



U.S. Department of Housing and Urban Development
Office of Community Planning and Development
Los Angeles Field Office, Region IX
300 N. Los Angeles Street, Suite 4054
Los Angeles, CA 90012

April 6, 2020

Mr. Aaron Adams, City Manager
City of Temecula
ATTN: Luke Watson
41000 Main Street
Temecula, CA 92590

Dear Mr. Adams:

Subject: Community Development Block Grant (CDBG) Program
Issuance of Finding
Sam Hicks Project

The City of Temecula (City) has indicated to HUD that it cannot complete Integrated Disbursement and Information System (IDIS) activity number 11, the Sam Hicks Project, as it was originally designed, contracted, and paid for with CDBG funds. To resolve this, HUD is issuing the finding below and is requesting that the City repay the \$412,055.75 in CDBG funds drawn by the City, from non-Federal funds. It should be noted that the City will be able to utilize the funds it repays for other CDBG eligible projects. The City must ensure that it complies with applicable citizen participation requirements at 24 CFR 91.105 when funding any new project with the repaid funds.

Finding One:

The City cannot complete IDIS activity 11 or ensure that the activity can meet a national objective.

Condition:

On March 3, 2020 the City of Temecula held a conference call with HUD to discuss IDIS activity number 11. On the conference call and in subsequent email correspondence to HUD dated March 20, 2020, the City indicated that it would not be able to complete the activity as it was originally designed, contracted and paid for with CDBG funds.

Cause:

The City indicated that it was in litigation with its contractor that it hired for the project and that the City could not complete the activity as it was originally designed and paid for due to the issues involved in the litigation with the contractor.

Criteria:

24 CFR 570.200(a)(2) – Grantees must ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives.

2 CFR 200.302(b)(3) – The financial management system of a grantee must ensure that the grantee maintains records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

Effect:

Without being able to complete the activity for which the City drew \$412,055.75 in CDBG funds, the City cannot ensure that the activity will meet a national objective. Grantees must repay funds for any CDBG-funded activity that cannot meet a national objective.

Corrective Action:

HUD is requesting that the City repay \$412,055.75 from non-Federal funds no later May 15, 2020. The repayment is requested to be made by the City using the attached repayment procedures. By May 15, 2020, the City is also requested to submit financial documentation showing the repayment to its local account and documentation illustrating that the City undertook the IDIS steps included in the repayment instructions.

Please respond to this letter in writing no later than 14 calendar days from the date of this letter. If there are any questions, please contact Michael Kovalsky, Senior Community Planning and Development Representative at Michael.J.Kovalsky@hud.gov or (213) 534-2566.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rufus Washington', with a stylized flourish at the end.

Rufus Washington, Director
Office of Community Planning
and Development

Enclosure

CDBG Repayment Procedures

Returning funds to the local program account

Grantees must return funds drawn on an ineligible activity or an activity that will not meet a national objective to their local program account when funds drawn on the activity were from a CDBG grant that is near or past the eight-year limitation on use of funds. The City must document the repayment to its local account in its project file and submit this documentation to HUD.

IDIS Actions When Returning GRANT FUNDS to a Grantee's Local Program Account

Receipt the repayment: The repayment of grant funds to a grantee's local program account is reported in IDIS through the creation of a receipt to the LA fund. To create a LA receipt, the user will fill in the *Add Receipt* screen. Users will indicate that a repayment has been made to their local account by creating a receipt under the LA fund type. The grantee will associate the repayment with the activity ID and the specific origin year grant being repaid (year of the grant from which funds were drawn for the activity – check the vouchers of the IDIS activities to determine this). The grantee will also report on the re-use or expenditure of the funds by origin year grant.

The user enters the required fields, including the ID of the activity being repaid, and clicks the [show activity funds] button. The system displays a table with one row for each *Grant Year* and *Fund Type* from which funds were drawn for the activity.

For each *Grant Year* and *Fund Type*, the table shows the drawn amount, any previous LA repayments, and the remaining balance. The user enters the *Receipt Amount* and, optionally, the *Grantee Receipt #*. When the receipt is saved, individual receipts, with distinct receipt numbers, are created for each source.

- 1) Do NOT revise the vouchers; instead, Cancel the Activity with Draws. When a LA receipt is created to indicate that CDBG funds expended on an activity have been repaid to a local account, the grantee will treat the vouchers for that activity as follows: The grantee will leave vouchers for grant funds (EN, AD, SU, and TA) untouched and request that the activity be cancelled with draws after required repayments have been paid in full. These vouchers cannot be cancelled and the grantee shall NOT revise them.

The grantee must submit a request to HUD to cancel the activity. When requesting the activity to be cancelled with draws, the grantee must provide an explanation for why this activity can legitimately be cancelled with draws. The grantee should list all the LA receipt numbers and amounts for the LA funds that have been returned. The grantee must also include financial documentation showing that the funds have been deposited into the grantee's local account. All documentation should also be included in the grantee's local files.

- 2) By funding and drawing LA funds for new or existing activities, grantees will record in IDIS how CDBG grant funds repaid to their local account were expended and the accomplishments that were achieved with them. The LA funds were originally associated

with a specific origin grant year. The re-use of those funds will be associated with that same origin year grant.

Note: A grantee must disburse LA funds prior to drawing additional CDBG grant funds to pay for activity-related costs. This may mean that an ongoing activity with a draw request may need to be funded with LA funds in the amount of the necessary draw. As a consequence, that activity's grant funding may need to be reduced by the amount of LA funding added. If a grantee has both LA funds and program income on hand, use program income before LA funds.

The grantee must submit financial documentation to HUD showing that the funds have been deposited into the grantee's local account. In addition, the grantee must submit documentation confirming it carried out the actions above in IDIS. All documentation should also be included in the grantee's local files.