

**US DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT (HUD)  
COMMUNITY PLANNING AND DEVELOPMENT (CPD)**

**SECTION 4 AND RURAL CAPACITY  
BUILDING (CB) FOR COMMUNITY  
DEVELOPMENT AND AFFORDABLE  
HOUSING PROGRAMS**

**Fiscal Year 2016 Operating Guidance**

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## SECTION I: GENERAL PROCEDURES

Capacity Building (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.

### A. Federal Administrative Requirements

The recipients of Capacity Building (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

Each CB grantee must comply with the following provisions in order to meet the specific Federal requirements.

1. Subawards and Contract Requirements  
The process for selecting subrecipients and contractors must comply with 2 CFR Part 200, as appropriate.
2. Conflict of Interest  
CB grantees must comply, and require its subrecipients and contractors to comply with 2 CFR Part 200 as appropriate as well as state and local conflict of interest laws, regulations, and policies applicable to public contracts and procurement practices.
3. Code of Conduct  
CB grantees must comply, and require its subrecipients and contractors to comply with 2 CFR Part 200, by maintaining written standards of conduct that govern employee actions as they relate to awarding and administering contracts.

4. 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 aforementioned 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.

5. Religious Control or Influence

CB grantees must ensure that all activities undertaken pursuant to the executed grant agreement are free of religious control or influence, and that no monies, property, materials or services that are provided under the grant agreement are applied to religious establishment or purpose.

6. 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

7. 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.

8. 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 work plan or staff, which should be updated in the work plan.

## C. Grant Agreement Amendments

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

Grantees can request extensions to complete work on an existing work plan for a period not to exceed one year after the original grant expiration date. When submitting a no-cost time extension request, grantees must submit a written request, on the grantee's letter head and signed by the authorized official. Additional items and/or information may be required depending on the type of amendment request. 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 exception basis and must be submitted thirty (30) days prior to the grant agreement expiration date. CB grantees may not implement the requested amendment during the time of the amendment review and prior to receiving written approval from HUD.

## 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.

New for FY2016 Capacity Building grant awards, grantees will be required to manage its grant award in HUD's Disaster Recovery Grants Reporting (DRGR) system. DRGR will be used to submit Action Plans (new mechanism for work plan), drawdowns, and semi-annual 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 (formerly Work Plans)

CB grantees shall prepare projects and 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 Package 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 an Action Plan approval or rejection.

DRGR Action Plan activities will take the place of the paper work plans utilized in past CB grant award years. CB grantees must have an activity in its HUD approved Action Plan before the Grantee may commence activity implementation, expenditure of funds, or grant fund drawdown.

Specific guidance on the elements of the DRGR Action Plan is discussed in the *DRGR Action Plan Module Guide* included in the DRGR Rollout Guidance Package. HUD has also issued the *Work Plan Guidance*, which provides specific expectations for the contents of a capacity building work plan. HUD will continue to utilize the *Work Plan Guidance* for DRGR and has provided instruction in the *DRGR Action Plan Module Guide* on how the work plan components will be made a part of the Action Plan.

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 inform HUD of the 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.

## 2. Performance

CB grantees must constantly monitor their performance to ensure that their schedules are being met, projected outputs 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 shall affect the recipient's ability to meet its objectives or its time schedules should be reported to the CB grant manager as soon as determined or 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 award, 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 in the approved action plan activity is extremely important. 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 to another activity 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 QPR 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 semi-annual 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 QPR module, grantees are expected to provide a succinct description of the activities undertaken through the DRGR activities (work plans), a comparison of actual accomplishment to the objectives indicated in the approved application and/or work plan, the reasons for slippage if established objectives were not met, and additional pertinent information including explanation of significant cost overruns and delays, in addition to sharing success stories and lessons learned .

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 started in DRGR's QPR 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 QPR module semi-annual report, grantees are required to complete and submit as an attachment the Federal Financial Report (SF-425). The numbers inputted into the SF-425 must match the cumulative financial figures in the corresponding DRGR semi-annual report. If the SF-425 does not match DRGR, then HUD will ask the grantee to revise and re-submit the SF-425.

### 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.fdrs.gov](http://www.fdrs.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.fsrs.gov](http://www.fsrs.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 Part 200 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 work plan;
- Records required to determine the eligibility of activities;
- Records required to verify cost-sharing (match and leverage);
- Records for program income transactions;
- 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 the organizations, participants, and/or population to be served through the approved project;
- Identification of each organization, set of participants, and/or population to be served (such as name, location, HUD program that participant administers, services/programs made available to target population); and
- Detailed description of assessed needs of each organization, 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.

3. Direct financial assistance

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

- Procedures for determining the clients to be served through the approved DRGR Action Plan;
- Detailed description of the actual activity services provided;
- 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.

4. Group learning

For group learning activities, CB grantees shall maintain in the project file:

- Activity logs;
- Sign-in/attendance sheets; and
- Evaluations/surveys, materials, etc.

## 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. 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 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.

### 3. Eligible and ineligible expenditures

CB grantees should rely on the program NOFA, Federal regulations, and OMB guidance to determine eligible and ineligible expenditures. It is not possible for HUD to develop a detailed list of all eligible and ineligible expenditures for all Capacity Building-funded projects. The following basic guidelines are applicable to all recipients and shall serve to facilitate decisions in regard to the eligibility of expenditures. In the event of uncertainties, anticipated expenditures should be referred to the Capacity Building grant manager for review and decision, before the expenditures are incurred.

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.

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

4. 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 any and all documentation associated with any such third-party audit(s) within fourteen (14) calendar days, unless otherwise specified by HUD.
  
5. 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 a work plan, and must report the generation of program income in the scheduled performance reports.

Grantees and subrecipients must use program income on hand for immediate expenses before drawing down additional funds. Program income cannot be banked or held in an account with no use 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;
- 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, unobligated balances, assets, outlays, income, and interest;
- 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;
- Comparison of outlays with budget amounts for each award;
- 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 grant 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. HUD Capacity Building staff will review the relevant administrative and financial records of the organization to monitor and evaluate a grantee's, subrecipient's and/or contractor's performance of its duties and obligations set forth in the executed grant agreement, work plans and performance reports. HUD will review to confirm the completion of project activities and/or delivery of services.

A written record of all monitoring visits will be prepared and provided to the CB grantee following a monitoring visit. In addition, any concerns and/or findings identified will be discussed with the grantee, along with recommendations and/or requirements for compliance with program requirements.

## SECTION V: CLOSEOUT

Close-out of the Capacity Building Grants shall be subject to the terms of the Grant Agreement and 2 CFR Part 200, as applicable and detailed in the forthcoming Closeout Instructions for Capacity Building grants. In compliance with the Closeout Instructions, Grant Agreement, and 2 CFR 200, grantees shall submit, no later than 90 days following the last day of the performance period or at the completion of the award, whichever is sooner, all closeout documentation and forms for HUD review. Once HUD approves a grantee for closeout then HUD will provide a grant closeout agreement detailing the terms of closeout, any funds to be repaid, and the grantee's obligations for file management post award and applicability for audits and monitoring.