

Request for Grant Conditions

2/11/92

MEMORANDUM FOR: Robert J. De Monte, Regional Administrator- Regional Housing Commissioner

ATTENTION: Gordon H. McKay, Regional Director
San Francisco Regional Office, 9C

FROM: Anna Kondratas, Assistant Secretary
for Community Planning and Development, C

**SUBJECT: Community Development Block Grant (CDBG) Program
County of Riverside, CA
Grant No: B-91-UC-06-0506
Request to Condition Grant for Program Year 1991**

This is in response to your October 15, 1991, request to condition Riverside County's 1991 program year Community Development Block Grant (CDBG) on the basis of poor performance in meeting program requirements for its housing rehabilitation and special economic development activities.

After receiving your request in October, we had to request a great deal of additional information from the Los Angeles Field Office during November and December in order to determine whether sufficient grounds existed for the condition. After review of this material, we agree that conditions are appropriate, but in a somewhat different form. We also became aware during our review that the County's program year was scheduled to have begun in July 1991. The authority to delay a CDBG recipient's grant is not delegated to the Field. Therefore, future requests for grant conditions must be submitted to Headquarters sufficiently in advance of the scheduled start of the recipient's program year to permit a conditioned grant to be made in a far more timely manner.

Residential Rehabilitation Productivity

In its July 19, 1990, monitoring letter, the Field Office documented the County's extremely poor performance in carrying out its CDBG-supported residential rehabilitation activities. Specifically, the Field Office noted that the County was in the lowest decile of productivity performance nationally, as included in the guidelines in Notices CPD-89-04 and CPD-90-12. The County has failed to correct the deficiencies. According to the Field Office's monitoring reports, and the latest Grantee Performance Report (HUD form 4949.2a), the County's ratio of CDBG activity delivery costs to total project costs exceeds 180 percent. The above-cited Notices provide guidelines to ensure that rehabilitation programs are carried out at a reasonable costs. When a community's performance is so inefficient more than one year after HUD has notified the community of problems, as is the case here, HUD must conclude that the costs for the activities in question are excessive and unreasonable.

We therefore determine that the activity delivery costs for the County's rehabilitation activities are not necessary and reasonable, as required under OMB Circular A-87. The attached conditions on the County's expenditures for activities eligible under 24 CFR 570.202 are designed to give the County and opportunity to correct the deficiencies in its activity management and to substantially reduce its administrative cost ratio, while protecting the CDBG program from further unallowable expenditures.

Special Economic Development

The Field Office has repeatedly made findings on the County's CDBG-funded special economic development activities. In monitoring letters dated March 5, 1990, July 12, 1990, and July 26, 1991, the Field Office noted that the County maintained insufficient file documentation and management controls to ensure compliance with the national objective requirements for its special economic development activities as required in the regulations at 24 CFR 570.200(a)(1) and (2), 570.208, and 570.506(b). The attached condition on the County's expenditures for assistance to for profit businesses to carry out economic development activities is designed to ensure that these deficiencies are not repeated.

In light of the above, you are authorized to impose the attached special conditions on the FY 1991 CDBG entitlement grant to Riverside County, California.

Attachment

cc: Linda Marston, SC

SPECIAL CONTRACT CONDITIONS FY 1991 CDBG ENTITLEMENT PROGRAM COUNTY OF RIVERSIDE, CALIFORNIA

Pursuant to Section 104(e) of the Housing and Community Development Act of 1974, as amended, the Department has reviewed the performance of the County of Riverside in carrying out its Community Development Block Grant (CDBG) program. The Department has determined, in accordance with 24 CFR 570.901, that the County has failed to carry out its CDBG-assisted rehabilitation activities in accordance with the requirements of the CDBG regulations at 24 CFR 570.502 and has failed to carry out its CDBG-assisted economic development loan program in compliance with the requirements at 24 CFR 570.200(a)(1) and (2), 570.208 and 570.506(b), thus raising serious concerns about the County's future use of program funds for such activities.

Accordingly, notwithstanding any other provisions, effective with the execution of this grant agreement by the County, the following conditions on the County's use of CDBG funds apply:

Condition 1 Rehabilitation Productivity

Notwithstanding any other provisions, the County may not obligate or expend any additional CDBG funds including program income, for the purpose of providing assistance for activities to be carried out under 24 CFR 570.202(b) until the County has completed the following actions to the satisfaction of HUD:

1. Assess the current rehabilitation program design to determine why the administrative costs are so high and production so low; and
2. Develop an intake and underwriting system that will produce units at a greater rate with substantially less administrative cost, and design a rehabilitation program with management controls to avoid excessive administrative costs; and
3. Submit a written plan approved by the Board of Supervisors to HUD describing: the design of the revised rehabilitation program, including staffing, intake, and underwriting procedures; a schedule (covering no more than two years) for implementing the revised program; and management controls for preventing excessive administrative costs. The plan must be approved by HUD in writing.

After the County has received approval of its plan from HUD and during the period covered by the plan's schedule, the County shall submit a written report to HUD every three months on its progress in implementing the plan, showing costs incurred and results achieved.

Condition 2 Special Economic Development

Notwithstanding any other provisions, the County may not obligate or expend any additional CDBG funds including program income, for the purpose of providing assistance for activities to be carried out under 24 CFR 570.203(b) until it has demonstrated that such activities will comply with 24 CFR 570.208. To so demonstrate, the County must:

1. Develop and submit to HUD the policies and procedures it will follow to ensure that a national objective will be met by assistance provided under §570.203(b). Such policies must be approved by HUD in writing; and
2. After the County has received approval of these policies and procedures, the County must submit to HUD, for each instance of assistance to be provided under 570.203(b) during the twelve month period beginning with such approval, how the assistance will meet a national objective. Each submittal to HUD must include the following items, as applicable:
 - a. For each activity that is to meet a national objective under 24 CFR 570.208(a)(1), 570.208(b)(1) or (3), or 570.208(c), the grantee shall submit a written determination showing how the national objective will be met prior to the commitment of funds to the for-profit business.
 - b. For each activity that is to meet a national objective under 24 CFR 570.208(a)(4), the submittal to HUD must include, at a minimum:
 - i. copies of the review required under 24 CFR 570.203(b), and
 - ii. language in the contract with the assisted business establishing responsibilities for meeting the national objective requirements and reporting requirements; and

- iii. a description of any actions expected to be taken by the County to support and monitor the activity.

HUD will determine if the assistance is in accordance with the policies and procedures established under (1) above and, if so, will approve the release of CDBG funds for the loan or grant.

If the County obligates or expends any CDBG funds in violation of these conditions, such amounts will be disallowed and HUD shall have cause, pursuant to 24 CFR 570.911(b), to reduce the County's FY 1991 grant by the amount disallowed. If the County fails in any other way to meet these conditions, it will be cause for HUD to reduce the FY 1991 grant by an appropriate amount, up to the full amount of the grant.