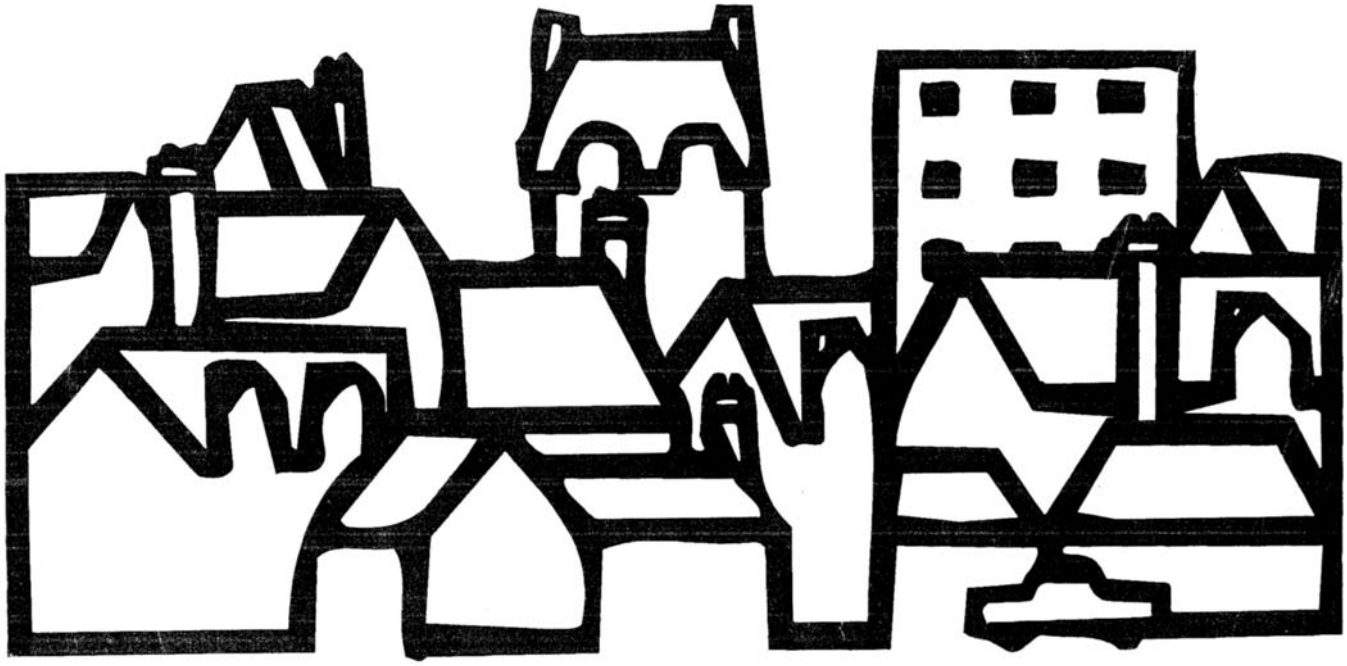
U.S. Department of Housing and Urban Development
Office of Community Planning and Development
Community Development Block Grant Program

Managing CDBG

A Guidebook for Grantees on Subrecipient Oversight

March 2005



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MANAGING CDBG:

A GUIDEBOOK FOR ENTITLEMENT GRANTEES ON SUBRECIPIENT OVERSIGHT

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

Updated Reprint
March 2005

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BACKGROUND

Not long after the Community Development Block Grant (CDBG) program, administered by the Department of Housing and Urban Development (HUD), got underway in 1975, grantees began using independent governmental agencies and non-profit organizations to carry out certain activities. The enabling legislation authorized the use of such entities because of their involvement in a number of the programs that preceded CDBG, most notably the Model Cities and Urban Renewal/NDP programs. Initially, non-profits were employed as CDBG subrecipients by only a few grantees, primarily to undertake residential rehabilitation and some public services in deteriorated neighborhoods. As the program and the grantees matured, and as non-profits proliferated, grantees began using subrecipients more frequently and for a wider range of activities, including economic development.

The growing involvement of subrecipients brought with it a number of problems. HUD monitors often found that grantees were unaware of what their subrecipients were using CDBG funds for and subrecipients could not produce documentation showing how Federal rules were being met. By the end of the 1980's, HUD's Inspector General declared that the lack of proper management of subrecipients in the CDBG program constituted a "material weakness." HUD knew that it had to find tools to enable its grantees to deal with this growing problem.

In response to this concern, this Guidebook and its companion materials, Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems and Training CDBG Subrecipients in Administrative Systems, were originally published in August of 1993 and made available to entitlement cities and urban counties participating in the CDBG program. Shortly following publication, the Guidebooks were also used as the centerpiece for training entitlement communities in the proper management of subrecipients.

Since their publication in 1993, there have been a number of significant changes in CDBG program rules and policies. Some of the most notable include: the transformation of the CDBG Final Statement into the Consolidated Plan and the Grantee Performance Report into the Consolidated Annual Performance and Evaluation Report (CAPER); the introduction of Community-Based Development Organizations (CBDOs) to replace what had been referred to in the CDBG program as "special subrecipients"; revisions to the requirements for handling CDBG program income (especially interest earned on a "revolving fund"); the addition of several new eligible uses of CDBG funds (e.g., homeownership assistance and microenterprise assistance); a substantial number of changes in the requirements concerning the use of CDBG funds for special economic development activities; and the incorporation of OMB Circulars A-102 and A-110 into the HUD Common Rule at 24 Code of Federal Regulations (CFR) Parts 84 and 85. These changes have been integrated into the updated editions of all three publications being issued. The fundamental advice provided in the Guidebooks as they were originally published focused on managing subrecipients in the CDBG Entitlement program and that function remains unchanged in this update. All three publications are available on the HUD Web site at *www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm*.

Experience has shown that activities undertaken by subrecipients are still potentially high risk. Many subrecipients have excellent intentions, but use volunteers or inexperienced staff who don't know Federal requirements. In our efforts to promote timely expenditure of CDBG funds, we found that delays in subrecipient activities were also a cause for grantee failure to comply with the timeliness requirements at 24 CFR 570.902.

Over ten years have passed since CPD first issued these three publications dealing with subrecipients. This material is now being updated because of the changes in program requirements mentioned above, as well as the fact that grantees and subrecipients have experienced staff turnover, and new subrecipients are participating in the program. Therefore, it is again time to focus grantee attention on their responsibilities for

subrecipient oversight and to encourage grantees to take a fresh look at their internal processes for subrecipient selection, training, management, reporting, and monitoring. Since these publications are on the HUD Web site, grantees will find it easier to distribute materials and to conduct training for their subrecipients. Furthermore, the sound management practices advocated in the Guidebooks will also serve to assist both grantees in developing performance management systems and subrecipients in meeting the performance measures for project implementation. Such grantee actions will result in improved delivery of CDBG programs to the low- and moderate-income residents in the community.

DISCLAIMER

The recommendations and interpretations offered in this Guidebook are meant to supplement, not replace, the formal regulations and policies of the Community Development Block Grant Entitlement program. In areas of doubt, readers are advised to consult the applicable regulations.

CHAPTER 1

INTRODUCTION

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CHAPTER 1

INTRODUCTION

A Tale of Two Cities—Part 1

It was the worst of times in the city and Annette Freeman, the Director of Community Development, was worried. Her Housing Programs Manager had just moved away to take another position. The City Council was demanding to know what was happening in the West Side rehab project. For three years the project had been one of the Mayor's favorites, run by a fledgling Community Development Corporation (CDC) that was short on experience, but long on activism. It was always "making great progress," and always seemed "about to get the main program under way." The Director felt she had "a firm understanding" with the CDC's Executive Director about when the design and demonstration phase would end, when the training would be finished, and when full construction would begin. But now the press (and the Council) had begun asking for proof of progress and performance. An editorial asked, "Just what has the city bought for $600,000 of Federal funds in three years?" Nobody in her agency could demonstrate any tangible accomplishments (apart from three model apartments), and the CDC's books were a complete mess. Where had all the money gone? Worse still, the Inspector General was coming to town.

INTRODUCTION

Is it the "the best of times" or "the worst of times" for your Community Development Block Grant (CDBG) program? Most of us working with CDBG have seen both. There is nothing so rewarding as watching a declining neighborhood turn around in response to a non-profit sponsor's well-run community development program. It is also distressing to watch program resources flow down the drain through mismanagement, abuse or lack of attention.

WHAT IS THIS GUIDEBOOK ABOUT?

This Guidebook has two basic purposes:

- **To help you, the CDBG practitioner, improve your management and oversight of subrecipient activities; and**
- **To help you (and your subrecipients) stay out of trouble.**

Doing both at the same time is getting tougher every day. In the face of rising costs, Federal funds have either remained stable or declined, and new regulations require that CD staff do a lot more work, with less time and less money.

The Guidebook's objectives are to help you

- *Improve subrecipient performance*
- *Carry out your CDBG program in a timely manner*
- *Comply with regulations*
- *Improve management quality*
- *Solve monitoring problems*
- *Improve communications*
- *Save time*
- *Avoid audit hassles*

This Guidebook is designed to help you make better use of your scarce CDBG resources and avoid common pitfalls in managing and monitoring subrecipients while you get the job done.

Almost all local CDBG programs use subrecipients to carry out community development activities. The term "subrecipient" is frequently used to refer to the non-profit sponsors of activities that receive CDBG funds from a local government for their programs. However, there are three distinct types of subrecipients: public agencies, private non-profit sponsors, and a limited number of private for-profit sponsors.

The goal of this Guidebook is to describe ways in which you, as a CDBG Entitlement grantee, can improve your systems for selecting, training, managing, monitoring and supporting your subrecipients. The purpose of such improvements is not simply to comply with Federal regulations and avoid audit hassles, but also to improve your subrecipients' performance in delivering services to the community. The CDBG funds that you provide to subrecipients are like investments, which have to be carefully managed. By using the methods and practices discussed in this Guidebook, you should be able to obtain a greater return from that CDBG investment.

There are very real costs to poor subrecipient performance and lack of compliance with regulations. These include wasted program funds, adverse publicity, reduced staff morale and increased turnover, lost opportunities, disallowed costs, potential grant reduction, and greater administrative burdens to repair the damage that might have been avoided initially with proper monitoring. Therefore, throughout this Guidebook we point out approaches that will allow you to strengthen and streamline your oversight systems, perhaps even free up precious staff time.

The Guidebook provides practical solutions developed by your peers. Our focus is on solutions, not problems.

The Guidebook provides examples of monitoring systems and procedures that have been used successfully in other communities that you can adopt with minor revisions without "re-inventing the wheel."

The over 1,000 CDBG Entitlement recipients have acquired a wealth of expertise directed toward community improvement. This Guidebook is designed to allow you, as either an experienced or a novice CDBG practitioner, to see what other programs have done, and to take advantage of their learning to solve your own unique problems.

WHAT ARE THE KEY MANAGEMENT CONCEPTS UNDERLYING THIS GUIDEBOOK?

A central theme of this Guidebook is that effective CDBG programs depend upon ***cooperative***, ***problem-solving relationships*** between grantees and subrecipients. Too often, program monitoring requirements and other regulations seem to set up an "us-them" adversarial situation between the monitor and the entity being reviewed, leading to "management by intimidation."

This is unnecessary and can be destructive. Monitoring that focuses largely on uncovering errors and assigning blame tends to make subrecipients defensive or resentful; it increases their resistance to taking corrective action or improving their performance. This often means that grantees spend more time "looking for mistakes" and less time solving problems. It can also mean that subrecipients spend more energy hiding problems, than finding solutions. **It is far better to fix the problem than to fix the blame.** Subrecipients are partners, not adversaries.

Service and Support, Not Command and Control

To achieve this partnership approach, the Guidebook recommends you develop a leadership style focused on providing service and management support to subrecipients, rather than a relationship that uses monitoring to assert a "command and control" regimen over subrecipient activities. The first style assumes that subrecipients want to do a good job, and that they are neither stupid nor incompetent. Subrecipients are both "providers" of services to the community and "customers" for **your** resources, information, and technical support. ***You succeed when your customers succeed.***

Focus on Continuous Improvement

You should view monitoring as an opportunity to provide ***ongoing technical assistance and support*** with the goal of helping your subrecipients achieve their goals and improve their services. If your subrecipients fail, no matter where the fault lies, that failure reflects poorly on you, as well as on them. If they succeed, you both benefit.

Improved Communications

An effective service and support strategy also requires ***open and consistent communications.*** It begins with a complete understanding of what you and your subrecipients want to achieve, and what the rules of the program are. It ends with recognition for achievement and acknowledgement of mistakes. A centerpiece of the management process is to remove barriers to communication.

Accordingly, this Guidebook emphasizes the support that you can provide your subrecipients to help them meet their performance and compliance goals.

Think Prevention

Successful subrecipient programs begin with plans that anticipate potential problems before they occur and with management strategies that emphasize prevention, not cure. This means:

- **Pre-award Screening, Risk Assessment, and Orientation**

Implementing strong subrecipient **screening, risk assessment, selection, and orientation** procedures (before awarding funds);

- **Strong Written Agreements**

Negotiating a consistent and thorough **award agreement** with every subrecipient; and

- **Performance Standards**

Establishing a clear and coherent set of **performance standards** for tracking the accomplishment of each activity described in the agreement.

Performance standards define how progress will be measured, accomplishments rewarded, and (by implication) when and how sanctions may be imposed. With clear agreements and appropriate performance standards, you and your subrecipients will find monitoring less burdensome and more effective for achieving both performance objectives and regulatory compliance.

Focus on Process

Almost every CDBG activity involves a goal-oriented process that unfolds over time. ***The quality of the process*** matters as much as the goal itself. The quality of services delivered by a subrecipient cannot be assured by your intervention at the end of the process, when it is too late. Rather, you should seize every opportunity to help subrecipients continuously modify and improve the quality of their activities **before** major problems develop. In this way, monitoring can be aimed simultaneously at:

- meeting program regulations;
- measuring progress toward performance goals;
- improving the product or the service being delivered; and
- assuring timely delivery of benefits to low- and moderate-income persons.

For example, many grantees find it helpful to define intermediate (three-month) objectives for all new subrecipient activities, so that both achievements and weaknesses can be measured early in the process. By this means, they avoid having to document poorly managed programs at the end of the fiscal year, after resources have already been squandered and momentum lost.

WHO ARE CDBG SUBRECIPIENTS?

Subrecipients (sometimes referred to as “subgrantees”) are entities that are **provided** CDBG funds by a grantee **for their use** in carrying out agreed-upon, eligible activities. There are three basic kinds of subrecipients:

Governmental Agencies

Governmental agencies are public agencies, commissions, or authorities that are **independent** of the grantee's government (for example, a public housing authority or a park district). Grantee public agencies undertaking CDBG assisted activities are subject to the same requirements as are applicable to subrecipients (§570.501(a)).

Private Non-profits

Private non-profits are usually, but not always, corporations, associations, agencies, or faith-based organizations with non-profit status under the Internal Revenue Code (Section 501(c)(3)), usually with a board of directors and an executive director in charge of daily administration. Examples of private non-profits include private social services agencies (such as those providing job training or counseling, or day care providers), community development corporations, faith-based housing development groups, and operators of homeless shelters.

Private For-profits

A limited number of ***private, for-profit entities*** can qualify as subrecipients when facilitating economic development by assisting microenterprises under the provisions of 24 CFR S70.201(o).

CDBOs

Community Based Development Organizations (CBDOs) authorized under §570.204 to carry out special activities such as economic development or new housing construction are not subrecipients unless so designated by the grantee. Because CBDOs present some of the same problems as subrecipients, most of the advice in this Guidebook is also applicable to CBDOs.

HOW DO SUBRECIPIENTS DIFFER FROM THE GRANTEE'S EMPLOYEES?

Another way of understanding the definition of subrecipient is to contrast these organizations with your own "employees" or with a "contractor" hired as part of your local CDBG program.

Under the CDBG regulations, a grantee's "employees" refer to persons working for the unit of general local government that receives CDBG funds directly from HUD.

For a "metropolitan city," this would mean all city employees, so that even if components of the local CDBG program were "farmed out" to many different city departments, HUD considers all these departments and their staff to be "employees" of the grantee. However, if the city chooses to run its CDBG housing rehabilitation program through the municipality's ***independent*** redevelopment authority, for purposes of the CDBG program, the authority would be considered a subrecipient.

In the case of urban counties, "employees" means the county's employees but not the employees of those jurisdictions involved in the cooperation agreement (for example, the cities and towns included within the urban county). For the purposes of monitoring local governments that are part of an urban county, they and their related agencies, while considered to be part of the grantee, are treated like subrecipients.

Inter-agency Agreements

Neither procurement contracts nor Subrecipient Agreements are required by HUD regulations when CDBG activities are carried out by various departments or other organizational units **within** the grantee's government itself. However, because 570.501(a) provides that local governments are subject to the same requirements as subrecipients, inter-agency or inter-departmental agreements should include the same provisions as required in a Subrecipient Agreement. In addition, all "employees" responsible for CDBG activities, that is, other departments within the unit of local government carrying out activities with CDBG funds, are subject to the same regulations as the grantee for the particular activities undertaken.

HOW DO SUBRECIPIENTS DIFFER FROM CONTRACTORS?

While a subrecipient can be **designated** by the grantee, contractors must be selected through a **competitive procurement process.** However, other than rules relating to bonding, insurance, prevailing wages and other such provisions, most of the standard Federal administrative and monitoring requirements (described in 24 CFR Parts 84 and 85, as applicable) do **not** apply to contractors, once the procurement process is complete. Those regulations, however, must be followed, as applicable, by all subrecipients.

A contractor hired by a grantee or governmental subrecipient must be selected in accordance with 24 CFR 85.36, and a contractor hired by a non-governmental subrecipient must be selected in accordance with 24 CFR 84.40–48.

Under most circumstances the distinction between a contractor and a subrecipient is clear. A development firm hired to build a new senior center is a contractor. A community development corporation running senior service programs at the center is a subrecipient. However, there can be some tricky cases. For example, if a non-profit day care provider is **hired** by a grantee (after a procurement process) to provide day care services to a lower-income neighborhood, the non-profit is a **contractor** in this instance, even though the grantee could have chosen to designate the non-profit as a subrecipient to carry out the very same activity. The difference lies in the procurement process and in the administrative and monitoring requirements for subrecipients.

Other Special Cases

There are also situations where the private for-profit or non-profit organization receiving CDBG funds is **neither a contractor nor a subrecipient.** These are cases where the organization is not an intermediary acting for the grantee, but, instead, is receiving assistance itself as a beneficiary under the program. Examples include a non-profit receiving a housing rehabilitation grant or loan to improve property it owns, a non-profit organization or a business receiving relocation assistance, or a for-profit business receiving a loan to buy equipment.

The bottom line is that the procurement process tends to be more rigorous for contractors, while the administrative and monitoring requirements tend to be greater for subrecipients.

WHAT TYPES OF ACTIVITIES DO SUBRECIPIENTS CARRY OUT?

While subrecipients typically carry out public services, housing rehabilitation, economic development, and public facilities, they also are involved in many other types of eligible activities as well.

One of the primary reasons the CDBG program was created was to assure that local governments would have the flexibility to address the broad diversity of needs within lower-income neighborhoods. Given this diversity, it is not surprising that, while most programs use subrecipients, there are a great many differences in the way they are used and the number of activities subrecipients carry out in a local CDBG program. The larger the number of subrecipients, however, the greater the management skill required by the grantee to oversee and support these organizations.

CONTINUING GRANTEE RESPONSIBILITY

Some grantees may delegate the administration of their entire CDBG allocation to a subrecipient such as to a local housing or redevelopment authority, whereas others utilize only a single subrecipient to carry out a minor activity as part of their overall program. However, even if a grantee turns its entire CDBG program over to a subrecipient organization, the grantee still remains accountable for the administration and monitoring of those funds. There is no provision in the law or the regulations governing the CDBG program that would permit a grantee to give up this responsibility, including responsibility for Federal environmental requirements. **Therefore, if a grantee chooses to turn the administration of its CDBG program over to a subrecipient, it must still have mechanisms in place to determine compliance by the subrecipient with all program requirements.**

TYPES OF MONITORING ISSUES

The monitoring of subrecipients covers a very broad range of administrative, program, and fiscal issues. Certain of these monitoring issues are relevant to all activities, for example, the need to document compliance with National Objectives and to establish the eligibility of activities to be undertaken.

In other cases, however, the problems are **specific to a particular activity**, such as the proper use of escrow accounts in housing rehabilitation activities, or demonstrating that economic development assistance provided to a for-profit business is properly underwritten, or observing proper procedures in the use of "float-funded activities" by subrecipients.

This Guidebook addresses both:

- Generic subrecipient issues that cross all activities and affect fiscal, regulatory, and programmatic performance; and

- Activity-specific issues, with strategies and solutions for addressing particular, hard-to-solve problems.

HOW IS THIS GUIDEBOOK ORGANIZED?

The Guidebook presents the major steps in selecting, training, managing, monitoring and supporting subrecipients; together, these elements constitute the basic components of a subrecipient oversight system. Each section in the Guidebook presents:

- the **minimum standards** for regulatory compliance and **performance measures** for program delivery that will help you design and manage that element of your oversight system;

- **"best practices"** based on actual experiences of CDBG communities; and,

- **management strategies for helping subrecipients** improve efficiency and boost performance.

Particularly note the **Appendix** to this chapter that presents a summary of the National Objectives of the CDBG program as well as an outline of eligible and ineligible CDBG activities.

Chapter 2 focuses on the assessment and selection (or re-selection) of subrecipients before awarding a subgrant.

Chapter 3 presents recommendations for drafting realistic and useful Subrecipient Agreements.

Chapter 4 focuses on how you can use orientation, training, and technical assistance programs to anticipate and resolve monitoring issues among your subrecipients.

Chapter 5 discusses monitoring strategies and procedures.

Chapter 6 describes reporting systems and other information tools for tracking subrecipient progress in both fiscal and programmatic terms.

Chapter 7 details strategies you can use to follow up on subrecipient problems that were identified during monitoring.

Chapter 8 outlines the Inspector General audit process and the steps you should take to reduce the likelihood of negative findings.

USING THIS GUIDEBOOK

This Guidebook is intended to serve as a working tool for helping you monitor your subrecipients. Consequently, you may want to read individual chapters or sections of chapters as they are needed. To enable you to identify the relevant sections for any particular issue, the Guidebook includes several features:

- General **Table of Contents;**
- **Brief examples or "vignettes"** describing actual problems experienced by CDBG grantees and how they were solved;
- Notations in the **left-hand column** identify **important issues** described in more detail in the text;
- Discussion of some of the **"pros" and "cons"** of different options for addressing particular issues;
- Highlights of how **different kinds of grantees** address particular monitoring responsibilities; and
- **Appendices** at the end of each chapter that contain summaries of **key regulations, sample agreements, checklists, forms, reports** and **training curricula.**

Finally, you are encouraged to make use of the blank page at the end of each chapter to jot down notes, ideas, telephone numbers of contact persons, or whatever else will make the Guidebook useful to you.

A Tale of Two Cities—Part 2

It was the best of times for this Midwest city. Three years ago, Jeanette Thompson, the Director of the City's Community Development Agency (CDA) had helped organize a coalition of four non-profit CDCs to design and operate a broad variety of economic development activities in the Round Hill section of town. The careful selection of these organizations from over 20 applicants and the thorough planning that had gone into their programs, was now beginning to pay off. Using a Section 108 loan, the coalition had banded together to purchase and rehabilitate two abandoned industrial properties in the City's largest empowerment zone. Here they established job training programs in conjunction with a low-rent, microenterprise development center. The economic success of the latter had made it possible for the coalition to make timely payments on its Section 108 loan.

The City's role had been that of facilitator and program monitor, but in reality, Ms. Thompson had not had to solve very many problems. For example, the CDA had required at the beginning that all prospective subrecipients demonstrate their competence in using a simple but thorough record-keeping and accounting system that paralleled the City's own system used to prepare its Consolidated Annual Performance and Evaluation Reports. The CDA was then able to track the monthly progress of each separate activity undertaken by the CDCs. In addition, the tight Subrecipient Agreements negotiated with the four CDCs made very clear the City's performance and schedule expectations. For their part, the CDCs tracked their own progress on a regular basis, maintained accurate and up-to-date financial records, and demonstrated they were in charge of their own destiny. They had become the owners of a financially successful industrial park that was providing jobs to low- and moderate-income residents of the neighborhood and paying its own way.

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SUMMARY OF NATIONAL OBJECTIVES

This section summarizes the National Objectives of the Community Development Block Grant Program contained in the Code of Federal Regulations, Title 24, Part 570, Sections 570.200(a)(2) and (3), 570.208(a)-(d), and 570.506. For a more complete description, consult the regulations and the Community Development Block Grant Program Guide to National Objectives & Eligible Activities for Entitlement Communities (Desk Guide) on the HUD Web site at www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm.

NATIONAL OBJECTIVES

Each activity, except planning and administrative activities, must meet one of the CDBG program's three broad National Objectives:

1. Benefit low- and moderate-income persons,
2. Aid in the prevention or elimination of slums or blight, or
3. Meet community development needs having a particular urgency.

At least 70 percent of the grantee's overall expenditures during a one-, two- or three-year period (specified by the grantee) must be used for activities that benefit low- and moderate-income persons.

1. Activities benefiting low- and moderate-income persons

a) **Area benefit activities**

An activity, the benefits of which are available to ***all*** the residents in a particular area, where at least 51 percent of the residents are low- and moderate-income persons. The service area must be primarily residential, and the activity must meet the identified needs of low- and moderate-income persons. Examples include: street improvements, water and sewer lines, neighborhood facilities, and facade improvements in neighborhood commercial districts. Such an activity must meet one of the following qualifying criteria:

(1) Fifty-one percent of the persons residing in the service area are low and moderate income, supported by the most recently available decennial census information, together with the Section 8 income limits that would have applied at the time the income information was collected by the Census Bureau. (HUD provides grantees with information by census tract and block group that may be used to determine this percentage); or

(2) Fifty-one percent of the persons residing in the service area are low- and moderate-income residents supported by a current survey of the residents of the service area ***if*** the recipient believes that the census data do not reflect current relative income levels in an area, **or** where census boundaries do not coincide sufficiently well with the service area of an activity. The survey results must meet statistical reliability standards and be approved by HUD; or

(3) Under the Exception Criteria, a service area that contains less than 51 percent low- and moderate-income residents will be considered to meet this National Objective if the proportion of low- and moderate-income persons in the area is within the ***highest quartile*** of all areas in the recipient's jurisdiction in terms of the degree of concentration of such persons.

HUD will determine the lowest proportion a recipient may use to qualify an area for this purpose.

Records to be maintained:

- Boundaries of the service area;
- Data showing the percent of low- and moderate-income persons residing in the service area; and
- Data showing that the area qualifies under the exception rule if the percent of low- and moderate-income persons in the service area is less than 51 percent. Specific data requirements for the Consolidated Annual Performance and Evaluation Report (CAPER) can be found in the Appendix to Chapter 6, CAPER Information.

b) **Limited clientele activities**

(1) An activity that benefits a limited clientele, at least 51 percent of whom are low- and moderate-income persons. Examples include: construction of a senior center; public services for the homeless; meals on wheels for the elderly; and construction of job training facilities for the handicapped. The activity must meet one of the following qualifying criteria:

(a) The activity must exclusively serve a group of persons in any one or a combination of categories generally presumed to be principally low and moderate income: abused children, battered spouses, elderly persons, adults meeting the definition of "severely disabled" in the Bureau of Census's Current Population Reports, homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers; or

(b) Information must be required on family size and income to document that at least 51 percent of the clientele are persons whose family income does not exceed Section 8 low- and moderate-income limits; or

(c) The activity must have income eligibility requirements that limit the activity exclusively to low- and moderate-income persons; or

(d) The activities must be of such nature and in such location that it may be reasonably concluded that the activity's clientele will primarily be low- and moderate-income persons.

(2) A special project that serves to remove material and architectural barriers that restrict the mobility and accessibility of elderly persons or of adults meeting the definition of "severely disabled" in the Bureau of Census's Current Population Reports will qualify if it is restricted, to the extent practicable, to the removal of such barriers by assisting:

- the reconstruction of a public improvement or facility, or portion thereof, that does not serve an area that is predominantly low and moderate income;

- the rehabilitation of a privately owned non-residential building or improvement that does not serve an area that is predominantly low or moderate income or create or retain jobs primarily for low- and moderate-income persons; or,

- the rehabilitation of the common areas of a residential structure that is not principally occupied by low- and moderate-income households.

Records to be maintained:

One of the following types of documentation must be kept for each activity:

- Documentation showing that the activity is designed for and used by a segment of the population presumed by HUD to be principally low and moderate income; or

- Documentation describing how the nature and, if applicable, the location of the activity establishes that it will primarily benefit low- and moderate-income persons; or

- Date showing the size and annual income of the family of each person receiving the benefit; or

- Data showing that the activity is a special project removing accessibility barriers in the limited cases described above.

c) **Housing activities**

An activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, will be principally occupied by low- and moderate-income households. Examples include: property acquisition or rehabilitation of property for permanent housing; conversion of non-residential structures into permanent housing; and new housing construction. The activity must meet the following qualifying criteria:

(1) One-unit structures must be occupied by low- and moderate-income households.

(2) Two-unit structures must have at least one unit occupied by a low- and moderate-income household.

(3) Structures containing more than two units must have at least 51 percent of the units occupied by low- and moderate-income households.

(4) Rental buildings under common ownership and management that are located on the same or contiguous properties may be considered as a single structure.

(5) For rental housing, occupancy by low- and moderate-income households must be at affordable rents, consistent with standards adopted and publicized by the CDBG grantee for determining "affordable rent" levels.

(6) Assistance to reduce the development cost of the new construction of non-elderly, multi-unit rental structures may qualify if: (a) at least 20 percent of the units are occupied by low- and moderate-income households; (b) where low- and moderate-income occupancy is between 20 percent and 51 percent, the CDBG proportion of the total development costs (including the costs of all work from design and engineering through completion of the physical

improvements and, if integral to the project, the costs of acquisition) is no greater than the proportion of units occupied by low- and moderate-income households.

Records to be maintained:

- A copy of the written agreement with each landlord or developer receiving CDBG assistance indicating the total number of dwelling units in each multi-unit structure assisted and the number of those units that will be occupied by low- and moderate-income households after assistance.

- The total cost of the activity, including both CDBG and non-CDBG funds.

- For each unit occupied by a low- and moderate-income household, the size, ethnicity, and income of the household.

- For rental housing only:

  - Rent charged (or to be charged) after assistance, for each dwelling unit in each structure assisted; and

  - Information as necessary to show the affordability of units occupied (or to be occupied) by low- and moderate-income households pursuant to criteria established and made public by the grantee.

- For each property acquired on which there are no structures, evidence of commitments ensuring that the above criteria will be met when the structures are built.

- Where applicable, records documenting that the activity qualified under the exception allowed for new construction of non-elderly, multi-unit, rental housing.

d) **Job creation or retention activities**

An activity designed to create or retain permanent jobs where at least 51 percent of that, computed on a full-time equivalent (FTE) basis, involve the employment of low- and moderate-income persons. Potentially eligible activities include: construction by the grantee of a business incubator designed to offer space and assistance to new firms to help them become viable small businesses; loans to pay for the expansion of a plant or factory; and assistance to a business to prevent closure and a resultant loss of jobs for low- and moderate-income persons. As a general rule, each assisted business shall be considered to be a separate activity for purposes of determining whether the activity qualifies. However, in certain cases, such as where CDBG funds are used to acquire, develop or improve real property (e.g., a business incubator or an industrial park), the requirement may be met by measuring jobs in the aggregate for all the businesses that locate on the property, provided such businesses are not otherwise assisted by CDBG funds. Additionally, where CDBG funds are used to pay for the staff and overhead costs of an entity making loans to businesses from non-CDBG funds, this requirement may be met by aggregating the jobs created or retained by all of the businesses receiving loans during each program year. Finally, a job creation/retention activity undertaken pursuant to the strategy for a HUD-approved Neighborhood Revitalization Strategy Area may be considered to meet the low/moderate area benefit National Objective under 570.208(d)(5)(i).

Jobs may be taken by low- and moderate-income persons or made available to such persons. Jobs are only considered to be ***available to*** low- or moderate-income persons when:

(1) Special skills that can only be acquired with substantial training or work experience or education beyond high school are not a prerequisite to fill such jobs, or the business agrees to hire unqualified persons and provide training; and

(2) Local government and/or the assisted business take actions to ensure that low- and moderate-income persons receive ***first consideration*** for filling such jobs.

Records to be maintained for benefit based on job creation:

Where the grantee chooses to document that at least ***51 percent of the jobs will be available to*** low- and moderate-income persons, documentation for each assisted business shall include:

- A copy of a written agreement, containing:
  - A commitment by the business that it will make at least 51 percent of the FTE jobs available to low- and moderate-income persons and will provide training for any of those jobs requiring special skills or education;
  - A listing by job title of the permanent jobs to be created, indicating which jobs will be available to low- and moderate-income persons, which jobs require special skills or education, and which jobs are part-time; and,
  - A description of the actions to be taken by the grantee and business to ensure that low- and moderate-income persons receive ***first consideration*** for these jobs; and
- A listing by job title of the permanent jobs filled, and which jobs were available to low- and moderate-income persons, as well as a description of how first consideration was given to any such persons for these jobs. The description shall include what type of hiring process was used; the names of the low- and moderate-income persons interviewed for each such job; and those hired.

or

Where the grantee chooses to document that at least ***51 percent of the jobs will be held by*** low- and moderate-income persons, documentation for each assisted business shall include:

- A copy of a written agreement, containing:
  - A commitment by the business that at least 51 percent of the jobs created, on a full-time equivalent basis, will be held by low- and moderate-income persons; and,
  - A listing by job title of the permanent jobs to be created (identifying which are part-time, if any).
- A listing by job title of the permanent jobs filled and which jobs were ***initially taken*** *by* low- and moderate-income persons; and

- For each low- and moderate-income person hired, information on the size and annual income of the person's family prior to the time the person was hired for the job, or evidence that the person may be presumed to be low or moderate income based on the location of the business or the person's residence [see §570.208(a)(4)(iv)].

For benefit based on job retention, the following documentation must be kept:

- Evidence that in the absence of CDBG assistance, the jobs would be lost; and,

- For each business assisted, a listing by job title of permanent jobs retained, indicating which of those jobs are part-time and (where it is known) which are held by low- and moderate-income persons at the time the assistance is provided; and,

- Where applicable, identification of any of the retained jobs (other than those known to be held by low- and moderate-income persons) that are projected to become available to low- and moderate-income persons through job turnover within two years of the time CDBG assistance is provided, and information on how the turnover projections were calculated; and,

- For each retained job claimed to be held by a low- and moderate-income person, information on the size and annual income of the person's family, or evidence that the person may be presumed to be low or moderate income based on the location of the business or the person's residence [see §570.208(a)(4)(iv)]; and,

- For jobs claimed to be available to low- and moderate-income persons based on job turnover: a description covering the items required for "available to" jobs identified above; a listing of each job that has turned over to date, indicating which of those jobs were either taken by, or made available to low- and moderate-income persons; and a description of how "first consideration" was given to low- and moderate-income persons for those jobs.

2. <u>Activities that aid in the prevention or elimination of slums or blight</u>

a) <u>Activities to address *slums or blight* on an *area* basis</u>

An activity that aids in the prevention or elimination of slums or blight in a designated area. Examples include: assistance to commercial or industrial businesses, public facilities or improvements, and code enforcement **in a blighted neighborhood.** The activity must meet ***all*** of the following qualifying criteria:

(1) The area, delineated by the grantee, must meet a definition of a slum, blighted, deteriorated or deteriorating area under state or local law;

(2) There must be a substantial number of deteriorated or deteriorating buildings throughout the area, or the public improvements are in a general state of deterioration;

(3) The activity must address one or more of the conditions that contributed to the deterioration of the area; and

(4) If rehabilitation of residential buildings not occupied by low- and moderate-income households is undertaken, each such building rehabilitated must be considered substandard under local definition before rehabilitation, and ***all deficiencies making a building substandard must be corrected before less critical work on the building may be undertaken.***

Records to be maintained:

- Boundaries of the area.
- A description of the conditions that qualified the area at the time of its designation in sufficient detail to demonstrate how the area met the qualifying criteria.
- For each residential rehabilitation activity:
  - A local definition of 'substandard' that must be at least as stringent as the housing quality standards used in the Section 8 Housing Assistance Payment Program - Existing Housing; and
  - A pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated; and
  - Details and scope of CDBG-assisted rehabilitation, by structure

b) **Activities to address *slums or blight* on a *spot* basis**

An activity that aids in the prevention or elimination of slums or blight ***outside of a slum or blighted area***. Examples include: elimination of faulty wiring, falling plaster, or other similar conditions that are detrimental to all potential occupants; historic preservation of a deteriorated public facility; and demolition of a vacant, deteriorated, abandoned building. The activity must meet the following qualifying criteria:

(1) The activity must be designed to eliminate ***specific conditions of blight or physical decay*** on a spot basis; and

(2) The activity must be limited to ***acquisition, clearance, relocation, historic preservation, and/or rehabilitation of buildings***. Rehabilitation is limited to the extent necessary to eliminate specific conditions ***detrimental to public health and safety.***

Records to be maintained:

- A description of the specific condition of blight or physical decay treated;
- For rehabilitation carried out under this category, a description of the structure, including:
  - The specific conditions detrimental to public health and safety that were identified; and

- Details and scope of the CDBG-assisted rehabilitation.

c) **Activities to address *slums or blight* in an *urban renewal area***

An activity that aids in the elimination or prevention of slums or blight in an urban renewal area. The activity must meet the following qualifying criteria:

(1) The activity must be located within a Federally designated ***urban renewal project area or Neighborhood Development Program (NDP) action area;*** and,

(2) The activity must be ***necessary to complete the urban renewal plan***, then in effect, including ***initial*** land redevelopment permitted by the plan.

Records to be maintained:

- A copy of the Urban Renewal Plan, in effect at the time the CDBG activity is carried out, including maps and supporting documentation.

3. Activities designed to meet *urgent community development needs*

An activity designed to alleviate existing conditions that have a particular urgency. Examples include reconstruction of water and sewer lines destroyed by major catastrophes or emergencies such as floods or tornadoes. The activity must meet the following qualifying criteria:

a) The existing conditions must pose a ***serious and immediate threat to the health or welfare*** of the community;

b) The existing conditions are of ***recent origin*** or recently became urgent (generally within the past 18 months);

c) The grantee is ***unable to finance*** the activity on its own; and

d) ***Other sources of funding are not available***.

Records to be maintained:

- Documentation concerning the nature and degree of seriousness of the condition requiring assistance;

Evidence that the grantee certified that the CDBG activity was designed to address the urgent need;

- Information on the timing of the development of the serious condition; and

- Evidence confirming that other financial resources to alleviate the need were not available.

4. Additional Criteria

a) According to 24 CFR 570.208(d), where the assisted activity is ***acquisition of real property***, a preliminary determination of whether the activity addresses a National Objective may be based on

the planned use of the property after acquisition. The documentation required depends on planned use.

b) ***Where acquisition is for the purpose of clearance*** that will eliminate specific conditions of blight or physical decay, ***the clearance activity will be considered the actual use of the property.*** However, any subsequent use or disposition of the cleared property is treated as "change of use" under §570.505.

STATEMENT OF ELIGIBLE AND INELIGIBLE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM ACTIVITIES

This is a summary of certain activities that are eligible and ineligible for assistance under the Community Development Block Grant (CDBG) program pursuant to the governing regulations in the Code of Federal Regulations, Title 24, Part 570, Sections 570.200-570.207. For a more complete description, the regulations should be consulted. The Community Development Block Grant ProgramEntitlementCommunities(Desk Guide) W at www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm.

General Policies - §570.200

The primary objective of the CDBG Program is the development of viable urban communities, by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. Funds must be used to carry out activities that will meet one of the three broad National Objectives: benefit low- and moderate-income persons; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency. At least 70 percent of the total CDBG funds expended must be used for activities that benefit low- and moderate-income persons, over a one-, two-, or three-year period (selected by the grantee).

Basic Eligible Activities - §570.201

(a) Acquisition in whole or in part by purchase, long-term lease, donation, or otherwise, of real property for any public purpose, subject to the limitations of §570.207.

(b) Disposition of real property acquired with CDBG funds through sale, lease or donation, or otherwise; or its retention for public purposes.

(c) Acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, ***except buildings for the general conduct of government***. Activities may include:

- Design features and improvements that promote energy efficiency; and
- Architectural design features and treatments intended to enhance the aesthetic quality of facilities and improvements.

Eligible facilities include those serving persons having special needs such as homeless shelters; convalescent homes; hospitals; nursing homes; battered spouse shelters; halfway houses for run-away children, drug offenders or parolees; group homes for the developmentally disabled; and temporary housing for disaster victims.

In certain cases, non-profit entities and subrecipients (including CBDOs qualifying under §570.204) may acquire title to public facilities; when owned by non-profit entities or other such subrecipients, such facilities must be operated so as to be open for use by the general public during all normal hours of operation.

(d) Clearance, demolition, removal of buildings and improvements, and movement of structures to other sites. Demolition of HUD-assisted or HUD-owned housing units may be undertaken only with the prior approval of HUD. CDBG funds may also be used for physical removal of environmental contaminants or treatment of such contaminants to render them harmless.

(e) Provision of public services (including labor, supplies and materials) such as those concerned with employment, crime prevention, child care, health care, education, homebuyer down payment assistance, public safety, fair housing counseling, recreation, senior citizens, homeless persons, drug abuse counseling and treatment, and energy conservation counseling and testing. The services must meet each of the following criteria:

- The service must either be new or a quantifiable increase in the level of a service above that which has been provided with state or local funds in the previous twelve calendar months; and

- The amount obligated for public services shall not exceed 15 percent of the annual grant, plus 15 percent of the program income received by the grantee and its subrecipients during the previous program year.

(f) Interim assistance to correct objectively determinable signs of physical deterioration in areas where immediate action is necessary and where permanent improvements will be carried out as soon as practicable; or to alleviate emergency conditions threatening the public health and safety and requiring immediate resolution.

(g) Payment of the non-Federal share required in connection with a Federal grant-in-aid program undertaken as part of CDBG activities.

(h) Completion of urban renewal projects funded under Title I of the Housing Act of 1949, as amended.

(i) Relocation payments and assistance to displaced individuals, families, businesses, non-profit organizations, and farm operations.

(j) Payment to housing owners for losses of rental income incurred in holding units for persons displaced by relocation activities.

(k) Payment of costs in support of activities eligible for funding under the HOME program.

(l) Acquisition, construction, reconstruction, rehabilitation or installation of the distribution lines and facilities of privately owned utilities.

(m) CDBG may be used for the construction of housing assisted under Section 17 of the U.S. Housing Act of 1937.

(n) Direct assistance to facilitate and expand low- and moderate-income homeownership by subsidizing mortgage rates and principal amounts, financing the acquisition of housing occupied by low- and

moderate-income persons, acquiring guarantees of financing obtained from private lenders, providing up to 50 percent of down payment, or paying reasonable closing costs.

(o) Microenterprise Assistance

1. The provision of assistance to facilitate economic development by:

    - Providing credit and financial support, for the establishment, stabilization, and expansion of microenterprises;
    - Providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and
    - Providing general support, including peer support programs, counseling, child care, transportation and other similar services to owners of microenterprises and persons developing microenterprises.

2. Services provided under this eligibility category are not subject to the restrictions on public services contained in 570.201(e).

3. "Persons developing microenterprises" are persons who have expressed interest and who are, or after an initial screening process, are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. A "microenterprise" is a business having five or fewer employees, at least one of whom is the owner.

(p) Provision of technical assistance to public or non-profit entities to increase their capacity to carry out eligible neighborhood revitalization or economic development activities, provided:

- The recipient determines, prior to the provision of the assistance, that the activity for which it is attempting to build capacity would be eligible for CDBG assistance; and
- The National Objective claimed by the grantee can reasonably be expected to be met once the entity has received the technical assistance and undertakes the activity.

Capacity building for private or public entities (including grantees) for other purposes may be eligible under §570.205.

Eligible Rehabilitation and Preservation Activities - §570.202

(a) Assistance to rehabilitate:

- Privately owned residential buildings and improvements;
- Low-income public housing and other publicly owned residential buildings and improvements;

- Publicly and privately owned commercial or industrial buildings, except that assistance is limited to improvements to the exterior of the building and the correction of code violations;

- Non-profit owned, non-residential buildings and improvements not eligible under 570.201(c); and

- Manufactured housing, when such housing is considered part of the community's permanent housing stock.

(b) Financial assistance through grants, loans, loan guarantees, interest supplements, or other means may be provided for rehabilitation activities for the buildings described above, including:

- Assistance to private individuals and entities, including profit-making and non-profit organizations, to acquire for the purposes of rehabilitation, and to rehabilitate properties for use or resale for residential purposes;

- Labor, materials, and other rehabilitation costs, including repair, replacement of principal fixtures and components, installation of security devices, and renovation of existing structures;

- Loans for refinancing existing indebtedness secured by a property being rehabilitated, if the grantee determines that the financing is appropriate to achieve its community development objectives;

- Improvements to increase the efficient use of energy;

- Improvements to increase the efficient use of water;

- Connection of residential structures to water distribution or local sewer collection lines;

- Initial homeowner warranty premiums, hazard insurance premiums, flood insurance premiums and lead-based paint testing and abatement, for rehabilitation carried out with CDBG funds;

- Acquisition of tools to be lent to carry out rehabilitation;

- Rehabilitation services related to assisting participants in CDBG-funded rehabilitation activities (such as rehabilitation counseling, energy auditing, preparation of work specifications, loan processing, and inspection);

- Rehabilitation of housing under Section 17 of the U.S. Housing Act of 1937; and

- Lead-based paint hazard evaluation and reduction.

(c) Code enforcement in deteriorating or deteriorated areas where such enforcement, together with public or private improvements, rehabilitation, and services to be provided, may be expected to arrest the decline of such areas.

(d) Rehabilitation, preservation or restoration of publicly or privately owned historic properties, except for buildings used for the general conduct of government.

(e) Renovation of closed schools or other buildings for use as an eligible public facility or housing.

Special Economic Development Activities - §570.203

Special economic development activities include:

(a) The acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. Such activities may be carried out by the recipient or public or private non-profit subrecipients.

(b) The provision of assistance to a private for-profit business, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in §570.207(a).

(c) Economic development services in connection with activities eligible under this section, including, but not limited to, outreach efforts to market available forms of assistance; screening of applicants; reviewing and underwriting applications for assistance; preparation of all necessary agreements; management of assisted activities; and the screening, referral, and placement of applicants for employment opportunities generated by CDBG-eligible economic development activities, including the costs of providing necessary training for persons filling those positions.

Note: Guidelines for selecting activities to assist under this paragraph are provided at §570.209. The recipient must ensure that the appropriate level of public benefit will be derived pursuant to those guidelines before obligating funds under this authority. Special activities authorized under this section do not include assistance for the construction of new housing.

Special Activities by Community-Based Development Organizations (CBDOs) - §570.204

(a) ***Eligible activities.*** The recipient may provide CDBG funds as grants or loans to any CBDO qualified under this section to carry out a neighborhood revitalization, community economic development, or energy conservation project. The funded project activities may include those listed as eligible under 24 CFR 570 Subpart C, and, except as described below in paragraph (b), activities not otherwise listed as eligible under that subpart. For purposes of qualifying as a project under paragraphs (a)(1), (a)(2), and (a)(3) of this section, the funded activity or activities may be considered either alone or in concert with other project activities either being carried out or for which funding has been committed. For purposes of this section:

1. *A neighborhood revitalization project* includes activities of sufficient size and scope to have an impact on the decline of a geographic location within the jurisdiction of a unit of general local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation; or the entire jurisdiction of a unit of general local government that is under 25,000 population;

2. *A community economic development project* includes activities that increase economic opportunity, principally for persons of low and moderate income, or that stimulate or retain

businesses or permanent jobs, including projects that include one or more such activities that are clearly needed to address a lack of affordable housing accessible to existing or planned jobs and those activities specified at 24 CFR 91.1(a)(1)(iii);

3. *An energy conservation project* includes activities that address energy conservation, principally for the benefit of the residents of the recipient's jurisdiction; and

4. To *carry out a project* means that the CBDO undertakes the funded activities directly or through contract with an entity other than the grantee, or through the provision of financial assistance for activities in which it retains a direct and controlling involvement and responsibilities.

(b) ***Ineligible activities***. Notwithstanding that CBDOs may carry out activities that are not otherwise eligible, they are not authorized to:

1. Carry out an activity described as ineligible in §570.207(a);

2. Carry out public services that do not meet the requirements of §570.201(e), except that:

   i. services carried out under this section that are specifically designed to increase economic opportunities through job training and placement and other employment support services; and

   ii. services of any type carried out under this section pursuant to a Neighborhood Revitalization Strategy approved by HUD, shall not be subject to the limitations in §570.201(e)(1) or (2), as applicable;

3. Provide assistance to special economic development activities that would otherwise be eligible under §570.203 that do not meet the guideline requirements of §570.209; or

4. Carry out an activity that would otherwise be eligible under §570.205 or §570.206, but that would result in the recipient's exceeding the planning and admin cap.

(c) ***Eligible CBDOs***

1. A CBDO qualifying under this section is an organization that has the following characteristics:

   i. Is an association or corporation organized under State or local law to engage in community development activities (which may include housing and economic development activities) primarily within an identified geographic area of operation within the jurisdiction of the recipient, or in the case of an urban county, the jurisdiction of the county; and

   ii. Has as its primary purpose the improvement of the physical, economic or social environment of its geographic area of operation by addressing one or more critical problems of the area, with particular attention to the needs of persons of low and moderate income; and

iii. May be either non-profit or for-profit, provided any monetary profits to its shareholders or members must be only incidental to its operations; and

iv. Maintains at least 51 percent of its governing body's membership for low- and moderate-income residents of its geographic area of operation, owners or senior officers of private establishments and other institutions located in and serving its geographic area of operation, or representatives of low- and moderate-income neighborhood organizations located in its geographic area of operation; and

v. Is not an agency or instrumentality of the recipient and does not permit more than one-third of the membership of its governing body to be appointed by, or to consist of, elected or other public officials or employees or officials of an ineligible entity (even though such persons may be otherwise qualified under paragraph (c)(1)(iv)); and

vi. Except as otherwise authorized in paragraph (c)(1)(v), requires the members of its governing body to be nominated and approved by the general membership of the organization, or by its permanent governing body; and

vii. Is not subject to requirements under which its assets revert to the recipient upon dissolution; and

viii. Is free to contract for goods and services from vendors of its own choosing.

2. A CBDO that does not meet the above eligibility criteria may also qualify as an eligible entity under this section if it meets one of the following requirements:

   i. Is an entity organized pursuant to section 301(d) of the Small Business Investment Act of 1958 (15 U.S.C. 681(d)), including those that are profit making; or

   ii. Is an SBA approved Section 501 State Development Company or Section 502 Local Development Company, or an SBA Certified Section 503 Company under the Small Business Investment Act of 1958, as amended; or

   iii. Is a Community Housing Development Organization (CHDO) under 24 CFR 92.2, designated as a CHDO by the HOME Investment Partnerships program participating jurisdiction, with a geographic area of operation of no more than one neighborhood, and has received HOME funds under 24 CFR 92.300 or is expected to receive HOME funds as described in and documented in accordance with 24 CFR 92.300(e).

3. A CBDO that does not qualify under paragraphs (c)(1) or (2) of this section may also be determined to qualify as an eligible entity if the recipient demonstrates to the satisfaction of HUD, through the provision of information regarding the organization's charter and by-laws, that the organization is sufficiently similar in purpose, function, and scope to those entities qualifying paragraph (c)(1) or (c)(2) of this section.

Eligible Planning, Urban Environmental Design and Policy-Planning-Management-Capacity Building Activities - §570.205

(a) Planning activities such as data gathering, studies, analyses, preparation of plans, and identification of actions that will implement such plans.

(b) Activities designed to improve the grantee's capacity to plan and manage programs and activities.

Eligible Administrative Costs - §570.206

(a) Reasonable costs of overall program management, coordination, monitoring, and evaluation, including:

- Staff salaries, wages, and related costs;
- Travel costs;
- Administrative services such as general legal, accounting and audit services performed under third party contracts; and
- Other goods and services required for administration of the program.

(b) Provision of information and other resources to residents and citizen organizations participating in the planning, implementation, or assessment of activities being assisted with CDBG funds.

(c) Provision of fair housing counseling services and activities.

(d) Indirect costs.

(e) Preparation of applications for Federal programs where the grantee determines such activities are necessary or appropriate to achieve its community development needs.

Ineligible Activities - §570.207

(a) The following activities may not be assisted with CDBG funds:

- Buildings used for the general conduct of government;
- General government expenses; and
- Political activities.

(b) The following activities may not be assisted unless certain criteria are met or they are carried out under the authority of *§570.203 or §570.204*:

- Purchase of construction equipment; purchase of furnishings and personal property, unless part of a public service activity or necessary for use by a grantee in the administration of the CDBG program;

- Repair, operation and maintenance of public facilities, improvements and services, except expenses associated with eligible public service activities, interim assistance, and office space for CDBG program staff;

- New housing construction, except under the special provisions provided §570.207(b)(3)(i)-(ii); and

- Income payments of a subsistence nature.

Guidelines for Evaluating and Selecting Economic Development Projects - §570.209

The following guidelines are provided to assist the recipient to evaluate and select activities to be carried out for economic development purposes. Specifically, these guidelines are applicable to activities that are eligible for CDBG assistance under 570.203. These guidelines also apply to activities carried out under the authority of 570.204 that would otherwise be eligible under 570.203, were it not for the involvement of a Community-Based Development Organization (CBDO). (This would include activities where a CBDO makes loans to for-profit businesses.) These guidelines are composed of two components: guidelines for evaluating project costs and financial requirements; and standards for evaluating public benefit. **The standards for evaluating public benefit are mandatory, but the guidelines for evaluating projects costs and financial requirements are not.**

a. **Guidelines and Objectives for Evaluating Project Costs and Financial Requirements.** HUD has developed guidelines that are designed to provide the recipient with a framework for financially underwriting and selecting CDBG-assisted economic development projects that are financially viable and will make the most effective use of the CDBG funds. These guidelines, also referred to as the underwriting guidelines, are published as Appendix A to 24 CFR Part 570. The use of the underwriting guidelines published by HUD is not mandatory. However, grantees electing not to use these guidelines would be expected to conduct basic financial underwriting prior to the provision of CDBG financial assistance to a for-profit business. Where appropriate, HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes. Recipients are encouraged, when they develop their own programs and underwriting criteria, to also take these factors into account. The objectives of the underwriting guidelines are to ensure:

1. That project costs are reasonable;

2. That all sources of project financing are committed;

3. That to the extent practicable, CDBG funds are not substituted for non-Federal financial support;

4. That the project is financially feasible;

5. That to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and

6. That to the extent practicable, CDBG funds are disbursed on a *pro rata* basis with other finances provided to the project.

b. **Standards for Evaluating Public Benefit.** The grantee is responsible for making sure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds under the categories of eligibility governed by these guidelines. The standards set forth below identify the types of public benefit that will be recognized for this purpose and the minimum level of each that must be obtained for the amount of CDBG funds used. Unlike the guidelines for project costs and financial requirements covered under paragraph (a) of this section, the use of the standards for public benefit is mandatory. Certain public facilities and improvements eligible under 570.201(c) of the regulations, which are undertaken for economic development purposes, are also subject to these standards, as specified in 570.208(a)(4)(vi)(F)(2).

1. Standards for activities in the aggregate. Activities covered by these guidelines must, in the aggregate, either:

   i. Create or retain at least one full-time equivalent, permanent job per $35,000 of CDBG funds used; or

   ii. Provide goods or services to residents of an area, such that the number of low- and moderate-income persons residing in the areas served by the assisted businesses amounts to at least one low- and moderate- income person per $350 of CDBG funds used.

2. Applying the aggregate standards.

   i. A metropolitan city or an urban county shall apply the aggregate standards under paragraph (b)(1) of this section to all applicable activities for which CDBG funds are first obligated within each single CDBG program year, without regard to the source year of the funds used for the activities. A grantee under the HUD-Administered Small Cities or Insular Areas CDBG programs shall apply the aggregate standards under paragraph (b)(1) of this section to all funds obligated for applicable activities from a given grant; program income obligated for applicable activities will, for these purposes, be aggregated with the most recent open grant. For any time period in which a community has no open HUD-Administered or Insular Areas grants, the aggregate standards shall be applied to all applicable activities for which program income is obligated during that period.

   ii. The grantee shall apply the aggregate standards to the number of jobs to be created/retained, or to the number of persons residing in the area served (as applicable), as determined at the time funds are obligated to activities.

   iii. Where an activity is expected both to create or retain jobs and to provide goods or services to residents of an area, the grantee may elect to count the activity under either the jobs standard or the area residents standard, but not both.

   iv. Where CDBG assistance for an activity is limited to job training and placement and/or other employment support services, the jobs assisted with CDBG funds shall be

considered to be created or retained jobs for the purposes of applying the aggregate standards.

v. Any activity subject to these guidelines that meets one or more of the following criteria may, at the grantee's option, be excluded from the aggregate standards described in paragraph (b)(1) of this section:

A. Provides jobs exclusively for unemployed persons or participants in one or more of the following programs:

1. Jobs Training Partnership Act (JTPA);

2. Jobs Opportunities for Basic Skills (JOBS); or

3. Aid to Families with Dependent Children (AFDC);

B. Provides jobs predominantly for residents of Public and Indian Housing units;

C. Provides jobs predominantly for homeless persons;

D. Provides jobs predominantly for low-skilled, low- and moderate- income persons, where the business agrees to provide clear opportunities for promotion and economic advancement, such as through the provision of training;

E. Provides jobs predominantly for persons residing within a census tract (or block numbering area) that has at least 20 percent of its residents who are in poverty;

F. Provides assistance to business(es) that operate(s) within a census tract (or block numbering area) that has at least 20 percent of its residents who are in poverty;

G. Stabilizes or revitalizes a neighborhood that has at least 70 percent of its residents who are low and moderate income;

H. Provides assistance to a Community Development Financial Institution that serves an area that is predominantly low- and moderate-income;

I. Provides assistance to a Community-Based Development Organization serving a neighborhood that has at least 70 percent of its residents who are low and moderate income;

J. Provides employment opportunities that are an integral component of a project designed to promote spatial deconcentration of low- and moderate-income and minority persons;

K. With prior HUD approval, provides substantial benefit to low-income persons through other innovative approaches;

L. Provides services to the residents of an area pursuant to a strategy approved by HUD under the provisions of 24 CFR 91.215(e);

M. Creates or retains jobs through businesses assisted in an area pursuant to a strategy approved by HUD under the provisions of 24 CFR 91.215(e).

3. Standards for individual activities. Any activity subject to these guidelines that falls into one or more of the following categories will be considered by HUD to provide insufficient public benefit, and **therefore may, under no circumstances, be assisted with CDBG funds:**

   i. The amount of CDBG assistance exceeds either of the following, as applicable:

      A. $50,000 per full-time equivalent, permanent job created or retained; or

      B. $1,000 per low- and moderate-income person to which goods or services are provided by the activity.

   ii. The activity consists of or includes any of the following:

      A. General promotion of the community as a whole (as opposed to the promotion of specific areas and programs);

      B. Assistance to professional sports teams;

      C. Assistance to privately owned recreational facilities that serve a predominantly higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to low- and moderate-income persons;

      D. Acquisition of land for which the specific proposed use has not yet been identified; and

      E. Assistance to a for-profit business while that business or any other business owned by the same person(s) or entity(ies) is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided by the recipient.

4. Applying the individual activity standards.

   i. Where an activity is expected both to create or retain jobs and to provide goods or services to residents of an area, it will be disqualified only if the amount of CDBG assistance exceeds both of the amounts in paragraph (b)(3)(i) of this section.

   ii. The individual activity standards in paragraph (b)(3)(i) of this section shall be applied to the number of jobs to be created or retained, or to the number of persons residing in

the area served (as applicable), as determined at the time funds are obligated to activities.

iii. Where CDBG assistance for an activity is limited to job training and placement and/or other employment support services, the jobs assisted with CDBG funds shall be considered to be created or retained jobs for the purposes of applying the individual activity standards in paragraph (b)(3)(i) of this section.

c. **Amendments to economic development projects after review determinations**. If, after the grantee enters into a contract to provide assistance to a project, the scope or financial elements of the project change to the extent that a significant contract amendment is appropriate, the project should be reevaluated under these and the recipient's guidelines. (This would include, for example, situations where the business requests a change in the amount or terms of assistance being provided, or an extension to the loan payment period required in the contract.) If a reevaluation of the project indicates that the financial elements and public benefit to be derived have also substantially changed, the recipient should make appropriate adjustments in the amount, type, terms or conditions of CDBG assistance that has been offered, to reflect the impact of the substantial change. (For example, if a change in the project elements results in a substantial reduction of the total project costs, it may be appropriate for the recipient to reduce the amount of total CDBG assistance.) If the amount of CDBG assistance provided to the project is increased, the amended project must still comply with the public benefit standards under paragraph (b) of this section.

d. **Documentation.** The grantee must maintain sufficient records to demonstrate the level of public benefit, based on the above standards, that is actually achieved upon completion of the CDBG-assisted economic development activity(ies) and how that compares to the level of such benefit anticipated when the CDBG assistance was obligated. If the grantee's actual results show a pattern of substantial variation from anticipated results, the grantee is expected to take all actions reasonably within its control to improve the accuracy of its projections. If the actual results demonstrate that the recipient has failed the public benefit standards, HUD may require the recipient to meet more stringent standards in future years as appropriate.

CHAPTER 2

PRE-AWARD ASSESSMENT

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CHAPTER 2

PRE-AWARD ASSESSMENT

As director of the Community Development Agency in Midtown, William Lee was looking for an organization to help run the city's new housing rehabilitation program in the South Park neighborhood. William had heard about a local non-profit agency that was doing 'great things' in housing, according to several Midtown city councilors. Based on this endorsement, and with assurances from the non-profit's Director about the quality of its work and its commitment to the neighborhood, William didn't feel a more formal assessment of the organization's capacity was necessary. He selected the non-profit as a subrecipient without determining whether the subrecipient had the administrative systems and procedures necessary to comply with CDBG regulations.

Eight months later, the CDA's monitoring revealed that the non-profit had incurred substantial program expenses before the environmental review process was completed, rendering those expenses unallowable. Moreover, although the non-profit was doing high quality rehabilitation work, staff had failed to maintain documentation on household eligibility, procurement of materials, progress payments, or final inspection of the work. When William called to find out how this had happened, the non-profit's Executive Director said that he had never paid much attention to bureaucratic 'red tape,' and focused on 'results rather than paperwork.' The next day, William received calls from two city councilors wanting to know why he was 'harassing' such an outstanding organization.

INTRODUCTION

This chapter focuses on procedures for assessing the capabilities of prospective subrecipients **prior to** awarding them CDBG funds. Because many local CDBG programs have been funding the same subrecipients for several years, you should also apply these procedures in deciding whether to continue to use your current subrecipients.

There is no regulatory requirement that grantees formally assess prospective subrecipients. Your authority to "designate" an organization as a subrecipient is one of the features of this category of service provider that distinguishes it from a contractor. (You can select contractors only after a formal procurement process designed to afford "free and open competition.")

Importance of Pre-Award Assessments

A thoughtful pre-award assessment of potential subrecipients can:

- reduce the risk of major problems later on, and
- increase the chances for success.

Whether you are selecting new subrecipients or extending current Subrecipient Agreements, it is helpful to know ahead of time what to prepare for and what to fix ***before the Agreement is signed.*** You may have to live with the problem a long time if you don't.

There are no perfect subrecipients.

You should not view the pre-award assessment of potential subrecipients, or the review of the prior performance of current subrecipients, as attempts to weed out all organizations except those with a perfect track record. Ideal subrecipients probably do not exist. Instead, you should treat the assessment process as a way to measure the strengths and weaknesses of prospective organizations and to identify potential problem areas in working with them, so that you can develop support mechanisms to strengthen these organizations in the future.

Pre-award assessments are essential for effective:

- ***Selection***
- ***Subrecipient Training Design***
- ***Technical Assistance***
- ***Subrecipient Agreements***
- ***Performance Monitoring***

Pre-award evaluations can help you:

- decide which of several prospective subrecipients to select for a particular activity;
- identify early training and technical assistance that you can provide to potential subrecipients lacking previous CDBG experience;
- include special conditions in the written Subrecipient Agreement that make initial or continued funding contingent on the agency's correcting particular deficiencies by a mutually agreed-on date; and
- identify special monitoring procedures, such as more frequent on-site visits or special audits, to assure the subrecipient organization is achieving its goals.

CDBG Entitlement grantees should take steps to evaluate prospective operating agencies, and implement a formal screening process for all applicants.

Given this prior knowledge, you can better balance your future monitoring and technical assistance responsibilities with the administrative resources that you have available. When the pre-award evaluation process is complete, you will know exactly which organizations need what kind of monitoring support.

Even when the selection of a particular subrecipient appears to be inherently "political" and pre-determined, it is helpful to identify the particular areas where you are likely to have problems. For existing subrecipients, pre-award screening closes the previous year's monitoring loop.

FACTORS IN A PRE-AWARD ASSESSMENT

Factors used to determine selection of subrecipients should be based on both the quality of the project and the capacity of the subrecipient to carry it out. For example, in judging whether to use a specific organization as a subrecipient, you should examine:

- the nature of the activity or activities;
- whether the proposed plan for carrying out the activity is realistic;

- the organization's capacity to do the work and do it in a timely manner; and

- the possibility of any potential conflicts of interest.

Are the activities eligible for funding?

A common problem faced by grantees is that subrecipients undertook activities that were ineligible under the CDBG regulations. To prevent that from happening to you, be sure you have a substantive project description and scope of services before committing CDBG funds to the activity.

It is surprising how many grantees continue to fund activities without determining their eligibility for funding under CDBG guidelines (§570.201-207 of the CDBG regulations). **One of your first steps should be to verify the eligibility of proposed activities.** Certain activities are excluded automatically. For example, "partisan political activities" such as voter transportation or candidate forums, no matter how impartially structured, are never eligible activities under CDBG rules. On the other hand, housing construction can be an eligible activity, but only under certain circumstances. CDBG funds generally cannot be used for assistance relative to "buildings or portions thereof used for the general conduct of government." However, this prohibition does not apply to the removal of architectural barriers (see §570.207(a)(1)), or where social services operate out of such a building. It is very important, therefore, to check the eligibility of each proposed activity. Sometimes a small change is all that is required to assure the proposed project conforms to the CDBG regulations.

Does the activity meet a National Objective?

Make sure your subrecipients are aware of the National Objective their activity is expected to meet as well as the records to be maintained to document compliance.

You should also evaluate **how the proposed activity addresses the National Objective of providing benefit to low- and moderate-income persons, preventing or eliminating slums or blight, or meeting other urgent community development needs.** For each activity there must be a logical, documented connection to a National Objective. As noted in the Appendix to Chapter 1, the standards for meeting and documenting compliance with a National Objective can vary depending on the particular activity undertaken. Be particularly careful in assessing housing and economic development activities.

You should also assess the consistency of the proposed activity with the community's Consolidated Plan and with your CDBG program priorities.

Is the design of the proposed activity appropriate?

You should evaluate the adequacy of the proposed program design or service delivery approach.

- Does the activity adequately address an established need?

- Has the prospective subrecipient identified all the major tasks that will be involved in carrying out the activity?

- Does the organization understand the interrelationship of these tasks, and has it developed a realistic schedule for their accomplishment? Are there any stumbling blocks to prompt implementation?

- Has the organization made a careful estimate of the resources necessary for each component of its proposed program, and has it put together a realistic budget that reflects these resources? Are other sources of funds, when indicated, committed to this project?

- Is the budget for the CDBG funded activity separate from other activities undertaken by the subrecipient?

Does the organization have the capacity to complete the activity as proposed?

Finally, you should assess the prospective subrecipient's **overall organizational capacity.**

- Has the organization ever undertaken the proposed activity before, and what was the result?

- Does the organization have experience with the Community Development Block Grant or other Federal programs?

See the Application Rating System and the Risk Analysis Matrix in the Appendix to this chapter for a sample of techniques you can use to select subrecipients for funding.

- Do the prospective subrecipient's staff appreciate the additional requirements associated with Federal funding (for example, when staff split their time between CDBG and non-CDBG functions, keeping detailed records of time spent on specific activities)?

- Is the organization familiar with the specific regulatory requirements associated with the proposed activity (such as Davis-Bacon prevailing wage requirements for new construction or rehabilitation projects involving eight units or more)?

- What is the organization's “track record” regarding compliance with such requirements?

- Does the prospective subrecipient have adequate administrative and fiscal structures in place to deal with these guidelines (particularly record keeping)?

- If not, does it recognize its organizational weaknesses, and has it developed a plan for upgrading these aspects of its operations?

- Does the organization have qualified staff for all the necessary functions associated with the proposed activity, and is there adequate staff time available?

- If not, how does the organization plan to fill these gaps in personnel?

See Appendix 2 for a sample application package.

The Appendix to this chapter provides a sample subrecipient application for CDBG funding that was developed with the assistance of Oakland, California. Part A, Abstract of an Application, lists the basic elements that should be included in the application and/or as supplemental information requested by the grantee after it has been determined that the subrecipient has submitted a priority proposal and has the capacity to carry it out. The sample application can be modified to fit a variety of the following approaches to selecting subrecipients.

MODELS FOR PERFORMING PRE-AWARD ASSESSMENTS AND SELECTING SUB-RECIPIENTS

You can use a variety of approaches to selecting subrecipients:

- **Model 1: formal application or request-for-application (RFA) process;**
- **Model 2 simplified or limited application, with grantee follow-up;**
- **Model 3: grantee survey of qualified organizations, with direct solicitation;**
- **Model 4: response to unsolicited applications; or,**
- **Model 5: review of existing subrecipients' performance, before renewing their participation.**

Model 1: A Formal Application or RFA Process

Under this model, the prospective subrecipient is required to submit a formal application to the grantee, generally as part of the grantee's planning process for developing its subsequent year's CDBG Action Plan. In the application, the prospective subrecipient describes its proposed activity(ies), implementation schedule, budget, and staffing structure, as well as its related past experience and how the organization intends to assure compliance with the program regulations that apply to the proposed activity(ies). The grantee then evaluates each application according to explicit selection criteria, its CDBG program priorities and (if the proposed activity is housing-related), the local priorities as expressed in the Consolidated Plan.

Among the models discussed here, this one most closely resembles the competitive procurement process used in selecting contractors, although with subrecipients there is likely to be a variety of activities proposed, and “lowest price” will not necessarily be a factor in deciding which organization to select. The formal application process is recommended when:

(1) activities are numerous and/or complex,

(2) there are many potential applicants with varying degrees of expertise and capacity,

(3) the cost and level of risk of program failure are high, thereby requiring greater care and more time, and/or

(4) there are limited funds and many competing needs and/or approaches for addressing these needs.

Pros and Cons of a Formal Application or RFA Process

Pros: This approach ***places the full responsibility with the applicant*** to prepare a thorough, written description of its expertise, capacity, and program design. This approach also allows you to compare applicants on a broad range of selection criteria, since each must submit similar applications. The Request-For-Application format should provide prospective subrecipients with an overview of the regulatory issues they must address. Their responses will reveal their awareness of and capacity to deal with these program requirements. At the same time, the formality of the process helps to assure the consistency of the evaluation process. (It should be noted, however, that the applicant's responsibility to describe its capacity and program design does **not** relieve the grantee of its ultimate responsibility for ensuring compliance with all applicable requirements.)

Cons: The approach in Model 1 rewards experienced subrecipients or organizations that can write strong applications (or hire consultants to write them). Although they may be aware of the weighting criteria used in evaluating applications, these agencies may not be organizations that can run good programs. Because the Model 1 approach may require considerable effort to prepare the application, less experienced applicants or those with smaller staffs may not apply, thereby depriving you of well-qualified applicants. In addition, your time involved in assessing and scoring applications (and reviewing the scores with unsuccessful applicants) can be substantial. This approach may allow you to bring in new subrecipients only once a year.

Model 2: Simplified Application, with Grantee Follow-up

This model, a toned-down version of Model 1, requires applicants to provide a more general description of their proposed activity(ies), organizational experience, and capacity to do the work. Applicants need not produce detailed written explanations of how they will address the regulatory requirements of the CDBG program. However, they are required to demonstrate their organization's ability to meet those selection criteria that you choose to specify. (For example, for a new job training program you might want to specify how many training slots are to be filled, what disciplines are to be taught, and what the budgeted cost is for each trainee over what period of time.)

The grantee reviews prospective agencies' general descriptions to narrow the number of applications under consideration. The grantee then requests the most promising organizations to provide more detailed information regarding their capacity or to answer questions about their program design.

Model 2 may be useful when there are several inexperienced providers with limited ability to respond to a formal RFA, the level of program complexity (and therefore, risk of failure) is moderate or low, and/or the grantee wants to maintain the largest possible pool of qualified applicants.

Pros and Cons of a Simplified Application with Grantee Follow-up

Pros: This approach makes it easier for new or inexperienced organizations to prepare an application and participate in the application process, at least through the first round "cut". The open process tends to encourage a wider group of prospective subrecipients to apply for consideration by the grantee.

Cons: This approach shifts much of the burden for developing a complete picture of the prospective subrecipients' qualifications from the applicant to the grantee. Grantees have to devote more time for pulling this information together. In addition, because the award criteria used at each stage may be less clear than in Model 1, grantees may be subject to more criticism or challenge over how they made their selections.

Model 3: Grantee Survey of Qualified Organizations, with Direct Solicitation

In this approach, the grantee first identifies a ***pool of qualified organizations.*** This can be done informally, through discussions with knowledgeable community sources or through the internal information that the Community Development office has acquired over the years. Alternatively, the grantee can periodically issue a general request for qualifications (RFQ) to local organizations in order to maintain up-to-date information about qualified subrecipients.

From this pool, the grantee can then identify the qualified organizations to carry out a desired CDBG activity and approach them directly to determine their interest and suitability for the work. (This latter step is crucial to avoid the problems described in the vignette at the beginning of this chapter.) Assuming that this process confirms an organization's capacity, the grantee has the option either to solicit an application from the organization for the work to be undertaken or to move directly to negotiate a written Agreement. (See Chapter 3.)

Pros and Cons of a Grantee Survey, with Direct Solicitation

Pros: With this approach the grantee can take a more proactive approach in deciding which is the "best" subrecipient to meet its needs. Because this approach tends to be more focused and entails deliberations involving fewer organizations, it can also be less time-consuming for agency staff.

Cons: One of the "pluses" of this approach, that it may be a less public process, can also be a significant disadvantage.

That is, it is vulnerable to criticism about favoritism on the part of the grantee, and as a less open process, may be subject to more political pressure. By focusing on fewer organizations, the grantee also may unintentionally be overlooking or excluding qualified agencies that it would like to get involved in its local CDBG effort. Finally, any tendency on the part of the grantee to be less rigorous in evaluating the capacity of the organization(s) it approaches can result in performance problems later on.

Model 4: Unsolicited Applications

It is quite likely that prospective sponsors of community development activities (both public and private) will contact you directly to request funding for a special project. The activities involved may or may not conform to your funding plans, and it is your responsibility to determine the merit and feasibility of the application. Certainly, this determination includes an assessment of whether the project meets a National Objective and whether the proposed activity or activities are eligible under the CDBG regulations.

If your preliminary review determines that the application has merit and that there is funding available, this model becomes the same as Model 2 or 3. Regardless of the size or complexity of the proposal, you should require the sponsoring organization to submit a formal application much like those suggested in Model 2 or 3. This will assure that all prospective subrecipients are treated the same way, and more importantly, that you have the same opportunity to review crucial information about the capacity, experience and reliability of the prospective sponsor as in other evaluation formats.

Pros and Cons of Unsolicited Applications

Pros: The advantages of Model 4 are similar to those of Models 2 and 3. However, there are two additional benefits. First, the unsolicited nature of the application suggests that the applicant is already motivated and in some way committed to undertaking the work and is not simply responding to your request. Second, unsolicited applications can reveal opportunities to address community needs that your agency may have overlooked or permit a more timely response to emerging needs.

Cons: You never know when you might receive an unsolicited application and whether there are political considerations attached to it. Following up the application may take time away from other matters. If politics are involved, your protection is knowing that you and your agency will observe the same process and criteria in responding to all applications. Another problem with unsolicited applications is that many times they are not received at an appropriate time in the funding cycle. The best applications may be received after the funds have been committed.

Model 5: Reviewing the Performance of Current Subrecipients

Even if you, the grantee, are not seeking to identify new subrecipients for your programs, and intend to retain your current group of subrecipients, a pre-award assessment is still appropriate. Some of your current subrecipients may be marginal performers that need the accountability and feedback of such a review to motivate them to improve. Other subrecipients may be well-intentioned and generally well-run but unaware of specific weaknesses in their operations. Still others may be exemplary performers that deserve to have their achievements recognized. Even if the assessment itself is not sufficient to motivate subrecipients to deal immediately with problems in their daily operations, it can be used to develop special language for the written Subrecipient Agreement governing future funding. The assessment could, for example, require corrective action as a condition for continued participation in the CDBG program.

For current subrecipients, the pre-award review should be a part of the annual monitoring process.

The pre-award assessment for extending current subrecipient agreements should be incorporated into your normal monitoring process. To save time and effort, it makes sense to schedule your monitoring reviews to coincide with decisions about renewing subrecipients for another program year. Chapter Five of this Guidebook discusses detailed monitoring procedures.

A MIXTURE OF APPROACHES

You may want to use different approaches with different activities and organizations, depending on the number of "new" versus "experienced" subrecipients that you want to consider, the amount of information that you have available on different organizations, or the demand by local organizations for CDBG resources.

Making Your Selection Criteria Explicit

Regardless of the selection approach used, you are encouraged to **make your selection criteria explicit and,** as much as possible, **tie these criteria directly to the CDBG program requirements.** In addition, it would be appropriate to identify all of the applicable rules, including environmental reviews, anti-discrimination, and accessibility standards as part of the Request for Applications. This will serve several purposes, among them:

- By presenting the criteria explicitly at the beginning of the process, you can reduce the number of questions that may arise over the objectivity and fairness of your assessments; and

- By tying the criteria to Federal program requirements, you can begin to educate prospective subrecipients and the community at large about the regulatory constraints that limit how you operate the local CDBG program.

Finally, if local elected officials who are not part of the agency responsible for the CDBG program gain a better appreciation of the Federally imposed regulatory constraints under which the local CDBG program must function, the political pressure they may exert to select a particular organization or to assist a particular constituency can be reduced.

DEALING WITH A SCARCITY OF QUALIFIED ORGANIZATIONS

You may want to add new activities to your CDBG program, but find that there are not enough local organizations with the necessary experience and administrative systems to function effectively as subrecipients. In such cases, you can:

- **carry out the desired CDBG activities yourself;**
- **find or develop organizations with the necessary capacity; or**
- **not undertake the new activities.**

If the proposed activity is critical for revitalizing a targeted neighborhood or meeting the needs of a particular population, then deferring action may not be an option. In addition, if your administrative capacity is already stretched thin, it may be very difficult for you to take on new activities yourself.

Expanding the Pool of Subrecipients

You may find, therefore, that in order to increase the diversity and effectiveness of your CDBG effort, your only reasonable course of action is to create and nurture greater subrecipient capacity. While there will be an initial cost to this capacity-building effort, you may be able to view it as an investment with a future return.

If you decide to support one or more start-up organizations as new subrecipients, you will probably encounter two issues unique to new organizations: incorporation and start-up financing. Although CDBG funds can be used for capacity building, in most cases funding for start-up costs may have to be secured from other sources such as foundations, other non-profit agencies, or corporations that support local community development efforts. Most law firms, for example, can provide assistance with incorporation either for a modest fee or on a *pro bono* basis.

Once you have selected an organization to participate in the CDBG program for a particular program year, you must execute a written agreement with the designated subrecipient. Drafting useful Subrecipient Agreements is the subject of Chapter 3.

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SAMPLE SUBRECIPIENT APPLICATION PACKAGE

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

1) Provide a clear explanation of the CDBG program, so that subrecipients understand what they are applying for and what their responsibilities will be;

2) Indicate the grantee's funding priorities;

3) Be detailed enough to capture all important information regarding eligibility, compliance with National Objectives requirements, and the schedule for project implementation;

4) Not be so elaborate or forbidding that subrecipients are discouraged from applying; and

5) Provide enough information about the subrecipient organization to permit grantees to make reasonable judgments about the subrecipient's qualifications to carry out the proposed activity.

The sample application materials on the following pages provide a good example of the important features listed above. City Agencies generally submit a more abbreviated list of documents.

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

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

SAMPLE SUBRECIPIENT APPLICATION
(Developed with Assistance from the City of Oakland, CA)

Abstract of an Application (It is recommended that total narrative be limited to no more than five pages.)

The application package should include a discussion of eligible and ineligible activities and National Objectives, such as found in the Appendix to Chapter 1, followed by the required data to be submitted by the prospective subrecipient for funding consideration. The application package should address the following items:

1. Summary of Eligible and Ineligible Activities (with references to relevant section of regulations)
   —Basic Eligible Activities
   —Eligible Rehabilitation and Preservation Activities
   —Special Economic Development Activities
   —Special Activities by CBDOs
   —Eligible Planning, Urban Environmental Design, Policy-Planning, and Management-Capacity Building Activities
   —Eligible Administrative Costs
   —Ineligible Activities

2. Data Required to be Submitted

   (a) Project Summary (Narrative)
   —Need/Problem to be addressed (consistent with priorities established in Consolidated Plan
   —Population/Area served (including estimated numbers of clients and other measurable outputs)
   —Description of work (including who will carry it out and how eligibility and National Objective requirements will be met)
   —Proposed Schedule of Work

   (b) Detailed Budget Information including all funding sources

   (c) Agency Information
   —Background/Program Experience
   —Personnel/Staff Capacity
   —Financial Capacity
   —Monitoring
   —Audit Requirements
   —Insurance/Bonding/Worker's Compensation
   —Any other additional information

   (d) Standard Required Documents/Forms
   —Articles of Incorporation/Bylaws
   —Certificate of Good Standing with the State

—State and Federal Tax Exemption Determination Letters
—List of Board Members
—Authorization to Request Funds
—Designation of Authorized Official(s)
—Organizational Chart
—Resumes of Program Administrator and Fiscal Officer
—Annual Financial Statements and Audit
—Conflict of Interest Questionnaire (followed by a discussion of the conflict of interest provisions)
—Documentation of Compliance with National Objectives

RECOMMENDED APPLICATION DATA

Project Summary

Briefly describe the proposed project. The narrative should include the need or problem to be addressed in relation to the Consolidated Plan or other community development priorities, as well as the population to be served or the area to benefit. Describe the work to be performed, including the activities to be undertaken or the services to be provided, the goals and objectives, method of approach, and the implementation schedule.

In your project summary, further:

- Indicate how you will identify clients. Provide an estimate as the number of clients to be served and describe them in terms of age, gender, ethnicity, income level, and other defining characteristics.
- Be very specific about who will carry out the activities, the location in which they will be carried out, the period over which the activities will be carried out, and the frequency with which the activities will be carried out, and the frequency with which services will be delivered.
- For service programs, include how you propose to coordinate your services with other community agencies and leverage resources.
- Describe the site where the program will be implemented. How will clients get to the facility? What efforts will your agency and partners make to promote your program and reach isolated individuals? Describe how the facility complies with Americans with Disabilities Act (ADA) requirements regarding accessibility.

Project Budget

Discuss all funding sources, proposed and confirmed. Complete the line item budget, Attachment A or B, as appropriate. All applicants must complete Attachment C.

Agency Information

Background/Program Experience

Include the length of time the agency has been in operation, the date of incorporation, the purpose of the agency, and the type of corporation. Describe the type of services provided, the agency's capabilities, the number and characteristics of clients served, and license to operate (if appropriate).

Personnel/Staff Capacity

Briefly describe the agency's existing staff positions and qualifications, its capacity to carry out this activity, and state whether the agency has a personnel policy manual with an affirmative action plan and grievance procedure.

Financial Capacity
Describe the agency's current operating budget, itemizing revenues and expenses. Identify commitments for ongoing funding. Describe the agency's fiscal management, including financial reporting, record keeping, accounting systems, payment procedures, and audit requirements.

Monitoring
Briefly describe how you will monitor progress in implementating the program. Attach copies of all data collection tools that will be used to verify achievement of program goals and objectives. Describe who will be responsible for monitoring progress.

Audit Requirements
In accordance with the Office of Management and Budget Circular A-133, the Federal Government requires that organizations expending $300,000 or more in Federal financial assistance in a fiscal year must secure an audit. Agencies requesting $300,000 or more must choose one of the three ways of meeting this requirement and state which method they chose:

1) If your agency already conducts audits of all its funding sources including CDBG, the agency must submit a copy of its most recent audit, and may, at its discretion, include the CDBG portion of the audit cost in its CDBG project budget.

2) If your agency already conducts audits of its other funding sources but has neither received nor included CDBG in the past, the scope of the audit would be modified to incorporate CDBG audit requirements. The associated cost of the augmentation could then be included in the CDBG project budget, accompanied by the auditor's written cost estimate.

3) If your agency does not have a current audit process in place, your agency will be required to include a 10-percent set aside in the CDBG project for the provision of an audit.

Insurance/Bonding/Worker's Compensation
State whether or not the agency has liability insurance coverage, in what amount, and with what insuring agency. State whether or not the agency pays all payroll taxes and worker's compensation as required by Federal and state laws. State whether or not the agency has fidelity bond coverage for principal staff who handle the agency's accounts, in what amount, and with what insuring agency.

Additional Information
Include any other pertinent information.

Standard Required Documents

Articles of Incorporation/Bylaws
Articles of incorporation are the documents recognized by the State as formally establishing a private corporation, business or agency.

Non-profit Determination
Non-profit organizations must submit tax-exemption determination letters from the Federal Internal Revenue Service and the State Franchise Tax Board.

List of the Board of Directors
A list of the current board of directors or other governing body of the agency must be submitted. The list must include the name, telephone number, address, occupation or affiliation of each member and must identify the principal officers of the governing body.

Authorization to Request Funds
Documentation must be submitted of the governing body's authorization to submit the funding request. Documentation of this requirement consists of a copy of the minutes of the meeting in which the governing body's resolution, motion or other official action is recorded.

Designation of Authorized Official
Documentation must be submitted of the governing body's action authorizing the representative of the agency to negotiate for and contractually bind the agency. Documentation of this requirement consists of a signed letter from the Chairperson of the governing body providing the name, title, address and telephone number of each authorized individual.

Organizational Chart
An organizational chart must be provided that describes the agency's administrative framework and staff positions, indicates where the proposed project will fit into the organizational structure, and identifies any staff positions of shared responsibility.

Resume of the Chief Program Administrator

Resume of the Chief Fiscal Officer

Financial Statement and Audit

Conflict of Interest Questionnaire

Documentation of Compliance with National Objectives

Subrecipient **Project Title** **Project #**

ATTACHMENT A: Line Item Budget Form – Service Projects

Guidance: Please use the following format to present your proposed line item budget. In column A, list the items for which you anticipate the need for CDBG funds. In Column B, provide the calculation explaining how you arrived at the estimated cost of the line item. In Column C, provide the projected request for CDBG funds. On Attachment C, provide description of other funds and volunteer and donated services/resources to be used in the project.

A Budget Item	B Calculation	C CDBG Request
PERSONNEL		
Salaried Positions – Job Titles	Provide rate of pay (hourly/salary) and percentage of time spent on project (Full-Time Equivalent) or hours per week	
Salaries Total		
Fringe Benefits		
PERSONNEL TOTAL	Total of Personnel & Fringe Benefits	
OPERATING COSTS	Provide description of how you arrive at total for each line item	
Supplies		
Equipment		
Rent/Lease		
Insurance		
Printing		
Telephone		
Travel		
Other		
TOTAL OPERATING		
CONTRACT SERVICES		
TOTAL CONTRACT SERVICES		
BUDGET TOTAL		

_____	_____	_____
Subrecipient	**Project Title**	**Project #**

ATTACHMENT B: Line Item Budget Form – Construction/Acquisition Projects

Guidance: Please use the following format to present your proposed line item budget. In column A, list the items for which you anticipate the need for CDBG funds. In Column B, provide the calculation explaining how you arrived at the estimated cost of the line item. In Column C, provide the projected request for CDBG funds. On Attachment C, provide a description of other funds and volunteer and donated services/resources to be used in the project.

A Budget Item	B Calculation	C CDBG Request
PERSONNEL		
Salaried Positions – Job Titles	Provide rate of pay (hourly/salary) and percentage of time spent on project (Full-Time Equivalent) or hours per week	
Salaries Total		
Fringe Benefits		
PERSONNEL TOTAL	Total of Personnel & Fringe Benefits	
DELIVERY COSTS	Provide description of how you arrive at total for each line item	
Acquisition		
Development		
Rehab Hard Costs		
Physical Inspections		
Architectural Engineering		
Rehab Loan Costs		
Permits and Fees		
Insurance		
Legal Fees		
Financing		
Appraisal Costs		
Other		
TOTAL OPERATING		
CONTRACT SERVICES		
TOTAL CONTRACT SERVICES		
BUDGET TOTAL		

ATTACHMENT C: Supplemental Budget Form – Use of Other Resources

I. Describe your plans to use other funds on this project. In this section only describe funds that are secured. Provide the source of funds, amounts and how these funds will be used.

II. Describe your plans to seek new funding to supplement CDBG funding. Describe the sources to which you will apply, the amounts sought and the proposed use of those funds.

III. Describe your use of donated goods and services. Estimate the value of these services and describe how you arrive at these amounts.

IV. Please provide an explanation for any unusual budget expenditures listed in the line item budget on the previous page.

V. Explain why you consider your program costs to be reasonable.

Basic Elements of a Subrecipient Application for Funding and Applicable Federal Regulations

✓	Data	Description	Some Key Applicable Regulations
	1. Project Summary	A brief project description including: • Need or problem • Population to be served • Geographic service area • Description of work and how it addresses the problem • Schedule for completion • Proposed accomplishments • Eligibility/National Objective • Proposed budget • Intended staffing • Other sources of funding	24 CFR 570.200(a), 570.201–570. 208, 507.503
	2. Agency Background	• Years in operation • Purpose • Type of services provided • Agency's capabilities • Experience with Federal Programs • Number/characteristics of clients served • License to operate	24 CFR 570.506, 570.507, 570.610; 24 CFR Parts 84 or 85
	3. Personnel	Describe: • Staff positions and qualifications • Policy/procedures manual	24 CFR 570.506, 570.507, 570.601, 570.602, 570.607(b), 570.611
	4. Financial	Describe: • Operating budget • Commitments for ongoing funding • Fiscal management (reporting, records, accounting principles)	24 CFR 570.502–570.504, 570.506, 570.507, 570.610; 24 CFR Parts 84 or 85, and OMB Circulars A-87 or A-122; Treasury Circular 1075
	5. Audit Requirements	Organizations receiving $300,000 or more in Federal financial assistance in a fiscal year must secure an audit.	OMB Circular A-133
	6. Insurance/Bonding/Worker's Compensations	Indicate if agency: • Has liability insurance • Pays payroll taxes and worker's compensation • Has fidelity bond coverage	24 CFR Parts 84 or 85
	7. Additional Information	Any other pertinent information	
	8. Standard Documents for Submission	• Articles of Incorporation/Bylaws • Non-profit determinations • List of Board of Directors • Authorization to Request Funds • Authorized official designation • Organization Chart • Resumes of Chief Program Admin. and Chief Fiscal Officer • Financial Statement and Audit • Conflict of Interest Questionnaire • Framework for Documenting Compliance with National Objectives	24 CFR 570.208, 570.500(c), 570.611 *Although these regulations do not require formal submission of all these documents at the point of application, the grantee can still request this information to obtain a better understanding of the organization, systems, and personnel of a potential subrecipient.

SUBRECIPIENT SELECTION CHECKLIST

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

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

The following summary scoring sheet represents the first stage of a two-part rating system developed principally by Palm Beach Co, FL, to select subrecipients and activities for CDBG funding. An application must score at least 50 points to be considered for stage II, which is a comparative analysis of each activity by a team of the county's Housing and Community Development (HCD) staff.

APPLICATION RATING SYSTEM

1. Benefit to Low- and Moderate-Income Persons: 5 Points

   Five points will be given to activities that benefit at least 51 percent low- and moderate-income persons.

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

2. Benefit to Target Areas: Maximum of 10 Points

   Activities located within a Target Area containing Areas of Hope, will receive the maximum 10 points. Activities located in Target Areas with no Areas of Hope will receive 8 points. Activities adjacent to a Target Area will receive 5 points. All other activities will be awarded 3 points.

3. Activity Need and Justification: Maximum of 20 Combined Points

   a. Need: Maximum of 15 Points
      The activity will be evaluated in terms of the documentation and justification of the need for the activity. Activities with excellent documentation and justification will be awarded the maximum of 15 points: good, 10 points; average, 5 points; and poor, 0 points.

   b. Consolidated Plan Priority: Maximum of 5 Additional Points
      Activities addressing high priorities, as identified in the Consolidated Plan will be awarded 5 points.

4. Cost Reasonableness and Effectiveness: Maximum of 10 Points

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

5. Activity Management and Implementation: Maximum of 20 Points

   a. Management: Maximum of 15 Points

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

   b. Implementation: Maximum of 15 Points

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

6. Experience and Past Performance: Maximum of 10 Points

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

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

For those applicants that have not received CDBG funding from HCD in the past, allocation of points up to the maximum of 10 points will be awarded, dependent upon thorough documentation of similar past performances submitted with the application.

7. Matching Contributions: (Matching contributions must be eligible.) Maximum of 20 Points

a. Efforts to Secure Other Funding: Maximum of 5 Points
Points will be awarded based on the applicant's efforts to secure other funding for the activity.

b. Matching: Maximum of 15 Points
Points will be awarded based on the ratio of the amount of eligible matching funds to the amount of CDBG funds requested:

1.1 or more	15 points
.75-1	10 points
.50-1	7 points
.25-1	5 points
less than .25	0 points

8. Environmental Justice: Maximum of 5 Points
Applications will receive 5 points if the activity promotes environmental justice. Any activity that has a potential adverse impact on the environment or that is adversely affected by the surrounding environment will not be considered.

9. Application Completeness: Maximum of 5 Points
Applications will receive up to 5 bonus points, based on completeness. Applications that have not been signed will not be considered.

RISK ANALYSIS MATRIX

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

Project Complexity

- Size of dollar amount requested
- Use of funds:
  - For construction or rehab
  - For operation of facility
  - For program only

Type of Organization Requesting Funding

- Non-profit
- For-profit (570.201(o))
- Governmental Agency

Complexity of Housing Project

- New construction
- Rehabilitation
- Single unit/multi-unit
- Number of units
- Subrecipient's prior experience with this size and type project

Economic Development

- Complexity of project
- Number of jobs to be created or retained
- Area benefit
- Providing direct grants and loans
- Providing technical assistance
- Subrecipient's prior experience

Potential Environmental Concerns

- Degree of complexity
- E.I.S. needed

Other Type of Project

- Degree of experience carrying out similar type project

Funding

- Other sources of funds indicated, but not committed
- Other funds committed
- CDBG funds only

Type of Assistance
Grant
Loan

Float Loan
Ability to repay within necessary time frame

Program Income
To be retained to continue with the same activity
To be retained for a different activity
To be returned to grantee

Subrecipient Organization
Newly created entity
Well established, but no prior CDBG or Federal experience
Prior experience with CDBG or other Federal programs
No independent source of funding, i.e., general fundraising

Subrecipient History, If Previously Funded
Ability to deliver project within budget and on schedule
Ability to anticipate and overcome past problems
Any past monitoring issues raised
Any special contract conditions needed

Staffing
Staff experienced with this type activity
Have sufficient staff to carry out project or must hire
Entity has significant staff turnover

Recent Problems
Unresolved monitoring findings
Citizen complaints

CHAPTER 3

SUBRECIPIENT AGREEMENTS

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CHAPTER 3

SUBRECIPIENT AGREEMENTS

Sandra Parker couldn't sleep. As the City's third Community Development Director in as many years, she faced the prospect of an unpleasant confrontation the next morning with Reverend Peter Nelson about supporting New Hope's Family Services Center in a building owned by the church. As New Hope's 70 year-old founder and Executive Director, the Reverend had been deeply involved in community work ever since the Model Cities days. He was highly regarded by the community and the press as a champion of the lower-income neighborhoods around Park Square, and every year he would find some new activity to be partially funded by the Community Development Agency. However, the problem was that New Hope was unable to document how it had spent its previous year's funds or demonstrate its capacity to staff and operate the proposed Family Services Project.

Sandra's dilemma centered on securing a new Subrecipient Agreement for the coming year. The old one, which hadn't been changed in four years, was 15 pages of boilerplate from the City's legal department. There were only two vague paragraphs describing New Hope's community service objectives, limited references to applicable Federal regulations, and a very sketchy statement of work and performance schedule for activities funded three years ago. It was clearly not adequate to assure that funding objectives would be met by New Hope, or that CDBG program regulations would be observed.

The Reverend indicated he did not see the need to sign a new Agreement with the City, and wanted only to amend the original one to reflect funding for the new project. But amending the original Agreement was hardly appropriate, especially given the complexity of the Family Services Project. If she couldn't get a new Agreement, Sandra was worried that funds might be wasted, and she would be held accountable for the waste by both the City and the HUD Field Office.

INTRODUCTION

Subrecipient Agreements are a central part of the subrecipient requirements of the CDBG program for Entitlement Communities. Though they govern the funding and activities of subrecipients, they are not referred to nearly enough except when they are signed or modified. However, the written Subrecipient Agreement can be one of your most important tools because it serves three key purposes:

1. Fulfills a legal requirement by presenting a concise statement of the rules of the CDBG program and the conditions under which funds are provided;

2. Provides a yardstick for monitoring subrecipient performance; and

3. Provides an essential vehicle for training your staff and the subrecipient's staff how to operate the CDBG program.

This chapter addresses the principal issues involved in drafting Subrecipient Agreements or modifying old ones. The central theme of the chapter is that the Agreement should not be seen as a weapon, but rather as a management tool useful to both grantees and subrecipients for measuring progress.

MINIMUM HUD REQUIREMENTS

HUD CDBG regulations (24 CFR 570.503) require that grantees have written Agreements in effect for each subrecipient before giving out any CDBG funds. The written Agreement must remain in effect during any period that the subrecipient has control over any CDBG funds, including program income.

Elements of Written Agreements

See the Subrecipient Agreement Checklist and Citations for the Basic Elements of a Subrecipient Agreement in Appendix 3.

The regulations specify that the written Agreement must include **at least** the following provisions:

- **Statement of work:** a description of the work to be performed, a schedule for completion of the work, and a budget, all in sufficient detail for you to monitor performance.

- **Records and reports:** the grantee must specify the records the subrecipient must maintain (including how long it must keep them) and the reports the subrecipient must submit (including dates for submitting them).

- **Program income:** the Agreement must set forth the program income requirements, detailed in 24 CFR 570.504(c), that address whether program income received is to be returned to the grantee or retained by the subrecipient. If the latter, the Agreement must specify the activities that will be undertaken with program income by the subrecipient, that all provisions of the Agreement apply to the activities carried out with program income, that program income must be substantially expended before any transfers of additional grant funds from the grantee to the subrecipient (per 24 CFR 570.504 (b)(2)(i), (ii) and (iii), and 570.504(c)), and that any remaining program income is to be returned to the grantee at the expiration of the Agreement.

- **Suspension and termination:** the Agreement must specify that (according to 24 CFR 85.43) suspension or termination may occur if the subrecipient materially fails to comply with any term of the Agreement. The Agreement may also be terminated for the grantee's convenience, consistent with 24 CFR 85.44.

- **Reversion of assets:** when the Agreement ends, the subrecipient must transfer to the grantee any CDBG funds on hand and accounts receivable attributable to the use of CDBG monies. The Agreement must also specify how the subrecipient will meet the requirements for use or disposition of any real property it

either acquired or improved with CDBG funds in excess of $25,000.

Uniform Administrative Requirements: The Agreement must also state that subrecipients will comply with the following additional requirements and standards:

For **governmental subrecipients,** including public agencies:

- **OMB Circular A-87,** "Cost Principles for State and Local Governments."
- **24 CFR Part 85,** "Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments," as modified by 24 CFR 570.502(a).
- **OMB Circular A-133,** "Audits of State and Local Governments and Non-Profit Organizations."

For **non-governmental subrecipients,** (including non-profit and for-profit CBDOs if so determined by the grantee):

- **OMB Circular A-122,** "Cost Principles for Non-Profit Organizations" or **OMB Circular A-21** "Cost Principles for Educational Institutions," as applicable.
- **24 CFR Part 84,** "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," as modified by 24 CFR 570.502(b).
- **OMB Circular A-133,** "Audits of States, Local Governments and Non-Profit Organizations."

Other Program Requirements: The Agreement must also specify that the subrecipient will carry out its activities in compliance with the requirements of **Subpart K of 24 CFR 570,** except, however, that the subrecipient does not assume the grantee's environmental responsibilities or the responsibility for initiating the environmental review process under 24 CFR Part 52.

The regulations prohibiting inherently religious activities are spelled out in 24 CFR 570.200(j).

Conditions prohibiting inherently religious activities: Where applicable, HUD rules prohibiting the use of CDBG funds for inherently religious activities (24 CFR 570.200(j)) must also be included in the Agreement.

Not just red tape. . .

It is tempting to view the fine print of the written Agreement as a bureaucratic and legalistic effort to protect you and HUD and to undermine the autonomy of the subrecipient. It is not. Rather, the Agreement should represent a concise, explicit statement of all the rules governing the relationship of the grantee and the subrecipient and the conditions under which funds are provided. There's no such thing as a "free lunch," and playing by the rules is one of the conditions for receiving Federal funds.

WRITTEN AGREEMENT AS A MANAGEMENT TOOL

If properly written and executed, the Subrecipient Agreement can be both an indispensable management tool for you and an orientation and educational document for the subrecipient.

The written agreement should be a concise statement of the relationship between grantee and subrecipient and the conditions under which funds are provided.

As a management tool, the written Agreement provides you with a mechanism for verifying regulatory compliance and monitoring program performance. In particular, the "Statement of Work" (or "Scope of Services") section should describe the objectives for each activity and the specific tasks that need to be accomplished to achieve those objectives. For example, if a subrecipient will operate programs to provide child care services to low-income families, the Statement of Work should specify:

- The **purpose and nature** of the different services to be offered and where they will be provided;
- The **tasks** to be performed (outreach, intake or enrollment, day care services, family child care classes);
- The **level of service** that will be provided for each activity (identified in some quantifiable unit of service, for example, children cared for per month, parents to receive instruction, courses to be taught);
- The schedule for performance of the work—in terms of **overall duration** and **cumulative units of service per month** during the contract period (for example, 12–15 children per month or at least 48 children by the end of month 4).

Federal regulations make you responsible for monitoring whether the subrecipient achieves the objectives and does so according to schedule. Therefore, in drafting this section, be sure to write in the ***measurable objectives*** and deadlines that will allow you to determine whether the promised services have been delivered, as well as whether they were delivered on time.

WRITTEN AGREEMENT AS A TRAINING TOOL

For grantee and subrecipient staff who are not familiar with HUD's administrative and fiscal requirements, OMB circulars, and Executive Orders, you can use the Agreement to teach them how to comply with these key administrative provisions.

Revisions to existing Subrecipient Agreements should reflect any corrective actions you want the subrecipient to take.

Whether you are drafting Agreements for new subrecipients or revising and extending old ones for current subrecipients, the occasion provides an opportunity for you to explain to them how CDBG requirements apply to their work. Reviewing the provisions of the document with a subrecipient at the beginning of the program year is especially important if the organization has experienced any operational difficulties in the past. You should incorporate as part of the new or amended Agreement the specific steps the subrecipient must take to solve its earlier problems and specify a schedule for implementing these actions.

Sample Subrecipient Agreements

A sample written Agreement as well as sample Scopes of Service are included in the Appendix to this chapter. You may use these samples ***as a starting point*** for developing ***your*** own Subrecipient Agreement or as a benchmark for evaluating the adequacy of your ***existing*** Agreements. Keep in mind, however, that because state and local laws differ, any "model" Agreement needs to be customized to fit your local requirements.

In addition, no matter how carefully you craft your Agreement, be prepared to revise the document to address loopholes or problem situations with subrecipients that you may not have anticipated. Many times, these changes can be incorporated in the form of amendments during the term of the existing Agreement, or by revising the Agreement before executing a new one.

COMMON PROBLEMS WITH SUBRECIPIENT AGREEMENTS

The two most dangerous deficiencies relative to Subrecipient Agreements (that are violations of the CDBG regulations in and of themselves) are:

1. **Failing to have *any* formal, signed Subrecipient Agreement in place, and**

2. **Using Agreements that fail to cover *all* the regulatory and legal requirements that apply to the CDBG activities being carried out.**

If you use subrecipients to conduct CDBG activities without adequate written Agreements, you are courting disaster.

If one of your subrecipients, for example, spends CDBG funds improperly and your Agreement is silent on the matter, you may have no legal recourse for recovering those funds that HUD has disallowed.

Noted below are four other difficulties commonly associated with Subrecipient Agreements. Although none of the problems represent violations of the regulations *per se*, they do exhibit inadequate management controls and/or business practices.

- **Subrecipient Compensation Is Not Tied to Measurable Performance**

- **Solution: Tie Payment to Performance Measures**

It is critical that your reimbursements to subrecipients reflect timely performance in accomplishing measurable objectives (such as numbers of housing units inspected, buildings rehabilitated, or clients assisted). Otherwise, you run a significant risk of the subrecipient spending all of its CDBG funds before it has achieved its work objectives.

- **Subrecipients Are Not Familiar with Agreement Conditions**

- **Solution: Review Terms and Conditions with the Subrecipient**

It is not uncommon for grantees to hear subrecipient staff excuse their failure to comply with program requirements by saying they did not understand the terms and conditions of the written Agreement. Boards of Directors frequently offer this explanation after an organization has experienced a turnover in its CDBG related staff. However, lack of understanding excuses neither you nor your subrecipients from the consequences of a mistake.

You should review the document, line by line, with the subrecipient's key officials and staff as part of an orientation at the beginning of each program year—particularly with the Board of Directors who, depending on the organization's by-laws, may be the only individuals legally empowered to sign the written Agreement and who have the responsibility to ensure compliance regardless of changes in the organization's staff.

- **Written Amendments Are not Executed when Conditions Change**

- **Solution: Amend Agreements in Writing**

Even if you have an excellent Subrecipient Agreement in place, amendments may occasionally be necessary if there are changes in the scope or schedule of work. Although you and the subrecipient may enjoy an excellent relationship, neglecting to amend the Agreement to reflect the current understanding of subrecipient responsibilities places both of you at risk:

- From your standpoint, the unamended Agreement is no longer an effective tool for monitoring and enforcing performance standards.

- From the subrecipient's perspective, the unamended Agreement may continue to legally bind the organization to obligations that you may have informally agreed are no longer a responsibility of the subrecipient. Clarifying or correcting these misunderstandings after the fact can be both disruptive and costly.

❑ **New Written Subrecipient Agreements Are Not Executed or Updated for Each Program Year**

- **Solution: Update for Current Year**

Over time, there may be changes in the regulations governing a particular activity being undertaken by a subrecipient. With eachnew program year, a subrecipient may also be funded to take on new eligible activities, involving additional regulatory requirements. Moreover, experiences with other subrecipients may have revealed inadequacies in the basic Agreement "boilerplate" being used by your program. All of these possibilities suggest that it is a good practice to update and execute written Agreements with each subrecipient on an annual basis.

SUMMARY

The subrecipient application materials outlined in Chapter 2 and the Subrecipient Agreements discussed here provide you with the primary ***documentation*** that your CDBG program needs in order to monitor subrecipient activities. If these documents are weak, missing, or out of date, you may not be able to administer your program effectively. Adequate written Agreements are required by HUD regulations. They are ***essential management tools*** for measuring your subrecipients' performance and regulatory compliance. They are also useful in teaching or reminding subrecipients about their performance objectives, methods and administrative responsibilities. By consulting the sample Agreement in Appendix 3, and by referring to the relevant regulations, you can avoid the problems outlined above.

The confrontation with Peter Nelson did not turn out to be the nightmare Sandra had expected. She had placed the issue of the new Subrecipient Agreement squarely on the table, and Reverend Nelson had been forced to admit that the old one left out a great many details that could wind up hurting both the City and New Hope. Over a period of two weeks, Sandra's staff had worked with New Hope's Board of Directors and staff to lay out in detail the objectives, scope of work, and schedule for the Family Services Project. In the process, the New Hope Board became fully aware of how inadequate its present record-keeping systems were, and how little it knew about the costs of activities that were currently being funded by CDBG. Sandra was pleased to give them an introduction to the requirements of OMB Circular A-110 as implemented in 24 CFR Part 84.

At the same time, she felt happy that she understood much more clearly what it was that New Hope wanted to achieve, and how the achievement of its goals could be accomplished under the new Agreement.

NOTES:

CHAPTER 3: APPENDIX

- Subrecipient Agreement Checklist 3-12
- Citations for the Basic Elements of a Subrecipient Agreement 3-13
- Other Program Requirements 3-14
- Sample Subrecipient Agreement 3-15
- Sample Scopes of Service
  - Public Services 3-34
  - Housing Rehabilitation 3-37
  - Economic Development 3-43

SUBRECIPIENT AGREEMENT CHECKLIST

The recommended provisions for a written Agreement between grantees and subrecipients (subgrantees) include the following provisions (irrespective of activity):

1. National Objective Compliance/Eligibility
2. Scope of Work
3. Time of Performance
4. Personnel Assigned to Scope of Work
5. Levels of Performance
6. Budget
7. Project Schedule/Milestones
8. Compensation and Method of Payment
9. Program Income
10. Record-Keeping Requirements
11. Reporting Requirements
12. Public Access to Program Records
13. Record Retention
14. Grant Closeout Procedures
15. Uniform Administrative and Program Management Standards
16. Use and Reversion of Assets
17. Real Property
18. Other Program Requirements
19. Suspension and Termination
20. Compliance with Laws/Regulations
21. Antidiscrimination/Affirmative Action and Equal Employment Opportunity
22. Financial Management
23. Audits
24. Religious and Lobbying Activities
25. Budget Modifications
26. Monitoring
27. Conflict of Interest
28. Procurement Standards and Methods
29. Environmental Issues

The format and specific language of each Agreement could vary substantially, depending on the legal requirements of each state.

CITATIONS FOR THE BASIC ELEMENTS OF A SUBRECIPIENT AGREEMENT

Provisions	Federal Regulations*	OMB Circulars for Non Gov't. Subrecipients	OMB Circulars for Gov't. Subrecipients	Other Federal Regulations**
1. National Objective Compliance/Eligibility	570.200(a)(1)+(2), 570.201–570.209, 570.506			
2. Scope of Work	570.503			
3. Time of Performance	570.503			
4. Compensations and Method of Payment	570.502, 570.513	A-122, A-21	A-87	24 CFR Part 85
5. Program Income	570.500(a), 570.503(b)(3), 570.504			
6. Record-Keeping Requirements	570.502, 570.503(b)(2), 570.506			24 CFR Parts 84 and 85
7. Reporting Requirements	570.502, 570.507			24 CFR Parts 84 and 85
8. Public Access to Program Records	570.502, 570.508			24 CFR Parts 84 and 85
9. Grant Closeout Procedures	570.502, 570.509			
10. Uniform Administrative and Program Management Standards	570.502, 570.503(b)(4), 570.610	A-122, A-21, A-133	A-87, A-133	24 CFR Parts 84 and 85
11. Reversion of Assets	570.502, 570.503, 570.505			
12. Real Property	570.502, 570.503(b)(7), 570.505			
13. Other Program Requirements	570.503(b)(5), 570.600–603, 570.605–614			
14. Termination	570.502, 570.503			24 CFR Part 84.43
15. Compliance with Laws/Regulations	570.501	A-122		24 CFR Parts 84 and 85
16. Antidiscrimination/Affirmative Action and EEO	570.601, 570.602, 570.607			
17. Financial Management	570.502, 570.610			24 CFR Parts 84.20 and 85.20 and Treasury Cir. 1075
18. Audits	570.502, 570.610	A-133	A-133	24 CFR Parts 84.26 and 85.26
19. Religious and Political Activities	570.200(j), 570.207			
20. Budget Modifications	570.502, 570.503(b)(1)			
21. Monitoring	570.501(b), 570.502(b)(vii), 570.503(b)(1)			24 CFR Parts 84 and 85
22. Conflict of Interest	570.611			24 CFR Parts 84 and 85
23. Procurement Methods	570.502			24 CFR Parts 84.40–48 and 85.36
24. Budget	570.503			
25. Project Schedule/Milestones	570.503			
26. Environmental Review	570.503(b)(3)(1)			

* Unless otherwise noted, citations are from Title 24 of the Code of Federal Regulations (CFR).

** Part 84 applies to institutions of higher education, hospitals, and other non-profit organizations; Part 85 applies to state, local, and Federally recognized Indian Tribal governments.

OTHER PROGRAM REQUIREMENTS

	Requirements	Federal Regulations	Other References
1.	Federal Labor Standards – Davis-Bacon – Copeland Act (Anti-kickback) – Contract Work Hours and Safety Standards	24 CFR 570.603; 29 CFR Parts 1, 3, and 5	Section 110, Housing and Community Development Act of 1974 (HCDA); 40 U.S.C. 276a–276a-5; 40 U.S.C. 276c; 40 U.S.C. 327 *et seq.*
2.	Equal Employment Opportunity	24 CFR 570.601–602, 24 CFR 570.607, 41 CFR 60	Executive Orders 11246 and 12086, 12 U.S.C. 1701u
3.	List of Debarred or Ineligible Contractors	24 CFR 570.609, 24 CFR 24	
4.	Non-Discrimination	24 CFR Part 8, 24 CFR 570.601, 24 CFR 570.602	Section 504 of Rehab. Act of 1973, Americans with Disabilities Act of 1990, Exec. Order 11063
5.	Fire Safety Codes		Local
6.	Building, Housing, and Zoning Codes; Housing Quality Standards	24 CFR 570.208(b)(1)(iv) and (b)(2)	Local
7.	Lead-Based Paint	24 CFR 570.608, 24 CFR 35	42 U.S.C. 4821 *et seq.*
8.	Lump Sum Drawdowns	24 CFR 570.513	
9.	Environmental/Historic Preservation/National Environmental Policy Act/Flood Insurance Requirements – Siting Near Airports and Coastal Barrier Resources – Fish and Wildlife Protection – Flood Plain – National Historic Preservation – Noise Abatement & Control – Wetlands – Air Quality – Coastal Zones – Endangered Species – Thermal/Explosive Hazards – Flood Insurance	24 CFR 570.503(b)(5)(i), 24 CFR 570.604, 570.202, 24 CFR 58 Ref. At 24 CFR 58.6 See reference at 24.CFR 58.5570.605, 58.6	Sec. 104(g), HCDA 42 U.S.C. 4001 *et seq.*
10.	Relocation, Real Property Acquisition, and One-For-One Housing Replacement – Uniform Relocation Act – Residential anti-displacement and relocation assistance – One-for-One Replacement	24 CFR 570.201(i), 570.606, 49 CFR 24, 24 CFR 570.606(c)(1)	Sect. 104(d) and 105(a)(11) of HCDA, www.hud.gov/relocation
11.	Definition of Computation of Units of Services	24 CFR 570.503(b)(1)	IDIS instructions
12.	Section 108 Loan Guarantees	24 CFR 570.700–570.709	Sec. 108 of HCDA
13.	Applicable Credits		A-87

NOTE: These items supplement the basics of the table on the previous page.

SAMPLE SUBRECIPIENT AGREEMENT

Starting on the following page is a sample subrecipient agreement. Items I – VI generally relate to the specific project or activities being funded. Items VII – XV are "boilerplate" requirements applicable to all activities undertaken with CDBG funds.

Following the sample agreement are sample "scope of services" statements for three different types of activities: public services, housing rehabilitation, and special economic development, job creation activities, which could be inserted in the sample agreement. Note that each of these three samples indicate the number of intended beneficiaries or measurement units for performance. Some of these examples also include additional language regarding budgets, method of payments, and other applicable requirements.

SAMPLE SUBRECIPIENT AGREEMENT*

AGREEMENT BETWEEN [Grantee]
AND
[Non-Governmental Subrecipient]
FOR
[NAME OF CDBG PROGRAM]

THIS AGREEMENT, entered this _____ day of _____, 20____ by and between the _____ (herein called the "Grantee") and _____ (herein called the "Subrecipient").

WHEREAS, the Grantee has applied for and received funds from the United States Government under Title I of the Housing and Community Development Act of 1974, as amended (HCD Act), Public Law 93-383; and

WHEREAS, the Grantee wishes to engage the Subrecipient to assist the Grantee in utilizing such funds;

NOW, THEREFORE, it is agreed between the parties hereto that;

I. SCOPE OF SERVICE

A. Activities

The Subrecipient will be responsible for administering a CDBG Year [__] [Name of Program] in a manner satisfactory to the Grantee and consistent with any standards required as a condition of providing these funds. Such program will include the following activities eligible under the Community Development Block Grant program:

Program Delivery

Activity #1 *[Complete description of activity to be undertaken including what products or services are to be performed, where they are to be provided, for whom they are to be provided, how they are to be provided]*

Activity #2 *[Same description as above]*

Activity #3 *[Same description as above]*

General Administration

[Add description of general administrative services to be performed in support of activities noted above]

B. National Objectives

All activities funded with CDGB funds must meet one of the CDBG program's National Objectives: benefit low- and moderate-income persons; aid in the prevention or elimination of slums or blight; or meet community development needs having a particular urgency, as defined in 24 CFR 570.208.*

*Sample Form Only. Not to be Used as a Legal Contract.

The Subrecipient certifies that the activity (ies) carried out under this Agreement will meet (indicate which National Objective). Briefly describe how this National Objective will be met.

C. Levels of Accomplishment – Goals and Performance Measures

The levels of accomplishment may include such measures as units rehabbed, persons or households assisted, or meals served, and should also include time frames for performance.

The Subrecipient agrees to provide the following levels of program services:

Activity	Units per Month	Total Units/Year
Activity #1	*[# of Units]*	*[# of Units]*
Activity #2	*[# of Units]*	*[# of Units]*
Activity #3	*[# of Units]*	*[# of Units]*

[Add other activities as necessary]

[NOTE: Provide definition of Units of Service here.]

D. Staffing

[Provide list of staff and time commitments to be allocated to each activity specified in I.A. above.]

A Grantee might include the following provision if it felt among the Subrecipient's staff only certain personnel had the requisite experience to implement the activity, or if the Subrecipient had a history of reassigning responsibilities that tended to create problems.

"Any changes in the Key Personnel assigned or their general responsibilities under this project are subject to the prior approval of the Grantee."

E. Performance Monitoring

The Grantee will monitor the performance of the Subrecipient against goals and performance standards as stated above. Substandard performance as determined by the Grantee will constitute noncompliance with this Agreement. If action to correct such substandard performance is not taken by the Subrecipient within a reasonable period of time after being notified by the Grantee, contract suspension or termination procedures will be initiated.

II. TIME OF PERFORMANCE

Services of the Subrecipient shall start on the ____ day of _____, 20__ and end on the _____ day of _____of 20__. The term of this Agreement and the provisions herein shall be extended to cover any additional time period during which the Subrecipient remains in control of CDBG funds or other CDBG assets, including program income.

III. BUDGET

Line Item	Amount:
Salaries	$_____
Fringe	_____
Office Space (Program only)	_____
Utilities	_____
Communications	_____
Reproduction/Printing	_____
Supplies and Materials	_____
Mileage	_____
Audit	_____
Other (Specify)	_____
Indirect Costs (Specify)	_____
TOTAL	$_____

Any indirect costs charged must be consistent with the conditions of Paragraph VIII (C)(2) of this Agreement. In addition, the Grantee may require a more detailed budget breakdown than the one contained herein, and the Subrecipient shall provide such supplementary budget information in a timely fashion in the form and content prescribed by the Grantee. Any amendments to the budget must be approved in writing by both the Grantee and the Subrecipient.

IV. PAYMENT

It is expressly agreed and understood that the total amount to be paid by the Grantee under this Agreement shall not exceed $_____. Drawdowns for the payment of eligible expenses shall be made against the line item budgets specified in Paragraph III herein and in accordance with performance. Expenses for general administration shall also be paid against the line item budgets specified in Paragraph III and in accordance with performance.

Payments may be contingent upon certification of the Subrecipient's financial management system in accordance with the standards specified in 24 CFR 84.21.

V. NOTICES

Notices required by this Agreement shall be in writing and delivered via mail (postage prepaid), commercial courier, or personal delivery or sent by facsimile or other electronic means. Any notice delivered or sent as aforesaid shall be effective on the date of delivery or sending. All notices and other written communications under this Agreement shall be addressed to the individuals in the capacities indicated below, unless otherwise modified by subsequent written notice.

Communication and details concerning this contract shall be directed to the following contract representatives:

Grantee	Subrecipient
_____, Manager	_____, Exec. Director
Grantee _____	Subrecipient _____
[Address] _____	[Address] _____
[City, State, ZIP] _____	[City, State, ZIP] _____
[Telephone] _____	[Telephone] _____
[Fax Number] _____	[Fax Number] _____

VI. SPECIAL CONDITIONS

[This section of the Agreement can be used by Grantee to include special conditions specific to the particular activity or individual Subrecipient.]

VII. GENERAL CONDITIONS

A. General Compliance

The Subrecipient agrees to comply with the requirements of Title 24 of the Code of Federal Regulations, Part 570 (the U.S. Housing and Urban Development regulations concerning Community Development Block Grants (CDBG)) including subpart K of these regulations, except that (1) the Subrecipient does not assume the recipient's environmental responsibilities described in 24 CFR 570.604 and (2) the Subrecipient does not assume the recipient's responsibility for initiating the review process under the provisions of 24 CFR Part 52. The Subrecipient also agrees to comply with all other applicable Federal, state and local laws, regulations, and policies governing the funds provided under this contract. The Subrecipient further agrees to utilize funds available under this Agreement to supplement rather than supplant funds otherwise available.

B. "Independent Contractor"

Nothing contained in this Agreement is intended to, or shall be construed in any manner, as creating or establishing the relationship of employer/employee between the parties. The Subrecipient shall at all times remain an "independent contractor" with respect to the services to be performed under this Agreement. The Grantee shall be exempt from payment of all Unemployment Compensation, FICA, retirement, life and/or medical insurance and Workers' Compensation Insurance, as the Subrecipient is an independent contractor.

C. Hold Harmless

The Subrecipient shall hold harmless, defend and indemnify the Grantee from any and all claims, actions, suits, charges and judgments whatsoever that arise out of the Subrecipient's performance or nonperformance of the services or subject matter called for in this Agreement.

D. Workers' Compensation

The Subrecipient shall provide Workers' Compensation Insurance coverage for all of its employees involved in the performance of this Agreement.

E. Insurance & Bonding

The Subrecipient shall carry sufficient insurance coverage to protect contract assets from loss due to theft, fraud and/or undue physical damage, and as a minimum shall purchase a blanket fidelity bond covering all employees in an amount equal to cash advances from the Grantee.

The Subrecipient shall comply with the bonding and insurance requirements of 24 CFR 84.31 and 84.48, Bonding and Insurance.

F. Grantee Recognition

The Subrecipient shall insure recognition of the role of the Grantee in providing services through this Agreement. All activities, facilities and items utilized pursuant to this Agreement shall be prominently labeled as to funding source. In addition, the Subrecipient will include a reference to the support provided herein in all publications made possible with funds made available under this Agreement.

G. Amendments

The Grantee or Subrecipient may amend this Agreement at any time provided that such amendments make specific reference to this Agreement, and are executed in writing, signed by a duly authorized representative of each organization, and approved by the Grantee's governing body. Such amendments shall not invalidate this Agreement, nor relieve or release the Grantee or Subrecipient from its obligations under this Agreement.

The Grantee may, in its discretion, amend this Agreement to conform with Federal, state or local governmental guidelines, policies and available funding amounts, or for other reasons. If such amendments result in a change in the funding, the scope of services, or schedule of the activities to be undertaken as part of this Agreement, such modifications will be incorporated only by written amendment signed by both Grantee and Subrecipient.

H. Suspension or Termination

In accordance with 24 CFR 85.43, the Grantee may suspend or terminate this Agreement if the Subrecipient materially fails to comply with any terms of this Agreement, which include (but are not limited to) the following:

1. Failure to comply with any of the rules, regulations or provisions referred to herein, or such statutes, regulations, executive orders, and HUD guidelines, policies or directives as may become applicable at any time;

2. Failure, for any reason, of the Subrecipient to fulfill in a timely and proper manner its obligations under this Agreement;

3. Ineffective or improper use of funds provided under this Agreement; or

4. Submission by the Subrecipient to the Grantee reports that are incorrect or incomplete in any material respect.

In accordance with 24 CFR 85.44, this Agreement may also be terminated for convenience by either the Grantee or the Subrecipient, in whole or in part, by setting forth the reasons for such termination, the effective date, and, in the case of partial termination, the portion to be terminated. However, if in the case of a partial termination, the Grantee determines that the remaining portion of the award will not accomplish the purpose for which the award was made, the Grantee may terminate the award in its entirety.

VIII. ADMINISTRATIVE REQUIREMENTS

A. Financial Management

1. Accounting Standards

The Subrecipient agrees to comply with 24 CFR 84.21–28 and agrees to adhere to the accounting principles and procedures required therein, utilize adequate internal controls, and maintain necessary source documentation for all costs incurred.

2. Cost Principles

The Subrecipient shall administer its program in conformance with OMB Circulars A-122, "Cost Principles for Non-Profit Organizations," or A-21, "Cost Principles for Educational Institutions," as applicable. These principles shall be applied for all costs incurred whether charged on a direct or indirect basis.

B. Documentation and Record Keeping

1. Records to be Maintained

The Subrecipient shall maintain all records required by the Federal regulations specified in 24 CFR 570.506, that are pertinent to the activities to be funded under this Agreement. Such records shall include but not be limited to:

a. Records providing a full description of each activity undertaken;
b. Records demonstrating that each activity undertaken meets one of the National Objectives of the CDBG program;
c. Records required to determine the eligibility of activities;

d. Records required to document the acquisition, improvement, use or disposition of real property acquired or improved with CDBG assistance;
e. Records documenting compliance with the fair housing and equal opportunity components of the CDBG program;
f. Financial records as required by 24 CFR 570.502, and 24 CFR 84.21–28; and
g. Other records necessary to document compliance with Subpart K of 24 CFR Part 570.

2. Retention

The Subrecipient shall retain all financial records, supporting documents, statistical records, and all other records pertinent to the Agreement for a period of four (4) years. The retention period begins on the date of the submission of the Grantee's annual performance and evaluation report to HUD in which the activities assisted under the Agreement are reported on for the final time. Notwithstanding the above, if there is litigation, claims, audits, negotiations or other actions that involve any of the records cited and that have started before the expiration of the four-year period, then such records must be retained until completion of the actions and resolution of all issues, or the expiration of the four-year period, whichever occurs later.

3. Client Data

The Subrecipient shall maintain client data demonstrating client eligibility for services provided. Such data shall include, but not be limited to, client name, address, income level or other basis for determining eligibility, and description of service provided. Such information shall be made available to Grantee monitors or their designees for review upon request.

4. Disclosure

The Subrecipient understands that client information collected under this contract is private and the use or disclosure of such information, when not directly connected with the administration of the Grantee's or Subrecipient's responsibilities with respect to services provided under this contract, is prohibited by the [insert applicable State of Federal law] unless written consent is obtained from such person receiving service and, in the case of a minor, that of a responsible parent/guardian.

5. Close-outs

The Subrecipient's obligation to the Grantee shall not end until all close-out requirements are completed. Activities during this close-out period shall include, but are not limited to: making final payments, disposing of program assets (including the return of all unused materials, equipment, unspent cash advances, program income balances, and accounts receivable to the Grantee), and determining the custodianship of records. Not withstanding the foregoing, the terms of this Agreement shall remain in effect during any period that the Subrecipient has control over CDBG funds, including program income.

6. Audits & Inspections

All Subrecipient records with respect to any matters covered by this Agreement shall be made available to the Grantee, grantor agency, and the Comptroller General of the United States or any of their authorized representatives, at any time during normal business hours, as often as deemed necessary, to audit, examine, and make excerpts or transcripts of all relevant data. Any deficiencies noted in audit reports must be fully cleared by the Subrecipient within 30 days after receipt by the Subrecipient. Failure of the Subrecipient to comply with the above audit requirements will constitute a violation of this contract and may result in the withholding of future payments. The Subrecipient hereby agrees to have an annual agency audit conducted in accordance with current Grantee policy concerning subrecipient audits and OMB Circular A-133.

C. Reporting and Payment Procedures

1. Program Income

The Subrecipient shall report [insert frequency of reports, e.g., "monthly"] all program income (as defined at 24 CFR 570.500(a)) generated by activities carried out with CDBG funds made available under this contract. The use of program income by the Subrecipient shall comply with the requirements set forth at 24 CFR 570.504. By way of further limitations, the Subrecipient may use such income during the contract period for activities permitted under this contract and shall reduce requests for additional funds by the amount of any such program income balances on hand. All unexpended program income shall be returned to the Grantee at the end of the contract period. Any interest earned on cash advances from the U.S. Treasury and from funds held in a revolving fund account is not program income and shall be remitted promptly to the Grantee.

2. Indirect Costs

If indirect costs are charged, the Subrecipient will develop an indirect cost allocation plan for determining the appropriate Subrecipient's share of administrative costs and shall submit such plan to the Grantee for approval, in a form specified by the Grantee.

3. Payment Procedures

The Grantee will pay to the Subrecipient funds available under this Agreement based upon information submitted by the Subrecipient and consistent with any approved budget and Grantee policy concerning payments. With the exception of certain advances, payments will be made for eligible expenses actually incurred by the Subrecipient, and not to exceed actual cash requirements. Payments will be adjusted by the Grantee in accordance with advance fund and program income balances available in Subrecipient accounts. In addition, the Grantee reserves the right to liquidate funds available under this contract for costs incurred by the Grantee on behalf of the Subrecipient.

4. Progress Reports

The Subrecipient shall submit regular Progress Reports to the Grantee in the form, content, and frequency as required by the Grantee.

D. Procurement

1. Compliance

The Subrecipient shall comply with current Grantee policy concerning the purchase of equipment and shall maintain inventory records of all non-expendable personal property as defined by such policy as may be procured with funds provided herein. All program assets (unexpended program income, property, equipment, etc.) shall revert to the Grantee upon termination of this Agreement.

2. OMB Standards

Unless specified otherwise within this agreement, the Subrecipient shall procure all materials, property, or services in accordance with the requirements of 24 CFR 84.40–48.

3. Travel

The Subrecipient shall obtain written approval from the Grantee for any travel outside the metropolitan area with funds provided under this Agreement.

E. Use and Reversion of Assets

The use and disposition of real property and equipment under this Agreement shall be in compliance with the requirements of 24 CFR Part 84 and 24 CFR 570.502, 570.503, and 570.504, as applicable, which include but are not limited to the following:

1. The Subrecipient shall transfer to the Grantee any CDBG funds on hand and any accounts receivable attributable to the use of funds under this Agreement at the time of expiration, cancellation, or termination.

2. Real property under the Subrecipient's control that was acquired or improved, in whole or in part, with funds under this Agreement in excess of $25,000 shall be used to meet one of the CDBG National Objectives pursuant to 24 CFR 570.208 until five (5) years after expiration of this Agreement [or such longer period of time as the Grantee deems appropriate]. If the Subrecipient fails to use CDBG-assisted real property in a manner that meets a CDBG National Objective for the prescribed period of time, the Subrecipient shall pay the Grantee an amount equal to the current fair market value of the property less any portion of the value attributable to expenditures of non-CDBG funds for acquisition of, or improvement to, the property. Such payment shall constitute program income to the Grantee. The Subrecipient may retain real property acquired or improved under this Agreement after the expiration of the five-year period [or such longer period of time as the Grantee deems appropriate].

3. In all cases in which equipment acquired, in whole or in part, with funds under this Agreement is sold, the proceeds shall be program income (prorated to reflect the extent to that funds received under this Agreement were used to acquire the equipment). Equipment not needed by the Subrecipient for activities under this Agreement shall be (a) transferred to the Grantee for the CDBG program or (b) retained after compensating the Grantee [an amount equal to the current fair market

value of the equipment less the percentage of non-CDBG funds used to acquire the equipment].

IX. RELOCATION, REAL PROPERTY ACQUISITION AND ONE-FOR-ONE HOUSING REPLACEMENT

The Subrecipient agrees to comply with (a) the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA), and implementing regulations at 49 CFR Part 24 and 24 CFR 570.606(b); (b) the requirements of 24 CFR 570.606(c) governing the Residential Anti-displacement and Relocation Assistance Plan under section 104(d) of the HCD Act; and (c) the requirements in 24 CFR 570.606(d) governing optional relocation policies. [The Grantee may preempt the optional policies.] The Subrecipient shall provide relocation assistance to displaced persons as defined by 24 CFR 570.606(b)(2) that are displaced as a direct result of acquisition, rehabilitation, demolition or conversion for a CDBG-assisted project. The Subrecipient also agrees to comply with applicable Grantee ordinances, resolutions and policies concerning the displacement of persons from their residences.

X. PERSONNEL & PARTICIPANT CONDITIONS

A. Civil Rights

1. Compliance

The Subrecipient agrees to comply with [fill in local and state civil rights ordinances here] and with Title VI of the Civil Rights Act of 1964 as amended, Title VIII of the Civil Rights Act of 1968 as amended, Section 104(b) and Section 109 of Title I of the Housing and Community Development Act of 1974 as amended, Section 504 of the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Age Discrimination Act of 1975, Executive Order 11063, and Executive Order 11246 as amended by Executive Orders 11375, 11478, 12107 and 12086.

2. Nondiscrimination

The Subrecipient agrees to comply with the non-discrimination in employment and contracting opportunities laws, regulations, and executive orders referenced in 24 CFR 570.607, as revised by Executive Order 13279. The applicable non-discrimination provisions in Section 109 of the HCDA are still applicable.

3. Land Covenants

This contract is subject to the requirements of Title VI of the Civil Rights Act of 1964 (P. L. 88-352) and 24 CFR 570.601 and 570.602. In regard to the sale, lease, or other transfer of land acquired, cleared or improved with assistance provided under this contract, the Subrecipient shall cause or require a covenant running with the land to be inserted in the deed or lease for such transfer, prohibiting discrimination as herein defined, in the sale, lease or rental, or in the use or occupancy of such land, or in any improvements erected or to be erected thereon, providing that the Grantee and the United States are beneficiaries of and entitled to enforce such covenants. The Subrecipient, in undertaking its obligation to carry out the program assisted hereunder, agrees to take such measures as are necessary to enforce such covenant, and will not itself so discriminate.

4. Section 504

The Subrecipient agrees to comply with all Federal regulations issued pursuant to compliance with Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794), which prohibits discrimination against the individuals with disabilities or handicaps in any Federally assisted program. The Grantee shall provide the Subrecipient with any guidelines necessary for compliance with that portion of the regulations in force during the term of this Agreement.

B. Affirmative Action

1. Approved Plan

The Subrecipient agrees that it shall be committed to carry out pursuant to the Grantee's specifications an Affirmative Action Program in keeping with the principles as provided in President's Executive Order 11246 of September 24, 1966. The Grantee shall provide Affirmative Action guidelines to the Subrecipient to assist in the formulation of such program. The Subrecipient shall submit a plan for an Affirmative Action Program for approval prior to the award of funds.

2. Women- and Minority-Owned Businesses (W/MBE)

The Subrecipient will use its best efforts to afford small businesses, minority business enterprises, and women's business enterprises the maximum practicable opportunity to participate in the performance of this contract. As used in this contract, the terms "small business" means a business that meets the criteria set forth in section 3(a) of the Small Business Act, as amended (15 U.S.C. 632), and "minority and women's business enterprise" means a business at least fifty-one (51) percent owned and controlled by minority group members or women. For the purpose of this definition, "minority group members" are Afro-Americans, Spanish-speaking, Spanish surnamed or Spanish-heritage Americans, Asian-Americans, and American Indians. The Subrecipient may rely on written representations by businesses regarding their status as minority and female business enterprises in lieu of an independent investigation.

3. Access to Records

The Subrecipient shall furnish and cause each of its own subrecipients or subcontractors to furnish all information and reports required hereunder and will permit access to its books, records and accounts by the Grantee, HUD or its agent, or other authorized Federal officials for purposes of investigation to ascertain compliance with the rules, regulations and provisions stated herein.

4. Notifications

The Subrecipient will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or worker's representative of the Subrecipient's commitments hereunder, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

5. Equal Employment Opportunity and Affirmative Action (EEO/AA) Statement

The Subrecipient will, in all solicitations or advertisements for employees placed by or on behalf of the Subrecipient, state that it is an Equal Opportunity or Affirmative Action employer.

6. Subcontract Provisions

The Subrecipient will include the provisions of Paragraphs X.A, Civil Rights, and B, Affirmative Action, in every subcontract or purchase order, specifically or by reference, so that such provisions will be binding upon each of its own subrecipients or subcontractors.

C. Employment Restrictions

1. Prohibited Activity

The Subrecipient is prohibited from using funds provided herein or personnel employed in the administration of the program for: political activities; inherently religious activities; lobbying; political patronage; and nepotism activities.

2. Labor Standards

The Subrecipient agrees to comply with the requirements of the Secretary of Labor in accordance with the Davis-Bacon Act as amended, the provisions of Contract Work Hours and Safety Standards Act (40 U.S.C. 327 *et seq.*) and all other applicable Federal, state and local laws and regulations pertaining to labor standards insofar as those acts apply to the performance of this Agreement. The Subrecipient agrees to comply with the Copeland Anti-Kick Back Act (18 U.S.C. 874 *et seq.*) and its implementing regulations of the U.S. Department of Labor at 29 CFR Part 5. The Subrecipient shall maintain documentation that demonstrates compliance with hour and wage requirements of this part. Such documentation shall be made available to the Grantee for review upon request.

The Subrecipient agrees that, except with respect to the rehabilitation or construction of residential property containing less than eight (8) units, all contractors engaged under contracts in excess of $2,000.00 for construction, renovation or repair work financed in whole or in part with assistance provided under this contract, shall comply with Federal requirements adopted by the Grantee pertaining to such contracts and with the applicable requirements of the regulations of the Department of Labor, under 29 CFR Parts 1, 3, 5 and 7 governing the payment of wages and ratio of apprentices and trainees to journey workers; provided that, if wage rates higher than those required under the regulations are imposed by state or local law, nothing hereunder is intended to relieve the Subrecipient of its obligation, if any, to require payment of the higher wage. The Subrecipient shall cause or require to be inserted in full, in all such contracts subject to such regulations, provisions meeting the requirements of this paragraph.

3. "Section 3" Clause

a. Compliance

Compliance with the provisions of Section 3 of the HUD Act of 1968, as amended, and as implemented by the regulations set forth in 24 CFR 135, and all applicable rules and orders issued hereunder prior to the execution of this contract, shall be a condition of the Federal financial assistance provided under this contract and binding upon the Grantee, the Subrecipient and any of the Subrecipient's subrecipients and subcontractors. Failure to fulfill these requirements shall subject the Grantee, the Subrecipient and any of the Subrecipient's subrecipients and subcontractors, their successors and assigns, to those sanctions specified by the Agreement through which Federal assistance is provided. The Subrecipient certifies and agrees that no contractual or other disability exists that would prevent compliance with these requirements.

The Subrecipient further agrees to comply with these "Section 3" requirements and to include the following language in all subcontracts executed under this Agreement:

> "The work to be performed under this Agreement is a project assisted under a program providing direct Federal financial assistance from HUD and is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended (12 U.S.C. 1701). Section 3 requires that to the greatest extent feasible opportunities for training and employment be given to low- and very low-income residents of the project area, and that contracts for work in connection with the project be awarded to business concerns that provide economic opportunities for low- and very low-income persons residing in the metropolitan area in which the project is located."

The Subrecipient further agrees to ensure that opportunities for training and employment arising in connection with a housing rehabilitation (including reduction and abatement of lead-based paint hazards), housing construction, or other public construction project are given to low- and very low-income persons residing within the metropolitan area in which the CDBG-funded project is located; where feasible, priority should be given to low- and very low-income persons within the service area of the project or the neighborhood in which the project is located, and to low- and very low-income participants in other HUD programs; and award contracts for work undertaken in connection with a housing rehabilitation (including reduction and abatement of lead-based paint hazards), housing construction, or other public construction project to business concerns that provide economic opportunities for low- and very low-income persons residing within the metropolitan area in which the CDBG-funded project is located; where feasible, priority should be given to business concerns that provide economic opportunities to low- and very low-income residents within the service area or the neighborhood in which the project is located, and to low- and very low-income participants in other HUD programs.

The Subrecipient certifies and agrees that no contractual or other legal incapacity exists that would prevent compliance with these requirements.

b. Notifications

The Subrecipient agrees to send to each labor organization or representative of workers with which it has a collective bargaining agreement or other contract or understanding, if any, a notice advising said labor organization or worker's representative of its commitments under this Section 3 clause and shall post copies of the notice in conspicuous places available to employees and applicants for employment or training.

c. Subcontracts

The Subrecipient will include this Section 3 clause in every subcontract and will take appropriate action pursuant to the subcontract upon a finding that the subcontractor is in violation of regulations issued by the grantor agency. The Subrecipient will not subcontract with any entity where it has notice or knowledge that the latter has been found in violation of regulations under 24 CFR Part 135 and will not let any subcontract unless the entity has first provided it with a preliminary statement of ability to comply with the requirements of these regulations.

D. Conduct

1. Assignability

The Subrecipient shall not assign or transfer any interest in this Agreement without the prior written consent of the Grantee thereto; provided, however, that claims for money due or to become due to the Subrecipient from the Grantee under this contract may be assigned to a bank, trust company, or other financial institution without such approval. Notice of any such assignment or transfer shall be furnished promptly to the Grantee.

2. Subcontracts

a. Approvals

The Subrecipient shall not enter into any subcontracts with any agency or individual in the performance of this contract without the written consent of the Grantee prior to the execution of such agreement.

b. Monitoring

The Subrecipient will monitor all subcontracted services on a regular basis to assure contract compliance. Results of monitoring efforts shall be summarized in written reports and supported with documented evidence of follow-up actions taken to correct areas of noncompliance.

c. Content

The Subrecipient shall cause all of the provisions of this contract in its entirety to be included in and made a part of any subcontract executed in the performance of this Agreement.

d. Selection Process

The Subrecipient shall undertake to insure that all subcontracts let in the performance of this Agreement shall be awarded on a fair and open competition basis in accordance with applicable procurement requirements. Executed copies of all subcontracts shall be forwarded to the Grantee along with documentation concerning the selection process.

3. Hatch Act

The Subrecipient agrees that no funds provided, nor personnel employed under this Agreement, shall be in any way or to any extent engaged in the conduct of political activities in violation of Chapter 15 of Title V of the U.S.C.

4. Conflict of Interest

The Subrecipient agrees to abide by the provisions of 24 CFR 84.42 and 570.611, which include (but are not limited to) the following:

a. The Subrecipient shall maintain a written code or standards of conduct that shall govern the performance of its officers, employees or agents engaged in the award and administration of contracts supported by Federal funds.

b. No employee, officer or agent of the Subrecipient shall participate in the selection, or in the award, or administration of, a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved.

c. No covered persons who exercise or have exercised any functions or responsibilities with respect to CDBG-assisted activities, or who are in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a financial interest in any contract, or have a financial interest in any contract, subcontract, or agreement with respect to the CDBG-assisted activity, or with respect to the proceeds from the CDBG-assisted activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for a period of one (1) year thereafter. For purposes of this paragraph, a "covered person" includes any person who is an employee, agent, consultant, officer, or elected or appointed official of the Grantee, the Subrecipient, or any designated public agency.

5. Lobbying

The Subrecipient hereby certifies that:

a. No Federal appropriated funds have been paid or will be paid, by or on behalf of it, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in

connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement;

b. If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, it will complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions; and

c. It will require that the language of paragraph (d) of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all Subrecipients shall certify and disclose accordingly:

d. Lobbying Certification

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S.C. Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

6. Copyright

If this contract results in any copyrightable material or inventions, the Grantee and/or grantor agency reserves the right to royalty-free, non-exclusive and irrevocable license to reproduce, publish or otherwise use and to authorize others to use, the work or materials for governmental purposes.

7. Religious Activities

The Subrecipient agrees that funds provided under this Agreement will not be utilized for inherently religious activities prohibited by 24 CFR 570.200(j), such as worship, religious instruction, or proselytization.

XI. ENVIRONMENTAL CONDITIONS

A. Air and Water

The Subrecipient agrees to comply with the following requirements insofar as they apply to the performance of this Agreement:

- Clean Air Act, 42 U.S.C. , 7401, *et seq.*;

- Federal Water Pollution Control Act, as amended, 33 U.S.C., 1251, *et seq.*, as amended, 1318 relating to inspection, monitoring, entry, reports, and information, as well as other requirements specified in said Section 114 and Section 308, and all regulations and guidelines issued thereunder;
- Environmental Protection Agency (EPA) regulations pursuant to 40 CFR Part 50, as amended.

B. Flood Disaster Protection

In accordance with the requirements of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4001), the Subrecipient shall assure that for activities located in an area identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards, flood insurance under the National Flood Insurance Program is obtained and maintained as a condition of financial assistance for acquisition or construction purposes (including rehabilitation).

C. Lead-Based Paint

The Subrecipient agrees that any construction or rehabilitation of residential structures with assistance provided under this Agreement shall be subject to HUD Lead-Based Paint Regulations at 24 CFR 570.608, and 24 CFR Part 35, Subpart B. Such regulations pertain to all CDBG-assisted housing and require that all owners, prospective owners, and tenants of properties constructed prior to 1978 be properly notified that such properties may include lead-based paint. Such notification shall point out the hazards of lead-based paint and explain the symptoms, treatment and precautions that should be taken when dealing with lead-based paint poisoning and the advisability and availability of blood lead level screening for children under seven. The notice should also point out that if lead-based paint is found on the property, abatement measures may be undertaken. The regulations further require that, depending on the amount of Federal funds applied to a property, paint testing, risk assessment, treatment and/or abatement may be conducted.

D. Historic Preservation

The Subrecipient agrees to comply with the Historic Preservation requirements set forth in the National Historic Preservation Act of 1966, as amended (16 U.S.C. 470) and the procedures set forth in 36 CFR Part 800, Advisory Council on Historic Preservation Procedures for Protection of Historic Properties, insofar as they apply to the performance of this agreement.

In general, this requires concurrence from the State Historic Preservation Officer for all rehabilitation and demolition of historic properties that are fifty years old or older or that are included on a Federal, state, or local historic property list.

XII. SEVERABILITY

If any provision of this Agreement is held invalid, the remainder of the Agreement shall not be affected thereby and all other parts of this Agreement shall nevertheless be in full force and effect.

XIII. SECTION HEADINGS AND SUBHEADINGS

The section headings and subheadings contained in this Agreement are included for convenience only and shall not limit or otherwise affect the terms of this Agreement.

XIV. WAIVER

The Grantee's failure to act with respect to a breach by the Subrecipient does not waive its right to act with respect to subsequent or similar breaches. The failure of the Grantee to exercise or enforce any right or provision shall not constitute a waiver of such right or provision.

XV. ENTIRE AGREEMENT

This agreement constitutes the entire agreement between the Grantee and the Subrecipient for the use of funds received under this Agreement and it supersedes all prior or contemporaneous communications and proposals, whether electronic, oral, or written between the Grantee and the Subrecipient with respect to this Agreement.

[NOTE: For the above sections, if the Subrecipient is a governmental or quasi-governmental agency, the applicable sections of 24 CFR Part 85, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," and OMB Circular A-87 would apply.]

Date _____

IN WITNESS WHEREOF, the Parties have executed this contract as of the date first written above.

[Grantee] [Subrecipient]

By_____ By_____
Chief Elected Official or Executive Officer
Title _____

Attest_____
ASSISTANT [CITY/COUNTY] CLERK

Countersigned:_____ By_____
FINANCE OFFICER
Title _____

APPROVED AS TO FORM AND LEGAL SUFFICIENCY:

Fed. I. D. #_____

_____
ASSISTANT [CITY/COUNTY] ATTORNEY

AFFIRMATIVE ACTION APPROVAL

_____
CONTRACT COMPLIANCE SUPERVISOR

Example #1: Sample Scope of Services for PUBLIC SERVICE ACTIVITIES

This is an example of a Scope of Services for a non-profit subrecipient that is providing center-based day care services [under 24 CFR 570.201(e)] for children aged 14 months to 5 years. The public service is structured as a limited clientele activity that will principally benefit low- and moderate-income persons.

Please keep in mind that the following example is only one of the ways of structuring a Scope of Services and Method of Compensation for a public services provider being assisted through the CDBG program. In this example, the CDBG assistance comes in the form of a subsidy paid to the provider on behalf of the children from low- and moderate-income families enrolled in day care. However, the option is also available to assist the day care center provider's overall operations with CDBG funds, which could also meet the National Objective of principal benefit to low- and moderate-income persons as long as a majority of the children served by the center are from low- and moderate-income families.

SCOPE OF SERVICES

A. Principal Tasks

The Subrecipient will be responsible for providing day care and related services to eligible children over the period of_____to_____. With funding from the Year_____CDBG program of the [name of Grantee], the Subrecipient will make available the equivalent of 10 full-time day care slots during this period. The day care services will be provided at the Subrecipient's main day care center at [address of facility). The Subrecipient will administer all tasks in the provision of the aforementioned public services in compliance with all applicable Federal, state, and local rules and regulations governing these funds, and in a manner satisfactory to the Grantee.

Changes in the scope of services, budget, or method of compensation contained in this Agreement, unless otherwise noted, may only be made through a written amendment to this Agreement, executed by the Subrecipient and Grantee.

The major tasks that the Subrecipient will perform in connection with the provision of the eligible day care services include, but are not limited to, the following:

1) Maintain facilities at all times in conformance with all applicable codes, licensing, and other requirements for the operation of a day care center. This will include all requirements for lead-based paint testing and abatement, as necessary. The facilities must also be handicapped accessible, and organized into separate areas appropriate for each of the age groupings being served (toddler,14 months to 2. 5 years; pre-school, 2. 5 to 4 years; and pre-kindergarten, 4 to 5 years).

2) Conduct outreach through flyers, public service announcements, networking with local agencies, scheduling of open houses and other means to inform the low- and moderate-income community of the availability of the fully-subsidized day care slots available, and to ensure sufficient demand to maintain enrollment. All descriptions of the program will emphasize that the center is handicapped-accessible. [Depending on the demographics of the community, a Grantee may want to specify that outreach materials also be produced in Spanish, French, Cambodian, etc.)

3) Accept applications and perform eligibility determinations. Only children aged 14 months to 5 years from families in [name of town/city/county] with incomes that do not exceed the low- and moderate-income limits of the CDBG program, by family size, will be eligible for enrollment in the subsidized day care slots.

4) Offer day care services from 8:00 a. m. to 6:00 p. m. Monday through Friday to approved eligible families. Families should be provided the option of enrolling their children in either part-time or full-time day care slots, provided that children from eligible low- to moderate-income families occupy 10 of the 40 "full-time equivalent" slots available at the day care center. [If services are not expected to be provided on some or all holidays, they should be specified in the scope.]

5) Ensure that the numbers, background and qualifications of the Subrecipient's staff providing the on-site day care and any related services at all times are appropriate for the enrolled child population at the center and meet at least the minimum standards established by the pertinent licensing bodies.

6) Provide two nutritionally balanced snacks and a warm lunch every day for children participating full time.

7) Provide transportation services for children requiring transport to and from their home.

8) As part of the day care services, provide a range of structured social, educational, and cultural enrichment activities appropriate to the age groups being served.

9) Maintain program and financial records documenting the eligibility, attendance, provision of services, and Subrecipient expenses relative to the children receiving day care services as a result of assistance provided through the CDBG program.

B. Budget and Method of Compensation

With the submission of original monthly bills together with proper support documentation, for the services described in Section A. of this Agreement, the Subrecipient will be reimbursed on a monthly basis according to the following schedule:

For day care services: A *pro rata* share of the Subrecipient's allowable monthly expenses for the provision of day care services as supported by a cost allocation plan prepared in accordance with OMB Circular A-122 and the Department of Health and Human Services Publication OASMB-5. FTE day-care slots may be used as the allocation basis for the plan if it can be shown that this basis provides for an equitable distribution of the indirect costs. Aggregate monthly billings are limited to $7,500.00.

For transportation services: The actual direct costs and any allocable indirect costs incurred by the Subrecipient for the provision of day care-related transportation for authorized, enrolled children from low- and moderate-income families during the month in question, up to an aggregate limit of $500.00 per month.

It is also important to note two special requirements for support of public services under the CDBG program. First, to be initially eligible for CDBG funding, the public service must be either a new service or a quantifiable increase in the level of service provided or assisted by the local government with state or local

funds during the prior year. This requirement does not prevent refunding the CDBG-assisted public service at the same level in a subsequent year, however.

Second, under most circumstances the amount of CDBG funds obligated within a program year to support public service activities must not exceed 15 percent of the total grant awarded to the grantee for that year, together with 15 percent of the program income received by the grantee and its subrecipients for the preceding year. The grantee may want to include explicit language in the Subrecipient Agreement acknowledging these conditions for the eligibility of the public services expenses.

The grantee may also want to place special emphasis on the antidiscrimination language in the Subrecipient Agreement in order to ensure that individuals with disabilities or other special populations receive equitable access to the CDBG-assisted services.

Example #2: Sample Scope of Services/Schedule of Payment for
HOUSING REHABILITATION ACTIVITIES

In this example, the housing rehabilitation effort is aimed primarily at owner-occupied properties. The Subrecipient administers the activity, but the actual rehabilitation work is conducted by private contractors. (Other likely scenarios include a local rehabilitation program where the Subrecipient's own staff perform some or all of the rehabilitation, and/or where the Subrecipient itself owns the property; in such cases, the specifics of the Scope of Services would need to be changed accordingly.)

The illustrative Scope of Services and Schedule of Payment that follow could be used along with the overall "boilerplate" agreement language found earlier in this Appendix to create a complete Subrecipient Agreement for housing rehabilitation activities.

In reviewing the following, however, keep in mind that this is only one of the many acceptable ways a Scope of Services could be structured for such work, and the particular language and level of detail contained in this example are not mandatory. Essentially, a grantee should develop a Scope of Services that is sufficient to provide clarity about all the activities that the subrecipient is expected to carry out, with explicit review and approval mechanisms that are adequate to permit the grantee to exercise its oversight responsibilities.

SCOPE OF SERVICES

A. Principal Tasks

The Subrecipient will be responsible for administering a CDBG Year____ housing rehabilitation program, also referred to as (specific name of program), for the city/county of (name of Grantee), hereinafter referred to as "the Grantee." The Subrecipient will administer all tasks in connection with the aforesaid program in compliance with all applicable Federal, state, and local rules and regulations governing these funds, and in a manner satisfactory to the Grantee.

The major goal of the Subrecipient's efforts under this Agreement will be the completion of rehabilitation of thirty-five (35) eligible housing units, per the Subrecipient's proposal of [date], as amended and approved by the Grantee on [date]. Changes to the program goals, scope of services, schedule or budget, unless otherwise noted, may only be made through a written amendment to this Agreement, executed by the Subrecipient and Grantee. Toward the goal of the completion of rehabilitation for 35 eligible units, the major tasks that the Subrecipient will perform include, but are not necessarily limited to, the following:

1) Refinement of housing rehabilitation program plans, procedures and forms: subject to review and approval by the Grantee, the Subrecipient will establish, or make any necessary revisions to, the housing rehabilitation program design and procedures (including but not limited to the priorities among applicants and among rehabilitation measures, the limits and structure of financial assistance, and the recapture and affordability policies), as well as any other necessary forms, documents or sample contracts.

2) Outreach: the Subrecipient will conduct sufficient advertisement of the housing rehabilitation program and other forms of outreach to ensure that enough eligible applicants from the designated target neighborhood(s) of [names of neighborhoods] participate in the program to meet the CDBG Year____ housing rehabilitation goal of 35 completed units.

3) Intake/assessment of eligibility: the Subrecipient will assist property owners and residents in the designated neighborhoods in the completion of applications to permit eligibility determinations for rehabilitation assistance. The Subrecipient will make provision for translation services to meet the needs of non-English-speaking applicants. In the event of applicants who have impaired mobility or other disabilities, the Subrecipient will make provisions for completing the application at the applicant's residence or other acceptable procedures for ensuring equal access to services.

Initial eligibility determination of households/structures will be made by the Subrecipient on the basis of satisfaction of income requirements (single-unit structures must be occupied by a low- and moderate-income household; if a two-unit structure, at least one must be so occupied; and if three or more units in a structure, at least 51 percent of the units must be occupied by low- and moderate-income households [at affordable rents, where applicable] according to the most current income limits established by HUD), the apparent need for rehabilitation measures to correct relevant housing code or Housing Quality Standard (HQS) deficiencies, and any other pertinent criteria set forth in the approved program design.

4) Work write-ups: for each eligible unit to be assisted, the Subrecipient will complete a detailed work write-up of the rehabilitation to be performed, including estimated costs of each activity, materials to be used, and industry or regulatory standards to be met. This write-up will be initialed and dated by the homeowner.

5) Bank financing: for those applicants who will be securing some of the financing for the rehabilitation work through private loans from a bank or other type of private financial institution, the Subrecipient will provide assistance to applicants when applying for such complementary financing upon request.

6) Solicitation and selection of contractors: the Subrecipient will assist approved applicants in the identification, proper solicitation, and selection of contractors qualified to perform the authorized rehabilitation of eligible housing units. The Subrecipient will provide forms and sample contract formats for the applicants to use in contracting with the contractors and will assist the applicant in ensuring that the description of the work contained in any contracts with contractors is accurate and complete.

7) Periodic and final inspections: the Subrecipient will perform periodic site visits to ascertain that approved and contracted rehabilitation work is proceeding properly and satisfactorily, will authorize (with the owner's written approval, including signature and date) appropriate change orders, and will mediate in the event of owner dissatisfaction with the work done by the contractor.

8) Approval of contractor payments: as rehabilitation progresses and as invoices are submitted by contractors, the Subrecipient will verify that the expenses are reasonable and the work has been completed properly (including a sign-off by the owner), and will authorize drawdown of funds from the Grantee, and disbursement to the contractors.

9) Maintenance of case files and other records: for each applicant, the Subrecipient will maintain case files, including application and documentation of eligibility, work write-ups, the assistance agreement between the property owner and Subrecipient (along with repayment/ recapture provisions), documentation of liens and any other forms of security, contractor selection criteria, copy of contract between owner and contractors), documentation on all

necessary licenses and permits, site visit/inspection reports (including final inspection), change orders, and approved contractor invoices for payment (with owner sign-off). The Subrecipient will also maintain appropriate information on persons residing in the property, including a list or lists identifying persons in a project immediately before the project, after project completion, and those moving in during the project, as well as information on those displaced or temporarily relocated (per 24 CFR 570.606 and 24 CFR part 24). The Subrecipient will maintain these and other program and financial records in accordance with the general requirements for record keeping specified in Section __ of this Agreement.

B. Staffing

The Subrecipient shall assign the following staff as Key Personnel to the CDBG Year ____ housing rehabilitation program:

Staff Member Title	General Program Duties	Time Allocation
Jane Smith, Program Manager	General program oversight and administration; revision of forms and procedures; approval of contractor selection; submission of approved contractor invoices	10 hours/week
John Doe, Asst. Program Manager	Assist with revision of forms and procedures; outreach; intake and eligibility determinations; solicitation of contractors; supervision of Rehabilitation Specialist; maintenance of program records	30 hours/week
Harold Baker, Rehabilitation Specialist	Work write-ups; inspections	25 hours/week
Alice Glass, Bookkeeper	Financial Records	5 hours/week

Any changes in the Key Personnel assigned or their general responsibilities under this project are subject to the prior approval of the Grantee.

C. Project Schedule

Unless amended by mutual written agreement by the Subrecipient and the Grantee, (Subrecipient's name) will perform the described housing rehabilitation tasks and complete the rehabilitation of eligible units in conformance with the schedule attached as Exhibit 1.

D. Line Item Budget

The following is the budget for the CDBG FY____ housing rehabilitation program to be administered by (name of Subrecipient). Unless otherwise noted, this budget may only be modified through a formal written amendment approved by the Grantee.

Rehabilitation Loans and Grants		$310,000. 00
Relocation Assistance		20,000. 00
Operations and Administration		83,804. 00
Salaries	50,860. 00	
Fringe @ 40%	20,344. 00	
Office space (program only)	4,800. 00	
Communications	440. 00	
Reproduction/printing	600. 00	
Supplies and materials	660. 00	
Mileage	1,200. 00	
Audit	3,000. 00	
TOTAL		$413,804. 00

METHOD OF COMPENSATION/SCHEDULE OF PAYMENTS

A. Direct Rehabilitation Expenses

The Subrecipient may draw down funds (against the "Rehabilitation Loans and Grants" budget line item) to establish escrow accounts for individual participating property owners to finance payments to contractors for the rehabilitation of eligible property. The loan agreement with the homeowner must specify that an escrow account will be used. Drawdowns for such escrow accounts may be initiated at the time that the assistance agreement between the Subrecipient and property owner is executed, but any funds drawn for such escrow accounts must be limited to the amount expected to be disbursed within 10 working days from the date of drawdown, must be placed in one interest-bearing account, and must be disbursed to contractors within 10 days of receipt by the Subrecipient. Payments to contractors from such escrow accounts should be made on the basis of work completed, with a set-off of at least 10 percent until final inspection and sign-off of the completed rehabilitation by the Subrecipient's staff and property owner.

Exhibit 1

Housing Rehabilitation Program
Work Schedule – CDBG YEAR_____

Tasks/Program Goals	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
1. Refinement of Forms and Procedures	____											
2. Outreach/Intake	_____	_____	_____	_____	_____	_____	_____ (as needed)	_____	_____	_____	_____	_____
3. Number of Applicants Determined Eligible (cumulative)	0	5	15	25	35+							
4. Number of Work Write-ups Completed (cumulative)	0	3	12	22	32	35+						
5. Number of Eligible Units Out-to-Bid (cumulative)	0	1	10	18	28	35						
6. Number of Eligible Units Where Rehab Started (cumulative)	0	1	5	13	21	29	35					
7. Number of Eligible Units Where Rehab 50% Complete (cumulative)	0	0	1	5	13	21	29	35				
8. Number of Eligible Units Where Rehab/Final Inspection Completed (cumulative)	0	0	0	2	4	8	16	24	32	35		
9. Submission of Quarterly Reports	X			X			X					

B. Relocation Assistance

The Subrecipient may draw down funds as Relocation Assistance expenses are incurred, up to the approved line item budget level. Relocation Assistance must be provided in accordance with 24 CFR 570.606 and 49 CFR part 24.

C. Operations/Administrative Expenses

During start-up of the CDBG FY ___ housing rehabilitation program (Months 1–3), the Subrecipient may draw down on a monthly basis up to one-twelfth of the budgeted amount for Operations and Administration, to cover expenses actually incurred. After Month 3, drawdowns against the balance of budgeted funds for Operations and Administration must be based on costs actually incurred, and proportional to the percentage of the total authorized amount for Rehabilitation Loan/Grant funds and Relocation Assistance that have been expended.

[NOTE: A grantee might structure compensation for operations/administrative expenses in this way to allow for start-up costs, and to ensure that the subrecipient does not exhaust its CDBG operations budget before the rehabilitation of all the assisted units is completed.

Alternatively, a grantee could choose to reimburse the subrecipient simply on the basis of operations/administrative expenses incurred, or at a fixed rate per unit completed (in this case, $2,394.40 per unit based on a budget for operations and administration of $83,804 and a volume of 35 units). This latter approach may only be used if it is supported by a cost allocation plan to ensure that the reimbursement is tied to the actual cost of services.]

In addition to the provisions outlined above, it is especially important that a grantee should ensure that a Subrecipient Agreement for the operation of a housing rehabilitation program also includes citations relative to the following program requirements:

- **Affordability provisions [24 CFR 570. 208(a)(3)]**: for activities benefiting low- and moderate-income persons, the subrecipient must adopt and make public the grantee's standards for determining that for rental housing assisted under the program, the rents of units occupied by low- and moderate-income persons are "affordable."

- **Davis-Bacon requirements and other Labor Standards [24 CFR 570.603]**: these statutes require the payment of prevailing wages for CDBG-assisted construction work, including construction or rehabilitation of residential property containing eight units or more, in excess of $2000. The Contract Work Hours and Safety Standards Act also applies to such activities.

- **Historic Preservation [16 U.S.C. 470 *et seq.* and 36 CFR Part 800]**: these requirements mandate (a) consultation with specified agencies having responsibility for historic preservation to identify properties listed (or eligible for inclusion) in the National Register of Historic Places that may be subject to adverse effects by the proposed CDBG activities, and (b) compliance with procedures or other requirements to avoid or mitigate such adverse effects.

- **National Flood Insurance Program [24 CFR 570.605]**: if a community has had notice for more than a year that an area has been identified by FEMA as having special flood hazards, CDBG funds cannot be spent for acquisition or construction purposes within that area unless the community is participating in the National Flood Insurance Program and such insurance has been purchased for the properties in question.

- **Relocation, Real Property Acquisition, and One-For-One Housing Replacement [24 CFR 570.606]**: The acquisition of real property for a CDBG-assisted project and the displacement of any person (family, individual, business, non-profit organization or farm) as a direct result of acquisition, rehabilitation, demolition or conversion for a CDBG-assisted project must comply with 24 CFR 670.606 and 49 CFR part 24. The Subrecipient must also conduct its CDBG activities so as to minimize displacement, and if displacement occurs, the displaced persons or entities must be provided assistance consistent with the Uniform Relocation Act, as amended, or Section 104(d), as applicable. In addition, there must be a one-for-one replacement of any occupied (or vacant, occupiable) low- and moderate-income dwelling that is demolished or converted to another use in connection with a CDBG-funded activity.

- **Lead-based Paint [24 CFR 570.608 and 24 CFR Part 35]**: There is a general prohibition against the use of any lead-based paint in connection with any CDBG activity involving the construction or rehabilitation of residential structures. If the structure was constructed prior to 1978, the tenants or purchasers must be notified of the hazards of lead-based paint poisoning; and, depending on the level of Federal assistance made available to the structure, paint inspection, risk assessment, treatment and/or abatement must be provided.

- **Program Income [24 CFR 570.500; 570.503(a), (b)(3) and (b)(7); and 570.504]**: A grantee must approve (a) whether a Subrecipient will be allowed to retain and use program income, and (b) for what activities the program income may be used. The use of such program income must be in compliance with all other applicable program requirements and, upon the expiration of the Subrecipient Agreement, any program income on hand or subsequently received by the Subrecipient must be returned to the grantee.

Examples of language that can be incorporated into a Subrecipient Agreement for most of these additional requirements can be found in the sample “boilerplate” Agreement in the preceding section of this Appendix.

Example #3: Sample Scope of Services for
SPECIAL ECONOMIC DEVELOPMENT JOB CREATION ACTIVITIES

*This is an example of a Scope of Services for a subrecipient that is providing low-interest loans to private for-profit businesses (per **24 CFR 570.203(b)**) as a means of creating jobs for low- and moderate-income persons. With such "special economic development activities" documentation that the loan program constitutes an **eligible activity** and meets a **National Objective** is crucial, and therefore is given particular attention in this illustrative Scope of Services.*

*As mentioned in the preceding section that focused on housing rehabilitation, there are a variety of acceptable ways to structure the scope and compensation schedule for any particular activity being undertaken by a Subrecipient. Therefore, the example that follows **should not be viewed as required contract language**, but rather as one approach for structuring the Scope of Services in a S Agreement.*

SCOPE OF SERVICES

A. Principal Tasks

The Subrecipient will be responsible for administering a CDBG Year ____ economic development loan program, also referred to as (specific name of program), for the city/county of (name of Grantee) hereinafter referred to as "the Grantee." The Subrecipient will administer all tasks in connection with the aforesaid program in compliance with all applicable Federal, state, and local rules and regulations governing these funds, and in a manner satisfactory to the Grantee.

Changes to the program focus and objectives, scope of services, schedule, or budget contained in this Agreement, unless otherwise noted, may only be made through a written amendment to this Agreement, executed by both the Subrecipient and Grantee.

The focus of the Subrecipient's efforts under this Agreement will be the provision of low-interest loans to private for-profit businesses located in the city/county of (name of grantee) that will result in the creation of jobs at those businesses primarily for low- and moderate-income individuals. The principal objective of the CDBG Year____ economic development loan program will be the creation of 25 jobs through the provision of up to ten (10) loans. The major tasks that the Subrecipient will perform in connection with the (specific name of program) include, but are not limited to, the following:

1) Refinement of economic development loan program procedures and forms: subject to the review and approval by the Grantee, the Subrecipient will establish, or make any necessary revisions to, the economic development loan program design, procedures, and forms (including but not limited to the underwriting criteria, collateral/loan security requirements, standards for loan value-to-job creation ratio(s), repayment terms, loan review procedures, standard application forms and loan documents, loan servicing terms and procedures, and loan re-negotiation, default and/or foreclosure policies).

2) Outreach: the Subrecipient will advertise the CDBG FY____ economic development loan program and conduct other forms of outreach. The Subrecipient's outreach efforts will be sufficient to generate enough demand to be able to close loans that produce 25 jobs, the majority of which will be for low- and moderate-income persons.

3) Completion of loan applications; underwriting assessment: the Subrecipient will assist for-profit businesses in completing loan applications, and will perform an assessment of each loan request to: (a) determine the CDBG eligibility of the loan, (b) evaluate the loan's job creation potential relative to meeting the National Objective and Public Benefit standards, and (c) ascertain that the loan will minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods. The Subrecipient will perform a front-end assessment to determine whether each loan and the financing terms associated with it are appropriate, and as part of this assessment will consider the business' need for financial assistance, the feasibility of the proposed venture or business activity, the past business experience of the applicant, the reasonableness of the proposed costs and return to the applicant, the commitment of other sources of funds, and the ratio of the loan amount to the full-time equivalent jobs expected to be created.

4) Obtain loan collateral: the Subrecipient will identify and obtain loan collateral, or other appropriate forms of loan security, sufficient to reduce the financial risk associated with each CDBG-funded loan, consistent with the program intent of providing financing in situations where adequate conventional financing is not available.

5) Loan Review Committee: the Subrecipient will establish and maintain a Loan Review Committee, consisting of a representative of the Subrecipient, a representative of the Grantee, and three representatives of local financial institutions familiar with business loans. The Loan Review Committee will review all loan recommendations forwarded to it by the economic development program staff of the Subrecipient. No loan will be made under the economic development loan program without the approval of a majority of the members of the Loan Review Committee.

6) Loan closing: with the authorization of the economic development loan program's Loan Review Committee, the Subrecipient will execute all necessary documents and will draw down funds as necessary to cover the expenses of approved applicants for activities authorized by executed loan agreements. The loan documents executed with applicants will include explicit provisions describing (a) the records that loan recipients must maintain to demonstrate the eligibility of the CDBG expenditures and the satisfaction of the CDBG National Objective, and (b) the conditions and procedures under which late payment penalties, default and/or foreclosure will occur.

7) Loan servicing/loan portfolio management: the Subrecipient will establish and maintain a consistent method for recording monthly payments, with up-to-date ledgers and timely reconciliations (at least quarterly). The Subrecipient will also establish a system to monitor the financial health of the ventures funded, in order to anticipate repayment problems. The Subrecipient will apply its policies and procedures regarding late payments, defaults, loan re-negotiation, and foreclosure in a timely and consistent manner.

8) Monitoring of job creation: the Subrecipient will monitor loan recipients on at least a quarterly basis to assess their progress in creating jobs for low- and moderate-income persons, and will institute default and foreclosure of the loan (with penalties if appropriate) in instances where the loan recipient fails to take sufficient action to satisfy the CDBG National Objective requirement.

9) Management of program income: any program income generated in connection with the economic development loan program, including loan repayments, late payment penalties,

recaptures, or proceeds from foreclosure, will be utilized consistent with the provisions of 24 CFR 570.500(a), 570.503(a) and (b)(3), and 570.504, and all other applicable CDBG program requirements. The Subrecipient shall apply this program income toward additional loans under the economic development loan program through the use of a revolving fund pursuant to 24 CFR 570.500(b).

10) Maintenance of records: in addition to the financial records regarding loan repayment cited in Paragraph A.6 above, the Subrecipient will maintain sufficient records to fully document (a) the loan application and underwriting review, including the front end assessment of CDBG eligibility and appropriateness of the loan, (b) the final terms and conditions of the loan, including collateral or other forms of loan security involved, (c) satisfaction of the CDBG National Objective, and Public Benefit requirements consistent with the requirements of 24 CFR 570.208(a)(4) and 570.209, and (d) proper utilization of program income received. All such records will be maintained according to the general requirements of 24 CFR 570.506 and those specified in the section of this Agreement on retention of records [Grantee to add specific reference here].

Along with this Scope of Services, the grantee should develop Agreement language regarding Key Personnel and should include a Project Schedule and a Line Item Budget comparable to those found in the preceding example for housing rehabilitation activities. The Project Schedule may be more difficult to develop in the instance of this special economic development activity, however, because it probably will be harder to predict when individual loans might be closed. Nevertheless, in the Project Schedule the grantee should at least identify the discrete tasks and make every effort to frame measurable milestones and/or levels of accomplishment over time.

For the Method of Compensation/Payment Procedures section, the Subrecipient's draw down of funds to finance the loans themselves should be predicated on the amount needed to cover the actual expenses of approved applicants relative to activities authorized by executed loan agreements. The somewhat uncertain schedule for loan closings also might make it difficult to structure compensation for the Subrecipient's operational/administrative expenses on a "performance basis;" that is, payment to the Subrecipient for operational/administrative expenses based on the number of loans closed or jobs created, etc. An alternative method is to reimburse the Subrecipient for operational and administrative costs simply on the basis of expenses incurred.

These sections on Scope, Project Schedule, Budget, and Method of Compensation/ Payment Procedures can be added to the general Agreement "boilerplate" language to form a complete Subrecipient Agreement.

CHAPTER 4

ORIENTATION, TRAINING, AND TECHNICAL ASSISTANCE

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CHAPTER 4

ORIENTATION, TRAINING, AND TECHNICAL ASSISTANCE

"An ounce of prevention is worth a pound of cure." - Benjamin Franklin

INTRODUCTION

As a busy CDBG manager, you are probably confronted every day with recommendations for improving program operations. However, in your struggle to balance limited staff resources with the endless work to be done, these "good ideas" may never seem to get your full attention.

Subrecipient orientation, training and technical assistance provide the keys to successful program operations and reduced problems.

If you are like some CDBG managers, **subrecipient orientation**, **training**, and **technical assistance** tend to fall into the "good-idea category." You fully intend to get around to developing a training program, once you get through *today's* crises.

The problem is that today's crises never completely end. The only way to gain some control over these problems is to anticipate them and to take steps to prevent them from occurring in the first place. ***Anticipating and avoiding otherwise inevitable problems is the key benefit that subrecipient orientation, training and technical assistance can bring to your CDBG program.***

Training as an Investment in the Future of Your Program

Orientation, training, and technical assistance are part of the ongoing investment you make in the quality of your programs. The payoff from that investment is enhanced productivity among your subrecipients, improved services for your community, and fewer administrative headaches for you.

This chapter explains how you can use orientation, training, and technical assistance to build more efficient and effective CDBG programs among your subrecipients.

How Orientation, Training, and Technical Assistance Differ

With their future focus on enhancing performance and reducing problems, these three teaching approaches have much in common. However, they differ with respect to emphasis, timing, and target audiences.

- **Orientation sessions** are traditionally held at the beginning of the program year (or whenever subrecipients are selected) and tend to address broad program objectives and methods.

- **Training sessions** are generally aimed at larger groups in more traditional classroom settings and are conducted throughout the year to address specific program areas.

- **Technical assistance** is usually provided one-on-one or in small groups, often on-site, when operations are already underway.

CDBG grantees should conduct formal orientation sessions for their subrecipients at the beginning of the program year.

The characteristics and value of each approach are discussed in the following sections.

The orientation session is a way to re-open the door of communications with subrecipients and to resolve old problems and tackle new ones.

The purpose of an orientation session is to educate (or remind) subrecipients about the **basic** rules under which any CDBG activity must operate in your community. An orientation session provides an opportunity for you to establish **clear expectations** for subrecipients with respect to **performance standards**, and with respect to the **policies and procedures** that need to be followed. The latter include both the policies and regulations of the national CDBG program and your local administrative practices.

ORIENTATION SESSIONS

One-on-One Orientation Sessions

Many grantees approach orientation sessions with subrecipients on an ***informal, one-on-one basis*** whenever a new subrecipient joins the local CDBG program. This approach has certain advantages but can also have some significant drawbacks:

Pros: The one-on-one structure

- allows you to tailor the orientation to the needs of the individual subrecipient organization and thereby secure greater involvement of subrecipient staff;

- provides a better opportunity for you to test the subrecipient's understanding of essential material periodically throughout the session;

- allows you to avoid an overly bureaucratic style that can intimidate new subrecipients; and

- involves fewer logistics (and less cost) than conducting more formal sessions for multiple subrecipients.

Cons: The one-on-one style

- may be inefficient because several sessions must be held;
- usually rules out peer group learning and interaction;
- because of its informality, may understate the importance of consistent and complete compliance with the regulations; and
- may have less impact as a "one-shot deal" due to subrecipient staff turnover later on, lack of repetition, and absence of formal integration into the monitoring program.

Group Orientation Sessions

Monitoring or performance problems are not limited to inexperienced subrecipients.

An alternative, and often preferable, approach is to hold **group orientation sessions for multiple subrecipients at the beginning of every program year**. Since problems encountered during monitoring are not limited to "novice" subrecipients, it is a good idea to encourage attendance by both new and experienced agencies. This would include **at least**:

- new subrecipients
- new staff of current subrecipients
- current subrecipients that have problems
- current subrecipients that are undertaking new activities

You can invite even the most experienced subrecipients to attend, both to share their experience with their less seasoned counterparts and to learn about new program guidelines and regulations.

Don't forget the Board of Directors. They are legally responsible for everything the subrecipient does, so they should know what's going on.

Frequently, the more seasoned subrecipients are flattered to be asked to share their expertise as part of the orientation. For enticing more reluctant agencies to attend, you can use a variety of other inducements:

- promise to hand out executed written Agreements (or amended Agreements) at the orientation;
- offer to explain new drawdown arrangements or forms;
- make attendance by appropriate individuals a consideration for future selection; and
- announce that you will couple orientation sessions with award ceremonies that recognize exceptional programs from the previous year.

Who should represent the subrecipient?

For group orientation sessions, you can ask subrecipients to have more than one representative attend. For example, in addition to a non-profit's executive director, it may make sense to ask the organization's program specialist, chief fiscal officer, or a representative of the Board of Directors to attend (especially if the Board is unfamiliar with the program).

Some of the benefits and drawbacks of the annual, group approach to orientation sessions include:

Pros and Cons of Group Orientation Sessions

Yes, we hold regular orientation sessions. It's important to get everyone involved, because we all learn from each other.

-New York Area Grantee

Pros: Group sessions

- help to assure that large numbers of subrecipients get the ***same message at the same time*** (important for organizations experiencing staff turnover, or in need of a general review of CDBG program regulations);
- support a ***structured agenda*** aimed at major fiscal and program reporting responsibilities;
- encourage subrecipients to have ***several staff*** participate in the orientation, thereby increasing familiarity with program requirements ***throughout the subrecipient organization***;
- generate exchange between seasoned and novice subrecipients, enabling newcomers to learn the ***"real world" applications*** of the regulations directly from the "old hands," while old-timers can be challenged by the vigor of the novices; and
- communicate to subrecipients your ***emphasis on understanding CDBG program rules and regulatory compliance***, by making the orientation a formal workshop and conducting it on an annual basis.

Cons: Formal orientation workshops

- tend to require ***more effort to prepare***, coordinate, and deliver than do one-on-one sessions;
- lose some of their benefits ***if subrecipients are unable to send more than one*** representative;
- can make it ***more difficult*** to cover information that is ***relevant to every organization*** in attendance;
- make it ***more difficult*** to assess subrecipients' comprehension of the material and to adapt the material ***to differences in comprehension***; and

- make it ***more difficult*** to get certain ***key (higher level)*** staff to attend.

A Tip for Structuring Orientation Sessions

USE THE SUBRECIPIENT AGREEMENT AS A TEACHING TOOL FOR SUMMARIZING CDBG PROGRAM REQUIREMENTS

Use the Subrecipient Agreement as one of the key training materials in any orientation session you conduct. As noted in Chapter 3, a well-written Subrecipient Agreement will summarize all the principal CDBG program requirements in easily readable language, and can serve as a "mini" training manual. By structuring your orientation session to make extensive use of the written Agreement, you emphasize the importance of this document and teach subrecipients to develop the habit of referring to the Agreement for guidance on CDBG program policies and procedures.

TRAINING SESSIONS

Training sessions can be issue-specific or activity-specific, but in either case, you should make your training goals clear to everyone at the outset.

An orientation workshop usually focuses on meeting general program requirements and addressing general topics that merit particular attention in the coming year.

Training sessions tend to *focus on specific CDBG topics, and examine topics at a much greater level of technical detail* than an orientation session does. For example, although the orientation will give subrecipients an overview of the entire program, many grantees hold periodic training sessions for groups of subrecipients on specific aspects of the CDBG program. On-going monitoring should tell you the topics on which your subrecipients need help.

Issue-Specific Training Topics

The topics you cover can be either issue-specific or activity- specific. Examples of issue-specific training topics include:

- basic financial underwriting for economic development;
- financial control systems and procedures (including Independent Public Accountant audits);
- record-keeping and reporting requirements (including documentation of eligible expenses and National Objective compliance);
- procurement methods;
- recruitment and hiring of staff;
- anti-discrimination requirements;
- program income;
- relocation/anti-displacement;
- Davis-Bacon Act/prevailing wage requirements;
- historic preservation;

- property appraisals;
- lead-based paint requirements;
- liens and recapture agreements; and
- accessibility requirements.

The common feature of the above training topics is that each one is relevant to **more than one type of CDBG-eligible activity**. For example, Davis-Bacon wages are applicable to most CDBG-assisted public facilities, residential, and commercial activities involving CDBG-financed construction contracts over $2,000.

Train subrecipient and grantee staff in administrative systems using two publications available on the HUD Web site.

Because of their broad applicability, issue-specific training topics may be relevant to many (if not all) of your subrecipients. Materials for any or all of these subjects may be obtained from HUD. **The publication, Playing by the Rules-A Handbook for CDBG Subrecipients on Administrative Systems, and its companion piece, Training CDBG Subrecipients in Administrative Systems, are available from the CPD library on the HUD Web site at *www.hud.gov*. Both can serve as the centerpiece for grantee training of both subrecipient and grantee staff.**

Activity-Specific Training Topics

Training sessions can also focus on the requirements associated with specific activity areas. In these cases, the training will be relevant only to agencies that carry out the specified activity. For example, you might want to structure activity-specific training around the following topics:

- housing rehabilitation and development (including the use of escrow accounts);
- public and human services;
- economic development or commercial improvements;
- public facilities and infrastructure;
- administration or planning activities;
- acquisition, demolition, or disposition;
- special CBDO activities under 24 CFR 570.204; and
- Section 108 loan guarantees.

Issue- and Activity-Specific Training Combined

A third option is to provide training to a **subgroup of agencies that carry out specific activities** (e.g., public services, housing, economic development) but to **focus** on the generic requirements of the overall CDBG program.

The reason for using this approach is that certain kinds of activities are more likely than others to cause fiscal or program monitoring problems.

For example, the large CDBG programs that use many subrecipients to carry out acquisition, housing, and economic development activities are more likely to encounter problems with their subrecipients' basic administrative systems and overall performance than their smaller counterparts. They are therefore more likely to benefit from training the subrecipients responsible for these activities in general administrative requirements.

Many of these administrative problems can result in disallowances, interruptions in projects, and other serious problems. For this reason, you're better off avoiding the problem in the first place through effective training, instead of waiting until HUD finds a problem in your program.

Basic Training Objectives

- Compliance
- Performance
- Capacity

In designing training for subrecipients, keep your objectives in mind. Obviously, you want to **improve compliance with program rules and regulations** in order to avoid the monitoring findings, questioned costs, disallowances, or interruptions in funding.

In addition, you want the training to **enhance overall performance and the long-term capacity** of subrecipients to provide services to the community both efficiently and effectively.

TRAINING DESIGN CRITERIA

Design all your training to meet the following three criteria that form the basis of all learning:

We usually hold a "networking" dinner after major annual training and hold an awards segment for the "best new CDBG project," or "best CBO" director. It's lots of fun.

-Enthusiastic Los Angeles Area Subrecipient

Relevance (What): Training must have some direct connection with the daily experience and concerns of subrecipients in terms of what they do. For example, you might teach non-profits rehabilitating low-income housing how to standardize their work write-ups to correspond to their Agreements and provide a basis for contract specifications.

Utility (How): Training must enable participants to acquire new skills, which they can apply to their activities to help increase productivity, reduce problems, or both. For example, non-profits can learn how to use the standardized work write-up on a computer, thereby saving an enormous amount of time while also reducing errors.

Motivation (Why): Training must make participants want to take action, change behavior, learn new ways of doing things, solve problems, or improve their performance. The time savings and use of new technology in the previous example enables the non-profit to streamline its entire approach to managing the rehabilitation process.

Without these three elements, training cannot be effective.

Learning by Doing

It has been said that people remember 10 percent of what they hear and 90 percent of what they do. As much as possible, your training should involve participants in problem-solving exercises, role-playing, simulations, small group discussions, and other hands-on activities that will involve them actively in the training.

If you lecture, give participants written summaries of key points. Use panels and oral presentations to feature successful examples in order to reinforce the relevance and the feasibility of your training goals.

The Appendix to this chapter provides an example of how you might structure a day-long training session on relocation and anti-displacement requirements for CDBG projects. The format covers various topics and methods organized around a single theme.

Scheduling and Location

Clearly, the convenience of the time and place of the training sessions is important for assuring attendance. It is also crucial to select a training site that fosters participation. Key features include adequate space for role playing and small group discussions, lighting, ventilation, furnishings, restrooms, audio-visual equipment and, if necessary, photocopying equipment.

Ideally, the training site should be accessible by both public transportation and private vehicles, provide parking, and accommodate disabled participants. Translation of written materials into other languages should be available where it is likely to be needed.

If the training is going to run for more than half a day, there should be a restaurant nearby or provision for participants to bring their own food and refreshments.

TECHNICAL ASSISTANCE

Typically, technical assistance is designed to correct a specific subrecipient weakness, either in performance of a particular CDBG-funded activity or in general administration. Technical assistance addresses well-defined functional areas. Some examples of technical assistance topics include:

For general administration:

- how to structure a line item budget and an administrative cost allocation system.

For economic development activities:

- how to document financial analysis and organize data collection from job applicants and employees in connection with economic development assistance to a for-profit corporation.

For housing rehabilitation activities:

- how to conduct a home inspection, prepare a work write-up, test for lead-based paint, and measure progress toward project goals.

Broaden the Scope of Technical Assistance

Technical assistance tends to be reactive, aimed at correcting existing subrecipient problems. Whenever possible, however, you should broaden the focus to emphasize the importance of overall program quality and constant improvement by providing subrecipients with new knowledge and skills.

The first task is to solve the problem; the next is to motivate overall improved performance.

Technical assistance is frequently offered "on-site" (that is, at the location where program operations occur). While on-site, the person(s) providing the assistance may:

- demonstrate approved techniques.
- observe subrecipient staff in their normal activities and then recommend ways to improve operations.

"Effective monitoring programs require frequent site visits and field audits. Technical assistance is the same. It helps to be where the action is."

-St. Louis Area Grantee

While technical assistance is generally conducted on a one-on-one (grantee-to-subrecipient) basis, you can also assemble several staff from one subrecipient, or staff from several subrecipients, at a single location where you can pass out and explain materials or present demonstrations of materials or techniques. Technical assistance can also be provided to individual subrecipients by telephone, for instance, when the subrecipient has a question about filling out a form or implementing an administrative procedure.

Standards for Delivering Technical Assistance

Technical assistance is the most frequent training-related contact between grantees and subrecipients, and it is often conducted by grantees in response to a specific request from a subrecipient. In order to provide the best possible response, make sure you adhere to the following five guidelines:

- **Provide a reasonable response time**: Making subrecipients wait weeks for help sends a strong message that you don't think their request is important.

- **Be relevant**: Make sure that the technical assistance you provide addresses the questions the subrecipient has raised and not merely the topics you feel are important. Deal first with the issues on their minds, before addressing your concerns or HUD's.

- **Provide accurate information**: Nothing frustrates a subrecipient more than getting incorrect information from a grantee. If your staff are not sure of the correct answer to a question, they should say so, and then take the time to get the proper answer or interpretation before passing it on.

- **Consider the subrecipient's level of expertise and resources**: Technical assistance is supposed to clarify, instruct or correct matters for subrecipients, not confuse or place unrealistic demands on them. It does little good to recommend high-powered accounting software to a subrecipient that does not have access to a computer. Similarly, the guidance you offer to satisfy technical or regulatory requirements should be consistent with the funds, time, and staffing level the subrecipient has available for meeting them.

- **Assess subrecipient comprehension**: Always test the subrecipient's understanding of the information you provide. One way of doing this is to ask subrecipient staff to give their opinion of how they would apply the new technical information or skills to a hypothetical situation.

Keep in mind that ***technical assistance is usually not a one-time event.*** Allow the subrecipient staff some time to apply the knowledge or the skills covered by the technical assistance in the work place; then re-visit them to determine how well they learned the lessons and how confident they feel about having mastered the new information or skills after some "real world" testing.

A Tip for Conducting Technical Assistance in Anticipation of Monitoring a Subrecipient

One objective of technical assistance is to help subrecipients avoid monitoring "findings." As a strategy for achieving this, some grantees conduct a **pre-monitoring technical assistance visit** to subrecipients. During the visit, grantee staff identify all the areas that formal monitoring will cover, and provide an initial, informal assessment of the adequacy of the subrecipient's systems, procedures, and records. If scheduled several months before the formal monitoring is to occur, these pre-monitoring TA visits give the subrecipient time to correct possible deficiencies so as to avoid written findings. It also gives them the opportunity to raise questions with the grantee outside of the formal monitoring process when the participants are likely to be more defensive. Subrecipients tend to feel better about the effort that they have put in to comply with program regulations. At the same time, the grantee can demonstrate to HUD that the regulations have been satisfied.

MEASURING SUBRECIPIENT PROGRESS

There are many ways to measure the effectiveness of your orientation, training, and technical assistance efforts. For example, you can examine:

- the number of new monitoring findings that occur among subrecipients after you have provided them with orientation, training, or technical assistance; or

- changes in subrecipient productivity for activities that you addressed in orientation, training, and technical assistance sessions.

Getting feedback is an essential part of successful orientation, training and technical assistance. You can use

- ***Evaluation forms***
- ***Telephone***
- ***Questionnaires***
- ***Annual surveys***

But keep them simple; ask for suggestions about how technical assistance materials can be improved; allow anonymous responses to ensure candor.

Another way to assess your orientation training and technical assistance capacity is to ask subrecipients how valuable and relevant they thought your training and technical assistance were. Soliciting their opinion in a formal, serious manner will show them that you care about whether they benefited from your efforts and that you really want to provide assistance they can use to make their job easier and more productive. Showing this concern will help motivate subrecipients to want to continue learning from you, because they will realize you really do have something of practical benefit to offer them.

Above all, let them know how much their success and their opinions about orientation, training, and technical assistance matter to you.

NOTES:

CHAPTER 4: APPENDIX

- Sample Training Curriculum on Relocation, Real Property Acquisition, and One-For-One Housing Replacement in CDBG Projects (and Related Materials) 4-15

- Sample Handout: Summary of Major Differences Between 104(d) and URA Relocation Assistance 4-20

- Sample list of Written Materials 4-22

NOTE TO GRANTEES: The requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) and the Relocation Assistance Plan under section 104(d) of the Housing and Community Development Act of 1974 (HCDA of 1974) are very complicated and technical. When the grantee executes the required certifications, it assures that all statutory and regulatory requirements will be met. Regardless of the tasks delegated to a subrecipient, the grantee remains liable for any costs arising from noncompliance with the law or regulations. For these reasons, HUD believes that few subrecipients will have or acquire the expertise to carry out all these requirements and that generally it is not in the interest of the grantee to delegate completely the tasks required under these laws. Before conducting any training for subrecipients on this subject, the grantee must decide exactly which functions it will perform and those it expects the subrecipient to perform.

Sample Training Curriculum on Relocation, Real Property Acquisition, and One-For-One Housing Replacement in CDBG Projects

9:00 a.m. – 9:15 a.m. **Introduction and welcome**

9:15 a.m. – 10:30 a.m. **Applicable regulatory requirements**

OVERVIEW: Presentation on key legislation and regulations

a. **Uniform Relocation Assistance and Real PropertyAcquisition Policies Act of 1970 (URA)**

- The government-wide regulations are found at 49 CFR part 24, as referenced in the CDBG regulations at 24 CFR 570.606(b)(1).
- Changes to the government-wide regulations were effective February 3, 2005.
- For questions on real property acquisition and relocation, contact your HUD Field Office or the HUD Regional Relocation Specialist responsible for your geographic location as identified at www.hud.gov/relocation.

b. **Section 104(d) Relocation Requirements ("Barney Frank Amendments" to Title I of the Housing and Community Development Act of 1974)**

- Section 104(d) relocation requirements differ from URA in several ways, including eligibility for assistance and extent of assistance provided.

c. **Other Relocation Requirements**

- Program regulations at 24 CFR 570.606 and 24 CFR Part 42 specify additional relocation requirements (e.g., temporary relocation).

These Federal laws and regulations require that whenever there is a need to relocate property occupants on a permanent or temporary basis, all affected occupants must be notified as early as possible about their rights to relocation payments and other assistance.

Section 104(d) requires the community to certify that it is following a Residential Anti-Displacement and Relocation Assistance Plan. The Plan requires the grantee to: 1) outline the steps that will be taken to minimize displacement; 2) replace, on a one-for-one basis, all occupied and vacant occupiable low- and moderate-income housing units lost due to demolition or conversion (although replacement is not necessary if HUD determines there is an adequate supply of standard low- and moderate-income housing in the community); and 3) provide relocation assistance for low- and moderate-income occupants. The replacement plan must ensure that the replacement housing will be: provided within 3 years of commencement of the assisted activity; located in the same community; sufficient in size and number to house no fewer than the number of occupants who could have been housed in the demolished converted units; in standard condition; and designed to remain low and moderate income for 10 years.

10:30 a.m. – 10:45 a.m. Break

10:45 a.m. – 12:00 noon **Roles, Procedures, and Types of Assistance**

Presentation on grantee and subrecipient roles relative to relocation and real property acquisition:

Functions that the grantee should routinely undertake itself are:

- The issuance of notices of eligibility for relocation assistance.
- The provision of advisory services to businesses.
- Social service referrals for difficult cases.
- Review and approval of relocation claims and processing of relocation payments.
- Processing of appeals.
- Maintaining records sufficient to demonstrate compliance with the relocation and real property acquisition requirements. (To maintain complete records, the grantee will need to be copied on correspondence, etc., from subrecipients.)

Specific functions that subrecipients normally can be expected to perform:

- Identify occupants of the property when consideration of project proposal is initiated (e.g., obtain copy of “rent roll”).

- Identify persons moving into the property after consideration of the project is initiated.

- Survey tenants to gather information on household size, income, housing needs and preferences. [Grantee should explain in detail exactly what is expected of subrecipients, e.g., how to survey tenants and collect information on household size, income, etc.]

- Issue general information notice.

- Coordinate with grantee on referrals to suitable and comparable replacement housing and provide transportation to inspect the housing.

- Identify suitable housing for the temporary relocation of persons not displaced.

- Issue timely Notices of Non-displacement.

- Coordinate with grantee to permit grantee to issue timely Notices of Eligibility for relocation assistance.

- Coordinate with grantee to permit timely grantee processing of relocation claims.

[Grantee should supply information booklets, guideform general information notices and guideform Notices of Eligibility and/or Non-displacement (if applicable) to the subrecipients and answer questions about the materials.]

<u>Additional information on forms and amounts of assistance</u>:

Discussion of differences in assistance available under 104(d) versus URA: Section 104(d) assistance is similar to that under URA, although Section 104(d) also allows for relocation payments for security deposits and credit checks and provides for replacement housing payments for a longer time period (60 months versus 42 months under URA). [See “Sample Handout” in this Appendix.]

Discussion of formulas to compute residential relocation assistance payments: moving and related expenses (fixed moving and dislocation allowance or actual moving expenses and related costs); replacement housing payments (URA formula versus Section 104(d) formula).

Discussion of available Section 8 assistance and HOME tenant-based rental assistance.

	Presentation on specific requirements for temporary residential relocation: notice of non-displacement; definitions of suitable temporary housing; exceptions for owner-occupants.
12:00 noon – 1:00 p.m.	**Lunch break**
1:00 p.m. – 1:30 p.m.	**Exercise on temporary residential relocation** Exercise could involve presenting the participants with several brief hypothetical examples of temporary relocation, asking them to comment on process, range, and levels of assistance provided.
1:30 p.m. – 2:00 p.m.	**Presentation on procedures for residential displacement** Discussion of procedures, including: informing occupants and manner of notice; advisory services to persons to be displaced; identification and referrals to comparable replacement housing; moving into replacement housing; processing claims and making payments; appeal procedures; and respective roles of grantee and subrecipient.
2:00 p.m. – 2:45 p.m.	**Exercise on residential displacement** Participants could be given a scenario involving probable displacement of residential property occupants, and asked to describe the process that should be followed to ensure adequate replacement housing and the respective roles of the grantee and the subrecipient in that process. Participants also examine the long- and short-term costs of alternate approaches.
2:45 p.m. – 3:00 p.m.	Break
3:00 p.m. – 3:30 p.m.	**Presentation on requirements and procedures for business relocation** Discussion of differences between residential and business relocation assistance under URA; differences between actual and fixed payments; business owner options to remain in business or go out of business, and the assistance available in each case; and limits to assistance in finding suitable replacement business locations.
3:30 p.m. – 4:00 p.m.	**Exercise on business relocation**
4:00 p.m. – 4:30 p.m.	**Record-keeping requirements for relocation/displacement assistance**
4:30 p.m. – 5:00 p.m.	**Summary of key points, additional questions & answers, and feedback** Grantee should close session by providing name and telephone number of grantee staff member(s) who will be responsible for providing assistance on relocation, property acquisition, and one-for-one housing replacement matters.

ATTACHMENTS:

- Sample Handout Comparing 104(d) and URA Relocation Assistance
- Sample List of HUD Written Materials on Relocation

SAMPLE HANDOUT

SUMMARY OF MAJOR DIFFERENCES BETWEEN 104(d) AND URA RELOCATION ASSISTANCE

PART I. ELIGIBILITY FOR ASSISTANCE

Subject	Section 104(d)	URA/HUD Program Regulations
Income Requirements	Only lower-income persons are assisted.	Displaced persons of all incomes are eligible.
Person displaced by rehabilitation activities (including economic displacement).	Displaced persons are eligible only if the market rent (including utilities) of the unit before rehab did not exceed the Section 8 Existing Housing Fair Market Rent (FMR) and the market rent after rehab was above the FMR.	Displaced persons are eligible for assistance regardless of pre- and post-rehabilitation rents. (URA does not cover economic displacement, but HUD program regulations require assistance equivalent to URA.)
Economic Displacement Criteria	Displaced person is eligible if not offered a suitable unit at or below the greater of: • Total Tenant Payment; or • Old rent/utility costs.	Displaced person is eligible if not offered an appropriate unit at or below the greater of: • 30% of gross income; or • old rent/utility costs NOTE: 30% of gross income is the general policy; rules vary by program.
Person displaced by <u>conversion</u> of unit to a nonresidential use.	Displaced person is eligible only if the market rent (including utilities) of the displacement unit did not exceed the FMR before conversion.	Displaced person is eligible for assistance by any conversion to a nonresidential use.
Person displaced by <u>demolition</u>.	Displaced person is eligible regardless of pre-demolition market rent.	Displaced person is eligible regardless of the pre-demolition market rent.
Person displaced by <u>acquisition</u> only (no conversion).	Displaced person is not eligible.	Displaced person is eligible.

SAMPLE HANDOUT (Continued)

SUMMARY OF MAJOR DIFFERENCES BETWEEN 104(d) AND URA RELOCATION ASSISTANCE

PART II. AMOUNT OF ASSISTANCE PROVIDED

Subject	Section 104(d)	URA/HUD Program Regulations
Rental Assistance Term	60 Months	42 Months
Rental Assistance Payment	Amount needed to reduce new rent/utility costs to Total Tenant Payment, which is usually greater of: • 30% of adjusted monthly income, or • 10% of gross monthly income.	Amount needed to reduce new rent/utility costs to the lower of: • Old rent/utility costs; or • 30% of gross monthly income (varies by program).
Use of Section 8 Rental Assistance	If Section 8 assistance and suitable referrals are offered, displaced person cannot insist on cash replacement housing payment. (But tenant may request cash replacement housing payment under URA.)	Displaced person has the right to a cash replacement housing payment but may accept Section 8 assistance if it is offered.
Other Housing Assistance	Assistance includes security deposit at replacement dwelling.	Assistance does not include security deposit.
Homeownership Assistance	Limited to purchase of cooperative or mutual housing and based on present (discounted) value of 60 monthly rental assistance payments.	Not limited to cooperative or mutual housing. Payment equals 42x monthly rental assistance payment (i.e., not discounted).
Moving and Rental Expenses	Same as URA.	Person may choose either: • Payment for actual moving and related expenses; or • Alternative Allowance based on DOT schedule.
Advisory Services	Same as URA.	Comprehensive services provided.

SAMPLE LIST OF WRITTEN MATERIALS

RELOCATION AND REAL PROPERTY ACQUISITION IN HUD-ASSISTED PROGRAMS - GUIDANCE MATERIALS

The following HUD materials are available to help grantees implement relocation and real property acquisition requirements in HUD-assisted programs. The materials were current as of the date this Guidebook was printed, but may be updated, as appropriate, due to changes to the URA regulations that were effective February 3, 2005.

1. **URA INFORMATION BOOKLETS**. Under the URA, grantees are required to provide advisory information to persons to be displaced and the owners of property to be acquired, explaining their rights and the assistance to which they are entitled. The following four information booklets meet the generic information requirements. These booklets are optional. Grantees may develop and distribute their own information booklets, provided they meet applicable requirements. These booklets are available on HUD's website at www.hud.gov/relocation.

    a. *When a Public Agency Acquires Your Property* (HUD-1041-CPD) (1/03).

    Spanish Title: *Cuando Una Agencia Publica Adquiere Su Propiedad* (HUD-1041-CPD-1) (3/03).

    b. *Relocation Assistance to Displaced Homeowners* (HUD-1044-CPD) (9/02).

    Spanish Title: *Asistencia Para La Reubicación a Propietarios de Vivienda Desplazados* (HUD-1044-CPD-1) (3/03).

    c. *Relocation Assistance to Tenants Displaced From Their Homes* (HUD-1042-CPD) (9/02).

    Spanish Title: *Asistencia Para La Reubicación a Inquilinos Desplazados de Sus Hogares* (HUD-1042-CPD-1) (3/03).

    d. *Relocation Assistance to Displaced Businesses, Non-profit Organizations and Farms* (HUD-1043-CPD) (9/02).

    Spanish Title: *Asistencia Para La Reubicación a Negocios, Organizaciones No Lucrativas y Granjas Desplazados* (HUD-1043-CPD-1) (3/03).

2. **SECTION 104(d) INFORMATION BOOKLET**. This booklet, *Relocation Assistance Under Section 104(d) to Persons Displaced From Their Homes* (HUD-1365-CPD) (3/02), explains a tenant's rights and the assistance available to the tenant if he/she is displaced by an action subject to Section 104(d) of the HCDA of 1974, as amended. A Spanish version,

Asistencia Para La Reubicación a Personas Desplazadas de Sus Viviendas (Sección 104 (d)) HUD-1365-CPD-1, is also available.

3. **RELOCATION CLAIM FORMS**. In order to obtain the relocation payment(s) for which he or she is eligible, a displaced person must file a claim. The grantee must provide the person whatever assistance is necessary to prepare such claims. The following claim forms meet all HUD requirements. A grantee may utilize these forms or design its own forms.

   a. *Claim for Moving and Related Expenses — Families and Individuals* (Form HUD-40054) (10/02).

   b. *Claim for Actual Reasonable Moving and Related Expenses — Businesses Non-profit Organizations and Farm Operations* (Form HUD-40055) (10/02).

   c. *Claim for Fixed Payment in Lieu of Payment for Actual Moving and Related Expenses—Businesses, Non-profit Organizations and Farm Operations* (Form HUD-40056) (10/02).

   d. *Claim for Replacement Housing Payment for 180-Day Homeowner* (Form HUD-40057) (10/02) (URA only).

   e. *Claim for Rental Assistance or Down Payment Assistance* (Form HUD-40058) (10/02) (URA only).

   f. *Reclamo Para Asistencia para el Alquiler o Asistencia para el Pago (Bi-lingual)* (Form HUD-40058-S).

   g. *Claim for Rental or Purchase Assistance under Section 104(d) of the Housing and Community Development Act of 1974, as amended* (Form HUD-40072) (2/02).

4. **FORM HUD-40061 (2/02), SELECTION OF MOST REPRESENTATIVE COMPARABLE REPLACEMENT DWELLING.** This form assists grantees in selecting the comparable replacement dwelling to be used to establish the upper limit of a replacement housing payment.

5. **SCHEDULE FOR DETERMINING THE FIXED MOVING EXPENSE AND DISLOCATION ALLOWANCE**. These statewide schedules establish moving expense and dislocation allowances for persons displaced from a dwelling by a project subject to the URA and/or Section 104(d) of the HCDA of 1974. A new schedule is published periodically in the Federal Register by the Department of Transportation and can be found at its web site at www.fhwa.dot.gov/realestate/fixsch96.htm.

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.

Requirements for Subrecipient Monitoring

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…"

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

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:

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***

- 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.

Monitoring problems are found even with the most experienced subrecipients.

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.

Establishing Monitoring Schedules

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.

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.***

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.

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:

CHAPTER 5: APPENDIX

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- HUD Monitoring Review of Grantee Oversight of Subrecipients 5-16
- Checklist for On-Site Monitoring of a Subrecipient 5-21
- Outline for a Subrecipient Monitoring Workbook 5-25
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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**	***Required by 24 CFR 570.501(b) & 24 CFR 85.40(a) as modified by 570.502(a)(14)***
2. 1	National Objectives Compliance	*Which one(s)& how addressed, 24 CFR 570.208*
2. 2	Eligible/Ineligible Activities	*Which activities, on what basis, 24 CFR 570.201–207*
2. 3	Objectives	*Compare current v. original in Agreement*
2. 4	Statement of Work	*Compare actual work performed v. planned*
2. 5	Performance measurements	*Planned accomplishments v. actual*
2. 6	Project Schedule	*Compare actual progress v. planned*
2. 7	Budget Line Item	*Compare actual expenditures v. planned*
2. 8	Conclusion	*Performance Assessment*
a.	Summary of Achievements	*Acknowledge major accomplishments*
b.	Summary of Corrective Actions/Deadlines	*Schedule for corrective actions or improvements*
c.	Technical Assistance and Training	*Schedule for technical assistance or training*
d.	Identifying High-Risk Subrecipients	*24 CFR 85.12*

3. 0	**Record-Keeping Systems**	***Required by 24 CFR 570.506***
3. 1	Filing System	*Orderly, comprehensive, up-to-date*
3. 2	Security Procedures (office & site)	*Confidentiality/safety of records, 24 CFR 85.42(e) and (f) and 84.34(f)*
3. 3	Location and Accessibility	*Assuring availability and access, 24 CFR 570.508*
3. 4	Documentation (activities & costs)	*Re: National Objectives, Eligible Activities, Program Costs 24 CFR 570.506*
3. 5	Environmental Review Documentation	*24 CFR 570.503(b)(5)*
3. 6	Retention of Records	*24 CFR 85.42 and 84.53 as amended by 24 CFR 570.502(a) and (b)*
4. 0	**Financial Management Systems**	***Required by 24 CFR 85.20 and 24 CFR 84.20–28, as modified by 570.502(a) and (b) as applicable***
4. 1	Systems for Internal Control	*Accounting policies & procedures, staffing; 24 CFR 85.20(b)(3) and 84.21(b)(3)*
4. 2	Components of Financial Mgt System	*Chart of accounts, journals, ledgers, reconciliation data processing, reporting system*
4. 3	Accounting Records: accurate, current and complete disclosure of financial results	*Compare latest CAPER, drawdown requests, bank records, payroll records, receipts/disbursements,*
4. 4	Eligible, Allocable, and Reasonable Costs	*Time sheets, cost allocation plan, expense tracking, 24 CFR 84.27 and 85.22, OMB Circulars A-87, A-122*
4. 5	Cash Management/Drawdown Procedures	*Treasury Circular 1075, 24 CFR 85.20(b)(7) and 85.21*
4. 6	Management of Program Income	*24 CFR 570.504*
4. 7	IPA Audit Reports/Follow-up	*OMB Circular A-133*
4. 8	Maintenance of Source Documentation	*24 CFR 85.20(b) and 84.21*
4. 9	Loan Servicing Capabilities	*24 CFR 85.20(b)(3) and 84.51*
4. 10	Budget Control	*Actual expenditures match budget, 24 CFR 85.20(b)(4)*
4. 11	Revision to Financial Plans & Close-out	*24 CFR 570.503*
5. 0	**Non-Discrimination and Actions to Further Fair Housing**	***Required by 24 CFR 570.506(g), 570.601, 570.602, 570.607***
5. 1	Equal Employment Opportunity	*Direct benefit activities: 24 CFR 570.506, 570.602*
5. 2	Section 3: opportunities for training & employment for local residents	*24 CFR 570.506(g)(5), 570.607(b), and 84.44(d) affirmative action, documentation*
5. 3	Fair Housing Compliance	*Review criteria: 24 CFR 570.904, 570.601(b)*

5. 4	Requirements for Disabled Persons	*§504(24 CFR 8.6), Title VIII, Federal Accessibility Standards, Americans with Disabilities Act (ADA)*
5. 5	Women & Minority Business Enterprises	*24 CFR 570.506(g)(6), 24 CFR 85.36(e) and 84.44(b) affirmative steps documentation*
6. 0	**Property Management**	***24 CFR 85.31–33 and 84.30–37***
6. 1	Acquisition Records Maintenance	*Acquisition records, inventory maintenance*
6. 2	Security for Protection of Assets	*Security procedures 24 CFR 85.32(d)(3)*
6. 3	Disposition of Assets	*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*
7. 0	**Procurement and Bonding**	***24 CFR 85.36 and 84.40–48***
7. 1	Procurement Procedures	*Written policies/enforcement/compliance*
7. 2	Competitive Bids	*Bid packages & award procedures*
7. 3	Use of Debarred, Suspended or Ineligible Contractors or Subrecipients	*Prohibition/documentation required by 24 CFR 570.609; 24 CFR 85.35; 24 CFR 84.44(d)*
7. 4	Small Purchases ($100,000 or less)	*Purchase orders & petty cash 24 CFR 85.36(d)(1)*
7. 5	Noncompetitive Procurement	*Procedures, limits 24 CFR 85.36(d)*
7. 6	Conflict of Interest Provisions	*24 CFR 570.611, Part 85.36 and 84.42*
7. 7	Bonding Requirements	*24 CFR 85.36(h) and 84.48*
8. 0	**Labor Standards Monitoring**	***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***
8. 1	Prevailing Wages (applicability)	*24 CFR 570.603, Handbook 1344.1 Rev. 1*
8. 2	Dissemination, Notices Posted	*(same as above)*
8. 3	Person in Charge of Labor Standards	*(same as above)*
8. 4	Documentation in Files	*(same as above)*
8. 5	Field Inspections/Payroll Review	*(same as above)*
8. 6	Contractor Eligibility	*24 CFR 570.609*
9. 0	**Relocation and Anti-Displacement (See Appendix, Chapter 4)**	***Required by 24 CFR 570.606***

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)	*If low/mod benefit claimed (24 CFR 570.208(a)(3) or slums/blight (570.208(b)(1) or (2))*
-Type of Housing (SF/MF), Commercial	*Davis-Bacon & ADA applicability*
- Number of units per structure	*Davis-Bacon where 8 or more units; ADA*
- Historic preservation	*24 CFR 570.202(d)*
- Lead-based paint (inspection/remediation)	*24 CFR 570.608, 24 CFR Part 35* *24 CFR Part 35 (doc/mitigation)*
- Household income (low/mod benefit)	*Verify occupants' income v. limits*
- Procurement & Bonding	*See Section 7 above*
- Labor Standards Review	*24 CFR 570.603 (Davis-Bacon, etc.)*
- Relocation and Real Property Acquisition	*24 CFR 570.606 relocation/anti-displacement*
- Environmental Review (date/findings)	*24 CFR 570.604 grantee review procedures*
- Project in Special Flood Hazard Area	*24 CFR 570.605 flood insurance required*
- Section 504/ADA compliance	*§504 (24 CFR 8.6), Title VIII, Uniform Federal Accessibility Standards (UFAS), ADA*
10. 2 Comparison of Performance Records With Agreement/Application	*Check progress reports, documentation*
- Scope of Work (work write-up, plans & specs, and original cost estimate)	*Compare scope with Agreement/Application* *Compare with schedule in Agreement*
- Contract award date; date work began	*(same as above)*
- Date final inspection; completion notice	*Compare with number units proposed*
- Number of dwelling units completed	*Compare with Application/Agreement*
- Actual delivery schedule v. 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	*24 CFR Parts 84 and 85, OMB Circulars A-87 and A-122*
- Direct construction costs (per unit)	*Review progress reports & drawdown requests*
- Indirect/administrative costs; comparison with cost allocation plan; % of total	*Check cost allocation plan*
- Costs within 10% of in-house estimate	*Explanation of variances*
- Cost per Unit v. Budget	*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: Conformance with Urban Renewal Plan	*24 CFR 570.208(b)(3) and 570.506(b)(10)*

11. 5	Eligible Activities:	
	Special Economic Development	*24 CFR 570.203*
	- Assistance to for-profit businesses	*24 CFR 570.203(b)*
	- Identification of high-risk subrecipients	*24 CFR Part 85.12*
	- Adequate underwriting?	*24 CFR 570.203(b)*, 570.209 *(See Appendix A to 24 CFR 570 for factors to consider)*
	- Steps taken to minimize displacement	*24 CFR 570.203*
	- Other Criteria (public benefit):	*24 CFR 570.209*
	• Assists businesses providing goods services to low/mod residents	
	• Creates or retains jobs	
11. 6	On-site Verification: required documentation on file	*24 CFR 570.506*
12. 0	**Public Services**	*24 CFR 570.201(e) and 570.506(b)(3)*
12. 1	National Objectives	*24 CFR 570.208*
	- Low/mod Benefit (Area)	*24 CFR 570.208(a)(1)*
	- Low/mod Benefit (Direct)-Limited Clientele	*24 CFR 570.208(a)(2)(i)(A) and 570.506(b)(3)*
	- Presumption of L/M benefit for certain groups	*24 CFR 570.208(a)(2) and 570.506*
	- Slums & Blight (Area)	*24 CFR 570.208(b)(1)*
	- Slums & Blight (Spot)	*24 CFR 570.208(b)(2)*
	- Urgent needs	*24 CFR 570.208(c)*
12. 2	Eligible Activities Review	
	- Prohibition against inherently religious activities	*24 CFR 570.200(j)*
	- Prohibition against political activities	*24 CFR 570.207(a)(3)*
	- Exception for interim assistance activities	*24 CFR 570.201(f)*
	- New/increased levels of public service	*24 CFR 570.201(e)*
	- Cap on overall public service activities	*24 CFR 570.201(e)(1)-(3)*
12. 3	Definition of Units of Service in Statement of Work	*24 CFR 570.503(b)(1)*
13. 0	**Public Facilities and Improvements**	***24 CFR 570.201(c)***
13. 1	National Objectives	*24 CFR 570.208*
13. 2	Special Considerations	
	- Prohibition against political activities	*24 CFR 570.207(a)(3)*
	- Attribution/allocation of costs for multiple-use facilities	*24 CFR 570.200(b)(1)*
	- Prohibition against excessive fees	*24 CFR 570.200(b)(2)*
	- Removal of barriers for disabled persons	*24 CFR 570.200(c) and 207(a)(1)*
	- Requirement for continuity of use (5 years)	*24 CFR 570.503(b)(7) and 570.505*

14. 0	**Acquisition, Disposition, Relocation**	***24 CFR 570.201(a),(b),(i)***
14. 1	Acquisition & Disposition	
	- Document planned use and actual use 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 before 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.

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

- ***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.

CHAPTER 6

SYSTEMS AND PROCEDURES FOR TRACKING SUBRECIPIENT PROGRESS

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CHAPTER 6

SYSTEMS AND PROCEDURES FOR TRACKING SUBRECIEPIENT PROGRESS

In the six years that she has been CD director for the city of Alpine, Helen Catalano has struggled to build the capacity of her office to track the progress of the 31 subrecipients that participate in the local CDBG program. At the beginning, most subrecipients were very inconsistent in filling out their quarterly progress reports. The information provided, especially financial information, was almost always incomplete. At the end of each program year, the planner from her office would spend the better part of two months trying to wrestle the information in these reports into reasonable shape, so it could be used to prepare the community's CAPER. Unfortunately, data in subrecipients' progress reports often contradicted their drawdown requests, and lacked supporting documentation. Most of her program staff viewed the quarterly reports with skepticism. Both the subrecipients filling out the forms and the CD staff reviewing them considered the task a waste of time.

As part of her campaign to improve the CD office's ability to track subrecipients, Ms. Catalano created a working committee to review and revise the subrecipient quarterly report forms. As a result of the committee's efforts, Helen was able to simplify numerous forms; to ensure that subrecipient reimbursement requests were consistent with their CAPER data; and to clarify and improve instructions on filling out the forms for subrecipients. To test these measures, she asked several experienced subrecipients to comment on drafts of the changes and to pre-test the forms in their own agencies.

When the new forms were finally implemented, there was considerable grumbling at first, among both subrecipients and her own staff, about the effort that was required to get the new reports done "right." Over time, however, filling out the reports became second nature to most subrecipients. More important, the improved accuracy and consistency of the data in the quarterly progress reports meant that Ms. Catalano and her staff had a much better feel for what was happening with subrecipients. Her staff was also able to spot emerging issues earlier in the monitoring process and to intervene successfully with technical assistance in a number of cases where performance issues would have gone undetected until they had become major problems.

INTRODUCTION - RATIONALE AND BENEFITS OF EFFECTIVE TRACKING

The key to an effective tracking system is getting the right information to the right person at the right time.

The case above highlights both the difficulties and the benefits of establishing effective information systems for tracking subrecipient performance. Every CDBG grantee in the country has the capability to electronically acquire, organize, analyze or report information about its own and its subrecipients' CDBG activities. However, not all information tracking systems are automated to the extent that subrecipient performance reports, IPA audits, drawdown requests and other financial reporting systems, Action Plans, and Consolidated Annual Performance Evaluation Reports (CAPER) are fully integrated as part of a single Management Information System (MIS). Even with separate systems for these different functions, an effective information system can greatly enhance your capacity as a CD program administrator to oversee the activities of your subrecipients. This is true even though a grantee has not authorized one or more

Management information systems cannot take the place of on-site monitoring, but they are powerful tools in assessing progress, identifying problems, and allocating resources.

subrecipients to access IDIS. If you have questions about subrecipient access to IDIS, contact your HUD Field Office. **The key to an effective tracking system is getting the right information to the right person at the right time.**

Reviewing subrecipient performance based on submitted reports and statistics generated by an information system (often referred to as a "desk audit") ***cannot and should not take the place of on-site monitoring***, regardless of the level of detail and quality of documentation. Nonetheless, the reports and other information generated by an MIS can be powerful tools to help you assess overall progress, identify potential trouble spots, and allocate technical assistance and monitoring resources.

This chapter reviews the fundamental elements of information systems and performance tracking as they are pertinent to subrecipient monitoring under the CDBG Entitlement program. The key issues are broken into four parts:

- Overview of key elements of information systems;
- Basic components of subrecipient tracking;
- Three levels of program tracking systems; and
- Common problems in upgrading tracking systems.

Within this context, the intent is to demonstrate how your written Subrecipient Agreements, drawdown requests, IPA audits, and periodic progress reports can be integrated into a single information system as well as a list of documents to be maintained for each subrecipient. The Appendix to this chapter provides sample forms and reports for tracking subrecipient performance.

While the chapter presumes computer capability, many of the principles discussed below apply to manual systems as well.

SIX KEY ELEMENTS OF INFORMATION SYSTEMS: PRINCIPLES AND PRIORITIES

Any information system has six primary components:

- Purpose
- People
- Process
- Software
- Hardware
- Commitment

It is the sixth element, ***commitment***, that drives the system, that is, your commitment to support the system and to assure that everyone follows established procedures in using it.

Each of these elements is indispensable and must be adequately addressed if the information system is to function the way you want. One of the characteristics of information systems is that "half measures" with respect to any of these elements are likely to cause problems (for example, inaccurate data or poorly trained staff). Bad data can be worse than no data at all, if you are lulled into making false assumptions or incorrect decisions about your subrecipients' activities.

- **System Purpose**

In the context of subrecipient monitoring, the purpose of your information system is to help subrecipients achieve their program goals and observe program rules. It is **NOT** a purpose of the system to stifle creativity, initiative, and innovation by enforcing a standardized reporting process. On the contrary, by creating efficiencies in data collection and analysis, and by making new information and insights available to your staff and to your subrecipients, information systems can actually increase the creativity and initiative of those responsible for carrying out subrecipient activities.

The purpose of a Management Information System (MIS) is to help your subrecipients attain their program goals and to observe program rules. It is NOT to stifle creativity, initiative and innovation.

Your tracking system should enhance the productivity of your staff, and, by increasing the accountability and support you provide your subrecipients, it should enhance their productivity as well. This means that the usefulness of the data you collect should always be greater than the burden imposed on others in collecting it. Certainly, to the extent feasible, you should avoid duplicating other reporting requirements that subrecipients may have.

You will be able to secure more cooperation from subrecipients if the data you require them to provide are directly relevant to their operations and useful for their own administrative purposes. For example, CDBG regulations require that agencies be able to document program benefits provided to low- and moderate-income people. As a result, you might require the subrecipients that are undertaking public services activities to set up case folders for each person enrolled in a skills training program and to log all participant contacts with the agency. These documentation procedures help you and your subrecipients meet CDBG program requirements and also help the subrecipient quantify the achievement of its program goals for monthly or quarterly reporting purposes. See the Appendix for an overview on the purposes of tracking information on activities undertaken by subrecipients.

- **People (System Users)**

Information systems are only as good as the training and motivation of those who use them. Everyone knows the expression: "Garbage in. Garbage out." Unless individuals are properly instructed in how to use the system and are motivated to provide accurate and timely information, the quality of the output (quarterly reports, drawdown requests) will suffer.

To operate effectively, subrecipients should have sufficient, experienced and well-trained staff.

Therefore, you should count on training thoroughly all individuals (both subrecipients and grantee staff) who will be using the information system. This means ***defining skill levels*** necessary for each MIS function and **measuring the progress** of individuals in achieving those skills.

To aid in this effort, you should insist that the system itself be ***as simple as possible*** in its design and operation (including data entry). Whenever feasible, you should use standardized methods or programs (for example, spreadsheets) that permit new users to learn quickly and to transfer their knowledge and skills from other systems (hardware and software).

Training alone, however, will not be sufficient if those responsible for providing input, the subrecipients, feel that they do not benefit from your MIS. Clearly, you have to build some incentives into the process for them. These can be either:

- **negative incentives** – such as withholding approval of a subrecipient's drawdown request due to a missing or inaccurate progress report, or

- **positive incentives** – such as rewarding subrecipients for exemplary reporting by providing special recognition or higher "ratings" for future funding awards.

❑ **Process**

Computerizing an inefficient or poorly defined process is computerizing a problem.

For your tracking systems to work properly, you need to know:

- ***what you have to measure*** (for example, activities undertaken, clients served, units produced, dollars spent);

- ***when you have to measure it*** (for example, how often and in what sequence do you measure performance on a typical rehabilitation project);

- ***how you will measure it*** (for example, what sources of information are necessary to determine the number of full-time, permanent jobs created for each loan provided to a microenterprise, and in what form should this data be provided); and

- ***who will measure it*** (for example, what person on your staff or on the staff of the subrecipient will be responsible for producing a monthly "units of service" summary for a neighborhood day care program).

To help you gain a clear picture of the process involved in collecting and analyzing information about subrecipient activities, you can develop your own ***flow charts to identify the activities, sequence of operations, products and staff responsibilities*** involved in acquiring information and preparing reports. These charts can range from simple, half-page diagrams to complex, multi-page charts.

The point is that you will gain much better control over your information system if you go through the exercise of defining ahead of time the precise steps involved in collecting, entering, sorting, analyzing, and reporting the information you need to measure subrecipient progress and compliance with CDBG regulations.

Finally, it is critical that you be able to answer two key questions as you develop an effective process for collecting information:

- ***What is the purpose of the information?*** (e.g., to meet a particular regulation, to prepare the CAPER, for management oversight); and

- ***Who will use the information?*** (e.g., the Mayor, the County Commissioners, HUD program specialists, your own staff, subrecipient's Board of Directors).

Until you can answer these questions, you cannot define clearly the processes that your information system should be designed to support. ***Computerizing an inefficient or poorly defined process is computerizing a problem.***

❑ **Software**

The range of software packages available on the market is staggering. To help simplify the task of selecting software, you should first specify priorities for the possible uses of your system, including:

- financial management and reporting;

- data base management and reporting (i.e., statistical reports, or status reports that link with other HUD programs);

- word processing;

- spreadsheets;

- graphics and desktop printing; and

- activity-specific functions, such as software packages for preparing housing rehabilitation work write-ups or economic development loan applications and underwriting assessments.

It's never too early to begin thinking about ways to link the "islands of information" and begin building an integrated system.

These software priorities can then guide your decisions on what software packages to acquire first. In all cases, you should assess:

- the ease of use ("user friendliness") of the software;
- how readily your staff can learn to use the software;
- the technical support available in your locality; and
- whether the software will permit you to develop a fully integrated system built around linkages with other software programs.

Finally, you should talk to people who are currently using any software you are not familiar with in order to determine how well they like it and what the software actually does for them (as opposed to what vendors may claim it does).

❑ Computer Hardware

You already have computer systems of one kind or another. You may also be considering how and when to upgrade your systems. Upgrading your computer systems should not be a one-time event but rather should happen as a continuous, planned process. In selecting hardware, some of the important questions to consider are:

- What ***operating system and hardware equipment*** are you currently using and how important is it that you stay with it?
- ***How much power*** do you need in terms of the amount of random access memory, speed, disk storage, use of modems, etc.? The power of the system affects the type of operating system that can be utilized, the complexity of the software that can be handled, the amount of data to be stored and manipulated, and the potential for "networking."
- ***How reliable*** must the system be? Will the computer be used only occasionally by a single user or will it drive an entire network?
- Who will provide ***service and support***? Buying a low-cost computer system with no support could represent a significant risk you probably shouldn't assume.

The time put into research to find answers to these questions will pay off in the long run in terms of the suitability of new equipment and your satisfaction with the system. When in doubt about these issues, you will probably want to aim for:

- the *most computer power* you can afford in terms of size and speed (ideally random access memory and hard disk data storage);
- the *most flexible system* (to allow for growth); and
- *simplicity over complexity*, particularly when introducing a new system (give yourself the opportunity to de-bug the basic system before you try to get fancy).

❑ **Commitment to the System**

No matter how small or large the information system you develop, you are making an investment in:

- **capacity** (how much work you can do);
- **productivity** (how efficiently you can do it); and
- **team building** (how well your staff and your subrecipients work together as a team).

Buying new hardware and software does not guarantee an improvement in performance.

A partial commitment to this effort will yield only partial results. For this reason, if you install new hardware or software or require "tie-ins" to an outside database or accounting system, you have to ***give your staff and your subrecipients the time and financial support necessary to learn the new systems*** and adapt their administrative procedures. Buying new hardware and software does not guarantee changes in performance.

INFORMATION FOR PERFORMANCE MONITORING

The previous section outlined the six generic elements that underlie the effectiveness of any information system. This section focuses on specific features of the CDBG program that affect your system for tracking subrecipient activities.

It doesn't matter what kind of system you have; effective tracking of subrecipient performance still must begin with the written Agreement. Make sure your written Agreements contain the level of detail required to measure subrecipient performance.

It is helpful at the start to realize that, for any given subrecipient, there should be ***only one system***, the one that links you to the subrecipient. If you say that there are two systems, yours and theirs, you are bound to spend a lot of time translating "their" data into information that "you" can use (and trust).

It's far more helpful to ***develop a joint system*** where forms and reports get filled out once and meet the needs of both parties. This means agreeing with your subrecipients about specific measurement terms (for instance, "units of service" for specific activities), about specific time periods for measuring performance (e.g., months, quarters, etc.), and about ways to allocate costs to different categories of their activities (specifically, a cost allocation plan).

Subrecipient Agreements as Tools for Tracking Performance

As described in Chapter 3, the written Agreement is both a plan for undertaking CDBG activities as well as a valuable tool for tracking your subrecipients' performance. Indeed, the Agreement should provide you with a yardstick for measuring the degree to which a subrecipient is achieving the objectives specified. Grantees can compare actual progress with the terms of the grant agreement to determine whether the subrecipient is carrying out the activities as approved, on time, and within budget.

The written Agreement tells a subrecipient ***what is required to be done, how and when it must be done, and how the subrecipient will be paid for these activities***. Clearly, it is crucial that you define these aspects of the Agreement in concrete and unambiguous terms, so that you can use them as the basic units of measurement in your MIS. According to 24 CFR 570.503(b)(1), written Agreements with subrecipients are required to have a statement of work that includes "a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the [grantee] to effectively monitor performance."

A scope of service in a written Agreement that simply states that the responsibility of the subrecipient is to "provide housing counseling to low-income people" is essentially not measurable and useless for overseeing performance. On the other hand, a scope of service that indicates the responsibility of the subrecipient is to "provide an average of six hours of housing counseling services to each of 50 unduplicated low-income households per month based on a pre-approved curriculum," begins to provide a clear framework for reporting and tracking performance.

Basic Elements for Tracking Performance

As noted in Chapter 3, **the basic elements** that must be addressed in a subrecipient's written Agreement include:

- a scope of services;
- a schedule for completing the work;
- a budget;
- the basis for compensation;

- reimbursement procedures;
- other program requirements relevant to the activity being undertaken; and
- record-keeping and reporting requirements.

The Agreement should frame each of these in a manner that is consistent with the other items, and should be **expressed in measurable terms that provide the basic "data input"** for the subrecipient's submission of progress reports and drawdown requests.

For example, the agreement for a ***subrecipient performing housing rehabilitation*** services should include at least the following elements to track performance:

- The ***Scope of Services*** should define the number of units to be completed within the program year, the location and neighborhoods and/or other characteristics of the target population. It should also reference any written statement of subrecipient policies and procedures for the activity, including governing priorities among eligible applicants, eligible repairs and maximum per unit assistance levels, forms and conditions of financial assistance, recapture and forgiveness policies, etc.
- The ***Project Schedule*** in the Agreement should indicate at a minimum the time for completion of individual units, and the schedule of subtasks reflecting the overall activity in the "pipeline" (completion of application intake, determination of income and eligibility of repairs, work write-ups, units out to bid, bids awarded, unit 50-percent completed, unit 100 percent completed/final inspection). The cumulative figure for total completed units on the schedule should agree with the Agreement's scope of services and budget.
- The ***method of compensation*** set by the Agreement can be negotiated with the subrecipient; however, it is best to structure payment based on the delivery of a specific, measurable product, rather than on a general hourly rate. For example, certain housing rehabilitation activities such as work write-ups can be reimbursed on a fixed fee basis and draws for construction labor and materials could be made proportional to the work in progress. If possible, there should be a set-off (e.g., 10 percent) retained until final inspection and sign-off for any unit. Consistent with the budget and scope of services, the compensation section might also specify an upper limit for how much the subrecipient can spend on any individual unit without an explicit grantee waiver, to ensure that the subrecipient's allocation of funds is not spent on a few disproportionately expensive units.

One nice idea is to take "before and after" photos to document performance and the success of the subrecipient.

This is just one example of how the Agreement should provide to track performance with respect to scope, time, cost and quality. Other sections of the written Agreement should complement these basic elements in order to create a consistent structure for tracking.

Drawdowns: Processing Payment Requests

Drawdown requests are often overlooked as mechanisms for tracking performance. Yet these forms can provide you with a great deal of insight about what is happening with the subrecipient's operations. Once a written Agreement has been executed and the work has been started, your subrecipient should follow certain procedures in order to draw down CDBG funds. Although the details may vary somewhat from grantee to grantee, you should agree on ***who is authorized to request payment, what accounts have been set up to receive payments, and what forms will be used to request payment.***

Drawdown requests are often overlooked as mechanisms for tracking performance. Yet these forms can provide you with a great deal of insight about what is happening in the subrecipient's operations.

In most cases subrecipients submit requests for payment more frequently than their scheduled progress reports. Yet drawdown request forms have not always been designed by grantees to capture that information most useful for tracking performance (what, when, where, how, by whom, to whom, etc.). For this reason, drawdown requests are often overlooked as mechanisms for tracking performance. If structured properly, however, these forms can provide you with a great deal of insight about what is happening with the subrecipient's operations. Drawdowns are an important indicator of whether a subrecipient is carrying out the project on time and on schedule.

Designing Payment Request Forms

In addition to the standard information required on a Request for Payment form, it is very helpful to have information about units of service delivered during the time period in question.

At a minimum, requests for payment from each subrecipient should include information to help you track:

1. The <u>overall status</u> of the subrecipient's CDBG funds, showing cumulative amounts for:

   - CDBG funds approved to date;
   - program income received to date;
   - actual disbursements to date;
   - CDBG funds on hand at time of request; and
   - requests previously submitted but not reimbursed

2. For each activity or budget category:

   - budgeted amount;
   - CDBG funds drawn to date;
   - program income expended to date;
   - grant funds expended to date; and
   - current request for payment.

A grantee will also want to request ***source documentation*** (such as invoices from contractors for rehabilitation work) to support the expenditures claimed by subrecipients.

Requests for Payment should help you close the information loop between proposed objectives and actual activities.

From this information, you can determine the subrecipients' rates of spending in their various activity areas or budget categories and whether they are using their program income in a timely fashion and drawing down appropriate amounts of grant funds.

If, in addition to the above, you require your subrecipients to include on their payment request forms the ***number of completed units of service to date*** for any item for which a drawdown is requested, you will have the information to compare actual completions and expenditures with the original budget and schedule for the activity. This will help you close the information loop regarding actual versus proposed achievements. It will also help you to provide timely information on accomplishments in IDIS.

The previous section describes how you can use written agreements and payment requests to help track any subrecipient's overall performance.

THREE LEVELS OF PROGRAM TRACKING SYSTEMS

This section focuses on those management tools specifically developed for the purpose of tracking performance. Three levels are described, corresponding to the levels of sophistication grantees and subrecipients may have in their ability to acquire, organize, accumulate, and report performance information. They are:

- **Level 1**: Basic Reporting for Individual Subrecipients
- **Level 2**: A Subrecipient Performance Database
- **Level 3**: An Integrated Progress Reporting System

In general, the larger and more complex your program, the more you will need to develop a fully integrated progress and financial reporting system for your subrecipients.

The nucleus of performance tracking is the submission of regular progress reports.

The nucleus of performance tracking at the most basic level is the submission of regular progress reports by individual subrecipients. Some grantees require monthly progress reports. Other grantees require progress reporting on a quarterly basis.

Level 1: Periodic Reporting for Individual Subrecipients

The usefulness of subrecipient progress reports hinges on the quality of the data provided to you. If you don't have a lot of confidence in the data being reported (the information just isn't accurate), or if the reports don't provide enough information, you are unlikely to be able to use the reports to measure the achievement of objectives specified in the Agreement.

It is worthwhile observing the following principles to ensure the utility of these reports both to you and the subrecipient:

- **Request Relevant Data**

Reporting content and frequency may vary, depending on program activity and complexity. Quality of reporting should be non-negotiable.

1. Make sure that **the reports capture the data that are important, and <u>only</u> the data that are important**. This means making sure that the progress report format reflects:

   - the performance measures established in the written Agreements;
   - data required by regulations; and
   - the data to be reported in your CAPER.

   If you are not sure how you will use a particular piece of information, don't require your subrecipients to report it. Help the subrecipient understand why you need particular data; if you can't explain it, you don't really need it.

   Subrecipients should have the option, but not be required, to include other data (particularly narrative information) to provide a fuller picture of their activities.

- **Provide Clear and Detailed Instructions**

2. **Provide clear and detailed instructions on preparing the reports**. It is never safe to assume that standardized forms are self-explanatory. A little effort invested in furnishing detailed instructions and examples on how the progress report should be completed is likely to yield large benefits in terms of consistency and accuracy.

- **Communicate with the Subrecipient**

3. **If a report is not submitted on time or not completed correctly, let the subrecipient know immediately**. The subrecipient is only likely to attach as much importance to the progress report as you do, so be sure to communicate the importance you give to timely and accurate submissions. Also, compare the progress reports with the requests for payment submitted by the subrecipients. You should ask your subrecipients to explain any discrepancies. For example, progress reports are good vehicles for capturing details on the use of ***program income***. This information can supplement and clarify the summary information on program income typically included in subrecipients' drawdown requests. Some grantees require requests for payment to be submitted with monthly progress reports thus simplifying the review process.

❑ **Use the Data Fully**

4. **Use the data in the progress reports as fully as possible**. Multiple use of the data helps justify the effort put into preparing them. If the data are accurate, for example, they can be useful not only in preparing your CAPER, but also in:

   - helping to identify individual subrecipients experiencing performance problems;
   - creating a database for analyzing trends among subrecipient activities;
   - planning monitoring visits; and
   - having data available to show elected officials and citizens the activities and benefits of the program.

   It also helps to publicize such applications of the progress report data as proof to your subrecipients that you value their submissions.

   In the Appendix is a copy of a report format generally developed by the City of El Paso, TX. This report is submitted monthly by subrecipients, is tied to requests for payments, and provides data on performance, units of service-provided, and racial characteristics of beneficiaries.

Level 2: Accumulating Data About Groups of Subrecipients

The subrecipient progress report describes the core capability you must have. Once this nucleus is in place, however, you may want to consider adding other MIS "options." This is particularly appropriate if you have computer capacity and software programs that allow you to organize and query databases describing the current activities and status of your subrecipients. Four types of sub-systems designed to help you track progress are:

❑ **Milestone Tracking**

1. **Systems for tracking program milestones for all subrecipients**: These are created from data in the written Agreements, particularly the individual subrecipient schedules and the progress reports, and display planned versus actual completion dates for key milestones or objectives for each subrecipient. Such systems are helpful for seeing "at a glance" overall performance among subrecipients, as well as for comparing achievement rates among subrecipients and highlighting slow performers for further attention. This system can provide early warning signals when subrecipients fail to meet established timetables and can help grantees stay on track to meet the overall requirement for carrying out its CDBG program in a timely manner.

- **Financial Tracking**

2. These are to the "fiscal" side what the systems described above are to the "program" side. They rely on data provided from drawdown requests and the financial sections of progress reports to facilitate analyzing the drawdowns, obligations, and spending patterns of subrecipients. For example, such systems can give you an early warning of spending shortfalls or overspending for particular categories of activities and subrecipients.

- **Monitoring Status**

3. **Systems for tracking the monitoring status of subrecipients**: These reflect your original monitoring plan for subrecipients and can be compared with current monitoring status of individual subrecipients. They can show, for example, when monitoring is scheduled, what aspect of the subrecipient's activities will be monitored, and which members of the CD staff will be involved. Once monitoring has been completed, they can show when the monitoring letter went out, what findings were cited, when the subrecipient's response is due, and the deadline for corrective action. This particular application can work well on both automated and manual systems.

- **Exception Reports**

4. **Exception reports**: These computerized reports feature mechanisms for determining which subrecipients have failed to meet particular deadlines or have fallen below certain thresholds of performance (for example, greater than 20 percent of targeted expenditures, or less than 20 percent of targeted units of service, for a given month). These variations can be automatically identified by the computer for further follow-up by the grantee.

If the data you put into these systems are both timely and accurate, you can spend less time figuring out the problem and more time implementing solutions.

The advantage of these performance and financial monitoring improvements is that they permit you to review the status of a large group of subrecipients simultaneously using standardized programs and procedures, rather than tackling the performance monitoring process on a one-at-a-time basis. If the data you put into these systems are both timely and accurate, you can spend less time figuring out the problem, and more time implementing solutions.

Level 3: Integrated Financial and Program Management Systems

An integrated financial and program management system does not necessarily require a mainframe computer and expensive software.

Level 3 systems represent a high degree of sophistication in information systems technology. Such systems address diverse financial and program management functions as an integrated system, so that your staff can set up subrecipient monitoring priorities and coordinate their activities using the most complete and accurate information available. Integration means, for example, that information from subrecipient progress reports is combined with data on special conditions in the Agreement, monitoring visits/corrective actions required, drawdown requests, financial disbursements, and program income to provide an up-to-date, on-line picture of the subrecipient's overall status.

- **Measuring Performance**

Such an integrated system can also enable grantees to use their data to analyze the benefits of their investments. Performance measurement is a process that tracks the progression of projects and evaluates overall program effectiveness. The CDBG program requires that each grantee submit a performance and evaluation report concerning the use of CDBG funds, together with an assessment of the relationship of the use of funds to the objectives identified in the grantee's Consolidated Plan. Subrecipients should also establish goals and measure their performance in a manner consistent with the grantee's performance measurement system.

There are four primary benefits of such a system:

- The internal consistency and accuracy of data can be checked automatically;
- Relative to other systems, the same number of staff can usually track a greater number of subrecipients or a larger or more complex group of activities (greater span of control);
- Comprehensive reports on financial, regulatory and program status permit faster turn-around and quicker response to pending issues (multiple information sources are updated simultaneously and in a coordinated fashion); and
- Status reports and monitoring procedures can be adapted to the needs of particular subrecipients, because the system permits greater flexibility.

An integrated financial and program management system does not necessarily require a mainframe computer and expensive software. In fact, such systems are often more readily implemented in PC environments using simple local area networks to tie key data sources together.

Because of the complex nature of CDBG record-keeping and reporting requirements (both financial and program), fully integrated systems are helpful because they can reduce the sources for errors and generate multiple reports from the same source of information. However, their implementation may require substantial expenditures of both time and money.

DEALING WITH COMMON PROBLEMS

Your information systems needs and capabilities are likely to change in response to changes in your use of subrecipients for delivering CDBG-funded services. In upgrading your information systems, there are five common problems you are likely to encounter:

- Securing the commitment of subrecipients
- Establishing a standard reporting framework
- Simplifying data collection, record keeping, and reporting
- Maintaining separate accounts
- Moving from manual to automated systems

❑ Securing the Commitment of Subrecipients

It is no secret that many subrecipient organizations are under-funded and under-staffed. It is also not surprising that grantees frequently point to inadequate record eeping and reporting as their subrecipients' greatest weakness. The two problems go hand-in-hand. In this situation, securing additional or different data from your subrecipients becomes even more difficult, especially if they appear unable to keep up with present documentation and reporting requirements.

Inadequate subrecipient record keeping and reporting are a major source of monitoring problems.

Frequently, the solution to this dilemma lies in finding ways to address both problems simultaneously, that is, helping the subrecipient to organize or streamline their present record-keeping systems so that this function requires less staff time, while introducing the documentation and reporting changes you need.

This “win-win” approach may take more time and effort on your part, but in the long run you both benefit: you have helped your subrecipient increase its capacity to keep adequate records and report progress, and have introduced needed changes at the same time.

❑ Establishing a Standard Reporting Framework

You should not consider upgrading your capabilities until you have established a standard and stable reporting framework applicable to all subrecipients.

This step is key to building an effective information system. A standard reporting framework is based on forms that are easy to fill out, regular reporting intervals, standardized data required of all subrecipients, a clearly defined process for data collection and reporting, and unambiguous links to standard written Agreements. Such a reporting framework reduces a great many headaches you may encounter in finding out what your subrecipients are doing.

One of the most common barriers to achieving such a system lies in the subrecipient's attitude that "It doesn't apply to us. Our program is unique." You should address this resistance with a positive, but firm response: that the documentation and reporting requirements you specify are part of the Agreement, imposed by Federal laws and regulations, and are conditions for reimbursement of program expenses.

In upgrading any information system, the first requirement is to assure that you have a system. That is, you should not consider upgrading your capabilities until you have established a standard and stable reporting framework applicable to all subrecipients.

- **Simplifying Data Collection, Record Keeping, and Reporting Procedures.**

Simplifying record-keeping procedures for yourself and your subrecipients is probably the hardest task of all because these procedures tend to build up in response to layers of Federal, state and local regulations (and interpretations of those regulations) that can change almost monthly.

Before you decide to upgrade your system or change your data collection and reporting methods, first ask yourself how you can simplify the system. Such simplification might include:

- eliminating duplicate or unnecessary information;
- reducing the number of sources from which information has to be retrieved;
- reducing the number of steps involved in securing or reporting information;
- making one source of information (for instance, a subrecipient application or drawdown request) satisfy multiple record-keeping and reporting requirements; and
- clarifying staff responsibilities in obtaining and reporting information.

Upgrade your tracking systems only when you feel sure that the process is as lean and efficient as possible. In the absence of simple procedures, computers are only liable to make your life more complicated.

- **Maintaining Separate Accounts**

According to Federal regulations, co-mingling of CDBG funds with other sources is prohibited (24 CFR Part 85), both for grantees as well as for subrecipients. At the same time, few subrecipients are supported solely by CDBG funds applied to a single eligible activity; most in fact undertake multiple activities supported by multiple (public and private) sources of funds.

Under these circumstances you are responsible for assuring that your subrecipients use appropriate systems and procedures:

- to document their expenditures on CDBG-funded activities;
- to allocate their costs to the correct accounts; and
- to use separate accounts for tracking their different CDBG activities.

One of the biggest problems is keeping track of staff time and expenses when individual staff members are involved in multiple activities. To avoid problems, make sure that subrecipient staff know how they are to record their time and expenses, and that normal management tools (e.g., time sheets, telephone logs, expense records, filing systems) are adequate for distinguishing this information for different accounts. For example, staff who work on more than one activity during a week should be able to summarize in their time sheets the number of hours per day that they spend on each separate activity.

- **Moving from Manual to Automated Systems**

If one or more of your subrecipients is moving from a manual to automated record-keeping and reporting system, make sure that the basic requirements discussed above will be addressed in the new system and that back-up (or parallel) records will be maintained until the new system has been completely checked out. Make sure that subrecipients keep back-up documentation (hard copies) of all primary records (applications, agreements, time sheets, accounting records, drawdown requests, case records, etc.) separate from data stored electronically in a safe, fireproof location, for at least four years following submission of the performance report in which the specific activity is reported for the final time.

The transition from a manual to an automated system often represents an excellent opportunity for you to help the subrecipients improve their record-keeping and reporting systems. Be prepared to take advantage of it.

SUMMARY

This chapter has explored requirements and recommendations for developing systems you can use to track the progress of your subrecipients. The information and reports produced by these systems should not be used to replace regular on-site monitoring; however, they can be very useful in identifying subrecipients that need support, and indicating problems that need to be addressed before performance issues become serious problems requiring outside intervention.

Regardless of the capacity and sophistication of your information systems, the effectiveness of your tracking will depend upon clearly defined objectives for each subrecipient activity (from the written Agreements), and regular subrecipient progress reports. Integrated financial and program management systems are desirable targets for upgrading your computer capabilities; however, they can only be as good as the timeliness and accuracy of the information you put into them.

NOTES:

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OVERVIEW: PURPOSE OF TRACKING INFORMATION

Effective tracking of subrecipient activity is founded on having complete documentation in the original application and Subrecipient Agreement and then relies on submissions by the subrecipient of payment requests and progress reports, the audit, on-site monitoring visits and regular communications with the subrecipient. An effective subrecipient tracking system should enable you to answer the following questions throughout the program year:

- How a National Objective is being met by the activity?
- Does the activity continue to meet the eligibility requirements of the CDBG program? How?
- Who is being served by the activity? How many beneficiaries? Characteristics?
- Are the objectives specified in the Subrecipient Agreement being attained?
- Are the services or products specified in the Statement of Work being delivered?
- Is the project budget being met? (By how much is the project over- or under-spent?)
- To what extent is the project schedule being met?
- Are expected levels of quality being maintained in the delivery of products and services?
- Are the subrecipient's Progress Reports and drawdown requests submitted on a timely basis and filled out correctly?
- Are proper records being kept consistent with CDBG regulations?
- Are communications with the subrecipient open, complete and up-to-date?

Tracking systems cannot by themselves replace on-site monitoring of subrecipient performance and regulatory compliance; however, they can make your monitoring more efficient and effective by helping you address the most important issues in a shorter time period.

The principal sources for this information include:

- Subrecipient Application
- Written Agreement (as a guide to progress)
- Financial Statements
- Audits
- Monthly/Quarterly Progress Reports
- Drawdown (Reimbursement) Requests/Reports
- Record-Keeping Systems/Files
- Monitoring Visits
- Telephone Conversations
- Consolidated Annual Performance and Evaluation Report

DOCUMENTATION TO BE MAINTAINED

- Form should be initiated when grantee awards subgrant to subrecipient.
- Date at top should indicate last time when checklist was updated.
- Form should be updated after desk audits and all monitoring visits, or when key documents are received from/sent to Subrecipients.

Date Checklist Last Updated:_____

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?		Location
			YES	NO	
Project Application					
• Original Application	❑ Subrecipient	_____	❑	❑	
• Amendments to Application	❑ Subrecipient/Grantee	_____	❑	❑	
• Approval of Amendments	❑ Grantee	_____	❑	❑	
• Notice of Award	❑ Grantee	_____	❑	❑	
• Correspondence	❑ Subrecipient/Grantee	_____	❑	❑	
Pre-Award Documentation					
• Articles of Incorporation/Bylaws	❑ Subrecipient	_____	❑	❑	
• Non-profit Determination	❑ Subrecipient	_____	❑	❑	
• List of Board of Directors	❑ Subrecipient	_____	❑	❑	
• Authorization to Request Funds	❑ Subrecipient	_____	❑	❑	
• Authorized Official	❑ Subrecipient	_____	❑	❑	
• Organizational Chart	❑ Subrecipient	_____	❑	❑	
• Resumes of Chief Admin. and Chief Fiscal Officers	❑ Subrecipient	_____	❑	❑	
• Financial Statement and Audit	❑ Subrecipient	_____	❑	❑	
• Conflict of Interest Statement	❑ Subrecipient	_____	❑	❑	
• Plan for Compliance with National Objectives	❑ Subrecipient	_____	❑	❑	
• Lobbying Certification	❑ Subrecipient	_____	❑	❑	
	❑ Subrecipient	_____	❑	❑	
Subrecipient Agreement					
• Subgrant Amount	❑ Grantee	_____	❑	❑	
• Date of Subgrant	❑ Grantee	_____	❑	❑	
• Statement of Work	❑ Subrecipient	_____	❑	❑	
• Budget by Task/Activity	❑ Subrecipient	_____	❑	❑	
• Schedule by Task/Activity	❑ Grantee	_____	❑	❑	
• Standard Provisions	❑ Grantee	_____	❑	❑	
• Special Conditions	❑ Grantee	_____	❑	❑	
• Amendments (Dates)	❑ Grantee	_____	❑	❑	

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?		Location
Financial Records			YES	NO	
• Current Approved Budget	❑ Subrecipient/Grantee	_____	❑	❑	
• Authorization Letter/Signatures	❑ Subrecipient	_____	❑	❑	
• Financial Management Systems (Accounting books, software, reporting systems)	❑ Subrecipient	_____	❑	❑	
• Chart of Accounts	❑ Subrecipient	_____	❑	❑	
• List of Source Documents to be Maintained	❑ Grantee	_____	❑	❑	
• Financial Status Report (total budget, amount expended, unliquidated obligations, unobligated balance)	❑ Subrecipient	_____	❑	❑	
• Drawdown Request Forms	❑ Subrecipient	_____	❑	❑	
• Executed Contracts/Bid Docs	❑ Subrecipient	_____	❑	❑	
• Board Minutes for Approval of Contracts or Bids	❑ Subrecipient	_____	❑	❑	
• Copy of Most Recent Audit Report	❑ Subrecipient	_____	❑	❑	
• Certification of Insurance Coverage/Bonding	❑ Subrecipient	_____	❑	❑	
• CDBG Payroll Records	❑ Subrecipient	_____	❑	❑	
• Certified Construction Payroll Record (Davis-Bacon applicable)	❑ Subrecipient	_____	❑	❑	
• Approved Cost-Allocation Plan	❑ Subrecipient/grantee	_____	❑	❑	
• Relevant Financial Correspondence	❑ Subrecipient/grantee	_____	❑	❑	
Project Monitoring & Control					
• Completed Monitoring Reports	❑ Grantee	_____	❑	❑	
• National Objectives Documentation	❑ Subrecipient	_____	❑	❑	
• Eligible Activities Documentation	❑ Subrecipient	_____	❑	❑	
• Activity Status Report (scope, cost, schedule, Actual v. Agreement)	❑ Subrecipient	_____	❑	❑	
• Drawdown Request/Reports	❑ Subrecipient	_____	❑	❑	
• Subrecipient Staffing	❑ Subrecipient	_____	❑	❑	
• Meeting Minutes	❑ Subrecipient	_____	❑	❑	
• Telephone Log/Notes	❑ Subrecipient	_____	❑	❑	
• Correspondence	❑ Subrecipient	_____	❑	❑	

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?		Location
			YES	NO	
Regulatory Compliance File					
• HUD Monitoring Results	❑ HUD/Grantee	_____	❑	❑	
• Real property inventory, Management and Change of Use	❑ Subrecipient	_____	❑	❑	
• Anti-discrimination, Fair Housing, EEO, ADA/504 Certifications	❑ Subrecipient	_____	❑	❑	
• Procurement, Bonding, Insurance	❑ Subrecipient	_____	❑	❑	
• Labor standards	❑ Subrecipient	_____	❑	❑	
• Acquisition, Displacement, Relocation, Replacement Housing	❑ Subrecipient	_____	❑	❑	
• Environmental Review	❑ Grantee	_____	❑	❑	
• Loan Status Reports (economic development, rehabilitation)	❑ Subrecipient/Grantee	_____	❑	❑	
• Administrative Activities	❑ Subrecipient	_____	❑	❑	
• Flood Insurance Purchase	❑ Subrecipient	_____	❑	❑	
Other Project Activity Files					
• Plans & Specs (rehabilitation, historic preservation)	❑ Subrecipient	_____	❑	❑	
• Orientation and Training	❑ Subrecipient	_____	❑	❑	
• Special Case Records	❑ Subrecipient	_____	❑	❑	

CONSOLIDATED ANNUAL PERFORMANCE AND EVALUATION REPORT INFORMATION

The following data items are useful in tracking subrecipient performance and regulatory compliance. They are also required for the Consolidated Annual Performance and Evaluation Report (CAPER). If you collect or update this information throughout the program year, preparation of the CAPER is much easier. You will also be able to monitor your subrecipients more closely.

- Activity name and number
- Subrecipient name, address, telephone number, responsible individual
- Activity description
- Activity location, including census tract/block group where activities occur
- Month/year activity funded
- National Objective being met and how it meets program criteria
- Type of activity - eligibility category
- Financial status for activity:
    - Amount authorized
    - Amount expended this reporting period
    - Total expended to date (all sources as well as CDBG)
    - Unliquidated obligations (for public service activities only)
    - Unobligated balance
- Program income expected to be generated and actually received
- Other HUD funds involved in activity
- Accomplishments/Units of Measurement:
    - Numbers of persons assisted (for all non-housing activities)
    - Number of households assisted (for housing activities)
    - Number of businesses assisted
    - Number of organizations assisted
    - Number of housing units completed
    - Number of public facilities completed
    - Number of full-time equivalent jobs created
    - Number of full-time equivalent jobs retained
- Status of activity not completed, major milestones, problems or delays
- If activity is to benefit low- and moderate-income persons:

For acquisition, construction, or rehabilitation of multi-unit residential buildings, record:

- Number of units in each structure at project start, and number of units in each structure at project completion

- Number of units per structure occupied at project start and number which are occupied by low- and moderate-households

- Number of occupied units per structure at completion and number occupied by low- and moderate-income households at completion

- Total cost, and share of total that is CDBG

- Total rehab administrative costs

For job creation/retention activities, record:

- Listing of permanent job titles, which have been or will be created, and which are part-time jobs. If any positions require special skills/training, describe the efforts being made to provide such skills/training

- Cumulative number of permanent full-time equivalent jobs created

- Cumulative number of permanent full-time equivalent jobs retained

- Which of such jobs are held by low- and moderate-income persons (same information for permanent/part-time jobs)

- Which of such jobs were made available to low- and moderate-income persons

- Actions taken or to be taken by subrecipient or business to ensure first consideration was or will be given to low and moderate persons

- Family size and income characteristics of beneficiaries (or household size and income for housing activities)

- Information on racial groups being served. Collect separate data counts where these individuals are also Hispanic or Latino:

  - White
  - Black or African American
  - Asian
  - American Indian or Alaskan Native
  - Native Hawaiian or other Pacific Islander
  - American Indian/Alaskan Native and White
  - Asian and White
  - Black/African American and White
  - American Indian/Alaskan Native and Black/African American
  - Other Multi-Racial

- Information on female-headed households served
- Information on multi-unit structures assisted
- Information on number of households/businesses displaced or temporarily relocated for each assisted project (e.g., acquisition, rehabilitation)
- One-for-one replacement data

Sample Spreadsheet
Sample Project

29th Year Monthly Status Report

Contract Date: 9/1/03 through 8/31/04 PO# 2003003541 Vendor # 850096791 Index Code: 150031–205200

Line Item	CDBG Budget	Prog Inc. Transfer	Budget Transfer	Revised Budget	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Available Balance	YTD Expended
Salaries	$34.800.00	$0.00	$0.00	$34.800.00													$34.800.00	$0.00
Fringe Benefits	$10,000.00	$0.00	$0.00	$10,000.00													$10,000.00	$0.00
Telephone	$450.00	$0.00	$0.00	$450.00													$450.00	$0.00
Utilities	$4,000.00	$0.00	$0.00	$4,000.00													$4,000.00	$0.00
Office Supplies	$600.00	$0.00	$0.00	$600.00													$600.00	$0.00
Janitorial Supplies	$10.00	$0.00	$0.00	$10.00													$10.00	$0.00
Total	$49,860.00	$0.00	$0.00	$49,860.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$49,860.00	$0.00
Prg Income																	$0.00	$0.00
TOTAL BILLED	$49,860.00				$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$49,860.00	$0.00
																		0.00%

Fiscal Year: 1-1-02 thru 12-31-03
Audit Due by: 6-30-2004
Insurance Expires: 10-01-03

UNITS OF SERVICE					Goal	#8
Month	Avg Rate	Projected	Actual	YTD	YTD %	People Served
Sept	8.3%	315.4			0.0%	
Oct	16.7%	634.6			0.0%	
Nov	25.0%	950.0			0.0%	
Dec	33.3%	1265.4			0.0%	
Jan	41.7%	1584.6			0.0%	
Feb	50.0%	1900.0			0.0%	
Mar	58.3%	2215.4			0.0%	
Apr	66.7%	2534.6			0.0%	
May	75.0%	2850.0			0.0%	
Jun	83.3%	3165.4			0.0%	
Jul	91.7%	3484.6			0.0%	
Aug	100.0%	3800.0			0.0%	
Total		3800.0	0.0		0.0%	0

	FINANCIAL STATUS				ADMIN
	Available Balance	YTD Billed	YTD Billed %		Budget Transfers
Sept	49,860.00	-	0.0%	0.0%	
Oct	-	-	0.0%	0.0%	
Nov	-	-	0.0%	0.0%	
Dec	-	-	0.0%	0.0%	
Jan	-	-	0.0%	0.0%	
Feb	-	-	0.0%	0.0%	
Mar	-	-	0.0%	0.0%	
Apr	-	-	0.0%	0.0%	
May	-	-	0.0%	0.0%	
Jun	-	-	0.0%	0.0%	
Jul	-	-	0.0%	0.0%	
Aug	-	-	0.0%	0.0%	

REPORTS DUE 10th		
Date Rec'd	Date Posted	Notes

Attachment A: Payment Request

AGENCY NAME: **Mo./Yr**

PROGRAM NAME:

PREPARER'S NAME: **Phone:**

Approved CDBG Budget	$
CDBG Disbursements To Date	$
PI Expended To Date	$
Available CDBG Balance	$

(This Request)

Budget Line Item	AMOUNT REQUESTED FOR CDBG REIMBURSEMENT
TOTAL REQUEST	
LESS CDBG FUNDS ON HAND	
LESS PROGRAM INCOME ON HAND	
NET PAYMENT REQUESTED	
PI BALANCE AVAILABLE	

Signature of Executive Director or Board President: Date:

Signature of CD Staff: Date:

Signature of CD Accountant: Date:

Attachment B: Units of Service Report

Agency Name: **Program Name:**

Preparer's Name: **Phone Number:**

Calendar Mo. of Report **Contract Period: 29th Year**

	Units Directly Applicable Toward Contract	
Type of Unit	Number of Units	Number of new persons served *this* month: (should match column A on Ethnicity Report)
		Notes
Total for Period		

	Units Directly Applicable Toward Contract	
Type of Unit	Number of Units	Number of new persons served *this* month: (should match column A on Ethnicity Report)
		Notes
Total for Period		

Signature of Agency Director or Board President Date

Attachment C: RACE/ETHNICITY REPORT

Agency Name: **Contract Period: 29th Year**

Program Name:

Preparer's Name: **Phone:**

NOTE: Column A automatically totals all the ethnicities (columns H–R). Totals for the three income groups (columns B–E) should equal the total in column A. If you serve a "Presumed Benefit" clientele, write "PB" in columns C–E instead of numbers. Columns F and G should equal total in column A. Columns S and T stand alone.

Month	Total # Persons Assisted (autototals ethnicity)	Non-Low/Mod Clients	Moderate-Income Clients (A=B+C+D+E)	Low-Income Clients (A=B+C+D+E)	Extremely Low Income Clients (A=B+C+D+E)	Hispanic	Non-Hispanic	White	Black/African American	Asian	American Indian/Alaskan Native	Native Hawaiian/Other Pacific Islander	American Indian/Alaskan Native and White	Asian and White	Black/African American and White	American Indian/Alaskan Native and Black	American Indian/Alaskan Native and Black/African American	Other Multi-racial	**Persons with Disabilities**	**Female Head of Household**
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**	**N**	**O**	**P**	**Q**	**R**	**S**	**T**
SEP	0																			
OCT	0																			
NOV	0																			
DEC	0																			
JAN	0																			
FEB	0																			
MAR	0																			
APR	0																			
MAY	0																			
JUN	0																			
JUL	0																			
AUG	0																			
YTD	0		0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0

APPROVAL SLIP
(Please Approve & Forward)

M. Green – 8th Floor
R. Jones – 8th Floor
D. Riverside -
C. Monaldo – 7th Floor
M.J. Lopez – 8th Floor

VOUCHER DOCUMENT

Pay To: **Sample Spreadsheet**

Today's Date:	6/13/2003	Vendor #:	860096791
Reference:	May-03	Speed Type:	G0920
Open Item #:	G7128SS0022 0503 REQ:2003003615	Fund:	8579
PO#	2003003541	Fund:	8579
RC#		Project/Grant	G7128SS0022
Budget Check:		DeptID/Acct#	71150031-505200
Approval Instance:		Period:	9/1/02 through 8/31/03

PAY THIS AMT: $3,173.96

For Internal Use Only	
Contract Amount:	$49,860.00
Prog. Inc. Amount:	$0.00
Available Amount:	$49,860.00

Invoice #:

Voucher #:

Date of Invoice:

Date Group Assigned:

PeopleSoft-Entry date:

Date Posted:

Approved:

CD Director

CHAPTER 7

FOLLOW-UP PROCEDURES

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CHAPTER 7

FOLLOW-UP PROCEDURES

Case #1*: The Community Development Director of Gotham City and her staff took their subrecipient monitoring responsibilities seriously. Unfortunately, the care they put into crafting thorough and individualized monitoring letters meant that the letters often did not reach subrecipients until three to four months after the site visits had taken place. In addition, an intensive monitoring schedule left very limited time for contacting subrecipients between monitoring visits. Given the emphasis they put on monitoring, the CD staff were discouraged by the large number of "repeat findings" they uncovered during subsequent reviews of subrecipients' activities.*

Case #2*: In the City of Port Culis, staff of the CD office rarely performed "formal" monitoring of their experienced subrecipients, particularly formal comprehensive monitoring. The CD Director assumed that these subrecipients knew the regulations and their responsibilities and would resent the "nitpicking" of formal monitoring. However, when a HUD Field Office review compelled the CD Office to monitor their subrecipients formally, site visits revealed serious deficiencies in the record-keeping, administrative systems, and program compliance of many experienced subrecipients, even among organizations the CD Director had regarded as exemplary.*

Case #3*: The CD Director of Parva preferred to emphasize frequent technical assistance visits to subrecipients rather than formal monitoring. He felt that formal monitoring would only make subrecipients feel defensive and would put a strain on the pleasant working relationship the CD office had struggled to establish with them. About nine months into the program year, however, he became frustrated with the subrecipients' failure to implement the recommendations he offered in the technical assistance visits. As a result, he concluded that stronger action was necessary. He instructed the CD monitoring staff to conduct formal subrecipient monitoring reviews "by the book" for the rest of the program year. Not surprisingly, the initial reviews resulted in scores of findings, questioned costs, and disallowances. Within a few days of the monitoring visits, the Parva CD Director realized that he had opened a political Pandora's box. Groups of subrecipients were contacting city councilors and the mayor's office to complain bitterly that the CD Office had "changed the rules" and had "set them up." The CD Director was ordered to appear before the city council to explain his action.*

INTRODUCTION

The hypothetical scenarios above describe three different approaches to subrecipient monitoring, all of which failed to promote better performance. *Although well-intentioned, all three approaches fall short because of inconsistent or inadequate follow-up.* This chapter discusses techniques you can use to follow up on subrecipient monitoring to make sure that subrecipients correct the problems you brought to their attention as a result of the monitoring. While found, you must still ensure that subrecipients realize they will be sanctioned for problems they fail to remedy and rewarded for good performance. Some common problem areas of subrecipient monitoring are discussed in the Appendix to this chapter.

BASIC FOLLOW-UP PRINCIPLES

The approaches used in the cases just described fail to adhere to one or more of the four principles of effective follow-up:

- **Accountability**

Accountability means follow-up and follow-through.

1. ***Make sure your subrecipients know that they are accountable for their performance (as defined by the Agreement) and for observing all program rules.*** Accountability means that there are understood consequences for observing and not observing program rules and regulations, and that satisfactory performance is a requirement for the reimbursement of costs and continued participation in the CDBG program. Accountability means that:

   - you will *follow up to verify that the subrecipient implements the corrective actions called for in your monitoring letter*, and

   - you will *follow through to impose sanctions* if effective action has not been taken.

- **Clarity and Consistency**

2. ***Make sure the standards for satisfactory performance, and the sanctions and rewards for performance are clear and consistent***. Communicate ahead of time your definition of satisfactory performance, including keeping adequate records and assuring that services specified in the written Agreement are delivered on time and within the budget. Don't change your standards of acceptable performance after the fact.

- **Regular Feedback**

3. ***Based on your monitoring, let your subrecipients know how they are doing on a regular and complete basis.*** Don't provide feedback just once a year in a monitoring letter, but rather every time you have a chance to observe subrecipient activities. Don't catch your subrecipients by surprise with your criticisms.

- **Timeliness**

4. ***Make all your communications with subrecipients, especially those regarding the results of your monitoring visits, timely***. Let your subrecipients know right away when there are problems. The longer you wait, the worse the problems will get and the more difficult it will be to solve them.

"If the monitoring results were so darned important, why did it take four months to tell me about them?"

-Disgruntled subrecipient

In the first example above (Gotham City), instead of letting the subrecipients know quickly what issues they needed to address and how, the CD staff spent too much time worrying about the details of the problems their monitoring revealed and too little time telling their subrecipients the monitoring results. When the link between monitoring and follow-up is not direct and immediate, you will be issuing findings long after the visit. As a result, your subrecipients may ignore them, because they feel the findings don't apply to their current activities.

"You have to be willing to use a big stick. If there are no consequences, they won't pay attention."

-CD Program Specialist

In the second case (Port Culis), the real hang-ups are lack of accountability and feedback. Without monitoring and follow-up, there can be no accountability. Even the best performers may not keep doing good work or continue to comply with program rules without your regular attention and support. Without regular monitoring and follow-up, subrecipients may get the feeling that no matter what they do, good or bad, they are entitled to the same (or higher) level of support year after year.

In the third case (Parva), the central weaknesses of the CD Director's monitoring are lack of clarity and consistency. ***Subrecipients have a legitimate expectation that the "rules of the game" are not going to change without warning [or as a result of arbitrary decisions by a CD Director]***. Your definitions of acceptable and unacceptable performance, described in detail and in writing before the award, need to be invariable and unambiguous. Simply "getting tough" after you discover unacceptable performance is likely to make subrecipients stubborn about fixing problems, especially if they feel you have changed your definition of "acceptable" performance or you have cracked down on a problem you never told the subrecipients they were responsible for handling.

FOLLOW-UP IN A CHANGING REGULATORY ENVIRONMENT

Despite the need for consistency in your performance requirements, everyone knows that certain CDBG regulations, or their interpretation, do change. For example, with regard to economic development activities, the changes in the legislative language from "necessary or appropriate" to "appropriate" alone, followed by the imposition of specific public benefit requirements, as well as HUD's interpretation of the language, resulted in some confusion. In some circumstances, you may want to take a ***conservative approach*** with your subrecipients and rely on a "narrow" interpretation of the rules.

THE INFLUENCE OF POLITICS

Say, for instance, that in the absence of any other funding source, one of your local development corporations would like to provide a struggling business with a $30,000-economic development "survival" loan that will keep jobs. However, the business can produce no financial records or pro formas that allow you to gauge the "feasibility" of the project or assess the likelihood of its success.

If you provide the loan, you and your subrecipient may be asking for trouble. The business might not survive and that would raise questions about how a CDBG National Objective was met. It is probably better to wait until the documentation needed for assessing risk and underwriting the loan is available. On the one hand, such delays may preclude providing support to some worthwhile projects; on the other hand, caution may save you from costly confrontations with HUD later.

It also helps to get politicians to "buy into" a performance standards approach <u>before</u> subrecipients are involved.

Most grantees acknowledge that their selection of subrecipients can sometimes be influenced by political considerations. These political considerations can take the teeth out of your monitoring and follow-up systems, because a subrecipient may think it is "immune" to findings, disallowances, or other sanctions because of its political connections.

You can take four steps that will help you conduct effective follow-up with these "well connected" subrecipients:

- ***Try to establish standard selection criteria that will help ensure that an entity applying to be a subrecipient must demonstrate that it has appropriate qualifications for undertaking CDBG activities.*** Even if the final choice of subrecipients is not yours, the careful assessment of qualifications will help you to anticipate the types of problems you are likely to face with such organizations as subrecipients, and to prepare you to deal with them.

- ***Insist on clearly defined and measurable performance expectations in a written Agreement.*** This will enable you to document poor performance or noncompliance, and to use the evidence to counter a subrecipient's claims that it was unaware of the grantee's expectations, or the subrecipient's refusal to respond to findings and concerns.

- ***Share your dilemma with key elected officials (mayor, city council***). If your informal, pre-monitoring visits suggest that you will find serious deficiencies during the monitoring visit, sharing the circumstances and the documentation with appropriate elected officials can help motivate the subrecipient to take action before its problems become part of the public record.

- ***Point out the risks***. It is fair to point out to both elected officials and to subrecipients that HUD can impose sanctions on your entire program for substantial or continued subrecipient noncompliance with HUD rules. Most administrative and elected officials are unwilling to assume the risk of compromising the entire CDBG program and will therefore agree to pressure the subrecipient to rectify the operational deficiencies you have identified.

If a subrecipient looks bad, the grantee looks bad too.

If a media story or outside review focuses attention on poor subrecipient performance that you have tolerated, your agency's reputation will probably be tarnished just as much as the subrecipient's, no matter what political support you or the subrecipient may have enjoyed previously. If a subrecipient looks bad, you look bad.

If the subrecipient looks good, you and the elected officials can share in the credit. Try to convince local officials that good subrecipient performance is good for politics. For example, competent subcontractor performance helps protect them from charges of political favoritism.

REWARDING SUPERIOR OR IMPROVED PERFORMANCE

Securing official support for following up on monitoring results can be a lot easier if you can get subrecipients *to meet performance expectations through positive motivation*, rather than through imposing sanctions. Relying on penalties alone can result in a contentious relationship with your subrecipients. As a result, you may overlook (and therefore not reward) examples of superior performance. It helps to appreciate what has been accomplished already. It also helps to acknowledge a subrecipient's efforts at improvement, even when there's still a long way to go.

Grantees should use "rewards or recognition for outstanding performance" as a technique to encourage improvement among their subrecipients.

There are a variety of ways to reward good performance and regulatory compliance among your subrecipients.

- **Praise for Performance**

In your monitoring letters and other communication with subrecipients, ***pay as much attention to areas of success as to areas that need work***. For example, if a community development corporation has recently completed a 20-unit rehabilitation project, but has neglected to complete inspections of the last three units, recognition of the primary achievement should precede your concern for the missing inspections.

There are few things more discouraging than to have your achievements taken for granted while your flaws are publicly scrutinized and censured. Consider issuing special letters of commendation or even organizing annual awards ceremonies for the best performers in various categories of activities. Send copies of the letter to pertinent public officials and invite these officials to your

award ceremonies. (Be aware when holding awards events that CDBG funds cannot be used for entertainment.)

- **Competition**

Try to create a little healthy competition among your subrecipients. For example, a simple newsletter might highlight the achievements of particular subrecipients or present information about the (relative) performance of each subrecipient. By also reporting on recent regulatory issues, training opportunities, and application deadlines, the newsletter can take the place of memoranda that a grantee would otherwise have to write and disseminate anyway.

- **Public Relations**

If you have a good relationship with a local newspaper, radio station, or cable or TV station, ***ask it to do a feature story on subrecipient activities that deserve public recognition***. You might also arrange for local officials or visiting dignitaries to make site visits to exemplary subrecipients.

- **Contingency Awards**

Plan on making extra funding available for subrecipients that surpass their goals and achieve outstanding performance. You can set aside funds in activity categories beyond what is initially obligated to specific subrecipients. Your written Agreement with subrecipients can 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 subrecipient has excelled.

Alternatively, you might invite a select group of top-performing subrecipients to compete for extra funding under a contingency-funded bonus round. Subrecipients also might be requested to propose new activities that would make use of the money or be permitted to use funds not normally available to them (e.g., program income).

In all such cases, however, the grantee would need to satisfy the citizen participation requirements of the CDBG program with respect to the new or increased activities.

LEARNING FROM MISTAKES: YOUR COMMITMENT TO CONSTANT IMPROVEMENT

In addition to providing rewards for improved or superior performance, you also need to pay attention to the way you respond to subrecipients' mistakes. All subrecipients make mistakes; what is important is that they learn from the experience so they can improve their performance.

If you create an environment where subrecipients are afraid to acknowledge mistakes and learn from them, very little improvement is going to take place. Instead, subrecipients will devote much of their energy to denying there is a problem or arguing the problem wasn't their fault. You then have to take extra time getting the subrecipient to admit that a problem exists. If subrecipients end up

thinking you were the cause of their problem, they may remain angry with you long after they have forgotten what the issue was all about.

The key to preventing this kind of deadlock is to take a balanced approach. Don't treat the problem too casually, or the subrecipient may conclude that its performance doesn't matter that much. However, don't be too harsh in your response; otherwise the subrecipient may become reluctant to raise issues or ask questions that should be dealt with right away.

Treat subrecipient mistakes as opportunities to correct weaknesses, and support the subrecipient in improving its operations. If a subrecipient refuses to learn from the experience and persists in repeating the mistake, then you may have to consider using sanctions. But you have to be very clear with your subrecipients about the conditions under which sanctions will be imposed.

The grantee must also keep in mind, however, that ultimately it is responsible for anything the subrecipient does with CDBG funds. If HUD decides to disallow costs incurred by a subrecipient, the grantee must "settle up," and then decide if it wants to pass the disallowance on to the subrecipient.

THE PRINCIPLE OF PROGRESSIVE SANCTIONS

In applying sanctions, you want to use the least amount of punishment needed to get the subrecipient to take corrective action. This ***principle of progressive sanctions*** involves a gradual escalation of penalties for continued poor performance, while affording the subrecipient a reasonable opportunity at each stage to settle the problem ***before*** more serious sanctions are considered.

The principle of progressive sanctions requires that you always specify a timetable for improvements, setting forth:

- ***the corrective actions required; and***
- ***the deadlines when they must be implemented.***

Without a timetable, the targets for improvement will remain unclear.

The success of progressive sanctions depends on your taking two steps:

- First, you must identify and discuss problem areas in the subrecipient's operations as early as possible.

- Second, you have to communicate clearly and effectively to the subrecipient the standards for correcting those problems and the consequences for failing to meet these standards within a prescribed period of time.

The progressive sanctions approach has several benefits:

- Most problems can be resolved when they are still minor, thereby putting the least amount of stress on both you and the subrecipient;

- If the subrecipient continues to refuse to take corrective action, you can prove to other interested parties (such as local elected officials or other subrecipients) that you have given the

subrecipient every possible consideration before imposing serious penalties; and

- With a gradual approach to sanctions, you can demonstrate to HUD that you are pursing a reasonable, yet serious, course to get the subrecipient to address its deficiencies in a timely manner.

The strategy of progressive sanctions offers a dramatic contrast to the approach taken by the grantee in Case #3 (Parva) described at the beginning of this chapter. There, subrecipients received no prior notification that the grantee was considering serious sanctions, or even that the grantee no longer considered their past practice to be acceptable. Consequently, they had neither opportunity nor incentive to improve their operations before the sanctions were imposed.

You can apply progressive sanctions in a series of stages, from simply making a subrecipient aware of its operational weaknesses all the way to disallowing its expenses or terminating its activities. The following provides a description of three stages of progressive sanctions.

Stage I: Early Warning/Early Response

Stage I begins when the subrecipient's difficulties have just come to your attention. Your tracking and monitoring systems should be able to bring the problem to light before it presents serious financial implications for the subrecipient.

At this initial stage, after you verify the nature and extent of the problem, your first task is to communicate to the subrecipient the nature of the problem, what needs to be done to correct it, and what assistance you can provide to help carry out the necessary corrective action. You should develop and notify the subrecipient about a timetable for corrective action.

You have three main options for implementing an intervention strategy:

(1) ***Plan an intervention strategy with the subrecipient that involves additional training or technical assistance.*** In this response, you assume some of the responsibility for helping the subrecipient to correct the problem. Although this response may require staff time not readily available, the time spent can be both effective in solving the problem and beneficial in enhancing your relationship with the subrecipient.

(2) ***Require more frequent or more thorough reporting by the subrecipient***. This imposes a mild sanction on the subrecipient, while improving your ability to track the subrecipient's progress or regulatory compliance. The strategy sends a clear message to the subrecipient that you are going to monitor its activities closely.

Follow up a monitoring visit:

- ***With additional communications, technical assistance or training;***
- ***additional monitoring if a problem is detected and/or is found; and***
- ***extra reporting by the subrecipient if a problem is found.***

(3) ***Conduct more frequent on-site monitoring or follow-up monitoring of the subrecipient.*** This is an effective action for somewhat more serious or widespread deficiencies in a subrecipient's operations. While it requires additional effort on your part, it communicates that you view the matter very seriously. Give the subrecipient a specific period of time in which to correct the problem, and then review progress on-site to ensure that the subrecipient properly implemented the required corrective action.

If the support and milder sanctions you impose in Stage I don't work, you may have to take more decisive action. You may also want to skip Stage I and move directly to Stage II for subrecipients that you discover have serious or widespread problems that demand an emphatic response. For example, a new subrecipient may have initiated activities before receiving environmental clearance, may have failed to initiate adequate income documentation for beneficiaries, or may not have adequately inspected "completed" work in its housing rehabilitation activities before allowing the units to be occupied and/or authorizing final payment to contractors.

Stage II: Intervention for More Serious or Persistent Problems

Some of the possible actions you might consider at this stage are:

Grantees may find it necessary to disallow the expenses of a subrecipient, or place a subrecipient on probationary status for non-performance.

- ***Restrict the subrecipient's payment requests***. You can restrict the frequency of requests or the budget line items for which the subrecipient can request payment. You can also increase the documentation the subrecipient must provide with its payment requests before you will approve them. Through this mechanism you can "micro-manage" the subrecipient's implementation of corrective action.

- ***Disallow subrecipient expenses (or require repayment).*** This is a severe sanction, since many subrecipients have very limited unrestricted funds for making repayments. In some cases (as when a subrecipient incurs program expenses prior to environmental review clearance), you may have no option other than to disallow the expenses. In other instances, you might allow a subrecipient to provide additional documentation to validate an expense or find some other way to avoid the disallowance, but usually on the condition that the subrecipient make a dramatic reform in its operations.

- ***Impose probationary status***. You can take this step when a subrecipient has significant or widespread shortcomings in its operations and has ignored your efforts to bring about corrective action. With this step, you are giving notice that you will terminate the subrecipient if it doesn't correct its problems.

Stage III: Red Alert

Stage III includes "last ditch" measures to turn around the situation with a poorly performing subrecipient. Possible actions include:

Performance problems are a common reason for not renewing a subrecipient in a subsequent program year for performance reasons. Many grantees have had cause to either suspend or terminate a subrecipient prior to the end of a program year.

- ***Temporarily suspend the subrecipient (or the activity being carried out by the subrecipient***). This action should help convince the subrecipient that you "mean business." However, an action of this severity also suggests that the subrecipient's operations are in such bad shape that you will need to provide intensive technical assistance to get the subrecipient's systems working properly.

- ***Do not renew the subrecipient the next program year***. This is often the easiest approach to "terminating" a badly performing subrecipient, but you have to be careful not to wait until next year if there is a significant danger of continued mismanagement or misuse of funds in the current program year.

- ***Terminate the subrecipient in the current program year***. If you plan to take this action, first review the language of the written Subrecipient Agreement regarding termination (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 subrecipient).

- ***Initiate legal action***. You may need to follow termination with legal action in order to gain control of program funds, records, and property, or to get back improperly spent funds.

SUMMARY

This chapter has presented techniques for following up the results of your subrecipient monitoring. The goals of follow-up are to make sure that subrecipients implement the corrective actions you specify in your monitoring letters and to reward subrecipients who improve their performance and comply with CDBG regulations. You will not be alone if you find you must suspend, terminate, or not renew a subrecipient. The majority of CDBG grantees have had to take similar positions for performance reasons.

Without effective follow-up, monitoring will have little impact on improving performance and achieving regulatory compliance.

Effective follow-up is based on five principles:

- The accountability of subrecipients;
- The clarity and consistency of performance standards;
- The clarity and consistency of corrective actions;
- The continuous provision of feedback; and
- Timely communications with subrecipients.

In cases where the interpretation of regulations is changing, you can avoid follow-up problems by taking a conservative approach in the selection of subrecipients and the awarding of grants or loans. Follow-up is easier if you verify the subrecipient's qualifications according to standard selection criteria *(before award*); specify measurable performance expectations in a written Agreement; share your findings and concerns with key elected officials; and point out to these officials the risks of HUD sanctions on your entire program if the subrecipient does not take appropriate corrective actions.

You should follow up your subrecipient monitoring with rewards for superior or improved performance, and sanctions for poor performance or noncompliance. Rewards can include acknowledgement and praise among peers, public recognition, and additional funding. Sanctions should be progressive and reflect three stages. Stage I involves the early identification of problems and moderate intervention to provide more training or technical assistance, more frequent reporting, and more frequent monitoring and follow-up. Stage II sanctions (for continuing or more serious problems) may involve restricting reimbursements, disallowing program expenses, and imposing probationary status. In Stage III, the most serious sanctions include temporary suspension of activities, non-renewal of the subrecipient for the following program year, or (as a last resort) immediate termination in the current program year.

Case 4: *As the new CD Director, Sheila Bollings had been warned that the monitoring results for The House of Daniel would be disastrous. The numerous repeat findings showed the warnings were right. There were still no consistent records to verify how many people the church-based meals program was serving, whether these services were being offered on a non-denominational basis, and how costs of staff and indirect expenses were being allocated to the activity. There was no IPA audit and only sporadic bookkeeping. Reverend Watson, now 72 years old, had not set up a separate bank account for CDBG funds. As a result, donations and grants from other sources for various church-sponsored activities could not be tracked separately from CDBG-funded activities. Several members of the House of Daniel's Board of Directors were also local suppliers to the program. The Reverend's strong political support in the neighborhoods and in City Hall, and the small size of the program ($15,000) meant that the CD Office would have difficulty imposing any serious sanctions to bring about corrective action.*

In this situation, Sheila decided not to confront the Reverend with a threat of disallowed costs, but rather to implement a six-month intervention strategy involving three steps. First, her staff immediately set up a three-week training and technical assistance program with the Reverend and his staff to overhaul the House of Daniel's books, to establish a monthly accounting and reporting cycle, and to devise a cost allocation plan. Second, Sheila and the Reverend together wrote a new Statement of Work for the coming year's Agreement that identified specific performance targets for the program that could be easily measured and reported on a monthly basis, as well as monitored quarterly. This revised Statement became part of the formal Application for Funding for the next program year. Third, with the Reverend's permission, Sheila invited the city council member from the district, and the House of Daniel Board of Directors, to attend an evening planning and orientation session for House of Daniel staff before the annual notification of CDBG Grant Awards. All staff members were reminded of the goals for the coming year and the particular regulations that should be observed. Everyone was optimistic that the goals would be achieved.

Six months later, the well documented achievements of the program were even greater than originally planned.

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COMMON SUBRECIPIENT MONITORING PROBLEMS

Common Problem Area #1: Program Income

"Program income" refers to any gross income received by a grantee or subrecipient that was directly generated from the use of CDBG funds. Some common sources of program income include:

- **payments of principal and interest** on loans made with CDBG funds;
- proceeds from the **sale of loans**, or of obligations secured by loans, which were made with CDBG funds;
- funds collected through **special assessments** made against properties owned and occupied by households that are not low or moderate income in order to recover part or all of the CDBG portion of a public improvement;
- **proceeds from the sale or long-term lease** of equipment purchased, or of real property purchased or improved with CDBG funds; and
- **gross income from the use or rental of real property** constructed or improved with CDBG funds, less the costs incidental to the generation of such income

.

General Regulatory Requirements

The primary regulations regarding program income are found at 24 CFR 570.500(a), 570.503 and 570.504. A guiding principle is that **program income funds are subject to all applicable regulations governing the use of CDBG funds.** The written agreement with the subrecipient must specify whether any program income received by the subrecipient is to be returned to the grantee or retained by the subrecipient and, if the latter, for what CDBG-eligible activities such program income will be used. The financial records of the subrecipient (as well as the grantee) must include complete information on the receipt and expenditure of program income.

Program income must be used before drawing down additional grant funds, unless the program income is in an approved revolving fund, in which case it must be used for the specified purpose of the revolving fund before further drawdowns for that specified activity. At the end of the term of the Agreement, program income on hand or subsequently received by a subrecipient must be returned to the grantee.

Three Typical Problems

1) Improper collection/retention of program income

- Subrecipient treats interest earned on cash advances or on funds in a revolving account as program income, rather than remitting to the grantee for return of such interest income to the U.S. Treasury.
- Subrecipient retains program income without grantee permission, or uses it in violation of terms of Agreement.
- Program income in a revolving fund account is not used prior to drawing down additional funds for that activity.

- Subrecipient improperly disposes of property a year after purchase and fails to ensure sale at fair market value (the amount of program income due the grantee is the current fair market value of the property).

- When property that is only partially financed with CDBG funds is rented or sold, the CDBG program does not receive its fair share of proceeds generated.

- Program income is not returned at expiration of subrecipient agreement.

- Failure to repay CDBG funds for property acquired or improved with CDBG funds in excess of $25,000 when use changes and when new use does not meet a National Objective for the required time period.

2) **Improper utilization of program income**

- Program income is treated by subrecipient as unrestricted funds.

- Program income is spent on an activity that is not eligible under CDBG rules.

- Program income is used for an activity that the grantee has not approved via the Agreement.

- Program income is not used in compliance with all applicable regulations.

- The subrecipient draws down program funds without using program income first.

3) **Improper recording and reporting of program income**

- Subrecipient's financial records do not describe receipt and use of program income in an accurate, complete, and timely fashion.

- Subrecipient has an inadequate system to monitor repayment or sale of loans that it has made with CDBG funds.

- Information on the status and use of program income reported to grantee by subrecipient is inaccurate or untimely.

Useful Strategies for Avoiding Problems with Program Income

(1) Have a detailed explanation of program income requirements in your written Agreement with each subrecipient.

(2) Provide technical assistance to subrecipients in setting up their record-keeping systems to capture data on program income.

(3) For those subrecipients operating loan programs, provide technical assistance to ensure adequate loan documentation and loan servicing systems.

(4) Require detailed program income information as part of regular progress reports and drawdown requests from subrecipients, with periodic on-site "spot-checking" of records by the grantee to confirm the reported data.

Technical assistance with early intervention to identify problems while they are still quite small is particularly important with respect to program income. In the event that the subrecipient has misspent program income, a grantee may have no option other than to disallow the related expenses. A disallowance is likely to represent a severe burden to a subrecipient and can impose a serious strain on the grantee's relationship with the subrecipient.

Ideally, any program income issues encountered with subrecipients will be of a minor and correctable nature. However, if the subrecipient is not responsive to directed corrective action, and/or persists in viewing the program income as "its own money," the grantee needs to act expeditiously to curtail the subrecipient's authority to retain and use such funds.

FOR ADDITIONAL GUIDANCE ON USE OF PROGRAM INCOME, GRANTEES SHOULD CONSULT THE RELEVANT FEDERAL REGULATIONS (24 CFR 570. 500(a), 570.503 AND 570.504).

Common Problem Area #2:
Meeting a National Objective for Economic Development Activities

Many grantees and subrecipients run into difficulty in documenting achievement of a CDBG National Objective when providing economic development assistance to a for-profit business. Economic development activities directed to for-profit businesses can only be undertaken if they meet one of the three National Objectives.

NATIONAL OBJECTIVE: BASIS FOR QUALIFYING (AND EXAMPLES)

Low/Moderate Income Benefit

L/M Area Benefit

Assistance is being made to a **commercial** business that serves a L/M **residential** area. (Example: assistance to neighborhood businesses such as grocery stores or laundromats.) See 24 CFR 570.203, 570.204, 570.208(a)(1), and 570.506(b)(1) and (b)(2).

L/M Jobs

Assistance is directly linked to **the creation or retention of permanent jobs, at least 51 percent of which (on a full-time equivalent basis) are to be held by, or made available to, low- and moderate-income persons.** (Example: assistance to a manufacturer for plant expansion that will create permanent jobs, at least 51 percent are for L/M income persons.) See 24 CFR 570.203, 570.204, 570.208(a)(4), and 570.506(b)(1), (5), (6) and (7).

Slums or Blight

Slum or Blighted Area

The assistance is directed to a business in a designated slum or blighted area and **addresses one or more of the conditions that contributed to the deterioration of the area**. (Example: a low-interest loan as inducement for a firm to locate in a redeveloping, blighted area.) See 24 CFR 570.203, 570.204, 570.208(b)(1), and 570.506(b)(7) and (9).

Spot Blight

Assistance that is provided to a commercial or industrial business **outside** of a designated slum or blighted area, **but which**: (1) is designed to eliminate specific conditions of blight or physical decay; and, (2) where the use of CDBG funds is specifically limited to the cost of **acquisition, clearance, relocation, historic preservation, or building rehabilitation** (and the rehabilitation is limited to actions necessary to eliminate the specific conditions detrimental to public health and safety). (Example: demolition of dilapidated structure owned by a business to make room for a new commercial building.) See 24 CFR 570.203, 570.204, 570.208(b)(2), and 570.506(b)(10).

Urban Renewal Completion

Assistance is to a commercial or industrial business **located in an Urban Renewal project area** (or a Neighborhood Development Plan action area designated under Title I of the Housing Act of 1949), and is **necessary to complete the urban renewal plan**. (Example: loan to

a business to complete facilities consistent with urban renewal plan.) See 24 CFR 570.203, 570.204, 570.208(b)(3), and 570.506(b)(11).

Urgent Needs Assistance to a business as part of an activity designed to alleviate existing conditions that the grantee has certified pose a serious and immediate threat to the health or welfare of the community, are of recent origin (or recently became urgent), and the grantee cannot finance the activity on its own and other sources of funds are not available. (Example: a loan to reconstruct the only grocery store, a small locally owned market, in a remote area of the urban county that was severely damaged in an earthquake, where other resources [local, FEMA, Small Business Administration] are insufficient or unavailable to address this imminent threat to the community.) See 24 CFR 570.203, 570.204, 570.208(c), and 570.506(b)(12).

Among the three National Objectives, the documentation required for activities undertaken to address conditions of **slums or blight** are somewhat less complicated than that required for activities designed to address other objectives (low/moderate income benefit, urgent needs). For this reason some grantees and subrecipients seek to reduce their record-keeping requirements by providing economic development assistance to for-profit businesses under the slums/blight objective. However, grantees are still required to ensure that, over the one-, two-, or three-year period certified by the grantee, 70 percent of their CDBG expenditures are for activities that principally benefit low- and moderate-income persons. This requirement constrains a grantee's ability to conduct economic development activities under the National Objectives of “slums or blight” and “urgent needs.” By definition, the “urgent needs” category can be justified in only very limited circumstances.

Job creation for low- and moderate-income persons is a critical element of local revitalization strategies in many communities experiencing economic problems. In using CDBG funds for job creation, grantees have to be careful to map out specific ways to meet the record-keeping requirements for demonstrating low/moderate income benefit **before** funds are provided to a subrecipient.

LOW- AND MODERATE-INCOME BENEFIT DOCUMENTATION REQUIREMENTS

In assisting for-profit businesses, the requirements for documenting benefits to low/moderate income persons depend upon the type of activities undertaken:

For job creation activities:

Where the subrecipient (or grantee) chooses to document that at least 51 percent of the jobs will be **available to** low- and moderate-income persons, documentation must include:

- a **written agreement** containing: a commitment of the business to make at least 51 percent of the jobs, on a **full-time equivalent basis,** available to low- and moderate-income persons and to provide training for any such jobs requiring special skills or education; a listing by job title of the permanent jobs to be created, indicating which will be made available to L/M persons, which ones are part-time, which jobs require special skills and education; and a description of actions to be taken by subrecipient (or grantee) and business to ensure that L/M persons are given **first consideration for** those jobs; and

- a **listing by job title of those permanent jobs that were filled** and which of those were **made available to** L/M persons; a description of how **first consideration** to such persons was given, including an explanation of the **hiring process**, which L/M persons were interviewed for each job, and which were hired.

Where the subrecipient (or grantee) chooses to document that at least 51 percent of the jobs **wills be held by** low- and moderate-income persons:

- a copy of **a written agreement** containing: a commitment by the business that at least 51 percent of the jobs, on a **full-time equivalent basis**, will be held by L/M persons; and, a listing by job title of the permanent jobs to be created, identifying any that are part-time;

- a listing by job title of **permanent jobs filled** and which were **initially taken by** L/M persons; and

- for each L/M person hired, the family size and annual income of the person's family prior to being hired, or evidence that they may be presumed to be a L/M person under 24 CFR 570.208(a)(4)(iv).

For job retention activities:

- **objective evidence** that in the absence of CDBG assistance the jobs would be lost;

- a listing by job title for the business showing **which permanent jobs were retained**, which were part-time, which are known to be held by L/M persons, which other jobs are projected to become available to L/M persons over the next two years due to turnover, and **on what basis the turnover is being predicted;**

- for each retained job held by a L/M person, information on the size and annual income of the person's family, or evidence that they may be presumed to be a L/M person under 24 CFR 570.208(a)(4)(iv);

- for jobs claimed to be “available to” L/M persons through turnover, the information cited above as that required for “available to” job creation activities; and

- for jobs claimed to be “available to” L/M persons through turnover, a listing of each job that has turned over to date, identifying which actually were **taken by** or **made available** to L/M persons, and for the latter, how **first consideration** was given to such persons.

For area benefit activities (providing assistance to commercial businesses serving a low- and moderate-income residential area):

- provide a **definition of service area** with respect to geographic limits, census tract block groups, and/or neighborhood names;

- **identify the percent of the residents of the service area who are L/M persons** pursuant to 24 CFR 570.208(a)(1)(vi) or demonstrate that the area qualifies under 570.208(a)(1)(vii);

- where applicable, demonstrate that the percent of residents in the service area who are L/M persons qualifies under the exception criteria because it falls into the upper quartile of the city/county per 24 CFR 570.208(a)(1)(ii); and

- provide evidence of the residential character of neighborhood.

SUGGESTIONS FOR SATISFYING DOCUMENTATION REQUIREMENTS

The documentation requirements can be extensive, particularly if the subrecipient (or grantee) is dealing with a business with little or no prior experience with the regulatory requirements of a Federal assistance program. There are a number of steps that a subrecipient (or grantee) can take to reduce the likelihood of inadequate National Objective documentation relative to low- and moderate-income benefits:

1) **Be clear** with the subrecipient and the business concerning the documentation requirements from the very first contact (at the outreach and application stage).

2) Incorporate a **detailed description of the documentation requirements in the assistance agreement** with the business, including **provisions for recapture** of the assistance in the event that the business fails to honor its commitments and responsibilities under the agreement.

3) Before the assistance agreement is executed, develop with the business the **specific procedures and forms** that will be employed to capture the desired information.

4) In terms of job creation goals, make every effort to **ensure that the business is not promising more than it can deliver**. As long as the level of assistance per job created is reasonable,* it is better for the business to propose to develop 11 L/M jobs out of 20 created (for 55 percent L/M benefit) and to meet this goal, than it is to promise 20 L/M jobs out of 30 created and to only achieve 14 L/M jobs (47 percent L/M benefit). Nevertheless, the HUD standard **is 51 percent of whatever number of jobs are created.**

5) Even if the business proposes to achieve the L/M benefit for job creation through hiring L/M persons, the assistance agreement should stipulate that **documentation must also be collected for jobs "made available to" L/M persons**; this information may be used as alternate documentation in the event that the business fails to fill some of the jobs with L/M persons that it expected to.

6) Many businesses are not accustomed to capturing information on family size and income from job applicants. It may also be that their typical applicant pools have a lower L/M percentage than desired. Such businesses should give serious consideration to securing **referrals through a local agency** that has a L/M income clientele and is experienced at collecting such data (for example, the local Jobs Training Partnership Act (JTPA) agency or office of the State's department of employment security or department of labor).

7) Make it a practice of **obtaining the job applicants' addresses** and determining whether they live in an area that would enable a presumption of L/M status before checking their actual income status (thus eliminating the need to determine their family size and income when the person lives in an area that qualifies for the presumption).

* The amount of CDBG assistance per full-time equivalent job must meet the Public Benefit standards under 24 CFR 570.209.

FOR ADDITIONAL GUIDANCE ON MEETING NATIONAL OBJECTIVES IN ECONOMIC DEVELOPMENT, GRANTEES SHOULD CONSULT THE RELEVANT FEDERAL REGULATIONS (24 CFR 570.203, 570.204, 570.208, AND 570.506(b)).

CHAPTER 8

HUD'S OFFICE OF THE INSPECTOR GENERAL

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CHAPTER 8

HUD'S OFFICE OF THE INSPECTOR GENERAL

An Office of the Inspector General (OIG) audit of the Anytown CDBG program was initiated at the request of the municipality's City Manager. A local newspaper had reported problems with CDBG activities administered by two subrecipients, and the City Manager, who was new to the city, wanted an impartial investigation into the allegations. After its initial investigation, the HUD OIG team decided to expand the scope of its audit to assess the adequacy of Anytown's monitoring of all subrecipients and to review the city's overall management control system for CDBG. Ten months later, after reviewing files spanning five program years, the OIG issued its report, ***which included over $1 million in questioned costs****.*

The Anytown CDBG manager could have avoided nearly all of the negative findings in the OIG audit if he had known what to expect from the audit. Although he found the prospect of being audited nerve-wracking, he failed to take several simple but important steps that could have made the audit a much less disturbing process and perhaps have even prevented it from happening at all.

INTRODUCTION: WHY SHOULD YOU READ THIS CHAPTER?

The purpose of this chapter is to demystify the OIG audit. The chapter outlines the powers and procedures of the HUD Inspector General so you can respond effectively in the event that your CDBG program is audited. Particular attention is paid to the limits of the OIG's authority, the standards the Inspector General must meet, and what you can do if you have concerns about the audit process. By understanding the rules for an audit, you will be in a better position to present your organization's case in the most effective way possible.

The General Accounting Office (GAO) is another Federal agency that on occasion will conduct audits of CDBG grantees and their subrecipients.

Seasoned grantees regard the prospect of an OIG audit as a very serious matter.

If you are a CDBG veteran, you probably know what it's like to be monitored by local HUD Community Planning and Development (CPD) staff. Many of you have also experienced annual audits of your CDBG program's financial activities by an Independent Public Accountant (IPA), and some of you may have reviewed the IPA audits of your subrecipients.

These financial reviews and monitoring activities are viewed as serious affairs by all responsible CDBG managers. If anything, OIG audits are considered even more serious.

Although not all grantees, and few subrecipients, have been the subject of an OIG audit, it's always a possibility, even for a well-managed CDBG program. Inspector General offices have been set up in various Federal agencies to identify and eliminate fraud, waste, and

mismanagement in programs funded by the U.S. Government. These offices are supposed to operate in a consistent fashion. However:

- some Inspector General offices may vary in their interpretation of the regulatory standards, so that the experiences of other communities relative to the OIG may not be a completely accurate predictor of what your audit would be like;
- on occasion, the Inspector General may interpret regulations differently than local HUD CPD staff or exhibit a greater tendency to disallow program expenses; and
- the Inspector General can decide to examine past, as well as current, grantee activities.

Among other reasons, reviews by the HUD Inspector General are sometimes initiated in response to local reports speculating on possible waste or corruption in Federally funded activities. Strong program management and accountability systems, using the tools and practices discussed throughout this guidebook, will help you to develop a positive local reputation.

This reputation can help prevent negative reports and reduce the chances of becoming the focus of an audit. In the event that you or your subrecipients are audited, these same systems should put you in the strongest possible position to emerge from the review with minimal findings.

WHAT ARE THE POWERS OF THE HUD INSPECTOR GENERAL AND WHERE DO THEY COME FROM?

The 1978 Inspector General Act established independent Offices of Inspectors General (OIG) within HUD and various other agencies of the Federal Government. This legislation was a Congressional response to a dramatic increase in fraud and mismanagement in Federal agencies and programs. The purpose of the Act was to create a centralized auditing and investigatory unit within the various Federal departments, operating independently of program staff and reporting directly to the head of the agency.

The powers of the HUD Inspector General under the Act are listed in the box below.

The OIG may audit you or one or more of your subrecipients at any time. Therefore, **you have a common interest with your subrecipients** to manage your programs and finances as effectively and efficiently as possible.

Powers of the HUD Inspector General

1. ***Investigate and report on the administration of HUD or its programs and operations.***
2. ***Request from any Federal, state, or local government agency all relevant information or assistance.***
3. ***Access all relevant records, reports, audits, reviews documents, papers, recommendations, or other materials available to HUD.***
4. ***Require by subpoena (except in the case of Federal agencies) the production of all necessary information, documents, reports, and other materials.***
5. ***Administer or take from any person an oath, affirmation, or affidavit when necessary to carry out the OIG's functions.***
6. ***Arrange for additional audits, studies, analyses, and other services with public agencies and private persons.***
7. ***Have direct and prompt access to the Secretary of HUD.***

The best description of HUD OIG's regulatory authority and restrictions, the rules in connection with public access to OIG information, and the process for responding to subpoenas or other legal requests, is 24 CFR Parts 2002 through 2004.

The OIG is directed to inform the Secretary of HUD immediately whenever information or assistance is unreasonably refused. The Inspector General considers a refusal unreasonable if the information is necessary for the satisfactory completion of the OIG's work and the individual can legally and reasonably provide it.

What kinds of "inspections" does the HUD Inspector General perform?

The HUD/OIG conducts three basic activities in relation to its oversight of Federal programs and agencies:

- Management, policy, and program integrity activities involve the design of management control systems and the provision of training and technical assistance to show how to prevent fraud, waste, and mismanagement.
- Investigations look into specific reports of irregularities or noncompliance with Federal rules, particularly situations that may involve criminal violations.

- Audits, the subject of this chapter, are intended to improve the productivity of Federal agencies and programs by identifying and correcting poor management practices.

Find out which of these activities the OIG plans to conduct in connection with your program because the procedures and standards for conducting each activity vary.

WHAT PROCEDURES MUST THE OIG FOLLOW IN CONDUCTING AN AUDIT?

IN PERFORMING AUDITS, THE HUD OIG TYPICALLY FOLLOWS FOUR STEPS:

1. Advance Notice
2. Entrance Conference
3. Audit
4. Exit Conference

HUD OIG's procedures for the conduct of audits are spelled out in HUD Handbook 2000.3 REV-4, Office of Inspector General Activities.

Advance Notice

Usually the OIG provides two weeks' advance written notification of its intention to conduct an audit. This is a courtesy rather than a requirement. For reasons such as urgency or concerns about the possibility of alteration, removal, or destruction of documents, the OIG is empowered to initiate an audit without prior notice.

Clarify any ambiguity about the scope of the audit

Written notification can sometimes be ambiguous about the planned scope of the audit. If so, it is best to address any vagueness up front before the OIG auditor(s) arrive or, if necessary, during the entrance conference. Make sure you know:

- the **scope of** the audit, so you can anticipate the records the auditors will be requesting; and

- the likely **duration of** the audit, so you can provide space for the auditors.

Knowing the focus of the audit can also give you an opportunity to review the status of relevant files so they are in the best shape possible prior to the initiation of the audit.

Entrance Conference

At the beginning of the audit, the OIG auditors should meet with key agency officials to discuss the audit's purpose, scope, anticipated schedule, and projected reports.

One of the standards that the OIG must meet is the "exercise of professional care." In part, this means that the OIG team is responsible for ensuring that there is a mutual understanding of the scope and objectives of the audit.

Audit: changes in scope

The breadth of the audit can legitimately change as new information becomes available to the OIG team. Because of this uncertainty, it is very important for you and your subrecipients to maintain a careful record (preferably confirmed in writing by the OIG) of the planned scope of the audit and any changes in scope. This will help you assess whether there have been any deviations in the audit's scope.

During the audit itself, don't be surprised if the OIG audit team stays longer than anticipated or leaves and then returns to look at more records. Some OIG field audits have lasted over a year. You and your subrecipient should take such possibilities into consideration when setting aside office space for the audit team. You should also keep an accurate record of the changes in schedule and any additional requests for information from the OIG audit team.

Ask to share in the audit findings as the work proceeds and keep the audit team up-to-date about corrective actions.

In most cases, the OIG audit team will share its findings as the field work proceeds. Use these opportunities to clear up any misunderstandings and to provide supplementary data that may help to prevent findings before they are committed to writing. Even if you cannot resolve an issue to the auditor's complete satisfaction prior to the preparation of the audit report, have the audit report reflect the fact that you or your subrecipient have already initiated corrective action.

Maintain a professional relationship

Always maintain a professional relationship with the OIG audit team. A cordial relationship does not guarantee a favorable audit report. Approach the relationship in a cautious, but not defensive, manner.

Exit Conference

The exit meeting represents the official end of the on-site portion of the audit. It should be attended by your key staff, your subrecipients' key staff, members of the OIG audit team, and other HUD officials responsible for the audited program(s) or for oversight of the program operators/operations.

Exit conference procedures are described in HUD Handbook 2000.6 REV-3, Audits Management System, (February, 1999), p. 2-1.

At the exit conference, the OIG team will present draft audit findings and recommendations. ***You and any other organization that was audited should receive a written copy of the draft audit report prior to the exit conference*** to review the document for inaccuracies and gather any data that may be needed in your defense.

During the exit conference, the OIG representatives should discuss the draft findings, actions already taken by the entity to remedy them, proposed additional corrective action and any points of disagreement. You should check the draft audit report (with written follow-up as necessary) to determine:

CHECK FOR:

- ❑ **Accurate descriptions**
- ❑ **OIG interpretation consistent with program rules**
- ❑ **Credit given to additional information or corrective actions**

- whether the OIG's description of your and your subrecipient's management systems is up-to-date and accurate;
- whether the OIG's interpretation of program rules is consistent with prevailing HUD policies and program standards that were in effect for the time period and activities examined; and
- whether the OIG has given appropriate credit for supplementary material previously presented or corrective actions already taken.

Indicate Concurrence or Disagreement

The appropriate officials of the grantee/subrecipient should also indicate whether they concur or do not concur with each finding, recommendation, and proposed corrective action presented by the OIG. They should also present any new information not previously known to the OIG auditors that might affect the outcome of the audit, and any newly initiated or planned corrective actions. When the final audit report is issued, confirm that such comments and supplementary information were taken into consideration.

Public Dissemination of Results

At the exit conference, the OIG team should inform you about the procedures for releasing the final audit report. Final audit reports may be released to the public once the audited entity has received its copy and reviewed the contents.

WHAT GENERAL AUDITING STANDARDS MUST THE OIG FOLLOW?

The OIG follows the audit standards developed by the General Accounting Office (GAO). The GAO standards are derived from the requirements for field work and reporting established by the American Institute of Certified Public Accountants (AICPA) for financial audits. **The basic GAO standards can be found in <u>Government Auditing Standards</u>, GAO-03-673G, which is available at *www.gao.gov*.**

The GAO provides four general standards for governmental auditing:

- **Auditors must be qualified**, which includes having an understanding of governmental organization, and the programs and activities being reviewed.
- **Auditors must be independent and impartial** with no preconceived opinions about the programs they are auditing. They should also be free from political pressure or other interferences.

- **Auditors must exercise "professional judgment,"** including reaching a mutual understanding of the scope and objectives of the audit with the entity being audited.

- **Auditors must have adequate quality control mechanisms to ensure that the GAO standards are met and to deal with "potential impairments" to the audit process**, such as denial of access to documents, incomplete records, or interference with the audit team's independence.

SPECIFIC STANDARDS FOR FIELD WORK AND REPORTING

The GAO has also established specific standards for field work and reporting, which vary somewhat depending on whether the OIG is conducting a financial audit or a performance audit.

Financial Audits

Financial Audits assess whether financial reports represent an accurate picture of the organization's current and past financial position, whether the information is presented in the proper manner, and whether the organization has complied with other pertinent laws and regulations.

Elements of Financial Audits:

- ***Written reports***
- ***Tests of compliance***
- ***Review of internal controls***

For **financial audits**, as part of the field work, the AICPA standards require that the audit team keep a written record in the form of working papers to substantiate its findings. In addition, the GAO requires the OIG to consider the requirements of all levels of government in planning the audit and to review **compliance with all applicable laws and regulations**.

The GAO standards for financial audits also require that there be a written report detailing the results of the audit, the individual tests of compliance, and the review of internal controls. The report should be provided to the appropriate officials of the entity audited, unless legal or ethical considerations preclude it. For information that is not going to be disclosed, the OIG report must state the nature of the material omitted and the reasons for this action.

Performance Audits

Performance Audits are of two kinds:

- **"economy and efficiency audits"** seek to measure how efficiently the entity is performing, consistent with relevant laws and regulations; and

- **"program audits"** focus on the effectiveness of the entity's operations in terms of achieving desired impact or benefits.

For **performance audits**, the GAO requires that the audit field work be adequately planned and properly supervised; also, the auditor's conclusions must be based on sufficient, competent, and relevant evidence (documented by working papers).

Elements of Performance Audit Reports:

Any reports on performance audits must contain:

Objectives, scope, methodology

- a statement of the audit's objectives, scope, and methodology, identifying the internal controls that were assessed and laws or regulations with which compliance was tested;

Findings and conclusions

- a full discussion of findings and conclusions (including a statement of any instances of noncompliance, fraud, abuse, or other illegal acts) and a description of the causes of such problems and recommended corrective action;

Accomplishments

- a discussion of noteworthy accomplishments by the audited organization;

Views on audit results

- the views of the relevant officials of the audited entity regarding the audit's findings, conclusions and recommendations, and whether any corrective action has been initiated or planned; and,

Omitted information

- a statement indicating whether any information has been omitted from the report, and the reason(s) for such exclusion.

WHAT IS THE PROCESS FOR RESOLVING AUDIT FINDINGS, OR FOR CHALLENGING AN AUDIT YOU FEEL IS INACCURATE OR UNFAIR?

The HUD OIG will advise the grantee of those audit findings and recommendations for which a response is required.

The OIG will typically follow the schedule shown on the following page for resolving findings or recommendations.

If you do not disagree with the audit findings, you merely need to implement the recommended corrective action (or show good faith efforts toward full implementation of such corrective action) within the time lines indicated.

Disagreements

- **Inaccuracies**

If you disagree with the audit results, the nature of this dispute will probably fall into one of two categories. First, you may feel that the observations and conclusions in the audit report are inaccurate. In such a case, you or your subrecipient should compile documentation supporting your position and forward this material to the head of the audit team, along with copies to the manager of the OIG Field Office and the relevant staff in the HUD CPD office.

- **Improper Procedures**

Alternatively—or in addition—you may feel that the audit procedures followed by the OIG were improper, the audit team was biased, or the auditors failed in some other way to meet AICPA or GAO standards. These arguments may be more difficult to substantiate. You or your subrecipient may begin by asking yourself the questions listed in the Audit Response checklist in the Appendix.

These questions relate to the standards that an OIG audit must meet, such as:

- Were the OIG auditors qualified?
- Did the auditors provide adequate prior notice?
- Was there evidence that the OIG staff had adequately planned for the audit?
- Did the auditors perform in an independent and impartial fashion?
- Did the auditors express "due professional care" and quality control?
- Did the auditors hold an adequate exit conference?

TYPICAL SCHEDULE FOR RESOLUTION OF OIG AUDIT FINDINGS

Step	Action:	Time Frame:
1	HUD Official contacts grantee/subrecipient to request written response to findings and recommendations.	15 days from issuance of audit report
2	Grantee/subrecipient written response due.	45 days after issuance of audit report
3	HUD assesses status of audit resolution regarding each finding/recommendation. HUD makes **"management decision"** that either • Action is completed • Action is pending, or • Action is referred for litigation, legislation, or further investigation	120-180 days after issuance of audit report
4	Target date for completion of all corrective actions (final action)	Within 1 year of the date of the management decision
5	Target date for recovery of all disallowed costs	Within 3 years of the date of the management decision

At the end of what can sometimes be a lengthy audit process, you may find it hard to reconstruct the chronology of events or details of conversations. You and your subrecipients should therefore be **careful** throughout the **entire auditing process** to maintain documentation of the sequence of activities and of any correspondence or other communication that occurs. If you or your subrecipient feels that the auditors are being unreasonable, consider bringing legal counsel into the process.

SUMMARY

In the course of this chapter, you should have learned:

- The **general powers of the HUD OIG**: to investigate and report on HUD or its programs by securing records, administering oaths, taking affidavits, and arranging for any necessary studies. The OIG has prompt access to the Secretary of HUD.

- The **types of inquiries the HUD OIG carries out**: audits, investigations, and fraud control/management operations.

- The **standard steps in an OIG audit**; (1) advance notice, (2) entrance conference, (3) audit, and (4) exit conference.

- The **general standards to which OIG auditors must adhere**: the auditors must be qualified, independent and impartial, exercise professional judgment, and have adequate quality control mechanisms.

- **The process for resolving findings**: generally grantees (or subrecipients) have 15–45 days from release of the audit report to provide a written response, and 120–180 days to show progress toward resolving findings before the matter may be referred to the Regional Inspector General for further action (and possible additional sanctions). The most crucial thing to remember, however, is "*documentation.*" As far as the OIG is concerned, ***if something is not documented in writing, it does not exist***. Therefore, the more you can refer the OIG auditors to documents that support your position, the more likely you will be to defend your position successfully.

As far as the OIG is concerned, if something is not documented in writing, it doesn't exist!

NOTES:

CHAPTER 8: APPENDIX

- Audit Response Checklist..... 8-14

AUDIT RESPONSE CHECKLIST

- ❑ Were the OIG auditors qualified?
  - Did they demonstrate an understanding of the CDBG program?
  - Were there members of the audit team who had performed similar audits previously?
  - Were they able to communicate clearly?
- ❑ Did the auditors provide reasonable prior written notice of the audit?
  - If the auditors did not provide reasonable prior notice, what reason did they give for the short notice or for not giving any notice?
- ❑ Did the auditors perform in an independent and impartial manner?
  - Did the auditors give any indication that they were being influenced by outside parties?
  - Did any of their actions or comments suggest that they approached the audit in a biased way, for example, did they seem to have pre-judged the grantee/subrecipient, or did they seem determined to find something wrong?
  - Were the corrective action recommendations consistent with the audit findings and with other similar audits?
- ❑ Was there evidence that the auditors had adequately planned for the audit?
  - Did the auditors demonstrate that they had developed a reasonable estimate of the duration and scope of the audit and scheduled their resources accordingly? Did the auditors appear to have clear objectives in mind?
- ❑ Did the auditors exercise "due professional care" and quality control?
  - Did the auditors provide a clear understanding of the scope and methodology for the audit?
  - Were the samples they used large enough to support generalizations?
  - How did they handle instances of incomplete or missing data?
  - Did the auditors maintain detailed working papers and provide documentation supporting their findings?
- ❑

Did the auditors hold an adequate exit conference?

- Did they provide a written draft of their audit findings prior to the exit conference?
- During the exit conference, did the auditors fully discuss their compliance tests, findings, conclusions, recommended corrective actions, and actions you and your subrecipient had already taken to correct deficiencies?
- Did they provide an opportunity for you to comment on the individual findings and recommendations and to submit supplemental data?
- In arriving at their findings and conclusions, did the auditors give proper consideration to clarifications or information you submitted previously?

❑ Did the auditors report the results of the audit fairly?

- Did the auditors provide copies of the final audit to you or your subrecipient before releasing the report to the public?
- Did the auditors provide copies of the final audit to you or your subrecipient before releasing the report to the public?
- Did the written audit report accurately portray the scope and methodology of the audit?
- Did it accurately and objectively report findings and corrective action recommendations and discuss the basis for these conclusions?
- Did the report accurately reflect what was communicated in the exit conference, including your opinions and any supplemental information you provided?