

U.S. Department of Housing and Urban Development

Office of Community Planning and Development

Community Development Block Grant (CDBG) Program



# MANAGING CDBG A GUIDEBOOK FOR GRANTEES ON SUBRECIPIENT OVERSIGHT



# **Managing CDBG**

## **A Guidebook for Grantees on Subrecipient Oversight**

U.S. Department of Housing and Urban Development  
Office of Community Planning and Development  
Community Development Block Grant Program

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# CHAPTER 2

## ASSESSMENT AND SUBRECIPIENT SELECTION

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## INTRODUCTION

## NOTES

This chapter focuses on procedures for assessing the capabilities of prospective subrecipients prior to the award of CDBG funds.

While not required to formally assess prospective subrecipients, you should screen all applicants, including current subrecipients, before making any award decisions.

A well-planned pre-award assessment process will help you evaluate the monitoring and technical support needs of prospective subrecipients and balance them with available administrative resources.

## IMPORTANCE OF ASSESSMENTS

A thoughtful assessment of potential—and current—subrecipients can help you:

- Identify the strengths and weaknesses of prospective subrecipients,
- Decide which of several prospective subrecipients to select for an activity,
- Anticipate their training and technical assistance needs,
- Develop agreements that make funding contingent on the correction of identified deficiencies,
- Reduce the risk of major problems in the future, and
- Establish special monitoring procedures to assure the subrecipients are achieving their goals.

## CONDUCTING A PRE-AWARD ASSESSMENT

Base your assessment of potential subrecipients on both the quality of the project and the capacity of the subrecipient to carry it out.

When evaluating the capacity of an organization and the quality of their proposal, you should examine:

- The nature of the activity,
- Whether the proposed plan for carrying out the activity is realistic,
- The organization's ability to do the work in a timely manner, and
- The possibility of any potential conflicts of interest.

The Subrecipient Selection Checklist included in the Resources section provides helpful guidance in assessing the capacity of prospective subrecipients.

### Does the Organization Qualify as a Subrecipient?

Verify that the applicant meets the definition of subrecipient in [24 CFR 570.500\(c\)](#) and has the capacity to carry out CDBG-eligible activities.

### Are the Activities Eligible for Funding?

Verify the eligibility of the proposed activities early in the assessment process.

Consult [24 CFR 570, Subpart C](#) for a complete description of eligible and ineligible activities.

Keep in mind that certain activities are specifically ineligible. There are times, however, that the same objective can be met in a different way that conforms to CDBG program requirements. Consult with your CDBG field representative if you have any questions about the eligibility of a proposed activity.

**NOTES**

To prevent subrecipients from using CDBG funding for ineligible activities, be sure you have a substantive project description and scope of services before committing funds. Provide potential subrecipients with a list of ineligible activities.

## Does the Activity Meet a National Objective?

Evaluate how the proposed activity addresses one of the [national objectives](#) of the CDBG program.

Review your community's Consolidated Plan. Is the proposed activity consistent with your CDBG program priorities?

The standards for meeting and documenting compliance with a national objective can vary depending on the activity.

## Is the Design of the Proposed Activity Appropriate?

Evaluate the adequacy of the proposed program design and its approach for the delivery of services.

- Does the activity address an established and documented need?
- Are the major tasks needed to carry out the activity identified? Does the organization understand the interrelationship of these tasks?
- Is the program schedule realistic? Are there any stumbling blocks to its timely implementation?
- Does the budget realistically reflect the cost of needed resources? If other sources of funding are identified, have they been committed to the project?

## Does the Organization Have the Capacity to Complete the Activity as Proposed?

Finally, you should assess the overall organizational capacity of the prospective subrecipient.

- Has it undertaken similar programs or activities? What was the result?
- If it has received CDBG or other federal funding in the past, how successful were they in meeting program requirements?
- Does it understand the specific CDBG and federal regulatory requirements that will apply to their proposed activity?
- Is it aware of the detailed records it must maintain to track expenditures, revenues, and staff time spent on specific CDBG activities?
- Are there adequate administrative and financial processes and systems in place to comply with these requirements? If not, has it developed a plan to upgrade these systems?
- Does it have qualified individuals on staff assigned to work on the proposed activity? Is there adequate staff time available to complete the identified tasks on time? If not, how does it plan to fill these gaps in personnel?

## **OPTIONS FOR SOLICITATION OF SUBRECIPIENTS**

Grantees use a variety of approaches to solicit and assess prospective subrecipients. You may want to use a single approach or a combination of the options described here.

- Request for Applications
- Simplified or Limited Application
- Direct Solicitation of Qualified Organizations
- Unsolicited Requests
- Assessment of Current Subrecipients

## **Request for Applications (RFA)**

Application for funds following a formal solicitation process.

Evaluate applications using established selection criteria and ranking systems.

A formal RFA is recommended when:

- You have identified a specific need with defined goals or outcomes,
- Specific activities are numerous or complex,
- Potential applicants have varying degrees of expertise and capacity,
- The cost and level of risk of program failure are high,
- There are many competing needs or approaches for addressing these needs, or
- Limited funds are available.

## **Simplified or Limited Application**

An abbreviated, less formal application process following a public solicitation for proposals.

Unlike the RFA model, applicants submit a general description of their proposed activity, organizational experience, and capacity to complete the project. They do not need to provide detailed explanations of how they will address the regulatory requirements of the program. They should, however, be required to demonstrate their organization's ability to meet identified selection criteria.

In evaluating applications, review the descriptions and narrow down the number of applications under consideration. Before making any award recommendations, contact the most promising organizations and ask them to provide more detailed information regarding their capacity to comply with federal requirements or to answer questions about their program design.

A simplified application process may be useful when:

- Potential providers have limited experience or ability to respond to a formal application;
- The level of program complexity (and therefore, risk of failure) is moderate or low; or
- There is an interest in maintaining a large pool of qualified applicants.

## **Direct Solicitation of Qualified Organizations**

Solicitation of proposals for a specific activity from a pool of qualified prospective subrecipients.

A pool of qualified organizations can be identified:

- Informally, through discussions with knowledgeable community sources;
- Using resources that you and your staff have compiled; or
- By reviewing the applications received following the issuance of a request for qualifications.

Contact specific organizations identified in this process to determine their interest in working with you on a specific activity. Evaluate their capacity to complete the identified project.

At this point, assuming the organization is found to be an appropriate fit for the project, you have the option to solicit an application from the organization for further review or to begin to negotiate the terms and conditions of a written Subrecipient Agreement.

## **Unsolicited Requests**

Unsolicited requests for funding are common.

If you receive a direct request for funds that may or may not conform to your funding plans, it is your responsibility to evaluate the feasibility of the proposal.

- Does the project meet a national objective?
- Is the proposed activity eligible under the CDBG regulations?
- Are there funds available for the proposal?

If the proposal has merit and funding is available, a simplified application should be submitted

**NOTES**

and a pre-award assessment conducted, regardless of the size or complexity of the proposal or who has requested funding. You may also opt to include them in your pool of qualified organizations.

It is important that you treat all prospective subrecipients equally and that you have an opportunity to review information about the capacity, experience, and reliability of the prospective subrecipient.

## Assessment of Current Subrecipients

Incorporate an assessment of your current subrecipients into your normal monitoring process.

To save time and effort, schedule your monitoring reviews to coincide with decisions about renewing your current Subrecipient Agreements.

An assessment is appropriate even if you intend to retain your current group of subrecipients. Some may be marginal performers that need the feedback to motivate them to improve. Others may be well-intentioned and well-run but unaware of specific weaknesses in their operations. Others still may be exemplary performers that deserve to have their achievements recognized.

**Use the results of your assessment to determine if you want to continue to use a troubled subrecipient or require corrective action as a condition for continued participation in the CDBG program.**

Pros and Cons of Solicitation and Pre-Award Assessment Options		
Approach	Pros	Cons
Request for Applications	A thorough description of their organizational capacity, program design, and their approach to specific regulatory requirements is provided by the applicant.  Applications are more easily evaluated based on consistent selection criteria.	Experienced applicants may have a better chance at funding than other less experienced but qualified applicants.  The evaluation process can be time-consuming.  May limit opportunities to solicit new subrecipients.  Funding decisions may be subject to challenges from unsuccessful applicants.
Simplified or Limited Application	The simplified process encourages new or innovative ideas.  New or inexperienced applicants may find it easier to apply.	The evaluation process may be more time-consuming.  Funding decisions may be subject to challenges from unsuccessful applicants.
Direct Solicitation of Qualified Organizations	Organizations that are the best "fit" for a specific project can be targeted.  The evaluation process may be less time-consuming.	Less experienced but qualified organizations may be overlooked.  Vulnerable to criticism about favoritism and as a less open process.  Can be subject to more political influence.
Unsolicited Requests	Applicants may identify new opportunities.  Applicants may be more motivated and committed to the proposed project.	Shifts much of the responsibility for determining the capacity of the applicant to the grantee.  Applications may be more politically motivated.  May present problems with budgeting and time management.
Assessment of Current Subrecipients	Subrecipients who perform well may receive continued funding and may work harder to meet expectations.  Subrecipient management can be easier when working with experienced organizations.	May exclude inexperienced but promising subrecipients.  Experienced subrecipients may take funding for granted and the level of their performance may decline.

## Choosing the Best Approach for Soliciting Prospective Subrecipients

**NOTES**

The approach you use to solicit proposals will depend upon:

- The needs of your community,
- The performance of your current subrecipients,
- The depth of your qualified subrecipient pool,
- The amount of funding available for subrecipient activities, and
- Your capacity to oversee the solicitation and pre-award assessment process.

You may elect to use a combination of approaches to solicit proposals from prospective subrecipients.

It can be difficult to determine how much of your program funds should be set aside for unsolicited requests. Consider using recaptured funds for new, unanticipated requests for funding. The activities in unsolicited requests that are approved for funding must be in an Action Plan or amended Action Plan and meet other CDBG program and cross-cutting requirements before being carried out.

Many grantees will issue an RFA while continuing to accept unsolicited requests for funding to encourage new subrecipients and new ideas. Depending upon the nature and complexity of the activities they want to undertake, some will issue a formal solicitation for proposals while accepting simplified applications for smaller projects. Others choose to set aside a percentage of their funds for ongoing projects administered by high-performing subrecipients or for new projects administered by qualified agencies.

## APPLICATION

Regardless of the approach you use, your application form should require detailed information that will enable you to determine the eligibility of the proposed activity, identify the applicable national objective, and evaluate the organization's capacity to administer the activity and comply with federal requirements.

The Resources section includes information on the [Basic Elements of a Subrecipient Application for Funding](#) and a [Sample Subrecipient Application Package](#) that can be modified to fit your needs regardless of the approach you use to select your subrecipients.

## SELECTION OF SUBRECIPIENTS

The final step in your pre-award assessment process is the selection of your subrecipients.

To effectively target your CDBG resources, rate and rank your prospective subrecipients prior to any grant award.

The [Subrecipient Selection Checklist](#) and [Application Rating System](#) included in the Resources section of this Guide provide criteria for selecting subrecipients and assessing risk.

## Development of Explicit Selection Criteria

Regardless of how you solicit and assess prospective subrecipients, it is important that you present your selection criteria at the beginning of the process.

Your selection criteria should be explicit and tied to CDBG program requirements. It will help you determine whether a prospective subrecipient has the necessary systems in place for the proposed activity. If you are seeking to address an identified need, your criteria should acknowledge your specific goals and expected outcomes.

The early establishment of explicit selection criteria will:

- Limit questions about the objectivity and fairness of your assessments;
- Educate prospective subrecipients, the community at large, and elected officials about the federally imposed regulatory constraints;
- Help focus your selection of your subrecipients; and
- Reduce political pressure to select a specific organization or assist a targeted constituency.

## NOTES

Regardless of the approach you use, identify all applicable rules—including Davis Bacon prevailing wage requirements, environmental reviews, anti-discrimination, and accessibility standards—in your application materials.

## Risk Assessment

Before finalizing your selection of subrecipients, assess the degree of risk to your program that a proposed activity or prospective subrecipient may pose.

Factors to consider when evaluating the risk of individual proposals during your assessment include the:

- Complexity of the proposed activity,
- Experience of the prospective subrecipient, and
- Funding required to complete the activity in a timely manner.

Using a risk analysis matrix, (see [Risk Analysis Matrix](#) in the Resources section), rate individual proposals by the degree of risk (low, medium, and high) they represent. Compare the ratings of competing subrecipient proposals before finalizing your grant awards.

## DEALING WITH A SCARCITY OF QUALIFIED ORGANIZATIONS

You may want to add new activities to your CDBG program but find that few local organizations have the experience and administrative systems needed to carry out the new activities in compliance with CDBG program requirements.

If faced with a lack of qualified organizations available to undertake a new activity, you can:

- Carry out the desired CDBG activities yourself,
- Find or develop organizations with the necessary capacity, or
- Defer the undertaking of the activity.

Before making any decision about how you will proceed, it is important to acknowledge that deferring action may not be an option if the proposed activity is critical for revitalizing a targeted neighborhood or meeting the needs of a specific population. It may also be difficult to take on any new activities if your administrative capacity is already stretched thin. Your only reasonable course of action may be to create and nurture greater subrecipient capacity.

## EXPANDING THE POOL OF SUBRECIPIENTS

If you decide to help an organization become qualified as a subrecipient, you will encounter two issues unique to new organizations: the cost of incorporation and the need for start-up financing.

Although CDBG funds are used for certain capacity-building efforts, in most cases funding for start-up costs must be secured from other sources. Local foundations, other nonprofit agencies, or corporations that support community development efforts may help offset anticipated start-up costs to include activities such as filing for corporation or obtaining status as a nonprofit.

# CONCLUSION

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## NOTES

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In this chapter, you learned how to solicit, assess, and select subrecipients.

You should now be able to:

- Conduct a pre-award assessment.
- Evaluate approaches for soliciting applications from prospective subrecipients.
- Select qualified subrecipients.
- Identify ways to address the lack of qualified subrecipients.

# SAMPLE SUBRECIPIENT APPLICATION PACKAGE

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Among other features, application packages provided to prospective subrecipients for use in proposing activities for CDBG funding should have the following characteristics:

1. Provide a clear explanation of the CDBG program, so that subrecipients understand what they are applying for and what their responsibilities will be;
2. Indicate the grantee's funding priorities;
3. Be detailed enough to capture all important information regarding eligibility, compliance with National Objectives requirements, and the schedule for project implementation;
4. Not be so elaborate or forbidding that subrecipients are discouraged from applying; and
5. Provide enough information about the subrecipient organization to permit grantees to make reasonable judgments about the subrecipient's qualifications to carry out the proposed activity.

*Basic Elements of a Subrecipient Application for Funding and Applicable Federal Regulations* provides guidance on how an application package that incorporates these features can be designed.

**Previously Funded Subrecipients:** Some grantees that review applications received from previously funded subrecipients make allowances for information they already have about the subrecipient in order to make the application procedure less burdensome. One suggestion is to include a question in your application that addresses subrecipients with prior CDBG experience, such as, "Has anything changed on this item? If so, explain how and why." Alternatively, you might include a statement indicating which items need not be resubmitted, such as:

*Private agencies that have applied in the past three years or are currently funded by the Office of Community Development do not need to submit Articles of Incorporation, tax exemption letters, an organization chart, and resumes of the program administrator and fiscal officer if they are on file in this office and they have not been changed since initially submitted.*

# BASIC ELEMENTS OF A SUBRECIPIENT APPLICATION FOR FUNDING

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## Abstract of an Application

It is recommended that the narrative be limited to no more than five pages.

The application package should include a discussion of eligible and ineligible activities and National Objectives followed by the required data to be submitted by the prospective subrecipient for funding consideration. At a minimum, the application package should address the following items:

1. Summary of Eligible and Ineligible Activities (with references to relevant section of regulations)
  - Basic Eligible Activities
  - Eligible Rehabilitation and Preservation Activities
  - Special Economic Development Activities
  - Special Activities by CBDOS
  - Eligible Planning, Urban Environmental Design, Policy-Planning, and Management-Capacity Building Activities
  - Eligible Administrative Costs
  - Ineligible Activities
2. Data Required to be Submitted
  - a. Project Summary (Narrative)
    - Need/Problem to be addressed (consistent with priorities established in
    - Consolidated Plan/Annual Action Plan
    - Population/Area served (including estimated numbers of clients and other measurable outputs)
    - Description of work (including who will carry it out and how eligibility and National Objective requirements will be met)
    - Proposed Schedule of Work
  - b. Detailed Budget Information including all funding sources
  - c. Agency Information
    - Background/Program Experience
    - Personnel/Staff Capacity
    - Financial Capacity
    - Monitoring
    - Audit Requirements
    - Insurance/Bonding/Worker's Compensation
    - Any other additional information
  - d. Standard Required Documents/Forms
    - Articles of Incorporation/Bylaws
    - Certificate of Good Standing with the State
    - State and Federal Tax Exemption Determination Letters
    - List of Board Members
    - Authorization to Request Funds
    - Designation of Authorized Official(s)
    - Organizational Chart
    - Resumes of Program Administrator and Fiscal Officer
    - Annual Financial Statements and Audit
    - Conflict of Interest Questionnaire (followed by a discussion of the conflict of interest provisions)
    - Documentation of Compliance with National Objectives

## SUBRECIPIENT SELECTION CHECKLIST

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This checklist provides useful criteria for selecting subrecipients and assessing risk. A grantee should use such criteria to determine whether a prospective subrecipient has the necessary systems in place for the Federal requirements that impact the type of activity being proposed. The grantee should “walk through” a hypothetical scenario involving the proposed activity to assess how the requirements on the checklist will be handled. This will allow the grantee to gauge the completeness of the prospective subrecipient’s systems and determine whether any technical assistance and/or close oversight will be necessary.

- Project is eligible and meets one of the three broad National Objectives:
  - Principally benefits low- and moderate-income persons;
  - Prevents or eliminates slum or blight;
  - Addresses an urgent need or problem in the community.
- Project fits into the community priorities set out by the Consolidated Plan.
- Project can be completed within a reasonable time frame.
- Prior experience with CDBG related activities, **and/or**
- Prior experience with other grant programs, and proven record carrying out similar projects in the community.
- Financial capacity as indicated by audited financial statements and banking/credit references.
- Financial stability (not total dependence on CDBG funds) as indicated by other funding sources and amounts, over time.
- Adequate staffing (number of staff and qualifications).
- Organizational strength, including:
  - Record-keeping methods;
  - Filing systems;
  - Financial systems; and
  - Existence of a written procedures manual for financial management and personnel.

# APPLICATION RATING SYSTEM



The following scoring sheet identifies criteria that grantees may use to rate applications submitted for CDBG funding. Prior to rating applications, grantees should develop a point system for scoring of individual evaluation criteria and identify a minimum threshold that applications must meet before conducting further comparative analysis.

**1. Benefit to Low- and Moderate-Income Persons:** Maximum of \_\_\_ Points

\_\_\_ Points will be given to activities that benefit at least 51 percent low- and moderate-income persons.

Zero points will be given to activities that meet either of the other two National Objectives.

**2. Benefit to Target Areas:** Maximum of \_\_\_ Points

Activities located within a Target Area will receive the maximum \_\_\_ points. Activities adjacent to a Target Area will receive \_\_\_ points. All other activities will be awarded \_\_\_ points.

**3. Activity Need and Justification:** Maximum of \_\_\_ Combined Points

a. Need: Maximum of \_\_\_ Points

The activity will be evaluated in terms of the documentation and justification of the need for the activity. Activities with excellent documentation and justification will be awarded the maximum of \_\_\_ points; good, \_\_\_ points; average, \_\_\_ points; and poor, 0 points.

b. Consolidated Plan Priority: \_\_\_ Additional Points

Activities addressing high priorities, as identified in the Consolidated Plan.

**4. Cost Reasonableness and Effectiveness:** Maximum of \_\_\_ Points

The activity will be evaluated in terms of 1) its impact on the identified need; and 2) its implementation costs and funding request relative to its financial and human resources. Evaluation will include the cost incurred per person per unit and the justification for a particular level of funding.

**5. Activity Management and Implementation:** Maximum of \_\_\_ Combined Points

a. Management: Maximum of \_\_\_ Points

Points will be awarded to applicants based on documentation and information provided, showing that the resources needed to manage the proposed activity are available and ready, and that the commitment for operation and maintenance, where applicable, has been certified. In addition, for applicants that have received CDBG funds in the past, their record of maintenance for the funded activity will be evaluated.

b. Implementation: Maximum of \_\_\_ Points

Points will be awarded to applicants based on documentation and information provided, showing that the resources, such as funding, site control, etc., needed to implement the proposed activity are available and ready. Maximum points will be given to activities that are ready to move forward quickly. These criteria take into consideration factors that may accelerate or slow down the ability to implement the activity in a timely manner.

**6. Experience and Past Performance:** Maximum of \_\_\_ Points

The experience of the applicant, including the length of time in business and experience in undertaking projects of similar complexity as the one for which funds are being requested, will be evaluated.

In addition, the applicant will be evaluated in terms of its past performance in relation to any local, state, or Federal funding program. The past performance will refer to attainment of objectives in a timely manner and expenditure of funds at a reasonable rate in compliance with contract. Compliance with the contract will include but not be limited to submission of reports and adherence to the scope of services.

For those applicants that have not received CDBG funding from HCD in the past, allocation of points up to the maximum of \_\_\_ points will be awarded, dependent upon thorough documentation of similar past performances submitted with the application.

7. Leveraging Funds: Maximum of \_\_\_ Combined Points

a. Efforts to Secure Other Funding: Maximum of \_\_\_ Points

Points will be awarded based on the applicant's efforts to secure other funding for the activity.

b. Leveraging: Maximum of \_\_\_ Points

Points will be awarded based on the ratio of the amount of eligible leveraging funds to the amount of CDBG funds requested:

1.1 or more                \_\_\_ Points

.75-1                    \_\_\_ Points

.50-1                    \_\_\_ Points

.25-1                    \_\_\_ Points

less than .25            \_\_\_ Points

8. Environmental Justice: Maximum of \_\_\_ Points

Applications will receive points if the activity promotes environmental justice. Any activity that has a potential adverse impact on the environment or that is adversely affected by the surrounding environment will not be considered.

9. Application Completeness: Maximum of \_\_\_ Points

Applications will receive up to \_\_\_ bonus points, based on completeness. Applications that have not been signed will not be considered.

TOTAL POINTS: \_\_\_

Meets or Exceeds Minimum Total Point Score \_\_\_

Does Not Meet Minimum Total Point Score \_\_\_

# RISK ANALYSIS MATRIX

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The following list identifies factors that grantees may use to rank the degree of risk associated with a potential subrecipient or application submitted for funding. Grantees may develop ranking and rating criteria based on risk analysis as part of the process for the selection of subrecipients.

**Project:** \_\_\_\_\_

**Rate each factor as high, medium, or low degree of risk**

Risk Factor	Degree of Risk	Comment
<b>Complexity</b>		
Size of dollar amount requested		
Use of funds		
For construction or rehab		
For operation of facility		
For program only		
<b>Type of Organization Requesting Funding</b>		
Non-profit		
For-profit (570.201(o))		
Governmental Agency		
<b>Housing Project</b>		
New construction		
Rehabilitation		
Single unit/multi-unit		
Number of units		
Subrecipient's prior experience with this size and type project		
<b>Economic Development</b>		
Complexity of project		
Number of jobs to be created or retained		
Area benefit		
Providing direct grants and loans		
Providing technical assistance		
Subrecipient's prior experience		
<b>Potential Environmental Concerns</b>		
Degree of complexity		
E.I.S. needed		
<b>Other Type of Project</b>		
Degree of experience carrying out similar type project		
Other sources of funds indicated, but not committed		
Other funds committed		
CDBG funds only		

Risk Factor	Degree of Risk	Comment
<b>Type of Assistance</b>		
Grant		
Loan		
<b>Float Loan</b>		
Ability to repay within necessary time frame		
<b>Program Income</b>		
To be retained to continue with the same activity		
To be retained for a different activity		
To be returned to grantee		
<b>Subrecipient Organization</b>		
Newly created entity		
Well established, but no prior CDBG or Federal experience		
Prior experience with CDBG or other Federal programs		
No independent source of funding, i.e., general fundraising		
<b>Subrecipient History, If Previously Funded</b>		
Ability to deliver project within budget and on schedule		
Ability to anticipate and overcome past problems		
Any past monitoring issues raised		
Any special contract conditions needed		
<b>Staffing</b>		
Staff experienced with this type activity		
Have sufficient staff to carry out project or must hire		
Entity has significant staff turnover		
<b>Recent Problems</b>		
Unresolved monitoring findings		
Citizen complaints		