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safety and well being of the occupant or do not materially contribute to the structural integrity or long-term preservation of the unit. The percentage of the funds to be used for such purposes must not exceed 20 percent of the total funding for the unit(s) and/or dwelling, and such work must be combined with improvements listed as eligible under paragraph (c) of this section. These improvements may include, but are not limited to the following:

- (1) Painting;
- (2) Paneling;
- (3) Floor covering, including carpeting;
- (4) Improving clothes closets or shelving;
- (5) Improving kitchen cabinets;
- (6) Air conditioning; or
- (7) Landscape plantings.

(g) Under the following conditions, HPG funds may be used to reimburse the grantee for authorized housing preservation or replacement housing activities performed by employees of the grantee where the grantee acts as a construction contractor and furnishes construction services:

(1) The grantee must demonstrate that such work performed by the grantee results in cost savings in terms of time and labor over cost for such work prevailing in the area;

(2) The grantee has established a process for third party review of all performance by a local government, building inspector or other independent party;

(3) The grantee has established or makes available a process that provides for consumer protection to the individual homeowner, owner of a rental property, or co-op assisted; and

(4) The grantee's accounting system provides a clear delineation between administrative costs and construction contractor (non-administrative) costs.

(h) HPG funds may *not* be used to:

(1) Assist in the construction or completion of an addition (excluding paragraph (c)(11) of this section) or a new dwelling. This paragraph does not apply to replacement housing.

(2) Refinance any debt or obligation of the grantee, the individual homeowner, owners of a rental property, or co-ops other than obligations incurred for eligible items covered by this sec-

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tion entered into after the date of agreement with the HPG grantee.

(3) Repair or rehabilitate as well as replace any property located in the Coastal Barrier Resources System.

[58 FR 21894, Apr. 26, 1993, as amended at 62 FR 26210, May 13, 1997]

§ 1944.665 Supervision and inspection of work.

Grantees are responsible for supervising all rehabilitation and repair work, as well as replacement housing financed with HPG assistance. After all HPG work has been completed, a final inspection must be done by a disinterested third party, such as local building and code enforcement officials. If there are no such officials serving the area where HPG activities will be undertaken, or if the grantee would also normally make such inspections, the grantee must use qualified contract or fee inspectors.

[58 FR 21894, Apr. 26, 1993, as amended at 62 FR 26210, May 13, 1997]

§ 1944.666 Administrative activities and policies.

Grant funds are to be used primarily for housing repair and rehabilitation activities. Use of grant funds for direct and indirect administrative costs is a secondary purpose and must not exceed 20 percent of the HPG funds awarded to the grantee.

(a) Administrative expenses may include:

(1) payment of reasonable salaries or contracts for professional, technical, and clerical staff actively assisting in the delivery of the HPG project.

(2) Payment of necessary and reasonable office expenses such as office rental, supplies, utilities, telephone services, and equipment. (Any item of non-expendable personal property having a unit value of \$1,000 or more, acquired with HPG funds, will be specifically identified to FmHA or its successor agency under Public Law 103-354 in writing.)

(3) Payment of necessary and reasonable administrative costs such as workers' compensation, liability insurance, and the employer's share of Social Security and health benefits. Payments