

**14.228 COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND
NON-ENTITLEMENT GRANTS IN HAWAII**
(STATE-ADMINISTERED SMALL CITIES PROGRAM)

State Project/Program:	NORTH CAROLINA SMALL CITIES CDBG AND NEIGHBORHOOD STABILIZATION PROGRAM
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U.S. Housing and Urban Development

Federal Authorization: Title I of the Housing and Community Development Act of 1974, Public law 93-383, as amended (42 USC 5301); Housing and Economic Recovery Act of 2008 (Public Law 110-289); Coronavirus Aid, Relief and Economic Security (CARES Act) (Public Law 116-136 (March 27, 2020)); and Consolidated Appropriations Act (Public Law 116-260) (December 27,2020); and Section 8071 of the SUPPORT for Patients and Communities Act (Pub L. No. 115-271, October 24, 2018).

State Authorization: 04 NCAC 19L and 04 NCAC 01K

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine whether audit tests are adequate.

Auditors may request documentation for monitoring visits by the State Agencies.

This State compliance supplement must be used in conjunction with the OMB 2026 Compliance Supplement which is scheduled to be issued in May 2026. The OMB supplement will include “Part 3 - Compliance Requirements,” for the types that apply, and “Part 6 - Internal Control.” If a federal Agency issued guidance for a specific program, this will be included in “Part 4 - Agency Program”. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

The Community Development Block Grant (CDBG)/State’s Program and Non-Entitlement Grants in Hawaii (State Administered Small Cities Program) overall objective is to develop viable communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low- and moderate-income. CDBG Coronavirus Aid, Relief, and Economic Security (CARES) Act (CDBG-CV) funds made available under an emergency appropriation on March 27, 2020, are to be used similarly, but must also prevent, prepare for, and respond to coronavirus.

Additional funds were made available under the Further Consolidated Appropriations Act, 2020 for activities authorized under Section 8071 of the SUPPORT for Patients and Communities Act (Recovery Housing Program) to provide stable, temporary housing for individuals in recovery from a substance use disorder. This supplement also includes Neighborhood Stabilization Program (NSP1, NSP3) funds.

This compliance supplement is for State CDBG grantee and their subrecipients. Program regulations may also use the term subgrantee.

II. PROGRAM PROCEDURES

A. Overview

The primary objective of CDBG is to improve quality of life and to develop viable communities. These viable communities are achieved by providing the following, principally for persons of low and moderate income: decent housing; a suitable living environment; and expanded economic opportunities. Each activity, except for program administration and planning activities, must meet one of three national objectives. The three national objectives are: benefit to low-and moderate income (LMI) persons; aid in the prevention or elimination of slums and blight; and meet a need having a particular urgency (referred to as urgent need). This objective is achieved by funding Neighborhood Revitalization projects, which incorporate livability principles that help guide sustainability and resiliency; Rural Community Development projects which promote broad-based community development activities, increase local investment and economic growth and stronger more viable rural neighborhoods; and Economic Development projects which provide grants to local governments for public infrastructure development and renovation/upfitting of vacant industrial and commercial buildings for new and/or expanding business and industry.

To achieve these goals, the State CDBG program’s statutory and regulatory requirements set forth eligible activities and the above national objectives. As recipients of CDBG funds, State CDBG grantees are charged with ensuring that these requirements are met. States are responsible for:

1. Designing the CDBG Program within statutory and regulatory parameters.

2. Setting priorities and deciding what activities to fund.
3. Distributing funding according to the method of distribution.
4. Establishing financial management, recordkeeping, reporting, monitoring, audit and closeout systems for their programs.
5. Ensuring compliance by state grant recipients; and
6. Developing the Consolidated Plan.

Under the annual State CDBG Program, states award grants to non-entitlement units of general local government (UGLGs) that develop and preserve decent affordable housing, provide services to the most vulnerable in their communities, and to create and retain jobs. Annually, each State develops funding priorities and criteria for selecting projects. A state distributes most of its allocation to non-entitlement UGLGs through a method of distribution. Non-entitlement UGLGs are those which do not receive CDBG funds directly from HUD as entitlement grantees. The Grant is primarily a pass-through entity, as defined by 2 CFR part 200, except for certain activities a state may carry out directly, such as administration and technical assistance activities.

Non-entitlement UGLGs are responsible for prioritizing the types of activities they apply for, carry out eligible activities, complying with federal and state requirements, and handling local citizen participation.

The grantee prepares a Consolidated Plan in accordance with 24 CFR part 91 and which describes needs, resources, and priorities, and proposed activities it will undertake for HUD's Community Planning and Development (CPD) formula programs, including CDBG. A final Consolidated Plan is one which has been accepted by HUD. State CDBG grantees report on accomplishments and progress toward Consolidated Plan goals in the Consolidated Annual Performance and Evaluation Report (CAPER).

The method of distribution (MOD) is part of the Consolidate Plan and describes the kind of activities the state wants to fund and a process for soliciting funding applications from UGLGs. The MOD must describe how all CDBG resources will be allocated among funding categories.

Grant Process

The Community Development Block Grant Neighborhood Revitalization Program (CDBG-NR) will offer a non-entitlement municipality or county the opportunity to tailor a project to meet the housing and community development needs specific and most critical to their locality. The CDBG Neighborhood Revitalization Program incorporates several previous Rural Economic Development Division (REDD) Community Development Block Grant (CDBG) programs and activities such as Scattered Site Housing and Supportive Housing. The State's application process is outlined, and the application process is annually and open to all cities and towns in NC that are less than 50,000 in population.

The state makes these funds available through awarding grants to non-entitlement governments throughout North Carolina.

The CDBG-NR program will include a set-aside a certain amount each year for the Rural Community Development Fund (RCDF) projects. These funds will not require a housing-focused activity and are available to the 40 most economically distressed counties (Tier 1) and its municipalities only.

Method of Transferring Funds

The method of transferring funds or reallocating funds follow Bulletin 10-are applied to North Carolina Community Development Block Grant Regulations 4 NCAC 19L, paragraph .0910, Program Amendments, defines changes to the approved application which require prior approval by the Community Investment and Assistance (CI) and procedural requirements for submitting an amendment. Amendments are required if: Budget revisions which change an approved activity budget by more than 10% of the total budget; Cumulative budget revisions in more than one activity which total more than 10% of the total budget. Funds are not transferred between grants; The addition or deletion of an approved activity; Change of location of activities; Change of project area boundaries; Change in scope of treatment of the project needs; Change of 10% or greater in low- and moderate-income beneficiaries of a project activity.

B. Financial and Performance Requirements

Each State CDBG Grantee is required to submit a performance and evaluation report concerning the use of CDBG funds. This required report is the Consolidate Annual Performance and Evaluation Report (CAPER). State CDBG grantees submit the State Performance and Evaluation Report (STATE PER) as a supplement to the CAPER report which specifically address a number of State CDBG regulatory requirements, such as: the public benefit standards; the overall benefit to low-and moderate-income persons; the maximum allowable costs for administration, technical assistances, and overall planning, management and administration; and the maximum allowable costs for public service activities. These requirements may be modified for subprograms. These differences will be reflected in Section III Compliance Requirements G. Matching, Level of Effort and Earmarking below.

C. Subprograms/Program Elements

1. CDBG-CV

Unlike the annual formula program, a state may use its CDBG-CV funds to act directly to carry out activities through employees, contractors, and subrecipients and may use a portion of its funds in all geographic areas within its jurisdiction, including in entitlement areas and Tribal areas.

2. Neighborhood Stabilization Program (NSP1 and NSP3)

The objectives of the Neighborhood Stabilization Program (NSP) are to: (1) Stabilize property values. 2. Arrest neighborhood decline. 3. Assist in preventing neighborhood blight. 4. Stabilize communities across America hardest hit by residential foreclosures and abandonment. These objectives have been achieved through the purchase and redevelopment of foreclosed and abandoned homes and residential properties that allow those properties to turn into useful, safe and sanitary housing. The grants are to be considered CDBG funds. NSP2 and NSP-TA are covered by the Compliance Supplement Assistance Listing 14.256 and audited separately.

3. Recovery Housing Program (RHP)

The objective of the RHP program is to support individuals in recovery from a substance use disorder onto a path to self-sufficiency. By providing stable housing to support recovery, RHP supports efforts for independent living through developing housing or maintaining housing for individuals. States may carry out activities directly or through subrecipients or contractors with their RHP funds and in all geographic areas within its jurisdiction, including entitlement areas and tribal populations.

This pilot program authorizes assistance to grantees (states and the District of Columbia) through fiscal year 2024 to provide stable, temporary housing to individuals in recovery from a substance use disorder through fiscal year 2023.

Source of Governing Requirements for Subprograms

The CDBG program is authorized by the Housing and Community Development Act of 1974, Title I, Section 101-122, Pub. L. No. 93-383, Statute 88,633, 42 US Code 5301-5322 (“HCDA”). Program regulations are found in 24 CFR part 570, primarily in Subpart I. Program specific requirements for administrative costs, pre-agreement costs, fiscal controls and accounting procedures, program income and real and personal property (equipment) and cost principles can be found at 24 CFR 570.489.

In addition to federal statutory and regulatory requirements, a state has the authority to issue rules consistent with federal statutes and regulations. An auditor should review the State CDBG program requirement rules before beginning the audit (24 CFR 570.480 and 570.481).

CDBG-CV is authorized in the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. No. 116-136, March 27, 2020) title 12 of Division B. HUD published a “Notice of Program Rules, Waivers, and Alternative Requirements Under the CARES Act for CDBG-CV Grants, FY 2019 and 2020 CDBG Grants, and for Other Formula Programs” (85 FR 51457, August 20, 2020) (“CDBG-CV Notice”) that establishes the program rules, alternative requirements, and the regulatory waivers for the use of CDBG-CV funds. HUD published a “Notice of Change to an Expenditure Deadline Under the CARES Act for Community Development Block Grant Program Coronavirus Response Grants” (88 FR 23683, April 18, 2023) (“CDBG-CV Notice 2”) to remove one of the regulatory waivers and alternative requirements applicable to the CDBG-CV funds.

NSP1 is authorized by the Housing and Economic Recovery Act of 2008 (HERA) Pub. L. No. 110-289, July 30, 2008). The Dodd-Frank Wall Street Reform and Consumer Protection Act

(Pub. L. No. 111-203, July 21, 2010) authorized additional funding for NSP that is referred to as NSP3.

RHP is authorized in Section 8071 of the SUPPORT for Patients and Communities Act (Pub. L. No. 115-271, October 24, 2018). HUD established the requirements for the RHP program, based on CDBG program requirements, in the “Notice of FY2020 Allocations, Waivers, and Alternative Requirements for the Housing Program” (85 FR 75361, November 25, 2020) (“RHP Program Notice”). Those requirements include waivers and alternative requirements to CDBG regulations and the HCDA for the use of the RHP funds appropriated under the FY 20 Appropriations Act (Pub. L. No. 116-94, December 20, 2019). HUD extended those requirements through the “Notice of Waivers and Alternative Requirements for the Pilot Recovery Housing Program” (86 FR 38496 July 21, 2021) (“RHP Notice 2”) to RHP funds appropriated by the FY 21 Appropriations Act (Pub. L. No. 116-260, December 27, 2020) and any future RHP appropriations.

Availability of Other Program Information

HUD publishes “CPD Notices” which provide interpretive guidance on program requirements.

These Notices may be found at HUD Clips,

https://www.hud.gov/program_offices/administration/hudclips/notices/cpd.

The CPD Notice for financial and performance reporting is CPD Notice 2021-11 Reporting Requirements for the State Performance and Evaluation Report (State PER). This Notice provides instructions on the financial statements used by State CDBG grantees in lieu of SF-425.

State CDBG Website: <https://www.hudexchange.info/programs/cdbg-state/>

CDBG-CV website:

https://www.hud.gov/program_offices/comm_planning/cdbg_programs_covid-19

CDBG-CV Notice 1: <https://www.govinfo.gov/content/pkg/FR-2020-08-20/pdf/2020-18242.pdf>

CDBG-CV Notice 2 <https://www.hud.gov/sites/dfiles/CPD/documents/FR-Document-2023-08158.pdf>

NSP website:

https://www.hud.gov/program_offices/comm_planning/nsp

NSP Notice (73 FR 58330, October 6, 2008): <https://www.govinfo.gov/content/pkg/FR-2008-10-06/pdf/E8-23476.pdf>

NSP1 Bridge Notice (74 FR 29223, June 19, 2009): <https://www.gov.info.gov/content/pkg/FR-2009006019/pdf/E9-14360.pdf>.

NSP Definition and Modification Notice (75 FR 18228, April 9, 2010):

<https://www.govinfo.gov/content/pkg/FR-2-1-09/pdf/2010-8131.pdf>

NSP3 Notice (75 FR 64322, October 19, 2010): <https://www.govinfo.gov/content/pkg/FR-2010-10-19/pdf/2010-26292.pdf>

RHP website: https://www.hud.gov/program_offices/comm_planning/rhp

RHP Program Notice: <https://www.govinfo.gov/content/pkg/FR-2020-11-25/pdf/2020-26017>.

RHP Notice 2: <https://www.govinfo.gov/content/pkg/FR-2021-07-21/pdf/2021-15515.pdf>

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements (Types) for this federal program identified by either the federal or State agency with a “Y” that are subject to the audit. The auditor must determine if the Type noted by “Y” has a direct and material effect on the federal program for the auditee. If the Type is determined to be subject to audit, the auditor must use the OMB 2026 Compliance Supplement, Part 3 and Part 4 (if an OMB supplement is issued) in addition to this State supplement to perform the audit.

If the State determines that the federal requirement does not require testing at the local level or if the State modifies the federal requirements, this is discussed in the supplement under the type of compliance requirement. Auditors are not expected to test requirements that have been noted with an “N.”

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	N	N	Y	Y	N	Y

A. Activities Allowed or Unallowed

States may select those activities that best meet the needs of their communities, in accordance with the national objectives and other requirements of the annual formula CDBG program. States must describe activities in the Consolidated Plan.

To meet a national objective, each activity must: benefit low-and moderate-income families; aid in the prevention or elimination of slums or blight; or meet with 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. The requirements for national objective criteria are contained in 24 CFR sections 570.483 and 570.490.

The requirements for eligible activities are contained in Section 105(a) of the HCDA (42 USC 5305(a)).

1. *Activities Allowed:*

a. Housing Activities

- (1) Housing activities, such as housing counseling in connection with tenant-based rental assistance and affordable housing projects assisted under title II of the Cranston-Gonzalez National Affordable Housing Act [42 U.S.C. 12721 et seq.], energy auditing, preparation of work specifications, loan processing, inspections, tenant selection, management of tent-based rental assistance, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in housing activities assisted under title II of the Cranston-Gonzalez National Affording Housing Act)
- (2) Rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937
- (3) Direct home ownership assistance to facilitate and expand home Ownership among persons of low-and moderate-income
- (4) Payments to housing owners for losses of rental income incurred In temporarily holding housing for the relocated
- (5) Payment for repairs and operating expenses for acquired “in Rem” properties
- (6) Lead-based paint hazard evaluation and removal
- (7) Construction or improvement of tornado-safe shelters for residents of manufactured housing and provision of assistance to nonprofit and for-profit entities for such construction or improvement

b. Other Real Property Activities

- (1) Acquisition of real property
- (2) Disposition of real property acquired under this program
- (3) Clearance, demolition, reconstruction, rehabilitation, and removal Acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings
- (4) Assistance to private, for-profit businesses, when appropriate to carry out an economic development project
- (5) Assistance to public and private entities (including for-profits) to assist micro-enterprises

c. Community Based Development Organization

- (1) Assistance to neighborhood-based nonprofit organizations, local development corporations, nonprofit organizations serving the development needs of communities in non-entitlement areas to

carry out a neighborhood revitalization or community economic development or energy conservation project

d. Other types of activities

- (1) Payment of the nonfederal share for another grant program that is part of the assisted activities
- (2) Assistance to institutions of higher education to carry out eligible activities

e. Planning and Administration

- (1) Planning
- (2) Administrative costs
- (3) Technical assistance to public or private entities for capacity building (exempt for planning/administration cap)

States and non-entitlement UGLGs may have loans guaranteed by HUD through the Section 108 Loan Guarantee program. HUD may guarantee loan funds in an amount no greater than five times the state's most recent annual CDBG grant, less amounts currently guaranteed or due for repayment.

2. *Activities Allowed or Unallowed – CDBG*

- a. CDBG funds may not be used for income payments, which are not included among eligible activities in section 105(a) of the HCD Act. The phrase income payments mean a series of subsistence-type grant payments made to an individual or family for items such as food, clothing, housing (rent or mortgage) or utilities, but exclude emergency payments made over a period of up to three consecutive months to the provider of such items or services on behalf of an individual or family.
- b. The public benefit standards require certain activities to meet a defined public benefit, and prohibit funding of the following activities:
 - (1) General promotion of the community as a whole
 - (2) Assistance to professional sports teams
 - (3) Assistance to privately owned recreational facilities that serve a predominately higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to low- and moderate-income persons
 - (4) Acquisition of land for which the specific proposed use has not yet been identified; and
 - (5) Assistance to a for-profit business while that business or any other business owned by the same person(s)/entity(ies)

is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided by the recipient

The requirements for public benefits are contained in 24 CFR section 570-482(f).

3. *Activities Allowed or Unallowed – CDBG-CV Program*

- a. All eligible State CDBG activities for the annual formula CDBG are allowed; however, all activities must also prevent, prepare for, and respond to coronavirus. In addition, the following modifications apply:
- b. Public Service Activities: The CARES Act and the [CDBG-CV Notice](#) eliminated the fifteen percent limitation on the use of CDBG-CV and 2019 and 2020 federal fiscal year CDBG funds to prevent, prepare for, and respond to coronavirus for public service activities (i.e., those activities set forth in Section 105(a)(8) of the HCDA). The cap is still routinely applied to all other 2019 and 2020 federal fiscal year CDBG-funded public service activities that do not address coronavirus.
- c. Emergency Payments: HUD waived section 105(a)(8) of the HCD Act and 24 CFR 570.207(b)(4) only to the extent necessary to establish the following alternative requirement: CDBG-CV funds may be used to provide emergency payments for individuals or families impacted by coronavirus for items such as food, clothing, housing (emergency rental assistance or mortgage assistance) or utilities for up to six consecutive months. Emergency payments must be made to the provider of such items or services on behalf of an individual or family, and not directly to an individual or family in the form of income payments, debit cards, or similar direct income payments. CDBG-CV grantees and subrecipients must ensure that proper documentation is maintained to ensure that all costs incurred are eligible. Grantees and subrecipients using this alternative requirement must document, in their policies and procedures, how they will determine the amount of assistance to be provided is necessary and reasonable. This waiver is also applicable to 2019 and 2020 federal fiscal year CDBG funds used to prevent, prepare for, and respond to coronavirus.
- d. The requirements for eligible activities are contained in Section III.B.5(f) of the [CDBG-CV Notice](#), Eligible Activities.
- e. All CDBG-CV grantees and subrecipients are required to establish and maintain adequate procedures to prevent any duplication of benefits for assisted activities (as discussed in Section III.B.9. of the [CDBG-CV Notice](#)).
- f. Grantees and subrecipients may use funds to cover or reimburse allowable costs of activities to prevent, prepare for, and respond to coronavirus incurred by the state or locality, including pre-award costs, incurred on January 21, 2020, or later Any pre-award costs expended before that date must be approved by HUD.

- g. A grantee or subrecipients may use CDBG-CV funds to make a direct payment of principal, interest, or any fees due under a Section 108 note only if the use of funds is to prevent, prepare for, and respond to coronavirus.
- h. The requirements for eligible activities are contained in Section III.B.5(f) of the [CDBG-CV Notice](#), Eligible Activities.

https://www.hud.gov/program_offices/comm_planning/cdbg-dr/regulations.

4. *Activities Allowed or Unallowed for NSP (NSP1 and NSP3):*

- a. State Grantees may use NSP1 and NSP3 funds to:
 - (1) Establish financing mechanism for purchase and redevelopment of foreclosed upon homes and residential properties.
 - (2) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon for later sale, rent, or redevelopment.
 - (3) Establish and operate land banks for homes that have been foreclosed upon (Section A of NSP1 Bridge Notice clarified that NSP funds can be used to establish and operate land banks);
 - (4) Demolish blighted structures; and
 - (5) Redevelop demolished or vacant properties.
- b. A grantee must receive written HUD approval to undertake activities other than those listed above. An activity may meet the HERA-established low-and-moderate-income national objective if the assisted activity:
 - (1) provides or improves permanent residential structures that will be occupied by a household whose income is at or below one hundred and twenty percent of area median income.
 - (2) serves an area in which at least fifty-one percent of the residents have incomes at or below one hundred and twenty percent of area median income; or
 - (3) serves a limited clientele whose incomes are at or below one hundred and twenty percent of area median income. An NSP activity may not meet the “prevent or eliminate slums and blight” or “address urgent community development needs” nation objectives.
- c. The requirements for eligible activities are contained in Section 2301(c)(3) of HERA, Section II.H.3.a. of the NSP3 Notice, Section II.A. of the NSP Definition and Modification Notice, and Section 1497(b)(2) of the Dodd-Frank Act. The

requirements for national objective are contained in Section 2301(f)(3)(A) of HERA and Section II. E. of the NSP and NSP3 Notices.

The requirements for public benefits are contained in 24 CFR section 570-482(f).

5. *Activities Allowed or Unallowed for RHP*

RHP activities must provide stable, temporary housing to individuals in recovery from a substance use disorder, for a period of not more than two years or until the individual secures permanent housing, whichever is earlier. The requirements for eligible activities are contained in the RHP Program Notice. The following activities are eligible.

- a. Housing
 - (1) Rehabilitation and reconstruction of single-unit residential buildings and improvements
 - (2) Rehabilitation and reconstruction of multi-unit residential buildings and improvements
 - (3) Rehabilitation and reconstruction of public housing and improvements
 - (4) Expansion of existing eligible activities to include new construction
- b. Other Real Property Activities
 - (1) Acquisition of real property
 - (2) Disposition of real property
 - (3) Clearance and demolition
 - (4) Relocations
- c. Public Facilities and Improvements
- d. Public Services
 - (1) lease, rent, and utility payments as eligible public services
- e. Grant Administration; And Technical Assistance
- f. Grantees may use funds for pre-agreement costs incurred by the State or its recipients or subrecipients if they comply with RHP program requirements such as cost principles and environmental review procedures.

Audit Objective

- 1. Determine whether Federal awards were expended only for allowable activities.

Suggested Audit Procedures

1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
2. When allowability is determined based upon summary level data, perform procedures to verify that:
 - a. Activities were allowable.
 - b. Individual transactions were properly classified and accumulated into the activity total.
3. When allowability is determined based upon individual transactions, select a sample of transactions, and perform procedures to verify that the transaction was for an allowable activity.
4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

B. Allowable Costs/Cost Principles

Grantee shall comply with the Uniform Guidance, which is incorporated in these rules and reference including subsequent amendments and editions. See Program Regulations 4 NCAC 19L Financial Management Systems .0906 (13) and 42 USC 9916(a)(1)(b)). The requirements are found at 24 CFR section 570.489(p) Cost Principles and Prior Approval. All items of costs listed in 2 CFR Part 200, Subpart E, which require prior federal approval are allowable without prior approval, except the following:

1. Depreciation. Prior written approval from HUD is required for depreciation methods for fixed assets.
2. Fines, penalties, damages and other settlements. Not allowed.
3. Goods or services for personal use. Prior written approval from HUD is required for costs of housing (e.g. depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses, regardless of whether reported as taxable income to the employees.
4. Organizational costs. Prior written approval from HUD is required.

Suggested Audit Procedures

1. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. If the local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.
2. *General Audit Procedures (Direct and Indirect Costs)* – The following procedures apply to direct charges to Federal awards as well as charges to cost pools that

are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards.

- a. Test a sample of transactions for conformance with:
 1. The criteria contained in the Uniform Guidance
 2. The principles to establish allowability or unallowability of certain items of cost (Uniform Guidance).
 3. If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.

F. Equipment and Real Property Management

In accordance with Program Regulations 4 NCAC 19L Property Management Standards .0909 3(b) (I) and 3 (b) (ii), grantees must account for the use and disposition of all property acquired with CDBG funds. Nonexpendable personal property with a unit acquisition cost of less than one thousand dollars (\$1,000) may be retained by the grantee for other programs or sold by the grantee without reimbursement to the program budget. Nonexpendable personal property with a unit acquisition cost of one thousand dollars (\$1,000) or more may be retained by the grantee for other uses if compensation is made as program income.

1. 24 CFR 570.489(k) *Accountability for real and personal property*. States are allowed to establish and implement their own requirements governing the use, management, and disposition of real and personal property acquired with CDBG funds. States may adopt 24 CFR 200 or set alternative requirements consistent with State law and 24 CFR 570 subpart 1.
2. 24 CFR 570.489(j) *Change of use of real property*. Change of use of real property requirements for real property within the unit of general local government's control (including activities undertaken by subrecipients) which was acquired or improved in whole or part using CDBG funds in excess of the threshold for the simplified acquisition threshold (24 CFR 200.1). These standards shall apply from the date CDBG funds are first spent for the property until five years after closeout for the unit of general local government's grant from the state.
3. 24 CFR 570.489(j) *Change of use of real property held by beneficiaries*. Change of use of real property requirements are not applicable to real property held by beneficiaries. For example, CDBG grantees and subrecipients are not required to place property liens and other resale/repayment provisions upon housing-related assistance provided to low- and moderate-income households, though some grantees and subrecipients may choose to establish and implement such requirements.
4. For State CDBG and CDBG-CV grantees and subrecipients, the requirements for personal property (equipment) and real property management are contained in 24 CFR section 570.489(j) and (k).
5. *NSP (NSP1 and NSP3)*. NSP grantees that have established and currently operate land banks for homes and residential properties that have been foreclosed upon should have in place a land bank management plan that will facilitate management and eventual disposition of the land bank inventory.

Disposition costs include the “reasonable costs of temporarily managing such property.” HUD interprets this to include ongoing maintenance such as board-up, lawn-mowing, spot repairs, and other related functions that keep the property in a condition that stabilizes the neighborhood. Grantees managing scattered-site properties meeting the CDBG definition of a disposition activity must identify each property as a separate disposition activity in the Integrated Disbursement and Information System (IDIS).

The requirements for real property management for land banks are contained in the Federal Register Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture (77 FR 70799). The requirements for disposition are contained in the definition at 24 CFR 570.201(b).

6. *RHP*. The statutory and regulatory provisions governing the CDBG program shall apply to grantees and subrecipients. For purposes of the RHP program, all references to “unit of general local government: in 24 CFR 570.489(j) shall be read as “sate and unit of general local government.”

RHP funds may be used for disposition through sale, lease, or donation, or otherwise of real property acquired with RHP funds subject to 24 CFR 570.201(b) and section 105(a) (7) of the HCD Act (42 USC 5305(a)(7)), for the purpose of providing stable, temporary housing for individuals in recovery from substances use disorder. Eligible costs may include costs incidental to disposing of the property, such as preparation of legal documents, fees paid for surveys, transfer taxes, and other costs involved in the transfer of ownership of the RHP- assisted property.

Audit Objectives

1. Determine whether the non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.
2. Determine whether disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

Suggested Audit Procedures

1. Test purchases of equipment of \$5,000.00 value or more to determine if they were bought with CDBG funds. If CDBG, CDBG-CV, or RHP funds were used, determine if use of equipment benefited the program.
2. Test all sales of surplus property to determine if any items were purchased with CDBG, CDBG-CV, or RHP funds. If so, trace income generated from sale to assure that receipts were treated as program income for the CDBG program.
3. Obtain entity’s policies and procedures for equipment management and ascertain if they comply with the State’s policies and procedures.
4. Select a sample of equipment transactions and test for compliance with the State’s policies and procedures for management and disposition of equipment.
5. Disposition of Real Property
 - a. Determine real property dispositions for the audit period and ascertain such real property acquired with Federal awards.
 - b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency, which will normally require reimbursement to the awarding agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.

G. Matching, Level of Effort, Earmarking

These requirements are for state grantees only. This does not apply to subrecipients.

Auditors can find data in the PR28 Financial Summary Report. The PR28 Financial Summary Report instructions are found in Notice CPD-21-11, which is available at <https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-11cpdn.pdf>. This includes checklists (Appendix 4 and 5 for annual formula CDBG and Appendix 6 for CDBG-CV) for the review of the reports. Auditors should find a PR28 Financial Summary for each open grant as an attachment to the Consolidated Annual Performance Report (CAPER) which are published at <https://www.hudexchange.info/programs/consolidated-plan/con-plans-aaps-capers/>.

1. Matching

State Administration Limit: A State may use \$100,000 plus 3 percent of funds received. State expenditures over \$100,000 must be matched. The requirements for match are contained in 24 CFR part 570.489(a)(1)(I).

States are required to match the funds used for State administrative costs beyond the first \$100,000 on a one-to-one basis, as further described under III.G.3.b, “Matching Level of Effort, Earmarking – Earmarking” (24 CFR section 570.489(a)(1)). This requirement does not apply to NSP funds (Section 2301(e)(2) of HERA; see Section II.N. of NSP Notice, 73 FR 58337)

2. Level of Effort

Not applicable

3. Earmarking

As identified below, the State CDBG program includes requirements that specify the minimum and/or maximum percentage of CDBG funding that States may use for specific activities. Subprograms may have different requirements, and they are also identified below.

- a. *Overall Low- to Moderate- Income Benefit:* Grantees must expend at least seventy percent of their CDBG grant allocation to benefit low-to moderate income persons on a one-, two-, or three-year basis, as determined by the grantee. Low-income means family or household with an annual income less than fifty percent of the area median income, as established by HUD; median income means family or household with an annual income less than eighty percent of the area median income, as established by HUD. The requirements for overall low- to moderate- income benefit are contained at 24 CFR 570.484(a).
- b. *Overall Planning, Management and Administration Cap:* Planning and administration costs are capped at twenty percent of the sum of grant plus program income that is received during the program year. The requirements for planning, management, and administration cap are contained at 24 CFR 579.489(a)(3).
- c. *Technical Assistance Limit:* Technical assistance costs are capped at 3 percent of the annual grant allocation plus program income received during

the program year. The requirements for technical assistance are contained at 24 CFR 570.48(a)(1)(ii).

- d. *State Administration and State Technical Assistance Limits:* The total amount spent between state administration in excess of \$100,000, and technical assistance cannot exceed 3 percent of the current year's allocation plus program income plus reallocation funds. The state can decide how to allocate the 3% among administration and state technical assistance. The requirements for administration and state technical assistance are contained in 24 CFR 570.489(1)(iii).
- e. *Public Services Cap:* Public services costs are capped at fifteen percent of the annual grant allocation plus program income received during the prior program year. Public Services include a wide range of public service activities that may include but are not limited to those concerned with:
 - (1) employment;
 - (2) crime prevention;
 - (3) childcare;
 - (4) health;
 - (5) drug abuse;
 - (6) education
 - (7) energy conservation.
 - (8) welfare or
 - (9) recreation needs.

Such services must not have been provided by the unit of general local government (through funds raised by such unit or received by such unit from the State in which it is located) during any part of the twelve-month period immediately preceding. The requirements for public service are contained in 105(a)(8) section of the HCDA.

- f. *CDBG-CV:* As identified below, the State CDBG-CV program includes requirements that specify the minimum and/or maximum percentage of CDBG funding that states may use for specific activities.
 - (1) Overall Low- to Moderate- Income Benefit: Grantees must expend at least seventy percent of their CDBG grant allocation to benefit low- to moderate-income persons on a one-, two-, or three-year basis, as determined by the grantee.
 - (2) Overall Planning, Management, and Administration Cap: Planning and administration costs are capped at twenty percent of the sum of the grant.
 - (3) State Administration Limit: A State may use percent of funds received. There is no matching requirement.
 - (4) Technical Assistance: Technical assistance costs are capped at 2 percent of the grant allocation.
- g. *Neighborhood Stabilization Program (NSP1 and NSP3):* For the NSP Program, HUD does not require auditors to review earmarking requirements.

- h. Recovery Housing Program (RHP): As identified below, the RHP program includes requirements that specify the minimum and/or maximum percentage of RHP funding that States may use for specific activities.
 - (1) State Administration Limit: A State may expend up to five percent of funds received. There is no matching requirement.
 - (2) Technical Assistance: Technical assistance costs are capped at three percent of the grant allocation.

Audit Objectives

- 1. *Matching* – Determine whether the minimum amount or percentage of contributions or matching funds was provided.
- 2. *Earmarking* – Determine whether minimum or maximum limits for specified purposes or types of participants were met.

Suggested Audit Procedures

- 1. Test to ensure at least 51% of the CDBG funds benefited low-moderate income persons or meet a national objective as specified in HUD regulations.
- 2. Test to ensure that no more than 17% of the total grant funds are used for administration (based on applicable grant guidelines). For NSP test that no more than 5% funds are used for administration.
- 3. **Matching**
 - a. Perform tests to verify that the required matching contributions were met.
 - b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.
 - c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the Uniform Guidance, program regulations, and the terms of the award.
 - d. Test transactions used to match for compliance with the allowable costs/cost principles requirement. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.
- 4. **Earmarking**
 - a. Identify the applicable percentage or dollar requirements for earmarking.
 - b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).
 - c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.
 - d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to

- identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).
- e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.
 - f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants, and perform tests to verify that they were not of the specified type.

Level of Effort – N/A

J. Program Income

1. *CDBG*. 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 is the gross income received by the grantee and its subrecipients directly from the use of CDBG funds. Per 24 CFR 570.489(e), Program income includes the following:

- a. Proceeds from the sale or lease of property purchased or improved with CDBG funds.
- b. Proceeds from the sale or lease of equipment purchased with CDBG funds.
- c. Gross income from the use or rental of real or personal property acquired, constructed or improved by the grantee (or a subrecipient), less costs incidental to the generation of income.
- d. Payments of principal and interest on loans made using CDBG funds.
- e. Proceeds from the sale of loans or obligations secured by loans made with CDBG funds.
- f. Interest earned on program income pending its disposition (NOTE: interest earned on CDBG funds held in revolving loan funds is not program income and must be remitted to the U.S. Treasury at least annually); and
- g. Funds collected through special assessments on properties not owned and occupied by LMI households to recover the CDBG portion of a public improvement.

Program income does not include income up to \$35,000 (other than receipts from revolving loan funds) received in a single program year by a UGLG and its subrecipients.

Proceeds from the sale of real property purchased or improved with CDBG funds are not program income if the proceeds are received more than five years after

closeout of the grant agreement between the state and unit of general local government.

A Revolving Loan Fund or State Revolving Loan Fund is set up to carry out specific activities. These activities generate payments for use in carrying out the same type of activities. Per the 24 CFR 570.48(f) HUD regulations, Revolving Loan Funds and State Revolving Funds are not traditional loans but should be treated as program income. These funds originate from CDBG allocations. These funds are independent of other program accounts.

Per the 24 CFR 570.489(f) HUD regulations, repayments to the Revolving Loan Fund or State Revolving Fund, including principal and interest, are classified as program income rather than independent revenue. This means they must be reinvested into eligible CDBG activities rather than considered general income. Program Income is subject to CDBG requirements; however, there are exceptions to the definition of program income per 24 CFR 570.489(e) and (f) of HUD regulations, which should be considered.

To account for any program income generated by CDBG, repayments to a Revolving Loan Fund or State Revolving Loan Fund should generally be treated as program income on the Schedule of Expenditures for Federal Awards (SEFA). The requirements for program income for the State CDBG program are contained in 24 CFR section 570.489(e) and (f).

2. *CDBG-CV*

The receipt and expenditure of program income that is generated using CDBG-CV funds is treated as its annual formula program income and recorded as part of the financial transactions of the annual formula CDBG grant program.

Based on this treatment of program income, the use of CDBG-CV funds for float-funded activities or guarantees as described at section 104(h) of the HCDDA is not allowed.

The requirements for program income for the CDBG-CV program are contained in Section III.B.6(a) of the CDBG-CV Notice.

3. *NSP*

NSP revenue received by a state unit of general local government, or subrecipient that is directly generated from the use of CDBG funds (which includes NSP grant funds) constitutes CDBG program income. The CDBG definition of program income shall be applied to amounts received by states, units of general local government, and subrecipients.

Any revenue from the sale, rental, redevelopment, rehabilitation, or any other eligible use of NSP funds is to be provided to and used by the state or unit of general local government. Revenue received by a private individual or other entity that is not a subrecipient is not required to be returned to the state or unit of general local government.

The requirements for program income for the NSP program are contained in 24 CFR 570.500 and Section II.N. of the NSP3 Notice, and Section B of NSP1 Bridge Notice and Sections 2301(c)(3) of HERA.

4. RHP

Program income includes gross income received by subrecipients that was generated from the use of RHP funds.

Program Income excludes any income received and retained by a nonprofit operating within the grantee's jurisdiction whose primary mission includes serving individuals in recovery from substance use disorder. If a grantee chooses to require the nonprofit to return income generated from the use of RHP funds, the income returned by the nonprofit to the grantee would be defined as program income.

Prior to closing out, the RHP grantee must transfer RHP program income and assets to another open RHP grant or to its CDBG program. Program income and assets received by a grantee after closeout of all RHP grants must be transferred to the grantee's annual CDBG award. Once transferred to the annual program, the waivers and alternative requirements that apply to the RHP grant no longer apply to the use of transferred program income. Rather, those funds will be subject to the grantee's regular CDBG program rules.

States must require units of general local government to return RHP program income if it will not continue the originally funded RHP activity. States must treat the funds as program income.

Income generated from the use of RHP funds is subject to 42 USC 5304(j) and 24 CFR 570.489 (c); however, alternative requirements may be found in the RHP Program Notice.

Audit Objective

1. Determine whether program income is correctly determined, recorded, and used in accordance with the program requirements, Uniform Guidance, as applicable.

Suggested Audit Procedures

1. *Identify Program Income*
 - a. Review the laws, regulations, and the provisions of contract or grant agreements applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.
 - b. Inquire of management and review accounting records to ascertain if program income was received.
2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that program income was only collected from allowable sources.

3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.
4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with the program requirements, Uniform Guidance

L. Reporting

1. Financial Reporting

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs*- Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable to State CDBG and State CDBG-CV (see CPD Notice 21-11).

For State NSP and RHP grantees, the SF-425 is provided annually.

- d. For State CDBG and State CDBG-CV the following reports are required:

- (1) *CDBG Annual Formula Grants PR28 Performance and Evaluation (PER) Financial Summary Report* (OMB No. 2506-0085) submitted annually, and
- (2) *CDBG-CV PR28 Grant Financial Summary*, submitted annually.

The PR28 Financial Summary Report instructions are found in Notice CPD-21-11,

which is available at:

<https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-11cpdn.pdf> This includes checklists for the review of the reports (Appendix 4 and 5 for annual formula CDBG and Appendix 6 for CDBG-CV). Auditors should find a PR28 Financial Summary for each open grant as an attachment to the Consolidated Annual Performance Report (CAPER) which are published at <http://www.hudexchange.info/programs/consolidated-plan-con-plans-aaps-capers/>.

2. Performance Reporting

Not Applicable

3. Special Reporting

Not Applicable

4. Special Reporting for Federal Funding Accountability and Transparency Act

See Part 3.L for audit guidance. The Federal Funding Accountability and Transparency Act of 2006, FFATA is applicable to the State CDBG, State CDBG-CV, NSP, and RHP.

Audit Objective

1. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

Suggested Audit Procedures

- a. Performance and special reports
 - (1) Trace the reported data to records that accumulate and summarize data.
 - (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.
 - b. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
 - c. Test mathematical accuracy of reports and supporting worksheets.
2. Test the selected reports for accuracy and completeness.
 - a. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.
 - b. For each type of report—
 - (1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
 - (2) Test mathematical accuracy of reports and supporting worksheets.

N. Special Tests and Provisions

1. Wage Rate Requirements

This applies to all programs.

Compliance requirements: The Wage Rate Requirements apply to the construction and rehabilitation of residential property only if such property contains eight or more units. However, the requirements do not apply to volunteer work where the volunteer does not receive compensation, or is paid expenses, reasonable benefits, or a nominal fee for such services, and is not otherwise employed at any time in construction work (42 USC 5310).

See Part 4, 20.001 Wage Rate Requirements Cross Cutting Section

2. Environmental Oversight

A state must assume the environmental oversight responsibilities and functions of HUD under Section 104(g) of the HCDA (42 USC 5304(g)). A state must:

- a. require each of its units of general local government (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 H.
- c. ensure that each subrecipient observes the statutory requirements that funds cannot be expended or obligated before the state approved 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 adequacy of environmental reviews.

Audit Objectives: Determine whether a state carries out its environmental oversight responsibilities and functions.

Suggested Audit Procedures

- a. Examine the state's program for monitoring and enforcing compliance with the environmental authorities.
- b. Examine the state's approval of the RROF and environmental certification and note dates.
- c. Verify that the state obtained certifications and that the state's records provide evidence that it obligated and expended the funds after the state's approval of the RROF and environmental certification.

3. Environmental Reviews

Compliance Requirements: Activities must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements.

- a. CDBG-CV. HUD's environmental review regulations in 24 CFR Part 58 include two provisions that may be relevant to environmental review procedures for activities to prevent, prepare for, and respond to coronavirus. The first 24 CFR 58.34(a)(10), which provides an exemption for certain activities undertaken in response to a national or locally declared public health emergency. Except for the applicable requirements of 24 CFR 58.6, a responsible entity does not have to comply with the requirements of Part 58 or undertake any environmental review, consultation, or other action under NEPA and the other provisions of law or authorities cited in 24 CFR 58.5 for exempt activities or projects consisting solely of exempt activities. Exempt activities include assistance for temporary or permanent improvements that do not alter environmental conditions that are limited to protection, repair, or restoration activities necessary only to control or arrest the effects from imminent threats to public safety.

The second is a streamlined public notice and comment period in the regulation at 24 CFR 58.33, which may apply in some cases for emergency activities undertaken to prevent, prepare for, and respond to coronavirus. The application of these two provisions following a presidentially-declared or locally-declared public health emergency is discussed in CPD Notice 20-07, Guidelines on conducting

environmental review pursuant to 24 Part 58 for activities undertaken in response to the public health emergency as a result of COVID-19 (August 6, 2020) posted at <https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-07cpdn.pdf>.

- b. NSP (NSP1 and NSP3). A state that carried out NSP activities directly are considered recipients and must assume environmental review responsibilities for the state's activities and those of any non-governmental entity that participates in the project. A state that carries out activities directly must subject the RROF and certifications to HUD for approval (24 CFR 58.4(b)*1), 58.34, and 58.35).
- c. RHP. For RHP activities carried out directly by the state, the state must submit the certification and RROF to HUD for approval.

Audit Objectives: Determine whether the state conducted required environmental reviews and obtained required HUD approvals.

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 the State has 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 58.34 and 58.35.
- d. Verify that states obtained HUD approvals of RROF and environmental certifications for state activities.
- e. Verify that for state activities funds were obligated and expended after HUD approval of state RROFs and environmental certifications. See *Federal Register* notices.

4. Citizen Participation

Compliance Requirements: Prior to the submission to HUD for its annual grant, a grantee must certify to HUD that it has met the citizen participation requirements for grantees in 24 CFR 91.115 and 570.486 for local government/subrecipients, as applicable. The primary goal of citizen participation is to provide residents – especially low- and moderate-income (LMI) residents of the community where CDBG-funded activities will take place- the opportunity to actively participate in the planning, implementation, and assessment of the program and projects.

- a. *CDBG-CV*. HUD issued two waivers to modify citizen participation requirements for consolidated plan substantial amendments for CDBG. The first provided for a minimum of five days for public comments. The second allowed grantees to determine what constitutes reasonable notice and opportunity to comment, given their circumstances, for the 2020 program year. For as long as national or local health authorities recommend social distancing and limiting public gatherings for public health reasons, states, local governments and eligible subrecipients receiving

CDBG, may hold virtual hearings in lieu of in person public hearings to fulfill public hearing requirements. (Section III.B.4. (a)(iii) of the CDBG-CV Notice)

Section III.B.4. (a) of the CDBG-CV Notice applies to all fiscal year 2019 and 2020 annual formula grants, regardless of the use of funds. This section of the CDBG-CV notice describes the program flexibilities provided by the CARES Act related to expedited citizen participation and virtual hearings. Where this section refers to CDBG-CV funds, it applies equally to fiscal year 2019 and 2020 CDBG grants.

- b. *NSP (NSP1 and NSP3)*. HERA provided for supersession of the citizen participation requirement to expedite the distribution of NSP grant funds and to provide for expedited citizen participation. The provisions of 24 CFR 570.485 and 570.486 with respect to the following the citizen participation plan are waived to allow the jurisdiction to provide no fewer than 15 calendar days for citizen comment, rather than 30 days, for its initial NSP submission (Section II.B.4 of the NSP Notice and of the NSP3 Notice).
- c. *RHP*. Section II.H of the RHP Program Notice provides an overview of the grant process and RHP Action Plan requirements. The grantee develops the proposed RHP Action Plan and publishes it in accordance with the grantee's adopted citizen participation plan it has established in accordance with 24 CFR 91.105 (District of Columbia) or 24 CFR 91.115 (states) and the RHP Program Notice

Audit Objectives: Determine whether the CDBG grantee has developed and implemented a citizen participation plan.

Suggested Audit Procedures

- a. Verify that the grantee has a citizen participation plan.
- b. Review the plan to verify that it provides public hearings, publication, public comment, access to records, and consideration of comments.
- c. Examine the grantee's records for evidence that elements of the citizen's participation plan were followed as the grantee certified.
- d. HUD Compliance Reviews. Auditors may consult HUD's Community Planning and Development Monitoring Handbook for the specific compliance review exhibits that HUD uses to determine compliance. The CDBG-DR monitoring exhibits can be found at https://www.hud.gov/program_office/administration/hudclips/handbooks/cpd/6509.2.

5. Rehabilitation Using NSP Fund

Compliance Requirements: Any NSP-assisted rehabilitation of a foreclosed-upon home or residential property shall be completed to the extent necessary to comply with applicable laws, codes, and other requirements relating to housing safety, quality, or habitability, to sell, rent, or redevelopment of such homes and properties. To comply with this provision, a grantee must describe or reference in its NSP action plan amendment what rehabilitation standards it will apply for NSP-assisted rehabilitation (Section 2301(d)(2) of HERA; Section II.I of NSP3 Notice, 75 FR 64333).

Audit Objectives: To determine whether the grantee ensures NSP rehabilitation work is properly completed.

Suggested Audit Procedures

- a. Review of rehabilitation standards established for NSP work.
- b. Verify through a review of documentation that the rehabilitation work is inspected upon completion to ensure that it is carried out in accordance with applicable rehabilitation standards.

6. Section 3

Compliance Requirements: Section 3 is a provision of the Housing and Urban and Development Act of 1968 and is found at 12 USC 1701u. It requires that recipients of certain HUD financial assistance, to the greatest extent possible, provide training, employment, contracting and other economic opportunities for low- and very low-income persons, especially recipients of government assistance for housing, and to businesses that provide economic opportunities to low- and very-low-income persons. Grantees must establish and maintain (or ensure that a subrecipient, contractor, or subcontractor maintains) documentation to demonstrate that works on Section 3 projects meet the definition of a Section 3 worker or Targeted Section 3 worker, at the time of hire or first reporting period. This includes requiring written reports from developers or contractors summarizing the totals for labor hours, including Section 3 worker status. Any information that a grantee enters in IDIS or DRGR must have supporting documentation demonstrating the accuracy of the data. (24 CFR part 75).

Audit Objectives: Determine whether the Grantee is following its own Section 3 policy and procedures by collecting and maintaining adequate records demonstrating Section 3 compliance.

Suggested Audit Procedures

- a. Review the grantee’s Section 3 policy and procedures.
- b. Review a sample of grant agreements and contracts for housing rehabilitation, housing construction, or other public construction projects, to determine if the grantee notified subrecipients and contractors of requirements to maintain or ensure that a subrecipient, contractors of requirements to maintain or ensure that a subrecipient, contractor, or subcontractor maintains adequate records demonstrating Section 3 compliance.

IV. OTHER INFORMATION

- 1. *Revolving Loan Fund and State Revolving Fund*
Refer to Section III. Compliance Requirements J. Program Income above for guidance

The North Carolina General Statutes

- **24 CFR part 91:** Consolidated Plan Regulations and Federal Register Notices.
- **24 CFR 570.480 and 570.481:** Outline the policies and procedures for the Community Development Block Grant (CDBG) program in the United States.
- **Section 105(a):** The Housing and Community Development Act (HCDA)
- **24 CFR section 570-482:** Outlines the eligible activities for Community Development Block Grant (CDBG) funds.

- **Section 2301(c)(3):** The CARES Act defines "qualified wages" for the Employee Retention Credit (ERC).
- **Section 1497(b)(2):** Code outlines the penalties for failure to declare certain articles.
- **Section 2301(f)(3)(A):** Pertains to the Merit System Principles in the U.S. Code
- **24 CFR section 570.489(p):** Outlines the program administrative requirements for Community Development Block Grant (CDBG) funds.
- **24 CFR 570 subpart 1:** Pertains to the State Community Development Block Grant (CDBG) program.
- **24 CFR 570.489(j):** Outlines the administrative and planning costs for Community Development Block Grant (CDBG) funds.
- **2 CFR 200.1:** Provides standardized definitions for key terms used in federal grants and agreements, ensuring consistent interpretation across programs.
- **24 CFR 570.201(b):** Outlines the basic eligible activities under the Community Development Block Grant program.
- **24 CFR 570.48(a)(1):** Pertains to the policies and procedures applicable to various programs authorized under the Housing and Community Development Act of 1974.
- **24 CFR 570.500:** Provides definitions related to the Community Development Block Grant (CDBG) program.
- **42 USC 5304(j):** Pertains to the Statement of Activities and Review under the Community Development Block Grant program.
- **24 CFR Part 58:** Establishes the procedures for environmental reviews conducted by responsible entities under HUD programs, allowing local governments and other entities to assume NEPA responsibilities.
- **24 CFR 58.34(a)(10):** Pertains to assistance for temporary or permanent improvements that do not alter environmental conditions.
- **24 CFR 58.6:** Outlines the other requirements that a responsible entity must comply with in addition to the duties specified in § 58.5.
- **24 CFR 58.34:** Exempt activities.
- **24 CFR 91.105:** Outlines the requirements for a citizen participation plan that local governments must adopt.
- **24 CFR Part 75:** Establishes requirements to ensure HUD-funded projects provide economic opportunities, especially employment, to low- and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968.

Program Acronyms

- **CDBG:** Community Development Block Grant
- **CFR:** Code of Federal Regulation
- **DOB:** Duplication of Benefits
- **DP:** Displaced Person(s)
- **DRGR:** Disaster Recovery and Grant Reporting
- **EA:** Environmental Assessment
- **ECR:** Estimated Cost of Repair
- **EEO:** Equal Employment Opportunity
- **EPA:** Environmental Protection Agency
- **ERR:** Environmental Review Record
- **ESA:** Environmental Site Assessment (Phase 1)

- **FHA:** Fair Housing Act
- **FLSA:** Fair Labor Standards Act of 1938
- **FR:** Federal Register
- **FRN:** Federal Register Notice
- **FWA:** Fraud, Waste, and Abuse
- **G.S.:** North Carolina General Statute
- **HCDA:** Housing and Community Development Act
- **HQS:** Housing Quality Standards
- **HUD:** United States Department of Housing and Urban Development
- **LBP:** Lead Based Paint
- **LEP:** Limited English Proficiency
- **LIHTC:** Low Income Housing Tax Credits
- **LMH:** Low and Moderate Housing
- **LMI:** Low and Moderate Income
- **MID:** Most Impacted and Distressed
- **MWBE:** Minority and Women Owned Business Enterprise
- **NC:** North Carolina
- **NC DOC:** North Carolina Department of Commerce
- **NEPA:** National Environmental Protection Act
- **NOFA:** Notice of Funding Availability
- **OIA:** Office of Internal Audit
- **OIG:** Office of Inspector General
- **PA:** Public Assistance
- **PHA:** Public Housing Authority
- **POA:** Power of Attorney
- **SAM:** System for Award Management
- **SOW:** Scope of Work
- **TA:** Technical Assistance
- **TRA:** Temporary Relocation Assistance
- **U.S.:** United States
- **U.S.C.:** United States Code
- **UGLG:** Unit of General Local Government
- **UN:** Urgent Need
- **VOB:** Verification of Benefits