

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 5

MONITORING STRATEGIES AND PROCEDURES

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INTRODUCTION

This chapter offers strategies and procedures you can use, even with limited staff, to develop a consistent and thorough monitoring process that will improve your tracking of subrecipient activities, avoid problems of noncompliance, and improve subrecipients' delivery of services while fulfilling your regulatory monitoring responsibilities.

IMPORTANCE OF SUBRECIPIENT MONITORING

The use of subrecipients to administer all or part of your CDBG program increases the likelihood that you will, at some point, experience compliance problems. See [Summary of Monitoring Objectives](#) in the Resources section.

Monitoring is an effective management tool for ensuring that your subrecipients:

- Comply with all regulations governing their administrative, financial, and programmatic operations; and
- Meet the performance objectives identified in their subrecipient agreement on schedule and within budget.

Both are important; for example, if your subrecipients comply with applicable program regulations yet fail to achieve their service or project goals, you risk wasting valuable CDBG resources. On the other hand, if they deliver services to a large number of program beneficiaries, yet in the process violate program regulations, they put themselves, the community, and you at risk of serious monitoring findings by HUD, the disallowance of costs, and the termination of activities.

REGULATORY REQUIREMENTS

Federal regulations are explicit regarding your monitoring responsibilities.

2 CFR 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

The Office of Management and Budget issued revised monitoring guidance for grantees in 2013 under 2 CFR 200. The result was the consolidation of and changes to government-wide uniform administrative requirements, cost principles, and audit requirements for all federal awards, including the CDBG Entitlement program. Grantees are responsible for managing and monitoring their subrecipients' performance and compliance with federal rules and regulations. As a grantee, you are also responsible for taking appropriate action when you identify performance and compliance issues.

- [2 CFR 200.328](#)—Monitoring and reporting program performance
- [2 CFR 200.331](#)—Requirements for pass-through entities

24 CFR 570—Community Development Block Grants

CDBG regulations also address your responsibilities for monitoring the performance of your subrecipients and ensuring their compliance with federal regulations.

- [24 CFR 570.501](#)—Responsibility for grant administration
- [24 CFR 570.503\(b\)\(1\)](#)—Agreements with subrecipients

The use of subrecipients to carry out your CDBG program activities does not relieve you of these responsibilities ([as stated in 24 CFR 570.501\(b\)](#)).

Subrecipient Oversight and Monitoring—A Roadmap for Improved Results, issued by HUD's Office of Inspector General, highlights the importance of effective subrecipient management and oversight.

OVERALL MONITORING GUIDELINES

Develop a positive, supportive working partnership with your subrecipients. Remember that your primary goal is to assist them in achieving program goals while ensuring their CDBG activities comply with federal rules and regulations.

Establish a process that avoids giving them the impression that the sole purpose of your monitoring program is to write them up for noncompliance. If your subrecipients feel this is the focus of your monitoring efforts, they are likely to become uncooperative and resentful.

- Provide positive feedback. Acknowledge what they have done well.
- Focus on how they can improve their performance.
- Create opportunities to communicate. Identify and resolve points of miscommunication or misunderstanding.
- Assume your view is not always correct. Develop an appreciation of their perspectives.
- Encourage them to identify what technical support or training they need to improve their performance.

DEVELOPMENT OF A MONITORING PLAN

Develop a monitoring plan at the beginning of your program year.

- Identify the monitoring needs of your subrecipients.
- Develop a monitoring strategy.
- Establish a monitoring schedule.
- Create a monitoring checklist and workbook.

Identify the Monitoring Needs of Your Subrecipients

Conduct a risk assessment of your subrecipients to determine their technical assistance needs, how often to monitor them, and how to structure your monitoring. Recognize that you may not be able to monitor each of your subrecipients as frequently and thoroughly as you would like due to the capacity of your staff.

Decide which of your subrecipients are most likely to need your assistance and who will require in-depth monitoring. Consider conducting more limited monitoring of your higher-performing subrecipients. Regardless of how you structure your monitoring plan, you must evaluate the activity of each of your subrecipients.

More frequent or comprehensive monitoring is appropriate for high-risk subrecipients that:

- Are new to the CDBG program,
- Have experienced a turnover in key staff positions or a change in goals or direction,
- Have previous compliance or performance problems,
- Are carrying out high-risk activities (such as economic development), and/or
- Are undertaking multiple CDBG activities for the first time.

A more narrowly focused monitoring approach is appropriate for lower-risk, more experienced subrecipients and could include a review of:

- Aspects of their operations affected by changes in regulations or clarifications of regulations issued by HUD,
- New activities they are undertaking, and/or
- Operational changes recommended in prior monitoring visits.

Keep in mind that even your most experienced and successful subrecipients may have the occasional monitoring finding. Periodic comprehensive monitoring of each of your subrecipients will help address identified problems that may come up while reinforcing the importance of complying with federal regulations.

Develop a Monitoring Strategy

Determine the best method to monitor your subrecipients and provide needed technical assistance and training.

Effective monitoring strategies include:

- **Remote review of subrecipient documents.** A review of documents and other materials to verify compliance with federal rules and regulations. Appropriate for all subrecipients.
- **Pre-monitoring.** An informal discussion of the monitoring process and potential areas of noncompliance. May include technical assistance or training. Appropriate for new or higher-risk subrecipients.
- **Monitoring.** A formal monitoring visit—held remotely or on-site—to evaluate program compliance. May include interviews, inspections, and document review. Appropriate for at-risk subrecipients and those you have not recently visited.

Establish a Monitoring Schedule

Your monitoring plan should specify when you expect to monitor each of your subrecipients.

Subrecipients undertaking a new program activity will benefit from a monitoring—or technical assistance—conducted early in the program year. The detection and resolution of issues before they become problems will help prevent monitoring findings at the end of the program year.

Defer monitoring interactions related to activities that require a long time to unfold until later in the program year. Do not initiate monitoring before there is anything of substance to monitor.

Monitoring is not just a one-time event. It is an ongoing process requiring continuous planning, implementation, communication, and follow-up with your subrecipient throughout your CDBG program year.

Create a Monitoring Checklist and Workbook

You can dramatically increase the efficiency, quality, thoroughness, and consistency of your monitoring efforts with the use of a monitoring checklist and workbook.

- **A monitoring checklist** will ensure that you examine the correct items for the activity area in question. Your list will vary depending on the activity area you are monitoring. For example, for rehabilitation activities, you need to test for compliance with lead-based paint regulations and required inspections.
- **Monitoring workbooks** allow you to collect data in a form that summarizes the results of your review and simplifies the preparation of your monitoring letter.

The more detailed your monitoring checklist and workbook, the more helpful your monitoring staff will find them. Consider including the following in your guide and workbook:

- Regulations and laws that govern each activity area,
- Standards that your subrecipient must meet,
- Types of documentation required,
- Accounting systems that will satisfy the identified standards, and
- Actions your monitoring staff will take to determine compliance.

Primary components of an effective monitoring checklist or workbook:

- Activity summary (objectives, grant amount, dates, term)
- Status of project
- Applicable regulations
- Documentation requirements
- Problems encountered

If you do not have a monitoring checklist or workbook for subrecipient monitoring, you should develop one.

Monitoring Questions

The following is a sample of the questions you might ask during your review of your subrecipients' files. Designed to help you determine whether your subrecipients are complying

with federal requirements, they may also provide insights into the overall operation of your subrecipients.

- Were the correct income limits applied when the low- and moderate-income benefit was determined? Was the household income calculated correctly?
- Do the costs associated with the activities provided by your subrecipients appear reasonable?
- For housing rehabilitation projects, is the cost of the construction work included in the contract and, if so, does it appear reasonable for the work performed? Do the work write-up and cost estimate address the building deficiencies identified in the initial inspection of the property?
- Is there documentation in the file to support compliance with lead hazards requirements?
- If applicable, were Davis-Bacon requirements met? Is there documentation verifying compliance in the file?
- Was a basic financial underwriting analysis conducted by your subrecipients prior to providing financial assistance to a for-profit business?
- Is there documentation in the file to support the retention of jobs for low- and moderate-income individuals by the for-profit business?
- Is there a system in place to properly service all CDBG-assisted loans, including deferred payment loans and revolving loan funds?
- How are charges to your CDBG program for salaries and wages documented?
- Are there sufficient records maintained by your subrecipients to demonstrate compliance with CDBG program requirements?
- Do your subrecipients' accounting records contain information on their CDBG awards, obligations, unobligated balances, assets, liabilities, expenditures, and program income?
- Can your subrecipients demonstrate that their systems and/or procedures can collect accurate information for their progress reports?

Monitoring Resources

The Resources section of this Guide includes several useful sources that will assist you in developing your own process for management, monitoring, and oversight of your subrecipients, including a [Checklist for Monitoring of a Subrecipient](#) that will give you a head start in developing your own procedures. You may wish to review certain areas in greater depth or annually determine your priority areas for examination.

HUD has also issued an online monitoring guide—the [CDBG Monitoring Handbook \(6509.2\)](#)—that, although written for HUD reviewers, can be helpful when evaluating subrecipient compliance with various elements of your CDBG program. [Chapter 2](#) of the Monitoring Handbook offers guidance on the management of your monitoring efforts and [Chapter 3](#) of the Monitoring Handbook focuses on the CDBG Entitlement program. The exhibits included in the handbook are also helpful. Exhibit 3-16, for example, details the regulatory requirements used by HUD when reviewing your oversight of subrecipients.

CDBG Monitoring Handbook (6509.2)	
CDBG Entitlement Program Area	Exhibit
General Eligibility	3.1
National Objective	3.2-3.9
Rehabilitation Programs	3.10, 3.11
Economic Development Activities	3.12, 3.13
CDBG Float-Funded Activity	3.14
Neighborhood Revitalization Strategy Area	3.15
Subrecipient/Community-Based Development Organization (CBDO)	3.16
Overall Management Systems	3.17

CDBG Monitoring Handbook (6509.2)	
CDBG Entitlement Program Area	Exhibit
Uniform Administrative Requirements	3.18-3.21
Homeownership Assistance	3.22
Code Enforcement	3.23
Public Services Cap	3.24

PREPARING FOR MONITORING

Preparation is the key to successful monitoring. The time you invest in the development of your monitoring plan will allow your monitors to focus on the program and operational areas they will investigate.

Prepare Your Monitoring Staff

Make sure your staff knows exactly what they are supposed to do before, during, and after monitoring.

TIM can help you remember how to prepare your staff:

- **T** Training

Training should focus on three areas:

- Policy and regulation review will help your monitors understand what they are observing.
- Monitoring protocol will teach your monitors how to prepare for visits, what they can and cannot say or do, what they should record, and the methods they must use.
- Communications skills will enable your monitors to develop healthy, cooperative, productive relationships with subrecipients.

- **I** Identification of roles and responsibilities

If you plan to conduct a comprehensive review of a subrecipient that is undertaking a range of CDBG-funded activities or likely to have serious compliance problems, sending a team of monitors might make the process more efficient and thorough.

If more than one staff member is assigned to monitor a subrecipient, clarify their individual roles.

Many grantees use two or more monitors to examine fiscal and program performance and measure regulatory compliance.

- **M** Mentoring

Mentoring allows staff new to the monitoring process to learn from more experienced team members. Pair new monitoring staff with your most experienced staff so they may learn firsthand how to prepare for, conduct, and follow-up on a monitoring visit.

Check in with your monitoring staff periodically to make sure they are doing their job.

Review Subrecipients' Documents

Review your in-house documents to evaluate their compliance with program regulations prior to any planned monitoring visit. This remote review—also known as a desk audit—can include the subrecipients':

- Application for CDBG funding
- Executed Subrecipient Agreement
- Progress reports
- Drawdown requests

- Previous monitoring reports
- Independent or federally conducted audit reports

The review of these materials will help you and your monitoring staff to identify:

- Changes made in the subrecipients' CDBG activities; and
- Potential problem areas to examine during the on-site visit.

Work with your Subrecipients

Consider scheduling a pre-monitoring meeting with your subrecipients. As detailed in [Chapter 4](#), this more informal discussion can reduce the number of noncompliance problems identified during your formal monitoring visit.

Pre-monitoring will allow you to:

- Inform subrecipients about your monitoring procedures,
- Discuss the information you will be examining during the subsequent visit,
- Identify apparent or potential weaknesses in the subrecipients' operations, and
- Offer suggestions on how to correct these weaknesses before the formal monitoring takes place.

Communicate ahead of time your definition of satisfactory performance, including keeping adequate records and assuring the timely delivery of services specified in the Subrecipient Agreement.

CONDUCTING THE MONITORING

Monitoring is an opportunity to work with your subrecipients to recognize their accomplishments, identify ways they can overcome problems, and improve their operations. While it can be stressful for your subrecipients, and they may act defensively as a result, keep in mind that the main objective of monitoring is to assist your subrecipients.

Ask yourself, "Is the program purpose being accomplished? Are program beneficiaries receiving services as intended? Are CDBG program requirements being met?"

Avoid becoming too informal or casual when discussing the monitoring process with your subrecipients. You may discover serious problems that require you to mandate corrective actions or even sanctions. They need to clearly understand that you will take any problems you find seriously.

Five Steps in a Monitoring Visit

There are five basic steps to any monitoring visit.



Notification Letter

Begin the monitoring process with an email or letter to your subrecipient. Explain the purpose of the monitoring and arrange a mutually convenient date for the meeting.

Send a formal notification letter a minimum of two weeks before the scheduled meeting to:

- Confirm the dates and the scope of the monitoring,
- Provide a description of the information you want to review,
- Identify the staff members you will need to meet with,
- Specify the expected duration of the monitoring,
- Clarify what, if any, office space you will need, and
- Identify who on your staff will be participating in the monitoring.

Call or email your subrecipients a week before the scheduled meeting to remind them of the upcoming monitoring.

Entrance Conference

Meet with the subrecipients' directors and appropriate financial and program staff before you begin your monitoring.

Use this opportunity to:

- Explain the purpose of the monitoring visit and your monitoring responsibilities,
- Reinforce the importance of complying with federal regulations,
- Verify the programs and activities you will review,
- Introduce the members of your monitoring team and explain their roles,
- Set up or confirm meeting or interview times with subrecipient staff or clients,
- Confirm or schedule physical or virtual inspections of properties or program sites,
- Gain access to needed files or work areas, and
- Schedule or confirm the time and location of your exit conference.

Documentation of Monitoring Activity

Document monitoring activity. The more you document, the easier it is to analyze the information you review, develop conclusions based on your meeting with your subrecipient and in-house document review, and explain the basis for any findings that appear in your monitoring letter.

Document your activity using your monitoring checklist or workbook to note case numbers, statistics, or financial figures provided by your subrecipients. Record the names and dates of policies and other documents you review.

Keep a clear record of your monitoring activity:

- Note the actions you take during the monitoring.
- Identify the materials you review.
- Document the conversations you have with your subrecipients' staff.
- Photograph any properties or program sites you inspect; record your observations.

Being able to identify the sources of the information you use to arrive at your monitoring conclusions is important if your subrecipients dispute any of your finding(s).

Exit Conference

Meet with key representatives of the subrecipient organizations at the end of your review to present the tentative conclusions of your monitoring. Encourage your subrecipients to include their Executive Director and members of their Board of Directors in the discussion.

The exit conference will allow you to:

- Acknowledge their accomplishments,
- Present the preliminary results of the monitoring observations, and
- Secure additional or clarifying information from subrecipient staff.

The exit conference is also an opportunity for your subrecipients to:

- Correct any misconceptions or misunderstandings on your part, and
- Report on actions being taken to correct any apparent deficiencies identified during monitoring.

Maintain careful notes during the exit conference—including the date and time of the meeting and the names and titles of attendees—documenting your discussion. Record what you told your subrecipients and whether they agreed or disagreed with your tentative findings.

Confirm that both you and your subrecipients have a clear understanding of your findings and the areas of agreement and disagreement by the end of the exit conference.

The “Monitoring Summary Form” (included in the [CPD Monitoring Handbook \(6509.2\)](#)) will help you summarize your preliminary conclusions clearly and concisely during the exit conference.

Monitoring Letter

Issue a monitoring letter (see [Example of a Grantee Monitoring Letter to a Subrecipient](#)) to your subrecipients not more than thirty days after the date of your exit conference. This is especially important if the letter details significant problems in your subrecipients’ operations. The longer you wait to issue your monitoring letter, the worse the problems will get and the more difficult it will be to solve them.

Keeping in mind that the main objective of monitoring is to assist your subrecipients; make your letter positive in tone. The monitoring letter should:

- Recognize areas where your subrecipients have performed well,
- Acknowledge significant improvement in past problem areas,
- Identify specific areas of noncompliance and/or deficiencies (findings and concerns),
- Specify how to address identified findings of noncompliance (corrective actions),
- Include specific recommendations for improving areas of concern, and
- Establish a deadline for your subrecipients to respond to identified findings.

A lengthy delay in the preparation of the letter or failure to follow up may cause your subrecipients to conclude that their performances are satisfactory or that you condone their failures to comply with program regulations. You cannot delay your monitoring letter and then require the subrecipients to take “immediate action” to correct their deficiencies. Do not ask the subrecipients to meet a standard to which you, as the grantee, do not follow.

The use of standardized language in your monitoring letter will speed up the process and ensure a more even-handed treatment of subrecipients with similar monitoring problems. An [Example of a Grantee Monitoring Letter to a Subrecipient](#) is included in the Resources section of this Guide.

CONCERNS AND FINDINGS, CORRECTIVE ACTIONS, AND SANCTIONS

A **concern** is a weakness in your subrecipients’ operations or performance which may become a finding in the future if not addressed.

- Identify the specific area of concern, its cause, and the potential impact on future program funding if it continues.
- Include specific recommendations for improvement for each of the concerns you identify in your monitoring letter.
- You can, but do not need to, require a written response from your subrecipients regarding any concern noted in your monitoring letter.

A **finding** is a material deficiency in your subrecipients’ operations or program performance

which is a violation of a statutory, regulatory, or program requirement.

- A finding must be:
 - Clearly and correctly identified in your monitoring letter;
 - Based on an applicable law, regulation, or program policy; and
 - Supported by the facts presented in your monitoring letter.
- You must identify the corrective actions required to address each finding and establish deadlines for their implementation.
- Give your subrecipients an opportunity to respond to the finding and provide additional information demonstrating compliance.

Clearly describe your standards for satisfactory performance and the sanctions and rewards for performance to your subrecipients. Make sure they are consistently applied.

Corrective Actions—corrective action plans—are measures your subrecipients must take to resolve an identified finding of noncompliance.

- A corrective action plan should include:
 - A description of each finding of noncompliance,
 - Clear and specific steps your subrecipients must take to correct the finding,
 - Milestones to measure the progress of your subrecipients,
 - A timetable for completion of each corrective action, and
 - A description of future monitoring to ensure implementation.
- Discuss the corrective action plan with your subrecipients to determine their capacity to implement the steps included in the plan.
- Inform your subrecipients of the sanctions you will impose should they fail to take effective action to become compliant with federal regulations.

A **sanction** is a penalty or punitive or restrictive measure HUD may impose when a subrecipient fails to comply with federal regulations.

- There are three types of sanctions that you can impose against individuals and entities participating in its programs:
 - **Limited Denials of Participation (LDPs)** are sanctions of the shortest duration usually lasting one year and normally restricted to a specific geographic area and specific HUD program area.
 - **Suspensions** are temporary in nature, pending the outcome of an investigation or an indictment or based on adequate evidence that supports claims of program violations.
 - **Debarments**, the most serious compliance sanctions, often in effect for a period of three years or longer, exclude an individual or entity from participating in any federal procurement or non-procurement program.
- If your subrecipients fail to resolve identified findings and continue to operate in noncompliance with federal regulations, the imposition of sanctions is appropriate.
- Be clear with your subrecipients about when you will impose sanctions.

PROGRESSIVE SANCTIONS

Consider the gradual escalation of sanctions if your subrecipients continue to perform poorly and fail to complete the required corrective actions identified in your monitoring letter. Contact your CDBG field representative for guidance on when and how to apply progressive sanctions.

A successful progressive sanctions approach requires you to:

- Discuss identified noncompliance problems with your subrecipients as early as possible,
- Clearly identify the specific actions required to correct these problems,
- Establish a timetable for implementation of the identified corrective actions, and

- Explicitly explain the consequences for failing to meet these standards by the established deadline.

Benefits of Progressive Sanctions Approach

A progressive approach to sanctions has several benefits:

- Most problems are easier to resolve when they are still minor in nature.
- If your subrecipients refuse to take corrective action, you can document that you gave them every consideration before you imposed serious penalties.
- You can demonstrate to HUD that you are pursuing a reasonable, yet serious, course to get your subrecipients to address their deficiencies in a timely manner.

Stages of Progressive Sanctions

The three stages of progressive sanctions range from simply making your subrecipients aware of their operational weaknesses to disallowing expenses or terminating program activities.

Stage I: Early Warning/Early Response

Stage I begins when your subrecipients' compliance problems come to your attention. Your tracking and monitoring systems should bring the problem to light before it presents serious financial implications for your subrecipients.

You have three options for implementing an early intervention strategy:

- **Plan an intervention strategy with subrecipients that involves additional training or technical assistance.** In this response, you assume some of the responsibility for helping your subrecipients to correct the problem. Although this response may require staff time not readily available, the time spent can be both effective in bringing them back into compliance with federal regulations and beneficial in enhancing your relationship with your subrecipients.
- **Require more frequent or more thorough reporting.** This imposes a mild sanction on your subrecipients while improving your ability to track the progress they make to correct identified monitoring findings.
- **Conduct more frequent on-site monitoring or follow-up monitoring.** While this approach requires additional effort on your part, this is an effective approach for addressing more serious or widespread deficiencies in your subrecipients' operations. Give them a specific deadline for correcting the identified finding, then review their progress to ensure that they have properly implemented the required corrective action.

If the support and milder sanctions you impose in Stage I do not work, you may have to take more decisive action. You may also want to skip Stage I and move directly to Stage II if you have found that your subrecipients have serious or widespread problems that demand an emphatic response.

Stage II: Intervention for More Serious or Persistent Problems

Actions to consider at this stage include:

- **Restrict payment requests.** You can restrict the frequency of payment requests or the budget line items for which your subrecipients can submit a payment request. You can also increase the documentation they must provide before you will disburse funds, allowing you to closely monitor the implementation of the required corrective action.
- **Disallow expenses or require repayment.** This is a severe sanction, as many subrecipients have limited unrestricted funds for making repayments. In some cases (for example, when your subrecipients incur program expenses prior to environmental review clearance), you may have no option other than to disallow the expenses. In other instances, you might allow them to provide additional documentation to validate an expense or find another way to avoid the disallowance on the condition that they significantly improve their operations.

- **Impose a probationary status.** You can take this step when your subrecipients have significant or widespread shortcomings in their operations and have ignored your efforts to bring about corrective action. With this step, you are giving notice that you will terminate their grant awards if they do not correct the findings identified in your monitoring letter.

You are responsible for how your subrecipients spend their CDBG grants. If HUD decides to disallow costs incurred by your subrecipients, you are responsible for reimbursing HUD and must decide if you want to pass the disallowance on to your subrecipients.

Stage III: Red Alert

Stage III includes “last-ditch” measures to turn around the situation with poorly performing subrecipients. Suggested sanctions include:

- **Temporarily suspend the subrecipients (or the activity).** This action should help convince your subrecipients that your concerns are serious. However, an action of this severity also suggests that their operations are in such bad shape that you will need to provide intensive technical assistance before they can get their systems back into compliance.
- **Do not renew the subrecipients for the next program year.** This is often the easiest approach to terminating badly performing subrecipients. Do not wait to terminate their Subrecipient Agreement, however, if there is a significant possibility that they will continue to mismanage or misuse CDBG funds in the current program year.
- **Terminate the subrecipients in the current program year.** If you plan to take this action, review the terms and conditions for termination in their Subrecipient Agreements (e.g., allowable reasons for termination, rights of appeal, access to and maintenance of records, computation of compensation due in the event of termination, disposition of property bought with CDBG funds, and the general liability of the subrecipients). Discuss your options with your CDBG field representative and your attorney.
- **Initiate legal action.** You may need to follow termination with legal action to gain control of program funds, records, and property, or to recover improperly spent funds. Work with your attorney before initiating any legal action.

RECOGNIZE ACCOMPLISHMENTS

It is easy to overlook the accomplishments of your subrecipients, especially if you have a full workload and limited staff. Make the time to celebrate their achievements.

There are a variety of simple ways you can recognize the performance and regulatory compliance of your subrecipients. Regardless of what you do, they will appreciate the recognition.

- Present a letter of commendation from a local elected official.
- Make a proclamation recognizing their accomplishments.
- Hold annual awards ceremonies for the best performers in various categories of activities.
- Highlight their achievements on your website or other social media communications.
- Work with media outlets to do a feature story.
- Ask local officials or visiting dignitaries to visit their site.

Consider setting aside funds in activity categories to provide additional funding for high-performing subrecipient activity. Your written Subrecipient Agreements may include incentive clauses stating that documented levels of performance within a specified timeframe will automatically result in supplemental funding for the activity area in which the subrecipients have excelled. Alternatively, you might invite a select group of top-performing subrecipients to compete for extra funding under a contingency-funded bonus round. In all such cases, however, you need to satisfy the citizen participation requirements of the CDBG program with respect to the new or increased activities.

AUDITING REQUIREMENTS

Federal regulations require you and your subrecipients to complete a single audit or a program-specific audit when you spend more than \$750,000 in federal funds during your fiscal year ([2 CFR 200, Subpart F—Audit Requirements](#)).

An independent public accountant typically performs these audits.

- A **single audit** is required when the total expenditure of all federal funds received by you or your subrecipients exceeds \$750,000.
- A **program-specific audit** is required when you spend more than \$750,000 from a single federal program (e.g., the CDBG program).

If you or your subrecipients expend less than \$750,000 in federal funds, you are exempt from the audit requirements for that year. You must, however, maintain your records and make them available for review or audit by HUD and/or the Government Accountability Office.

ADDITIONAL SOURCES OF EVALUATION INFORMATION

Subrecipient IPA Audits

Audits conducted by an Independent Public Accountant (IPA) can provide important information on subrecipients' finances and compliance with relevant fiscal requirements of the CDBG program. They are helpful in reviewing how subrecipients allocated expenses across multiple federal sources and how well your subrecipients are performing.

Establish a system for tracking when your subrecipients' audit reports are due (detailed in [Chapter 6](#)). The materials included in this Guide's Resources section offer helpful tips on how to review IPA audits (see [Review of IPA Audit Reports](#) in the Resources section).

Subrecipient Reports

Your subrecipients may prepare quarterly or annual reports on their operations. These reports provide an appropriate context for your own monitoring by identifying areas you may want to explore in greater detail.

Local Agency Evaluations

Other local agencies that work with the subrecipients may conduct their own evaluations. These evaluations may identify generic characteristics of the subrecipients' operations that are relevant to their CDBG activities as well. They can suggest aspects of the subrecipients' operations that should receive special attention during your monitoring, particularly for subrecipients that you have not monitored recently.

HUD Audits

HUD's Field Office staff, its Office of Inspector General (OIG), or even the U.S. Government Accountability Office (GAO) may audit your subrecipients. These audits are important as they may identify deficiencies you were not aware of or did not consider serious concerns. In such instances, you need to become directly involved in determining if their findings are valid. If confirmed, work with your subrecipients to resolve these problems.

CONCLUSION

In this chapter, you learned how to develop a monitoring plan and process for evaluating the performance of your subrecipients and their compliance with federal rules and regulations.

You should now be able to:

- Develop a monitoring checklist and handbook.
- Design an efficient and thorough monitoring process.

- Prepare your staff and your subrecipients for an on-site monitoring visit.
- Understand the difference between a concern and a finding of noncompliance.
- Conduct an exit conference and prepare a follow-up monitoring letter.
- Identify when progressive sanctions for noncompliance with federal regulations are appropriate
- Acknowledge the accomplishments of successful subrecipients.

NOTES

SUMMARY OF MONITORING OBJECTIVES

1. To determine if a subrecipient is carrying out its community development program, and its individual activities, as described in the application for CDBG assistance and the Subrecipient Agreement.
2. To determine if a subrecipient is carrying out its activities in a timely manner, in accordance with the schedule included in the Agreement.
3. To determine if a subrecipient is charging costs to the project that are eligible under applicable laws and CDBG regulations, and reasonable in light of the services or products delivered.
4. To determine if a subrecipient is conducting its activities with adequate control over program and financial performance, and in a way that minimizes opportunities for waste, mismanagement, fraud, and abuse.
5. To assess if the subrecipient has a continuing capacity to carry out the approved project, as well as future grants for which it may apply.
6. To identify potential problem areas and to assist the subrecipient in complying with applicable laws and regulations.
7. To assist subrecipients in resolving compliance problems through discussion, negotiation, and the provision of technical assistance and training.
8. To provide adequate follow-up measures to ensure that performance and compliance deficiencies are corrected by subrecipients, and not repeated.
9. To comply with the Federal monitoring requirements of 24 CFR 570.501(b) and with 2 CFR 200.328 and 200.331, as applicable.
10. To determine if any conflicts of interest exist in the operation of the CDBG program, per 24 CFR 570.611.
11. To ensure that required records are maintained to demonstrate compliance with applicable regulations.



CHECKLIST FOR MONITORING OF A SUBRECIPIENT

Subrecipient _____

Project Name/Agreement No. _____

Project Director _____

In-house review and general oversight conducted on _____

On-site monitoring visit(s) conducted on _____

Monitoring letter sent on _____

Follow-up monitoring visit conducted/letter sent on: _____

A. National Objective and Eligibility

1. Which National Objective does this project meet (24 CFR 570.208)?

Benefit to Low- and Moderate-Income Persons

___ Low/Mod Area Benefit

___ Limited Clientele Benefit

___ Low/Mod Housing Benefit

___ Job Creation or Retention

Aid in the Prevention or Elimination of Slums or Blight

___ on an Area Basis

___ on a Spot Basis

An Urgent Need

___ Needs having a Particular Urgency

2. Which eligibility category does the project meet? (24 CFR 570.201–6)?

B. Conformance to the Subrecipient Agreement

1. Contract Scope of Services: Is the full scope of services listed in the Agreement being undertaken? List any deviation.
2. Levels of Accomplishments: Compare actual accomplishments at the point of monitoring with planned accom-

plishments. Is the project achieving the expected levels of performance (number of persons served, number of units rehabilitated, etc.) and reaching the intended client group? Explain any problem the subrecipient may be experiencing. Acknowledge major accomplishments.

3. Time of Performance: Is the work being performed in a timely manner (i.e., meeting the schedule as shown in the Agreement)? Explain.
4. Budget: Compare actual expenditures versus planned expenditures. Note any discrepancies or possible deviations.
5. Requests for Payment: Are requests for payment being submitted in a timely manner and are they consistent with the level of work accomplished? Is program income properly accounted for and recorded? Explain.
6. Progress Reports: Have progress reports been submitted with payment requests (where required) on time and were they complete and accurate?
7. Special Conditions: Does the project conform to any special terms and conditions included in the Subrecipient Agreement? Explain.

C. **Record-Keeping Systems (24 CFR 570.506)**

Records should demonstrate that each activity undertaken meets the criteria for National Objectives compliance. Such records should be found in both the grantee's project file and the subrecipient file.

1. Filing System: Are the subrecipient's files orderly, comprehensive, secured for confidentiality where necessary, and up to date? Note any areas of deficiency.
2. Documentation (activities, costs, and beneficiaries): Do the Housing and Community Development project files and subrecipient records have the necessary documentation supporting the National Objective being met, eligibility, and program costs as they relate to 24 CFR 570.506? Do the project files support the data the subrecipient has provided for the CAPER?
3. Record Retention: Is there a process for determining which records need to be retained and for how long?
4. Site Visit (where applicable): Is the information revealed by a site visit consistent with the records maintained by the subrecipient and with data previously provided to the grantee? Explain any discrepancies.
 - a. Is the project manager located on-site and running the day-to-day operations? Do the staff seem fully informed about program requirements and project expectations? Explain.
 - b. Is the project accomplishing what it was designed to do? Explain any problems.

D. Financial Management Systems (2 CFR Part 200)

1. Systems for Internal Control: See [2 CFR 200](#). Are systems in compliance with accounting policies and procedures for cash, real and personal property, equipment, and other assets?
2. Components of a Financial Management System: Review the chart of accounts, journals, ledgers, reconciliation, data processing, and reporting system. Note any discrepancies.
3. Accounting: Compare the latest performance report, drawdown requests, bank records, payroll records, receipts/disbursements, etc. Note any discrepancies.
4. Eligible, Allocable, and Reasonable Costs: See [2 CFR 200](#). Pay particular attention to the time distribution records where the subrecipient has employees who work on both CDBG and non-CDBG funded activities. Note any discrepancies.
5. Cash Management/Drawdown Procedures: See [2 CFR 200](#). Has all cash been promptly drawn down and deposited? Are all drawdowns of Federal funds properly recorded? Note any discrepancies.
6. Management of Program Income: If the subrecipient generates program income, refer to 24 CFR 570.504 and the Subrecipient Agreement about its use. Note any discrepancies.
7. IPA Audit Reports/Follow-up: See [2 CFR 200](#). Determine if the subrecipient has expended \$750,000 or more in Federal funds for the subject program year.

IPA Audit Required Yes___ No___ N/A___

Date Conducted _____

Any findings related to CDBG activity? Status? Explain.

8. Maintenance of Source Documentation: See [2 CFR 200](#). Note any discrepancies in sample records, invoices, vouchers, and time records traced through the system.
9. Budget Control: See 2 Do actual expenditures match the line item budget? Note any discrepancies.

E. Insurance

1. Has the subrecipient submitted a current copy of its Certificate of Insurance?
2. Is the City named as an additional insured?

F. Procurement

1. Procurement Procedures: Do the procedures the subrecipient uses for procurement of goods and services meet CDBG requirements? Review a sample number of procurements.
2. Conflict of Interest: How does the subrecipient assure there was no conflict of interest, real or apparent? Review the process and comment.

G. Equipment and Real Property

1. Has the subrecipient acquired or improved any property it owns in whole or in part with CDBG funds in excess of \$25,000? If yes, review for compliance with [2 CFR 200.313](#).
2. Has the subrecipient purchased equipment with CDBG funds? Does the subrecipient maintain the records required at [2 CFR 200](#)?
3. Has a physical inventory taken place and the results reconciled with property records within the last two years?
4. If the subrecipient disposed of equipment/property that was purchased with Federal funds within the last five years:
 - a. Were proceeds from the sale reported as program income?
 - b. Did the grantee approve expenditure of program income?
 - c. Was the program income returned to the grantee?

H. Non-Discrimination and Actions to Further Fair Housing

1. Equal Employment Opportunity: Refer to 24 CFR 570.506, 601, and 602. Note any deficiencies.
2. Section 3: Opportunities for Training and Employment for Local Residents – Refer to [24 CFR 570.506\(g\)\(5\)](#) and [24 CFR 570.607\(a\)](#) (affirmative action). Note any deficiencies.
3. Fair Housing Compliance: Refer to [24 CFR 570.904](#) and [24 CFR 570.601\(b\)](#). Note any deficiencies.
4. Requirements for Disabled Persons: Refer to 8.6. Note any concerns.
5. Women and Minority Business Enterprises: Refer to [24 CFR 570.506\(g\)](#) and [2 CFR Part 200](#), affirmative steps documentation. Note any concerns.

I. Conclusion and Follow-up

1. Is the subrecipient meeting the terms of the Subrecipient Agreement and HUD regulations? Discuss both positive conclusions and any weaknesses identified.

2. Identify any follow-up measures to be taken by the grantee and/or the subrecipient as a result of this monitoring review.
 - a. List the required schedule for implementing corrective actions or making improvements.

 - b. List the schedule for any needed technical assistance or training and identify who will provide the training.

Project Monitor

Date

EXAMPLE OF A GRANTEE MONITORING LETTER TO A SUBRECIPIENT



August 9, 2021

Ms. Jane Brown
Executive Director
Midtown Community Development Corporation, Inc. (MCDC)
606 Main Street
Midtown, California

RE: Monitoring of MCDC's CDBG Activities

Dear Ms. Brown:

On July 21 and 22, 2021, [Name(s) of Monitor(s)], Monitoring Specialists for the Midtown Office of Community Development, monitored the MCDC's CDBG activities. The MCDC is a subrecipient of the City of Midtown and is carrying out two CDBG-funded programs: an economic development loan program and a housing rehabilitation loan and grant program. The economic development loan program provides financing for both existing and start-up businesses and funds a variety of business needs such as real estate, equipment, inventory, leasehold improvements, and working capital. The housing rehabilitation program assists primarily owner-occupied, low- and moderate-income housing in the East End neighborhood.

The period under review was from July 1, 2021 to June 30, 2021. In addition to examining relevant files in the course of the review, the Monitoring Specialists met with you, the MCDC Finance Director (Jane White), and the MCDC program directors for the economic development and housing rehabilitation programs (Bill Blue and Yvonne Grey, respectively). Monitoring Specialists also visited two assisted projects/cases for each program. An exit conference was held with you and your staff at the MCDC offices on July 22, 2021, to discuss the results of the monitoring.

The purpose of a monitoring visit is to determine whether the subrecipient has implemented and administered CD-BG-funded activities according to applicable Federal requirements. In this monitoring review, particular attention was paid to compliance with eligibility and National Objective requirements. Other areas emphasized were financial management systems, procurement practices, compliance with civil rights requirements, and use of program income.

Overall, the MCDC is making diligent efforts to comply with applicable Federal requirements. The Monitoring Specialists found that the MCDC had achieved significant improvements in their financial management systems and management of program income. During the previous monitoring visit, these two areas had been the source of several serious findings regarding inadequate internal controls and failure to keep proper records on receipt and use of program income. The most recent review, however, revealed that the MCDC's systems and procedures in these areas are now satisfactory. In fact, the MCDC's new bookkeeping system for tracking and reporting on the use of program income, with its automated generation of monthly reconciliations and reports, is exemplary. This office will be recommending its adoption by several other subrecipients in our community.

As a result of this most recent review, we are making two new findings and one concern regarding the use of CDBG funds. A *finding* is defined as a program element that does not comply with a Federal statute or regulation, whereas a *concern* is either a potential finding or a program weakness that should be improved to avoid future problems. The findings and concern are detailed below:

Finding Number 1—Public Benefit Requirements for Economic Development Loans

24 CFR 570.203 of the CDBG regulations provides that CDBG funds may be used to assist a for-profit business, provided the grantee ensures that the appropriate level of public benefit will be derived before funds are obligated for that purpose. In the case of your economic development loan program, this means that a minimum number of full-time equivalent (FTE) jobs must be created or retained for each business assisted, in relation to the amount of CDBG funds

being provided to the business. Moreover, in order to ensure that the assistance provided does not unduly enrich the business, the subrecipient is expected to perform basic financial underwriting of each potential loan to determine that the amount of the contemplated financial assistance is not excessive, taking into account the actual needs of the business in making the project financially feasible. Therefore, a CDBG grantee must review a subrecipient's files for documentation demonstrating that both of these requirements are being met.

The recent review revealed that at least some of MCDC's project files lack sufficient documentation to demonstrate that basic financial underwriting was conducted. Three loans were reviewed in our sample of the files: No-Pest Termite Control, Sportsworld, and New Day Bakery. The files contained financial statements from each business. However, other documentation was not found to indicate that a financial analysis was conducted, and a determination made that the level of assistance provided was appropriate. There was also a lack of information that would demonstrate that the number of FTE jobs to be created by these businesses will meet the public benefit standards (i.e., that no more than \$35,000 per FTE job to be created was being provided to each business).

Corrective Action

MCDC must provide documentation to demonstrate that, for each of these loans listed above, a financial analysis was conducted and a determination made that the level of loan provided was appropriate given the circumstances and that a determination was made that the public benefit limit mentioned above would be met, given the number of jobs expected to materialize. This documentation must be provided to the City of Midtown within thirty (30) days of the receipt of this letter. MCDC must also certify to this office that each of the remaining project loan files contains the documentation missing from these three case files. Lastly, for the next two loans, MCDC is requested to submit documentation supporting these two requirements (financial underwriting and public benefit) to our office for review in advance of loan approval.

Finding Number 2—Program Benefit from Economic Development Loans

24 CFR 570.200(a) of the CDBG regulations requires that each activity assisted with CDBG funds meet one of the three National Objectives. Each provision of assistance to a for-profit business is considered a separate activity; therefore, each business so assisted with CDBG funds must meet a National Objective, and each loan file must contain relevant documentation to that effect. The MCDC has indicated that its economic development loans will meet the National Objective of principal benefit to low- and moderate-income persons through the creation of jobs for low- and moderate-income persons, and 24 CFR 570.506(b)(5) sets forth the requirements for documentation of the National Objective in such cases.

The July 2021 monitoring visit revealed, however, that some MCDC economic development loan project files (cases number A-13, A-17, and A-18) lack the necessary documentation to demonstrate that a National Objective has been met through the creation of jobs, per [24 CFR 570.506\(b\)\(5\)](#).

Corrective Action

MCDC must provide this office with documentation regarding the creation of jobs for loans number A-13, A-17, and A-18. The documentation should include an accounting of the actual number of full-time equivalent positions created, by title, and the number of positions filled by low- and moderate-income persons. For each low- and moderate-income person hired, MCDC must also identify the method used to determine family income prior to the person's being hired, e.g., the Private Industry Council (PIC) referral or copies of the self-certification. If a self-certification is used, it must be signed by the employee and clearly advise that the information may be subject to verification.

Secondly, for all future activities, MCDC must assure this office that a system is in place to maintain documentation for a National Objective for each provision of assistance to a for-profit business.

Lastly, we advised the MCDC staff to provide language in its written loan agreements that would impose consequences upon any business failing to demonstrate a good faith effort in hiring the necessary percentage of low- and moderate-income persons.

Concern Number 1—Compliance with the escrow account requirements set forth in 24 CFR 570.511

The above-referenced regulation sets forth four basic requirements for the use of escrow accounts:

1. The use of escrow accounts is limited to loans and grants for the rehabilitation of primarily residential properties containing no more than four units each.

2. An escrow account shall not be used unless the contract between the property owner and the contractor selected to do the rehabilitation work specifically provides that payment to the contractor shall be made through an escrow account.
3. All funds withdrawn under this section shall be deposited into one interest-earning account with a financial institution.
4. The amount of funds deposited into an escrow account shall be limited to the amount expected to be disbursed within 10 working days from the date of deposit.

Although the MCDC housing rehabilitation program has been able to meet these requirements thus far, a proposed change in the structure, staffing level, and procedures of the MCDC's Finance Office has raised some concerns about the continued ability of MCDC to achieve the 10-day standard for disbursement of escrow account funds.

Requested Action

We request that MCDC, within thirty (30) days of receipt of this letter, forward a detailed description of the proposed MCDC Finance Office re-organization that will reassure this office that there will continue to be a capacity to disburse escrow account funds within ten working days.

We look forward to receiving your responses within thirty (30) days of receipt of this monitoring letter by MCDC. If there should be any reason why your organization would have difficulty responding by this deadline, please contact me immediately.

We should add that the findings from our review, in our view, do not reflect negatively on MCDC's staff and their dedication to ensuring the success of the referenced programs. As previously mentioned, this office's Monitoring Specialists saw ample evidence of significant improvements that have been made by MCDC over the last year in the operations of its two CDBG-funded programs.

Monitoring Specialists appreciated the MCDC staff's continued assistance throughout the monitoring visits.

Sincerely,

[Name of Monitor]

[Title]

Midtown Office of Community Development

REVIEW OF IPA AUDIT REPORTS

In reviewing IPA audit reports, ask yourself the following questions:

1. Does the audit accurately reflect program requirements and funding allocations, and the condition of subrecipient record-keeping systems?

There can be considerable variation in the quality of the work done by IPAs. Therefore, before you can use the information in an IPA audit, you must first decide whether the auditor's review was adequate. Check to make sure that:

- b. The IPA is properly qualified;
- c. The allocations, program periods, categories of expenses, and other data relative to the CDBG program are consistent with your understanding of what the correct figures should be;
- d. The audit reflects the compliance tests and reporting requirements specified in 2 CFR Part 200; and
- e. The audit report reflects any uncorrected deficiencies in the subrecipient's system that you already know about.

2. Did the IPA give an “unqualified” or “qualified” opinion?

A “qualified” opinion may mean that the subrecipient's systems were so inadequate or its documentation so incomplete that the auditor could not offer its opinion with assurance. This is usually a sign of serious problems.

3. Were there “repeat” findings?

You should always be concerned if the subrecipient has not corrected findings from a previous audit.

4. Were there any questioned costs?

A good audit will include a “Management Letter,” which is sometimes not appended to the formal Audit Report

Most IPAs go to considerable lengths to resolve questionable expenses before they issue a report. Therefore, numerous questioned costs, or a single questioned cost of significant size, may mean the subrecipient is doing other things wrong.