**CHAPTER 33**

**CAPACITY BUILDING FOR COMMUNITY DEVELOPMENT AND**

**AFFORDABLE HOUSING GRANTS (SECTION 4)**

33-1 APPLICABILITY. This Chapter provides comprehensive guidance for monitoring the Capacity Building for Community Development and Affordable Housing Grants (Section 4) Program. The Section 4 Capacity Building Program was authorized by Section 4 of the HUD Demonstration Act of 1993. The Section 4 program was designed to enhance the capacity and ability of community development corporations (CDCs) and community housing development organizations (CHDOs) to carry out affordable housing and community development activities that benefit low- and moderate-income families. Funds are awarded competitively on an annual basis through a Notice of Funding Availability (NOFA) selection process conducted by HUD and grant awards have a 48-month performance period. Section 4 funds are awarded to eligible National Non-Profit Organizations; these eligible organizations are listed each year in the program NOFA. Note that, throughout this Chapter, the following terms are used interchangeably when referring to RCB grant awardees: program participant, recipient, non-Federal entity; grantee.

Section 4 grant recipients receive funds to implement projects within the following three eligible activity categories:

1. Training, education, support, and advice to enhance the technical and administrative capabilities of CDCs and CHDOs.
2. Loans, grants, predevelopment assistance or other financial assistance to CDCs and CHDOs to carry out community development and affordable housing activities that benefit low-income families.
3. Such other activities as may be determined by the grantees in consultation with the Secretary.

33-2 PREPARING FOR MONITORING. The HUD reviewers will be required to check the following program requirements and files prior to conducting the monitoring. This pre-monitoring preparation helps to ensure that the time available for monitoring is used efficiently.

Grant agreements signed before December 19, 2014 (FY 2014 awards and prior) are subject to the 24 CFR Part 84, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*, in addition to the following three Office of Management and Budget (OMB) Circulars:

* A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*,
* A-122, *Cost Principles for Non-Profit Organizations*, and
* A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Grant agreements signed after December 19, 2014 (FY 2015 moving forward) are subject to the uniform administrative requirements, cost principles, and audit requirements in 2 CFR Part 200. The Uniform Requirements supersedes, consolidates, and streamlines requirements from 24 CFR Part 84 and the three OMB Circulars listed above.

In addition to the change in governing regulations, the Section 4 grants management process has also changed. For awards made in FY 2014 and prior, Section 4 recipient files are received as paper submissions and Federal fund drawdowns are conducted through eLOCCS (Line of Credit Control System). For awards made in FY 2015 and moving forward, Section 4 recipient grant files will be received and funds drawn in the Disaster Recovery Grant Reporting (DRGR) system.

Prior to the monitoring, the HUD reviewer should access the following Section 4 program files:

* Executed Grant Agreement(s),
* Work Plans or DRGR Action Plan,
* NOFA(s) for applicable grant years,
* Semi-Annual and Annual Report Submissions,
* eLOCCS and DRGR Drawdown Records, and
* Applicable Section 4 Program Guidance and Notices.

33-3 MONITORING APPROACH, RISK ANALYSIS, AND SAMPLING. Reviewers are directed to follow the instructions in Chapter 2 for monitoring preparation, implementation, and follow-up, with the exception of the risk analysis section.

Based on when the Section 4 grants awards were made during the calendar year, a given program participant may have five or more awards from different fiscal years open at once. Reviewers will use the following steps during the pre-monitoring phase to assess risk and identify the Section 4 recipients and documents that will be selected for monitoring.

1. Identify the Section 4 recipients to be monitored. If all Section 4 program recipients will not be monitored, select recipients using the following risk criteria:
2. Number of open Section 4 awards,
3. Number of subrecipients receiving grants or loans from the Section 4 awardee,
4. Years since last HUD monitoring, and
5. Expenditure rate for open Section 4 awards.
6. Identify the Specific Fiscal Years awards that will be reviewed.
7. Gather a list of HUD-approved work plans or DRGR activities for each Fiscal Year award.
8. Select 2 or 3 work plans or DRGR Activities from each Fiscal Year award included in the monitoring (see step b). If all work plans or DRGR activities in a specific Fiscal Year award are not reviewed, use the following risk criteria to prioritize the selection process (for each criterion below a higher value response equals greater risk):
9. Federal Funds budgeted to the work plan or DRGR activity,
10. Number of subrecipient grant awards or loans projected,
11. Ratio of match or leverage funds committed relative to the Federal Funds budgeted, and
12. Extent of service area targeted.

The reviewer may consider adding additional documents to his or her selection, if the reviewer has reason to believe there is a specific concern or there is a need to gather additional information about the recipient’s program management policies and procedures.

33-4 STRUCTURE AND PURPOSE. This Chapter contains six Exhibits for monitoring compliance with the applicable Fiscal Year regulations and requirements:

* Grant and Subrecipient Management,
* Match and Leverage Contributions,
* Financial Management,
* Cost Allowability,
* Procurement, and
* Equipment Management.

The last four exhibits in this Chapter will only be used for awards made before December 19, 2014 (FY 2014 awards and prior) and, therefore, subject to 24 CFR Part 84 and the OMB Circulars. For awards made after December 19, 2014, and, therefore, subject to the 2 CFR Part 200, Exhibits 34-1 through 34-5 in Chapter 34 of this Handbook replace the last four corresponding Exhibits in this Chapter.

Exhibits 33-1 and 33-2 in this Chapter are applicable to all awards as they are subdivided into questions applicable to the 24 CFR Part 84 and OMB Circulars and questions applicable to the 2 CFR Part 200.

The Exhibits should be used to monitor selected grants as dictated by the risk analysis results. HUD reviewers will need to ensure the program citation, which makes the funds subject to specific requirements, is cited, if deficiencies are identified, along with the applicable OMB Circular, 24 CFR Part 84, or 2 CFR Part 200, citation (e.g., 24 CFR 84.41 or 2 CFR 200.321). Note also that the terminology used to reference the entities receiving the Federal awards mirrors the language in 2 CFR Part 200. “Recipient” is the entity that directly receives the Federal funds, e.g., program participant or grantee, and “subrecipient” is the entity that receives funds through the recipient or other pass-through entity (see §§200.74, 200.86, and 200.93).

33-5 DOCUMENTATION. Recipients are required to maintain records that fully demonstrate compliance with applicable requirements. Monitoring documentation obtained by the HUD reviewer becomes part of HUD's official files and also becomes an administrative record to support the need for corrective and remedial actions.