

CHAPTER 5

MONITORING STRATEGIES AND PROCEDURES

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CHAPTER 5

MONITORING STRATEGIES AND PROCEDURES

The Elmhurst Development Center project had been underway for more than two years, ever since Hannibal Shoe moved its main plant to Mexico. Tom Banks, the county's chief planner, had convinced 5 of the county's 12 towns to pool a fixed portion of their CDBG funds to form a non-profit economic development consortium (EDC, Inc.) to buy the old shoe factory, rehabilitate it, and operate a business incubator and training center. The Center in turn hired Lena Wilson as Executive Director to staff and run the program. Although EDC Inc. was a year behind schedule, the rehabilitation was completed (with only a slight cost overrun) and the incubator had attracted jobs for laboratory technicians.

A recent visit by HUD Field Office staff revealed serious monitoring deficiencies. The Center did not have any information about the people that were hired, so it could not demonstrate achievement of a National Objective with respect to jobs created or training slots filled by low- and moderate-income people. Further, it seemed to slip everyone's attention that Ted Hammet, a former officer of Hannibal Shoe, was on the Center's Board of Directors and also sat on the loan review committee of the Landsdowne Bank. The bank had funded the rehabilitation work for the Development Center. Questions arose about the potential conflicts of interest. Finally, there were several rumors that, in order to finish the rehab work as fast as possible, EDC, Inc. had brought in outside subcontractors who had paid only two-thirds the prevailing wages to their out-of-state workers. The Center, unfortunately, had no documentation to disprove this assertion.

INTRODUCTION

The case study above illustrates what can happen when a grantee gets behind in monitoring subrecipient activities, especially when there are many actors involved (local governments, non-profit sponsors, private funding sources, staff and trainees), and when sponsored activities are complicated (rehabilitation and economic development). No matter how well run a project may appear, the question you always need to ask is, "Who is minding the store?"

Monitoring should be directed toward

- ***Program performance***
- ***Financial performance***
- ***Regulatory performance***

As a CDBG manager, you know that as far as monitoring is concerned, "the buck stops here." This chapter discusses how, even with limited staff, you can keep track of your subrecipients' activities and help them avoid problems and improve performance.

The CDBG regulations (24 CFR 570.501(b)) state that:

"[the grantee] is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of . . . subrecipients . . . does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements . . . and for taking appropriate action when performance problems arise..."

Requirements for Subrecipient Monitoring

The language in Subpart J of 24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” which applies to CDBG grants, is even more explicit about your obligation to monitor subrecipients:

“Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. **Grantees must monitor . . . subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.** Grantee monitoring must cover **each program, function, or activity.**” [emphasis added]

Your Primary Legal Obligation

These regulations make clear that your primary mission is to:

- make sure your subrecipients comply with all regulations governing their administrative, financial, and programmatic operations; and
- make sure your subrecipients achieve their performance objectives on schedule and within budget.

“We look forward to monitoring visits because we know they're not out to get us, and we usually wind up solving a problem.”

*-Subrecipient,
Los Angeles, CA*

Both responsibilities are important. On the one hand, a subrecipient that complies with applicable regulations yet fails to achieve its service or project goals is still wasting the taxpayer's money. On the other hand, a subrecipient that delivers a great many units of service, yet in the process violates program regulations, puts itself, the community, and you at risk of serious monitoring findings by HUD, disallowance of costs, and termination of activities.

Overall Monitoring Guidelines

There is no magic to monitoring, but it helps if you **avoid** giving the impression that you're trying to catch subrecipients making mistakes and nail them with the blame. Whether you are right or wrong on any given matter, if subrecipients feel this is your purpose, they are likely to become uncooperative and resentful. Such perceptions only make your work and the subrecipients' work more difficult.

The three most important strategies for effective monitoring are:

- *on-site field visits*
- *open communications*
- *assisting subrecipients in creating good record-keeping systems*

Instead, establish a monitoring process that emphasizes *positive feedback* to subrecipients about what they have done well, in addition to pointing out areas for improvement. Approach the monitoring with the assumption that your view is not always correct. This means building into the process *opportunities for dialogue* with subrecipients to develop a better appreciation of their perspectives and to identify and resolve points of miscommunication or misunderstanding.

Encourage subrecipients to specify, within reason, the kinds of technical support they need from you in order to make the improvements you require.

THE MONITORING PROCESS

Monitoring should not be a “one-time event.” To be an effective tool for avoiding problems and improving performance, monitoring must involve an on-going process of planning, implementation, communication, and follow-up. **Grantees should develop a local system for monitoring that includes the following steps.**

Developing a Monitoring Plan

Develop a monitoring plan at the beginning of your program year so that you can *match available resources with the needs and capacity of your subrecipients*. Since you probably don't have enough staff to monitor all your subrecipients as frequently and thoroughly as you'd like every year, decide which subrecipients are most likely to have the most serious problems and make sure you devote extra attention to them. Make sure your monitoring plan is appropriate to your performance tracking capabilities and rotate the subrecipients selected for in-depth monitoring.

This doesn't mean you can ignore subrecipients you think won't have serious problems; it just means that if you have limited staff you may have to perform more limited monitoring of these subrecipients. Otherwise, you won't be able to help those subrecipients who will need your assistance the most.

Identifying Risky Subrecipients

Some Common Risk Factors

The probability of monitoring findings and HUD involvement tend to be related to the size of your program (expenditures, number of employees, number of subrecipients). Other program risk factors include using subrecipients for:

- *acquisition activities*
- *housing*
- *economic development*

Monitoring problems are found even with the most experienced subrecipients.

Establishing Monitoring Schedules

By carefully examining subrecipients' past performance, you should be able to perform a **risk assessment to identify which subrecipients require comprehensive monitoring**. High-risk subrecipients might include:

- subrecipients new to the CDBG program;
- subrecipients that have experienced turnover in key staff positions or a change in goals or direction;
- subrecipients with previous compliance or performance problems including failure to meet schedules, submit timely reports or clear monitoring or audit findings;
- subrecipients carrying out high-risk activities (such as economic development); and
- subrecipients undertaking multiple CDBG activities for the first time.

By contrast, for an experienced subrecipient that has been successfully carrying out multiple activities for you, you could plan a **more narrowly focused monitoring**, that would examine:

- those area(s) of the subrecipient's operation where the regulations have changed or been clarified;
- new activities the subrecipient is undertaking; or
- aspects of a subrecipient's operations that led to monitoring recommendations in the past.

Even for subrecipients with strong past performance, you should still conduct a periodic comprehensive monitoring. Normally, effective and efficient subrecipients can begin to neglect their CDBG responsibilities if accountability has not been built into the funding cycle.

In addition to the questions of how often and how thoroughly to monitor, your monitoring plan should specify when you expect to visit each subrecipient. For example, if a subrecipient is undertaking a new activity that requires procedures or a level of documentation it has rarely experienced before, schedule a monitoring visit (or at least a technical assistance visit) early enough in the program year to detect and resolve problems while they are still small. Conversely, for

activities that require a long time to unfold, don't monitor too early before there is anything of substance to monitor.

Using Monitoring Checklists

Your monitoring plan should specify the particular items or documents you will examine in the course of your visit. **This list will vary depending on the activity area.** For example, for rehabilitation activities, you need to test for compliance with lead-based paint regulations and required inspections.

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*

To ensure that you examine the correct items for the activity area in question, as well as to promote thoroughness and consistency in your monitoring, it is helpful to use standardized monitoring checklists or workbooks for your on-site reviews. These guides can be as detailed as necessary, identifying the applicable regulations or laws for each activity area, the standards that need to be met, the types of documentation required, or the accounting systems that will satisfy the standards. The checklist should also specify the steps you will follow in the site inspection or file review to measure compliance.

If you do not have a monitoring checklist or workbook for subrecipient monitoring, you should develop one. The standardized forms and approach facilitated by these checklists can dramatically increase the efficiency and quality of your monitoring. Monitoring workbooks also allow you to collect data in a form that summarizes and greatly facilitates writing up the results of the review in a monitoring letter.

The HUD Community Planning and Development Monitoring Handbook (Handbook 6509.2) is currently being revised. When completed, it will be on the HUD Web site and available as a resource for helping you develop your own monitoring checklists.

Included in the Appendix is a **sample checklist for on-site monitoring** of a subrecipient, which is an amalgamation of review documents used by four different entitlement grantees. It will give you a head start in developing your own review procedures. You may wish to review certain areas in greater depth or annually determine your priority areas for review. The Appendix also provides an outline for a subrecipient monitoring workbook, which lists the **general administrative and financial management requirements** associated with the CDBG program, **as well as specific requirements applicable to each of the major CDBG activity areas.** You can use these two documents to review the comprehensiveness of your own monitoring checklists, or as an outline to prepare a monitoring workbook.

To assist you in developing your own process for management, monitoring and oversight of subrecipients, the Appendix also includes a listing of the areas HUD reviews when monitoring entitlement grantees for oversight of subrecipients.

**PREPARATION FOR THE
MONITORING VISIT**

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

Before you begin your annual monitoring process, ensure that your monitoring staff are adequately trained. Nothing can be as destructive to good grantee-subrecipient relations than a monitor who is ill-prepared, incorrectly interprets or misapplies regulations, or exhibits a condescending or excessively bureaucratic manner.

Make sure that each of your monitoring staff is familiar with the applicable program rules and correct monitoring protocol. Initially, pair new monitoring staff with your most experienced staff so that newcomers can learn firsthand how to prepare for, conduct, and follow-up on a monitoring visit.

If more than one monitor will be involved in a monitoring visit, explain the respective roles of each staff member as part of the planning for the on-site visit. For example, grantees frequently assign one staff person to review fiscal systems and records and another staff member to look at program files and requirements. If you plan to perform a comprehensive monitoring of a subrecipient that is conducting a range of CDBG-funded activities, or for which you anticipate serious problems, a “team” approach to the monitoring may be best. The specialization may permit a more efficient and thorough process.

**In-House Review:
Desk Audits of Subrecipient
Materials**

In preparation for the monitoring visit, have the assigned monitor(s) review all the written data you already have in-house, such as:

- the subrecipient's application for CDBG funding;
- the written agreement with the subrecipient;
- progress reports;
- drawdown requests;
- documentation of previous monitoring; and
- copies of audits whether by an Independent Public Accountant (IPA) or another entity such as the HUD Office of Inspector General (OIG) or the General Accounting Office (GAO).

You can use the information from this “desk audit” to learn about changes in a subrecipient's activities and to identify potential problem areas to examine during the on-site visit.

Pre-Monitoring Visits With Subrecipients

As discussed at the end of the previous chapter, consider scheduling a “pre-monitoring visit” to inform the subrecipient about your monitoring procedures and the information you will be examining during the subsequent visit. Your monitor can point out apparent weaknesses in the subrecipient's operations and suggest how they can be corrected *before the formal monitoring visit*. This will reduce the likelihood of negative “findings” after the formal monitoring.

CONDUCTING THE MONITORING VISIT

It's also important to check up on the monitors from time to time to make sure they are doing their job.

A “pre-monitoring visit” is one example of how you can reduce the anxiety and defensiveness of subrecipients in connection with the monitoring. Stress at the beginning of every visit that monitoring is **not** intended to find something wrong with the subrecipient. Rather, it is intended to provide an opportunity to **work together** to recognize the subrecipient's accomplishments and to identify ways to overcome problems and improve operations.

Avoid becoming **too informal** or casual in your approach. You may discover serious problems in a subrecipient's operations and have to mandate serious corrective action or even sanctions. You want subrecipients to be clearly aware that any problems you find will be taken seriously and have to be fixed.

Five Steps in a Monitoring Visit

There are five basic steps to any monitoring visit:

- Notification Letter
- Entrance Conference
- Documentation, Data Acquisition and Analysis
- Exit Conference
- Follow-up Monitoring Letter

A. The Notification Letter

Begin the on-site monitoring process with a telephone call to explain the purpose of the monitoring and to arrange mutually convenient dates for your visits. Send a formal notification letter at least several weeks before the scheduled visit to:

- confirm the dates and the scope of the monitoring;
- provide a description of the information you want to review during your visit; and
- specify the expected duration of the monitoring, which of your staff will be involved, what office space you require, and what members of the subrecipient's staff you need to talk with.

B. The Entrance Conference

Hold an entrance conference on-site with the subrecipient's director and appropriate financial and program staff immediately before you begin the monitoring. Use the entrance conference to make sure that all subrecipient staff have a clear understanding of the purpose, scope and schedule of the monitoring from the very beginning. Both you and the subrecipient must agree at the outset that it is **your responsibility to monitor the subrecipient's activities** and determine whether its use of CDBG funds is appropriate and meets CDBG regulations, even if the subrecipient finds your monitoring inconvenient and unwelcome.

C. Documentation and Data Acquisition

Keep a clear written record of the steps you followed and the information you reviewed during the visit. Document any conversations you have with subrecipient staff. The easiest way to do this is to annotate a monitoring checklist or handbook with notes about particular case numbers, statistics or financial figures, and the subrecipient's written policies that you obtain from the file reviews, on-site inspection of projects, or discussions with subrecipient representatives.

You will find this documentation invaluable in analyzing information, developing conclusions from the monitoring visit, and explaining the basis for any findings that appear in your monitoring letter. Being able to identify the sources of the information you used to arrive at your conclusions is particularly important if the subrecipient disputes any of your findings.

D. The Exit Conference

At the end of your visit, you or your monitoring team should meet again with key representatives of the subrecipient organization to present the tentative conclusions from your monitoring. This exit conference should have four objectives:

- to present preliminary results of the monitoring visit;
- to provide an opportunity for the subrecipient to correct any misconceptions or misunderstandings on your part;
- to secure additional information from subrecipient staff to clarify or support their position; and
- for any deficiency that the subrecipient agrees with, to provide an opportunity for subrecipient staff to report on steps they are already taking to correct the matter.

Maintain careful notes on the exit conference in order to document what you told the subrecipient and whether the subrecipient agreed with your tentative findings. At the end of the conference, there should be a clear understanding of the areas of agreement and disagreement about your monitoring results.

E. The Monitoring
Letter

Monitoring without formal feedback to the subrecipient is worse than “half a loaf.” If the subrecipient is doing a good job, it deserves formal written recognition of its success. If the subrecipient is experiencing problems or is failing to comply with regulations, you need to describe these deficiencies formally and quickly in a letter that also includes your recommendations or requirements for improvement. Otherwise the subrecipient will conclude that its performance is satisfactory or, worse still, that you condone its failure to comply.

Use the monitoring letters to create a permanent written record of what you found during the monitoring review. Make your letter positive in tone by recognizing areas where the subrecipient has done a good job or shown significant improvement as well as pointing out areas where corrective action or improvement is required.

Your monitoring letter should identify fully every finding and concern. You should issue a **finding** for non-compliance with the rules and regulations of the CDBG program. Be careful that the finding is:

- correctly identified;
- based on applicable law, regulation, or program policy; and
- supported by the facts presented in the monitoring letter.

For each finding, specify *corrective actions* the subrecipient must take.

Present as **concerns** in the monitoring letter instances where the deficiency is not a finding, or where non-compliance may occur in the future because of weaknesses in the subrecipient's operations. For each concern, include *specific recommendations* for improvement.

Include *deadlines* in the monitoring letter for:

- providing a **written response** to your monitoring letter that describes how the subrecipient will resolve any finding(s); and
- **correcting each deficiency** identified in your letter.

You do not have to require a written response for concerns noted in your monitoring letter.

Mail the monitoring letter to the subrecipient *within thirty days* after the exit conference, especially if your letter details significant problems in the subrecipient's operations. You cannot delay your monitoring letter and then require the subrecipient to take “immediate action” to correct its deficiencies. Do not ask the subrecipient to meet a standard to which you, as the grantee, do not adhere.

According to HUD rules

- A “*finding*” is a violation of law or regulation that can result in a sanction.
- A “*concern*” is a matter that, if not properly addressed, can become a finding and can result in a sanction.

Use your word processing program to create a “menu” of standard “inserts” that can dramatically reduce the time required to write monitoring letters.

You will be able to write your monitoring letter faster if you develop standardized language for the opening paragraphs and for sections on findings, corrective action, concerns and recommendations. [**The Appendix to this chapter provides a sample monitoring letter that includes such “boilerplate” language.**] Standardization also helps to ensure more even-handed treatment of subrecipients for similar performance characteristics or monitoring problems. However, take care to ensure that the monitoring letter is not so “canned” that it ignores the unique characteristics (both positive and negative) of the particular subrecipient.

ADDITIONAL SOURCES OF EVALUATION INFORMATION

According to OMB Circular A-133, *any public agency or non-profit organization that cumulatively expends \$300,000 or more in Federal funds in a year must have an independent audit performed*, consistent with the Single Audit Act of 1984. In most cases, these audits are performed by an IPA.

Subrecipient IPA Audits

The Single Audit Act is designed to assure that subrecipients receiving Federal funds properly account for their expenditures from all Federal Sources.

These audits can provide another source of information on subrecipients' finances and compliance with relevant fiscal requirements of the CDBG program. They are especially helpful in reviewing how subrecipients allocated expenses across multiple Federal sources. Establish a system for tracking when your subrecipients' audit reports are due (see Chapter 6) and review these reports carefully for indications about how well your subrecipients are performing. See the Appendix to this chapter for more information on IPA audit reports.

Subrecipient Reports

Subrecipients themselves may prepare quarterly or annual reports on their operations. These are particularly helpful in providing 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 subrecipient may conduct their own evaluations. These evaluations may identify generic characteristics of the subrecipient's operations that are relevant to its CDBG activities as well. They can suggest aspects of the subrecipient's operations that should receive special attention during your monitoring, or serve as an “early warning” system (particularly for subrecipients that have not been monitored recently). For example, such reports might mention major staffing changes that could indicate internal management difficulties.

HUD Audits

HUD's Field Office staff or its OIG, or sometimes even GAO may audit subrecipients. These audits can be important to you in a different way if they conclude that there were serious deficiencies that you didn't know about or weren't concerned about. Obviously, in such instances you need to become directly involved in the process to help sort out the facts. If the deficiencies are proven to exist, you should take the lead in helping to solve these problems with the subrecipient.

SUMMARY

This chapter has described strategies and procedures that you can use to fulfill your regulatory responsibility to monitor your subrecipients. Effective monitoring depends on building a sense of partnership with subrecipients and securing a mutual commitment to solve problems and improve the delivery of services.

Monitoring can be time consuming. However, a consistent and thorough monitoring process will produce significant payoffs over time in terms of fewer subrecipient problems, improved performance, and greater compliance with program regulations.

NOTES:

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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 24 CFR 84.51 and 85.40, 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.

HUD MONITORING REVIEW OF GRANTEE OVERSIGHT OF SUBRECIPIENTS

HUD Field Office staff from the Office of Community Planning and Development monitor CDBG Entitlement Grantees to review the adequacy of the grantee's management, monitoring, and oversight of its subrecipients as required by 24 CFR Part 85 and 24 CFR 570.501–503. The following outline provides a condensed list of the items covered in that review. **THE OUTLINE BELOW DOES NOT NECESSARILY COVER ALL THE AREAS YOU SHOULD ADDRESS IN YOUR SUBRECIPIENT MONITORING PROCESS, ONLY THE BASIC AREAS THAT HUD TYPICALLY REVIEWS WHEN MONITORING ENTITLEMENT COMMUNITIES.**

[NOTE: Items preceded by asterisk (*) are not related to statutory or regulatory requirements, but are only included to assist HUD reviewers in understanding a grantee's program, and/or to identify issues that if not properly addressed could result in deficient performance. Negative conclusions to items with an asterisk may result in a “concern” being raised, but not a “finding.”]

AREAS OF REVIEW

A. SUBRECIPIENT MANAGEMENT AND TRAINING SYSTEM

1. The grantee's management system for subrecipient oversight.
- *2. Efforts the grantee has made to assure its **subrecipients' understanding** of applicable CDBG program requirements through technical assistance, training, and distribution of source materials (regulations, OMB Circulars, HUD Policy Notebook, CPD Notices, CDBG Guide to National Objectives and Eligible Activities for Entitlement Communities, etc.).
3. The grantee's process to ensure that subrecipients maintain adequate records that comply with program requirements, including record retention.
4. The grantee's process for handling audit reports required **OMB Circular A-133** and appropriate follow-up.
5. The grantee's procedures for identifying subrecipients as **“high risk”** (e.g., agencies not familiar with CDBG regulations, with high staff turnover, or carrying out high-risk activities, etc.)
6. The grantee process to review subrecipients for evidence of **conflicts of interest**, involving grantee and subrecipient, or subrecipient and its contractors.

B. GRANTEE REVIEW OF SUBRECIPIENT'S INTERNAL CONTROLS

1. The grantee's system to assure that:
 - a. The subrecipients' **financial management systems** are in compliance with (as applicable): (a) **24 CFR 85.20(b)** [financial reporting, accounting records, internal control, budget control, allowable costs, source documentation, and cash management] or (b) **24 CFR 84.21–28** [disclosure of financial results; sources and uses of funds; control of funds, property, and other assets; comparison of actual with budgeted outlays; cash management; procedures for determining reasonableness,

allowability and allocability of costs; figures supported with source documentation; examination with audits by qualified individuals and resolution of audit results].

- b. Time reporting/distribution records for subrecipient employees working on both CDBG and non-CDBG activities are kept appropriately.
2. The grantee's process to ensure subrecipient compliance with **procurement and/or subcontracting requirements** of **24 CFR 85.36** [governmental subrecipients] or **24 CFR 84.40–48** [non-governmental subrecipients].
3. Property Management.
 - a. The procedures subrecipients use to **identify CDBG property and assets**, such as property records (**24 CFR 85.32 (d)(1)** and **24 CFR 84.30-37**).
 - b. The procedures subrecipients use to ensure adequate safeguards for **preventing loss, damage or theft of subrecipient-held property** (**24 CFR 85.32 (d)(3)**).

C. SUBRECIPIENT AGREEMENTS (§570.503)

1. Review a Sampling of Agreements for:
 - a. Elements **required in §570.503 (b)**:
 - Statement of Work
 - Records and reports
 - Program income
 - Uniform administrative requirements
 - Other program requirements
 - Suspension and termination
 - Reversion of assets
 - b. Adequacy of Statement of Work. Does it contain:
 - 1) A description of the types and amount of work or products **in sufficient detail to permit effective monitoring by grantee**;
 - 2) A schedule with a **deadline indicated for each major service or product** identified in the Statement of Work (**24 CFR 570.503(b)(1)**);
 - 3) A specified period for which the agreement is in effect;

- 4) **Projected costs specified in sufficient detail** to provide a basis for comparing budgeted costs with actual costs of work (24 CFR 570.503(b)(1));
 - c. **Documentation required** for payment of expenses sufficient to ensure that (1) payments are made **only for eligible** expenses, (2) expenses are **reasonable** in relation to actual performance, and (3) funds requested are **not in excess of immediate needs**;
 - d. **Special documentation** (required by the Agreement) maintained by the subrecipient for tracking particular activities, for example, **project underwriting determinations** (for economic development), **household income or lead-based paint** (for rehabilitation activities); and
 - e. Where **program income** is retained by subrecipient, the provisions to ensure that it is **used in accordance with CDBG rules** (24 CFR 570.504(c)).
2. Analysis of Grantee-Subrecipient Agreement.
 - a. Determine whether there is universal coverage for all subrecipients.
 - *b. The procedures for amendments.
 - c. Adequacy of subrecipient agreements – conclusion (i.e., are systemic changes necessary to comply with program requirements?).

D. REPORTING

1. The process for submitting and receiving **progress and financial reports** required (24 CFR 570.503(b)(2)).
2. **Frequency** of required reports.
3. The mechanism used to obtain information necessary for the grantee to **input data in the Integrated Disbursement and Information System (IDIS)** and **prepare its CAPER**; i.e., Activity Summary and Direct Benefit Information.
4. The adequacy of the reporting mechanism—**content** of written reports **clearly specified**; information required sufficient to assess subrecipient performance against specifications in Statement of Work?
5. Grantee **verification** of the data and beneficiaries reported by subrecipient.

E. ON-SITE MONITORING BY THE GRANTEE

- *1. The process for selecting subrecipients and activities for **on-site review** (e.g., dollar amount, nature of activity, program experience).
- *2. The **frequency** of grantee on-site monitoring.

- *3. Review on-site monitoring conducted during preceding 12 months:
 - Names of subrecipients
 - Dates monitored
 - Number and type of findings
 - Date(s) of monitoring letters
 - Dates when findings were resolved
 - Percentage of subrecipients monitored** to the total number of subrecipients

- *4. Results of Monitoring.
 - a. Documentation for areas monitored, conclusions reached, and improvements or corrective actions necessary in the project file.
 - b. Adequacy of time for subrecipients' response.
 - c. Timeliness of grantee transmittal of monitoring results **communicated** to subrecipients.
 - d. **Corrective actions** and **dates for resolution** indicated.

- *5. Grantee's **internal procedures** for ensuring **quality** of monitoring efforts, including **documentation and intended actions**, and follow-through on promised actions.

F. PROGRAM INCOME MONITORING

- 1. The grantee process for:
 - a. Keeping track of subrecipient-generated **program income** and ensuring **accurate recording and reporting** of income.
 - b. Assuring retained program income is used appropriately
 - before grant funds are requested**
 - in accordance with the subrecipient agreement**
 - in accordance with CDBG rules**

- 2. Review that subrecipient-generated program income is adequately reflected in the CAPER.

- 3. **Program income expected to be received** by all of its subrecipients is included in its most recent **Action Plan**.

4. Review activities being carried out by subrecipients that **typically generate program income**, but for which the grantee has **no information** (e.g., rehabilitation loan programs, economic development revolving loan funds).

G. ON-SITE REVIEW OF SELECTED SUBRECIPIENTS BY HUD

[For a sample of subrecipients selected by HUD for on-site monitoring, the HUD monitor records the subrecipient's name, program or activity, records/data reviewed, and concerns/findings identified by grantee.]

1. Did grantee monitor this subrecipient on-site? If so, when?
- *2. Are there **significant differences** between **actual and reported** performance?
3. Do any costs appear **clearly unreasonable**? Do any costs warrant **further review**?
- *4. Does there appear to be **adequate knowledge of CDBG rules** and other applicable regulations among subrecipient staff to support regulatory compliance? **Areas of weakness**?
5. Did grantee's monitoring report **fail to find** something it should have? If so, what?

H. SUMMARY

Adequacy of monitoring, causes of problems, actions recommended, and positive observations.

**CHECKLIST FOR ON-SITE MONITORING OF A SUBRECIPIENT
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

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 (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 an Spot Basis

An Urgent Need

- ___ Needs having a Particular Urgency

2. Which eligibility category does the project meet? (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 accomplishments. Is the project achieving the expected levels of performance (number of persons served, number of units rehabbed, 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 (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 HCD project file and subrecipient records have the necessary documentation supporting the National Objective being met, eligibility, and program costs as they relate to 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 [85.20 (local governments) and 84.21–28 (non-profits)]

1. Systems for Internal Control – Are systems in compliance with accounting policies and procedures for cash, real and personal property, equipment and other assets (85.20(b)(3) and 84.20(b)(3))?
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 OMB Circulars A-87, A-122. 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 Treasury Circular 1075, 85.20(b)(7), and 84.20. 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 570.504 and the Subrecipient Agreement about its use. Note any discrepancies.
7. IPA Audit Reports/Follow-up – (OMB Circular A-133) Determine if the subrecipient has expended \$500,000 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 – (85.20(b) and 84.20(b)) Note any discrepancies in sample records, invoices, vouchers and time records traced through the system.
9. Budget Control – Do actual expenditures match the line item budget? Refer to 85.20(b)(4) and 84.20. 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 570.503(b)(7).

2. Has the subrecipient purchased equipment with CDBG funds in excess of \$1,000? Does the subrecipient maintain the records required at 84.34?
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 570.506, 601 and 602. Note any deficiencies.
2. Section 3 – Opportunities for Training and Employment for Local Residents – Refer to 570.506(g)(5) and 570.607(a) (affirmative action). Note any deficiencies.
3. Fair Housing Compliance – Refer to 570.904 and 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 570.506(g), 85.36(e), and 84.44, 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

OUTLINE FOR A SUBRECIPIENT MONITORING WORKBOOK

The monitoring checklist is a tool to help you ensure that you monitor your subrecipients in all important areas of program administration and regulatory compliance. These areas include 1) program performance review (National Objectives, eligible activities, contract objectives, scope of work, contract schedule, contract budget); 2) general management practices; 3) financial management practices (accounting system, internal controls); 4) record-keeping/reporting practices; 5) anti-discrimination compliance (civil rights and Section 504); and 6) activity-specific monitoring (housing rehabilitation, economic development, public facilities and infrastructure, acquisition and disposition, public services, and administration and planning).

The following outline provides a list of the key elements comprising a comprehensive subrecipient monitoring checklist. Yours may differ depending on the activities and programs you support. The outline can be used as a source for developing your own monitoring checklists or workbook.

REVIEW ITEM

COMMENT/ REFERENCE

1.0 Overview of Monitoring Procedures

NOTE: This section should describe the overall purpose of your monitoring program and how it is to be undertaken. See discussion in text of Chapter 5. It should include at least a statement of monitoring goals and objectives and a summary of the three principal monitoring phases: in-house preparation, on-site review, and follow-up.

2.0 Program Performance Review	<i>Required by 24 CFR 570.501(b) & 24 CFR 85.40(a) as modified by 570.502(a)(14)</i>
2.1 National Objectives Compliance	<i>Which one(s) & how addressed, 24 CFR 570.208</i>
2.2 Eligible/Ineligible Activities	<i>Which activities, on what basis, 24 CFR 570.201–207</i>
2.3 Objectives	<i>Compare current v. original in Agreement</i>
2.4 Statement of Work	<i>Compare actual work performed v. planned</i>
2.5 Performance measurements	<i>Planned accomplishments v. actual</i>
2.6 Project Schedule	<i>Compare actual progress v. planned</i>
2.7 Budget Line Item	<i>Compare actual expenditures v. planned</i>
2.8 Conclusion	<i>Performance Assessment</i>
a. Summary of Achievements	<i>Acknowledge major accomplishments</i>
b. Summary of Corrective Actions/Deadlines	<i>Schedule for corrective actions or improvements</i>
c. Technical Assistance and Training	<i>Schedule for technical assistance or training</i>
d. Identifying High-Risk Subrecipients	<i>24 CFR 85.12</i>

3.0	Record-Keeping Systems	<i>Required by 24 CFR 570.506</i>
3.1	Filing System	<i>Orderly, comprehensive, up-to-date</i>
3.2	Security Procedures (office & site)	<i>Confidentiality/safety of records, 24 CFR 85.42(e) and (f) and 84.34(f)</i>
3.3	Location and Accessibility	<i>Assuring availability and access, 24 CFR 570.508</i>
3.4	Documentation (activities & costs)	<i>Re: National Objectives, Eligible Activities, Program Costs 24 CFR 570.506</i>
3.5	Environmental Review Documentation	<i>24 CFR 570.503(b)(5)</i>
3.6	Retention of Records	<i>24 CFR 85.42 and 84.53 as amended by 24 CFR 570.502(a) and (b)</i>
4.0	Financial Management Systems	<i>Required by 24 CFR 85.20 and 24 CFR 84.20–28, as modified by 570.502(a) and (b) as applicable</i>
4.1	Systems for Internal Control	<i>Accounting policies & procedures, staffing; 24 CFR 85.20(b)(3) and 84.21(b)(3)</i>
4.2	Components of Financial Mgt System	<i>Chart of accounts, journals, ledgers, reconciliation data processing, reporting system</i>
4.3	Accounting Records: accurate, current and complete disclosure of financial results	<i>Compare latest CAPER, drawdown requests, bank records, payroll records, receipts/disbursements,</i>
4.4	Eligible, Allocable, and Reasonable Costs	<i>Time sheets, cost allocation plan, expense tracking, 24 CFR 84.27 and 85.22, OMB Circulars A-87, A-122</i>
4.5	Cash Management/Drawdown Procedures	<i>Treasury Circular 1075, 24 CFR 85.20(b)(7) and 85.21</i>
4.6	Management of Program Income	<i>24 CFR 570.504</i>
4.7	IPA Audit Reports/Follow-up	<i>OMB Circular A-133</i>
4.8	Maintenance of Source Documentation	<i>24 CFR 85.20(b) and 84.21</i>
4.9	Loan Servicing Capabilities	<i>24 CFR 85.20(b)(3) and 84.51</i>
4.10	Budget Control	<i>Actual expenditures match budget, 24 CFR 85.20(b)(4)</i>
4.11	Revision to Financial Plans & Close-out	<i>24 CFR 570.503</i>
5.0	Non-Discrimination and Actions to Further Fair Housing	<i>Required by 24 CFR 570.506(g), 570.601, 570.602, 570.607</i>
5.1	Equal Employment Opportunity	<i>Direct benefit activities: 24 CFR 570.506, 570.602</i>
5.2	Section 3: opportunities for training & employment for local residents	<i>24 CFR 570.506(g)(5), 570.607(b), and 84.44(d) affirmative action, documentation</i>
5.3	Fair Housing Compliance	<i>Review criteria: 24 CFR 570.904, 570.601(b)</i>

5.4	Requirements for Disabled Persons	<i>§504(24 CFR 8.6), Title VIII, Federal Accessibility Standards, Americans with Disabilities Act (ADA)</i>
5.5	Women & Minority Business Enterprises	<i>24 CFR 570.506(g)(6), 24 CFR 85.36(e) and 84.44(b) affirmative steps documentation</i>
6.0	Property Management	<i>24 CFR 85.31–33 and 84.30–37</i>
6.1	Acquisition Records Maintenance	<i>Acquisition records, inventory maintenance</i>
6.2	Security for Protection of Assets	<i>Security procedures 24 CFR 85.32(d)(3)</i>
6.3	Disposition of Assets	<i>Disposition process and records, program income requirements, 24 CFR 85.32–33 and 84.33–35; 24 CFR 570.503(b)(7)and 570.505</i>
7.0	Procurement and Bonding	<i>24 CFR 85.36 and 84.40–48</i>
7.1	Procurement Procedures	<i>Written policies/enforcement/compliance</i>
7.2	Competitive Bids	<i>Bid packages & award procedures</i>
7.3	Use of Debarred, Suspended or Ineligible Contractors or Subrecipients	<i>Prohibition/documentation required by 24 CFR 570.609; 24 CFR 85.35; 24 CFR 84.44(d)</i>
7.4	Small Purchases (\$100,000 or less)	<i>Purchase orders & petty cash 24 CFR 85.36(d)(1)</i>
7.5	Noncompetitive Procurement	<i>Procedures, limits 24 CFR 85.36(d)</i>
7.6	Conflict of Interest Provisions	<i>24 CFR 570.611, Part 85.36 and 84.42</i>
7.7	Bonding Requirements	<i>24 CFR 85.36(h) and 84.48</i>
8.0	Labor Standards Monitoring	<i>Required by 24 CFR 570.603, HUD Handbook 1344.1 Rev. 1; compliance with Davis-Bacon and related acts, Copeland Act, Contract Work Hours and Safety Standards</i>
8.1	Prevailing Wages (applicability)	<i>24 CFR 570.603, Handbook 1344.1 Rev. 1</i>
8.2	Dissemination, Notices Posted	<i>(same as above)</i>
8.3	Person in Charge of Labor Standards	<i>(same as above)</i>
8.4	Documentation in Files	<i>(same as above)</i>
8.5	Field Inspections/Payroll Review	<i>(same as above)</i>
8.6	Contractor Eligibility	<i>24 CFR 570.609</i>
9.0	Relocation and Anti-Displacement (See Appendix, Chapter 4)	<i>Required by 24 CFR 570.606</i>

SPECIAL MONITORING FOR PARTICULAR ACTIVITIES

10.0 Rehabilitation

24 CFR 570.202 (Eligible Activities)

Part A. Review of File Records and Progress

Review Progress Reports/Agreement/Plans

10.1 Regulatory Compliance

- Location (census tract, redevelopment area)
- Type of Housing (SF/MF), Commercial
- Number of units per structure
- Historic preservation
- Lead-based paint (inspection/remediation)
- Household income (low/mod benefit)
- Procurement & Bonding
- Labor Standards Review
- Relocation and Real Property Acquisition
- Environmental Review (date/findings)
- Project in Special Flood Hazard Area
- Section 504/ADA compliance

*If low/mod benefit claimed
(24 CFR 570.208(a)(3)
or slums/blight (570.208(b)(1) or (2))
Davis-Bacon & ADA applicability*

*Davis-Bacon where 8 or more units; ADA
24 CFR 570.202(d)
24 CFR 570.608, 24 CFR Part 35
24 CFR Part 35 (doc/mitigation)
Verify occupants' income v. limits
See Section 7 above
24 CFR 570.603 (Davis-Bacon, etc.)
24 CFR 570.606
relocation/anti-displacement
24 CFR 570.604 grantee review procedures
24 CFR 570.605 flood insurance required
§504 (24 CFR 8.6), Title VIII, Uniform
Federal Accessibility Standards (UFAS), ADA*

10.2 Comparison of Performance Records With Agreement/Application

- Scope of Work (work write-up, plans & specs, and original cost estimate)
- Contract award date; date work began
- Date final inspection; completion notice
- Number of dwelling units completed
- Actual delivery schedule v. Application & Agreement

Check progress reports, documentation

*Compare scope with Agreement/Application
Compare with schedule in Agreement
(same as above)
Compare with number units proposed
Compare with Application/Agreement
Review overall performance regarding
scope and schedule; 24 CFR 570.503(b)(1)*

10.3 In-house Cost & Productivity Review

- Method used to assure reasonable costs
- Direct construction costs (per unit)
- Indirect/administrative costs; comparison with cost allocation plan; % of total
- Costs within 10% of in-house estimate
- Cost per Unit v. Budget

24 CFR Parts 84 and 85, OMB Circulars A-87 and A-122

*Review progress reports & drawdown requests
Check cost allocation plan*

Explanation of variances

Written explanations of overruns (good practice); 24 CFR Parts 84 and 85; OMB Circulars A-87 and A-122

Part B. Subrecipient File Review & Property Inspection

- 10.4 Source Documentation in Subrecipient Files
- Low/Mod Benefit *24 CFR 570.506(b)(4)*
 - Slums/blight *24 CFR 570.506(b)(7), (9), (10), and (11)*
 - Urgent need *24 CFR 570.506(b)(12)*
 - Eligible activity (rehab, other) *Documentation of work performed*
 - Project costs (allocability, reasonableness) *Source documentation*
 - Plans & specifications/changes *(same as above)*
 - Bids received (fair and open competition) *(same as above)*
 - Contractor bonding and insurance *(same as above)*
 - Section 3 training/hiring *24 CFR 570.607(b), source documentation*
 - Anti-discrimination & affirmative action *24 CFR 570.607(a), publication & source documentation*
 - Lead-based paint *24 CFR 570.608, 24 CFR Part 35 (doc/mitigation)*
- 10.5 On-site Inspection *Required by 24 CFR 85.40*
- Verification of location, number of units *(same as above)*
 - Verification of payroll *Davis-Bacon*
 - Verification of statement of work *Required by 24 CFR 85.40, 24 CFR 570.503(b)(1)*
 - Verification of progress reported *(same as above)*
 - Pct. of work completed v. costs/drawdowns *24 CFR Parts 84 and 85. See also 24 CFR 570.513*
 - Verification of quality and standards *Good business practice*
- 10.6 Overall Project Management *24 CFR 570.905*
- Target for completion *Good business practices & indicators*
 - Staffing capacity/turnover *(same as above)*
 - Performance ranking *(same as above)*
 - Corrective/remedial actions *(same as above)*
- 11.0 Economic Development** ***24 CFR 570.203 and 570.204***

Part A. Activity Meets National Objectives *24 CFR 570.208(a)–(d); 24 CFR 570.506(b)*

- 11.1 National Objective: Low/Mod Benefit, Job Creation, **51% of Jobs Created**
- Verify number full-time equivalent (FTE) jobs created/retained
 - (Activity complete) % of FTE jobs created actually taken by low/mod persons
 - (Activity complete) % of FTE jobs available to low/mod persons
 - (Activity complete) “first consideration” process of referrals
 - (Activity complete) number of low/mod persons interviewed for “made available” jobs
 - Efforts to increase accessibility of “made available” jobs to low/mod persons
 - Training opportunities offered to low/mod persons not qualified for position(s)
 - (Activity underway) evidence of written contractual commitment for jobs to be held by or made available to low/mod persons
 - (Activity underway) listing of permanent jobs to be created and either: a list of the jobs filled and those held by low/mod persons, or an indication of which jobs to be created will be made

- available to low/mod persons on an FTE basis, 51% commitment, and actions be taken to ensure “first consideration” for low/mod persons
- (Activity underway) adequacy of tracking mechanism to ensure fulfillment of 51% low/mod commitments
 - Adequate procedures for documenting/verifying income status of employees/applicants
 - CDBG funds per created/retained job meets public benefit, if applicable
- 11.2 National Objective: **Low/Mod Benefit, Job Retention, 51% of Jobs Retained**
- Objective evidence to show that job(s) would have been lost without CDBG assistance
 - Date CDBG assistance first made available
 - A list of jobs retained on FTE basis and which are held by low/mod persons
 - Proof that at least 51% of jobs retained were held (or taken upon turnover) by low/mod persons
 - Verification/documentation of income status of employees in jobs retained
 - Subrecipient relied on job turnover to meet 51% criterion
 - Total number of retained jobs known to be held by low/mod persons plus jobs not known to be held by low/mod persons but, upon turnover within a 2-year period, were taken by low/mod persons, exceeds 51% of the total retained jobs on a FTE basis
 - If no, consider the number of retained jobs not held or taken by low/mod persons that were claimed to have been made available to low/mod persons (would their addition meet the 51% requirement?)
 - If not met, precautions taken to avoid outcome
 - If met, were efforts taken to make jobs available adequate?
 - If 2 years have not elapsed, what is the likelihood that the business will be able to attain the 51% jobs retained criterion?
 - CDBG funds per created/retained job meets public benefit test, if applicable
- 11.3 National Objective: **Low/Mod Area Benefit, assistance to commercial businesses serving low- and moderate-income residential area, 24 CFR 570.208(a)(1)**
- Verify definition of service areas (geographic limits, census tract/block groups)
 - Verify percentage of low/mod income persons in service area is 51% or more
 - Alternatively, verify community qualifies for the exception criteria at 24 CFR 570.208(a)(1)(i) and that percentage of low/mod persons in the service area is high enough under that exception
 - Verify area is primarily residential
 - Verify that assisted businesses provide services to all area residents
- 11.4 National Objective: **Slums & Blight**
- Area basis: area clearly defined? *CFR 570.208(b)(1) and 570.506(b)(7)*
 - Local conditions qualify the area? *verify location & basis for classification*
 - State/Local law citations for classification
 - Inspections of non-residential rehabilitation; verify improvement of all substandard conditions
 - Spot Basis: activity limited to eligible ones? *24 CFR 570.208(b)(2) and 570.506(b)(9)*
 - Adequate documentation of conditions being eliminated?
 - Urban Renewal/NDP Area Completion: *24 CFR 570.208(b)(3) and 570.506(b)(10)*
Conformance with Urban Renewal Plan

11.5	Eligible Activities:	
	Special Economic Development	<i>24 CFR 570.203</i>
	- Assistance to for-profit businesses	<i>24 CFR 570.203(b)</i>
	- Identification of high-risk subrecipients	<i>24 CFR Part 85.12</i>
	- Adequate underwriting?	<i>24 CFR 570.203(b), 570.209</i> <i>(See Appendix A to 24 CFR 570 for factors to consider)</i>
	- Steps taken to minimize displacement	<i>24 CFR 570.203</i>
	- Other Criteria (<u>public benefit</u>):	<i>24 CFR 570.209</i>
	• Assists businesses providing goods services to low/mod residents	
	• Creates or retains jobs	
11.6	On-site Verification: required documentation on file	<i>24 CFR 570.506</i>
12.0	Public Services	<i>24 CFR 570.201(e) and 570.506(b)(3)</i>
12.1	National Objectives	<i>24 CFR 570.208</i>
	- Low/mod Benefit (Area)	<i>24 CFR 570.208(a)(1)</i>
	- Low/mod Benefit (Direct)-Limited Clientele	<i>24 CFR 570.208(a)(2)(i)(A) and 570.506(b)(3)</i>
	- Presumption of L/M benefit for certain groups	<i>24 CFR 570.208(a)(2) and 570.506</i>
	- Slums & Blight (Area)	<i>24 CFR 570.208(b)(1)</i>
	- Slums & Blight (Spot)	<i>24 CFR 570.208(b)(2)</i>
	- Urgent needs	<i>24 CFR 570.208(c)</i>
12.2	Eligible Activities Review	
	- Prohibition against inherently religious activities	<i>24 CFR 570.200(j)</i>
	- Prohibition against political activities	<i>24 CFR 570.207(a)(3)</i>
	- Exception for interim assistance activities	<i>24 CFR 570.201(f)</i>
	- New/increased levels of public service	<i>24 CFR 570.201(e)</i>
	- Cap on overall public service activities	<i>24 CFR 570.201(e)(1)-(3)</i>
12.3	Definition of Units of Service in Statement of Work	<i>24 CFR 570.503(b)(1)</i>
13.0	Public Facilities and Improvements	<i>24 CFR 570.201(c)</i>
13.1	National Objectives	<i>24 CFR 570.208</i>
13.2	Special Considerations	
	- Prohibition against political activities	<i>24 CFR 570.207(a)(3)</i>
	- Attribution/allocation of costs for multiple-use facilities	<i>24 CFR 570.200(b)(1)</i>
	- Prohibition against excessive fees	<i>24 CFR 570.200(b)(2)</i>
	- Removal of barriers for disabled persons	<i>24 CFR 570.200(c) and 207(a)(1)</i>
	- Requirement for continuity of use (5 years)	<i>24 CFR 570.503(b)(7) and 570.505</i>

14.0	Acquisition, Disposition, Relocation	24 CFR 570.201(a),(b),(i)
14.1	Acquisition & Disposition	
	- Document <u>planned use and actual use</u> of property to meet a National Objective	24 CFR 570.208(d)(1)
	- Requirements for appraisals	49 CFR part 24
	- Reversion of assets/continuity of use	24 CFR 570.503(b)(7) and 570.505
	- Program income on disposition	24 CFR 570.503(b)(7); 24 CFR 570.504
14.2	Relocation	24 CFR 570.606
	- URA compliance	49 CFR 24; 24 CFR 570.606(b)
	- Residential Anti-displacement and Relocation Assistance Plan under Section 104(d)	24 CFR 570.606(c)
15.0	Planning and Administration	24 CFR 570.205, 206
15.1	Planning/Admin activities considered to address National Objectives automatically	24 CFR 570.208(d)(4)
	- Grantees' combined expenditures on planning and administration limited to 20% of total grant plus program income	24 CFR 570.200(g)
15.2	Planning Activities	24 CFR 570.205
	- Planning activity not directly related to specific project (e. g., environmental review, engineering/planning studies)	
	- Eligible planning activities	24 CFR 570.205
15.3	Program Administration	24 CFR 570.206
	- Verify any limitations in Agreement	24 CFR 570.200(g)*
	- Verify “reasonable and necessary” costs	OMB Circulars A-87, A-122
	- Documentation of admin/planning costs incurred <u>before</u> grant period	24 CFR 570.200(h)
	- Verify limitations on consultant costs	24 CFR 570.200(d)

**NOTE: The percentage limitation on Planning/Administration costs applies to the overall administration of the CDBG grant by the grantee, and not to individual activities.*

EXAMPLE OF A GRANTEE MONITORING LETTER TO A SUBRECIPIENT

August 9, _____

Mr. John Brown
Executive Director
Midtown Community Development Corporation, Inc. (MCDC)
606 Main Street
Midtown, California xxxxx-xxxx

RE: Monitoring of MCDC's CDBG Activities

Dear Mr. Brown:

On July 21 and 22, ____, Elaine Black and Joshua Green, 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, ____ to June 30, _____. 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). The 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, _____, to discuss the results of the monitoring.

The purpose of a monitoring visit is to determine whether the subrecipient has implemented and administered CDBG-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

Section 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

Section 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 Section 570.506(b)(5) sets forth the requirements for documentation of the National Objective in such cases.

The July ____ 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 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 it 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-certifications. 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.

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

Sincerely,

Ilsa Aqua
Director
Midtown Office of
Community Development

REVIEW OF IPA AUDIT REPORTS

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

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

Verify IPA Audits

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:

- (1) the IPA is properly qualified;
- (2) 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;
- (3) the audit reflects the compliance tests and reporting requirements specified in OMB Circular A-133; and
- (4) the audit report reflects any uncorrected deficiencies in the subrecipient's system that you already know about.

- *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.

- *Were there “repeat” findings?*

You should always be concerned if the subrecipient hasn't corrected findings from a previous audit.

- *Were there any questioned costs?*

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.

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