



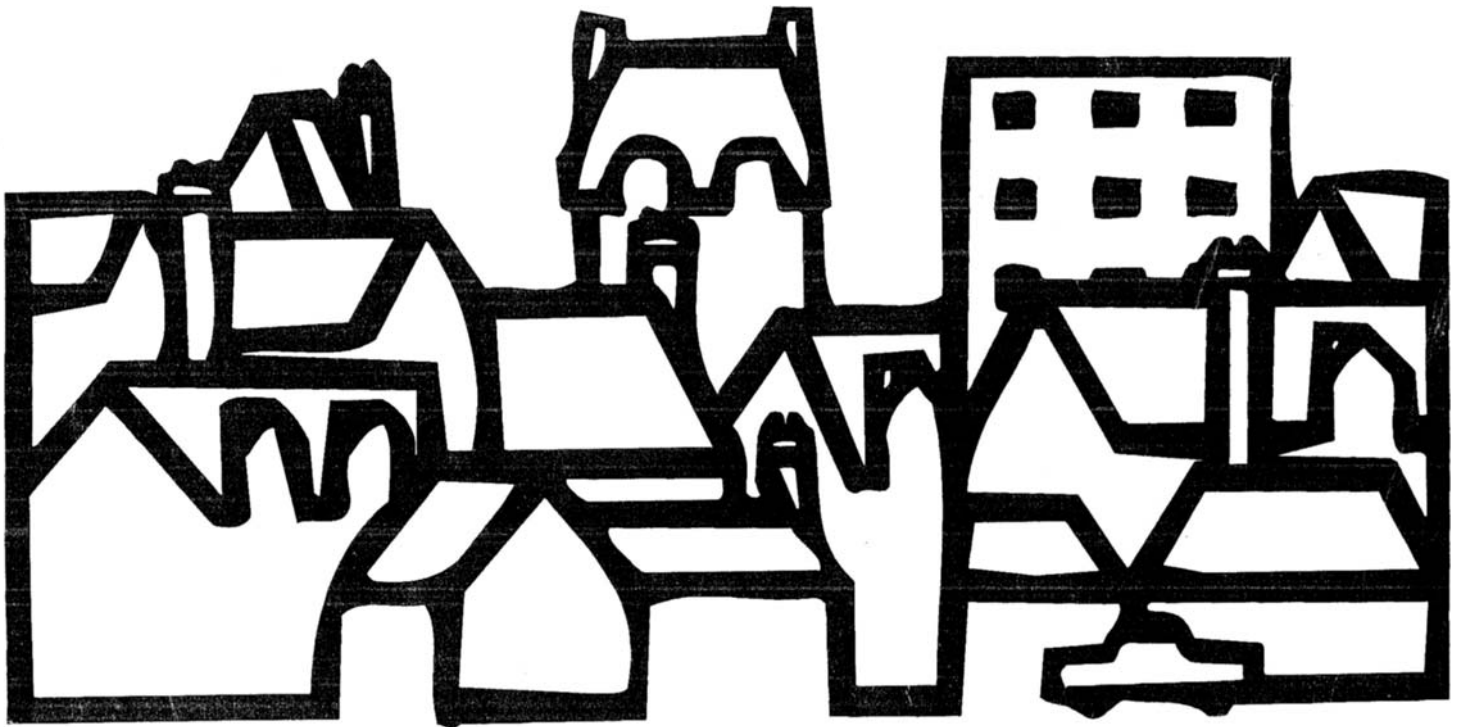
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
Office of Community Planning and Development  
Community Development Block Grant Program

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# Training CDBG Subrecipients in Administrative Systems

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*March 2005*



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# **Training CDBG Subrecipients in Administrative Systems**

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

Updated Reprint  
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### INTRODUCTION

This guide presents **training materials** developed in conjunction with the self-instructional manual Playing by the Rules: A Handbook For CDBG Subrecipients on Administrative Systems. The materials are intended to be used in tandem by entitlement grantees in the Community Development Block Grant program to provide training to their subrecipients on the basic administrative requirements. These publications have been prepared in conjunction with a guidebook on subrecipient management called Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight. Together they are a valuable resource for grantees in the training, management, and monitoring of subrecipients. All three publications are available from the CPD library on the HUD Web site at <http://www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm>. The HUD regulations and Office of Management and Budget (OMB) Circulars referenced herein are also available on the Web at <http://www.hudclips.org/cgi/index.cgi>.

The basic training framework envisions a 2-day course on subrecipient administrative systems. The training materials are divided into four sections:

- Overview of Training Objectives and Methods
- The Training Agenda
- Outline of Trainer Presentations
- Participant Exercises to Test Comprehension

These materials are provided *only as a guide for training*, in recognition of the fact that grantee use of subrecipients varies widely, and that the nature and incidence of problems in the administration of CDBG-funded activities by subrecipients are also highly variable. It is expected that grantees will want to adapt these materials to the particular needs of their subrecipients. Playing by the Rules and the training materials in these guide may also be useful for training other organizations in the use of Federal funds, such as non-profit Community Housing Development Organizations (CHDOs) under the HOME program.

The training materials here parallel the text of Playing by the Rules. That handbook was originally prepared in 1993 after an extensive survey of 107 CDBG grantees and 60 subrecipients revealed a broad range of problems with subrecipient administrative systems and a frequent lack of awareness on the part of subrecipients about the basic Federal requirements regarding the use of CDBG funds. The handbook was further refined based on results of a subsequent training program for CDBG grantees conducted in 15 cities and attended by over 1,270 community development practitioners throughout the United States.

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This guide had not been updated since 1993. The current revision, among other things, reflects the incorporation of OMB Circulars A-102 and A-110 into the HUD Common Rule at 24 CFR Parts 84 and 85, as well as changes to the CDBG regulations made between 1993 and 2003.

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 also found that delays in subrecipient activities were a cause for grantee failure to comply with the timeliness requirements at 24 CFR 570.902.

Over 10 years have passed since CPD first issued Playing by the Rules and its companion piece, A Training Guide. This material is now being updated because in the intervening years some administrative requirements have changed, grantees and subrecipients have experienced staff turnover, and new subrecipients are participating in the program. It is again time to focus grantee attention on their responsibilities to train subrecipients in the rules of the game. Since these publications are on the HUD Web site, it has been made easier for grantees to distribute materials and to conduct this training. Furthermore, the sound management practices advocated in these publications will also help subrecipients meet the performance measures for program implementation. Such actions will result in improved delivery of CDBG activities to the low-and moderate-income residents of the community.

### CHAPTER 1.0: OVERVIEW OF TRAINING

The following sections describe:

- Overall training objectives and the key themes;
- Training format and assumptions;
- Adaptations of training methods for local requirements;
- Use of the subrecipient handbook Playing by the Rules;
- Use of trainer presentation outlines; and
- Use of exercises to test comprehension.

#### 1.1 Training Objectives and Key Themes

The overall goal of training with this material is to help Community Development Block Grant Entitlement subrecipients understand the Federal administrative requirements for using CDBG funds, and through this understanding, to help them improve their performance with respect to program objectives, permitted activities, and implementation procedures. The basic framework envisions a 2-day training program designed to achieve four objectives:

- To train subrecipients in the *topics and materials addressed in the handbook, Playing by the Rules*, in order to increase compliance and enhance performance.
- To stimulate *dialogue and shared responsibility* among grantees and subrecipients with respect to administrative systems and procedures required for CDBG-funded activities.
- To use the training as a vehicle *for identifying and resolving key subrecipient administrative issues* and for securing feedback from participants on those issues.
- To motivate participants to use the *handbook as a problem-solving tool* in the future.

There are four important points that should be emphasized during your training program for subrecipients. First, **grantees and subrecipients share joint responsibility** for carrying out permitted activities in conformance with applicable Federal requirements. Grantees and subrecipients are partners. Both partners must accept the fact that there is no such thing as a “free lunch.” In return for Federal funding, grantees and subrecipients agree to comply with the laws and regulations governing the use of those funds. A central principle is that most of the Federal requirements imposed on the grantee are passed along to their subrecipients. As more

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experienced grantees and subrecipients can attest, the more an agency knows about the rules, the more efficient it can be in designing and conducting its activities. Playing by the rules does not detract from performance; it enhances it (and enables the agency to continue receiving CDBG funds).

A second theme is that **regulatory compliance and performance go hand-in-hand.**

Performance measurement is an effective management technique that enables grantees to analyze the benefits of their investments. It is a mechanism 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.

Third, the cardinal rule in using Federal funds is **documentation.** The achievement of program goals and the completion of activities must be supported by adequate documentation of the facts. If an agency's activities, personnel, procedures, expenditures and results are not properly documented, from the Federal Government's perspective, they (and their grantees) have not done their job, regardless of program accomplishments. Complete records, and accurate and timely reporting, are the lifeblood of all successful CDBG programs.

Finally, successful CDBG programs depend upon the commitment of grantees and subrecipients to **effective management practices.** These include: (1) supporting cooperative, problem-solving relationships among HUD, grantees, and subrecipients; (2) working toward continuous improvement in both regulatory compliance and timely program performance; (3) maintaining open and frequent communications among all participants; and (4) focusing on preventing problems first, rather than curing them later. Such a commitment to effective management will assure that the "minimum requirements" specified in the handbook and the training do not become "maximums" for either grantees or subrecipients.

### 1.2 Training Format and Assumptions

The handbook *Playing by the Rules* presents a "soup-to-nuts" summary of the principal administrative requirements for subrecipients in the CDBG Entitlement program. ***The handbook provides the central curriculum for the training.*** As a result, the training agenda outlined in the following chapter calls for a 2-day series of eight training modules, each keyed to specific parts of the handbook. Each training module should last 60-90 minutes, centering around trainer presentations of the core curriculum. Since the eight training modules are self-contained, there is no reason why they could not be adapted to a series of weekly seminars featuring the same content, but spread out over a longer period of time. The modules could also be easily coupled with other CDBG related training, for example, on national objectives or the lead-based paint requirements.



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The training agenda is based upon the following assumptions:

- A single grantee will invite 20 subrecipient organizations, on average, to the training, each of whom could be represented by up to 2 participants; actual attendance might be about 60 percent, i.e., 24 people on average.
- Trainers will be experienced staff from the grantee's organization who have both detailed technical knowledge of the curriculum material, as well as strong, interpersonal training skills.
- Most of the training participants will represent non-profit organizations receiving less than \$100,000 in grants per year; a quarter of them will be governmental subrecipients; there will be very few for-profit organizations.
- Few participants will have detailed knowledge of the administrative requirements in Subparts J and K of 24 CFR Part 570 or significant experience with other administrative regulations (e.g., 24 CFR Parts 84 or 85, OMB and Treasury circulars, etc.)
- The training format must be flexible and readily adaptable, both in terms of the number of people to be trained and in terms of the level of detail addressed in specific content areas.
- Grantees and/or the trainers themselves will adapt the substantive materials and the training method to their own requirements.

It is also assumed that participants will use the handbook throughout the training as the central reference tool (along with the regulations themselves) to address issues raised in the training modules and exercises.

### **1.3 Adaptations of Training Methods for Local Requirements**

Because it is assumed that a majority of participants will have limited technical knowledge of the Federal requirements in each module, the primary teaching format is that of trainer presentations of curriculum materials, followed by question-and-answer sessions with participants, and/or exercises to test the participants' grasp of the material. Two alternatives to this model might include:

#### **For subrecipients with greater understanding of the materials:**

- Begin modules with simulations or diagnostic exercises to assess participants' knowledge and focus discussions on a more limited range of topics.

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- Develop and present case studies highlighting known weaknesses, allowing participants to develop and present solutions.
- Invite HUD field office staff to present explanations of any emerging issues or changing regulations affecting subrecipient monitoring and administrative systems.
- Conduct a series of evening seminars addressing specific topics.

### For subrecipients just starting out:

- Establish a *technical assistance model* aimed at a structured evaluation of systems and procedures necessary to meet Federal requirements in each of the primary areas, followed by identification of steps to be taken by the subrecipients in developing those systems and procedures (with only one or two subrecipients at a time).
- Use the subrecipient handbook as a *self-administered instructional text* prior to in-depth technical assistance provided around specific topic areas; then build a step-by-step listing of specific actions to be taken by the agency, and a schedule for the completion of each step.

Grantees should feel free to adapt various combinations of these training models to their own situation and to the specific needs of their subrecipients. ***In all cases, an interactive discussion model is preferred over a pure lecture format.***

As shown in the agenda below, for the full training model, the training sessions last from 9:00 a.m. to 4:30 p.m., with participants on their own for lunch. Sessions could be adapted to as few as 12–15 participants and expanded for large audiences of up to 120. For most of the modules, the lecture portion of the training should not exceed 45 minutes, with the balance of time devoted to applying the principles to the specific situations of the subrecipients.

Participants should be given a copy of the handbook Playing by the Rules at registration (or even before coming to the training) and should be requested to prepare the next day's exercises using the handbook.

Grantees should encourage individual trainers to employ their own insights, local government experience, and training styles to communicate the basic lessons of each module. Specific instances showing the importance of a particular regulation are usually more useful in conveying technical or regulatory information. To the extent feasible, participants should be given the opportunity to raise their own issues for consideration by the trainers or the group as a whole in a problem-solving scenario. The trainers themselves should be prepared to adapt the lecture and discussion portions of the training to the experiences of the participants.

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### 1.4 Use of the Subrecipient Handbook Playing by the Rules

Playing by the Rules presents the core curriculum for the grantee's training of subrecipients in administrative systems and requirements. The primary training elements of the course are geared toward the senior staff of local CDBG subrecipients.

There are three ways in which Playing by the Rules can be used in the training:

- It can be given out to subrecipients prior to the training *as required course materials* to be read prior to attending the sessions.
- It can be treated as a *reference text* to be used by participants to solve problems presented during the training sessions.
- It can be used between the first and second day as a take-home reading assignment in preparing for the next day's exercises.

Apart from its use during training, the handbook is designed both as a self-instructional guide for new subrecipients and as a reference text to be kept available for resolving particular administrative issues that may be encountered by the subrecipient.

### 1.5 Use of Trainer Presentation Outlines

For each of the eight training modules, Chapter 3.0 of this guide provides an outline of the key points to be presented to training participants. These notes have been developed from the basic text of the handbook to facilitate presentation of curriculum materials. They may be used to develop *acetate overlays* for overhead projectors or slides. They may also be used *as handouts for participants* summarizing key points to be emphasized in the training.

***These materials should NOT be presented as replacements for, or interpretations of, the regulations themselves,*** but only as complementary to the regulations.

In addition to these outlines, grantees should develop and adapt other materials they feel are appropriate to the needs of their subrecipients or remove materials they feel are inappropriate to the goals and objectives of the training.

### 1.6 Participant Exercises

The participant exercises presented in Chapter 4.0 of this training guide replicate the questions and answers presented at the back of each chapter of Playing by the Rules. They are presented here as additional instructional materials that trainers may find useful to offer participants as a way to:

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- Check their understanding of the materials discussed in the module.
- Stimulate discussion around key points presented earlier by the trainer.

Alternatively, for more advanced audiences, trainers may want to use these questions (without answers) to gauge the level of understanding of *participants before the trainer's presentation* so that trainers can gear the level of their presentation to the capabilities and needs of the audience.

### CHAPTER 2.0: TRAINING AGENDA—DAY ONE

- 8:00–9:00     **Participant Registration**
- 9:00–9:30     **Introduction—Administrative Systems for CDBG Subrecipients**  
[Rationale, course outline, agenda, handbooks, exercises, the rules of the game]
- 9:30–10:30    **Part I: Introduction to Financial Systems**
- Internal controls
  - Basic Accounting Records
  - Allowable Costs
  - Source Documentation
- [Q&A/Participant Exercises as Appropriate]
- 10:30–10:45   **BREAK**
- 10:45–12:00   **Part II: Financial Systems (Continued)**
- Budget Controls
  - Cash Management
  - Financial Reporting
- [Q&A/Participant Exercises as Appropriate]
- 12:00–1:15    **LUNCH**
- 1:15–2:45     **Part III: Procurement and Contracting**
- General Procurement Requirements
  - Four Permitted Approaches
  - Bonding
  - Use of Local, Small, and Women- and Minority-Owned Businesses (W/MBEs)
- [Q&A/Participant Exercises as Appropriate]
- 2:45–3:00     **BREAK**
- 3:00–4:30     **PART IV: Property Management and Disposition**
- General Responsibilities
  - Real Property Use
  - Personal Property
  - Personal Property Disposition
- [Q&A/Participant Exercises as Appropriate]
- 4:30–4:45     **Summary and Homework Assignments**

[Note: Participants will be requested to review the handbook in the evening for those monitoring issues of particular concern to them and to use it to prepare for the next day's subjects.]

### TRAINING AGENDA—DAY TWO

- 9:00–9:15     **Introduction/Review Previous Day's Materials**
- 9:15–10:30    **Part V: Record-Keeping and Reporting Requirements**
- Three Basic Categories of Records
  - File Organization and Maintenance
  - Retention of Records
  - Access and Reporting Requirements
- [Q&A/Participant Exercises as Appropriate]
- 10:30–10:45    **BREAK**
- 10:45–12:00   **Part VI: Other Administrative and Program Requirements of Subparts J and K of 24 CFR 570**
- Program Income (24 CFR 570.500, 570.503, and 570.504)
  - Programmatic and Budget Changes
  - Civil Rights and Fair Housing; Employment and Contracting Opportunities (24 CFR 570.601-602, 570.607)
  - Labor Standards (24 CFR 570.603)
  - Environmental Requirements (24 CFR 570.604)
  - Historic Preservation
  - National Flood Insurance Program (24 CFR 570.605)
  - Floodplain Management (24 CFR Part 55)
  - Relocation, Real Property Acquisition, and One-for-One Housing Replacement (24 CFR 570.606)
  - Lead-Based Paint (24 CFR 570.608 and Part 35)
  - Political Activity (24 CFR 570.207(a)(3))
  - Conflict of Interest (24 CFR 570.611)
  - Program Monitoring (24 CFR 570.501(b), 24 CFR 84.51(a) and (g), and 24 CFR 85.40(a) and (e))
  - Suspension and Termination (24 CFR 570.503(b)(6) and 24 CFR 85.43-44)
- [Q&A/Participant Exercises as Appropriate]
- 12:00–1:15    **LUNCH**
- 1:15–2:45     **Part VII: Audits**
- Types of Audits and General Requirements
  - Internal Control and Compliance Review
  - Audit Reports

### TRAINING AGENDA—DAY TWO (continued)

- Auditor Selection, Procurement, and Costs
  - Audit Review and Resolution
- [Q&A/Participant Exercises as Appropriate]

2:45–3:00     **BREAK**

3:00–3:45     **Part VIII: Closeout Requirements**

- General Requirements
  - The Closeout Process
  - Adjustments to Cost and Cash
  - Continuing Subrecipient Responsibilities
- [Q&A/Participant Exercises as Appropriate]

3:45–4:30     **Part IX: Summary of Requirements: Key Themes**

- Joint Responsibility with Grantee (Partners, Not Adversaries)
  - Performance *and* Compliance
  - Documentation, Documentation, Documentation
  - Commitment to Effective Management
- [Q& A as Appropriate]

4:30           **Session Evaluations**

### CHAPTER 3.0: OUTLINE OF TRAINER PRESENTATIONS

The next two pages identify the regulations and OMB circulars applicable to subrecipients participating in the CDBG program. Following “the rules of the game” are eight training modules outlining the specific program requirements for each of the administrative areas covered. The presentations are not intended to be structured as rigid speeches or monologues but rather as informal presentations of key issues surrounding subrecipient administrative systems that are addressed in the subrecipient handbook Playing by the Rules. Their purpose is to summarize and/or focus the dialogue with participants on the key learning points for that module.

The outlines are offered as seminar notes to be used with overhead projectors or as PowerPoint presentations.



**THE RULES OF THE GAME**

**Applicable CDBG Regulations**

*Subpart J (24 CFR 570.500–570.513) covers grant administration*

*Subpart K (24 CFR 570.600–570.613) deals with other program requirements*

**Other requirements that affect administrative systems and procedures:**

- Federal regulations governing administrative and audit requirements for grants and cooperative agreements**
- Administrative circulars from OMB and Department of the Treasury**
- Executive Orders from the Office of the President**

**Applicable only to subrecipients that are private, *non-profit entities***

**24 CFR Part 84 “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations”**

*and*

**OMB Circular A-122 “Cost Principles for Nonprofit Organizations”**

*or*

**OMB Circular A-21 “Cost Principles for Educational Institutions”**

*and*

**OMB Circular A-133 “Audits of States, Local Governments, and Non-profit Organizations”**

**THE RULES OF THE GAME (continued)**

**Applicable to Governmental Subrecipients**

**24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments” (also known as “the Common Rule”)**

*and*

**OMB A-87 “Cost Principles for State and Local Governments”**

*and*

**OMB-133 “Audits of State, Local Governments, and Non-profit Organizations”**

Title 24 regulations and OMB circulars may be accessed at the HUD Web site at <http://www.hudclips.org/cgi/index.cgi>.

## Part I: Introduction to Financial Systems

### Regulations

**24 CFR 85.20** – Governmental and public agency subrecipients

**24 CFR 84.20 and 84.21 (as amended by 570.502)** – Private, non-profit subrecipients.\*

### Purposes

- 1) Provide control and accountability over funds and assets.
- 2) Identify source and application of Federal funds to activities.
- 3) Allow for accurate and timely financial reporting.
- 4) Minimize time elapsed from transfer of funds to disbursement by subrecipient.

### Four Areas Covered

- Internal controls
- Basic accounting records
- Allowable costs
- Source documentation

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\* Community-Based Development Organizations (CBDOs) described at 24 CFR 570.204 are not subrecipients unless so designated by the grantee. Under limited circumstances, certain for-profit entities may qualify as CBDOs. Where CBDOs are designated as subrecipients by the grantee, they are subject to the provisions identified in this guidance for non-profit organizations, regardless of whether they are non-profit or for-profit entities.

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### Internal Controls

#### Regulations

**24 CFR 85.20(b)(3)** – Governmental and public agency subrecipients

**24 CFR 84.21(a)(3)** – Private, non-profit subrecipients

**Internal controls = people, process, and documents that enable an organization to control its financial assets.**

#### Internal controls ensure that:

- Resources are used for authorized purposes.
- Opportunities for waste, mismanagement, or loss are minimized.
- Reliable information on source, amount, and use of resources are secured, up-to-date, and recorded.

#### Basic elements of an internal controls system:

- Organizational chart
- Written definition of duties of key employees
- Formal system of authorization and supervision
- Separation of duties
- Staff qualifications
- Control over access to assets, blank forms, and confidential documents
- Comparisons of financial records to actual assets and liabilities

### Basic Accounting Records

#### Regulations

**24 CFR 85.20(b)(2)** – Governmental and public agency subrecipients

**24 CFR 84.21** – Private, non-profit subrecipients

#### Elements of an accounting system:

- Chart of accounts
- Cash receipts journal
- Cash disbursements journal
- Payroll journal
- General ledger

#### Sources and uses of funds:

##### Sources

- Grant awards
- Program income

##### Uses

- Current authorizations and obligations
- Unobligated balances
- Assets and liabilities
- Outlays or expenditures

#### Maintenance of records:

- Journal entries approved and explained/supported.
- Posting and trial balances performed on a regular basis.
- Fidelity bond coverage obtained for organization officials.

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<b>Allowable Costs</b>
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### **Regulations**

**24 CFR 85.22** – Governmental and public agency subrecipients

**24 CFR 84.27** – Private, non-profit subrecipients

### **Standards**

**OMB Circular A-87** – Governmental and public agency subrecipients

**OMB Circular A-122** – Private, non-profit subrecipients

**OMB Circular A-21** – Educational institutions

### **Costs are allowable if:**

- Expenditure is necessary, reasonable, and directly related to the grant.
- Authorized by the grantee.
- Expenditure is not prohibited under Federal, state, or local laws.
- Expenditure is consistently treated.
- Cost is allocable to the CDBG program.
- Cost is net of all applicable credits.

<b>Source Documentation</b>
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### Regulations

**24 CFR 85.20(b)(6)** – Governmental and public agency subrecipients

**24 CFR 84.21(b)(7)** – Private, non-profit subrecipients

**1. Source documentation must explain the basis of the costs incurred:**

#### **Payroll**

- Hiring letters, pay rate authorizations, benefits and employee withholdings, time and attendance records

#### **Space and utilities**

- Rental or lease agreements, utility company bills, canceled checks

#### **Supplies**

- Purchase orders, requisition forms, vendor invoices, canceled checks

- 2. All documentation must be readily available for review by grantee or HUD.**
- 3. Recorded encumbrance/obligation or current information on all obligations.**
- 4. Complete, accurate, and up-to-date record of program income.**

**Part II: Financial Systems (continued)**

**Regulations**

**24 CFR 85.20(b), 85.21, and 85.41, paragraphs (c) and (d)** – Governmental and public agency subrecipients

**24 CFR 84.21 and 570.502(b)(3)(I)** – Private, non-profit subrecipients

**Purposes**

- 1) Provide control and accountability over funds and assets.
- 2) Identify source and application of Federal funds to activities.
- 3) Allow for accurate and timely financial reporting.
- 4) Minimize time elapsed from transfer of funds to disbursement by subrecipient.

**Three Areas Covered**

- **Budget Controls**
- **Cash Management**
- **Financial Reporting**



<p><b>Budget Controls</b></p>
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**Purposes**

- 1) Monitor obligations and expenditures against approved budgets.
- 2) Ascertain whether a formal budget revision will be necessary.

**In order to compare and control expenditures against approved budgets, a subrecipient must:**

- Maintain records of the amounts budgeted for eligible activities.
- Include unexpended/unobligated balances for budgeted categories.
- Compare planned versus actual obligations and expenditures.

### Cash Management

#### Regulations

**24 CFR 85.21** – Governmental and public agency subrecipients

**24 CFR 84.21 and 570.502(b)(3)(i)** – Private, non-profit subrecipients

#### Two methods available to transfer CDBG grant funds to subrecipients

- Reimbursement method
- Cash advance method

#### Cash management requirements:

- Include accurate information in drawdown requests.
- Timely payment of program costs (generally within 3 business days of deposit of funds).
- Return erroneously drawn funds to the grantee in a timely fashion.
- Return interest income earned on advances [570.500(a)(2)].
- Program income must be used for payment of program costs prior to requesting further drawdowns [570.504(b)(2)(ii) and 570.504(c)].
- Program income in a revolving fund must be used for the same activity for which the revolving fund was established before drawing down more funds for that activity. The account must be interest bearing and interest earned on funds held in the account must be remitted to the grantee at least annually [570.500(b) and 570.504(b)(2)(i)].
- Funds held in an escrow account for rehabilitation activities generally must be disbursed within 10 days [570.511(a)(4)].

<h3><b>Financial Reporting</b></h3>
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#### **Regulations**

**24 CFR 85.20(b) and 85.41(c) and (d)** – Governmental and public agency subrecipients

**24 CFR 84.21 and 570.502(b)(3)(i)** – Private, non-profit subrecipients

**Financial reports must be accurate, timely, and current.**

#### **Basic elements of financial reports:**

- Amount budgeted
- Advances/reimbursements received to date
- Program income and other miscellaneous receipts
- Actual expenditures/disbursements
- Current encumbrances/obligations in addition to disbursements
- Unpaid requests for payment

#### **Other Requirements:**

- Loan Servicing
- Cash Depositories
- Real Property

**Part III: Procurement and Contracting**

**Regulations**

**24 CFR 85.36** – Governmental and public agency subrecipients

**24 CFR 84.40-48** – Private, non-profit subrecipients

**Purposes**

To ensure that supplies, equipment, construction, and services are:

- 1) Obtained as efficiently and economically as possible.
- 2) Procured in a manner that provides open and free competition.

**Four Areas Covered**

- **General Procurement Requirements**
- **Four Permitted Approaches**
- **Bonding**
- **Use of Local, Small, and Women- and Minority-Owned Businesses (MBE/WBEs)**

### General Procurement Requirements

#### General requirements for procurement:

- Maintain records on significant history of procurement.
- Pre-qualified list of vendors/contractors must be current.
- Exclude contractors that develop or draft specifications.
- No awards made to debarred, suspended, or ineligible parties.
- Written selection procedures for transactions.
- Do not use “cost plus a percentage of cost” contracts.
- Have procedures for protest in place.
- Documented system of contract administration.
- Written code of conduct for award or administration of contracts.

**Permitted Approaches to Procurement**

**Regulations**

**24 CFR 85.36(d)(1-4)** – Governmental and public agency subrecipients

**24 CFR 84.44** – Private non-profit subrecipients

**Methods of procurement available:**

- 1) Small purchases (\$100,000 or less in aggregate)
- 2) Competitive sealed bids (formal advertisement)
- 3) Competitive proposals
- 4) Noncompetitive proposals/sole source procurement
  - Used in limited circumstances

### Bonding

#### Regulations

**24 CFR 85.36(h)** – Governmental and public agency subrecipients

**24 CFR 84.31 and 84.48(c)** – Private, non-profit subrecipients

#### Requirements for bonding:

- 1) Construction or facility improvement contracts over \$100,000: **Must meet the following minimal Federal requirements:**
  - Bid guarantee equal to 5 percent of bid price.
  - Performance bond for 100 percent of contract price.
  - Payment bond for 100 percent of contract price.
- 2) Construction contracts equal to or less than \$100,000
  - Non-profits follow own policies, although Subrecipient Agreement may mandate that both non-profit and governmental subrecipients comply with grantee policies.

**Use of Local, Small, and Women- and Minority-Owned Businesses**

**Regulations**

**24 CFR 85.36(e)** – Governmental and public agency subrecipients

**24 CFR 84.44(b)** – Private, non-profit subrecipients

**24 CFR 570.607(b)** and **24 CFR Part 135**

**Efforts must be made to use such businesses through:**

- Inclusion in solicitation lists.
- Ensuring that such businesses are solicited.
- Dividing procurement requirements when appropriate.
- Requiring prime contractors to take affirmative steps to select such firms as subcontractors.

**Section 3 of Housing and Community Development Act of 1968**

- Use business concerns located in/owned by residents of target area.



**Part IV: Property Management and Disposition**

**Regulations**

**24 CFR 570.503(b)(7)** – All subrecipients

**24 CFR 85.32, as modified by 570.502(a)(8), and 85.33–85.34** – Governmental and public agency subrecipients

**24 CFR 84.30–33, 84.34 as modified by 570.502(b)(3)(v) and (vi) and 84.35-37** – Private, non-profit subrecipients

**Property Categories:**

- 1) Real property (land/buildings)
- 2) Personal property
  - Tangible (expendable/nonexpendable)
  - Intangible

**Four Areas Covered**

- **General Responsibilities**
- **Real Property Use**
- **Personal Property**
- **Property Disposition and Program Income**

### General Responsibilities

#### General requirements for property management:

- Property can only be acquired for a specific purpose.
- Property must be used for approved purpose.
- Keep accurate records.
- Control use of property and care for property.
- Follow rules for disposing of property.

<b>Real Property Use</b>
--------------------------

### Regulations

**24 CFR 570.505** – All entitlement grantees

**24 CFR 570.503(b)(7)** – All subrecipients

**During the life of the Subrecipient Agreement and for at least 5 years thereafter, the use of property acquired or improved using CDBG funds in excess of \$25,000 cannot change without:**

- Meeting a national objective.

**If a national objective is not met, the subrecipient must:**

- Reimburse the grantee the current fair market value of the property minus any pro-rata share attributable to non-CDBG funding.

**Grantee agency subrecipients (570.505) cannot change the use of property without:**

- Citizen notification and opportunity to comment on any proposed change.
- Meeting a national objective.

**If a national objective is not met, the grantee must:**

- Reimburse its CDBG account the current fair market value minus the pro-rata share attributable to non-CDBG funding.

<p><b>Personal Property</b></p>
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**Regulations**

**24 CFR 85.32 and 85.33** – Governmental and public agency subrecipients

**24 CFR 84.34 as modified by 570.502(b)(3)(vi) and 84.35** – Private, non-profit subrecipients

**Governmental and Non-profit Subrecipients**

1) Equipment

- To be used in project for which intended and as long as needed.
- Follow management requirements.

2) Supplies

- Tangible personal property other than equipment.

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<p><b>Personal Property Disposition</b></p>
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**Regulations**

**24 CFR 570.503** – All subrecipients

**24 CFR 85.32–33 as modified by 570.502(a)(8)** – Governmental and public agency subrecipients

**24 CFR 84.34(g) as modified by 570.502(b)(3)(vi) and 84.35** – Private, non-profit subrecipients

**Governmental Subrecipients**

1) Equipment

- Value less than \$5,000.
- Value of \$5,000 or more.
- Grantee reserves right to transfer title.
- In all cases, net proceeds are program income.

2) Supplies

- Compensate grantee for unused inventory exceeding \$5,000.

**Non-profit Subrecipients**

1) Equipment

- Transfer inventory to grantee or compensate grantee.
- In all cases, proceeds are program income.

### 2) Supplies

- Value greater than \$5,000.
- Transfer inventory to grantee or compensate grantee.
- In all cases, proceeds are program income.

**Part V: Record-Keeping and Reporting Requirements**

**Regulations**

**24 CFR 570.506** – All subrecipients

**Purposes**

- 1) Verify National Objective & Eligible Activities.
- 2) Check/Report Progress and Track Performance.
- 3) Check Regulatory Compliance.

**Accurate record keeping and reporting are keys to success.**

**Four Areas Covered**

- **Three Basic Categories (Administrative/Financial/Project)**
- **File Organization and Maintenance**
- **Retention of Records**
- **Access and Reporting Requirements**

**Basic Categories of Records**

**Three basic categories of records:**

- Administrative records
- Financial records
- Project/case files

**General CDBG standard = records must be accurate, complete, and orderly.**



<b>File Organization and Maintenance</b>
--

**Each activity should have a project or case file that includes:**

- A full description of the activity, including the location, amount of CDBG funds budgeted, obligated, and expended.
- The provision under which the activity is eligible.
- Records demonstrating compliance with a national objective.
- Characteristics and numbers of beneficiaries.
- Determinations required for eligibility.
- The amount budgeted for the activities.
- Compliance with other program requirements; i.e., lead-based paint, fair housing, and equal opportunity, etc.
- Status of case/project.

**Effective methods for:**

- Compiling cumulative data
- Including data in periodic reports
- Logs for recording and totaling programmatic data

<p><b>Retention of Records</b></p>
------------------------------------

**Regulations**

**24 CFR 570.503(b)(2)** – All subrecipients

**24 CFR 85.42 as modified by 570.502(a)(16)** – Governmental and public agency subrecipients

**24 CFR 84.53 as modified by 570.502(b)(3)(ix)** – Private, non-profit subrecipients

**Purposes**

- 1) Avoid monitoring findings.
- 2) Facilitate audit reviews.
- 3) Resolution of litigation or audit findings.

**General Rule: Records are to be retained for *at least* 4 years after last expenditure report is submitted (i.e., 4 years after submission of the Consolidated Annual Performance and Evaluation Report [CAPER] in which activity is reported as complete).**

### Access and Reporting Requirements

#### Regulations

**24 CFR 570.503(b)(2)** – All subrecipients

**24 CFR 85.40 (a) and (e), 85.41(c) and (d)** – Governmental and public agency subrecipients

**24 CFR 84.53(e)** – Private, non-profit subrecipients

#### Parties with rights to access:

- HUD (including IG)
- Grantee
- Comptroller General of the United States (GAO)
- Citizens

#### Typical reports to grantees:

- Information on drawdown requests
- Progress reports (with accomplishments)
- Annual Performance Report

### Part VI: Other Administrative and Program Requirements

#### Fourteen Requirements of 24 CFR Part 570, Subparts J and K

- 1) Program Income
- 2) Programmatic and Budget Changes
- 3) Civil Rights, Fair Housing, Employment and Contracting Opportunities, Affirmatively Furthering Fair Housing
- 4) Labor Standards
- 5) Environmental Requirements
- 6) Historic Preservation
- 7) National Flood Insurance Program
- 8) Floodplain Management
- 9) Relocation, Real Property Acquisition, and One-for-One Housing Replacement
- 10) Lead-Based Paint
- 11) Political Activity
- 12) Conflict of Interest
- 13) Program Monitoring
- 14) Suspension and Termination

**NOTE: Chapter 6.0 of Playing by the Rules should be consulted for an overview of the requirements in each of the above areas.**

### Part VII: Audits

#### Regulations

**Single Audit Act of 1984** – All subrecipients

**OMB Circular A-133** – Audits of States, Local Governments, and Non-profit Organizations

**24 CFR 85.26** – Governmental and public agency subrecipients

**24 CFR 84.26** – Private, non-profit subrecipients

#### Purposes

To determine if your agency has adequate systems in place to ensure that:

- 1) Goals and objective are met.
- 2) Resources are safeguarded.
- 3) Laws and regulations are followed.
- 4) Reliable data are obtained, maintained, and accurate (full disclosure).

#### Five Areas Covered

- **Types of Audits and General Requirements**
- **Internal Control and Compliance Review**
- **Audit Reports**
- **Auditor Selection, Procurement, and Costs**
- **Audit Review and Resolution**

### Types of Audits and General Requirements

#### Types of Audits

- Financial audits
- Performance audits

#### General requirements:

- Expend \$500,000<sup>1</sup> or more annually in total Federal assistance = independent audit.
- Less than \$500,000\* annually = exempt from Federal audit requirements for that year.

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<sup>1</sup> Threshold was \$300,000 for fiscal years ending prior to December 31, 2003.

**Internal Control and Compliance Review**

**Compliance testing:**

- Allowability of costs.
- Intended beneficiaries served.
- Limitations on public services and administrative costs met.
- Financial reports, requests for reimbursement supported.
- Use and recordation of program income.
- Expenses in accord with cost principles and administrative requirements.

### Audit Reports

#### Elements of audit reports:

- Financial statements and schedule of Federal assistance.
- Evaluation of the subrecipient's internal control system.
- Report on compliance.
- Schedule of findings and questioned costs.

**Due to grantee within 30 days of the audit.**

**Maintain copies for *a minimum of 4 years*.**

### Auditor Selection, Procurement, and Costs

#### Regulations

**24 CFR 85.36** – Governmental and public agency subrecipients

**24 CFR 84.40** – Private, non-profit subrecipients

Small firms owned by disadvantaged individuals and women should have maximum opportunity.

Individual or firm selected must be sufficiently qualified.

Audit costs are allowable costs to Federal programs.



### Audit Review and Resolution

**Establish a system for timely and appropriate resolution of audit findings.**

**Management's response to audit findings:**

- If subrecipient agrees, define actions to correct.
- If subrecipient does not agree, basis for belief of inaccuracy.

**Repeat finding** = an area of noncompliance appearing in more than one audit.

- Will be viewed very seriously by the grantee.

**A cost may be questioned if:**

- Inadequate documentation.
- Expenditure does not appear to be related to project.
- Incurred outside effective period of Subrecipient Agreement.
- Unallowable under program regulations.
- Required prior approval of grantee.

**Disallowed Cost** = when questioned cost can not be resolved/proven allowable.

- Requires reimbursement from non-Federal funds.

**Part VIII: Closeout Procedures**

**Regulations**

**24 CFR 570.509** – Often used by grantees as a standard for the closeout of subrecipients

**Closeout** = all required work under agreement has been completed, outstanding obligations resolved, and other responsibilities have been met.

**Key to closeout** = CLARITY.

- **Full documentation of financial and program activities.**

**Four Areas Covered**

- **General Requirements**
- **The Closeout Process**
- **Adjustments to Cost and Cash**
- **Continuing Subrecipient Responsibilities**

### **General Requirements**

- 1. Administrative and performance issues resolved to satisfaction of both parties.**
- 2. Lack of specific Federal requirements for subrecipients.**

### **The Closeout Process**

#### **Closeout initiated when:**

- All CDBG costs have been incurred.
- Work has been completed.
- Other responsibilities under agreement have been met (e.g., national objective has been met).

#### **Reports requested by grantee:**

- Final performance or progress report.
- Financial status report (including all program income).
- Final request for payment.
- Final inventory of property/equipment.

#### **Closeout agreement:**

- Any closeout costs subject to CDBG payment.
- Amount of unused funds.
- Responsibilities after closeout.

<p><b>Adjustments to Cost and Cash</b></p>
--

**Regulations**

**24 CFR 570.503(b)(7) – All subrecipients**

**Based on reports, grantee will adjust allowable costs.**

**Grant money must be refunded to grantee if:**

- Held by the subrecipient at agreement expiration.
- Unobligated balances.
- Assets not authorized to be retained.

**Continuing Subrecipient Responsibilities**

**Regulations**

**24 CFR 85.50 and 85.51**– Governmental and public agency subrecipients

**24 CFR 84.72 and 84.73** – Private, non-profit subrecipients

**Closeout does not affect:**

- Grantee right to disallow costs or recover funds.
- Obligation to return funds due to grantee.
- Responsibilities for records retention.
- CDBG property management and disposition requirements.
- Audit requirements.

**Part IX: Summary of Requirements: Key Themes**

- **Joint Responsibility with Grantee**
- **Performance *and* Compliance**
- **Documentation, Documentation, Documentation**
- **Commitment to Effective Management**

## **CHAPTER 4.0: PARTICIPANT EXERCISES**

### **4.1 Overview**

The questions and answers provided here are reproduced from the subrecipient handbook Playing by the Rules. They may be used in a training scenario to:

- Identify the level of knowledge of participants at the beginning of training (for advanced subrecipients).
- Initiate discussions around key issues identified during the trainers' presentations.
- Establish participant comprehension of materials presented in the sessions.

### 4.2 Exercise for Financial Management

#### Circle the Correct Answer

1. Which of the following are components of an organization's system of *internal controls* for financial management?
  - (a) Written procedures and policies.
  - (b) Specified job responsibilities.
  - (c) Job qualifications.
  - (d) Accounting records.
  - (e) All of the above.

2. The sole purpose of *accounting records* is to provide reliable and up-to-date information on the cash controlled by an organization or agency.

**TRUE**

**FALSE**

3. An expenditure by a subrecipient will be considered an *allowable* CDBG expense if it is necessary to carry out an approved activity, and is not explicitly prohibited by Federal, state or local regulations.

**TRUE**

**FALSE**

4. *Source documentation* does not have to be located in the CDBG project files.

**TRUE**

**FALSE**

5. An effective system of *budget controls* requires a periodic comparison of actual obligations and expenditures against planned obligations and expenditures, and against projected accomplishments for such outlays.

**TRUE**

**FALSE**

6. Interest income from CDBG advances and revolving loan accounts may be retained by the subrecipient as program income.

**TRUE**

**FALSE**

*The answers are on next page.*



### Exercise for Financial Management (continued)

#### Answers to questions from preceding page

1. “(e) All of the above.”
2. **FALSE.** The purpose of accounting records is to provide information *not only on cash* but also on *all the assets and liabilities* of an organization, including property, receivables, payables, and other obligations.
3. **FALSE.** The fact that an expenditure is both necessary and not explicitly prohibited by law and program regulations *is only part of the criteria* that must be met for it *to be considered an allowable CDBG expense*. In addition, the expenditure must:
  - Have been authorized by the grantee (through an approved budget or other mechanism).
  - Be reasonable.
  - Have been treated by the subrecipient in a manner consistent with its normal procedures for computing costs.
  - Be allocable to an approved CDBG cost objective.
  - Be net of all applicable credits.
4. **TRUE.** *Source documentation does not have to be stored in the CDBG project files so long as it is readily available to be reviewed by the grantee, HUD, or other authorized representatives.* In general, however, subrecipients will find that it is more efficient in the long run to maintain as much project information as possible in files specifically dedicated to their CDBG activities.
5. **TRUE.**
6. **FALSE.** One of the primary purposes of a subrecipient’s *cash management* system is to minimize the time between receipt of CDBG funds and their disbursement; therefore, if the subrecipient’s system is working efficiently, *there shouldn’t be any interest income* generated on cash advances. In fact, 24 CFR 570.500(a)(2) makes explicit that *the definition of program income does not include interest earned on the investment of the initial proceeds of a grant advance, including funds advanced from a grantee to a subrecipient*, and any such funds must be promptly remitted to the U.S. Treasury. Moreover, 570.500(b) makes it clear that cash balances held in a revolving fund must be held in an interest-bearing account and that any interest earned on funds held in such an account will be considered to be interest income generated on a cash advance and must be remitted to the Treasury at least annually.

### 4.3 Exercise for Procurement and Contracting

#### Circle the Correct Answer

1. The reason for Federal competitive procurement requirements is:
  - (a) To ensure that supplies, equipment, and services are acquired efficiently.
  - (b) To help guarantee a “fair” price for items or services bought with Federal funds.
  - (c) To give the public confidence in the procurement practices of Federal assistance programs.
  - (d) To allow more firms, particularly local firms, small businesses, and minority- or women-owned businesses, to have an opportunity to compete for work under Federal programs.
  - (e) All of the above.
  
2. A cost or price analysis and documentation of the procurement process are only required for *major purchases*.

**TRUE**

**FALSE**

3. A governmental subrecipient is justified in breaking up a procurement into components of \$100,000 or less in order to utilize the “small purchase” procedures so long as the procurement process for each purchase is still competitive.

**TRUE**

**FALSE**

4. The “Section 3” requirements for awarding work to local business concerns takes precedence over the competitive procurement requirements.

**TRUE**

**FALSE**

*The answers are on next page.*

### Exercise for Procurement and Contracting (continued)

#### Answers to questions from preceding page

1. “(e) All of the above.”
2. **FALSE.** A subrecipient must do a cost or price analysis and maintain documentation of the procurement process for *every* procurement. However, the level of complexity of the analysis and detail of the documentation should vary by the size of the procurement and the extent of competitiveness in the process. Therefore, the purchase of desktop stationary supplies will require that the subrecipient maintain a very modest level of documentation of how comparative prices were analyzed (through catalogs and/or price quotes). A sole source procurement, on the other hand, will require much more extensive documentation to justify the noncompetitive process and to demonstrate that the price incurred was fair.
3. **FALSE.** The standard for “small purchases” is that the procurement for services, supplies, or property does not cost more than \$100,000 *in the aggregate*. Therefore, for example, it is not allowable to break up arbitrarily a \$150,000 procurement of weatherization materials into three \$50,000 purchases just to be able to use the less complicated “small purchase” procedures. The purchase of such materials should be handled through a *sealed bid* method of procurement, with the larger purchase volume entailed in this approach likely to result in lower per unit prices.
4. **FALSE.** *Both* sets of requirements must be satisfied. Therefore, the competitive procurement procedures adopted by the subrecipient also must be designed to facilitate and encourage local businesses to compete for the proposed work.

**4.4 Exercise for Property Management and Disposition**

**Circle the Correct Answer**

1. For **real property** controlled by a subrecipient and acquired or improved with CDBG funds in excess of \$25,000, what is the *minimum* period of time following the expiration of the Subrecipient Agreement that such property must be used to continue to meet a national objective?
  - (a) 1 year.
  - (b) 3 years.
  - (c) 5 years.
  - (d) 10 years.
  - (e) As long a period as the grantee feels is appropriate.
  
2. When are the proceeds from a subrecipient's sale of equipment purchased with CDBG funds considered to be **program income**?
  - (a) Never.
  - (b) When the proceeds are returned to the grantee as compensation for the original CDBG funding.
  - (c) When the net proceeds exceed the compensation due to the grantee.
  - (d) When the depreciated value of the equipment exceeds the CDBG portion of the original acquisition cost.
  - (e) Always.
  
3. A non-profit subrecipient has in inventory a computer acquired with CDBG funds that is currently worth less than \$500. The subrecipient may retain it without paying the grantee for its current value if the grantee does not need it for any other Federally sponsored program or project.

**TRUE**

**FALSE**

4. The Federal Government's copyright license for any written work developed by a subrecipient with CDBG funds does not preclude the subrecipient from reproducing or otherwise publishing such work.

**TRUE**

**FALSE**

*The answers are on next page.*

### Exercise for Property Management and Disposition (continued)

#### Answers to questions from preceding page

1. The correct answer is “(c) 5 years.” Although a grantee may stipulate a longer time period (in a closeout agreement, for example), 5 years is the *minimum* period during which such property must continue to be used to address a CDBG National Objective. If, on the other hand, during that time period a national objective is no longer being met or the subrecipient chooses to dispose of the real property, the subrecipient must reimburse the grantee for the fair market value of the property, less any portion attributable to non-CDBG funds.
2. The correct answer is “(e) always,” with the qualification that if a portion of the equipment purchase was financed with non-CDBG funds, only the CDBG portion of the proceeds would be program income for the purposes of the CDBG program.
3. **FALSE.** The pertinent regulations for non-profit subrecipients [24 CFR 570.502(a)(8) and (b)(3)(vi)] require that, regardless of the dollar value, equipment acquired with CDBG funds and no longer needed by the subrecipient for CDBG activities must be transferred to the grantee or retained by the subrecipient only after compensating the grantee.
4. **TRUE.** Although the Federal Government reserves a copyright license on such work, it is a *nonexclusive* license.

## Training CDBG Subrecipients in Administrative Systems

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### 4.5 Exercise for Record-Keeping and Reporting Requirements

**Review the following examples and indicate whether the approach being taken is adequate or inadequate. Where you feel the approach is “inadequate,” explain why and what might be done differently.**

1. John Smith, the program director for the CDBG-funded housing rehabilitation activities of Housing Alliance, Inc., worked diligently with his staff to ensure that every case file contained the information specified in the Subrecipient Agreement for necessary records. As a result, in preparing periodic progress reports, Mr. Smith was able to review each case file and be confident of finding all the data necessary to be included in the reports.

Adequate?

Inadequate?

Comment: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Four years had passed since the submission of the grantee’s final Comprehensive Annual Performance and Evaluation Report detailing Family Support, Inc.’s counseling services. The independent public accountant (IPA) audit performed for Family Support for the time period in question had not included any findings or questioned costs relating to this project. Joanne White, the executive director of Family Support, Inc., consequently directed her staff to discard the records of this CDBG-funded activity.

Adequate?

Inadequate?

Comment: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Delroy Blaise wanted his subrecipient agency to take advantage of the efficiencies of automated data processing for its record-keeping and reporting functions but did not have anybody on his staff with computer expertise. Therefore, he hired a computer consultant who assisted the agency in purchasing a microcomputer and wrote specific software for entering data and generating reports for all the information currently required by the grantee, and trained the staff in its use.

Adequate?

Inadequate?

Comment: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

*The answers are on next page.*

## Training CDBG Subrecipients in Administrative Systems

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### Exercise for Record-Keeping and Reporting Requirements (continued)

#### Answers to questions from preceding page

Each of the three cases on the previous page is an example of a situation where the subrecipient in all probability is in *technical compliance with the requirements* for record keeping and reporting but may not be taking sufficient action to maximize the efficiency of its operations to avoid future problems.

1. Although John Smith has taken pains to ensure that his agency could provide the grantee with the required report data, the necessity of having to comb through each case file each time a report is due might not be an efficient use of his agency's personnel resources. Mr. Smith's organization should also have developed summary sheets of the case files and chronological program logs with key characteristics, from which periodic aggregate tallies could be derived much more efficiently.
2. The 4-year retention rule for records might best be viewed as a *minimum*. It is always theoretically possible that an entity like the HUD Office of the Inspector General (OIG) or the General Accounting Office (GAO) may show up to perform an audit after the 4 years have elapsed and request access to such records in support of some questionable costs. Therefore, even after 4 years, for your own protection, it is probably best to place the records in storage for a year or so rather than to discard or destroy them.
3. When automating record-keeping and reporting functions, a key consideration is **ongoing flexibility**. In this case, because the software was designed specifically for the *current* records/reporting requirements, if the data desired by either the subrecipient or the grantee changed, it is not clear that the agency had acquired the technical capacity to modify its computer system accordingly. The agency may have been better served if it had purchased a more "user friendly" generic software package that its own staff could learn to modify.

These examples have been included to remind the reader that the requirements contained in the handbook represent **minimum standards** for administrative, financial, and management systems. These minimums should not automatically become your maximums. Although HUD cannot *require* grantees and subrecipients to go beyond these regulatory standards, it is often in your agency's interest to strive for the "best management practice" possible, or to build an extra margin into your systems, in recognition of the fact that there will always be some unexpected demands on these systems or other problems that will arise over time.

## **Training CDBG Subrecipients in Administrative Systems**

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### **4.6 Exercise for Other Administrative and Program Requirements**

#### **Circle the Correct Answer**

1. Available program income must be used by the subrecipient before requesting additional grant funds from the grantee.

**TRUE**

**FALSE**

2. Program income must be used by the subrecipient for the same CDBG-funded activity that generated it.

**TRUE**

**FALSE**

3. Amendments to the Subrecipient Agreement are only necessary if the amount of the CDBG funding or the period in which it will be available is to be changed.

**TRUE**

**FALSE**

4. Regardless of the National Objective being addressed by a CDBG-funded public construction activity, in carrying out that activity, a subrecipient must ensure that to the greatest extent feasible, jobs are made available to local low- and moderate-income persons.

**TRUE**

**FALSE**

5. Davis-Bacon “prevailing wage” standards apply to all CDBG-funded construction or rehabilitation projects.

**TRUE**

**FALSE**

6. Subrecipients are required to perform an environmental review before incurring any program expenses in connection with a CDBG-funded activity.

**TRUE**

**FALSE**

7. In areas identified by FEMA as having special flood hazards, the National Flood Insurance requirements apply only to CDBG-funded new construction projects.

**TRUE**

**FALSE**



## Training CDBG Subrecipients in Administrative Systems

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8. The “one-for-one replacement” rule for low/moderate income dwelling units that are demolished as a result of a CDBG-funded project only applies if the unit was occupied at the time that the CDBG project was initiated.

**TRUE**

**FALSE**

9. In a structure to be rehabilitated that has historic significance and is found to contain lead paint, the lead-based paint abatement requirements take precedence over the historic preservation requirements.

**TRUE**

**FALSE**

10. If a contractor, who sits on the board of directors of a non-profit subrecipient, offers to donate his time to perform rehabilitation on the subrecipient’s homeless shelter, there is no conflict of interest if the contractor is only reimbursed for the cost of materials.

**TRUE**

**FALSE**

11. A grantee may only perform an on-site monitoring at a time convenient to the subrecipient, and during that monitoring the grantee does not have a right to inspect individual client files.

**TRUE**

**FALSE**

*The answers are on next page.*

### Exercise on Other Administrative and Program Requirements (continued)

#### Answers to questions from preceding pages

1. **TRUE.** According to 24 CFR 570.504(b)(2), program income on hand must be used before drawing down additional grant funds, **except** in the instance of program income in a revolving fund, in which case the subrecipient must use the program income for the activity for which the revolving fund was established before drawing down additional funds for that same activity.
2. **FALSE.** The Subrecipient Agreement must specify whether the subrecipient will be allowed to retain program income [per 24 CFR 570.504(c)]. The Agreement should also specify the CDBG activities for which this program income may be used, which do not have to be the same activities that generated it. For example, the Agreement could specify that program income generated from repayment of economic development loans to for-profit businesses is to be used subsequently for housing rehabilitation loans. On the other hand, the grantee could authorize the subrecipient to keep the income in a revolving fund, in which case it would have to be used for making other economic development loans.
3. **FALSE.** In addition to changes to the total funding and period of performance, there are a variety of other circumstances under which a formal amendment to the Agreement should be executed. For example, a formal amendment should be made if additional activities are added to the scope of work, funds are substantially re-budgeted among activities, or the performance objectives for a particular activity are modified. Although sometimes incorrectly dismissed as a mere formality, written amendments serve to protect both the grantee and the subrecipient by making explicitly clear what the current expectations and legal responsibilities are for each party to the agreement.
4. **TRUE.** A requirement of Section 3 of the Housing and Community Development Act of 1974, as amended, states that it is the responsibility of grantees and subrecipients to make every reasonable effort to ensure that such employment opportunities are created for low- and moderate-income persons within in the area.
5. **FALSE.** In general, Davis-Bacon “prevailing wage” standards apply only to construction contracts in excess of \$2,000 for construction work financed in whole or in part with CDBG assistance. For rehabilitation or new construction of residential properties, a CDBG-financed project is only subject to Davis-Bacon requirements if the property includes eight (8) or more units.
6. **FALSE.** Although a subrecipient is not allowed to incur program expenses for a CDBG project prior to the receipt of environmental clearance, it is the *grantee* that has the responsibility of completing the environmental review, *not* the subrecipient.

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7. **FALSE.** The National Flood Insurance Program requirements apply to *any CDBG-funded acquisition or construction project (including rehabilitation)* in a community that has had notice from FEMA for more than a year that the project area has special flood hazards.
8. **FALSE.** The “one-for-one replacement” requirement applies if the low/moderate-income unit had been *occupiable* and not just if it was actually occupied.
9. **FALSE.** Both the lead-based paint abatement and the historic preservation requirements must be satisfied. If the subrecipient cannot comply with both sets of requirements with the available funding, then it cannot assist the unit.
10. **FALSE.** Even if the contractor only receives reimbursement for materials “at cost,” the contractor will be considered to have a “financial interest” and therefore a conflict would exist. However, the grantee could request that HUD provide an exception in accordance with § 570.611(d) in this type of instance, where the contractor’s interest does not include payment for his or her services.
11. **FALSE.** In its efforts to fulfill its oversight responsibilities, a grantee is given broad discretion in the establishment of schedules for on-site visits and for examining any program records that it deems necessary for monitoring compliance with CDBG requirements. However, it is good practice to consider the subrecipient’s situation when scheduling such a visit, so as not to create too much of an inconvenience.

### 4.7 Exercise for Audits

#### Circle the Correct Answer

1. A non-profit subrecipient that has expended \$35,000 in Federal financial assistance in a single year must have:
  - (a) An audit of its entire operations.
  - (b) A program-specific financial audit for each Federal award.
  - (c) Either (a) or (b).
  - (d) No audit is required.
  
2. A non-profit subrecipient that has expended a total of \$350,000 in Federal financial assistance in a single year, but only from one Federal program, must have:
  - (a) An audit of its entire operations.
  - (b) A program-specific financial audit for the Federal award.
  - (c) Either (a) or (b).
  
3. Which of the following are necessary components of a financial audit report under the Single Audit Act?
  - (a) An organizational chart or description of the entity's organizational structure.
  - (b) Financial statements and schedule of Federal assistance.
  - (c) An inventory of non-disposable property.
  - (d) An itemization of personnel positions and salaries.
  - (e) An evaluation of internal control systems.
  - (f) A report on compliance.
  - (g) An assessment of the entity's efficiency and effectiveness in its operation of the Federal program(s).
  
4. A subrecipient may procure independent audit services from any source of its choosing.

**TRUE**

**FALSE**

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5. Cost considerations must be the dominant factor in the selection of auditors.

**TRUE**

**FALSE**

6. Since the Single Audit Act mandates a single audit for non-profit subrecipients that expend a certain level of funds in a single year from multiple Federal programs, the non-profit can charge the *full* cost of the audit to those Federal programs.

**TRUE**

**FALSE**

*The answers are on next page.*

### Exercise for Audits (continued)

#### Answers to questions from preceding pages

1. “(d).” No audit is required because the subrecipient expended less than the \$300,00 in total Federal assistance that triggers the requirement for an audit.
2. (c) The subrecipient may have either type of audit.
3. “(b),” “(e),” and “(f).”
4. **FALSE.** Subrecipients must follow procurement rules in either the Federal Acquisition Regulation or in 24 CFR Parts 84 or 85, as applicable.
5. **FALSE.** Cost should only be a selection factor when the other selection criteria such as the qualifications and independence of the firms being considered have been met.
6. **TRUE.** Since the audit is a mandated Federal requirement, the Federal programs can pay the full cost of the audit.

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### 4.8 Exercise for Closeout Procedures

#### Circle the Correct Answer

1. On the date that its Subrecipient Agreement with the Midtown Community Development Agency expired, the non-profit Family Services Organization submitted final performance, financial status, and inventory reports, and a final request for payment. Once the final payment is received from the grantee, can this subrecipient consider itself “closed-out?”

**YES**

**NO**

2. Although it is CDBG-funded, \$500,000 housing rehabilitation effort over the last year had not yet been audited, when the funds were fully expended and assisted units completed, the Mica City Housing Authority submitted its final reports to the Mica City CD Office and received certification that the grantee considered its program to be closed-out. Must the Mica City Housing Authority still arrange for an audit of its CDBG funds?

**YES**

**NO**

3. As a subrecipient under Central County’s CDBG program, the city of Lobos had implemented a public facilities effort aimed at removing architectural barriers, with the municipality agreeing in the Subrecipient Agreement to match the CDBG funds in the project on a dollar-for-dollar basis with city funds. The project had been formally closed out by the time that the city contracted for an IPA audit of this activity. The completed audit, however, revealed that the final costs of the public facilities effort and the amount contributed as the city’s match against the CDBG assistance were less than the figures previously submitted by Lobos in its final reports for closeout. Can the grantee still disallow some of the expenses covered with CDBG funds?

**YES**

**NO**

4. The subrecipient, Housing Resources, Inc., had been operating a CDBG-funded rehabilitation grant program for low- and moderate-income households. *After closeout*, one of the property owners that had been assisted by the program decided *not* to make the rehabilitated unit, which had been recently vacated, available to a low- or moderate-income tenant, and under the recapture provisions of the program, returned the amount of the assistance (plus an interest penalty) to Housing Resources, Inc. Can Housing Resources keep these funds for its own use?

**YES**

**NO**

*The answers are on the next page.*

### Exercise for Closeout Procedures (continued)

#### Answers to questions from preceding page

1. **NO.** It is up to the grantee to determine when the conditions for “closeout” have been satisfied, consistent with its standard procedures (which should be spelled out in writing for subrecipients). Once these conditions have been met, the grantee should either enter into a closeout agreement with the subrecipient or send written notification to the subrecipient regarding the latter’s closeout status along with any special conditions or continuing responsibilities which the subrecipient must satisfy. Until a subrecipient receives such formal notification, it should *not* assume that any CDBG-activity has been closed out.
2. **YES.** The applicable regulations are clear that the closeout of a CDBG award does *not* affect the subrecipient’s audit requirements. And, according to OMB Circular A–133, any entity that expends \$500,000 or more a year in Federal financial assistance must have an audit completed in accordance with the standards found in that circular.
3. **YES.** 24 CFR 84.72 and 85.51 specify that even after closeout of the CDBG project, the grantee has the right to disallow costs and recover funds based on a later audit. In this case, the grantee could choose to reduce the allowable CDBG costs to a level equal to the actual amount of cash match contributed by the city of Lobos.
4. **NO.** According to 24 CFR 570.503(b)(7), at the expiration of the Subrecipient Agreement, the subrecipient must transfer to the grantee any CDBG funds on hand and *any accounts receivable attributable to the use of CDBG funds*. The obligations of assisted property owners to reimburse the subrecipient under recapture provisions of a funding agreement would constitute accounts receivable. Therefore, the subrecipient would need to return these funds to the grantee.