

Use of "Contingency Funds" in Final Statements and Grantee Performance Reports

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U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410- 7000
OFFICE OF THE ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND
DEVELOPMENT

MEMORANDUM FOR: All Regional Administrators
All Regional Directors for CPD
All Field Category A Managers
ALL CPD Division Directors

FROM: Jack R. Stokvis, General Deputy Assistant Secretary for Community Planning and
Development, CD

**SUBJECT: Use of "Contingency Funds" in Final Statements and Grantee Performance
Reports**

It has recently come to our attention that an increasing number of CDBG entitlement grantees are listing "contingency funds" as an unspecified line item on Final Statements and budgeting significant amounts for this purpose. In tracking these funds in subsequent Grantee Performance Reports, we have found cases where "contingency funds" have been used to fund new activities for which the required citizen participation and amendment requirements have not been fulfilled. We would therefore like to clarify the appropriate use and reporting of "contingency funds" in connection with eligible CDBG activities.

Prior to 1981, section 104(b)(1) of the statute did permit grantees to use 10 percent of their annual entitlement for local option activities. In 1981, amendments to the statute removed this provision. Furthermore, the 1983 amendments added a new provision at section 104(a) requiring grantees to provide citizens an opportunity to comment on substantial changes to the annual program of activities. (Clearly, the addition of a new activity would be a substantial change.) This new requirement makes the concept of local option activities, which by their nature are not subject to citizen comment, contrary to the amended Act.

Although grantees may no longer budget funds for local option activities, they may set aside small amounts of "contingency funds" for potential cost overruns for activities described in the Final Statement. It is important to recognize that "contingency funds" may not be used to, in effect, maintain a "local option" fund. Although the CDBG regulations do not contain any cost limitations regarding funds budgeted under this category, the amount should be reasonable in relation to the cost of the activity.

If any contingency amounts have not been budgeted for a specific activity by the end of the program year, they should be shown on the Activity Summary form (HUD 4949.2) of the Grantee Performance Report. Specifically, they should be identified as "Unprogrammed Funds" in column (b) and the amount of these funds entered in column (j).

We wish to emphasize that contingency funds may not be used for activities not listed in the Final Statement, unless applicable citizen participation requirements are followed and an amendment to the Final Statement is submitted to HUD.

Please provide copies of this guidance to all entitlement grantees within your jurisdiction and to all CPD staff responsible for reviewing Final Statements and/or Grantee Performance Reports.