities)**

I. PROGRAM OBJECTIVES

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program (large cities) (24 CFR part 570 subpart D) and HUD-Administered Small Cities Programs (24 CFR part 570 subpart F) is to develop viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. This objective is to be achieved in two ways. First, a grantee can only use funds to assist eligible activities that meet one or more of three national objectives of the program; i.e., benefit low- and moderate-income persons, aid in the prevention of slums and blight, or meet community development needs having a particular urgency. Second, the grantee must spend at least 70 percent of its funds, over a period of up to three years as specified by the grantee in its certification, for activities that address the national objective of benefitting low- and moderate-income persons (24 CFR sections 570.1, 570.200, 570.420, and 570.430).

II. PROGRAM PROCEDURES

The CDBG Entitlement Program provides grants to metropolitan cities and urban counties which must submit certain certifications and a one-year action plan as to how they propose to use the funds for community development activities. The grant amount is determined by the higher of two formulas that consider a community's population, poverty level, extent of overcrowded housing, age of housing, and growth lag (24 CFR section 570.4).

In the Entitlement Program, a non-Federal entity may use, with certain limitations, undisbursed funds in its line of credit and its CDBG program account that are budgeted in statements or action plans for one or more other activities that do not need funds immediately. This financing technique is commonly referred to as a float loan and is used with the expectation that the activity temporarily financed will generate sufficient income to fund the activity initially programmed.

Only the States of New York and Hawaii participate in the HUD-Administered Small Cities Program because those States have elected to have HUD administer the nonentitlement portion of their CDBG Programs, rather than do it themselves. HUD provides CDBG funds to nonentitlement units of general local government in New York State on a competitive basis. In Hawaii, HUD provides CDBG funds to nonentitlement units of general local government using a formula described in 24 CFR section 570.429. The two programs largely share regulatory requirements in the following areas: definitions, eligible activities, grants administration, and performance reviews.

Source of Governing Requirements

These programs are authorized by Title I of the Housing and Community Development Act of 1974, as amended (42 USC 5301). Implementing regulations are located at 24 CFR 570.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. All activities undertaken must meet one of three national objectives of the CDBG program, i.e., benefit low- and moderate-income persons, eliminate slums or blight, or meet community development needs having a particular urgency (24 CFR section 570.200).
2. CDBG funds are to be used for the following activities: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities and sites, or other improvements, including removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (3) clearance, demolition, and removal of buildings and improvements; (4) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (5) disposition of real property acquired under this program; (6) provision of public services (subject to limitations contained in the CDBG regulations); (7) payment of the non-Federal share for another grant program that is part of the assisted activities; (8) interim assistance where immediate action is needed prior to permanent improvements or to alleviate emergency conditions threatening public health and safety; (9) payment to complete a Title 1 Federal Urban Renewal project; (10) relocation assistance; (11) planning activities; (12) administrative costs; (13) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (14) assistance to community-based development organizations; (15) activities related to privately-owned utilities; (16) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (17) construction of housing assisted under Section 17 of the United States Housing Act of 1937; (18) reconstruction of properties; (19) direct homeownership assistance to facilitate and expand homeownership; (20) technical assistance to public or private entities for capacity building (exempt from the planning/ administration cap); (21) housing services related to HOME-funded activities; (22) assistance to institutions of higher education to carry out eligible activities; (23) assistance to public and private entities (including for-profits) to assist micro-enterprises; (24) payment for repairs and operating expenses for acquired "in Rem" properties; and (25) residential rehabilitation, including code enforcement in deteriorated or deteriorating areas, lead-based paint hazard evaluation, and removal (24 CFR sections 570.200 through 570.207).

3. Each float funded activity must meet all of the same requirements that apply to CDBG-assisted activities generally (24 CFR section 570.301).
4. Entitlement and HUD-Administered Small Cities Program grantees may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974 (42 USC 5308). The guaranteed loan funds are to be used only for the following activities: (1) acquisition of real property; (2) housing rehabilitation; (3) rehabilitation of publicly-owned real property; (4) eligible CDBG economic development activities; (5) relocation payments, (6) clearance, demolition, and removal; (7) payment of interest on Section 108 guaranteed obligations; (8) payment of issuance and other costs associated with private sector financing under this subpart; (9) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to this subpart or for economic development purposes; (10) construction of housing by non-profit organizations for homeownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (11) debt service reserve; and (12) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements which serve "colonias" (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992) (24 CFR sections 570.700 through 570.710).
5. All the activities that a grantee undertakes during their CDBG program year must be identified in an action plan or an amended action plan (24 CFR sections 91.220 and 570.301). In the HUD-Administered Small Cities Program in New York, only housing activities must be included in an action plan (24 CFR section 91.235).
6. CDBG funding can only be used for special economic development projects that meet the criteria in 24 CFR section 570.203. Grantees must have data to support that assistance provided to carry out special economic development projects is appropriate by meeting the public benefit standards for job creation and provision of goods and services described in 24 CFR section 570.209.
7. When CDBG funds are used to finance rehabilitation, the rehabilitation is to be limited to privately-owned buildings and improvements for residential purposes, low income public housing and other publicly owned residential buildings and improvements, publicly or privately owned commercial or industrial buildings under certain circumstances, as well as manufactured housing when it is used as part of the community's permanent housing stock (24 CFR section 570.202).

G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable

3. Earmarking

- a. Not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons. In determining low- and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used in the Entitlement Program. The criteria set forth in 24 CFR sections 570.420(e) and 570.430(e) are used in the HUD-Administered Small Cities Program.
- b. Not more than 20 percent of the total grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)). In the HUD-Administered Small Cities Program in Hawaii prior to FY 1995, the 20 percent planning and administration limit was applied to expenditures rather than obligations (24 CFR section 570.430(a)).
- c. The amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year, except that a non-Federal entity that obligated more CDBG funds for public services than 15 percent of its grant funded from Federal Fiscal Years 1982 or 1983 appropriations (excluding program income and any assistance received pursuant to Public Law 98-8) may obligate more CDBG funds than 15 percent as long as the amount obligated in any program year does not exceed 15 percent of the program income it received during the preceding program year plus the percentage or amount obligated in Federal Fiscal Year 1982 or 1983, whichever method of calculation yields the higher amount (24 CFR section 570.201(e)). In the HUD-Administered Small Cities Program in New York, the 15 percent public services cap applies to each year's allocation of nonentitlement funds for the State (24 CFR section 421).

J. Program Income

1. The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules. Program income does not include income received in a single program year by the grantee and all of its subrecipients if the total amount of such income does not exceed \$25,000 (24 CFR sections 570.426, 570.500, 570.504, and 570.506).
2. Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect

which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500, 570.501, 570.504, 570.506, and 570.513).

3. In the HUD-Administered Small Cities Program in New York, any program income received after closeout of the grant must be accounted for under another grant if another grant was open at the time that the program income was received (24 CFR sections 570.504 and 570.506). If the grantee has another ongoing CDBG grant at the time of closeout, the program income will be considered to be program income of the ongoing grant. The grantee can choose which grant to credit the program income to if it has multiple open CDBG grants (24 CFR section 570.426(b)). If the grantee has no ongoing grant at the time of closeout, program income of less than \$25,000 will not be considered program income. Program income of \$25,000 or more will be subject to the terms of the closeout agreement (24 CFR section 570.426(c)).

L. Reporting

1. Financial Reporting

- a. *SF-269, Financial Status Report* - Not Applicable
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Applicable
- e. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* - Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee's program year. Auditors are only expected to test information extracted from IDIS in the following system-generated reports:
 - (1) CO4PRO3 - Activity Summary Report
 - (2) CO4PR26 - CDBG Financial Summary

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

M. Subrecipient Monitoring

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

N. Special Tests and Provisions

1. Citizen Participation

Compliance Requirement - Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR sections 91, 570.301 and 570.431, as applicable.

Audit Objective - To determine whether the grantee has developed and implemented a citizen's participation plan.

Suggested Audit Procedures

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

2. Required Certifications and HUD Approvals

Compliance Requirement - CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35 (24 CFR section 58.18).

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

Suggested Audit Procedures

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

and ascertain if any funds were obligated or expended prior to HUD's approval of the RROF.

3. Environmental Reviews

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

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

Suggested Audit Procedures

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

4. Rehabilitation

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

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

Suggested Audit Procedures

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

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM (State-Administered Small Cities Program)****I. PROGRAM OBJECTIVES**

The primary objective of the Community Development Block Grant (CDBG) State Program (State-Administered Small Cities Program) is the development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low- and moderate-income. This objective can be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of three national objectives. Second, the grantee must spend at least 70 percent of its funds over a period of up to three years, as specified by the grantee in its certification, for activities that address the national objective of benefitting low- and moderate-income persons (42 USC 5301(c)).

II. PROGRAM PROCEDURES

Funds are provided, according to a statutory formula, to those States that elect to administer their CDBG nonentitlement funds. The States, in turn, distribute the funds to small units of general local government (subrecipients) that do not qualify for grants under the CDBG Entitlement Program (24 CFR section 570.480).

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. The State rules should be reviewed before beginning the audit (24 CFR sections 570.480 and 570.481).

Source of Governing Requirements

This program is authorized under Title I of the Housing and Community Development Act of 1974, as amended (42 USC 5301). Implementing regulations may be found at 24 CFR part 570.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. Section 105(a) of the Housing and Community Development Act of 1974 lists the activities eligible under the CDBG State Program (State administered small cities program) which include: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements, including removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (3) code enforcement in

deteriorated or deteriorating areas; (4) clearance, demolition, and removal of buildings and improvements; (5) removal of architectural barriers that restrict accessibility of elderly or severely disabled persons; (6) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in the CDBG regulations); (9) payment of the non-Federal share for another grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (15) assistance to community-based development organizations; (16) activities related to development of energy use strategies; (17) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (18) rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937; (19) technical assistance to public or private entities for capacity building (exempt from the planning/administration cap); (20) housing services related to HOME funded activities; (21) assistance to institutions of higher education to carry out eligible activities; (22) assistance to public and private entities (including for-profits) to assist micro-enterprises; (23) payment for repairs and operating expenses for acquired "in Rem" properties; (24) direct home ownership assistance to facilitate and expand home ownership; and, (25) residential rehabilitation including code enforcement, lead-based paint hazard evaluation, and removal (42 USC 5305; 24 CFR section 570.482(a)).

2. Each activity that the State funds must either benefit low- and moderate-income families; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available. The State must retain documentation justifying its certifications (24 CFR section 570.484).
3. Nonentitlement local government grant recipients (subrecipients) may have loans guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974. Guaranteed loan funds may be used only for the following activities: (1) acquisition of real property; (2) housing rehabilitation; (3) rehabilitation of publicly owned real property; (4) eligible CDBG economic development activity; (5) relocation payments, (6) clearance, demolition, and removal; (7) payment of interest on Section 108 guaranteed obligations; (8) payment of issuance and other costs associated with private sector financing under this subpart; (9) site preparation related to redevelopment or use of real property acquired or rehabilitated pursuant to this subpart or for economic development purposes; (10) construction of housing by non-profit organizations for homeownership under Section 17(d) of the U.S. Housing Act of 1937 (12 USC 1715(l)) or Title VI of the Housing and Community Development Act of 1987; (11) debt service reserve; and (12) acquisition, construction, reconstruction, rehabilitation or installation of public works and site or other improvements which

serve "colonias" (as defined in Section 916 of the Housing Act of 1990 and amended by Section 810 of the Housing and Community Development Act of 1992) (24 CFR sections 570.700 through 570.710).

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2. Level of Effort - Not Applicable

3. Earmarking

- a. The Housing and Community Development Act of 1974 requires the State to certify that the aggregate use of the CDBG funds it receives, over a period specified by the State not to exceed three years, shall principally benefit low- and moderate-income persons. This requirement means that not less than 70 percent of the funds must be used in this manner (24 CFR section 570.483 and 42 USC 5304(b)(3)).
- b. The State may use up to \$100,000 of its grant funds for administrative purposes. In addition to this amount, up to two percent of the grant may be expended at the State level for administrative costs, provided such funds are matched from State resources on a one-to-one basis. Further, States may also use two percent of program income collected, regardless of whether at the State or local government level, for administrative costs. All administrative funds, including the State matching funds, which may be in-kind contributions, must be used to carry out the State's responsibilities (24 CFR section 570.489(a)(1)).
- c. For planning and administration costs, the combined expenditures of the State and units of general local governments may not exceed 20 percent of the State's total allocation plus 20 percent of any program income for any given year. Within this Statewide limit, a State may fund grants to local governments consisting entirely of planning activities (24 CFR section 570.489(a)(3)).
- d. The amount of CDBG funds used for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year. The 15 percent public services cap applies to each year's allocation of nonentitlement funds for the State. Individual grants to units of general local government are not subject to the public services cap (24 CFR 570.201(e)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Performance and Evaluation Report (OMB No. 2506-0077)* - This report is due from each grantee within 90 days after the close of its program year in a format suggested by HUD. HUD encourages the submission of the report in both paper and computerized formats. Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee's use to the priorities and objectives identified in its plan. The auditor is only expected to test the financial data in this report (24 CFR section 91.520 (a and c)).

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Environmental Oversight

Compliance Requirement - The State must assume the environmental oversight responsibilities and functions of HUD under Section 104(g), Housing and Community Development (HCD) Act, (42 USC 5304(g)). The State must: (a) require each of its general local governments (subrecipients) to perform as a responsible Federal official in carrying out all HUD environmental review requirements under 24 CFR part 58, National Environmental Policy Act (NEPA), and other applicable authorities; (b) review and approve each subrecipient's Request for Release of Funds (RROF) in accordance with the procedures provided under 24 CFR part 58 subpart J; (c) ensure that each subrecipient observes the statutory requirement that funds cannot be expended or obligated before the State approves its RROF and environmental certification, except as otherwise provided specifically in regulation or authorized by law; and (d) monitor and provide technical assistance to its subrecipients to ensure compliance with the environmental authorities (24 CFR part 58) and the adequacy of environmental reviews.

Audit Objective - Determine whether the State carries out its environmental oversight responsibilities and functions.

Suggested Audit Procedures

- a. Examine the State's approval of the RROF and environmental certification, and note dates.
- b. Verify that the State obtained certifications and that the State's records provide evidence that the funds were obligated and expended after the State's approval of the RROF and environmental certification.

2. Environmental Reviews

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

Audit Objective - Determine whether the required environmental reviews were conducted.

Suggested Audit Procedures

- a. Verify that the State obtained environmental review certifications from the subrecipient and that the State records provide evidence that the environmental reviews were made.
- b. For any project where an environmental review was not performed, ascertain that a written determination was made that the review was not required.
- c. Ascertain that documentation exists that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.231 EMERGENCY SHELTER GRANTS PROGRAM****I. PROGRAM OBJECTIVES**

The Emergency Shelter Grants (ESG) Program is designed to help improve the quality of existing emergency shelters for the homeless, make available additional emergency shelters, and meet the costs of operating emergency shelters and of providing essential social services to homeless individuals so that these persons have access not only to safe and sanitary shelters for the homeless but also to the supportive services and other kinds of assistance they need to improve their situations. The program is also intended to restrict the increase of homelessness through the funding of preventive programs and activities (24 CFR section 576.1).

II. PROGRAM PROCEDURES

The ESG Program provides grants to States, metropolitan cities, urban counties, and the territories according to a formula used in the Community Development Block Grant Program. Except for administrative funds, which must be shared, States must provide funds to "State recipients."

All grantees, except States, and State recipients may carry out activities with ESG amounts. All of a State's formula allocation must be made available: (1) local government in the State, which include formula cities and counties, whether or not such cities and counties receive grant amounts directly from HUD; or (2) private non-profit organizations, if the local government in which the proposed activities are to be located certifies that it approves each project. Units of general local government, both grantees and State recipients, may distribute all or a part of their grant amounts to non-profit recipients (subrecipients) to be used for ESG activities. In addition, States may distribute all or a portion of their grant amounts to non-profit recipients (subrecipients) if the local government in which the proposed activities are located certifies that it approves the project (24 CFR section 576.25).

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

ESG amounts may be used for one or more of the activities provided for in 24 CFR section 576.21, including the renovation, major rehabilitation, or conversion of buildings for use as emergency shelters for the homeless; provision of essential services to the homeless; payment of costs associated with maintenance, operation (including administration but excluding staff costs), rent, repair, security, fuels and equipment, insurance, utilities, and furnishings; and development and implementation of homeless

prevention activities. This section also provides certain limitations on the use of those funds by units of general local government and State recipients. 24 CFR section 576.23 also provides certain limitations on the use of ESG funds by primarily religious organizations (24 CFR sections 576.21 and 576.23).

G. Matching, Level of Effort, Earmarking

1. Matching

Each grantee must match the funding provided by HUD under its ESG Program with an equal amount from sources other than those provided under the ESG Program. These funds must be provided after the date of the grant award. A grantee may comply with this requirement by providing the supplemental funds itself, or through supplemental funds or voluntary efforts provided by any State recipient or non-profit recipient (subrecipient), as appropriate (24 CFR section 576.51).

2.1 Level of Effort - *Maintenance of Effort* - Not Applicable

2.2 Level of Effort - *Supplement Not Supplant*

Grant amounts may be used to provide essential services to the homeless only if the service is a new service, or is a quantifiable increase in the level of service above that which the unit of general local government provided with local funds during the 12 calendar months immediately before it received initial grant amounts (24 CFR section 576.21(b)).

3. Earmarking

- a. Not more than 30 percent of the total of each grant amount provided to a unit of local government can be used for essential services for the homeless if the service is a new service, unless a waiver is granted (24 CFR section 576.21(b)).
- b. All of a State's formula allocation must be made available to local governments in a State or private non-profit organization, as provided for in 24 CFR section 576.25(b).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Maintenance as Homeless Shelters

Compliance Requirement - Any building for which ESG amounts are used for renovation, or rehabilitation for use as emergency shelters for the homeless as described in 24 CFR section 576.21(a)(1), must be maintained as a shelter for the homeless for not less than a three year period or, if the grant amounts are used for major rehabilitation or conversion of the building, for not less than a ten-year period (24 CFR section 576.53).

Audit Objective - Determine whether buildings improved (i.e., renovated, rehabilitated, or converted for use as an emergency shelter) with ESG funds during the audit period are currently being used as an emergency shelters.

Suggested Audit Procedures

- a. Ascertain if any buildings were improved with ESG funds during the audit period.
- b. Verify the existence of the buildings improved with ESG funds and their current use as a homeless shelter.
- c. Inquire of management whether any buildings improved with ESG funds in prior years are no longer being used as shelters, and if so, whether the prescribed three or ten-year period had expired.

2. Funding

Compliance Requirement - Within 65 days of the date of the grant award by HUD, each State must make available to its State recipients all ESG amounts that were allocated under 24 CFR section 576.5. State recipients, as well as cities, counties, and territories that receive formula money, must have their grant amounts obligated and expended within specified periods, as provided for in 24 CFR section 576.35.

Audit Objective - Determine whether funding was allocated, obligated, and expended within HUD prescribed limits.

Suggested Audit Procedures

- a. Determine the time periods for which funds must be allocated, obligated and expended for the selected entities.
- b. Review records to determine the dates funds were allocated, obligated and expended, as applicable.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.235 SUPPORTIVE HOUSING PROGRAM****I. PROGRAM OBJECTIVES**

The Supportive Housing Program is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons so they can live as independently as possible (24 CFR section 583.1).

II. PROGRAM PROCEDURES

Grants are provided to States, local governments, other governmental entities, private non-profit organizations, and community mental health associations that are public non-profit organizations (24 CFR section 583.5). Funds may be used for: (1) transitional housing to facilitate the movement of homeless individuals and families to permanent housing; (2) permanent housing that provides long-term housing for homeless persons with disabilities; (3) housing that is, or is part of, a particularly innovative project for, or alternative methods of, meeting the immediate and long-term needs of homeless persons; or (4) supportive services for homeless persons not provided in conjunction with supportive housing (24 CFR section 583.1(b)).

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

Grants may be used for acquiring structures, rehabilitating structures, acquiring and rehabilitating structures, new construction, leasing, operating costs for supportive housing, and supportive services as described in 24 CFR sections 583.105 through 583.125. Projects may have more than one type of assistance (24 CFR section 583.100).

E. Eligibility**1. Eligibility for Individuals**

- a. To be eligible to receive assistance under this program an individual must be homeless, as defined in 24 CFR section 583.5. The eligibility of those tenants who were admitted to the program should be determined by obtaining: (1) signed applications that contained all of the information needed to determine eligibility, income, rent and order of selection; and, (2) when appropriate, third party verifications or documentation of

expected income, assets, unusual medical expenses, and any other pertinent information.

- b. Each resident in supportive housing may be required to pay as rent an amount which may not exceed the highest of: (1) 30 percent of the family's monthly adjusted income; (2) 10 percent of the family's monthly income; or (3) if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs, the portion of payments that is designated. In addition to resident rent, non-Federal entities may charge residents reasonable fees for services not paid with grant funds (24 CFR sections 583.315(a) and (c)).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable

G. Matching, Level of Effort, Earmarking

1. Matching

- a. The non-Federal entity must match the grant funds provided by HUD for acquisition, rehabilitation, and new construction with an equal amount of funds from other sources. The matching funds must be cash resources provided to the project by one or more of the following: the non-Federal entity, the Federal Government, State and local governments, and private sources (24 CFR section 583.145).
- b. HUD may provide grants to pay for a portion of the actual operating costs of supportive housing. Assistance for operating costs will be initially available for up to 75 percent of the total cost for two years and up to 50 percent of the total cost for the next three years. The non-Federal entity must pay the percentage of the actual operating costs not funded by HUD with its own funds. At the end of each operating year, the non-Federal entity must demonstrate that it has met its share of the costs for that year (24 CFR section 583.125).
- c. Beginning with 1999 grants, all funding for supportive services must be matched by 25 percent funding from non-Federal entity (Pub. L. 105-276).

2.1 Level of Effort - *Maintenance of Effort* - Not Applicable

2.2 Level of Effort - *Supplement not Supplant*

No assistance provided under this program, or any State or local government funds used to supplement this assistance, may be used to replace State or local funds previously used, or designated for use, to assist homeless persons (24 CFR section 583.150(a)).

3. Earmarking

No more than five percent of any grant awarded may be used for paying the costs of administering the assistance. Administrative costs include the costs associated with accounting for the use of grant funds, preparing reports for submission to HUD, obtaining program audits, and similar costs related to administering the grant after award. The administrative costs do not include the cost of carrying out eligible activities under 24 CFR sections 583.105 through 583.125 (24 CFR section 583.135).

J. Program Income

Income from resident rent payments may be used in the operation of the project or may be reserved, in whole or in part, to assist residents of transitional housing in moving to permanent housing (24 CFR section 583.315(b)).

L. Reporting

1. Financial Reporting

- a. *SF-269, Financial Status Report* - Not Applicable
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Not Applicable
- e. *HUD-40118, Annual Progress Report (OMB No. 2506-0145)* - This report is due from each grantee 60 days after its operating year. Separate reports are required for each grant received (24 CFR section 583.300 (g)).

The auditor is expected to test the financial data in:

- (1) Part I - Exhibit 3 (Supportive Services)
- (2) Part II - Exhibit 7 (Supportive Housing Operating Cost and Share Report)
- (3) Part II - Exhibit 8 (Supportive Housing Acquisition, Rehabilitation, and New Construction Expenditures and Match Report)

2. Performance Reporting - Not Applicable

3. Subrecipient Reporting - Not Applicable

N. Special Tests and Provisions

1. Reasonable Rental Rates

Compliance Requirement - Where grants are used to pay for rent for all or a part of a structure, the rent paid must be reasonable in relation to rents being charged in the area for comparable space. In addition, the rent may not exceed rents currently being charged by the same owner for comparable space (24 CFR section 583.115(b)(1)).

Where grants are used to pay rent for individual housing units, the rent paid must be reasonable in relation to rents being charged for comparable units taking into account relevant features. In addition, the rents may not exceed rents currently being charged by the same owner for comparable unassisted units, and the portion of rents paid with grant funds may not exceed HUD-determined fair market rents. Non-Federal entities may use grant funds in an amount up to one month's rent to pay the non-recipient landlord for any damages to leased units by homeless participants (24 CFR section 583.115(b)(2)).

Audit Objective - Determine reasonableness of the rents being paid by the non-Federal entities.

Suggested Audit Procedures

- a. Determine the acceptability of the manner in which the non-Federal entity establishes rent reasonableness and the rents charged by the owner for comparable unassisted units. Ascertain through an examination of documentation that telephone surveys, site visits after telephoning, more extensive market surveys of available rental units, or similar tools, were used to assess the reasonableness of rents being charged.
- b. Verify by a review of the rental records that the contract rents being paid are comparable with those paid for unassisted units, no more than one month's rent is paid for tenant damages, and that the portion of rents paid with grant funds do not exceed fair market rents.

2. Use of Property

Compliance Requirement - All non-Federal entities receiving assistance for acquisition, rehabilitation, or new construction must agree to operate the supportive housing or provide supportive services for a term of at least 20 years from the date of initial occupancy or the date of initial service provision. If HUD determines that a project is no longer needed for use as supportive housing or to provide supportive services and approves the use of the project for the direct benefit of low-income persons pursuant to a

request for such use by the non-Federal entity operating the project, HUD may authorize the non-Federal entity to convert the project to such use (24 CFR section 583.305).

Audit Objective - Determine whether there are valid agreements for the provision of supportive housing or supportive services when assistance is provided for acquisition, rehabilitation, or new construction.

Suggested Audit Procedures

Verify that a binding agreement exists between the non-Federal entity and owner of the structure, if other than the non-Federal entity, covering the provision of supportive housing or supportive services for 20 years if the grant assistance involves acquisition, rehabilitation, or new construction.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.238 SHELTER PLUS CARE

I. PROGRAM OBJECTIVES

The Shelter Plus Care Program is designed to link rental assistance to supportive services for hard to serve homeless persons with disabilities (primarily those who have a serious mental illness; have chronic problems with alcohol, drugs, or both; or have acquired immunodeficiency syndrome (AIDS) and related diseases) and their families if they are also homeless (24 CFR section 582.1).

II. PROGRAM PROCEDURES

The program provides grants to States, units of general local government, Indian tribes, or public housing agencies (PHAs). The grants are to be used to provide rental assistance so homeless persons with disabilities can obtain permanent housing. Rental assistance grants must be matched in the aggregate by supportive services that are equal in value to the amount of rental assistance and appropriate to the needs of the population to be served. Non-Federal entities are chosen on a competitive basis nationwide (24 CFR section 582.1).

Rental assistance is provided through the four components described in 24 CFR section 582.100: (1) tenant-based rental assistance (TRA); (2) project-based rental assistance (PRA); (3) sponsor-based rental assistance (SRA); and (4) moderate rehabilitation for single room occupancy (SRO) dwellings. Applicants may apply for assistance under any one, or a combination, of the four components. This Supplement's section relating to CFDA 14.856, beginning on page 4-14.182-1, should be used in auditing the moderate rehabilitation program for SRO dwellings (24 CFR section 582.1).

The grant amount is based on the number and size of units to be assisted by the applicant over the grant period. It is calculated by multiplying the number of units to be assisted by their fair market rents for the term of the grant in months. The amount determined will be reserved for rental assistance over the grant period (24 CFR section 582.105(b)).

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. Shelter Plus Care grants may be used to provide rental assistance for housing occupied by eligible persons and to pay for the costs of administering the housing, except that the housing may not be receiving Federal funds for rental assistance or operating costs under any other HUD program. Non-Federal entities may design a

housing program that includes a range of housing types and different levels of supportive services. Rental assistance may include security deposits on units amounting to one month's rent (24 CFR section 582.105(a)).

2. The eight percent administrative allowance for housing assistance (see III.G.3 below) does not include the cost of administering the supportive services or the grant (e.g., costs of preparing the application, reports or audits required by HUD), which are not eligible activities under a Shelter Plus Care grant. Non-Federal entities may contract with another entity approved by HUD to administer the housing assistance. Eligible administrative activities include processing rental payments to landlords, examining participant income and family composition, providing housing information, inspecting housing units for compliance with housing quality standards, and receiving new participants into the program (24 CFR section 582.105(e)).

E. Eligibility

1. Eligibility for Individuals

- a. To be eligible for assistance under this program, a person must be homeless, of very low-income and have disabilities, as defined in 24 CFR section 582.5. Low-income persons may be assisted under the SRO component, in accordance with 24 CFR section 5.607. The eligibility of tenants admitted to the program should be determined by: (1) obtaining signed applications that contained the information needed to determine eligibility, income, and rent; and, when appropriate, (2) obtaining third party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information. Tenant income should not exceed the maximum limit set by HUD for the PHAs jurisdiction, as provided in the notice transmitting Income Limits for Low and Very Low-Income Families Under the Housing Act of 1937.
- b. Each person must pay rent which is the highest of: (1) 30 percent of the family's monthly adjusted income; (2) 10 percent of the family's monthly income; or (3) if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs, the portion of payments that is so designated (24 CFR section 582.310(a)).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable

G. Matching, Level of Effort, Earmarking**1. Matching**

A grantee must provide or ensure the provision of supportive services that are at least equal in value to the aggregate amount of rental assistance funded by HUD. This includes funding the services itself if the planned resources do not become available for any reason, appropriate to the needs of the population being served. The supportive services may be newly created for the program or existing, and may be provided or funded by other Federal, State, local, or private programs. Only services that are provided after the execution of the grant agreement may count toward the match. The manner in which the value of supportive services is calculated is contained in 24 CFR section 582.110(c).

2.1 Level of Effort - *Maintenance of Effort* - Not Applicable**2.2 Level of Effort - *Supplement not Supplant***

No assistance received under this program (or any State or local government funds used to supplement this assistance) may be used to replace funds provided under any State or local government assistance programs previously used, or designated for use, to assist homeless persons with disabilities (24 CFR section 582.115(d)).

3. Earmarking

Up to eight percent of the grant amount may be used to pay the costs of administering housing assistance, subject to the limits noted in III.A.2 above (24 CFR section 582.105(e)).

L. Reporting**1. Financial Reporting**

- a. *SF-269, Financial Status Report* - Not Applicable
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Not Applicable
- e. *HUD-40118, Annual Progress Report (OMB No. 2506-0145)* - This report is due from each grant non-Federal entity (and separately for each component funded) within 90 days after the end of its operating year (24 CFR section 582.300 (d)).

Key Line Items - Financial data in Part I - Exhibit 3 (Supportive Services)

2. **Performance Reporting** - Not Applicable
3. **Special Reporting** - Not Applicable

N. Special Tests and Provisions

1. Rent Reasonableness

Compliance Requirement - HUD will only provide assistance for a unit for which the rent is reasonable. For TRA, PRA, and SRA, it is the responsibility of the non-Federal entity to determine whether the rent charged for the unit receiving assistance is reasonable in relation to rents being charged for comparable unassisted units. For SRO units, rents are calculated in accordance with 24 CFR section 882.805(d) (24 CFR section 582.305(b)).

Audit Objective - Determine reasonableness of the rents being paid by the grantee.

Suggested Audit Procedures

- a. Identify the manner in which the non-Federal entity establishes rent reasonableness, and if such tools as telephone surveys, site visits after telephoning, or more extensive market surveys of available rental units were conducted in order to assess the reasonableness of rents being charged. Examine the non-Federal entity's documentation showing rents charged for comparable unassisted units.
- b. Verify that the contract rents being paid are comparable with those paid for unassisted units. If unassisted units are in the building, compare rents paid for those units with the rents paid for the assisted units.

2. Housing Quality Standards

Compliance Requirement - Housing assisted under the Shelter Plus Care Program must meet applicable housing quality standards under 24 CFR section 882.109 and, for the SRO component, under 24 CFR section 882.803(b). Before any assistance is provided on behalf of a participant, the non-Federal entity, or another entity acting on behalf of the non-Federal entity (other than the owner of the housing), must physically inspect each unit to assure that the unit meets housing quality standards. Non-Federal entities must also inspect all units annually during the grant period to ensure that units continue to meet housing quality standards (24 CFR section 582.305(a)).

Audit Objective - Determine whether the grantee performs the required inspections to assure that units meet housing quality standards.

Suggested Audit Procedures

- a. Verify through a review of documentation that the non-Federal entity identifies those units on which housing quality inspections are due.
- b. Verify through a review of documentation that the non-Federal entity performed inspections of units and that any needed repairs were completed timely.

3. Project-based Rental Assistance

Compliance Requirement - Project-based rental assistance provides grants for rental assistance to the owner of an existing structure, where the owner agrees to lease the subsidized units to participants. Participants do not retain rental assistance if they move. Rental subsidies are provided to the owner for a period of either five or ten years. To qualify for ten years of rental subsidies, the owner must complete at least \$3000 of eligible rehabilitation work for each unit (including the prorated share of work to be accomplished on common areas or systems), to make the structure decent, safe, and sanitary (24 CFR section 582.100(b)).

Audit Objective - Determine whether project-based assistance is being paid in accordance with agreements.

Suggested Audit Procedures

- a. Examine the existing agreement between the owner and the non-Federal entity to determine whether the agreement is for either five or ten years.
- b. If the agreement is for ten years, verify through a review of documentation that the required rehabilitation of at least \$3000 was performed after the grant was executed.
- c. Examine the billings from the owner, and verify that the assistance payments are for units occupied or ready for occupancy.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.239 HOME INVESTMENT PARTNERSHIPS PROGRAM

I. PROGRAM OBJECTIVES

The objectives of the Home Investment Partnerships (HOME) Program include: expanding the supply of decent and affordable housing, particularly housing for low- and very low-income Americans; strengthening the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and extending and strengthening partnerships among all levels of government and the private sector, including for-profit and non-profit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

II. PROGRAM PROCEDURES

The program is conducted by jurisdictions (States, cities, urban counties, and consortia) which receive an allocation of funds. Participating jurisdictions must submit a description of how they propose to use the funds for housing activities, together with certifications. The funding amount is based on a formula of six factors established to reflect a jurisdiction's need for an increased supply of affordable housing for low- and very low-income families (24 CFR section 92.1).

A State may carry out its own HOME program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME programs in which both the State and all or some of the units of general local government perform specified functions. A unit of general local government designated by a State to receive HOME funds from a State is a "State recipient." Before disbursing funds to an entity, each participating jurisdiction is required to enter into written agreements with the entity. The contents of the agreement may vary depending on the role which the entity is asked to assume or the type of project undertaken. However, there must be certain minimum provisions depending on whether the entity is a State recipient; subrecipient; for-profit or non-profit housing owner; contractor; as well as a home buyer, homeowner, or tenant receiving tenant-based rental or security deposit assistance (24 CFR section 92.504).

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. HOME funds (including program income generated by activities carried out with HOME funds) may be used by participating jurisdictions to provide for: (1) incentives to develop and support affordable rental housing and homeownership

affordability through the acquisition, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations; (2) the payment of reasonable administrative and planning costs; and, (3) the payment of operating expenses of community housing development organizations (CHDOs). The housing must be permanent or transitional. The acquisition of vacant land or demolition can only be undertaken with respect to a particular housing project intended to provide affordable housing. Conversion of an existing structure to affordable housing is rehabilitation unless certain circumstances exist. Manufactured housing may be purchased or rehabilitated and the land upon which it is built may be purchased with HOME funds. HOME funds may be used to pay for development construction costs, refinancing costs, acquisition costs, related soft costs, CHDO costs, relocation costs, and costs related to the repayment of loans (24 CFR sections 92.205(a) and 92.206).

2. A participating jurisdiction may use or "invest" HOME funds as equity investments, interest-bearing loans or advances, noninterest-bearing loans or advances, interest subsidies, deferred payment loans, grants, or other forms of assistance approved by HUD. A participating jurisdiction may invest HOME funds to guarantee loans made by lenders and, if required, the participating jurisdiction may establish a loan guarantee account with HOME funds. The amount of the loan guarantee account must be based on a reasonable estimate of the default rate on the guaranteed loans but under no circumstances, may the amount on deposit exceed 20 percent of the total outstanding principal amount guaranteed, except that the account may include a reasonable minimum balance. While loan funds guaranteed with HOME funds are subject to all HOME requirements, funds which are used to repay the guaranteed loans are not (24 CFR section 92.205(b)).
3. Generally, HOME funds may not be used for: project reserve accounts, tenant-based rental assistance for the special purpose of the Section 8 program, non-Federal matching contributions under any other non-Federal program, annual contributions for the operation of public housing, public housing modernization, assistance to prepay low income housing mortgages, assistance to a project previously assisted with HOME funds during the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing), and the acquisition of property by the participating jurisdiction. Participating jurisdictions may not charge monitoring, servicing, and origination fees in HOME-assisted projects (24 CFR section 92.214).

E. Eligibility**1. Eligibility for Individuals**

- a. The HOME Program has income targeting requirements. Only low-income or very low-income persons, as defined in 24 CFR section 92.2, can receive housing assistance (24 CFR section 92.1). Therefore, the participating jurisdiction must determine if each family is income eligible by determining the family's annual income, as provided for in 24 CFR section 92.203. Participating jurisdictions must maintain records for each family assisted (24 CFR section 92.508).
- b. HOME-assisted units in a rental housing project must be occupied only by households that are eligible as low-income families and must meet certain limits on the rents that can be charged. The requirements also apply to the HOME-assisted non-owner-occupied single-family housing purchased with HOME funds. The maximum HOME rents are the lesser of: the fair market rent for comparable units in the area, as established by HUD under 24 CFR section 888.111, or a rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area as determined by HUD with adjustments for the number of bedroom units. In rental projects with five or more units there are additional rent limitations. Twenty percent of the HOME-assisted units must be occupied by very low-income families and meet one of the following rent requirements: (1) the rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for larger or smaller families; or (2) the rent does not exceed 30 percent of the families adjusted income (24 CFR section 92.252).
- c. A participating jurisdiction may use HOME funds for tenant-based rental assistance, as provided for in 24 CFR section 92.209(b). The participating jurisdiction must select families in accordance with policies and criteria consistent with those provided in 24 CFR section 92.209(c).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**3. Eligibility for Subrecipients - Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching**

Except for funds allocated in Fiscal Year 1992, each participating jurisdiction must provide eligible matching contributions of 25 percent of HOME funds drawn down during the fiscal year. The match must be provided by the end of the fiscal year. Some

participating jurisdictions are eligible for a reduction in the required match based upon meeting standards of distress. The jurisdictions which are eligible for the reduction are identified by notice published in the *Federal Register*, or a notice issued by HUD. Jurisdictions may also receive reductions if they are in Presidentially-declared disaster areas. Participating jurisdictions are required to maintain records, including individual project records, and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project. Matching information is provided on the HOME Match Report (form HUD-40107-A) (24 CFR sections 92.218 through 92.220, 92.222, and 92.508).

2. Level of Effort - Not Applicable

3. Earmarking

- a. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that, with respect to tenant-based rental assistance and rental units not less than 90 percent of (a) the families receiving assistance are families whose annual income do not exceed 60 percent of the median family income for the area, as determined and made available by HUD, with adjustments for smaller and larger families at the time of occupancy or at the time funds are invested, whichever is later, or (b) the dwelling units assisted with such funds are occupied by families having such incomes (24 CFR section 92.216).
- b. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that with respect to homeownership assistance, 100 percent of these funds are invested in dwelling units that are occupied by households that qualify as low-income families at the time of occupancy or at the time funds are invested, whichever is later (24 CFR section 92.217).
- c. Each participating jurisdiction must invest at least 15 percent of each year's HOME allocation in projects which are owned, developed, or sponsored by special non-profit organizations called CHDOs. If during the first 24 months of its participation in the HOME Program a participating jurisdiction cannot identify a sufficient number of capable CHDOs, then up to 20 percent of the minimum set-aside (but not more than \$150,000 during the 24 month period) may be made available to develop the capacity of CHDOs in the jurisdiction (24 CFR section 92.300).
- d. A participating jurisdiction may expend for its HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation plus any funds received in accordance with 24 CFR section 92.102(b) to meet or exceed threshold requirements that fiscal year. A participating jurisdiction may also use up to ten percent of any return of the HOME investment, as defined in 24 CFR section 92.503, calculated at the time of deposit in its

HOME account, for administrative and planning costs (24 CFR section 92.207).

L. Reporting

The auditor is not expected to test for reporting.

M. Subrecipient Monitoring

Each participating State is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of housing need within the State. A State may carry out its own HOME Program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME Programs in which both the State and all or some of the units of general local government perform specified program functions. A State that uses State recipients to perform program functions shall ensure that the State recipients use HOME funds in accordance with applicable laws and requirements. A State shall include in its written agreements with its State recipients such additional provisions as may be appropriate to ensure compliance and to enable the State to carry out its responsibilities under the HOME Program. The State is to conduct such reviews and audits of its State recipients as may be necessary or appropriate to determine whether the State recipient has committed and expended the HOME funds, as required by 24 CFR section 92.500, and has met HOME Program requirements particularly as they relate to eligible activities, income targeting, affordability, and matching contribution requirement (24 CFR section 92.201(b)).

Before disbursing funds to a subrecipient, each participating jurisdiction is required to enter into written agreements with the entity which includes provisions dealing with: the use of HOME funds, program income, uniform administrative requirements, other program requirements, affirmative marketing, requests for disbursement of funds, reversion of assets, records and reports, and enforcement of the agreement. Further, if the subrecipient provides HOME funds to for-profit owners or developers, non-profit organizations, subrecipients, homeowners, homebuyers, tenants receiving tenant-based rental assistance, or contractors, the subrecipient must have a written agreements which contain the provisions in 24 CFR section 92.504.

N. Special Tests and Provisions

1. Maximum Per Unit Subsidy

Compliance Requirement - The per unit investment of HOME funds may not exceed the Federal Housing Administration (FHA) mortgage limits in Subsection 221(d)(3) of the National Housing Act, including any area-wide high cost exceptions approved by HUD. This information should be available from the grantee or the local HUD field office. In mixed-income or mixed use projects, the average per unit investment in HOME-assisted units may not exceed the applicable Subsection 221(d)(3) limit. Participating jurisdictions are required to evaluate each housing project in accordance with guidelines

that it adopts to ensure that the combination of Federal assistance to the project is not any more than is necessary to provide affordable housing (24 CFR section 92.250).

Audit Objective - Determine whether the HOME subsidies being provided are not more than necessary to provide affordable housing and are properly supported.

Suggested Audit Procedures

- a. Review a sample of projects to verify that the HOME subsidy amounts are supported by the participating jurisdiction's records.
- b. Review participating jurisdiction records to verify that each housing project was evaluated in accordance with its guidelines to ensure that the combination of Federal assistance to the project is not any more than is the FHA mortgage limits in Subsection 221(d)(3) of the National Housing Act necessary to provide affordable housing.

2. Drawdowns of HOME Funds

Compliance Requirement - The Integrated Disbursement and Information System is used both to collect information on compliance with program requirements and to disburse HOME funds. Participating jurisdictions (or their authorized representatives) are required to have different staffs setting up projects and drawing down funds. Participating jurisdictions must maintain payment certifications each time a drawdown of funds is made (24 CFR section 92.502).

Audit Objective - Determine whether the required separation of duties is maintained over the drawdown of HOME funds.

Suggested Audit Procedures

- a. Verify that the persons setting up projects are not the same as the person drawing down funds.
- b. Verify that HOME payment certification amounts match the amount of disbursements.

3. Housing Quality Standards

Compliance Requirement - During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing

occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.251, 92.252, and 92.504(b)).

Audit Objective - Determine whether the grantee performs the required inspections to assure that property standards are met.

Suggested Audit Procedures

- a. Verify through a review of documentation that the non-Federal entity identifies those units on which housing quality inspections are due.
- b. Verify through a review of documentation that the non-Federal entity performs inspections of units and that any needed repairs are completed timely.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.241 HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS

I. PROGRAM OBJECTIVES

The Housing Opportunities for Persons with AIDS (HOPWA) Program is designed to provide States and localities with resources and incentives to devise long term strategies for meeting the housing needs of persons with acquired immunodeficiency syndrome (AIDS) or related diseases and their families (24 CFR section 574.3).

II. PROGRAM PROCEDURES

The Department of Housing and Urban Development (HUD) awards funds appropriated for the program in any fiscal year through both a formula allocation and competitive grant process. Ninety percent of the funds are awarded through formula grants and ten percent through competitive grants. HUD allocates formula funds based on the number of cases of AIDS reported to and confirmed by the Centers for Disease Control and on population data furnished by the U.S. Bureau of the Census (24 CFR section 574.130).

Competitively-awarded funds are available for special projects of national significance and other projects submitted by States and localities that do not qualify for formula grants. All States, units of general local government, and non-profit organizations may apply for grants for projects of national significance. Only those States and units of general local government that do not qualify for formula awards may apply for grants for other projects. Except for grants involving projects of national significance, non-profit organizations are not eligible to apply directly to HUD for a grant, but may receive funding as a project sponsor (subrecipient) under a contract with a grantee (24 CFR section 574.210).

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. HOPWA funds may be used to assist all forms of housing designed to prevent homelessness, including emergency housing, shared housing arrangements, apartments, single room occupancy (SRO) dwellings, and community residences. Appropriate supportive services must be provided as part of any HOPWA assisted housing, but HOPWA funds may also be used to provide services independently of any housing activity. The following activities may be carried out with HOPWA funds: housing information services; resource identification to establish, coordinate and develop housing assistance resources for eligible persons; acquisition, rehabilitation, conversion, lease, and repair of facilities to

provide housing and services; new construction for SRO and community residences only; project- or tenant-based rental assistance, including assistance for shared housing arrangements; short-term rent, mortgage and utility payments to prevent the homelessness of the tenant or the mortgagor of a dwelling; supportive services; operating costs for housing; technical assistance in establishing and operating a community residence; administrative expenses; and, for competitive grants only, any other activity proposed by the applicant and approved by HUD (24 CFR section 574.300).

2. Grantees must assure that grant funds will not be used to make payments for health services for any item or service to the extent that payment was made, or can reasonably be expected to be made, with respect to any item or service: (1) under any State compensation program, under an insurance policy, or under any Federal or State health benefits program; or (2) by an entity that provides health services on a prepaid basis, as provided for in 24 CFR section 574.310(a)(2). Supportive services includes such items as alcohol abuse treatment and counseling, day care, and nutritional services (24 CFR section 574.300(b)(7)).

E. Eligibility

1. Eligibility for Individuals

- a. A person eligible for assistance under this program means one with AIDS or a related disease who is a low-income individual, as defined in 24 CFR section 574.3, and the person's family. The eligibility of those tenants who were admitted to the program should be determined by: (1) obtaining signed applications that contained all the information needed to determine eligibility, income, rent and order of selection; and (2) obtaining third party verifications or documentation of expected income, assets, unusual medical expenses, and any other pertinent information.
- b. Except for persons in short-term supportive housing, each person receiving rental assistance under the HOPWA Program must pay as rent the higher of: (1) 30 percent of the family's monthly adjusted gross income; (2) 10 percent of the family's monthly gross income; or (3) the portion of the payments that is designated if the family is receiving payments for welfare assistance from a public agency and a part of the payments, adjusted in accordance with the family's actual housing costs, is specifically designated by the agency to meet the family's housing costs (24 CFR section 574.310).
- c. If grant funds are used to provide rental assistance, the amount of grant funds used to pay monthly assistance for an eligible person may not exceed the difference between the lower of the rent standard or reasonable rent for the unit and the resident's rent payment calculated in accordance with 24 CFR section 574.310 (24 CFR section 574.320). Allowable assistance can be determined by telephone surveys, site visits after

telephoning, or more extensive market surveys of available rental units to assess the reasonableness of rents being charged.

- d. A short-term supported housing facility may not provide residence to any individual for more than 60 days during any six month period. Rent, mortgage and utility payments to prevent the homelessness of the tenant or the mortgagor of a dwelling may not be provided to such an individual for costs accruing over a period of more than 21 weeks in any 52 week period. Further a short-term supported facility may not provide shelter or housing at any single time for more than 50 families or individuals (24 CFR section 574.330).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2.1 Level of Effort - *Maintenance of Effort* - Not Applicable

2.2 Level of Effort - *Supplement not Supplant*

The amounts received from grants under this program may not be used to replace other amounts made available or designated by State or local governments through appropriations to be used to carry out the purposes of this program (24 CFR section 574.400).

3. Earmarking

Each grantee may use not more than three percent of the grant amount for its own administrative costs relating to administering grant amounts and allocating such amounts to project sponsors (subrecipients). Each project sponsor receiving amounts from grants made under this program may not use more than seven percent of the amounts for administrative costs (24 CFR section 574.300(b)(10)(i)-(ii)).

L. Reporting

1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-40110, *Annual Progress Report* (OMB No. 2506-0133) - This report is due from each grantee within 90 days after the close of its program year. Separate reports are required for formula and competitive grants. Reports contain three basic parts. The auditor is only expected to test the financial data which is found in part 3, Program Expenditures and Housing Provided (24 CFR section 574.520 and 24 CFR part 91).

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Maintenance of Structures

Compliance Requirement - Project-based rental assistance provides grants for rental assistance to the owners of existing structures, where the owner agrees to lease the subsidized units to participants. Participants do not retain rental assistance if they move. Unless waived by HUD, any building or structure assisted with funds under HOPWA must be maintained as a facility to provide housing or assistance for individuals with AIDS or related diseases: (1) for a period of not less than ten years, in the case of assistance provided under an activity eligible under 24 CFR section 574.300(b)(3) - (4) involving new construction, substantial rehabilitation, or acquisition of a building or structure; or (2) for a period of not less than three years in cases involving nonsubstantial rehabilitation or repair of a building or structure (24 CFR section 574.310(c)(1) - (2)).

Audit Objective - Determine whether the project sponsor is receiving the proper amount of assistance and is maintaining the assisted buildings and structures for participants for the stipulated periods.

Suggested Audit Procedures

- a. Identify the buildings or structures assisted with HOPWA funds and verify their use.
- b. Examine related agreements to verify that the structures are to provide housing or assistance for the stipulated number of years when new construction, substantial rehabilitation, acquisition, or nonsubstantial rehabilitation was involved.
- c. Verify from documentation or by observation that the required rehabilitation was performed if the project was accepted for occupancy during the audit period.

2. Housing Quality Standards

Compliance Requirement - All housing that involves acquisition, rehabilitation, conversion, lease, repair of facilities, new construction, project- or tenant-based rental assistance (including assistance for shared housing arrangements), and operating costs must meet various housing quality standards listed in 24 CFR section 574.310(b)(1)-(2).

Audit Objective - Determine whether the grantee performs the required inspections to assure that units meet housing quality standards.

Suggested Audit Procedures

- a. Verify by a review of documentation that the grantee's system identifies those units on which housing quality inspections are due.
- b. Verify by a review of documentation that the grantees performs inspections of these units and that any needed repairs were completed timely.

3. Community Residences

Compliance Requirement - A community residence is a multi-unit residence designed for eligible persons to provide a lower cost residential alternative to institutional care, to prevent or delay the need for such care, to provide a permanent or transitional residential setting with appropriate services to enhance the quality of life for those who are unable to live independently, and to enable those persons to participate as fully as possible in community life. If grant funds are used to provide a community residence (except for planning and other preliminary expense), the grantee must, prior to the expenditure of such funds, obtain and keep on file certifications relating to the services to be provided, the adequacy of funding and the capabilities of the grantee, project sponsor, or service provider (24 CFR section 574.340).

Audit Objective - Determine whether the required certifications are being maintained and supported.

Suggested Audit Procedures

- a. Review the grantees files to verify that the required certifications are maintained.
- b. Verify that there is evidence on file to support the certifications that were made.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.850 PUBLIC AND INDIAN HOUSING****I. PROGRAM OBJECTIVES**

The overall objective of the Public and Indian Housing program is to provide and operate cost-effective, decent, safe and affordable dwellings for lower income families through an authorized local Public Housing Agency (PHA).

II. PROGRAM PROCEDURES*Public Housing*

Annual contributions are made to PHAs for debt service payments for commitments approved on or prior to September 30, 1986, or direct funding of capital costs (grants) is provided to PHAs for commitments approved after September 30, 1986. In addition, operating subsidy funds are available to achieve and maintain adequate operating and maintenance service and reserve funds.

Emphasis is on housing type (i.e., acquisition with or without rehabilitation versus new construction) and household type (i.e., large family). Funds may also be used for the major reconstruction of obsolete existing public housing projects. The statute requires that priority in development be given to housing larger families requiring 3 or more bedrooms.

Public Housing Agencies established in accordance with State law are eligible. The proposed program must be approved by the local governing body. Pursuant to the Native American Housing Assistance and Self Determination Act of 1996, Indian Housing Authorities (IHAs) are no longer eligible for funding under the U.S. Housing Act of 1937 or the Indian Housing Act.

There are three core occupancy procedures which are described in program regulations and other guidance: (1) determination of eligibility; (2) determination of income and rent; and (3) leasing and continuing occupancy. Eligibility beneficiaries are lower income families which include citizens or eligible immigrants. "Families" includes but is not limited to: (1) a family with or without children; (2) an elderly family (head, spouse, or sole member 62 years or older), (3) near-elderly family (head, spouse, or sole member 50 years old but less than 62 years old); (4) a disabled family; (5) a displaced family; (6) the remaining member of a tenant family; or (7) a single person who is not elderly, near-elderly, displaced, or a person with disabilities.

Performance Funding System (PFS)

The PFS is the formula used to calculate the amount of operating subsidy for each PHA. The operating subsidy is equal to the Allowable Expense Level (AEL) plus the Allowable Utilities Expense Level (AUEL) plus Other Costs minus the estimated Operating Income of the Project. The methodology and procedures for this calculation are found in 24 CFR part 990.

The PFS calculation is prepared in conjunction with the PHA annual operating budget. Form HUD 52723, *Calculation of Performance Funding System Operating Subsidy* (OMB No. 2577-

0029) is submitted between 90 and 150 days before the beginning of the PHA fiscal year. The program operating budget constitutes the approved plan for expenditure of operating subsidy funds and program operating receipts. The PHA reports actual operating expenditures against the plan on the Form HUD 52599, *Statement of Operating Receipts and Expenditures (OMB No. 2577-0067)*, that is submitted within 45 days after the end of the PHA fiscal year.

Essentially, the AEL, which is the non-utility costs for each PHA, is based on what it would cost a well-managed PHA of comparable location and characteristics to operate based on such variables as local Government Wage Rate Index, number of bedrooms per high rise family project, and number of bedrooms per unit. The resulting AELs are arrived at by application of the formula utilizing these variables. These costs are updated annually based on inflation and changes in the PHA characteristics included in the equation. Utility expenses are estimated separately based on rules that set consumption at the average of a prior 3-year period referred to as the "rolling base" and changes in the utility rates. Other costs include cost of the independent audit, costs of vacant units approved for deprogramming, costs attributable to changes in Federal law or regulation, and costs resulting from combining two or more units.

Performance Reporting

Effective for fiscal years ending September 30, 1999 and after, HUD evaluates a PHA using the Public Housing Assessment System (PHAS) (24 CFR part 902). The PHAS is based on four indicators: (1) the physical condition of the PHA's public housing properties; (2) the PHA's financial condition; (3) the PHA's management operations; and (4) resident's assessment (through a resident survey) of the PHA's performance. Each of the major indicators is comprised of components. To assess the performance of a PHA on the basis of the first two indicators, the Real Estate Assessment Center (REAC) will use the comprehensive and standardized protocols to conduct physical inspections of public housing properties and to assess the financial condition of PHAs.

For the management operations indicator and the resident service and satisfaction indicator, REAC gathers and analyzes information provided by the PHA.

Source of Governing Requirements

This program is authorized by the US Housing Act of 1937, as amended (42 USC 6(j), 9(a), 1437d(j), 1439, and USC 3535(d)). Implementing regulations are 24 CFR parts 5, 901, 902, 960, 966, and 990.

Availability of Other Program Information

HUD maintains web pages on the Internet (<http://www.hud.gov/progdesc/pihindx.html> and <http://www.hud.gov/reac>) which provide general information about this program.

III. COMPLIANCE REQUIREMENTS

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

E. Eligibility

1. Eligibility for Individuals

Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant. The head of household signs: (a) a certification that the information provided to the PHA is correct; (b) one or more release forms to allow the PHA to get information from third parties; (c) a federally-prescribed general release form for employment information; and (d) a privacy notice. Under some circumstances, other members of the family may be required to sign these forms (24 CFR sections 5.212, 5.230, and 5.601 through 5.617).

The PHA must:

- a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230 and 5.617).
- b. Verify income eligibility and calculate the tenant's rent payment in accordance with 24 CFR section 5.613 (24 CFR sections 5.601 through 5.617).
- c. Select tenants from the public housing waiting list (see "N.1, Public Housing Waiting List") (24 CFR section 960.204).
- d. Reexamine family income and composition at least once every 12 months and adjust the total rent and housing assistance payment as necessary (24 CFR sections 5.617 and 960.209).

2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients - Not Applicable.

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-52599, *Statement of Operating Receipts and Expenditures (OMB No. 2577-0067)* - submitted annually to report actual Operating Receipts and Operating Expenditures against approved operating budget estimates. The auditor is not expected to test the columns headed "Budget Amount" and "Budget PUM."

2. Performance Reporting

PHAS - This system is applicable for reporting periods ending September 30, 1999 and after (OMB No. 2535-0106). The final rule on the PHAS system was published in the *Federal Register* on September 1, 1998 (63 FR 46595). All reports are submitted electronically to HUD.

Key Line Items - The following line items contain critical information:

1. *Sub-Indicator #1: Vacancy Rate and Unit Turnaround Time*

(a) *Component #1: Vacancy Rate*

V10000	Total number of ACC days
V10100	Total number of non-dwelling days
V10200	Total number of employee occupied days
V10300	Total number of days where units were deprogrammed
V10400	Total number of actual vacancy days
V10500	Total number of vacancy days exempted for capital funds
V10600	Total number of vacancy days exempted for market conditions
V10700	Total number of vacancy days where units were exempted due to law or regulations
V10800	Total number of vacancy days where units were exempted for other reasons

(b) *Component #2: Unit Turnaround Time*

V12400	Total number of turnaround days
V12500	Total number of vacancy days exempted for capital funding
V12600	Total number of vacancy days exempted for other reasons
V12700	Total number of vacant units turned around and leased in the PHA's immediate past fiscal year
V12800	Average number of calendar days units were in down time
V12900	Average number of calendar days units were in make ready time
V13000	Average number of calendar days units were in lease up time

2. *Sub-Indicator #3: Rents Uncollected*

R10000	Dwelling rent owed by residents in possession at the beginning of the assessed fiscal year, carried forward from the previous fiscal year
R10100	Dwelling rents billed during the fiscal year being assessed
R10200	Dwelling rents collected during the fiscal year being assessed

3. *Sub-Indicator #4: Work Orders*(a) *Component #1: Emergency Work Orders*

W10000	Total number of emergency work orders
W10100	Total number of emergency work orders corrected/abated within 24 hours

(b) *Component #2: Non-Emergency Work Orders*

W10500	Total number of non-emergency work orders
W10600	Total number of calendar days it took to complete non-emergency work orders

4. *Sub-Indicator #5: Annual Inspection of Units and Systems*(a) *Component #1: Annual Inspection of Dwelling Units*

A10000	The total number of ACC units
A10100	The sum of units exempted where the PHA made two documented attempts to inspect and is enforcing the lease

A10200	Vacant units exempted for Capital Fund
A10300	Vacant units exempted for other reasons
A10400	Total number of units inspected using the Uniform Physical Condition Standards
A10500	Total number of units inspected meeting the Uniform Physical Condition Standards
A10600	The number of units where necessary repairs were completed to comply with Uniform Physical Conditions Standards either during the inspection, issued work orders for the repairs, or referred the deficiency to the current year's or next year's Capital Fund program

(b) *Component #2: Annual Inspection of Systems Including Common Areas and Non-Dwelling Space*

A11100	Total number of contiguous sites including common areas and non-dwelling space
A11200	Total number of contiguous sites exempted from the inspection of systems
A11300	The total number of contiguous sites where all systems were inspected in accordance with the PHA maintenance plan
A11400	Total number of buildings
A11500	Total number of building exempted from the inspection of systems
A11600	The total number of buildings where all systems were inspected in accordance with the PHA maintenance plan
A11700	The number of buildings and sites where necessary repairs were completed to comply with the Uniform Physical Conditions Standards either during the inspection, issued work orders for the repairs, or referred the deficiency to the current year's or next year's Capital Fund program

6. *Sub-Indicator #6—Security and economic self-sufficiency*

(a) *Component #2: Screening of Applicants*

S10800	The total number of applicants denied who met the One-Strike criteria
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(b) *Component #3: Lease Enforcement*

S11200	The total number of evictions as a result of the One-Strike criteria
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3. Special Reporting

- a. HUD-50058, *Family Report (OMB No. 2577-0083)* - The PHA is required to submit this form electronically to HUD the each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

Key Line Items - The following line items contain critical information:

- (1) Line 2b - *Effective Date of Action*
- (2) Lines 3b, 3c - *Names*
- (3) Line 3e - *Dates of Birth*
- (4) Line 3n - *Social Security Numbers*
- (5) Line 5a - *Unit Address*
- (6) Lines 5g, 5h - *Unit Inspection Dates*
- (7) Line 7m - *Total Annual Income*
- (8) Line 11n or 12q - *Gross Rent of Unit*
- (9) Lines 2e and 16a - *Family's Participation in the Family Self-Sufficiency (FSS) Program*
- (10) Line 16d(2) - *FSS Account Balance*

- b. HUD-51234, *Report on Occupancy for Public and Indian Housing (OMB No. 2577-0028)*

- c. HUD-52723, *Calculation of Performance Funding System Operating Subsidy (OMB No. 2577-0029)* This form is prepared at least 90 days before the end of the fiscal year and is used by HUD to calculate funding for the next year. The form's data is based upon historical information. The auditor is not expected to audit the column headed "HUD Modifications (PUM)."

Key Line Items - The following line items contain critical information:

- (1) *Unit Months Available (UMAs)*

- (2) Line 4 - *Add-ons to allowable expense level from previous fiscal year*
 - (3) Line 12 - *Total rent roll*
 - (4) Line 19 - *Estimated Investment Income (EII)*
 - (5) Line 20 - *Other income*
 - (6) Line 25 - *FICA contributions*
 - (7) Line 26 - *Unemployment compensation*
 - (8) Line 27 - *Flood insurance premiums*
- d. HUD 52722-A, *Calculation of Allowable Utilities Expense Level (OMB No. 2577-0029)*
- Key Line Items* - The following line item contains critical information:
- Line 1, *UMA and actual consumption for old projects for 12 month period which ended 12 months before RB Year*
- e. HUD 52722-B, *Adjustment for Utility Consumption and Rates (OMB No. 2577-0029)*
- Key Line Items* - The following line items contain critical information
- 1. Line 13, *Actual Utility Costs for the fiscal Year for which adjustment is requested.*
 - 2. Line 14, *Actual consumption for the fiscal year for which adjustment is requested.*

N. Special Tests & Provisions

1. Public Housing Waiting List

Compliance Requirement - The PHA must establish and adopt written policies for admission of tenants. The PHA tenant selection policies must include requirements for applications and waiting lists, description of the policies for selection of applicants from the waiting lists, and policies for verification and documentation of information relevant to acceptance or rejections of an applicant (24 CFR sections 960.204 through 960.207).

Audit Objective - Determine whether the PHA is following their own tenant selection policies in placing applicants on the waiting list and in selecting applicants from the waiting list to become tenants.

Suggested Audit Procedures

- a. Review the PHA's tenant selection policies.
- b. Test a sample of applicants added to the waiting list and ascertain if the PHA's tenant selection policies were followed in placing applicants on the waiting list.
- c. Test a sample of new tenants to ascertain if they were selected from the waiting list in accordance with the PHA's tenant selection policies.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.852 PUBLIC HOUSING COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM (CIAP)****I. PROGRAM OBJECTIVES**

The objective of the Comprehensive Improvement Assistance Program (CIAP) is to improve the physical quality of housing provided to low income households through modernization and development. Specifically, capital improvements, major repairs, management improvements, and related planning costs are funded through CIAP.

The objectives of the modernization program are to: (1) improve the physical condition of existing public housing developments; and (2) upgrade the management and operation of such developments in order to assure that they continue to serve low-income families.

The objective of the development program is to provide Public Housing Authorities (PHAs) with the opportunity to build or acquire the number, type, and size of units needed to house low-income families.

II. PROGRAM PROCEDURES

Grants are applied to housing and related services occupied by low income residents, whose income is typically at or below 50 percent of the Department of Housing and Urban Development (HUD) adjusted median income for the area. CIAP grants are awarded on a competitive basis to PHAs of less than 250 units of public housing and may be used for modernization and development activities. (CFDA 14.859, Public Housing Comprehensive Grant Program applies to PHAs with 250 or more units.)

Modernization Program

In the modernization program HUD provides grant funds to the PHA to improve the physical condition and upgrade the management and operation of existing public housing. In planning its modernization programs, the PHA is required to consult with residents and local government officials. After grant award, the PHA may select an architect or engineer through competitive negotiation to develop the plans and specifications for the construction work. Construction work, as well as management improvements, may be carried out through contract labor (competitively procured) or the PHA's own work force (force account). The PHA or its architect monitors the work in progress for compliance with contract requirements and acceptable work quality, and submits periodic progress reports to HUD.

The PHA draws down funds as needed to pay for accepted work through the Line of Credit Control System, Voice Response System (LOCCS/VRS) on a three-day turnaround basis. When work is completed, the PHA submits an *Actual Modernization Cost Certificate (AMCC)* (OMB No. 2577-0044) to HUD.

Development Program

In the development program, the PHA functions as a developer, owner, and manager of housing projects. In a HUD-funded housing project, the PHA normally operates as the development manager. As a developer, the PHA is responsible for obtaining and maintaining local cooperation, for project planning, and for submitting the application and the housing proposal. This includes selecting sites or properties to be acquired, contracting with builders to construct or rehabilitate housing, contracting with developers for the purchase of completed (new or rehabilitated) housing, and purchasing existing housing which may require repairs. Also, as a developer, the PHA is responsible for selecting and contracting with other parties (e.g., architects and engineers) and for expediting and coordinating the preparation of required HUD submissions.

The PHA draws down funds as needed to pay for accepted work through LOCCS/VRS on a three-day turnaround basis. When work is completed, the PHA submits an *Actual Development Cost Certificate (ADCC)* (OMB No. 2577-0036) to HUD.

Source of Governing Requirements

This program is authorized under 42 USC 14371. Implementing regulations are 24 CFR parts 941 and 968 subparts A and B.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. Activities allowed include capital improvements as well as major repairs, management improvements, and planning costs and must be approved by HUD. HUD approval is provided generally in the approved CIAP Application (HUD-52822, OMB No. 2577-0044) and specifically in the CIAP Budget/Progress Report (HUD 52825, OMB No. 2577-0044) which details the work items that will be completed and the allocated funding (24 CFR section 968.112).
2. The PHA may not incur any modernization cost in excess of the total HUD-approved CIAP Application which is the project budget. Budget revisions must be approved by HUD for deviations from the originally approved modernization program. A PHA shall not incur any modernization cost on behalf of any development that is not covered by the original CIAP application (24 CFR section 968.225).

L. Reporting**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-52825, *CIAP Budget/Progress Report (OMB No. 2577-0044)* - This report is submitted for the six-month periods ending 3/31 and 9/30 to report activities and costs.

2. Performance Reporting - Not Applicable**3. Special Reporting** - Not Applicable

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.854 PUBLIC AND INDIAN HOUSING DRUG ELIMINATION PROGRAM****I. PROGRAM OBJECTIVES**

The purpose of the Public Housing Drug Elimination Program (PHDEP) is to make available Federal grants to assist Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs) to reduce drugs and drug-related crime in and around public housing developments, and encourage PHAs and TDHEs to develop plans that include initiatives that can be sustained over a period of several years for addressing the problem of drugs and drug-related crime in and around the premises of public and Native American housing.

II. PROGRAM PROCEDURES

These grants were awarded on an annual basis through a grant competition from program inception in fiscal year (FY) 1989 through FY 1998. Beginning in FY 1999, PHDEP funds are awarded through a formula allocation on an annual basis. Public housing agencies (PHAs), Resident Management Corporations (RMCs), and consortia of PHAs are eligible applicants. The grant term may not exceed 24 months.

PHAs that were awarded PHDEP funds through the competitive process during FYs 1996, 1997 or 1998 are eligible to receive renewable grants in FY 1999, as are those PHAs that received scores high enough to qualify for funding in previous years, but did not receive funding because all available funds had been exhausted. PHAs that do not fall under either of the above two categories may qualify for funding based on "need" if the PHA/community has "urgent" or "serious crime" problems and falls within the top 50 percent of the unit weighted distribution of an index of a rolling average rate of violent crime and have needs that qualify for funding.

Funding is awarded using a per-unit approach. There is a minimum funding allocation of \$25,000, but PHAs with fewer than 50 units are capped at \$500 per unit.

Source of Governing Requirements

This program is authorized by the Anti-Drug Abuse Act of 1988, Chapter 2, Subtitle C, Title V, as amended, codified at 42 USC 11901 *et seq.* Implementing regulations are at 24 CFR part 761.

Availability of Other Program Information

Additional information about the Public Housing Drug Elimination Program is available on the Internet at www.hud.gov/pih/programs/ph/de/cscd.html.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. *Activities Allowed*

- a. Funds may be used for the employment of security personnel, executing duties not routinely performed by local law enforcement authorities (baseline services) unless a cost analysis has been performed that demonstrates the employment of security personnel is more cost efficient than obtaining the service from the local law enforcement agency. A public or federally assisted housing authority employing such personnel is required to enter into and execute a written agreement that describes the activities to be performed, the security personnel's scope of authority, and how they will coordinate their activities with local law enforcement and the types of activities they are expressly prohibited from undertaking (42 USC 11903(a); 24 CFR section 761.15(b)(1)).
- b. Funds may be used for the reimbursement of local law enforcement personnel for additional security and protective services (42 USC 11903(a); 24 CFR section 761.15(b)(2)).
- c. Funds may be expended for physical improvements that are specifically designed to enhance security (42 USC 11903(a); 24 CFR section 761.15(b)(3)).
- d. Funds may be used to employ one or more individuals to investigate drug-related crime on or about the real property comprising any public or federally assisted low-income housing project or to provide evidence relating to such crime in any administrative or judicial proceeding (42 USC 11903(a); 24 CFR section 761.15(b)(4)).
- e. Funds may be expended for the provision of training, communications equipment and other related equipment for use by voluntary tenant patrols acting in cooperation with local law enforcement officials (42 USC 11903(a); 24 CFR section 761.15(b)(5)).
- f. Funds may be expended for liability insurance required in connection with voluntary tenant patrols (24 CFR section 761.15(b)(5)).
- g. Funds may be expended on programs designed to reduce the use of drugs in and around public or other federally assisted low-income housing

projects, including drug abuse prevention, intervention, referral and treatment programs (42 USC 11903(a); 24 CFR section 761.15(b)(6)).

- h. Funds may be used to provide funding to non-profit public housing RMCs and resident councils to develop security and drug abuse prevention programs involving site residents (42 USC 11903(a); 24 CFR section 761.15(b)(7)).
- i. Funds may be expended on sports programs and sports activities that serve youths from public or other federally assisted low-income housing projects and are operated in conjunction with, or in furtherance of, an organized program or plan designed to reduce or eliminate drugs and drug-related problems in and around such projects (42 USC 11903(a)).
- j. Funds may be used to eliminate drug-related crime in and around housing owned by public housing agencies that is not publically assisted housing if the housing is located in a high intensity drug trafficking area designated pursuant to 21 USC 1504, and the public housing agency owning the housing demonstrates that drug-related or violent activity in or around the housing has a detrimental effect on or about the real property comprising any public or other federally assisted low-income housing (42 USC 11903(b); 24 CFR section 761.15(b)(8)).

2. *Activities Unallowed*

- a. Funds may not be used to fund an activity that is funded under any other Federal program (24 CFR section 761.15(b)(3)(i)).
- b. Funds are not permitted to be used for physical improvements that would result in the displacement of any person (24 CFR section 761.15(b)(3)(iii)).
- c. Funds are not permitted to be used for physical improvements that involve the demolition of any units in a development (24 CFR section 761.15(b)(3)(ii)).
- d. Funds may not be used to acquire real property (24 CFR section 761.15(b)(3)(iv)).
- e. Funds may not be expended to provide any kind of financial compensation for voluntary tenant patrols participants, except to compensate a grant coordinator for voluntary tenant foot patrols (24 CFR section 761.15(b)(5)(iv)).
- f. Funds may not be used for costs incurred before the effective date of the grant agreement, including, but not limited to, consultant fees for surveys

related to the application or the actual writing of the application (24 CFR section 761.15(d)(2)).

- g. Funds may not be expended for the costs related to screening or evicting residents for drug-related crime. However, investigators funded under this program may participate in judicial and administrative procedures (24 CFR section 761.15(d)(3)).
- 3. Specific grant agreements and annual Notices of Funding Availability (NOFA) published in the *Federal Register* may contain additional specific information concerning allowable and unallowable activities (24 CFR section 761.15(b)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.855 SECTION 8 RENTAL VOUCHER PROGRAM**
CFDA 14.857 SECTION 8 RENTAL CERTIFICATE PROGRAM**I. PROGRAM OBJECTIVES**

The Section 8 rental voucher program and rental certificate program provide rental assistance to help very low income families afford decent, safe, and sanitary rental housing.

II. PROGRAM PROCEDURES

These programs are administered by local public housing agencies (PHAs) authorized under State law to operate housing programs within an area or jurisdiction. The PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a rental voucher or certificate confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent (a housing assistance payment (HAP)) on behalf of the family.

The subsidies provided by the rental voucher and certificate programs are considered tenant-based subsidies because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1).

HUD enters into annual contributions contracts (ACCs) with PHAs under which HUD provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR section 982.151).

In the tenant-based Section 8 programs, the PHA verifies a family's eligibility (including income eligibility) and then issues the family a voucher. The family generally has 60 days to locate a rental unit where the landlord agrees to participate in the program. The PHA determines whether the unit meets housing quality standards (HQS). If the PHA approves a family's unit and lease, the PHA contracts with the owner to make HAPs on behalf of the family. The PHA may not approve a lease unless the rent is reasonable (24 CFR section 982.1(a)(2)).

Under the rental certificate program, the initial rent and utility costs normally may not exceed a HUD established fair market rent (FMR) for the unit size in the area, and the tenant is generally required to pay 30 percent of adjusted monthly income toward rent and utilities (the total tenant payment). The HAP made by the PHA to the owner makes up the difference between the rent the owner charges for the unit and the amount of the total tenant payment.

Under the rental voucher program, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is generally no limit on the amount of rent that an owner may charge for a unit. However, at initial occupancy of any unit where the gross rent exceeds the payment standard, a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities. The rental voucher

subsidy is set based on the difference between the lower of the PHA's payment standard for the family's unit size or the gross rent and the total tenant payment (30 percent of the family's monthly adjusted income). This is the maximum amount of subsidy a family may receive regardless of the rent the owner charges for the unit. Therefore, rental voucher program participants may pay more or less than 30 percent of their monthly adjusted income toward rent and utilities, depending on whether the gross rent for the unit is more or less than the PHA's payment standard for the unit (24 CFR part 982, subpart K).

If the cost of utilities is not included in the rent to the owner, the PHA uses a schedule of utility allowances to determine the amount an assisted family needs to cover the cost of utilities. The PHA's utility allowance schedule is developed based on utility consumption and rate data for various unit sizes, structure types, and fuel types. The PHA is required to review its utility allowance schedules annually and to adjust them if necessary (24 CFR section 982.517).

The PHA must inspect units leased under these programs at the time of initial leasing and at least annually thereafter to ensure they meet HUD housing quality standards (HQS). The PHA must also conduct supervisory quality control HQS inspections (24 CFR sections 982.305 and 982.405).

Under the rental certificate program, the PHA reviews and approves owner requests for annual rent adjustments in accordance with HUD requirements and annual adjustment factors which are published by HUD (24 CFR section 982.519).

PHAs are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly HAPs. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly contract rent payable to the owner, monthly rent payable by the family, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any (24 CFR section 982.158).

The Section 8 Management Assessment Program (SEMAP) is HUD's assessment program to annually and remotely measure the performance of PHAs that administer the tenant-based Section 8 programs. Under SEMAP, PHAs submit an annual certification, Form HUD-52648 (*OMB No. 2577-0215*), to HUD concerning their compliance with program requirements under 14 indicators of performance (24 CFR part 985).

In the Section 8 programs, required program contracts and other forms must be word-for-word in the form prescribed by HUD headquarters. Any additions to or modifications of required program contracts or other forms must be approved by HUD headquarters (24 CFR section 982.162).

Source of Governing Requirements

Section 8 rental voucher and rental certificate program regulations are found in 24 CFR parts 5, 982, and 985.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

PHAs may use Section 8 rental voucher and certificate program funds for HAPs to participating owners, and for administrative fees (24 CFR sections 982.151 and 982.152).

E. Eligibility

1. Eligibility for Individuals

Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant. The head of household signs: (a) one or more release forms to allow the PHA to obtain information from third parties; (b) a Federally-prescribed general release form for employment information; and (c) privacy act notice. Under some circumstances, other members of the family may be required to sign these forms (24 CFR sections 5.212, 5.230, and 5.601 through 5.617).

The PHA must:

- a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 5.617).
- b. Verify income eligibility and calculate the tenant's rent payment in accordance with 24 CFR sections 5.613 and 982.516. This includes determining adjusted annual income (including the value of assets totaling \$5,000 or more, expenses related to deductions from annual income, and other factors that affect the amount of assistance) and obtaining and using third party verification of anticipated family annual income or documenting in the tenant file why third party verifications were not possible (24 CFR sections 5.601 through 5.617, and 982.201).
- c. Select tenants from the Section 8 waiting list (see "N.1, Selection from the Section 8 Waiting List") (24 CFR sections 982.202 through 982.207).
- d. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary. This includes determining adjusted annual income (including the value of assets totaling \$5,000 or more, expenses related to deductions from annual income, and other factors that affect the amount of assistance), obtaining and using third party verification of anticipated family annual income or

documenting in the tenant file why third party verifications were not possible (24 CFR sections 5.617 and 982.516).

2. **Eligibility of Group of Individuals or Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients** - Not Applicable

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0149)* - submitted annually.
- f. HUD-52595, *Balance Sheet for Section 8 and Public Housing (OMB No. 2577-0067)* - submitted annually.

2. Performance Reporting

HUD-52648, SEMAP Certification - *Addendum for Reporting Data for Deconcentration Bonus Indicator (OMB No. 2577-0215)* - PHAs with jurisdiction in metropolitan FMR areas have the option of submitting data to HUD with their annual SEMAP certifications on the percent of their tenant-based Section 8 families with children who live in, and who have moved during the PHA fiscal year to, low poverty census tracts in the PHA's principal operating area. Submission of this information with the SEMAP certification makes the PHA eligible for bonus points under SEMAP (24 CFR section 985.3(h)).

Key Line Items - The following line items contain critical information.

- a. Line 1a - Number of Section 8 families with children assisted by the HA in its principal operating area at the end of the last HA fiscal year (FY) who live in low poverty census tracts.
- b. Line 1b - Total Section 8 families with children assisted by the HA in its principal operating area at the end of the last HA FY.

- c. Line 1c - Percent of all Section 8 families with children residing in low poverty census tracts in the HA's principal operating area at the end of the last HA FY.
- d. Line 2a - Percent of all Section 8 families with children residing in low poverty census tracts at the end of the last completed HA FY.
- e. Line 2b - Number of Section 8 families with children who moved to low poverty census tracts during the last completed HA FY.
- f. Line 2c - Number of Section 8 families with children who moved during the last completed HA FY.

3. Special Reporting

HUD-50058, *Family Report (OMB No.2577-0083)* - The PHA is required to submit this form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability (24 CFR part 908).

Key Line Items - The following line items contain critical information.

- a. Line 2b - *Effective Date of Action*
- b. Lines 3b, 3c - *Names*
- c. Line 3e - *Dates of Birth*
- d. Line 3n - *Social Security Numbers*
- e. Line 5a - *Unit Address*
- f. Lines 5g, 5h - *Unit Inspection Dates*
- g. Line 7m - *Total Annual Income*
- h. Line 11n or 12q - *Gross Rent of Unit*
- i. Lines 2e and 16a - *Family's Participation in the Family Self-Sufficiency (FSS) Program*
- j. Line 16d(2) - *FSS Account Balance*

N. Special Tests and Provisions

1. Selection from the Section 8 Waiting List

Compliance Requirement - The PHA must have written policies in its Section 8 administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list. Except as provided in 24 CFR section 982.203 (Special admission (non-waiting list)), all families admitted to the program must be selected from the waiting list. "Selection" from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission (24 CFR sections 5.410, 982.54(d), and 982.201 through 982.207).

Audit Objective - Determine whether the PHA is following its own tenant selection policies in selecting applicants from the waiting list to become tenants.

Suggested Audit Procedures

- a. Review the PHA's tenant selection policies.
- b. Test a sample of new tenants admitted to the program to ascertain if they were selected from the waiting list in accordance with the PHA's tenant selection policies.
- c. Test a sample of applicant names that reached the top of the waiting list to ascertain if they were admitted to the program or provided the opportunity to be admitted to the program in accordance with the PHA's tenant selection policies.

2. Reasonable Rent

Compliance Requirement - The PHA's administrative plan must state the method used by the PHA to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner. The PHA must determine that the rent to the owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase to the owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

Audit Objective - Determine whether the PHA is documenting the determination that the rent is reasonable in accordance with the PHA's administrative plan at initial leasing and during the term of the contract.

Suggested Audit Procedures

- a. Review the PHA's method in its administrative plan for determining reasonable rent.
- b. Test a sample of initial leases and ascertain if the PHA has documented the determination of reasonable rent in accordance with the PHA's administrative plan.
- c. Test a sample of leases for which the PHA is required to determine reasonable rent during the term of the contract and ascertain if the PHA has documented the determination of reasonable rent in accordance with the PHA's administrative plan.

3. Utility Allowance Schedule

Compliance Requirement - The PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR section 982.517).

Audit Objective - Determine whether the PHA has reviewed utility rate data within the last 12 months and has adjusted its utility allowance schedule if there has been a rate change of 10 percent or more in a utility category or fuel type since the last time the utility allowance schedule was revised.

Suggested Audit Procedures

- a. Review PHA procedures for obtaining and reviewing utility rate data each year.
- b. Test data on utility rates that the PHA obtained during the last 12 months and ascertain, based on data available at the PHA, if there has been a change of 10 percent or more in a utility rate since the last time the utility allowance schedule was revised, and if so, verify that the PHA revised its utility allowance schedule to reflect the rate increase.

4. Housing Quality Standards Inspections

Compliance Requirement - The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control reinspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

Audit Objective - Determine whether the PHA documented the required annual HQS inspections and quality control reinspections.

Suggested Audit Procedure

- a. Review the PHA's procedures for performing HQS inspections and quality control reinspections.
- b. Test a sample of units for which rental assistance was paid during the fiscal year and review inspection reports to ascertain if the unit was inspected.
- c. Review the PHA's reports of reinspections to ascertain if quality control reinspections were performed.

5. HQS Enforcement

Compliance Requirement - For units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

Audit Objective - Determine whether the PHA documented enforcement of the HQS.

Suggested Audit Procedures

- a. Select a sample of units with failed HQS inspections during the audit period from the PHA's logs or records of failed HQS inspections.
- b. Verify that the files document that the PHA required correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within an PHA-approved extension.
- c. If the correction period has ended, verify that the files contain a unit inspection report or evidence of other verification documenting that any PHA-required repairs were completed.
- d. Where the file shows that the owner failed to correct the cited HQS deficiencies within the specified time frame, verify that documents in the file show that the PHA properly stopped (abated) HAPs or terminated the HAP contract.

- e. Where the file shows that the family failed to correct the cited HQS deficiencies within the specified time frame, verify that documents in the file show that the PHA took action to enforce the family obligations.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.859 PUBLIC HOUSING COMPREHENSIVE GRANT PROGRAM****I. PROGRAM OBJECTIVES**

The objective of the Comprehensive Grant Program (CGP) is to improve the physical quality of housing provided to low income households through modernization and development. Specifically, capital improvements, major repairs, management improvements, and related planning costs are funded through CGP.

The objectives of the modernization program are to: (1) improve the physical condition of existing public housing developments; and (2) upgrade the management and operation of such developments in order to assure that they continue to serve low-income families.

The objective of the development program is to provide Public Housing Authorities (PHAs) with the opportunity to build or acquire the number, type, and size of units needed to house low-income families.

II. PROGRAM PROCEDURES

Grants are applied to housing and related services occupied by low income residents, whose income is typically at or below 50 percent of the Department of Housing and Urban Development (HUD) adjusted median income for the area. CGP grants are awarded to PHAs of 250 units or more of public housing via a formula and may be used for modernization and development activities. (CFDA 14.852, Public Housing Comprehensive Improvement Assistance Program applies to PHAs with less than 250 units.)

Modernization Program

In the modernization program HUD provides grant funds to the PHA to improve the physical condition and upgrade the management and operation of existing public housing. In planning its modernization programs, the PHA is required to consult with residents and local government officials. After grant award, the PHA may select an architect or engineer through competitive negotiation to develop the plans and specifications for the construction work. Construction work, as well as management improvements, may be carried out through contract labor (competitively procured) or the PHA's own work force (force account). The PHA or its architect monitors the work in progress for compliance with contract requirements and acceptable work quality, and submits periodic progress reports to HUD.

The PHA draws down funds as needed to pay for accepted work through the Line of Credit Control System, Voice Response System (LOCCS/VRS) on a three-day turnaround basis. When work is completed, the PHA submits an *Actual Modernization Cost Certificate (AMCC)* (OMB No. 2577-0157) to HUD.

Development Program

In the development program, the PHA functions as a developer, owner, and manager of housing projects. In a HUD-funded housing project, the PHA normally operates as the development manager. As a developer, the PHA is responsible for obtaining and maintaining local cooperation, for project planning, and for submitting the application and the housing proposal. This includes selecting sites or properties to be acquired, contracting with builders to construct or rehabilitate housing, contracting with developers for the purchase of completed (new or rehabilitated) housing, and purchasing existing housing which may require repairs. Also, as a developer, the PHA is responsible for selecting and contracting with other parties (e.g., architects and engineers) and for expediting and coordinating the preparation of required HUD submissions.

The PHA draws down funds as needed to pay for accepted work through LOCCS/VRS on a three-day turnaround basis. When work is completed, the PHA submits an *Actual Development Cost Certificate (ADCC)* (OMB No. 2577-0036) to HUD.

Source of Governing Requirements

This program is authorized under 42 USC 14371. Implementing regulations are 24 CFR parts 941 and 968 subparts A and B.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. Activities allowed include capital improvements as well as major repairs, management improvements, and planning costs and must be approved by HUD. The PHA prepares a Comprehensive Plan in accordance with 24 CFR section 968.315 which includes a detailed physical and management needs assessment and a Five Year Action Plan (HUD-52834, OMB No. 2577-0157) of proposed modernization activities. This plan is updated every sixth year. On an annual basis, the PHA provides HUD with its Annual Statement (HUD-52836, OMB No. 2577-0157) in accordance with 24 CFR section 968.325(e) which details the eligible activities to be funded with the current year's grant and the estimated costs. HUD reviews and approves the activities in the Annual Statement before the PHA can have access to the funds.

L. Reporting**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. HUD-52837, *Annual Statement/Performance and Evaluation Report (OMB No. 2577-0157)* - At the end of the CGP program year the non-Federal entity reports total actual cost for each grant with a separate Comprehensive Grant Number for which funds are still being expended.

Key Line Items - The "Total Actual Cost" columns in Parts I and II contain critical information.

2. Performance Reporting - Not Applicable**3. Special Reporting** - Not Applicable

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.862 INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

I. PROGRAM OBJECTIVES

The primary objective of the Indian Community Development Block Grant (CDBG) program is the development of viable Indian and Alaskan native communities, including decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low- and moderate-income. Indian CDBG assistance may not be used to reduce substantially the amount of local financial support for community development activities below the level of support prior to the availability of the assistance (24 CFR section 953.2).

II. PROGRAM PROCEDURES

Two types of grants are eligible under the Indian CDBG program. Single purpose grants provide funds for one or more single purpose projects which consist of an activity or set of activities designed to meet a specific community development need. This type of grant is awarded through competition with other single purpose projects. Imminent threat grants alleviate an imminent threat to public health or safety that requires immediate resolution. This type of grant is awarded only after a HUD field office determines that such conditions exist and that funds are available for such grants (24 CFR section 953.100).

The selection of single purpose grantees under subpart B of 24 CFR section 953 is competitive. HUD's selection of eligible applicants reflects consideration of the relative adequacy of applications in addressing locally-determined need. Selection of grantees under subpart E - Imminent Threat Grants - is not competitive; eligible projects are funded on a first-come, first-served basis, subject to the availability of funds. Applicants for funding must have the administrative capacity to undertake the community development activities proposed, including the systems necessary to administer the activities without fraud, waste, or mismanagement.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

Indian CDBG funds (including program income generated by activities carried out with grant funds) may only be used for the following activities: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities, and site, or other improvements; (3) code enforcement in deteriorated or deteriorating areas; (4) clearance, demolition, removal, and rehabilitation of buildings and improvements; (5) special projects for removal of material and architectural barriers that restrict accessibility by elderly and handicapped individuals; (6) payments to housing

owners for losses of rental income incurred in temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in regulations and to certain HUD determinations); (9) payment of the non-Federal share for a grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (15) assistance to community-based development organizations; (16) activities related to energy use; (17) assistance to private, for-profit business, when appropriate to carry out an economic development project; (18) substantial reconstruction of housing owned and occupied by low- and moderate-income persons (subject to certain HUD determinations); (19) direct assistance to facilitate and expand homeownership; (20) technical assistance to public or private entities for capacity building (exempt from planning/administration cap); (21) housing counseling and housing activity delivery costs under Indian CDBG and Indian HOME; (22) assistance to colleges and universities to carry out eligible activities; and, (23) assistance to public and private entities (including for-profits) to assist micro-enterprises (24 CFR sections 953.200 through 953.207).

F. Equipment and Real Property Management

Generally, when real property that was acquired or improved using Indian CDBG program funds in excess of \$25,000 is disposed of, the Indian CDBG program must be reimbursed for its fair share of the current market value of the property. If disposition occurs after program closeout, the proceeds shall be used for allowable activities and meeting the primary objective of the program (24 CFR section 953.504).

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2. Level of Effort - Not Applicable

3. Earmarking

- a. To be eligible under the Indian CDBG program, a single purpose grant activity must benefit low- and moderate-income persons. To meet this requirement, not less than 70 percent of the funds of each single purpose grant must be used for activities that benefit low-and moderate-income persons under the criteria set forth in 24 CFR sections 953.208(a), (b), (c), or (d). In determining the percentage of funds used for such activities, the provisions of 24 CFR section 953.208(e)(4) apply.
- b. No more that 20 percent of the total grant plus program income received during a program year may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)). Technical assistance costs associated with developing the capacity to undertake a specific

funded program activity are not considered administrative costs and are not included in the 20 percent limitation on planning and administration costs (24 CFR section 953.206).

- c. Public service activities may comprise no more than 15 percent of the total grant award 24 CFR section 953.201(e).

I. Procurement and Suspension and Debarment

Sections __.36(i)(5) (Compliance with the Davis-Bacon Act) and __.36(i)(6) (Compliance with sections 103 and 107 of the Contract Work Hours and Safety Standards Act) of the A-102 Common Rule do not apply to this program (24 CFR section 953.501(a)(13)).

J. Program Income

Program income received before grant closeout may be retained by the non-Federal entity if the income is treated as additional Indian CDBG funds subject to all the applicable requirements governing the use of Indian CDBG funds. However, as noted in 24 CFR section 953.503(b)(4), program income does not include the first \$25,000 in program income received by the grantee and all of its subrecipients in any single year if the total amount of such income does not exceed \$25,000 (24 CFR section 953.503).

L. Reporting

1. Financial Reporting

- a. *SF-269, Financial Status Report* - Applicable only during grant closeout.
- b. *SF-270, Request for Advance or Reimbursement* - Not Applicable
- c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. *SF-272, Federal Cash Transactions Report* - Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

M. Subrecipient Monitoring

Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income, uniform administrative requirements, and reversion of assets (24 CFR section 953.502).

N. Special Tests and Provisions

1. Environmental Assessments

Compliance Requirement - An environmental assessment must be prepared for a project unless the grantee determined that it met a criterion specified in the regulations that would exempt or exclude it from Request for Release of Funds (RROF) and environmental certification requirements (24 CFR section 58.34 and 58.35). Exempt activities do not require an environmental review; activities which are potential exclusions require an environmental review to determine if an exclusion is applicable. If not applicable, an assessment must be done.

Audit Objective - Determine whether the required environmental reviews are being performed.

Suggested Audit Procedures

- a. Select a sample of projects for which expenditures were made and verify that environmental certifications exist.
- b. Ascertain that the certifications were supported by an environmental assessment.
- c. For any project where an environmental assessment was not performed, ascertain that a written determination was made that the assessment was not required.
- d. Ascertain whether documentation exists that any determination not to do an environmental assessment was made consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.

2. Release of Funds

Compliance Requirement - Indian CDBG funds (and local funds to be repaid with Indian CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a RROF and environmental certification, except for exempt activities under 24 CFR section 58.34 or activities found to be categorically excluded under 24 CFR section 58.35 (24 CFR sections 58.22, 58.33-35, and 953.605).

Audit Objective - Determine whether funds were obligated or expended before HUD's approval of the RROF and environmental certification.

Suggested Audit Procedures

- a. Examine HUD's approval of the RROF and environmental certification and note receipt dates.
- b. Review the expenditure and related records and determine the dates the funds were obligated or expended.

- c. Determine that funds, including other than Indian CDBG funds that were subsequently reimbursed by Indian CDBG funds, were obligated or expended subsequent to RROF and environmental certification approval by HUD.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.867 INDIAN HOUSING BLOCK GRANTS****I. PROGRAM OBJECTIVES**

The primary objectives of the Indian Housing Block Grant (IHBG) Program are: (a) to assist and promote affordable housing activities to develop, maintain, and operate affordable housing in safe and healthy environments on Indian reservations and in other Indian areas for occupancy by low-income Indian families; (b) to coordinate activities to provide housing for Indian tribes and their members and to promote self-sufficiency of Indian tribes and their members; and (c) to plan for and integrate infrastructure resources for Indian tribes with housing development for Indian tribes.

II. PROGRAM PROCEDURES

The IHBG program is formula driven, based on factors that reflect the need of the Indian tribes and the Indian areas of the tribes for assistance for affordable housing activities. To access funds, Indian tribal governments (or tribally designated housing entities (TDHEs)) must submit an Indian Housing Plan (IHP) to the Department of Housing and Urban Development (HUD), and HUD must find that the IHP meets the requirements of section 102 of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). IHBG funds awarded to a recipient may only be used for affordable housing activities that are consistent with its IHP.

Source of Governing Requirements

This program is authorized by the Native American Housing Assistance and Self-Determination Act of 1996, codified at 25 USC 4101 through 4101. Implementing regulations are in 24 CFR part 1000.

III. COMPLIANCE REQUIREMENTS

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

A. Activities Allowed or Unallowed

1. The following activities to develop or to support affordable housing for rental or home ownership, or to provide housing services with respect to affordable housing are allowable:
 - a. *Indian Housing Assistance* - The provision of modernization or operating assistance for housing previously developed or operated pursuant to a contract between the Secretary and an Indian housing authority, including such amounts as may be necessary to provide for the continued

- maintenance and efficient operation of such housing (25 USC 4132(1) and 4133(b)).
- b. *Development* - The acquisition, new construction, reconstruction, or moderate or substantial rehabilitation of affordable housing, which may include real property acquisition, site improvement, development of utilities and utility services, conversion, demolition, financing, administration and planning, and other related activities (25 USC 4132(2)).
 - c. *Housing Services* - The provision of housing-related services for affordable housing, such as housing counseling in connection with rental or home-ownership assistance, establishment and support of resident organizations and resident management corporations, energy auditing, activities related to the provision of self-sufficiency and other services, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in other housing activities assisted pursuant to this section (25 USC 4132(3)).
 - d. *Housing Management Services* - The provision of management services for affordable housing, including preparation of work specifications; loan processing, including preparation of work specifications; loan processing; inspections; tenant selection; management of tenant-based rental assistance; and management of affordable housing projects (25 USC 4132(4)).
 - e. *Crime Prevention and Safety Activities* - The provision of safety, security, and law enforcement measures and activities appropriate to protect residents of affordable housing from crime (25 USC 4132(5)).
 - f. *Model Activities* - Housing activities under model programs that are designed to carry out the purposes of NAHASDA and are specifically approved by the Secretary as appropriate for such purpose (25 USC 4132(6)).
2. Grants funds may not be used for affordable housing activities for rental or lease-purchase dwelling units developed under the United States Housing Act of 1937 (42 USC 1437 *et seq.*), or with amounts provided that are owned by the recipient for the Tribe unless the conditions specified in 25 USC 4111(d), regarding tax exemption for real and personal property taxes and user fees, are met (25 USC 4111(d)).

E. Eligibility**1. Eligibility for Individuals**

Each recipient shall develop written policies governing the eligibility, admission, and occupancy of families for housing assisted with grant amounts provided under NAHASDA. The following families are eligible for affordable housing activities:

- a. Low income Indian families on a reservation or Indian area.
- b. A non-low income Indian family may receive housing assistance in accordance with 24 CFR section 1000.110, except that non-low income Indian families residing in housing assisted under the Housing Act of 1937 (42 USC 1437 *et seq.*) do not have to meet the requirements of 24 CFR section 1000.110 for continued occupancy.
- c. A non-Indian family may receive housing assistance on a reservation or Indian area if the non-Indian family's housing needs cannot be reasonably met without such assistance, and the recipient determines that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families, except that non-Indian families residing in housing assisted under the Housing Act of 1937 do not have to meet these requirements for continued occupancy (24 CFR section 1000.104).

Housing assistance for non-low income Indian families requires HUD approval only as required in 24 CFR sections 1000.108 and 1000.110. Assistance under section 201(b)(3) of NAHASDA for non-Indian families does not require HUD approval, but only requires that the recipient determine that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families and the non-Indian family's housing needs cannot be reasonably met without such assistance (24 CFR section 1000.106).

- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients - Not Applicable**

G. Matching, Level of Effort, Earmarking

- 1. Matching - Not Applicable**
- 2. Level of Effort - Not Applicable**

3. Earmarking

- a. Up to 10 percent of an annual grant may be used to provide housing assistance to families whose adjusted income (defined at 25 USC 4103(1)) falls within 80 to 100 percent of the median income (defined at 24 CFR section 1000.10). HUD approval is required to exceed this 10 percent cap or to provide assistance to families with incomes in excess of 100 percent of the median income (24 CFR section 1000.110(d)).
- b. A recipient may use up to 20 percent of its annual grant for administration and planning. HUD approval must be obtained to exceed this percentage (24 CFR section 1000.238).

J. Program Income

Any program income may be retained by a recipient provided it is used for affordable housing activities in accordance with 25 USC 4131. If the amount of income received in a single year by a recipient and all of its subrecipients, which would otherwise be considered program income, does not exceed \$25,000, such funds may be retained but will not be considered to be or treated as program income (24 CFR section 1000.62).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Applicable

2. Performance Reporting

- a. HUD-52735-A, *Annual Performance Report (OMB No. 2577-0218)* - This report is submitted by paper or electronically via the Internet to the Area Office of Native American Programs (ONAP) within 60 days of the end of the recipient's program year.

Key Line Items - The following items contain critical information.

1. Part B, Table I, Financial Resources and Accomplishments - column c.

2. Part B, Table II - Allocation of Funds for NAHASDA Activities - columns e through i.

3. **Special reporting** - Not Applicable

N. **Special Tests and Provisions**

1. **Environmental Review**

Compliance Requirement - Program regulations provide that a recipient (or beneficiary Tribe, if the recipient is a TDHE) may assume responsibilities for environmental review and decision making under the requirements of 24 CFR part 58 or it may allow HUD to retain these responsibilities. If HUD retains the responsibilities, HUD will do reviews under the provisions of 24 CFR part 50. If the recipient or beneficiary Tribe assumes these responsibilities, the following applies:

An environmental assessment must be prepared for an activity unless the recipient (or beneficiary tribe, if the recipient is a TDHE) determined that the activity met a criterion specified in the regulations that would exempt or exclude it from Request for Release of Funds (RROF) and environmental certification requirements (24 CFR sections 58.34 and 58.35). Exempt activities do not require an environmental review; activities which are potential exclusions require an environmental review to determine if an exclusion is applicable. If not applicable, an assessment must be done.

Audit Objective - Determine whether the required environmental reviews have been performed.

Suggested Audit Procedures

- a. Select a sample of projects for which expenditures were made and verify that:
 - (1) Environmental certifications were supported by an environmental assessment, or
 - (2) For any project where an environmental assessment was not performed, a written determination was made that the assessment was not required and documentation exists to support such determination consistent with the criteria contained in 24 CFR sections 58.34 and 58.35.

2. **Investment of IHBG Funds**

Compliance Requirement - A recipient may invest IHBG funds for purposes of carrying out IHBG activities in investment securities if approved by HUD (24 CFR section 1000.58). Investments may be for a period of time not to exceed two years and only in those accounts or instruments identified in 24 CFR section 1000.58 (c). The amount of IHBG funds and percentage of those funds which may be invested is restricted by the provisions of 24 CFR section 1000.58(f).

Audit Objective - Determine whether the investment of IHBG funds by the recipient meets the requirements of 24 CFR section 1000.58.

Suggested Audit Procedures

- a. If IHBG funds have been invested during the audit period:
- (1) Ascertain that prior written HUD approval had been obtained, and any conditions or restrictions on the approval.
 - (2) Verify that the amount invested is no greater than the allowable percentages of the formula grant amount net of any of this amount allocated for the operating subsidy element of Formula Current Assisted Stock component of the formula.
 - (3) Verify that the funds were invested only in those allowable accounts or instruments and within any conditions or restriction on the approval.