

**U.S. DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT (HUD)  
COMMUNITY PLANNING AND DEVELOPMENT (CPD)**

**Fiscal Years (FY) 2018 Operating Guidance  
*Section 4 Capacity Building for Community Development  
and Affordable Housing Program (Section 4)*  
*and*  
*Rural Capacity Building for Community Development  
and Affordable Housing Program (RCB)***

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## SECTION I: GENERAL PROCEDURES

For the purposes of these Operating Instructions, the Section 4 and RCB programs will collectively be referred to as the Capacity Building (CB) grantees programs. CB grantees shall comply, and require each of its subrecipients and contractors to comply with the basic requirements (applicable laws, rules, regulations, ordinances, resolutions, permits, and policies of the federal, state, and local governments) of the grant agreement entered into by HUD and the grantees. The operating guidance listed herein does not in any way withdraw or modify any of the terms or conditions of the executed grant agreements or the FY2018 NOFAs.

### A. Federal Administrative Requirements

As stated in the FY2018 NOFAs, the recipients of CB funds shall be subject to the administrative standards and procedures, including, but not limited to:

- 24 CFR 21 “Governmentwide Requirements for Drug-free Workplace (Grants).”
- 24 CFR 24 “Governmentwide Debarment and Suspension (Nonprocurement).”
- 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”
- OMB Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations.”
- The Lead Safe Housing Rule (specifically 24 CFR 35, subparts B, J, K, and R).
- The Lead Disclosure Rule (24 CFR 35, subpart A).
- Executive Orders from the Office of the President implementing various equal employment opportunity and environmental policies.

### B. General Requirements

As required in the FY2018 NOFAs, each CB grantee must comply with certain provisions in order to meet the specific Federal requirements. Below we have highlighted a few provisions.

#### 1. Conflict of Interest

CB grantees must comply and require its subrecipients and contractors to comply with 2 CFR Part 200 conflict of interest regulations, as well as state and local conflict of interest laws, regulations, and policies applicable to public contracts and procurement practices.

#### 2. Code of Conduct

CB grantees must comply and require its subrecipients and contractors to comply with 2 CFR Part 200 regulations on maintaining written standards of conduct that govern employee actions as they relate to awarding and administering contracts. (2 CFR 200.318(c)(1)).

#### 3. Availability of Records and Information

For the purpose of inspecting, auditing, monitoring, and/or evaluating the CB grantee’s performance, or that of its subrecipients and contractors, in meeting their requirements/obligations and compliance with applicable laws, rules, and regulations, the grantee must permit, and must require its subrecipients and contractors to permit, authorized HUD personnel, the U.S. Government, or their authorized agents to inspect

and photocopy all books, accounting records, invoices, receipts, payroll records, personnel records, and any other project data and/or records pertaining to all matters covered in the grant agreement. Such records and information must be made available during normal business hours at a reasonable location, and as often as the officials deem necessary. HUD or U.S. Government officials must be permitted to make excerpts or copies of such records and data that are related in whole, or in part, to the executed grant agreement. HUD must keep any copies of the recipient's data and records in the strictest confidence allowed by law.

#### 4. Certification and Assurance

CB grantees shall complete, and require its subrecipients and contractors to comply with the following provisions, which are also incorporated into the grant agreement:

- a. Application for Federal Assistance – standard form 424
- b. Assurances and Certifications – form HUD 424-B
- c. Disclosure of Lobbying Activities – standard form LLL

#### 5. Copyright

HUD reserves a royalty-free, nonexclusive, and irrevocable license to reproduce, publish, or otherwise use, and to authorize others to use for federal government purposes: (a) the copyright in any work developed under this grant and subaward or contract awarded under this grant agreement; and (b) any rights of copyright to which a recipient, subrecipient or contractor purchases ownership award funds. (2 CFR 200.315).

#### 6. Subawards and Contract Requirements

The process for selecting subrecipients, consultants and contractors must comply with 2 CFR Part 200, as appropriate (including 2 CFR 200.22; 2 CFR 200.92; and 2 CFR 200.330). In addition, CB program funds may not be used, directly or indirectly, to pay or provide reimbursement for payment of the salary of a “high rate” contractor or subrecipient at more than the “unloaded” hourly equivalent of the rate paid for the OPM General Schedule Grade 15, Step 10 (based on the locality of the consultant, contractor, or subrecipient's primary work address), or those with a “loaded” rate greater than \$150 an hour, without prior written approval from HUD. “Fully-loaded” rates are rates that include the wage rate, fringe benefits, and overhead for the contractor or subrecipient as clearly stated in the contract, while “unloaded” rates only include the hourly wage rate.

## 7. Contact Information Updates

CB grantees shall inform the designated Capacity Building grant manager of any changes in contact information, including the organization's name, address, telephone, email, and key personnel. The changes must be documented on an updated SF 424 – except for changes in Action Plan activity staff, which should be updated in the Action Plan activity as submitted in DRGR.

## C. Grant Agreement Amendments

During the course of administering the grant, situations may occur that require a change in original terms of the executed grant agreement.

*Grant Extensions:* An executed amendment to the original grant agreement is required for any extension of the grant agreement termination date. CB grantees shall request approval from HUD for this type of amendment to the executed grant agreement. CB grantees should refer to the *No-Cost Extension Guidance for Capacity Building Grantees* for instructions on requesting a grant extension.

Grantees can request extensions to complete work on an existing Action Plan activity for a period not to exceed one year after the original grant expiration date. When submitting a no-cost extension request, grantees must submit a written request, on the grantee's letter head, signed by the authorized official. Additional documentation and/or explanation may be required. HUD shall review amendment requests and make the determination of approval or denial of the requests.

Extensions of the grant agreement termination date will only be considered on a case-by-case basis and must be submitted no less than thirty (30) days prior to the grant agreement expiration date. In addition, all CB funds must be committed to action plan activities before a grant extension can be considered, and grant extensions cannot be requested to fund new activities. CB grantees may not implement the requested amendment during the time of the amendment review and prior to receiving written approval from HUD. If the grant extension request is approved, grantees are required to update any affected Action Plan activities through the amendment process prior to the original expiration date of the CB grant. During the period of the grant extension, the grantee may not change the scope or scale of Action Plan activities but may make reasonable budget adjustments through the Action Plan activity amendment process.

## SECTION II: PROGRAM SPECIFIC PROCEDURES

CB grantees are required to maintain a system that accurately accounts for and/or fully documents all activities undertaken with Capacity Building funds. Grantees must comply with the following procedures to the maximum extent feasible.

In accordance with the grant agreements, CB grantees are required to manage their grants in HUD's Disaster Recovery Grants Reporting (DRGR) system. DRGR will be used to submit Action Plans, drawdown vouchers, and semiannual performance reports.

### A. Conduct of Work

CB grantees shall submit the following documents and reports to HUD at the times indicated, and in the format prescribed by HUD:

#### 1. DRGR Action Plan Activities

CB grantees shall provide activities in their DRGR Action Plan. In support of developing its Action Plan, CB grantees are directed to review DRGR guidance documents from the DRGR Rollout Guidance or other web based DRGR training materials on the HUD Exchange. Action Plans will be submitted in the DRGR system for HUD review and HUD will follow-up with Action Plan approval or rejection in DRGR. Action Plans and action plan activities must be consistent with the grantee's approved application and any subsequent adjustments approved by HUD in award budget amendment process prior to grant agreement execution or in response to special circumstances (such as demand response to disasters or pandemics). CB grantees must have HUD approval for an activity in its Action Plan before the grantee may commence activity implementation, expenditure of funds, and grant fund drawdown, with the lone exception for needed administrative costs required to build out the initial Action Plan submission.

Grantees may modify an existing approved activity by submitting a revised Action Plan. In line with submitting the revised Action Plan in DRGR, grantees should also inform HUD of the proposed changes in its revised Action Plan through an email to their CB grant manager. This summary email will speed HUD's review of the revised Action Plan, especially when the Action Plan has many activities.

For budget revisions to approved Action Plan activities, HUD advises grantees to adhere to the 10% threshold discussed in 2 CFR 200.308, such that the grantee would need HUD approval for a budget revision in excess of 10% of the approved Action Plan activity budget. Within the 10% budget revision threshold, grantees may move funds between line items in their Action Plan activity as long as the scope and projected accomplishments of the approved activity are not altered. If grantees move funds between line items without exceeding the 10% threshold then grantees should report on this modification in the next performance report submission. Due to the limitations of the DRGR system, any transfer of funds from one activity to another activity will result in a

revised Action Plan and necessitate HUD approval for enactment. Any change to the scope of an activity, even if it is less than a 10% change to the budget, requires an amendment to the Action Plan.

HUD recommends that grantees submit an outline for their Action Plan by 6 months from the grant term start and the entirety of the RCB grant must be committed to approved Action Plan activities before 36 months from the grant term start.

## 2. Performance

CB grantees must constantly monitor their performance to ensure that their schedules are being met, match (Section 4) or leverage (RCB) requirements are being met and applied to activities, projected outputs and outcomes are being accomplished, and other performance goals are being achieved in accordance with the executed grant agreement and approved Action Plan. In addition, all activities must be conducted in compliance with the applicable federal, state, and local requirements.

Problems, delays, or adverse conditions that affect the recipient's ability to meet its objectives, program requirements including match (Section 4) or leverage (RCB) commitments, or its time schedules should be reported to the CB grant manager as soon as determined and in the recipient's semi-annual report. HUD's emphasis is on preventing and correcting problems before they develop into serious obstacles to program implementation and/or completion.

In accordance with the provisions contained in 2 CFR Part 200, HUD reserves the right to terminate any grant, temporarily suspend payments, or to take other actions any time prior to the expiration date of the grant agreement, in the event that a recipient materially fails to comply with any of the terms of the executed grant agreement.

Completion of activities within the grant agreement time period and the timeframes established for each approved action plan activity is extremely important. All activities initiated with the FY2018 CB funds are required to be completed within the FY2018 period of performance. Future activities that take place outside of the FY2018 period of performance cannot be begun or funded with FY2018 CB funds. With prior approval from their CB grant manager, recipients may choose to exercise the right to move unexpended funds from one Action Plan activity to another for reprogramming or to take other steps to ensure timely expenditure of funds for eligible activities.

## B. Reporting Requirements

CB grantees shall submit the following documents and reports to HUD at the times indicated, and in the format prescribed by HUD in the grant agreement. Deviations from these requirements must be approved, in writing, by the CB grant manager. The CB grant manager may also request additional reports and/or documents as deemed necessary during the agreement period.

## 1. Semi-Annual Reports

CB grantees are required to provide semi-annual performance reports. All semi-annual reports will be prepared and submitted in the DRGR system's Performance Report module. Reports will be submitted on a semi-annual basis in conjunction with the Federal fiscal year calendar. The approved Action Plan will set the framework for the semiannual report by creating fields in which the grantee will report on its financials, performance outputs, and accomplishments. Per the requirements of 2 CFR 200.328, the narrative fields provided in the Performance Report module, grantees are expected to provide a succinct description of the work implemented through the DRGR Action Plan activities, a comparison of actual accomplishments to the stated output and outcome projections, the reasons established objectives were not met, and additional pertinent information including explanation of significant cost overruns and delays. Although not a requirement, grantees are encouraged to share success stories and lessons learned within the report narratives as well.

Semi-annual reports will be due 30 calendar days after the semi-annual reporting period end date. This due date and period covered in the semi-annual report will be clearly stated in DRGR's Performance Report module. All semi-annual reports must be approved by HUD. If a semi-annual report is left unapproved or incomplete, the Grantee will be unable to modify its Action Plan.

In addition to reporting financials in the DRGR Performance Report module semi-annual report, grantees have the option to complete the Federal Financial Report (SF-425) within DRGR. The numbers inputted into the SF-425 interface must match the cumulative financial figures in the corresponding DRGR semi-annual report. If the figures do not match, DRGR will alert the grantee of the error and the grantee will need to revise the data inputs accordingly. Completing the SF-425 within DRGR is optional but will be implemented as required beginning September 30, 2020. Instructions will be provided.

2. Federal Funding Accountability and Transparency Act of 2006 (FFATA) Reporting CB grantees of HUD financial assistance are required to report subawards in the federal government wide website [www.fsr.gov](http://www.fsr.gov) or its successor system. Prime award recipients are required to report subawards and executive compensation information both for the prime award and subaward recipients, including awards made as pass-through awards or awards to vendors, where both the initial award is \$25,000 or greater or the cumulative award will be \$25,000 or greater if funded incrementally as directed by HUD in accordance with OMB guidance, as required by the FFATA (Public Law 109- 282). The prime grant recipients will have until the end of the month plus one additional month after a subaward or pass-through award is obligated to fulfill the reporting requirement. A public government web site discloses the use of federal financial assistance through the Federal Subaward Reporting System (FSRS) at [www.fsr.gov](http://www.fsr.gov).

## C. Record-Keeping Requirements

Maintenance of adequate documentation for CB funded activities is critical to the effectiveness and overall performance of the grant. Adequate documentation includes knowing: 1) what

information needs to be collected and why; 2) when that information should be collected (and how often); 3) how the information should be acquired, organized, and stored; 4) how the information should be reported; and 5) the retention period for records.

CB grantees are required to maintain verifiable records on activities undertaken. Project records maintained must document compliance with the CB eligibility criteria specified by HUD or other Federal guidelines (See Section 1 of this guide), as well as state or local policies, as applicable. Therefore, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report.

Hard copies must be available to support reliable internal controls over work performed. All records shall be subject to scheduled and unscheduled reviews by HUD staff.

The following represents specific records to be maintained in a project file:

1. General records

CB grantees shall maintain, and require its subrecipients and contractors to maintain, all administrative and program records required by 2 CFR 200.334 in connection with the provision of activities/services required by the DRGR Action Plan and executed grant agreement. Such records shall include but are not limited to:

- Records providing a full description of each activity undertaken;
- Records demonstrating that each activity undertaken meets the objectives of the Capacity Building program that are listed in the Action Plan activity;
- Records required to determine the eligibility of activities;
- Records showing determination of beneficiary eligibility;
- Records required to verify cost-sharing (match (Section 4) and leverage (RCB));
- Records for program income transactions;
- Records showing the process for contractor or subrecipient selection;
- Records of the contracts with contractors and subrecipients that include, at a minimum, CB related work expected to be performed, the expected performance outputs (deliverables) from that work, the period of performance for the contract, the expected number of hours of work, and the hourly rate of pay to be applied to the CB related work;
- Records required to document the acquisition, improvement, use (whole or part), or disposition of real property acquired or improved with Capacity Building funds;
- Records required to document the physical inventory of equipment acquired, used (whole or part), or disposed of with Capacity Building funds;
- Records documenting compliance with the fair housing, section 504 and equal opportunity components of the Capacity Building program; and
- Other records necessary to document compliance with HUD regulations, and administrative rules.

CB grantees may maintain any additional records that it deems to be appropriate. However, such additional records should not replace any of the Capacity Building program required records.

## 2. Capacity building and technical assistance activities conducted

CB grantees shall maintain project files that include, but are not limited to:

- Procedures for determining and selecting beneficiaries, through the approved activity, including procedures for confirming their eligibility as CB beneficiaries;
- Identification of each beneficiary, set of participants, and/or population to be served (such as beneficiary name, location, any HUD programs that the beneficiary administers, services/programs made available to target population); and
- Detailed description of assessed needs of each beneficiary, set of participants, and/or population to be addressed through project services, the anticipated result/impact of the services to be provided, the timeline for completion of services, the actual services provided, and the actual result/impact of the services provided.
- *Group learning*: For group learning activities, at a minimum, CB grantees shall maintain in the project file:
  - i. Dates and locations of the group learning event;
  - ii. Names and affiliations of the presenters or leaders of the group training event;
  - iii. Activity logs;
  - iv. Sign-in/attendance sheets; and
    - i. Evaluations/surveys, materials, etc.

## 3. Direct financial assistance

CB grantee project files shall include, but are not limited to:

- Procedures for determining the beneficiaries to be assisted, such as the request for proposal, subsequent beneficiary applications, and the application review documentation;
- Detailed description of the actual activity services provided;
- Financial assistance contracts or agreements, supporting documentation for reimbursements, and resulting outputs and outcomes of the investment.
- Loan documents, as applicable; and
- Information regarding the total number of grants and/or loans executed, including type of loan (amortized or deferred), loan amount, average interest rate, and amortization period as applicable.

## SECTION III: FISCAL PROCEDURES

CB grantees must constantly monitor their fiscal performance to ensure that funds are expended in a timely manner and that budgeted expenditures are being effectively used to complete all projects. As a general expectation, CB grants funds should be expended at a rough rate of 25% per year of the four-year period of performance. All activities must be conducted in compliance with the applicable federal and HUD requirements (see Section 1 of this guide) as well state and local policies, as applicable. The performance of all CB grantees will be monitored.

### A. Request for Reimbursement (RFR) process

CB grantees shall submit requests for reimbursement for costs incurred in the performance of the grant using the Drawdown module in DRGR. Grantees will be provided with guidance on submitting bank forms for direct deposit setup in LOCCS and HUD will ensure that the grant award in DRGR is properly associated with the Grantee's LOCCS account.

Costs incurred should be billed no later than the last day of the month following the delivery of assistance/services. All requests for reimbursement must be supported by documentation and maintained in the recipient's office and available for review by HUD upon request. Any missing support documents, signatures or ineligible expenditures may cause the reimbursement to be reduced and trigger the repayment of grant funds.

HUD reserves the right to require that each grantee electronically submit supporting documentation and do so using a standard format.

### B. General Fiscal Policies and Procedures

#### 1. Budget increase

HUD will not increase the overall amount of program funds obligated by the grant agreement. However, program income generated by the recipient, subrecipient, or contractor may increase the amount of funds available to be spent on the project. See program income guidance in Section III.B.5 of this guide, as well as the Federal Administrative Requirements referenced in section 1.A. of this guide for more information.

#### 2. Indirect costs

Indirect costs cannot exceed the grantee's approved indirect costs rate. Allowability of costs shall be determined in accordance with the cost principles for non-profit organizations located at 2 CFR Part 200. Grantees most current approved indirect cost rate proposal must remain on file with HUD.

#### 3. Eligible and ineligible expenditures

CB grantees must maintain proper documentation related to the allocation of FY2018 CB Grant expenditures. CB grantees should rely on the program NOFA, Federal regulations, and OMB guidance to determine eligible and ineligible expenditures. It is not feasible for HUD to develop a detailed list of all eligible and ineligible expenditures for all Capacity Building-funded projects. As a result, questionable expenditures should be referred to the Capacity Building grant manager for review

and decision before the expenditures are incurred. A list of the most commonly questioned expenditures is provided below and contains a determination regarding the eligibility.

- *Fundraising* with CB funds is prohibited, in accordance with 2 CFR 200.442.
- *Issue advocacy or political engagement* with CB funds is prohibited in accordance with 2 CFR 200.450.
- *Construction, development, or housing rehabilitation costs* are not eligible activities with CB funds. CB funds may be used to build the capacity of eligible beneficiaries to be able to engage in construction, rehabilitation, or development work, but the funds cannot be used to directly fund those activities.
- *Food and meals*. Food is considered an entertainment cost (2 CFR 200.438) and is an ineligible expense, except when submitted for reimbursement per staff person or trainer, in lieu of per diem during official travel with prior approval through the action plan activity approval process and the amount is less than the per diem rate. Alcohol is an ineligible expenditure.
- *Supplies and Equipment*. Supplies less than \$5000, and Equipment of more than \$5000 are only allowed when the grantee clearly demonstrates that they directly support the capacity building activities for eligible beneficiaries. . In some cases, with prior HUD review and approval documented through the action plan activity process, certain administrative supplies or equipment may be allowed if they are determined to be reasonable costs (2 CFR 200.404) and are necessary for the administration of the award and execution of eligible activities.
- *Travel expenses*. Travel costs related to the provision of eligible capacity building activities are allowable, with prior review and approval from HUD, and must follow the regulations set at 2 CFR 200.474, must be within federally established per diem rates, and must meet the requirement of reasonableness at 2 CFR 200.404.
  - i. *Activity provision related car rentals*: Car rentals may be allowed during official travel to conduct eligible activities with eligible beneficiaries, but grantees must choose the basic least expensive option, and car rental insurance or other add-ons are considered ineligible costs. Also refer to 41 CFR 301-10.450 for guidance on what is considered reasonable costs related to travel, and for how to provide additional justification when exceptions are needed (for example, if the terrain or weather in a location justifies the rental of a four-wheel drive vehicle for safety).

#### 4. Allocation of Expenditures.

For CB grantees that operate multiple federal programs, or have more than one funding source, the grantee shall allocate expenditures to the various programs or funding sources according to an approved cost allocation plan, without duplication of costs.

CB grantees must maintain proper documentation related to the allocation of expenses (i.e., time cards, time summaries, square footage measurements, etc.), relevant to their FY2018 CB grant award.

Action Plan activities must be allocated to the single FY2018 CB grant award, and activities planned with the FY2018 CB grant must be completed within the FY2018 CB Period of Performance, and cannot overlap with another CB grant award.

5. Audits during the agreement period

- a. Any CB grantee that expends in excess of \$750,000 in Federal assistance are required to have an A-133 Single Audit conducted by an independent auditor.
- b. HUD, at its sole discretion, may conduct an annual review of any such third-party audit(s). Grantees shall fully cooperate with any such annual review by providing HUD with all documentation associated with any such third-party audit(s) within fourteen (14) calendar days, unless otherwise specified by HUD.

6. Program income

Program income is defined by 2 CFR Part 200 as any gross income received by the recipient that was directly generated from the use of Capacity Building program funds. Any program income derived as a result of the grant shall be added to funds under the agreement for additional activities eligible for assistance under the grant agreement. Grantees must identify the use of program income in an Action Plan activity and must report the generation of program income in the scheduled performance and financial reports.

Grantees and subrecipients must use program income on hand for immediate expenses before drawing down additional funds. Program income must not be accumulated or held in an abeyance while the grantee draws down funds from its line of credit.

### C. Financial Management Systems

CB grantees must comply with the following standards for financial management systems described in the 2 CFR Part 200:

- Accurate, current, and complete disclosure of the financial results of each project;
- Ability to produce financial reports for the administration of the CB program;
- Records that adequately identify the source and application of funds for Capacity Building activities. These records must contain information pertaining to the Federal award, authorizations, obligations, match and/or leverage fund contributions, unobligated balances, assets, outlays, income, and interest;
- Comparison of outlays with budget amounts for each award;
- Effective control over and accountability for all funds, property and other assets. Grantees must adequately safeguard all such assets and assure they are used solely for authorized purposes;
- Written procedures to minimize the time elapsing between an advance of funds and the issuance or redemption of checks for program purposes by the grantee;
- Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of federal cost principles and the terms and conditions of the award; and

- Accounting records including costs accounting records that are supported by source documentation.

#### D. Accounting Records

Detailed accounting records are required for all transactions related to the FY2018 CB grant funds and cost sharing (match for Section 4 and leverage for RCB) without commingling with other projects or funding. CB grantees must keep all accounting reports and supporting documents safely secured and available for monitoring or audit upon notice.

### SECTION IV: MONITORING

At HUD's discretion, HUD shall periodically monitor the records and program performance of grantees. Remote monitoring will be conducted, as well as onsite monitoring reviews of the grantee, subrecipient or contractor to observe operations and meet with staff.

### SECTION V: CLOSEOUT

Closeout of the Capacity Building Grants shall be subject to the terms of the Grant Agreement and closeout regulations at 2 CFR 200.344 regulations