



# CDBG Policy & Procedures Manual

City of Santa Clara

Housing and Community Services Division

The Community Development Block Grant (CDBG) is funded and regulated at the federal level by the U.S. Department of Housing and Urban Development (HUD) and administered locally by the City of Santa Clara under the auspices of the Community Development Department. The CDBG Program is authorized under Title I of the Housing and Community Development Act of 1974. The regulations implementing the CDBG Program are located in the 24 CFR, Part 570.

# TABLE OF CONTENTS

- I. General ..... 1
  - A. Funding ..... 1
  - B. National Objectives..... 1
  - C. Eligible Activities ..... 2
  - D. Ineligible Activities ..... 2
  - E. Budget and Funding Cycles..... 3
  - F. Program and Administrative Requirements..... 3
  - G. Definitions..... 4
- II. Method of Distribution..... 6
  - A. Allocations..... 6
  - B. Benefit to Low-and Moderate Income Clientele/Households (LMC)..... 7
  - C. Low- and Moderate-Income Limited Area Activity Criteria (LMA)..... 7
- III. ADMINISTRATIVE PROVISIONS..... 8
  - A. Environmental Review ..... 8
  - B. Written Agreement with City..... 8
  - C. Post-Award Responsibilities..... 8
  - D. Federal Requirements..... 8
  - E. Insurance Requirements..... 9
- IV. Financial Management..... 9
  - A. Internal Controls ..... 9
  - B. Accounting Records ..... 9
  - C. Allowable Costs..... 10
  - D. Source Documentation ..... 11
  - E. Budget Controls & Cash Management ..... 12
  - F. Financial Reporting ..... 12
  - G. Audits ..... 13
- V. Budget Management..... 14

The Community Development Block Grant (CDBG) is funded and regulated at the federal level by the U.S. Department of Housing and Urban Development (HUD) and administered locally by the City of Santa Clara under the auspices of the Community Development Department. The CDBG Program is authorized under Title I of the Housing and Community Development Act of 1974. The regulations implementing the CDBG Program are located in the 24 CFR, Part 570.

A.	General Budget Information .....	14
B.	Budget Revisions .....	17
C.	Records .....	17
D.	Expenditures .....	18
E.	Program Income.....	20
VI.	Quarterly Reimbursements .....	21
A.	General Programs and Public services.....	21
B.	Spending Requirements.....	22
C.	Documentation .....	22
D.	Mileage and Travel.....	23
E.	Telephone Expenses .....	24
VII.	Monitoring Process .....	24
A.	Quarterly Activity Reports .....	24
B.	Desk Monitoring .....	25
C.	Client Documentation by Subrecipient.....	26
D.	file organization and maintenance .....	26
VIII.	Procurement and Contracting – Procedures.....	27
A.	Equipment Procurement .....	27
B.	Inventory Instructions.....	27
C.	Procurement Definitions.....	28
D.	Subcontracts .....	29
E.	Review of Subcontracts by City.....	29
F.	Required Subcontract Documentation .....	30
G.	Types of Subcontracts Covered Under This Section .....	31
H.	Types of Subcontracts Not Covered Under This Section .....	31
I.	2 CFR PART 200 215.42 – CODE OF CONDUCT .....	31
J.	2 CFR PART 200.112 – CONFLICT OF INTEREST .....	32
IX.	Project Close-Out.....	32

The Community Development Block Grant (CDBG) is funded and regulated at the federal level by the U.S. Department of Housing and Urban Development (HUD) and administered locally by the City of Santa Clara under the auspices of the Community Development Department. The CDBG Program is authorized under Title I of the Housing and Community Development Act of 1974. The regulations implementing the CDBG Program are located in the 24 CFR, Part 570.

A.	Programmatic Close-Out.....	32
B.	Financial Close-out.....	32
C.	Equipment Disposition.....	33
D.	Real Property Disposition .....	34
E.	Record Retention .....	34
F.	City Internal Audit Reviews.....	34
G.	External Audit Reviews .....	35
X.	Monitoring Plan.....	35
A.	Risk Management .....	36
B.	Risk Level Criteria.....	36
C.	Levels of Monitoring .....	38
D.	Administration Process for Monitoring .....	39
E.	Findings, Concerns, and Noncompliance.....	40
F.	Record Keeping .....	41
XI.	CDBG Monitoring Manual .....	41

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## I. General

### A. Funding

The Federal Omnibus Budget Reconciliation Act of 1981 provides for local administration of Community Development Block Grant (CDBG) Program. The City's Consolidated Plan (ConPlan) and Annual Action Plan (AAP) set forth the policies and procedures governing the City's management and use of these funds. In addition to these guidelines, program participants must comply with federal regulations contained in Title 24 of the Code of Federal Regulations (CFR), Part 570, Subpart I; 24 CFR, Part 58; and 2 CFR, Part 200. In the event that Congress adds or amends any requirements concerning the use or management of these funds, grantees shall comply with such requirements upon receipt of notice from the Department of Housing and Urban Development (HUD) of the additional requirements. See 24 CFR 570.480 for additional general provisions.

### B. National Objectives

The City of Santa Clara's ("City") objectives for this program are in accordance with HUD's National Objectives that seeks the development of a viable communities by complying with one of three National Objectives:

1. *Benefit to low-and moderate-income (LMI) households and/or persons;*

Activity must be carried out in an LMI area (LMA) or community and provide services for such persons such as water, sewer and storm water projects which provide area-wide benefits to LMI persons. The LMI documentation is done by using census data or by conducting an income survey which shows 51% or more of the persons in the project area are defined as being LMI.

In some instances, the project may qualify under limited clientele criteria (LMC). These are typically projects that serve a specific group of people in a community, but not necessarily the entire community. Example of LMC projects include senior centers or projects that benefit the homeless.

2. *Prevention and/or elimination of slum and blight; or*

Public and/or private facilities requiring improvements that aid in the prevention or elimination of slums or blighted conditions in a designated slum/blight area. Such projects would include sidewalk repairs, façade improvements, etc. Improvements could also be for a single downtown building not located in a blighted area, and in such case, the project would qualify under the Spot Basis. Spot Basis projects are typically historic preservation projects.

3. *Urgent Needs Project.*

If the improvement corrects a CDBG-defined urgent situation.

### C. Eligible Activities

Examples of eligible activities include, but are not limited to:

1. Public Services
2. Public facilities improvements
3. Infrastructure improvements
4. Economic development projects
5. Acquisition
6. Historic preservation
7. Planning activities
8. Grant administration

### D. Ineligible Activities

Examples of ineligible activities include, but are not limited to:

1. Buildings for the general conduct of government, except to create accessibility for disabled population (e.g., city hall),
2. General government expenses,
3. Political activities,
4. Purchase of equipment or furnishings for a property. This includes certain types of manufacturing equipment connected with economic development activities and the purchase of fire trucks as firefighting equipment,
5. New housing construction and Income Payments. Income Payments are defined in the regulations as direct payments to subsidize rent and/or utilities,
6. Operating and maintenance expenses for public facilities, improvements and services, and
7. Lobbying activities.

## E. Budget and Funding Cycles

Every 2-3 years, the City of Santa Clara invites applications from qualified entities (i.e., Subrecipients) to apply for federal funds through the Notice of Funding Availability (NOFA) process to undertake projects and activities that are consistent with locally developed CDBG Program Priorities and to address the federal/local ConPlan and AAP objectives.

Pursuant to Section 104(a)(1) of the Housing and Community Development Act of 1974, as amended, the City shall annually prepare a statement of community development objectives and projected uses of funds (i.e., AAP). The AAP shall be made available to the public for 30 days to allow for public comment and shall conduct no less than two public hearings on its contents. One of the hearings must be during the drafting stage of the AAP.

Agencies that receive a CDBG grant must have the needed support, confirm matching resources (if required), sufficiently developed plans, a program site, and a budget to implement their proposed program soon after funding approval. The City has developed the standard to keep programs on track and to ensure that the activity is carried-out in a timely manner.

The City, as approved by HUD, provides CDBG funds for ***Public Service (Including Neighborhood Improvement Grants)*** and/or ***Non-Public Service (Infrastructure and Economic Development)***.

***Public Services:*** Our Public Service partners and subrecipients use these funds to provide services to low and moderate-income clients. HUD regulations place a 15% cap on the amount an entitlement agency may allocate towards Public Service programs. The annual Public Service Cap is calculated in the following manner: [Annual Entitlement X 15%] + [Prior Year's Program Income X 15%] All public services must be delivered to low or moderate-income residents of the City of Santa Clara.

***This manual will explain many of the procedures and policies relating to the CDBG program and lay out the process by which the staff will monitor subrecipients' performance.***

## F. Program and Administrative Requirements

All program administrators, applicants, and grantees must adhere to all federal program statutes, regulations, HUD guidance notices and policy memoranda, Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Additionally, administrators, applicants, and Grantees must adhere to all local codes and regulations, ordinances and laws, and all CDBG Monitoring Manual requirements, regulations, statutes, award letters, Standard Agreements, and all state and federal requirements to affirmatively further fair housing.

## G. Definitions

The following terms used in this Plan are defined below.

1. **Act:** title I of the Housing and Community Development Act of 1974, 42 U.S.C. 5301 et seq., as amended.
2. **Activity:** Any single eligible undertaking carried out as part of an applicant's program under the City's CDBG program.
3. **Agreement:** The contractual arrangement between the City and the subrecipient which sets for the terms and conditions by which CDBG funds are utilized.
4. **Annual Action Plan or "AAP":** The annual plan required by the Act that describes the actions, activities, and resources to be used each year to address the priority needs and specific goals identified by the 5-Year Consolidated Plan, including the method of distribution of funds.
5. **Applicant:** Any eligible agency, organization, non-profit that applies for funds.
6. **Area Median Income or "AMI":** means the median family income for specific geographic areas, adjusted for household size, as calculated by United States Department of Housing and Urban Development (HUD), and published annually by the State of California Department of Housing and Community Development (Department).
7. **Award Letter:** The letter or email sent from the City indicating that the application has been conditionally approved for funding.
8. **Beneficiary:** The person(s), entity (ties), household(s), or organization(s) benefiting from the activity, project or program, e.g., a homeless individual, a low-income family.
9. **CDBG:** The acronym for Community Development Block Grant.
10. **CFR:** The acronym for Code of Federal Regulations.
11. **Concern:** A deficiency in program performance not based on a statutory, regulatory or other program requirement. Sanctions or corrective actions are not authorized for concerns. However, staff should bring the concern to the subrecipient's attention and, if appropriate, may recommend (but cannot require) actions to address concerns and/or provide technical assistance.
12. **Consolidated Plan or "ConPlan":** The five-year action plan that results from the process set by HUD that assesses affordable housing and community development needs and market conditions, allows the prioritization of development needs, and



makes data-driven, place-based investment decisions for federal funding provided by HUD.

13. **Davis Bacon:** Reference to the Davis Bacon Act, which requires the payment of prevailing wages on certain construction projects funded by CDBG or HOME funds; in which case, monitoring would involve confirming evidence in bidding and payment practices.
14. **Finding:** A deficiency in program performance based on a statutory, regulatory or subrecipient for which sanctions or other corrective actions are authorized.
15. **Funding Cycle:** The annual period of time during which HUD makes funds available to the City for distribution pursuant to the Act.
16. **Household:** All the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household as defined by HUD. The occupants may be a family, as defined in 24 CFR 5.403.
17. **In-Depth Monitoring:** A detailed compliance review for a selected subrecipient. An in-depth review can include one or more areas of concentrated review, including: specific activities, projects or programs, financial documentation, management, record keeping, a review of known high-risk areas, or other critical functions. This would also include randomly selected activity/project/program sample, sufficiently large to draw a valid conclusion.
18. **Infrastructure:** The physical systems such as roads, sidewalks, streetlights, water, and sewer facilities which are necessary to provide basic community services.
19. **Limited Monitoring:** A program compliance review reduced from In-Depth Monitoring in scope and size for the selected subrecipient that may include review of a smaller, selected activity/project/program sample.
20. **Low-income:** Persons, families, and/or households whose income is more no more than 50% of AMI as set by HUD.
21. **Moderate Income:** Persons, families, and/or households whose income is more than 50% of the AMI, but not more than 80% of as set by HUD.
22. **Monitoring Conclusion:** The determination reached regarding a Subrecipient's performance based upon the monitoring results..

23. **NEPA:** National Environmental Review Protection Act requires that reviews be conducted to determine whether a proposed activity would have an impact on the environment prior to expending CDBG funds.
24. **NOFA:** The acronym for Notice of Funding Availability. The NOFA is the document used by the City to announce that CDBG Funds are available, list eligible applicants and activities, the parameters for application to be submitted, and the specific criteria and schedules for how funds will be awarded according to specific criteria and schedules.
25. **On-Site Monitoring:** Monitoring that is conducted at the subrecipient's geographic location.
26. **Program Income or "PI":** Includes, but is not limited to, proceeds from sale, lease, rental proceeds of property acquired or improved with CDBG funds; principal and interest payments on loans made from CDBG funds; proceeds from sale of CDBG loans or other obligations; interest earned on funds in a revolving loan fund account or on program income pending reuse. Further definitions found in 570.489(e)(1).
27. **Quarterly Desk Review:** Monitoring that is conducted at the City facility and based upon analysis of information from the subrecipient, including interviews. Information forming the basis for conclusions from this remote type of monitoring can incorporate review of performance reports and audited financial statements, information in electronic databases, and other documentation submitted by the subrecipient.
28. **Revolving Loan Funds or RLF:** CDBG PI funds that are held in a separate account to carry out CDBG-eligible activities such as rehabilitation of owner-occupied housing, or economic development activities. Repaid loans are returned to the RLF for future activities.
29. **Subrecipient:** A non-federal entity that receives a subaward of program funding from a grantee (i.e., City). Typically, this is a Non-Profit or Faith Based organization.

## II. Method of Distribution

### A. Allocations

Restrictions on how CDBG funds are allocated are:

1. At least seventy percent (70%) of all CDBG funds expended must be used for activities that benefit LMI individuals, families, and households pursuant to 24 CFR 570.484.

2. Total annual awards made for Public Services may not exceed fifteen percent (15%) of the annual allocation of CDBG funds PLUS the prior year's total Program Income [Annual Allocation + Prior Year Program Income \* 15%].
3. Awards made for Administration may not exceed twenty percent (20%) of the annual allocation of CDBG funds PLUS *estimated* Program Income expected [Annual Allocation + *Estimated* Program Income \* 20%].

## B. Benefit to Low-and Moderate Income Clientele/Households (LMC)

If a project qualifies for funding under the low and moderate income clientele (LMC) benefit national objective, documentation must be maintained to verify that at least 51 percent (51%) of the beneficiaries are low- and moderate-income persons. This requirement pertains to all benefits associated with the program, whether they are direct or indirect. Persons of low- and moderate income are families or individuals whose incomes do not exceed 80% of the median income of the area benefitting from the project.

A direct/limited clientele benefit activity is an activity which requires the beneficiary to apply or complete personal record as an integral part of receiving the benefit of that activity. Some examples of direct benefit activities are:

1. Housing Rehabilitation
2. Utility services provided by the activity
3. Relocation
4. Program generated employment

## C. Low- and Moderate-Income Limited Area Activity Criteria (LMA)

An activity that benefits a specific group of people, rather than all the residents in a particular area. At least 51% of beneficiaries must be LMC individuals. Housing activities and activities designed to create or retain jobs may not qualify for this category. The activity must either:

1. Benefit a clientele who are generally presumed to be principally low- and moderate-income (L/M) individuals (i.e., Presumed Benefit). The following groups are currently presumed by HUD to meet this criterion: abused children, battered spouses, elderly, disabled, homeless persons, illiterate individuals, and migrant farm workers;
2. Require information on family size and income so that it is evident that at least 51% of the clientele are individuals whose family income does not exceed the L/M limit;
3. Have income eligibility requirements that limit the activity exclusively to low- and moderate- income individuals; or

4. Be of such nature and location that it is obvious the clientele benefiting from the activity will be low-and moderate-income individuals.

### III. ADMINISTRATIVE PROVISIONS

#### A. Environmental Review

City staff shall complete or assist in the completion of the Environmental Review process prior to the signing of the agreement.

#### B. Written Agreement with City

A written agreement must be entered into between the City and all entities receiving CDBG funds. The written agreement forms the basis for the contractual obligation between the parties to fund and implement the activity or program. The agreement will denote responsibilities attributable to each party, and shall outline in exact measure the scope of services to be provided, methods of accountability, and a schedule for payment. Execution of the agreement binds the Subrecipient for a specified period of time, and may be revised only upon written authorization.

#### C. Post-Award Responsibilities

Subrecipient shall:

1. Report all changes in its articles of incorporation, bylaws, or tax-exempt status to the City within 30 days.
2. Ensure no member of the Board of Directors is a paid employee, agent or subcontractor.
3. Include representation on the Board of Directors, the broadest possible cross-section of the community, including those with expertise and interest in the provided services, representatives from community organizations interested in the services, and users of the services.
4. Ensure meetings of the Board of Directors are open to the public, except meetings, or portions thereof, dealing with personnel or litigation matters.
5. Keep minutes of all regular and special meetings of the Board of Directors, have a regular meeting at least once a year, and upon request, submit to City staff.

#### D. Federal Requirements

Subrecipients and subcontractors must comply with all applicable federal regulations governing the use of CDBG funds which include, but are not limited to the Office of

Management and Budget (OMB) Circular 2 CFR Part 200, and HUD Regulations – **24 CFR Part 570 – CDBG**.

## E. Insurance Requirements

Subrecipients shall obtain and maintain the minimum insurance coverage outlined by the City of Santa Clara.

## IV. Financial Management

Accurate financial record-keeping, including timely deposit, disbursement and accounting of CDBG funds is crucial. Financial management steps include:

### A. Internal Controls

Internal controls can help provide assurance that operations comply with federal requirements. Subrecipients must have a written set of policies and procedures that define staff qualifications and duties, lines of authority, separation of functions, and access to assets and sensitive documents. A good internal control system should include:

1. An organization plan with written definitions of duties and key employees that safeguards resources by segregating duties;
2. A system of authorization and recording procedures that provides effective accounting control over assets, liabilities, revenues, and expenses;
3. An established system of procedures followed by each organizational component in performing its duties and functions;
4. Personnel capable of performing their responsibilities; and
5. An effective system of internal reviews.

### B. Accounting Records

Subrecipients must maintain an adequate financial accounting system, that adequately identify the source and application of CDBG funds provided to them. To meet this requirement, a subrecipient accounting system should include:

1. A chart of accounts. This is a list of names and the numbering system for the individual accounts that contains the basic information about particular classifications of financial transactions for the organization. Accounts are created and, in turn, used to summarize the financial transaction data, according to some common characteristics. A typical chart of accounts might have, for example, separate account categories for describing assets (cash in a checking account, accounts receivable, pre-paid insurance,

etc.); liabilities (loans, accounts payable, obligated funds, etc.); revenue (drawdowns from CDBG awards, cash contributions, proceeds from sales, other program income, etc.); and expenses (rent, wages, utilities, phones, etc.).

2. A cash receipts journal. This journal documents (in chronological order) when funds were received, in what amounts, and from what sources. The journal is a record of transactions showing the charges to be recorded as a result of each transaction. Every transaction is initially recorded in a journal. Therefore, a journal is called a record or book of original entry. Each entry in the journal states the names of the individual accounts to be debited and credited, the dollar amount of each debit and credit, the date of the transaction, and any other necessary explanation of the transaction. Information for a journal entry can come from a variety of sources, such as checks issued, or received, invoices, cash register tapes, and time sheets.
3. A cash disbursements journal. This journal documents the expenditures of the organization in chronological order (e.g., when the expense was incurred, how much was spent, to whom it was paid, and for what purpose).
4. A payroll journal. This journal documents the organization's expenses on salaries and benefits, and distinguishes different categories for regulatory purposes.
5. A general ledger. After a transaction is entered in a journal, that information also should be transferred to the proper accounts contained in the general ledger. The general ledger summarizes in chronological order the activity and financial status of all the accounts of an organization. The process of transferring transaction information from a journal to a ledger is known as "posting". The entries in the journal and ledger should be cross-indexed to permit the tracing of any recorded transaction (i.e., an "audit trail").

### C. Allowable Costs

Subrecipients must have a clearly defined set of standards and procedures for determining the reasonableness, allowability and allocability of costs incurred that is consistent with 2 CFR Part 200. The agency must also have an approved indirect cost allocation plan from HUD, or a methodology approved by the City.

According to basic guidelines contained within the OMB Circular, a cost is allowable under the CDBG program if:

1. The expenditure is necessary, reasonable and directly related to the grant. This standard applies equally to such items as salaries and administrative services contracts, as well as to real property and equipment purchases or leases, travel, and

other administrative expenditures. In determining the reasonableness of a given cost, consideration shall be given

2. The expenditure has been authorized by the grantee (the city in this case), generally through approval of the budget for the activity and is not prohibited under Federal, state or local laws or regulations. CDBG is a reimbursement grant, meaning that agencies spend the funds and then ask to be reimbursed by the city. It is very important that if there are any questions as to eligibility of an expense that agencies contact their Compliance Specialist. If the expense is not allowed, the agency will have to pay for it from another funding source.
3. The cost must be allocable to the CDBG program. A cost is allocable to a particular cost objective (e.g. grant, program or activity) in proportion to the relative benefits received by that objective. This means that if an office is utilized by two programs during the same hours, the costs of the office should be allocated between the two programs equally. **The same expense cannot be claimed against more than one grant.**
4. A cost originally allocable to a particular federal grant program cannot be shifted to another federal grant program in order to overcome funding deficiencies, to avoid restrictions imposed by grant or by law, or for other reasons.

#### D. Source Documentation

The general standard is that all accounting records must be supported by source documentation. This is necessary to show that the costs charged against CDBG funds were incurred during the effective period of the Subrecipient's agreement with the grantee, were actually paid out, were expended on allowable items, and had been approved by the responsible officials in the Subrecipient organization.

The source documentation must explain the basis of the costs incurred, as well as showing the actual dates and amount of expenditures. Subrecipients must maintain up to date files of original source documentation (receipts, invoices, cancelled checks, etc.) for all financial transactions, including those involving obligations incurred and the use of program income.

Examples of appropriate source documentation include payroll source documentation should include employment letters and all authorizations for rates of pay, benefits, and employee withholdings. For staff time charged to the CDBG program activity, time and attendance records should be available. If an employee's time is split between CDBG and another funding source, there must be time distribution records supporting the allocation of charges among the sources. Canceled checks from the employees, payroll service provider, etc., or evidence of direct deposits will document the actual outlay of funds.

All source documentation does not have to be located in the CDBG project files, but it must be readily available for review by the grantee, HUD or other authorized representatives at all times. Please be aware that by accepting CDBG funds, your organization records, as a whole, are open for review. Develop and maintain a central filing system. This will ensure that audits and monitoring visits go smoothly, and documentation is readily accessible.

***If any original document for an expense cannot be located during a monitoring visit, the amount may be deducted from the next reimbursement request, or may be required to be repaid.***

**Payroll Records:** All Subrecipients will maintain concise documentation for both the time worked and tasks undertaken. The employee and his/her immediate supervisor must sign employee time cards.

**Service Contracts:** All grant funded service contracts (accounting, leases, janitorial, etc.) must be a written agreement between the Subrecipient and the firm/individual.

***The City of Santa Clara Community Development Department must have copies of all service contracts that are to be reimbursed with City CDBG grant funds.***

## E. Budget Controls & Cash Management

An effective budget serves as a guideline, which reflects the best estimate by an organization's decision-makers of the anticipated income and the costs of operating various program activities. Subrecipients must maintain an up to date (approved) budget for all funded activities and perform a comparison of that budget with actual expenditures for each budget category. Subrecipients should regularly compare progress toward the achievement of goals with the rate of expenditure of program funds in order to ascertain whether it will be necessary to initiate a formal budget revision.

## F. Financial Reporting

Subrecipients must be able to provide accurate, current, and complete disclosure of the financial results of each Federally sponsored project or program in accordance with the reporting requirements of the City and HUD. The City of Santa Clara requires **quarterly** financial reporting unless a different timetable is agreed upon by the City and the subrecipient. A Subrecipient must have the capacity to provide, at a minimum, the following information for each CDBG activity:

1. Amount budgeted;
2. Reimbursements received to date;
3. Program income and other miscellaneous receipts in the current period and to date;



4. Actual expenditures/disbursements in the current period and cumulatively to date, for both program income and regular CDBG grant funds.
5. Current encumbrances/obligations in addition to disbursements;
6. Unpaid requests for payment previously submitted at time of latest drawdown.

## G. Audits

An audit is both a financial and program audit. It encompasses auditing of expenses as well as the program. Subrecipients are required to have a Single Audit in accordance with 2 CFR Part 200, Subpart F. when it expends more than \$750,000 in federal funds (cumulatively) in a fiscal year.

The purpose of these requirements is to ensure that a Subrecipients receiving federal funds have a financial management system sufficient to:

1. Provide effective control over and accountability for all funds, property, and other assets;
2. Identify the source and application of funds for federally-sponsored activities, including verification of the “reasonableness, allowability, and allocability” of costs, and verification that the funds have not been used in violation of any of the restrictions or prohibitions that apply to this federal assistance; and
3. Permit the accurate, complete and timely disclosure of financial results, in accordance with the reporting requirements of the grantee or HUD.

The federal regulations provide specific requirements regarding internal controls, accounting records, allowable costs, source documentation, budget controls, cash management, financial reporting, and audits.

Following are a few of the financial terms used in this section:

- **Accrued:** Term used to show expenses incurred in a prior fiscal year that are paid in the current fiscal year, but are charged back to the year in which the expenditures pertained. For example, a Non-profit spends CDBG funds in June, the end of the fiscal year but does not bill the city until July, the first period of the new fiscal year, those funds may be charged back to the prior period, June.
- **Allowability:** Term indicating whether an expense is eligible for the program and/or funding source.
- **Allocability:** Cost may be charged to a federal award if it is a specific benefit to the program.

- **Budget:** A plan of action expressed in financial terms.
- **Expenditures:** Term used to describe funds spent.
- **Obligations:** Funds set aside for specific purposes and/or items.
- **Outlay:** Funds used by the agency to pay for goods and services prior to being reimbursed. Program income – funds earned by the agency in a CDBG funded program or facility. Typically, these funds are in the form of fees for services.
- **Resources:** Funds used by the agency.
- **2 CFR Part 200:** The new regulations combined a diverse group of regulations into one Super Circular.
- **24 CFR Part 570:** Code of Federal Regulations that govern CDBG funds.
- Instances of fraud or misuse of assets.

## V. Budget Management

Reimbursement will only be provided for allowable costs as approved by the City of Santa Clara and must be directly related to the Grant. Reimbursements should be submitted on **quarterly** basis unless a different timetable is agreed upon by the City and the subrecipient.

When requests are submitted, they must include copies of receipts, check registers, payroll reports, paid invoices, accounts payable, general ledger and/or category printout.

### A. General Budget Information

There are typically three cost categories within a general budget which consist of Personnel Costs, Operating & Program Delivery Costs, and Contract Services.

1. **Personnel Costs** include:
  - a. **Salary & Wages:** Costs associated with the positions identified on the Staffing Plan. Costs should reflect the actual amount of time each position spends on the program.
  - b. **Fringe Benefits:** Eligible payroll-related costs of health insurance, retirement fund contributions, FICA, Worker’s Compensation, and other payments made on the behalf of the employee.
  - c. **Executive Pay:** Federal funds cannot be used to pay for 100% of an Executive Director’s salary. Please ensure that when receiving multiple funding sources this threshold is not exceeded. IRS employee rules must be applied before determining

an employee's status or non-status. People who work for the agency are employees, people who provide training, consulting or are officers of the non-profit are not and cannot be employees of the agency. This is considered a conflict of interest. Employees must have all the pertinent federal deductions and taxes paid.

*NOTE: Non-profit agencies are exempt from paying federal unemployment tax, although State unemployment tax applies. You will not be reimbursed for any federal unemployment taxes you pay.*

## 2. **Operating/Program Delivery Costs include:**

- a. **Supplies:** Consumable commodities that have a useful life of one year or less and which are valued under \$500, except for computer equipment, which must be inventoried and accounted for separately.
- b. **Direct Client Services:** Work Cards, Sheriff Cards, rent, bus tokens, food, utilities, child care, and other program costs paid on behalf of clients.
- c. **Communication:** Costs of phone, phone installation, leasing of phone equipment, and postage.
- d. **Insurance:** Insurance-related costs required for the operation of the program.
- e. **Printing:** Cost of copying and printing, whether done in-house or through an outside printer; supplies such as paper or fluids for copy machine owned or leased for program use.
- f. **Utilities:** Costs associated with gas, electricity, water, and trash removal. 5) Rent - Rental charges for real property; office space for program. 6) Travel (local) - Costs for mileage reimbursement and conference expenses with pre-approval. Mileage reimbursement includes only travel by staff or volunteers for conducting the business of the Subrecipient. No personal mileage will be reimbursed. Mileage from home to work is also not an allowable expense.
- g. **Travel (other):** All travel and conference expenses outside of the city to employees and volunteers for actual mileage. Out of state travel requires prior approval.
- h. **Miscellaneous:** For eligible expenses not noted above. Should not exceed 1% of CDBG grant.
- i. **Food/snacks:** Eligible only for clients, and must be an integral part of the program such as afterschool snacks for children's lunch for preschool. These costs must be pre-approved as part of the subrecipients budget.
- j. ***No costs which may be considered as entertainment in nature will be reimbursed with CDBG funds.*** Awards ceremonies, banquets, holiday events, trophies, plaques, amusement park field trips, etc. are not an allowable expense. Please contact the assigned NPO for further guidance on this issue prior to planning or expending CDBG funds.

## 3. **Contract Services include:**

- a. **Audit Fees:** City CDBG funds may pay for audits, but only to the extent of the total City federal funds in the budget. For example, if the audit cost is \$5,000, and only

20% of the program's overall budget is from the City, only \$1,000, or 20% of the bill will be allowed. Bookkeeping fees or payroll services are eligible expenses.

- b. **Equipment Rental:** Costs for the rental of equipment, which is essential for the operation of the program.
- c. **Equipment Purchase:** Purchase of equipment essential for the operation of the program in those instances where it is more cost effective to purchase equipment rather than rent it. Includes any item with a useful life of more than one year and a cost greater than \$500. Purchase of equipment requires prior City approval.
- d. **Contracted Services:** Professional and technical services not performed by staff.

## B. Budget Revisions

Modifications to approved budgets line items are allowable but must be directly related to changes in program services and activities and may not increase the budget total.

To implement a budget modification the Subrecipient must submit a written request which identifies the reasons for the adjustment. The request must be specific as to which line items are to be increased/decreased and must be specifically approved by the City in writing as a change to the written agreement or contract between the City and the Subrecipient.

The Housing Development Officer or project manager of the City of Santa Clara Housing & Community Services Division has the authority to grant or deny requests for budget revisions. The City will issue a written decision within fourteen (14) business days of receiving the request.

## C. Records

Organizations receiving CDBG funds must keep the following fiscal records:

1. **Bookkeeping Journals and Ledgers:** Provide accurate accounting for cash receipts, cash disbursements and cash balances. All cash, revenues and expenses must be reconciled to the general ledger. Back-up documentation for journal entries must be kept and properly filed. Documentation must include: invoices, bills and other receipts, deposit slips, bank statements, check stubs, check books, canceled checks, purchase orders, petty cash records and other verification as applicable.
2. **Payroll Records:** Payroll records will show actual gross earnings; net payroll and payroll deductions for each individual staff member by pay period. If an employee is paid by more than one fund or program, the payroll journal will need to reflect the distribution of time and money against each fund or program. Back-up documentation must include;

- a. Canceled paychecks;
  - b. Tax records;
  - c. Worker's compensation records; and
  - d. Individual time sheets.
3. **Payroll Petty Cash Record:** A petty cash fund may be set up to take care of small item payments. All such payments must be supported by petty cash vouchers and receipts and must be an eligible expense. The size of the fund is left to the discretion of the Subrecipient. Backup source documentation for expenditures must be provided when submitting for reimbursement.
  4. **Time Records:** Time records should be kept indicating actual time worked, including types of time, such as sick leave, vacation leave, compensatory time, etc. Time sheets should be kept by the day and signed by the employee and supervisor.

Agencies using volunteer hours for in-kind match must keep signed time records by the day indicating actual time donated.

Time sheets showing labor distribution and a time to project log, which documents time spent on the project/program, must be kept for all grant funded employees. Copies of these must be submitted with reimbursement requests in addition to cancelled checks, payroll reports and general ledgers.

## D. Expenditures

All expenditures associated with an approved activity or program must comply with the following criteria:

1. **Limitation of Expenditures**
  - a. The Subrecipient shall not expend funds provided under the contract prior to the commencement date of the contract or subsequent to the suspension or termination of the contract.
  - b. Expenditures shall be made in conformance with the approved budget and shall meet the criteria established for allowable costs.
  - c. Expenditures shall be in direct support of the program that is the subject of the contract. The Subrecipient shall notify the City in writing of any expenditure for items jointly used for any other program(s) and the expenditures shall be apportioned according to the percentage of direct use in the program.

2. **Eligible Costs:** To be eligible for payment, costs must be in compliance with Office of Management and Budget Circular (OMB) 2 CFR Part 200 and with the principles set forth below:

- a. Be necessary and reasonable for the proper and efficient performance of the contract and in accordance with the approved budget. The City shall have final authority to determine in good faith whether expenditure is "necessary and reasonable".
- b. Conform to the limitations within the agreement, this manual and to any governing statutes, regulations and ordinances.
- c. Be fully documented and determined in accordance with approved accounting procedures.
- d. Not be included as a cost or used to meet cost sharing or matching requirements of any other funding source in either the current or a prior period.
- e. Be the net amount of all applicable credits such as purchase discounts, rebates, sales or other income or refunds.
- f. Document all costs by maintaining complete and accurate records of all financial transactions, including but not limited to: contracts, invoices, timecards, cash receipts, vouchers, canceled checks, bank statements and/or other official documentation evidencing in proper detail the nature and propriety of all charges.
- g. Submit to the City, within fifteenth (15) working days of the end of the preceding **quarter** (or other time period agreed upon by the City and subrecipient), Reimbursement Request Cover Sheet together with the appropriate supporting documentation.
- h. Submit to HUD or City at such times and in such forms as HUD or, City may require, statements, records, reports, data, and information pertaining to matters covered by the agreement or contract.

3. **Ineligible Costs**

- a. **Bad debts:** Any losses arising from uncollectable accounts and other claims, and related costs.
- b. **Contingencies:** Contributions to a contingency reserve or any similar provisions for unforeseen events.
- c. **Contributions and donations.**

- d. Entertainment: Costs of amusements, social activities and incidental costs such as meals, beverages, lodging and gratuities relating to entertainment, or any political or lobbying activity.
  - e. Fines and penalties: Costs resulting from violations of or failure to comply with Federal, State, and local laws and regulations.
  - f. Interest and other financial costs: Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith.
  - g. Membership expenses: Costs of membership in any organization, which devotes a substantial part of its activities to influencing legislation.
  - h. Non-competitive subcontracts: Payments under a subcontract not obtained under competitive bidding procedure, unless the City specifically waives the requirement for such a procedure.
  - i. Taxes.
4. **Close-out Documentation:** The Subrecipient shall maintain a system of internal control in accordance with generally accepted accounting practices. Internal control consists of a plan or procedure to safeguard assets, check the adequacy and reliability of accounting data, promote operating efficiency, and assures compliance with appropriate laws and regulations. On or before 90 calendar days after termination of the agreement, the project coordinator should submit to the City an annual inventory update and a closeout financial report. All property, documents, data, studies, reports and records purchased or prepared by the Subrecipient under contract should be disposed of according to contract.

In the event the program terminates, copies of all records relating to the program or activity that are the subject of the contract shall be furnished to the City. Financial statements submitted by the Subrecipient to the City shall be accurate and correct in all respects. Should inaccurate reports be submitted to the City, the City may elect to have the Subrecipient secure the services of a licensed accounting firm. Cost of such accounting services are to be borne by the Subrecipient.

## E. Program Income

Interest earned on federal grant funds must be reported to the City quarterly as Program Income; and must be used in the operation of the specific grant program.

Organizations providing services funded through a CDBG grant may charge fees to clients to reduce the costs of service delivery. Such fees, or any other earnings generated through the



use of CDBG funds, are considered to be program income (PI). PI includes, but is not limited to, fees charged for services, proceeds from the sale of tangible personal or real property, usage or rental fees, and patent or copyright royalties.

Program income shall be recorded separately and returned to the City for disposition. Upon approval by the City, income from the Project may be retained by Subrecipient provided that written notification is given to the Community Development Director and that the income is to be used for the exclusive benefit of the Program. Such income will be subject to guidelines for use of such income in accordance with HUD regulations. All PI must be reported. A total amount under \$100 may be reported quarterly rather than in the month in which it is collected.

Donations are defined as free will offerings to an organization not related to receiving a service or benefit. Donations are not PI and do not have to be reported. PI does not reduce the size of the organization's CDBG grant if the PI is spent on eligible items. However, any PI not spent will result in a reduction in the amount of funds reimbursed. Housing development agencies which use CDBG funds for administration only, do not report funds received from the construction of affordable housing units as PI.

## VI. Quarterly Reimbursements

City staff will review each request for reimbursement submitted by the Subrecipient. Questionable or ineligible expenses will be identified and the Subrecipient will be requested to submit clarifications, corrections, or additional information.

***If any original document for an expense cannot be provided upon request, the amount will be deducted from the next reimbursement request if previously paid or deducted from the current request if not. If no funds remain to be drawn, the agency must reimburse the city directly.***

### A. General Programs and Public services

**Reimbursement Requests for eligible expenses should be submitted on agency letterhead on a quarterly basis**, unless a different timetable is agreed upon by the City and the agency. A Quarterly Activity Report should accompany the Reimbursement Request with appropriate documentation. Reimbursement requests are typically processed within three weeks and submitted to the City's Finance Department to be paid out within two weeks.

Please review the request documentation and amounts prior to submission, the city cannot reimburse for taxes, or items or services paid for prior to the beginning of the program year, or after the end of the program year. The Line Item Budget form must be submitted along with the Reimbursement Request.

## B. Spending Requirements

The City has a timeliness requirement that is tested on April 30<sup>th</sup> of every year. The City cannot have more than 1.5 times its annual allocation on hand on April 30<sup>th</sup>. **It is imperative that agencies bill the City each quarter so that the City can accurately project whether it will meet this expenditure requirement.**

CDBG funds are paid to agencies on a reimbursement basis. Therefore, it is extremely important to verify the eligibility of an expense prior to expending your funds. Accuracy of submittals is important as errors slow down the process. When at all possible, do not use cash, as this does not provide a proper audit trail.

When submitting a large payment request, please highlight the portions requested to be paid by the City in addition to utilizing either an excel spreadsheet or adding machine tape.

The Reimbursement Request cover sheet has eight items that you need to complete:

- CDBG Grant Year – Year that the Grant Award will cover (i.e. 2020 – 2021)
- Date of Request – Date that you submitted your request to City of Santa Clara Staff
- Invoice number
- Reimbursement Period (e.g., Q1 – July – September 2020)
- Current Expense/Personnel – The amount of CDBG Funds requested for the current reimbursement period under the Personnel category.
- Current Expense/Operating Costs – The amount of CDBG Funds requested for the current reimbursement period under the Operating Costs category.
- Current Expense/Contract Services – The amount of CDBG Funds requested for the current reimbursement period under the Contract Services category.
- Current Expenses/Program Delivery Costs – The amount of CDBG Funds requested for the current reimbursement period under the Program Delivery category.

## C. Documentation

In order for the City to reimburse the agency, documentation must be submitted to show who, what, when, and how the invoice was paid. Only copies of paid invoices which must be marked paid will be accepted. A quote or order form will not be accepted. In addition to the paid invoice, proof of payment must be submitted. For invoices paid by credit card, submit a copy of the statement showing the invoice was paid.

Please highlight the amount paid on the receipt, and the reimbursable portion. Keep in mind when charging a percentage, the percentage of participants who are low-income Santa Clara residents must be documented. To do this, provide a copy of the client roster, with their addresses and highlight the city residents. This permits verification of the percentage.

Copies must be legible, please do not send the originals, as they are needed for your files. Receipts cannot be dated prior to the beginning of the program year July 1st or after the end of the program year June 30th. If requesting payroll reimbursement, copies of time sheets must be included. The time sheets must include documentation of time spent with city CDBG eligible participants. Many agencies use tracking codes or work authorization codes, please use whatever method works best. Please highlight the code assigned to CDBG or the hours worked on the time sheet.

#### D. Mileage and Travel

Per the IRS allowances, the CDBG program will reimburse those reasonable mileage and travel costs that are necessary to carry out the services identified in the Subrecipient's Agreement. Mileage and travel expenses not necessary for the program, or of a personal nature, are not eligible for reimbursement. Volunteers authorized by the program to be reimbursed for mileage relating to services for the program must provide proof of automobile insurance, copies of which must be kept at the Subrecipient's office.

1. **Mileage:** The Subrecipient shall submit written mileage records identifying the driver of the vehicle, the number of miles driven on each day, and the purpose of the trip. The Subrecipient shall certify the accuracy of the information reported. Travel to and from work is not an eligible expense for mileage reimbursement.
2. **Travel:** Reimbursable costs include conferences, lodging, food, and other non-mileage costs. Community Development policy requires that all travel costs be kept to a minimum. Supporting documentation must be provided with all requests for travel reimbursement.
  - a. **Local Travel:** Defined as travel within the City of Santa Clara.
  - b. **Non-Local Travel:** Non-local travel is travel to a location outside of the City of Santa Clara, but within California. No prior approval is required for these trips.
  - c. **Out-of-State Travel:** Approval for out-of-state travel must be requested in writing from the City's Community Development Manager 10 working days prior to the trip. The Community Development Manager will review the request and provide a response within five (5) working days.

## E. Telephone Expenses

It is important to prorate phone expenses based upon the percentage of time an employee works on CDBG-related activities.

1. **Reimbursable Expenses:** The CDBG program will reimburse only those reasonable costs for local and non-local telephone calls necessary to carry out the services identified in the Subrecipient's Agreement with the City. Actual costs of phone calls and the quarterly cost of supporting the phone system are eligible for reimbursement. Such expenses include equipment rental or lease and quarterly service charges. All out-of-state calls must be documented with a description of the purpose of the call and its relationship to program activities.
2. **Exceptions:** Personal phone calls are not reimbursable. In addition, calls made for the purpose of raising funds are not eligible for reimbursement.
3. **Pro-rating of Expenses:** If the program receives funding from several sources, only those telephone expenses solely related to the that portion of the activity which is funded out of the Subrecipient's CDBG grant are reimbursable. All such costs must be specifically identified to the City's satisfaction.
4. Additionally, if the amount of the Subrecipient's CDBG grant is less than the program total budget, phone costs are reimbursable at a percentage equal to the level of CDBG funding as compared to total program funding.

## VII. Monitoring Process

City staff will conduct an on-going monitoring process in order to review the programmatic and financial aspects of the Subrecipient's activities. City staff will review Quarterly Activity Reports submitted by the Subrecipient for compliance with federal regulations regarding the use of federal funds and the implementation of the program.

The monitoring process is oriented towards resolving problems, offering technical assistance, and promoting timely implementation of programs. To this end City staff may require corrective actions of the Subrecipient. Following are examples of significant problems, which will trigger corrective action by the Subrecipient:

### A. Quarterly Activity Reports

Quarterly Activity Reports are due no later than fifteen (15) days after the end of the quarter, or at an interval agreed upon by both the subrecipient and the City, ***even if a request for reimbursement has not been submitted***. The quarterly activity report explains the progress the program has made in relation to the goals and performance indicators outlined in the Agreement Scope of Work.

The quarterly report must be submitted on the form provided by the City, unless approved in writing, in advance. No other format will be accepted. Quarterly reports may be printed, signed and scanned/mailed to City staff. Failure to submit quarterly reports may result in delayed reimbursements and/or negative marks on the performance reports and may affect future funding.

Examples of significant issues which would trigger corrective action are:

1. Services are not documented;
2. Goals are not being met;
3. Program files not in order;
4. Complaints by clients;
5. Required reports not being submitted in a timely manner,
6. Funding not spent correctly.

Quarterly Reports will measure:

1. Progress in meeting stated goals and objectives;
2. Changes in staff or Board of Directors;
3. Problems encountered and steps taken to resolve them;
4. Other general information as appropriate;
5. A "Client Certification of Household Composition and Income"; and
6. Demographic data.

## B. Desk Monitoring

City staff reviews Quarterly reports and reimbursement submissions; this, along with a Risk Assessment, determines whether an on-site monitoring visit is required.

Based on desk monitoring results and other criteria, City staff may hold discussions with Subrecipients whose performance does not appear to be sufficient to meet the goals and achievements as outlined by the written agreement. An on-site visit may occur to discuss the service activity shortfall. On-site monitoring visits may also be conducted in order to ascertain that eligible clients for whom the program was intended are being served and that in the event of an audit; the required client information is being maintained.

## C. Client Documentation by Subrecipient

Each Subrecipient is required to maintain documentation on clients benefiting from activities and programs funded with CDBG funds. As a condition of receiving the HUD grant, the City, and in turn the Subrecipient, must certify that low- and moderate-income persons are being served. HUD also requires demographic information such as race and ethnic background of the clients, how many are female heads of households, and income level. City staff and HUD must also have access to client data. Any information regarding applicants for services funded through federal funds shall be held in strict confidence.

## D. FILE ORGANIZATION AND MAINTENANCE

Each Subrecipient is required to maintain documentation on clients benefiting from activities and programs funded with CDBG funds. Subrecipients should structure their project/program files and other records to comply with the general requirements as discussed in this manual. In setting up a program or client file, the following items should be included:

1. Original executed copy of the agreement with the city
2. Any amendments to the application and agreement
3. Notice of award (letter from Community Development Department)
4. Correspondence relating to the grant award
5. Copies of Requests for Reimbursement
6. Budget Amendment (if applicable)
7. Any other information pertinent to the CDBG Grant
8. Program measurable goals and expectations
9. An application for assistance, if applicable
10. Client Income Certification Form
11. Copies of any program requirements
12. Documentation as to services provided to the client and any outcomes of service, for example, if a client is referred to another agency for services, a follow up contact is required to document the services the client received.
13. Pre and post program evaluations, if applicable

## VIII. Procurement and Contracting – Procedures

### A. Equipment Procurement

The following addresses procurement requirements for equipment:

1. **Equipment v. Supplies:** Equipment is defined as tangible property costing more than \$500 and having a useful life of more than one year. The purchase of equipment is generally ineligible, because equipment can be rented at a lesser cost for a short period of time.

Items which cost less than \$500 and which have a useful life of less than one year are considered to be supplies and are to be purchased under the General Non-Personnel Costs (Supplies) cost category, except for computer equipment, which must be inventoried and accounted for.

2. **Limitation on Purchase of Equipment:** Under HUD regulations, the purchase of equipment, fixtures, or furnishings that are not an integral structural fixture is ineligible except when necessary for use by the City or a Subrecipient in the administration of the overall City CDBG grant or as part of the administration of a public service program. The City does not allow for purchase of vehicles with CDBG funds.
3. **Notification Requirements:** All purchases of equipment require prior City approval. Requests to purchase equipment are to be sent to the City 45 days prior to the purchase order date. The request is to include the cost of the item, where it will be purchased, a detailed explanation of why it should be bought rather than leased or rented, and where the funds for the purchase will come from. If City CDBG funds will only be paying a portion of the purchase, list other funding sources and the respective amounts. The City will review the request and issue a decision within 10 working days. Rationale for a negative decision will be included in the response.
4. **Reversion to City:** Under HUD regulations, the City has the option to obtain the equipment from the program when funding stops for the program. The review of the type of equipment to be purchased will include mention of its possible usefulness to the City. The City may also permit the Subrecipient to retain the equipment at the time the funding ends. All other personal property, supplies and equipment purchased pursuant to this agreement and not consumed shall become property of the City.

### B. Inventory Instructions

The following addresses inventory monitoring requirements:

1. **Agency:** Name of Agency receiving grant.
2. **Description:** A brief description of the item of property.
3. **Manufacturer's Serial Number:** Provide the serial number for all items.
4. **Acquisition Date:** Date of purchase.
5. **Percentage of Federal Participation:** Portion paid by CDBG funds.
6. **Cost:** The actual purchase price.
7. **Disposal Date:** Date sold or disposed of.

### C. Procurement Definitions

**Price and Cost Analysis:** A price or cost analysis must be made in connection with every procurement action. Price analysis involves comparing the bottom-line price quoted, with typical prices paid for the same or similar materials or services (does not apply to sole source contracts). Cost analysis means you obtain the best price with the best service.

**Sole Source:** Procurement by noncompetitive process is solicitation from only one source. This process is rare and is acceptable only after solicitation of a number of sources is determined inadequate. Extensive documentation and justification is required to establish the audit trail.

The agency may make the determination that competition is not feasible if one of the following circumstances exists:

- The item is unique and available only from a single source.
- There is a public urgency or emergency that exists that will not permit a delay resulting from a competitive solicitation.

**Equipment and/or Services** purchasing methods are as follows:

<b>Cost</b>	<b>Method</b>
<b>\$0 - \$500</b>	Direct reimbursement with an invoice copy.
<b>\$500 - \$10,000</b>	Two or more verbal quotes; written quotes if labor or detailed product or service specifications.
<b>\$10,000 - \$25,000</b>	Two written quotes obtained by Subrecipient agency or the City's Purchasing staff. May use "Request For Quotes," advertise, and/or use pre-bid conference.
<b>Over \$25,000</b>	Formal bid process with pre-bid conferences and formal bid openings.



## D. SUBCONTRACTS

Should a Subrecipient find it necessary to subcontract in order to meet its obligations under its agreement with the City, it must enter into a written agreement with those individuals or organizations providing services. Provisions required in subcontracts are as follows:

1. Name, address, phone number and social security number of subcontractor.
2. A termination clause requiring twenty days' notice by which either party may terminate the agreement.
3. A City un-involvement clause releasing the City from any liability for any breach of the subcontract by either party.
4. A scope of services.
5. The total dollar amount of the subcontract.
6. A termination date no later than the end of the current CDBG program year.
7. A clause requiring the contractor to comply with stated "Conditions of Federal Funding".
8. An independent contractor clause stating that the subcontractor is an independent contractor or employee of the Subrecipient. Subcontractor is not an agent or employee of the City, and as such waives any claims to any rights or benefits which accrue to employees of the City.
9. Signature of person authorized by Subrecipient's Board of Directors to execute agreements.
10. Signature of person authorized by subcontractor to execute agreements.

## E. Review of Subcontracts by City

All Subrecipients in their first year of receiving CDBG funds from the City must submit all subcontracts to the City for review and approval prior to execution. Subrecipients in the second year of CDBG funding are required to obtain prior review and city approval only when the value of the subcontract exceeds 10% of its CDBG grant or \$10,000, whichever is less.

All subcontracts requiring review and approval by the City must be submitted at least 10 business days prior to an effective date. The CDD will respond to the request for approval within 7 working days. Subcontracts must be approved prior to execution by any of the parties.

## F. Required Subcontract Documentation

The Subrecipient shall maintain the following documentation in its files:

1. Summary of bids and proposals received.
2. Justification for any non-competitive procurement of contract services and reasons for the selection of the subcontractor.
3. Justification for the selection of other than the lowest bidder in a competitive procurement.
4. Section 3 compliance documentation (Exhibit J), if required.

## G. Types of Subcontracts Covered Under This Section

The types of subcontracts covered in this section include, but are not limited to:

1. Bookkeepers and auditors.
2. Contractual personnel services (those not on the Subrecipient's payroll).
3. Office equipment rental.
4. Office space rental.
5. Rental of vehicle (van, bus, etc.) to be used on a regular basis for carrying clients of the Subrecipient.

## H. Types of Subcontracts Not Covered Under This Section

The types of subcontracts covered in this section include, but are not limited to:

1. Extension of above contracts if dollars per hour/month/year do not change.
2. Vehicle rental to take program's clients to a particular event. (Requests for travel related to trips outside the City of Santa Clara are required under the agreement with the City.)
3. Maintenance agreements for office equipment.
4. Janitorial services for office space.

## I. 2 CFR PART 200 215.42 – CODE OF CONDUCT

The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal Funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any immediate family, his or her partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to sub-agreements. However, recipients may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the recipient.

## J. 2 CFR PART 200.112 – CONFLICT OF INTEREST

The general rule is that no employee, board member, officer, agent, consultant, Subrecipients which are receiving funds under a CDBG assisted program who have responsibilities with respect to the CDBG activities or who participate in decision making process or have access to inside information with regard to the activities can obtain a personal or financial interest or benefit from a CDBG assisted activity during their tenure or for one year thereafter (Federal Regulation 24 CFR 570.611).

Agencies should maintain a written code of standards of conduct governing the purchase of materials, product, supplies, and services as well as the awarding and administering of subrecipient contracts. Personnel involved in the procurement process must be trained to recognize situations that create real, or the appearance of a conflict of interest. The agency personnel should:

1. Be familiar with the agency's code of ethics and potential conflict of interest issues.
2. Not take gifts or gratuities from persons or organizations associated with the procurement process.
3. Assure the proposal evaluators or member of their immediate families do not have financial interest in the companies.

## IX. Project Close-Out

### A. Programmatic Close-Out

Programmatic close-out will consist of, but will not be limited to, the following:

1. Review and verification of annual client statistical and narrative report due 15 days after the end of the program year; typically July 15th.
2. Review of Subrecipient record keeping system, including, but not limited to Activity Documentation, Personnel files, and inventory control files.
3. Evaluation of activity and program accomplishments.

### B. Financial Close-out

Financial close-out will consist of, but will not be limited to the following:

1. Review and verification of information submitted in the final drawdown request
2. Review of Subrecipient record keeping system:

- a. Accounting records and ledgers
  - b. Source documentation (invoices, time cards, etc.)
  - c. Budget documentation (modifications, etc.)
  - d. Equipment purchases
3. Evaluation of activity financial accomplishment

### C. Equipment Disposition

All equipment with a cost of \$500 or more purchased with HUD grant funds shall revert to the City at the close of the activity. If a Subrecipient wishes to continue utilizing the equipment, and is not funded the following year, a letter must be submitted to the City requesting approval and describing how, through the continued use of the equipment, the grant objectives will be met. The City reserves the right to refuse any request.

Equipment shall be depreciated on a 5-year, straight-line basis, as is the accounting standard used for the City in its financial management. A Subrecipient is required to maintain records of the HUD funded equipment purchases and report to the City during the 5-year depreciation period. If the property is disposed of prior to the 5-year depreciation period, the City shall provide the Subrecipient with disposition instructions upon request. If the property is disposed of for cash during this period it constitutes Program Income, which must be reported.

When equipment has been fully depreciated, and the equipment is sold, the Subrecipient may retain such funds provided that the City is notified in writing and the funds are used for the exclusive benefit of the previously HUD funded program.

## D. Real Property Disposition

Real property is defined as land, including land improvements and buildings. Any real property acquired or improved in whole or in part with CDBG funds in excess of \$25,000 must continue to meet the National Objective of the program for a minimum of 5 years after expiration of the contract, or for a period of time as deemed appropriate by the City.

If not used as stated above, the Subrecipient must sell the real property in a manner that results in the reimbursement of the federal grant funds that were expended for the project.

## E. Record Retention

Per 24 CFR Part 570 Subpart J, HUD funded records must be retained for five (5) years after the completion of the program, in order to allow access for audit and public examination. Subrecipients may be required to retain records longer than the specified time period if the records related to audit resolution, audit appeal, or other action initiated prior to the end of the record retention period. The retention period starts when the annual or final expenditure report has been submitted or, for non-expendable property, from the date of final disposition.

HUD and the Comptroller General of the United States, or their authorized representatives, have the right to access Subrecipient agency program records. All CDBG grantees are required to provide citizens with reasonable access to records regarding the current funded programs and past, consistent with applicable State and local laws regarding privacy and confidentiality.

Information may be provided utilizing aggregate statistics. All clients may be lumped into categories, but no personal information may be released. ***For example, a report may state: 150 clients served this month, 60 Caucasian, 60 African American, 15 Native Americans, 15 Asian. Of those clients, 25 were female head of household, 30 were Veterans, 100 were very low income, and 50 were moderate income.***

## F. City Internal Audit Reviews

The City reserves the right to have its Internal Audit Division review all Subrecipient records and transactions. Audit findings resulting in monetary repayment to the City will be collected by the City from the Subrecipient's non-federally funded resources. City Internal Auditors review Subrecipient monitoring/account reviews to begin their single audit reviews. Reports containing findings are then sent to both the Housing and Community Services Division and the Subrecipient for compliance. Progress on the compliance is also monitored. Failure to rectify findings within the given time frame may result in suspension, termination of grant agreement, and/or disbarment from future grant funding.

## G. External Audit Reviews

All Subrecipients must submit a single audit, Audited Financials, or an Annual Certified Financial Statement based upon the amount of federal funding. The City reserves the right to request a Subrecipient to hire a Certified Public Accountant to review and report on the agency financial and programmatic records.

There are three types of audits:

1. **Single Audit:** Organizations that expend \$750,000 or more in one year in federal awards shall have a single or program specific audit conducted for that year.
2. **Audited Financials:** This means that a CPA has audited your records in accordance with generally accepted accounting practices and procedures and provided a hard copy.
3. **Annual Certified Financial Statement:** This is the lowest threshold criteria and will only be accepted from those non-profits who can document that they did not qualify for a single or regular audit. Annual Certified Financial Statements (ACFS) must be certified (signed and dated) by the Treasurer and the Board President. They must also have the following certification statement: We, the undersigned, as Executive Director and Treasurer of (Name of Agency), hereby certify that, to the best of our understanding and knowledge, the attached Financial Statements fairly and accurately represent the financial condition and operations of this organization.

**IRS Form 990 filing:** All agencies with revenue of \$25,000 or more must complete and submit this annual tax report. Contact the IRS for more information.

## X. Monitoring Plan

The purpose of this Subrecipient Monitoring Plan is to provide a Guide so that staff who review subrecipient performance over time have the tools necessary to ensure compliance with HUD.

This Guide is focused on non-profit Subrecipients funded with Community Development Block Grant (CDBG): 24 CFR 570.502, including the applicability of uniform administrative requirements, (a) (14) and with 2 CFR 200.328.

The Monitoring Plan allows the City staff to make informed judgments about program effectiveness, efficiency, and the Subrecipients ability to prevent fraud, waste and abuse of public funds. Monitoring also allows jurisdictions to provide technical assistance to help subrecipients comply with applicable laws and regulations, improve technical skills, increase capacity and stay updated on regulations relevant to CDBG, HOME or other funding agencies. Additionally, monitoring helps to identify deficiencies, and highlight accomplishments and best practices over time.

## A. Risk Management

Monitoring will be conducted based on parameters set by the Housing and Community Services Division to assess risk at various levels of the performance of their non-profit subrecipients over time. The subrecipients funded annually in any single eligible category are primarily public service and fair housing activities.

The following criteria are parameters for risk assessment for Subrecipients:

1. Staff will monitor all capital improvement projects regularly and will perform a construction file review prior to payment of any retention funds.
2. No less than 10% of the total number of activities funded in a three-year funding cycle will be monitored via site visits and program file review.

## B. Risk Level Criteria

Community Development Staff will use the criteria listed below to determine potential areas and levels of risk. If a Subrecipient is determined to have high-risk levels in one area or indicate higher levels of risk across multiple areas, it will trigger an annual monitoring. Monitoring every organization at least once in every three-year period will be standard operating procedures.

Standard criteria for determining risk:

1. **Quarterly Desk Reviews:** Staff will conduct a quarterly desk review using the subrecipient's quarterly progress reports and invoices. Staff will also complete a Mid-Year monitoring of each subrecipients' progress in meeting performance and expenditure goals. This review will help inform areas of risk for further review and will generally include both programmatic and financial reviews, which include, but are not limited to:
  - Cumulative beneficiary accomplishments compared to annual program goals;
  - Proportional distribution of services across racial and ethnic populations evidencing adequate outreach;
  - Review of distribution of beneficiaries across income groups (extremely low, very low, and low-income);
  - The extent to which services are provided to female-headed households and persons with disabilities; and



- Information provided through narratives or other methods that may inform the City of subrecipient activities, challenges, successes or other pertinent information.

***The financial review includes:***

- Cumulative expenditure rate to budget,
- Eligibility of line item expenditures to budget, and
- Adequacy and clarity of supporting documentation for line item expenditures.

As needed, CDBG staff will review Audits and Annual Financial Statements for any findings and Auditor notes and review agency's progress quarterly in addressing the Auditor's management letter. The Audit review should determine whether there were any findings relevant to the CDBG program or any other universal issues/findings that would impact the administration of the CDBG program.

The subrecipient must be in compliance with both HUD's CDBG Crosscutting Issues: Financial Management and Procurement, and the Cost Principles for Non-Profit Organizations found at 2 CFR Part 230.

[www.whitehouse.gov/omb/assets/omb/fedreg/2005/083105\\_a122.pdf](http://www.whitehouse.gov/omb/assets/omb/fedreg/2005/083105_a122.pdf)

2. **New Subrecipients or Organizational Change:** First time subrecipients or subrecipients experiencing organizational change may be selected when staff turnover results in a new Program Manager, Financial Officer or Executive Director. Organizational change may also include merging with another non-profit.
3. **Cumulative Grant Award:** Subrecipients receiving collective federal grant awards of \$750,000 or more are subject to the Single Audit Act and are required to provide a copy of this audit to the city in addition to the standard audit.
4. **Administrative History:** The extent to which a subrecipient has correctly submitted quarterly performance and expense reports and supporting documentation specific to these CDBG expenditures.
5. **Program Performance:** The extent to which program performance goals were met and the beneficiaries represented the demographics of the participating jurisdiction(s).
6. **Financial Capacity:** The extent to which reimbursement requests are received promptly on a quarterly basis, are submitted in the correct format, and are submitted with adequate supporting documentation of the expenditures for which reimbursement is being requested. Consecutive re-submittals over 2 or more quarters

would be grounds for monitoring or seeking further information and/or providing technical assistance.

### C. Levels of Monitoring

Monitoring will normally be conducted at one or more of three levels, depending upon the risk involved.

1. **Limited Review:** A limited review is conducted of all subrecipients on a quarterly basis, previously described as a Quarterly Desk Review. The timing of this monitoring coincides with an organization's submittal of a Quarterly Accomplishment Reports and Expense Reports/Reimbursement request for expenses incurred against the CDBG funds over the previous 90 days.

At least one quarter review will focus on the year-end financial statement or audit, and where applicable, the Single Audit. If the Single Audit contains audit findings or contain a management letter, the subrecipient will be selected for an In Depth Review. The goal of a Limited Review is to provide clarification to a specific unknown that cannot be determined from the subrecipient reports, and to identify areas of technical assistance needed by each subrecipient.

2. **Basic On-Site Monitoring Review:** A basic on-site monitoring review will typically be a site visit to a subrecipient program assisted with CDBG funding and will achieve a balance between programmatic and fiscal reviews, and much documentation review can be done prior to the on-site visit. The basic on-site monitoring includes a tour of the program facilities as appropriate, an explanation of the services provided, discussions with program and administrative staff, and introduction to one or more actual beneficiaries, if possible. As a result of this visit, staff may determine that an in-depth review is needed for further clarification of one or more issues that arose during the on-site visit. City staff will document this review through the Subrecipient Monitoring Checklist, Staff Interview Form and Follow-Up Technical Assistance report.

**Program review** will focus on the specific subrecipient program activities. Program staff may be asked to define the strategic plans for the related programs and, as applicable, how those plans are used to help clients in those programs.

**Financial review** will make the connections between the program budget, expenditures and actual beneficiaries assisted, including evidence of case managers' time in client files, reviewing payroll documents for the period clients are reported, determining eligibility of clients based on income documentation in client files, the general relationship between the contents of client files (excluding Attorney Client or HIPAA confidential data) and benefit data reported by the subrecipient on the same clients.

**The number of case files** to be reviewed will reflect approximately 10% of the total clients served in the program, or more if there appear to be any systemic issues to address.

**Invoices** may be randomly selected for review and traced back from CDBG reimbursement to the original organization's advance expenditure and client assisted (if appropriate). For example, exact dollars billed for housing accessibility modifications can be traced directly to one client. Conversely, a different review model is required when dollars billed provided case management for multiple homeless individuals. It is expected that staff will review original invoices, cancelled checks, and other such documentation evidencing the expenditure, the relationship to the CDBG program objective, the appropriate proportion of CDBG expenditure in comparison to other funding, and accounting receipt of the federal grant funds.

3. **In-Depth Review:** An in-depth review is a concentrated and focused review around a particular activity or program area. This would typically be a concentrated review of a known high-risk area or critical function, such as but not limited to:

- Financial review for expenditures for ineligible activities;
- Financial review for expenditures that cannot be traced through supporting documentation;
- A program which requires donations as a condition of receiving service;
- Management practices in affordable housing;
- Section 504 compliance reviews upon receipt of a complaint from a person with disabilities;
- A fair housing complaint from a home seeker treated differently while trying to obtain housing from the subrecipient;
- Denial of services for no valid reason; or
- Failure to meet prevailing wage requirements in construction activities subject to Davis Bacon.

#### D. Administration Process for Monitoring

Monitoring will be conducted in two phases. File review will generally confirm compliance with reporting requirements, financial submittals, and contract provisions and much of it will be completed prior to the on-site visit. On-site reviews will focus more on the beneficiary documentation and services provided, including quantitative performance outcomes to local

and federal objectives, and financial processes and documentation only available at the program site.

Community Development Staff will use the risk analysis criteria identified in this plan to determine the annual list of subrecipients to be monitored. Upon the arrangement of mutual date and time with the subrecipient, staff will send letters at least three weeks in advance of the date the monitoring is to be held. These monitoring policies and checklist will be provided to the subrecipient and the letter may emphasize any specific areas of compliance to be reviewed and how files will be selected for review, as applicable.

At the conclusion of the monitoring visit, staff will send each subrecipient written documentation of the site visit, summarizing what was reviewed, and indicating any findings of regulatory non-compliance or concerns of program weaknesses. Additionally, staff will provide technical assistance to correct any deficiencies noted, and will acknowledge the performance level of the program, and whether they will either meet or fall short of contract goals.

## E. Findings, Concerns, and Noncompliance

Finds, Concerns and Noncompliant issues include, but are not limited to:

1. **Findings:** Where an identified deficiency results in a finding of non-compliance with CDBG or HOME rules, the finding must include the condition, criteria, cause, effect, and required corrective action.
  - a. The condition describes what was wrong or what the problem was.
  - b. The criteria cite the regulatory or statutory requirements that were not met.
  - c. The cause explains why the condition occurred.
  - d. The effect describes what happened because of the condition.
  - e. The corrective action identifies the action(s) needed to resolve the problem and, unless inapplicable or there are extenuating circumstances, should include the time frame by which the subrecipient is to respond to the finding.

The monitoring letter should also provide timelines for response and corrections, as well as actions the City may take if the subrecipient fails to make corrections in a timely manner.

2. **Concerns:** Monitoring concerns brought to the subrecipient's attention should include the condition, cause, and effect as described above. The reviewer should suggest or recommend actions that the subrecipient may take to address a concern, based on

sound management principles or other guidelines. However, corrective actions are not required for concerns.

3. **Actions for Non-Compliance:** Subrecipients who are found to be in non-compliance and receive a finding as a result of their monitoring will be provided with technical assistance towards resolution, and actions taken by the City to achieve compliance may include, but not be limited to, withholding further disbursements of CDBG funds until satisfactory compliance with applicable regulations are achieved.

## F. Record Keeping

Records and documentation should demonstrate that each activity undertaken meets the criteria for National Objectives and Eligibility compliance.

## XI. CDBG Monitoring Manual

The CDBG Monitoring Manual is a separate manual.