

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**CFDA 14.866 DEMOLITION AND REVITALIZATION OF SEVERELY DISTRESSED PUBLIC HOUSING (HOPE VI)****I. PROGRAM OBJECTIVES**

The objective of HOPE VI revitalization grants is to provide assistance to public housing agencies (PHAs) for the purposes of enabling PHAs to improve the living environment for public housing residents of severely distressed public housing projects through (1) demolition, (2) substantial rehabilitation, (3) reconfiguration, and/or (4) replacement of severely distressed units. An additional objective is to revitalize the sites on which severely distressed public housing projects are located and contribute to the improvement of the surrounding neighborhood.

The objective of HOPE VI demolition grants is to enable PHAs to fund the demolition of severely distressed public housing units and relocation of affected residents, and to provide supportive services to relocated residents.

II. PROGRAM PROCEDURES**Notice of Funding Availability**

The Department of Housing and Urban Development (HUD) awards demolition and revitalization grants to eligible organizations through a competitive process. The procedure is set out in the Notices of Funding Availability (NOFAs) for the applicable fiscal year (FY). The NOFA establishes the eligibility requirements for PHAs to apply for a HOPE VI grant; the availability of funds; and the requirements and procedures to be followed in filing an application for the applicable FY.

Grant Agreement

The grant agreement (Agreement) establishes grant requirements; the procedures and content for the Revitalization Plan; the time periods for implementation of the grant; the requirements and procedures for grant-supported activities, including development, rehabilitation, homeownership, demolition, disposition, relocation, acquisition, community and supportive services, administrative fees and costs, and amendment to the Revitalization Plan. In addition, the Agreement defines the various development types in a mixed-income development, including replacement units, rental units, homeownership units, and market rate units and their allowed sources of funding, and the HUD regulations governing their development and location.

Development and Mixed-Finance Development

The selection of a development partner and the general administrative requirements are governed by 24 CFR part 85. The detailed steps to be followed in the phase-by-phase development of an all-public housing development are governed by 24 CFR part 941 – Public Housing Development and 24 CFR part 968 – Public Housing Modernization. The detailed steps to be

followed in the phase-by-phase development of a mixed-income/mixed-finance development are governed by the provisions of 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing.

The components of a mixed-income/mixed-finance development may be public housing units, low-income tax credit and Section 8 units, and privately financed market rate units. All of the components of the mixed-finance development, other than public housing, must be funded from other financial sources. These objectives are accomplished through the PHA forging partnerships with other public agencies, including local governmental agencies, nonprofit organizations, and private businesses to leverage community support and public housing-funded financial sources for the development.

In general, the procedures to be followed for each phase of development, as set out in the Agreement and the Revitalization Plan are as follows. A mixed-finance proposal (Rental Term Sheet) is prepared that describes the development and development partners; number and types of units; sources and uses of funds (FIs) by specific phase (HOPE VI Budget); schedules; any waivers required; loans and operating subsidy payments to the development entity; estimated construction cost; and any other matters pertinent to the development. Upon approval of the Rental Term Sheet, the PHA has the evidentiary documents for the transaction and the Mixed-Finance Amendment to the ACC prepared for review and approval by HUD.

An approval letter is issued by HUD, authorizing the execution of the applicable HUD documents and the recording of the evidentiaries. A copy of the recorded evidentiaries and the HUD documents are forwarded to HUD Headquarters. Upon review and approval, the HOPE VI funds for the phase, as set out in the HOPE VI Budget, and the FIs are placed in Line of Credit Control System to fund the development costs for the phase. Upon completion of construction, and the meeting of the end of the initial operating period and the date of full availability, the agreed-upon Operating Subsidy is provided for the public housing units. Upon completion of all of the phases of development funded by HOPE VI, the grant is closed out in accordance with the provisions of the Agreement.

Source of Governing Requirements

The program authority for the HOPE VI program is 42 USC 1437v, as amended by section 402 of the HOPE VI Program Reauthorization and Small Community Mainstreet Rejuvenation and Housing Act of 2003 (Pub. L. 108-186, approved December 16, 2003). The regulations governing mixed-financing are contained in 24 CFR part 941, subpart F.

Availability of Other Program Information

No program-specific regulations have been published. Each grant is subject to the terms of its Agreement, which is signed by the grantee and HUD. HUD posts guidance on the HOPE VI program on its Home Page (<http://www.hud.gov/hopevi>), which provides information on timelines, budgets, financial instructions, and other program guidance. HUD also publishes a *Mixed-Finance Guidebook* that is available to the public by calling 1-800-955-2232. Information regarding the financial reporting requirements of the PHAs is provided by HUD on the Real Estate Assessment Center (REAC) home pages

(http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm and http://www.hud.gov/offices/reac/library/lib_fapha.cfm).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. HOPE VI revitalization grant funds may be used to fund the revitalization of severely distressed public housing developments (42 USC 1437v(d)). Such activities include:
 - a. The demolition of severely distressed public housing developments or portions thereof (42 USC 1437v(d)(1)(C)),
 - b. Relocation costs for affected residents (42 USC 1437v(d)(1)(F) and (J)),
 - c. Disposition activities (42 USC 1437v(d)(1)(C))
 - d. Rehabilitation of existing public housing units and/or community facilities (42 USC 1437v(d)(1)(B)),
 - e. Development of new public housing units and community facilities (42 USC 1437v(d)(1)(I)),
 - f. Homeownership activities (42 USC 1437v(d)(1)(G)),
 - g. Acquisition and disposition activities (42 USC 1437v(d)(1)(B),(C) and (J)),
 - h. Economic development activities (42 USC 1437v(d)(1)(G)),
 - i. Leveraging of resources (42 USC 1437v(d)(1)(I)),
 - j. Necessary management improvements (42 USC 1437v(d)(1)(H)),
 - k. Administrative and consulting costs (42 USC 1437v(d)(1)(D) and (E)),and
 - l. Community and supportive services(42 USC 1437v(d)(1)(G)) .
2. HOPE VI demolition grant funds may be used to fund the demolition of dwelling units and non-dwelling structures, relocation of affected residents, site restoration, as appropriate, and reasonable administrative costs (42 USC 1437v(d)).
3. The components of mixed-finance development, other than public housing, may not be financed with public housing funds (42 USC 1437v(d)).

D. Davis-Bacon Act

HOPE VI projects developed in accordance with 24 CFR part 941 – Public Housing Development and 24 CFR part 968 – Public Housing Modernization that contain only public housing replacement units, and HOPE VI mixed-finance projects developed in accordance with 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing where the development entity has been procured by the PHA in accordance with 24 CFR part 85 are subject to the provisions of the Davis Bacon Act (42 USC1437j(a) and (b), 24 CFR sections 941.208 and 941.610(a)(8)(vi)).

G. Matching, Level of Effort, Earmarking**1. Matching**

Grantees must provide a five percent (5%) overall match, and if more than five percent (5%) of the grant is used for community and supportive services, any amount over five percent (5%) must be matched (42 USC 1437v(c)).

2. Level of Effort - Not Applicable**3. Earmarking - Not Applicable****L. Reporting****1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Applicable
- e. *Financial Reports (OMB 2535-0107)*. Financial Assessment Sub System, FASS-PHA. 24 CFR part 902 – Public Housing Assessment System (PHAS) Subpart C-Phase Indicator #2 Financial Condition requires the PHA to provide reports on an annual basis. The report requires an assessment on a PHA entity-wide basis, which allows for the oversight of all individual grants and subsidy programs and provides HUD access to any factors it determines are appropriate (42 USC 1437d(j)(1)(K)). Financial reporting requirements in 24 CFR section 902.33(a)(2) provide that the information be “submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS).” 24 CFR section 902.35, “Financial condition scoring and threshold,” establishes the procedures to be observed by the PHA.

Key Line Items – The line items under the following headings contain critical information:

- (1) Headings for HUD Programs and Business Activities
 - (a) HOPE VI (Revitalization of Severely Distressed Public Housing)
 - (b) Component Units (Non-Profit Entities)
 - (2) Line Items
 - (a) FDS Line 125 - (Accounts Receivable – Misc)
 - (b) FDS Line 144 - (Inter-Program – Due From)
 - (c) FDS Line 171 - (Notes, Loans, Mortgages, Receivable – Non-current)
 - (d) FDS Line 172 - (Notes, Loans, Mortgages, Receivable – Non-current Past Due)
 - (e) FDS Line 174 - (Other Assets)
 - (f) FDS Line 176 - (Investment in Joint Ventures)
 - (g) FDS Line 347 - (Inter-Program – Due To)
 - (h) FDS Line 348 - (Loan Liability – Current)
 - (i) FDS Line 355 - (Loan Liability – Non-Current)
 - (j) FDS Line 913 - (Outside Management Fees)
 - (k) FDS Line 1001 - (Operating Transfers – In)
 - (l) FDS Line 1002 - (Operating Transfers – In)
 - (m) FDS Line 1003 - (Operating Transfers From/To Primary Government)
- 2. Performance Reporting** – Not Applicable
- 3. Special Reporting** – Not Applicable

N. Special Tests and Provisions

FASS – PHA, Public Housing Assessment System Phase Indicator #2 - Financial Condition, and HUD-50075, PHA Plans

Compliance Requirement – On an annual basis, the PHA must report on the financial condition of the PHA and on the transactions that the PHA is entering into with private and non-profit entities (24 CFR 902.33). In the FASS-PHA Financial Assessment Sub System, the PHA transactions with non-profit and private development entities are shown under the headings for HUD Programs and Business Activities for HOPE VI (Revitalization of Severely Distressed Housing) and the Component Units (Non-Profit Affiliates). Such transactions would be noted in the FDS Line items shown above in Section III.L.1.e(2). The FASS-PHA Financial Report is reviewed and approved or rejected by the REAC.

The PHA is required to report in the PHA Plan, in accordance with HUD 50075 (*OMB No. 2577-0226*) any transactions to be entered into with non-profit and private development entities. The PHA submits the Annual Statement, Component 7, for HOPE VI and Mixed-Finance in Part III of the PHA Plan. The PHA Plan, Implementation Schedule, for each active grant, details the eligible activities to be funded and the budget of estimated sources and uses.

Audit Objective - Determine whether the expenditures set out in the FDS line items that indicate participation by non-profit and private development entities (FDS Line Items 125, 144, and 347) agree with the data reported in the PHA Plan.

Suggested Audit Procedures

- a. Review the data in FDS Line Items 125, 144, and 347 to determine the extent of non-profit and private development entities using HOPE VI.
- b. Ascertain that the data in the FDS Line Items 125, 144, and 347 are substantially in agreement with the estimated sources and uses reported in the PHA Plan, Implementation Schedule (i.e., expenditures do not exceed the budget by 10 percent).

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.872 PUBLIC HOUSING CAPITAL FUND (CFP)

I. PROGRAM OBJECTIVES

The objective of the Capital Fund Program (CFP) is to make assistance available to public housing agencies (PHAs) to carry out capital and management improvement activities. The CFP is the major source of funding made available by HUD to PHAs for their capital activities, including modernization and development of public housing.

The objectives of modernization activities are to improve the physical condition of existing public housing developments, including the redesign, reconstruction, addition, and reconfiguration of public housing sites, buildings, facilities and/or related appurtenances or improvements (including accessibility improvements).

The objectives of management improvement activities are to upgrade the operation of PHA developments, sustain physical improvements at those developments, or correct management deficiencies.

The objectives of development activities are to provide PHAs with the opportunity to replace, build, or acquire units to house low-income families, including costs for planning, financing, land acquisition, demolition, and construction.

II. PROGRAM PROCEDURES

CFP grants are made available to all PHAs, based on formula after setting aside funds for a Reserve for Emergencies and Natural Disaster. HUD allocates one-half of the available Capital Fund amount based on the relative existing modernization needs of PHAs and the other one-half based on the relative accrual needs of PHAs. The calculated needs are summed to the PHA level. HUD collects objective measurable data about each PHA, such as the age of each development and the average number of bedrooms in each development, and uses this data to determine the PHA's share of the funds appropriated annually.

The PHA's annual allocation is based on existing modernization needs and accrual needs of all PHAs. Existing modernization needs are the cost of repairs and replacements beyond ordinary maintenance required to make the housing decent and sustainable with modest amenities. Accrual needs are the costs needed each year to cover expected ongoing repairs and replacements beyond ordinary maintenance, assuming that existing modernization needs are met.

In planning its modernization projects, the PHA is required to consult with residents and local government officials. After grant award, the PHA may select an architect or engineer through competitive negotiation to develop the plans and specifications for the construction work. Construction work, as well as management improvements, may be carried out through contract labor (competitively procured) or the PHA's own work force (force account). The PHA or its architect monitors the work in progress for compliance with contract requirements and acceptable work quality, and submits periodic progress reports to HUD.

PHAs develop additional public housing, including mixed-financed housing in accordance with 24 CFR section 941. For development projects, the PHA is responsible for obtaining and maintaining local cooperation, for project planning, and for submitting the annual PHA Plan and any public housing proposal. This includes selecting sites or properties to be acquired, contracting with builders to construct or rehabilitate housing, contracting with developers for the purchase of completed (new or rehabilitated) housing, and purchasing existing housing which may require repairs. In addition, as a developer, the PHA is responsible for selecting and contracting with other parties (e.g., architects and engineers) and for expediting and coordinating the preparation of required HUD submissions.

On an annual basis, the PHA submits a Public Housing Agency Plan (*OMB No. 2577-0226*) to HUD. The Plan includes a component relative to the CFP activities the PHA plans to undertake with its annual allocation. A five-year plan identifying anticipated expenditures for large capital items is also included. Prior to submitting the Plan to HUD for review and approval, the PHA must hold a public hearing and provide residents, local government officials, and other interested parties with an opportunity to comment on the proposed activities.

Approval of the PHA Plan is in conjunction with the PHA fiscal year, and that approval constitutes approval of the PHA's CFP grant. After the Plan is approved, which includes the PHA's budget for the CFP funds, HUD apportions the grant in the appropriate Budget Line Items (BLIs) in the Line of Credit Control System (LOCCS). The PHA can then drawdown funds as needed on a three-day turnaround basis to pay for approved work activities.

In accordance with HUD's Uniform Financial Reporting Standards rule, annually, a PHA is required to submit financial statements, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format specified by HUD. The unaudited financial statement is due 2 months after the PHA's fiscal year end and the audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801). The financial statement must include the financial activities of this program.

Source of Governing Requirements

This program is authorized under 42 USC 1437g and 3535 (d). Implementing regulations are 24 CFR parts 905, 941, and 968 subparts A and B. In addition, the CFP is operated in conjunction with the PHA Plan process discussed at 24 CFR part 903.

Availability of Other Program Information

There are no program regulations for this program. HUD posts guidance on the CFP to its Home Page (<http://www.hud.gov/offices/pih/programs/ph/capfund/index.cfm>) that provides grantees with information on timelines, budgets, financial instructions, and other program guidance. Information regarding the financial reporting requirements of the PHAs is provided by HUD on the Real Estate Assessment Center (REAC) website at http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm and http://www.hud.gov/offices/reac/library/lib_fapha.cfm.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Activities allowed include capital improvements, financing, major repairs, management improvements, and planning costs and must be approved by HUD. HUD approval is provided generally in the approved PHA Plan, which includes the PHA's budget for CFP funds (24 CFR section 968.315). On an annual basis, the PHA provides HUD with its Annual Statement Component 7 of the PHA Plan (HUD-50075, *OMB No. 2577-0226*) in accordance with 24 CFR section 968.325(e) which details the eligible activities to be funded with the current year's grant and the estimated costs. HUD reviews and approves the activities in the Annual Statement before the PHA can have access to the funds.
2. The PHA may not incur any modernization cost in excess of the total HUD-approved PHA Plan which includes the project budget. Budget revisions may be approved by HUD for deviations from the originally approved modernization program. A PHA shall not incur any modernization cost on behalf of any development that is not covered by the original PHA Plan (24 CFR section 968.225).

D. Davis-Bacon Act

Projects funded with Capital Funds that are developed in accordance with 24 CFR part 941 – Public Housing Development and 24 CFR part 968 – Public Housing Modernization that contain only public housing units and mixed-finance projects developed in accordance 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing are subject to the Davis-Bacon Act (42 U.S.C.1437j (a) and (b), 24 CFR 941.208 and 24 CFR 941.610 (a)(8)(vi)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement of Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Applicable
- e. Financial Reports (*OMB 2535-0107*) - Financial Assessment Sub System, FASS-PHA. 24 CFR part 902 – Public Housing Assessment System

(PHAS) Subpart C-Phase Indicator #2 Financial Condition requires the PHA to provide annual reports on aPHA-wide basis (42 USC 1437d (j)(1)(K). Financial reporting requirements in 24 CFR section 902.33(a)(2) provide that the information be submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS). Further 24 CFR section 902.35, “Financial condition scoring and threshold,” establishes the procedures to be observed by the PHA.

Key Line Items – The line items under the following Headings contain critical information:

1. Headings for HUD Programs and Activities
 - a. Public Housing Capital Fund Program
 - b. Component Units (Non-Profit Entities)
2. Line Items
 - FDS Line 125 (Accounts Receivable – Misc)
 - FDS Line 144 (Inter-Program – Due From)
 - FDS Line 171 (Notes, Loans, Mortgages, Receivable – Non-current)
 - FDS Line 172 (Notes, Loans, Mortgages, Receivable – Non-current Past Due)
 - FDS Line 174 (Other Assets)
 - FDS Line 176 (Investment in Joint Ventures)
 - FDS Line 347 (Inter-Program – Due To)
 - FDS Line 348 (Loan Liability – Current)
 - FDS Line 355 (Loan Liability – Non-Current)
 - FDS Line 913 (Outside Management Fees)
 - FDS Line 1001 (Operating Transfers – In)
 - FDS Line 1002 (Operating Transfers – In)
 - FDS Line 1003 (Operating Transfers From/To Primary Government)

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable**N. Special Tests and Provisions****FASS – PHA, Public Housing Assessment System Phase Indicator #2, Financial Condition, and HUD-50075, PHA Plans**

Compliance Requirement – On an annual basis the PHA must report on the financial condition of the PHA and on the transactions that the PHA is entering into with private and nonprofit entities (24 CFR part 902.33). In the FASS-PHA Financial Assessment Sub System, the PHA transactions with non-profit and private development entities are shown under the headings for HUD Programs and Business Activities for the Capital Fund Program. Such transactions would be noted in the FDS Line items shown above in Section III. L,1e.2. The FASS-PHA Financial Report is reviewed and approved or rejected by the REAC.

The PHA is required to report in the PHA Plan, in accordance with HUD 50075 (OMB No. 2577-0226), any transactions to be entered into with non-profit and private development entities. The PHA submits the Capital Fund Program in Part III of the PHA plan. The PHA Plan, Implementation Schedule, for each active grant, details the eligible activities to be funded and the budget of estimated sources and uses. The PHA Plan is reviewed and approved by the HUD Field Office in the region in which the PHA is located.

Audit Objective - Determine whether the expenditures set out in the FDS line items that indicate participation by non-profit and private development entities (FDS Line Items 125, 144, and 347) agree with the data reported in the PHA Plan.

Suggested Audit Procedures

- a. Review the data in FDS Line Items 125, 144, and 347 to determine the extent of non-profit and private development entities utilizing the Capital Fund Program.
- b. Ascertain that the data in the FDS Line Items 125, 144, and 347 are substantially in agreement with the estimated sources and uses reported in the PHA Plan, Implementation Schedule (i.e., expenditures do not exceed the budget by 10 percent).