



**The City of Los Angeles, CA**  
**Community Development Block Grant Program**



Issue Date: September 29, 2014

Audit Report Number: 2014-LA-1007

TO: William G. Vasquez, Director, Office of Community Planning and Development,  
Los Angeles, 9DD

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region 9,  
9DGA

//SIGNED//

SUBJECT: The City of Los Angeles, CA, Did Not Always Ensure That Community  
Development Block Grant-Funded Projects Met National Program Objectives

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Los Angeles' Community Development Block Grant program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



September 29, 2014

## **The City of Los Angeles, CA, Did Not Always Ensure That Community Development Block Grant-Funded Projects Met National Program Objectives**

# **Highlights**

Audit Report 2014-LA-1007

### **What We Audited and Why**

We initiated a review of the City of Los Angeles' Community Development Block Grant (CDBG) program due to concerns that CDBG-funded assets may be at risk. We performed our review to address questionable costs identified during a prior Office of Inspector General review (audit report 2014-LA-0001). Our objective was to determine whether the City maintained the required documentation for its CDBG-funded projects to support its vested interest and ensure that national program objectives were met.

### **What We Recommend**

We recommend that the Director of the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Community Planning and Development require the City to (1) provide and implement a plan of action to show use and progress of the projects in question, (2) review its CDBG-funded projects in its portfolio that were managed by its former redevelopment agency to ensure that all required executed agreements are in place with the relevant parties, and (3) review its CDBG-funded projects in its portfolio that were managed by its former redevelopment agency to ensure that all projects meet national objectives.

### **What We Found**

The City did not always maintain the required documentation for its CDBG-funded projects to support its vested interest and ensure that national program objectives were met. More than \$1.9 million in CDBG funds was at risk of not being used to meet the specified national program objectives. These funds may be lost due to the City not ensuring that developers completed projects to meet national program objectives.

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## **BACKGROUND AND OBJECTIVE**

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The City of Los Angeles uses two departments, the Los Angeles Housing + Community Investment Department and the Economic and Workforce Development Department, to carry out its housing community development activities. It also used a former redevelopment agency to serve the City's housing and development needs.

The mission of the Housing + Community Investment Department is to create viable urban communities by advocating for safe and livable neighborhoods through the promotion, development, and preservation of decent, safe, affordable housing and by expanding economic opportunities and public services, principally for low- and moderate-income persons. The department oversees administration, regulatory compliance and code, housing development, program operations, and strategic planning and policy. This department also administers U.S. Department of Housing and Urban Development (HUD) funding, including Community Development Block Grant (CDBG), Section 108 Loan Guarantee, and Brownfields Economic Development Initiative funds.

The Economic and Workforce Development Department is dedicated to building local businesses, providing residents with the tools they need for quality employment, and improving the total economic outlook for the City of Los Angeles. The Economic and Workforce Development Department partners with local agencies and service providers to help shape the City into a progressive and competitive location for both businesses and skilled workers. The department also uses HUD funds to accomplish its goals.

The former redevelopment agency's purpose was to make investments to create economic opportunity and improve the quality of life for the people who lived and worked in Los Angeles. The redevelopment agency's operating funds came from many sources that included incremental property taxes. Before its dissolution, the redevelopment agency also used the City's CDBG funds to carry out projects on the behalf of the City.

A previous review of HUD's Office of Community Planning and Development's (CPD) monitoring redevelopment agencies with CPD-funded assets identified that the City did not retain documentation to support its vested interest of more than \$61 million in CPD-funded assets. As a result, we determined that a review of the City was warranted to determine the extent of the City's lack of supporting documentation for its CDBG-funded assets, as well as what risks such actions may have on HUD. The City received an allocation of CDBG funds in the amount of more than \$77.9 million for fiscal year 2010; \$65.1 million for fiscal year 2011; and \$52.6 million for fiscal year 2012.

Our objective was to determine whether the City maintained the required documentation for its CDBG-funded projects to support its vested interest and ensure that national program objectives were met.

## RESULTS OF AUDIT

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### Finding: More Than \$1.9 Million in CDBG-Funded Projects Did Not Meet National Program Objectives

The City did not ensure that 2 of the 10 CDBG-funded sampled projects met specific national program objectives. This condition occurred because the City did not provide sufficient oversight of CDBG-funded projects managed by its former redevelopment agency and developers to ensure that HUD requirements, as well as national program objectives, were met. As a result, more than \$1.9 million in CDBG funds was at risk of not meeting HUD's national objectives, including providing activities that serve low- and moderate-income persons and preventing or eliminating blight.

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#### Two CDBG-Funded Projects Did Not Meet National Program Objectives

##### Chinatown Cultural Center



The City intended to use \$975,817 in CDBG funds to acquire and develop this site as part of a cultural center within the Chinatown district of Los Angeles. Initially, the City's former redevelopment agency managed this project, and a subrecipient agreement was executed in July 1997. City officials confirmed that the project's initial intent of being a mixed-use development had "evolved" with the use of CDBG funding toward the acquisition of land as part of a larger project. As a result, in June 2007, the City approved a funding agreement between its former redevelopment agency and a developer. Issues with the developer resulted

in the foreclosure of the project and the City's reacquiring the project using non-Federal funds in 2010.

The City selected a new developer for the project in 2013; however, this developer did not agree to meet HUD's program national objective obligation of job creation or the requirements at 24 CFR (Code of Federal Regulations) 570.208(a)(4)(i) and 570.209(b)(1)(i) (see appendix C) in the targeted areas as stated under the original funding agreements. The City instead required an affordable housing component requirement that did not specifically state which national objective would be met under the program. In addition, the City provided no correspondence between CPD and the City to address this issue. Further, the City intended to write off the CDBG funds expended for this project since the developer did not undertake the previous developer's duties and obligations in the original funding agreement.

The funding was also part of the national objective to reduce slum and blight in the Chinatown district of Los Angeles. More than \$3.5 million in CDBG funds had been used toward the acquisition of this project. A prior Office of Inspector General (OIG) review (audit report 2014-LA-0001) identified that nearly \$2.6 million of those funds was at risk, and we recommended that HUD remedy those at-risk funds. At the time of the prior internal audit, the required agreements were not in place. Therefore, the City could not ensure that the developer would follow CPD requirements when using the allocated \$975,817 to meet the designated national program objective.

As a result of the City's issues with meeting its original national objective, and then later changing it to another national objective, there were concerns that the project would not comply with CPD rules and requirements. In addition, the City increased its risk of losing \$975,817 in CDBG funds due to the lack of oversight and the enforcement of rules, requirements, and the terms of the agreement.

## Angelus Project



In May 2008, the City provided \$1 million in CDBG funds for use toward the purchase of the former Angelus Funeral Home. Once construction was completed, the former redevelopment agency planned to manage the development, consisting of a childcare center, medical offices, a garden area, and a parking lot, which would serve 160 low-income households annually. The project's intended national objective was providing activities benefiting low- or moderate-income persons as required by 24 CFR 570.208(a)(2)(i)(B) (see appendix C).

In May 2011, the redevelopment agency notified the developer of its breach of contract by failing to construct the project according to its agreement. The redevelopment agency demanded that the developer cure the breaches and defaults within 30 days after receiving the notice. In August 2012, the redevelopment agency sent the developer another notice of breach of contract with demands to correct the breaches and defaults. There was no documentation in the reviewed file to indicate that the developer responded to these notices. The City's files did not contain monitoring reports, communications regarding the project, and status reports to support its monitoring of the redevelopment agency's management of the project.

The property remained vacant and abandoned with no indication of construction progress. The City initiated foreclosure on the project since its former redevelopment agency would not accept a quitclaim to the project from the developer. The City held title to the project and did not state any plans for the project. With more than 6 years of no progress at the site, the City's lack of oversight of the redevelopment agency's actions resulted in the project's not meeting the stated national program objective of providing the needed services for low- and moderate-income persons in the targeted area of Los Angeles. As a



result, the City risked the loss of \$1 million in CDBG funds on an incomplete project that did not meet national program objective.

## Conclusion

The City did not ensure that two CDBG-funded projects met specific program national objectives. They did not ensure that the projects would be completed to meet a national program objective. This condition occurred because the City did not provide oversight of these projects while they were managed by the redevelopment agency. Documentation reviewed during the audit revealed that the City did not always monitor the status of its projects obtained and managed by its former redevelopment agency. Additionally, the City acknowledged that it was not always up to date on the status of the projects that were acquired and managed by the former redevelopment agency. As a result, more than \$1.9 million in CDBG funds did not meet national program objectives, which included providing activities that serve low- and moderate-income persons and preventing or eliminating blight in the target areas. Given the size of the City's allocation of CDBG funds and projects, the City must take the necessary steps to ensure that all required executed agreements are in place, as well as continuous monitoring of project progress, to meet national program objectives and comply with CPD rules and requirements.

## Recommendations

We recommend that the Director of HUD's Los Angeles Office of Community Planning and Development require the City to

- 1A. Provide and implement a plan of action to show the use and progress of the projects in question within 1 year of this report or reimburse HUD \$1,975,817 from non-Federal funds.
- 1B. Review the rest of its active CDBG-funded projects in its portfolio managed by its former redevelopment agency to ensure that all required executed agreements are in place with the relevant parties, guaranteeing the City's vested interest within one year of this report or take appropriate action against the City for those that did not have the applicable required agreements.
- 1C. Review the rest of its active CDBG-funded projects in its portfolio that were managed by its former redevelopment agency to ensure that all projects meet a national objective. For those that did not meet program national objectives, provide and implement a plan of action to meet the specific national objective within one year of this report or reimburse HUD from non-Federal funds.

## SCOPE AND METHODOLOGY

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We conducted our onsite review work at the City's Housing Department offices in Los Angeles, CA, from March 4, 2014, to August 18, 2014. Our review covered the period October 1, 2010, to September 30, 2012, and was expanded as necessary.

To accomplish our objective, we

- Interviewed pertinent City personnel familiar with the administration of the City's CDBG-funded projects and CPD staff;
- Reviewed HUD's monitoring reports, consolidated and annual performance and evaluation report, consolidated plans, and CDBG funding agreements;
- Reviewed Integrated Disbursement and Information System (IDIS)<sup>1</sup> performance reports provided by HUD;
- Reviewed the City's organizational charts;
- Reviewed the City's audited financial statements for fiscal years 2010, 2011, and 2012;
- Reviewed sampled project files for CDBG-funded projects;
- Conducted site visits to selected sampled CDBG-funded projects;
- Reviewed the City's internal policies and procedures; and
- Reviewed applicable CDBG regulations and requirements including CFR references.

To test the City's CDBG-funded projects, we selected a nonstatistical sample. During our survey review, we used the listing of all CPD-funded projects that were managed by the City's former community redevelopment agency, which was obtained during an internal CPD review (audit report 2014-LA-0001). During that audit, we reviewed the 10 largest funded projects. Therefore, we removed those projects from the list to establish a universe for our survey review of the City's CDBG-funded projects. As a result, we determined a total universe of 30 CPD-funded projects totaling more than \$8.4 million in CDBG funds that the redevelopment agency managed and controlled. We sorted the universe from largest to least by funded project. From this universe, we selected the top five largest funded projects to review during the survey phase of our audit totaling more than \$5 million in CDBG funds. We verified the funding amounts for these projects against HUD's IDIS reports.

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<sup>1</sup> Integrated Disbursement and Information System (IDIS) is a database and reporting system that HUD uses to monitor its grantees.

For our audit phase, we expanded our sample and selected five additional projects from the list, provided by the City, of all open and closed projects that were for the acquisition and redevelopment of assets, including all loans and grants between January 1, 2010, and December 31, 2013, that the City originated and managed. To obtain a sample, we sorted the audit universe into the three types of funding found on the list: Section 108, Brownfields, and “other.”

Due to the large number of projects classified as “other,” 203 projects, we selected the largest 3 funded projects from that category. These three projects were funded with more than \$12.8 million in CDBG funds. An additional sample with the largest funding was selected from each of the Section 108 (23 projects) and Brownfields (3 projects) categories. The Section 108 project was funded in the amount of \$25 million, and the Brownfields project was funded in the amount of \$1.4 million.

We found that data contained in the City’s source documentation provided by the City agreed with data contained in HUD’s IDIS reporting system. Therefore, we assessed the data to be sufficiently reliable for our use during this audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Implementation of policies and procedures to ensure that CDBG-funded assets meet specific CDBG program objectives, which include providing needed services for low- and moderate-income persons within the targeted area.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure that monitoring and program funds of CDBG activities comply with applicable requirements and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The City did not provide sufficient oversight of the two projects that were managed by the former redevelopment agencies to ensure that HUD requirements and program objectives were met (finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported Funds 1/
1A	\$1,975,817

- 1/ Unsupported funds are those funds charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, the unsupported funds totaled more than \$1.9 million for CDBG-funded projects for which the City did not provide oversight of the former redevelopment agencies to ensure that the agreements were executed and national program objectives were met. Implementation of a plan of action to show the use and progress of the projects in question within 1 year of this report would minimize instances of incomplete projects that do not meet national program objectives and maintain the City's interests.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



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Eric Garcetti, Mayor  
Rushmore D. Cervantes, General Manager

September 15, 2014

Tanya Schulze  
U.S. Department of Housing and Urban Development  
Regional Inspector General for Audit  
611 W. 6th Street, Suite 1160  
Los Angeles, CA 90017

Dear Ms. Schulze,

In response to the draft audit report regarding the review of the City of Los Angeles' Community Development Block Grant (CDBG) program conducted by your office, the Los Angeles Housing and Community Department (HCIDLA) respectfully submits the following comments.

### **Comment 1**

While there were many reasons for the lack of City involvement in Redevelopment Agency projects that utilized federal funds, we agree with the OIG's conclusions that the City neither provided oversight in regards to the projects managed by the Redevelopment Agency nor continual monitoring to ensure that projects met the CDBG program National Objectives. HCIDLA recognizes that changes need to be made and will take all necessary steps to assure that appropriate agreements are in place and that projects are continuously monitored to ensure compliance with HUD regulations.

### **Comment 2**

The one section of the OIG report that we would like to supplement with additional information is the description of the Chinatown mixed used development (now called Blossom Plaza). The report states that the City intended to use \$975,817 in CDBG funds for a cultural center as part of an overall mixed use development project in the Chinatown district in Los Angeles and that the most recent developer "refused to meet HUD's program National Objective obligation of job creation or the requirements of 570.208(a)(40)(i)...." This statement was based on a letter to the HUD Headquarters Financial Management Division from the City's Economic and Workforce Development Department explaining why the number of low and moderate income jobs projected to be created as part of this project could not be accomplished. As sometimes is the case, particularly in large organizations, departments may view the same activities through different lenses.

### **Comment 3**

As described in the January 22, 2007, report of the City's Chief Legislative Analyst, the CDBG invested in the site acquisition was to create 106 Low/Mod Jobs, the original National Objective for this redevelopment effort. However, after the development went into bankruptcy in 2008 and was

repurchased by the City in 2010, the City envisioned a mixed-use affordable housing development on this site under a ground lease with the City. As a result, the National Objective for the project became Low/Mod (L/M) Housing instead of L/M Jobs.

Acting through the HCIDLA, the City and Forest City Blossom, LLC, (FC Blossom) entered into a development and disposition agreement (DDA), in February 2013, for a mixed use development with 53 units to be occupied by and with rents affordable to households with incomes ranging from 30%-60% AMI. The developer was no longer required to provide L/M jobs and was, instead, required to provide affordable housing units. Subsequently, FC Blossom and the City executed a ground lease for the property; FC Blossom obtained an allocation of federal Low Income Housing Tax Credits and a HOME Investment Partnerships loan from the City to create 53 family rental housing units affordable to lower income households for 55 years.

Since the CDBG funds were used for site acquisition prior to the DDA with FC Blossom, it was not required that the developer be a community-based development organization. Acquisition for the purpose of creating affordable housing is an eligible activity. HOME, LIHTC, and commercial loans were the financing sources for construction of this new residential development.

The HUD grantee training manual, Basically CDBG, states: "Grantees may have options regarding which national objective is used for a particular activity....Activities may qualify for more than one national objective category." This project Chinatown/Blossom Plaza could have qualified under several National Objectives. Since CDBG funds were provided to the CRA/LA, a redevelopment agency, whose focus was economic and job development, the original the National Objective was Low/Mod Jobs. After the City repurchased the property with non-federal funds, the goal became the provision of affordable housing utilizing a loan of HOME program funds and LIHTC to further subsidize the project in order to serve very low income households. The CDBG funds used for site acquisition were approximately 10% of the total public funds allocated to the project at the time and about 3% of the projected total development cost of the project. The 53 affordable units represent at least 20% of the rental units in the housing development portion of the project.

24 CFR 570.208(a) states:

(3) Housing activities..... The following shall also qualify under this criterion:

- (i) When less than 51 percent of the units in a structure will be occupied by low and moderate income households, CDBG assistance may be provided in the following limited circumstances:
  - (A) The assistance is for an eligible activity to reduce the development cost of the new construction of a multifamily, non-elderly rental housing project;
  - (B) Not less than 20 percent of the units will be occupied by low and moderate income households at affordable rents; and
  - (C) The proportion of the total cost of developing the project to be borne by CDBG funds is no greater than the proportion of units in the project that will be occupied by low and moderate income households.

## Comment 4



**Comment 5**

Attached are the following documents for HUD OIG review:

- The January 22, 2007 Chief Legislative Analyst's Report on Blossom Plaza that describes the sources of acquisition financing for Chinatown/Blossom Plaza;
- Executed DDA for Blossom Plaza;
- Executed Blossom Plaza Ground Lease between the City and FC Blossom; and
- Executed Blossom Plaza HOME Loan and Regulatory Agreements for 53 affordable family rental housing units for a term of at least 55 years

Please do not hesitate to contact Luz Santiago, Assistant General Manager at 213-808-8899 or [Luz.Santiago@lacity.org](mailto:Luz.Santiago@lacity.org) if you have any questions or concerns.

Sincerely,



RUSHMORE D. CERVANTES  
General Manager

cc: William G. Vasquez, Director, HUD Office of Community Planning and Development  
Jan Perry, General Manager, Economic and Workforce Development Department

## OIG Evaluation of Auditee Comments

- Comment 1** We appreciate the City’s acknowledgement of the issues identified in the report. We commend the City for taking the necessary actions to address these issues and ensure that all projects managed by the former redevelopment agencies meet HUD rules and requirements.
- Comment 2** We understand that departments may view the same activities through different lenses. Our conclusions were made on documents received from the City. As a result, we changed the statement in question from “refused” to “did not agree”. However, it still remains that the developer did not enter into an agreement to meet HUD’s program national objective obligation of job creation or the requirements at 24 CFR 570.208(a)(4)(i) and 570.209(b)(1)(i) in the targeted areas as stated under the original funding agreements.
- Comment 3** The City provided a signed and executed Disposition and Development Agreement (DDA) for their Blossom Plaza project with its response, which had not been previously provided during the audit fieldwork. Nonetheless, the City showed that it had entered into an agreement with their new developer for the development of the Blossom Plaza project on March 4, 2013. The City did not require the developer to meet the original program national objective obligation of job creation or the requirements at 24 CFR 570.208(a)(4)(i) and 570.209(b)(1)(i), but instead required an affordable housing component requirement (Section 7.2 of the DDA). The DDA did not stipulate any of HUD’s national objectives that were to be met. In addition, the City did not provide correspondence between CPD and the City to address this issue during our audit.
- Comment 4** We agree that the HUD grantee training manual stated that “Activities may qualify for more than one national objective category” and that “for the activities that meet more than one national objective, states [grantees] may find it useful to document compliance with all the applicable national objectives, especially if there is some uncertainty regarding the ability of an activity to meet the chosen national objective upon completion.” In this instance, the City had changed the national objective for this project from 24 CFR 570.208(a)(4)(i), Job Creation, to 570.208(a)(3), Housing Activities. The training manual also stated that “it is critical that states [grantees] document the results of their activity and the related national objective”. According to the City, the goal of this project is to provide affordable housing. The City only obtained a HOME loan agreement on July 1, 2014, and until recently, they did not document their activity and related national objective. To date, the City did not provide any documentation that the national objective for this project was met.
- Comment 5** We thank the City for providing us the additional documents for our review. Based on our review of these documents, we adjusted our report accordingly.

## Appendix C

### CRITERIA

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#### **24 CFR 570.208(a)(2), Criteria for national objectives**

Limited clientele activities.

(i) An activity which benefits a limited clientele, at least 51 percent of whom are low- or moderate-income persons. (The following kinds of activities may not qualify under paragraph (a)(2) of this section: activities, the benefits of which are available to all the residents of an area; activities involving the acquisition, construction or rehabilitation of property for housing; or activities where the benefit to low- and moderate-income persons to be considered is the creation or retention of jobs, except as provided in paragraph (a)(2)(iv) of this section.) To qualify under paragraph (a)(2) of this section, the activity must meet one of the following tests:

(A) Benefit a clientele who are generally presumed to be principally low and moderate income persons. Activities that exclusively serve a group of persons in any one or a combination of the following categories may be presumed to benefit persons, 51 percent of whom are low- and moderate-income: abused children, battered spouses, elderly persons, adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled," homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers; or

(B) Require information on family size and income so that it is evident that at least 51 percent of the clientele are persons whose family income does not exceed the low and moderate income limit; or

(C) Have income eligibility requirements which limit the activity exclusively to low and moderate income persons; or

(D) Be of such nature and be in such location that it may be concluded that the activity's clientele will primarily be low and moderate income persons.

(ii) An activity that serves to remove material or architectural barriers to the mobility or accessibility of elderly persons or of adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled" will be presumed to qualify under this criterion if it is restricted, to the extent practicable, to the removal of such barriers by assisting:

(A) The reconstruction of a public facility or improvement, or portion thereof, that does not qualify under paragraph (a)(1) of this section;

(B) The rehabilitation of a privately owned nonresidential building or improvement that does not qualify under paragraph (a)(1) or (4) of this section; or

(C) The rehabilitation of the common areas of a residential structure that contains more than one dwelling unit and that does not qualify under paragraph (a)(3) of this section.

(iii) A microenterprise assistance activity carried out in accordance with the provisions of § 570.201(o) with respect to those owners of microenterprises and persons developing microenterprises assisted under the activity during each program year who are low- and moderate-income persons. For purposes of this paragraph, persons determined to be low and moderate income may be presumed to continue to qualify as such for up to a three-year period.

(iv) An activity designed to provide job training and placement and/or other employment support services, including, but not limited to, peer support programs, counseling, child care, transportation, and other similar services, in which the percentage of low- and moderate-income persons assisted is less than 51 percent may qualify under this paragraph in the following limited circumstance:

(A) In such cases where such training or provision of supportive services assists business(es), the only use of CDBG assistance for the project is to provide the job training and/or supportive services; and

(B) The proportion of the total cost of the project borne by CDBG funds is no greater than the proportion of the total number of persons assisted who are low or moderate income.

**24 CFR 570.208(a)(4)(i), Criteria for national objectives**

Job creation or retention activities.

An activity designed to create or retain permanent jobs where at least 51 percent of the jobs, computed on a full time equivalent basis, involve the employment of low- and moderate-income persons. To qualify under this paragraph, the activity must meet the following criteria:

(a) For an activity that creates jobs, the recipient must document that at least 51 percent of the jobs will be held by, or will be available to, low- and moderate-income persons.

**24 CFR 570.209(b)(1)(i), Guidelines for evaluating and selecting economic development projects**

(b) *Standards for evaluating public benefit.* The grantee is responsible for making sure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds under the categories of eligibility governed by these guidelines. The standards set forth below identify the types of public benefit that will be recognized for this purpose and the minimum level of each that must be obtained for the amount of CDBG funds used. Unlike the guidelines for project costs and financial requirements covered under paragraph (a) of this section, the use of the standards for public benefit is mandatory. Certain public facilities and improvements eligible under § 570.201(c) of the regulations, which are undertaken for economic development purposes, are also subject to these standards, as specified in § 570.208(a)(4)(vi)(F)(2).

(1) *Standards for activities in the aggregate.* Activities covered by these guidelines must, in the aggregate, either:

- (i) Create or retain at least one full-time equivalent, permanent job per \$35,000 of CDBG funds used;

**24 CFR 570.501(b), Responsibility for grant administration**

The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise, such as the actions described in §570.910. Where a unit of general local government is participating with, or as part of, an urban county, or as part of a metropolitan city, the recipient is responsible for applying to the unit of general local government the same requirements as are applicable to subrecipients, except that the five-year period identified under §570.503(b)(8)(i) shall begin with the date that the unit of general local government is no longer considered by HUD to be a part of the metropolitan city or urban county, as applicable, instead of the date that the subrecipient agreement expires.

**24 CFR 570.503, Agreements with subrecipients**

- (a) Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall remain in effect during any period that the subrecipient has control over CDBG funds, including program income.
- (b) At a minimum, the written agreement with the subrecipient shall include provisions concerning the following items:
  - (1) Statement of work. The agreement shall include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient effectively to monitor performance under the agreement.
  - (2) Records and reports. The recipient shall specify in the agreement the particular records the subrecipient must maintain and the particular reports the subrecipient must submit in order to assist the recipient in meeting its recordkeeping and reporting requirements.
  - (3) Program income. The agreement shall include the program income requirements set forth in § 570.504(c). The agreement shall also specify that, at the end of the program year, the grantee may require remittance of all or part of any program income balances (including investments thereof) held by the subrecipient (except those needed for immediate cash needs, cash balances of a revolving loan fund, cash balances from a lump sum drawdown, or cash or investments held for section 108 security needs).
  - (4) Uniform administrative requirements. The agreement shall require the subrecipient to comply with applicable uniform administrative requirements, as described in §570.502.

- (5) Other program requirements. The agreement shall require the subrecipient to carry out each activity in compliance with all Federal laws and regulations described in subpart K of these regulations, except that:
- (i) The subrecipient does not assume the recipient's environmental responsibilities described at § 570.604; and
  - (ii) The subrecipient does not assume the recipient's responsibility for initiating the review process under the provisions of 24 CFR part 52.
- (6) Suspension and termination. The agreement shall specify that, in accordance with 24 CFR 85.43, suspension or termination may occur if the subrecipient materially fails to comply with any term of the award, and that the award may be terminated for convenience in accordance with 24 CFR 85.44.
- (7) Reversion of assets. The agreement shall specify that upon its expiration the subrecipient shall transfer to the recipient any CDBG funds on hand at the time of expiration and any accounts receivable attributable to the use of CDBG funds. It shall also include provisions designed to ensure that any real property under the subrecipient's control that was acquired or improved in whole or in part with CDBG funds (including CDBG funds provided to the subrecipient in the form of a loan) in excess of \$25,000 is either:
- (i) Used to meet one of the national objectives in § 570.208 (formerly § 570.901) until five years after expiration of the agreement, or for such longer period of time as determined to be appropriate by the recipient; or
  - (ii) Not used in accordance with paragraph (b)(7)(i) of this section, in which event the subrecipient shall pay to the recipient an amount equal to the current market value of the property less any portion of the value attributable to expenditures of non-CDBG funds for the acquisition of, or improvement to, the property. The payment is program income to the recipient. (No payment is required after the period of time specified in paragraph (b)(7)(i) of this section.)

**24 CFR 570.505, Use of real property**

The standards described in this section apply to real property within the recipient's control which was acquired or improved in whole or in part using CDBG funds in excess of \$25,000. These standards shall apply from the date CDBG funds are first spent for the property until five years after closeout of an entitlement recipient's participation in the entitlement CDBG program or, with respect to other recipients, until five years after the closeout of the grant from which the assistance to the property was provided.

- (a) A recipient may not change the use or planned use of any such property (including the beneficiaries of such use) from that for which the acquisition or improvement was made unless the recipient provides affected citizens with reasonable notice of, and opportunity to comment on, any proposed change, and either:

- (1) The new use of such property qualifies as meeting one of the national objectives in § 570.208 (formerly § 570.901) and is not a building for the general conduct of government; or
  - (2) The requirements in paragraph (b) of this section are met.
- (b) If the recipient determines, after consultation with affected citizens, that it is appropriate to change the use of the property to a use which does not qualify under paragraph (a)(1) of this section, it may retain or dispose of the property for the changed use if the recipient's CDBG program is reimbursed in the amount of the current fair market value of the property, less any portion of the value attributable to expenses of non-CDBG funds for acquisition or, and improvements to, the property.
  - (c) If the change of use occurs after closeout, the provisions governing income from the disposition of the real property in § 570.404(b)(4) or (5), as applicable, shall apply to the use of funds reimbursed.
  - (d) Following the reimbursement of the CDBG program in accordance with paragraph (b) of this section, the property no longer will be subject to any CDBG requirements.