

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



PLAYING BY THE RULES

A HANDBOOK FOR SUBRECIPIENTS ON ADMINISTRATIVE SYSTEMS



Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

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

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PROLOGUE: A MESSAGE TO CDBG SUBRECIPIENTS

As a Community Development Block Grant (CDBG) subrecipient, your organization is an indispensable part of the CDBG Entitlement program. You ensure the CDBG program serves the diverse communities, groups, and individuals it is intended to serve. Your participation provides:

- Knowledge of and access to the specific neighborhoods and beneficiaries
- Expanded technical and managerial capabilities
- Greater citizen engagement with the intended beneficiaries in the design and delivery of services.

Your continued support and involvement make it possible for the CDBG program to address the broad range of needs in your communities. The U.S. Department of Housing and Urban Development (HUD) and its CDBG entitlement grantees count on you to deliver cost-effective services to the diverse communities in all our states and territories. This is not an easy task; even organizations with a strong track record and demonstrated program delivery accomplishments may need additional resources to meet the program's administrative requirements. Supporting your efforts is the purpose of this guide.

Common Subrecipient Challenges

Some of the challenges that you, as a CDBG Subrecipient, are most likely to face are in the areas of financial management, administrative systems, documentation, and recordkeeping. These issues typically arise as the result of:

- Limited experience in dealing with Federally funded programs, especially if there has been recent staff turnover.
- Limited understanding about meeting the administrative requirements that you must satisfy when using CDBG funds.
- Limited oversight, communication, or management support from the HUD grantee that awarded CDBG funds to you as a subrecipient.

Subrecipient Responsibilities

HUD and your CDBG grantee expect that, as a subrecipient, you will:

- Comply with all applicable Federal requirements.
- Document your performance.
- Follow effective management practices.

Compliance with Federal requirements

You and your grantee share joint responsibility for complying with all Federal requirements. Typically, your agreement with the grantee requires that you develop adequate systems to ensure compliance with all the rules that are relevant to your CDBG program activities. The more you know about the rules, the more efficient you can be in designing and conducting your activities. Playing by the rules does not detract from your performance; it enhances it and enables you to continue receiving CDBG funds.

The entitlement community government that provides your organization with CDBG funds is referred to as the "grantee" in its role as a recipient of CDBG funds from HUD.

Documentation

Regulatory compliance and performance go hand-in-hand. Measuring your performance helps your grantee analyze the benefits of its CDBG investments. It also helps you track and evaluate the progress and effectiveness of your program activities. Annually, your grantee must submit a Consolidated Annual Performance and Evaluation Report (CAPER) that gauges the actual achievements against the goals in its Consolidated Plan. All CDBG organizations should establish goals, measure their performance, and track their expenditures consistent with the grantee's reporting requirements.

When using public funds, the cardinal rule is **documentation**; *If it is not documented, it never happened.* That is, to confirm that you have followed specific rules in your program, you must have documentation in your files to support the achievement of program goals and the completion of activities. If your activities, personnel, procedures, expenditures, and results are not documented properly, from the Federal Government's perspective, you have not performed successfully, *regardless of your accomplishments.*

The grantee will regularly monitor your progress by reviewing this documentation to confirm compliance with the requirements set forth in this guide. Grantees may conduct monitoring through:

- **Desk monitoring**—a review of documents that you submit to the grantee's staff, e.g., requests for reimbursement.
- **On-site monitoring**—activities such as review of documentation of eligibility and national objective compliance, financial expenditure records, interviews with staff or program participants, and inspection of records for the CDBG-assisted activities carried out (e.g., public services, housing rehabilitation) conducted at your office or the program or project site.

[Chapter 6](#), "Other Administrative and Program Requirements" addresses monitoring in greater detail.

Effective management practices

Successful CDBG programs depend upon grantees and subrecipients to follow **effective management practices**. These include:

- Supporting cooperative, problem-solving relationships among HUD, grantees, and subrecipients.
- Working toward continuous improvement in regulatory compliance and timely program performance.
- Maintaining open and frequent communications among all participants.
- Focusing on preventing problems first, rather than curing them later.

Experience has shown that activities undertaken by subrecipients are potentially high risk. Many subrecipients have excellent intentions but use volunteers or inexperienced staff who do not know Federal requirements. This guide explains the administrative requirements that apply to the use of Federal funds for the delivery of CDBG program activities. Not surprisingly, you will find the bulk of these requirements reflect common sense and good business practices, like balancing your checkbook or shopping for the lowest price. We hope that what you learn from this guide about meeting CDBG administrative requirements will save you from major problems and disallowed costs later.

Most of the standards presented in this guide represent the **minimum requirements** prescribed by Federal regulations, not **optimum** or **maximum**. We hope your agency will use these regulations as a path to optimize performance and fully achieve all your goals.

Updated Guide

This revision is the first update of this guide since 2005. It reflects:

- Incorporation of OMB Circulars A-102 and A-110 and the HUD Common Rule at 24 Code of Federal Regulations (CFR) Parts 84 and 85, into the ["Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards" at 2 CFR 200](#).
- Changes and updates to the CDBG regulations that have been made since 2005
- Inclusion of hyperlinks to more quickly search for information

CHAPTER 1

INTRODUCTION

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1.1 How to Use This Guide	1-2
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This guide will help you, as a CDBG subrecipient, to:

- Understand the basic administrative requirements of the CDBG program.
- Improve the management of your program activities through strong business practices.
- Enhance program performance by tracking, reporting, and evaluating program activities and outcomes.
- Ensure accountability and ensure clean audits by documenting compliance with CDBG regulations.

Taken together, these practices will protect and enhance the reputation of both your organization and the CDBG program in your community.

CDBG Subrecipients

A “subrecipient” may be a public agency, a public or private nonprofit organization, a Community-Based Development Organization (CBDO) if designated as a subrecipient, or a for-profit entity authorized under [24 CFR 570.201\(o\)](#) that the grantee awards CDBG funds to carry out agreed-upon activities on its behalf (see [24 CFR 570.500\(c\)](#)). By administering your activities and meeting the administrative requirements covered in this guide, you are providing your grantee with flexibility in accomplishing its goals and helping to strengthen its ties with the community.

1.1 HOW TO USE THIS GUIDE

The complexity of regulations that mandate specific procedures (the “means”) for achieving program objectives (the “ends”) can be daunting. Specific procedures and extensive record-keeping may appear to be bureaucratic red tape. However, keep in mind that the required systems and procedures:

- Are based on widely accepted standards for good business practices and apply to financial transactions in all areas of business.
- Help ensure that every entity administering CDBG funds has basic management controls and financial safeguards in place to ensure maintenance of the public trust.
- Provide better oversight and real-time analytic capacity that enable program managers to continuously adjust their operations and improve their performance.

The chapters in this guide correspond to particular components of a subrecipient’s administrative operations:

- Financial Management ([Chapter 2](#)).
- Procurement and Contracting ([Chapter 3](#)).
- Property Management and Disposition ([Chapter 4](#)).
- Record-Keeping and Reporting Requirements ([Chapter 5](#)).
- Other Administrative and Program Requirements ([Chapter 6](#)).
- Audits ([Chapter 7](#)).
- Closeout ([Chapter 8](#)).

Each chapter begins with a brief explanation of the underlying management principles that apply to that facet of program administration, followed by the basic standards that grantees and their subrecipients must meet, as specified in the applicable regulations.

To the extent feasible, the guide lists performance standards in order from the most basic requirements to the most specialized. This makes it possible for you to use the guide as a checklist for building administrative systems “from the ground up,” or for reviewing existing systems for their adequacy in meeting the standards.

Use this guide as a supplement to, not a replacement for, the regulations (including the related requirements referenced in Subpart K of the CDBG regulations) identified in Section 1.2(b), which follows below. Over time, using this guide as a reference tool should help you de-mystify the regulations and become more familiar with the requirements of the CDBG program. This knowledge, in turn, should help you avoid the pitfalls (and penalties) of noncompliance.

You may notice some duplication from chapter to chapter in this guide. This reflects the overlap that occasionally occurs in the regulations themselves and was retained in the text to minimize the amount of cross-referencing.

Other Available Resources

Along with this Playing by the Rules guide, the following resources can also help both grantees and subrecipients:

- **Managing CDBG: A Guidebook for Grantees on Subrecipient Management:** A companion volume as a resource for your local community in its relationship with your organization.
- **Training CDBG Subrecipients in Administrative Systems:** A practical guide to best practices in delivering CDBG-funded services through organizations like yours.
- **Web-based resources:** These guides are linked to web-based resources that will provide you with guidance, materials, checklists, etc., to help you implement your programs.

You can learn more about your community and HUD-funded activities for low- and moderate-income households and neighborhoods through the following resources:

- **Your own community's Consolidated Plan:** A tool to assess its affordable housing and community development needs and market conditions, to make data-driven, place-based investment decisions. The consolidated planning process serves as the framework for a community-wide dialogue to identify housing and community development priorities that align and focus funding from the CPD formula block grant programs. In addition to CDBG, these include the [HOME Investment Partnerships Program \(HOME\)](#), [Housing Trust Fund \(HTF\)](#), [Emergency Solutions Grants \(ESG\) program](#), and [Housing Opportunities for Persons with AIDS \(HOPWA\) program](#).
- **CPD Maps:** [CPD Maps](#) (HUD's mapping and planning tool for communities) makes information about your community more broadly available to the general public. The [CPD Maps Desk Guide](#) is available online to help you make the best use of this valuable tool.

1.2 PRINCIPAL REGULATIONS GOVERNING CDBG ADMINISTRATIVE SYSTEMS

[24 CFR 570](#), "Community Development Block Grants": Part 570 describes the regulations of the CDBG program in detail. 24 CFR 570, Subparts J and K include the basic program regulations governing management and financial systems for the CDBG program. These sections apply both to grantees and all subrecipients:

- [Subpart J \(24 CFR 570.500–570.513\)](#) addresses general responsibilities for grant administration, including the applicability of uniform administrative requirements, provisions of Subrecipient Agreements, program income, use of real property, record keeping and reporting, and closeout procedures.
- [Subpart K \(24 CFR 570.600–570.613\)](#) deals with other Federal requirements that may be applicable to a subrecipient's CDBG funded activities. All CDBG funded activities must comply with regulations addressing civil rights, uniform administrative requirements, cost principles, and conflicts of interest. Plus, depending on the activity, additional requirements may apply for labor standards; environmental standards; flood insurance; relocation; displacement; acquisition; employment and contracting opportunities; lead-based paint; and/or use of debarred, suspended, or ineligible contractors. The requirements in Subpart K are sometimes referred to as "cross-cutting" requirements, i.e., requirements outside the CDBG regulations that impose conditions on any activity receiving Federal funds, including CDBG-funded activities. As an example, an activity using Federal funds which alters a historically significant resource must adhere to specific public protections requiring reasonable efforts to preserve that resource. A working understanding of the requirements in this subpart will typically involve cross-referencing and becoming familiar with the relevant laws and regulations, as appropriate.

2 CFR 200, the Omnibus Circular: 2 CFR 200, from the Office of Management and Budget (OMB) governs cost principles, administrative systems, fiscal procedures, and audit requirements for grantees and subrecipients. This regulation (also called the “Uniform Guidance” or the “Super-circular” amended 24 CFR 84 and 85, by removing all their provisions, but included a “saving provision” stating that all Federal awards made prior to December 26, 2014, will continue to be governed by Parts 84 or 85. The chart below provides a quick reference to the relationship of the Omnibus Circular, Part 84, Part 85, and the various OMB Circulars it replaces.

- HUD has published a helpful guide ([“2 CFR 200 Overview for HUD Grantees”](#)) which identifies where provisions of Parts 84 and 85 may be found in the new Omnibus Circular.
- A detailed analysis of the relationship between previous regulations and the Omnibus Circular can be found in the [“Uniform Guidance Crosswalk from Existing Guidance to Final Guidance”](#), which highlights policy changes, clarifications, and updates to previous policy provisions.

Executive Orders from the Office of the President: These implement various equal employment opportunity and environmental policies; these are identified in various sections of the regulations, as applicable.

Former HUD regulation or OMB Circular where you used to look for administrative requirements	General purpose of the former regulation or circular	Where you now primarily look to find provisions incorporated into or modified by the Omnibus Circular (2 CFR 200)
24 CFR Part 84: HUD “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations”	HUD regulation implementing OMB Circular A-110 (applicable to nonprofit subrecipients) and specifying standards relative to requirements as to bonding and insurance, retention and custodial requirements for records, financial management systems (200.302), monitoring and reporting on performance, and procurement. ¹	2 CFR 200, Subpart D , Post Federal Award Requirements, 200.300-345. Administrative requirements for both nonprofits and governmental entities are generally included within Subpart D.
24 CFR Part 85: HUD “Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally-Recognized Indian Tribal Governments” (also known as “the Common Rule.”)	For governmental entities and public agencies, detailed standards for financial management systems, payment, property management, procurement, monitoring and reporting program performance, financial reporting, record retention, and termination.	2 CFR 200, Subpart D , Post Federal Award Requirements, 200.300-345. Administrative requirements for both nonprofits and governmental entities are generally included within Subpart D.
OMB Circular A-122: “Cost Principles for Non-Profit Organizations”	Established principles for determining costs that are allowed to be charged to Federal grants, contracts, and other agreements with nonprofit organizations (except educational institutions). The principles are designed to ensure that the Federal Government will bear its fair share of costs except where restricted or prohibited by law.	2 CFR 200, Subpart E : Cost Principles, 200.400-475; Appendix VII —States and Local Government and Indian Tribe Indirect Cost Proposals; and Appendix VIII —Nonprofit Organizations Exempted From Subpart E: Cost Principles. Cost principles for both nonprofits and local governments are generally included within Subpart D. ²

¹ Not all the requirements of 2 CFR 200 are applicable to CDBG subrecipients; see [24 CFR 570.502\(a\) and \(b\)](#) which specify the sections and paragraphs of the Common Rule that apply to CDBG recipients and subrecipients.

² For an exhaustive review of the relationship of the Uniform Guidance to previous circulars on cost principles for governmental entities, nonprofits, and educational institutions (i.e., A-87, A-21, and A-122), see the [“Cost Principles Comparison Chart.”](#)

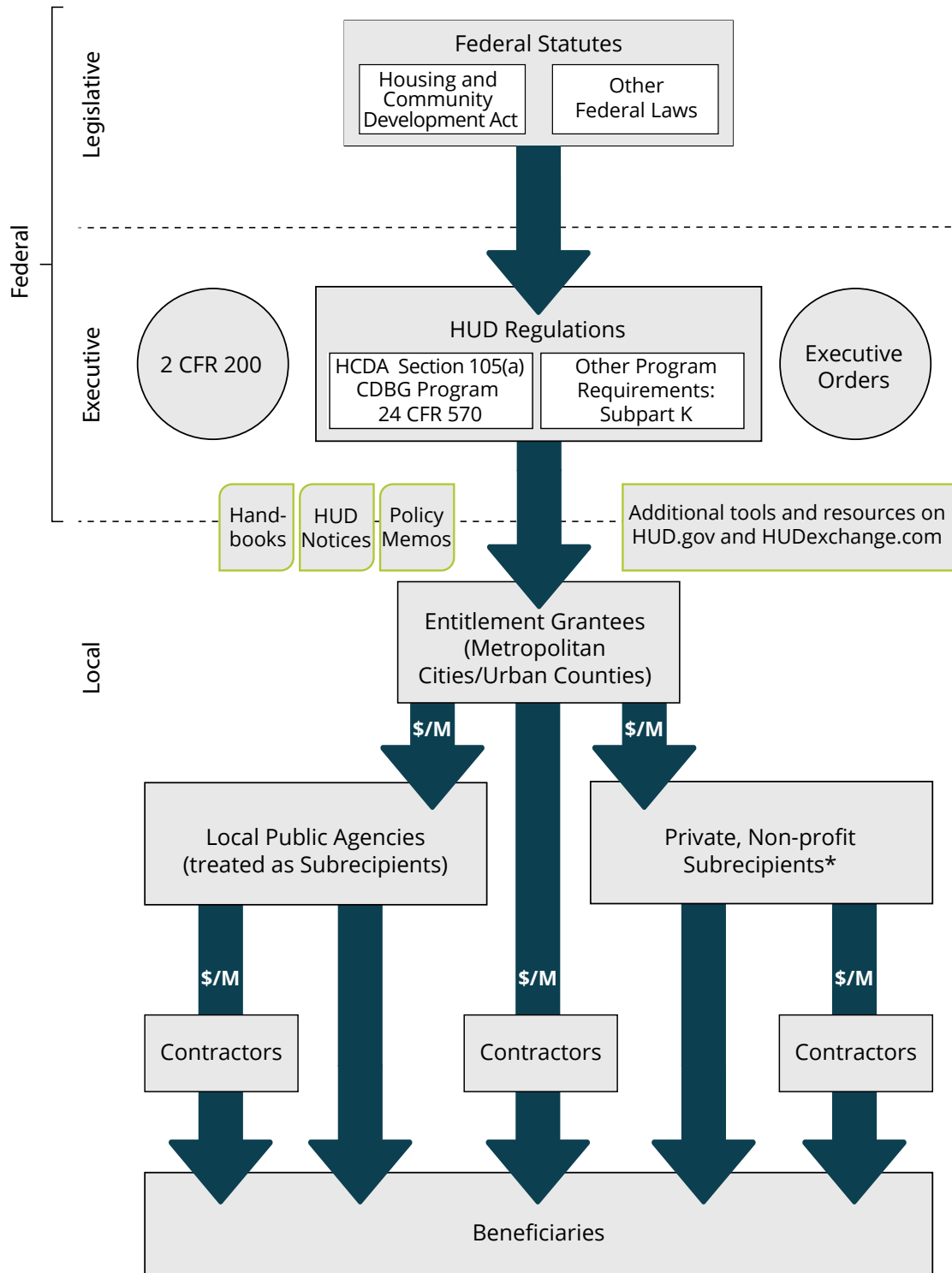
Former HUD regulation or OMB Circular where you used to look for administrative requirements	General purpose of the former regulation or circular	Where you now primarily look to find provisions incorporated into or modified by the Omnibus Circular (2 CFR 200)
OMB Circular A-21: "Cost Principles for Educational Institutions"	Covered much of the same subject matter as OMB Circular A-122, but aimed at educational institutions (public and private).	2 CFR 200, Subpart E : Cost Principles, 200.400-475; Appendix III —Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
OMB Circular A-87: "Cost Principles for State and Local Government"	Equivalent of A-122 for a governmental subrecipient (i.e., public agency that is independent of the grantee government, such as a public housing authority, parks commission, or a jurisdiction cooperating with an urban county CDBG grantee ³). Established the principles for determining the allowable costs of programs administered by public entities under grants or contracts from the Federal Government. The principles are designed to provide the basis for a uniform approach to determining costs and promoting efficiency.	2 CFR 200, Subpart E : Cost Principles, 200.400-475; Appendix V —State/Local Government and Indian Tribe—Wide Central Service Cost Allocation Plans; Appendix VI —Public Assistance Cost Allocation Plans; Appendix VII —States and Local Government and Indian Tribe Indirect Cost Proposals
OMB Circular A-133: "Audits of States, Local Governments and Non-profit Organizations"	Defined audit requirements for both governments and nonprofits receiving Federal funds. The document addresses the mandated frequency and scope of audits, allowability of audit costs, and the process of auditor selection.	2 CFR 200, Subpart F , Audit Requirements, 200.500-520; Appendix X —Data Collection Form (Form SF-SAC); Appendix XI —Compliance

³ Under the CDBG program, participating units under an urban county are considered to be part of the grantee; however, the grantee is responsible for applying the same requirements to these participating jurisdictions as are applicable to subrecipients.

Exhibit 1-1 below describes the regulatory framework for the CDBG program for Entitlement Communities (i.e., metro cities and urban counties).

NOTES

Exhibit 1-1: Regulatory Framework for CDBG Entitlement Program



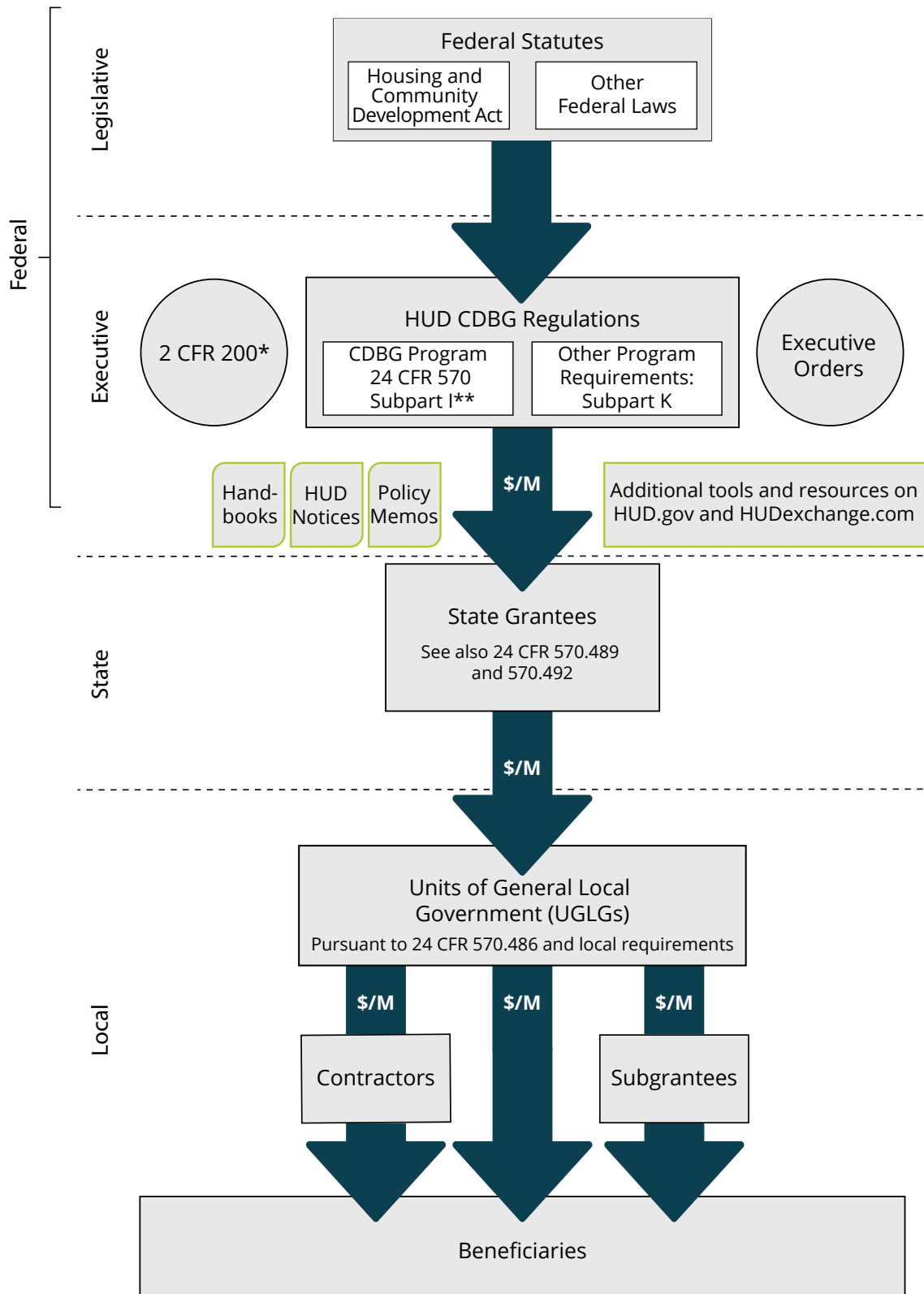
\$=Funds provided. M=Monitoring required.

* Includes 24 CFR 570.204(c)(2) for-profit CBDOS.

Exhibit 1-2 below describes the regulatory framework for the CDBG program for the State CDBG program.

NOTES

Exhibit 1-2: Regulatory Framework for State CDBG Program



\$=Funds provided. M=Monitoring required.

CHAPTER 2

FINANCIAL MANAGEMENT

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When new subrecipients begin offering a CDBG-funded program, many discover that they need to upgrade their financial systems to meet the applicable Federal requirements. Sometimes, making these necessary financial system changes happen as a matter of trial and error. However, this “ad hoc” approach is dangerous. For example, you may not find out about your system defects until you run into a major problem with an overspent budget or a serious audit finding.

This chapter summarizes the required elements of financial systems you will need for managing Federal funds. Your responses to questions in the following eight areas (detailed in subsequent sections of this guide) should help you identify any specific areas that may need improvement:

1. Internal controls:

- Does your agency have a written set of policies and procedures that describes staff qualifications and duties, lines of authority, separation of duties, and access to assets and sensitive documents?
- Does your agency have written accounting procedures for approving and recording transactions?
- Do you periodically compare financial records to actual assets and liabilities, and check them for completeness and accuracy?

2. Accounting records:

- Does your financial accounting system contain these basic elements: (a) a chart of accounts, (b) a general ledger, (c) a cash receipts journal, (d) a cash disbursements journal, (e) a payroll journal, (f) accounts payable and receivable ledgers, and (g) job cost journals (if involved in construction)?
- Does your accounting system provide reliable, complete, and up-to-date information about the sources and uses of all funds?
- Does your agency perform “trail balances” regularly (at least quarterly)?
- Can your accountant confirm that your accounting system and records meet the requirements of OMB [Uniform Guidance 2 CFR Part 200](#)?

3. Allowable costs:

- Does your agency have a defined set of standards and procedures for determining that costs charged are reasonable, allowable, and allocable expenditures that are consistent with the basic Federal rules ([2 CFR 200, Subpart E](#))?
- Do you know what types of expenditures are prohibited under the CDBG program?
- Do you have an approved indirect cost allocation plan?

4. Source documentation:

- Does your agency maintain up-to-date files containing source documentation (receipts, invoices, canceled checks, etc.) for all financial transactions, including the obligation and use of CDBG program income?

5. Budget controls:

- Does your agency maintain a current approved budget for all funded activities comparing budgeted and actual expenditures?
- Does your agency periodically compare your progress on achieving your program or project goals with the expenditure rate of program funds?

6. Cash management:

- Does your agency have a consistent process for projecting its cash needs, both to meet your cash needs and minimize the time between the receipt and disbursement of grant funds?
- Can your agency certify that all CDBG program income is used in accordance with the subrecipient agreement – i.e., either returned to the grantee or used by your organization for permitted activities before making additional grantee drawdowns for the same activity? (See Section 2.6 below for more information on program income.)

7. Financial reporting:

- Can your agency provide accurate, current, and complete disclosure of the financial results of each Federally sponsored project or program that meets the CDBG reporting requirements?

8. Audits:

- Does your agency conduct annual audits?
- When was your last audit by an independent Certified Public Accountant and what were the results?
- Is your agency following any recommendations in the management letter?

If you answered “yes” to all of these questions, your agency has established strong financial controls. If not, this chapter can help you understand the minimum Federal requirements for financial management and identify where your systems need strengthening. After identifying these areas, you can work with your financial staff or accountant, your auditor, and/or your grantee to develop the systems and expertise you need to ensure control of your agency’s financial affairs to meet the Federal requirements.

AS YOU READ THIS CHAPTER...

1. Check your internal systems against the standards described here.
2. What are the capabilities of your current bookkeeping or accounting staff to fulfill their responsibilities under these requirements? Create a list noting any areas that may need support or new procedures created.
3. Talk to your present accountant and/or auditor. Are they familiar with the Federal requirements outlined here? Has he or she evaluated the adequacy of your systems?
4. Identify appropriate staff in your grantee’s agency (e.g., city or county Community Development agency) who can answer your questions to help you strengthen your systems.
5. Note any warning signs indicating that you need financial management assistance (for example, unexplained expenditures, unrecorded program income, expenditures occurring faster than progress is attained).

2.1 OVERVIEW

The requirements for financial management systems are found in [2 CFR Part 200.302.\(b\)\(1-7\)](#)¹. The scope and frequency of reporting for subrecipients are in [2 CFR 200.329](#). These requirements specify standards to ensure that your organization (a recipient of Federal funds) has an adequate financial management system that:

1. Provides effective internal control over and accountability for all funds, property, and other assets; adequately safeguards these assets and confirms the assets are used for authorized purposes.
2. Identifies the source and application of funds for Federally-funded activities. You need to verify cost reasonableness, cost allowability, allocable costs, applicable credits, and the composition of costs as either direct or indirect, as noted in [2 CFR Part 200, Subpart E- Cost Principles](#). You also need verification that the funds used do not violate any applicable restrictions or prohibitions.
3. Documents the accurate, complete, and timely disclosure of financial results using generally accepted accounting principles (GAAP) in accordance with the reporting requirements of the grantee or HUD.
4. Reduces the time elapsed between the transfer of funds from the U.S. Treasury drawn by the grantee and disbursed to the subrecipient.

¹ State fiscal controls and accounting procedures are noted in [24 CFR 570.489\(d\)](#). Cost principle exceptions in [24 CFR 570.489\(p\)](#) and payment of planning and program administrative costs are noted in [24 CFR 570.489\(a\)\(3\)\(iv\)](#).

The Federal regulations contain requirements in eight specific areas noted earlier (internal controls, accounting records, allowable costs, source documentation, budget controls, cash management, financial reporting, and audits). The first seven areas are discussed in Sections 2.2 to 2.8. Auditing standards are described separately in [Chapter 7](#).

2.2 INTERNAL CONTROLS

See [2 CFR 200.303](#).

The soundness of any organization's financial management structure is determined by its system of internal controls. Internal controls are management systems that help your organization operate successfully and competently to achieve its goals. Managers often think of internal controls as the responsibility of accountants and auditors. The fact is that your management, at all levels, is responsible for confirming that internal controls are set up, followed, and reviewed regularly. Internal controls are meant to:

"Internal controls" are a combination of procedures, specified job responsibilities, qualified personnel, and records that together create accountability in an organization's financial system and safeguard its cash, property, and other assets.

- Protect assets.
- Confirm that records are accurate.
- Promote operational competence.
- Achieve organizational mission and goals.
- Confirm compliance with policies, rules, regulations, and laws.

[2 CFR 200.303](#) requires your organization to follow one of two approved internal control structures.

- The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (referred to as the "[Green Book](#)"), which is used by the Federal government.
- The structure endorsed by the [Committee of Sponsoring Organizations \(COSO\)](#) used by publicly held companies.

Both GAO and COSO provide a structure for designing, implementing, and operating an effective internal control system. Using either will help achieve your goals related to operations, reporting, and compliance.

Through your system of internal controls, your executive management should confirm that:

- Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies.
- All local and Federal resources are protected against waste, mismanagement, or loss.
- Reliable documented information on the source, amount, and use of resources is secured, up-to-date, and recorded.

Accordingly, some of the basic elements that you should consider in developing your system of internal controls include:

- **An organizational chart** that clearly indicates the individuals involved in approving or recording financial transactions and their responsibility.
- **A written description of the functions** of key employees.
- **A formal system of authorization and supervision** sufficient to provide accounting control over assets, liabilities, receipts, and expenditures. This should include:
 - An updated policy manual identifying approval authority for financial transactions and detailed guidelines for controlling expenditures.
 - A written accounting manual outlining procedures for recording deposits and expenditures that includes a chart of accounts for posting all transactions and written procedures indicating the requirements for payments in [2 CFR 200.305](#) (see Accounting Records, in the following section).

Your authorization system needs to provide enough clarity for management to track and understand various transactions and to ensure proper supervisory authority approving transactions. A system of authorizations can be general, as in a procedures manual that explains how accounting functions are to be performed, or very specific, as in identifying who has the authority to sign a contract on behalf of the organization or to sell a piece of equipment. For example, you could accomplish this by creating a step-by-step guide for each of your financial and program management procedures, specifying the steps in the procedure, the position responsible, the action to be taken, and the standard of prompt action for each step.

- **An adequate separation of duties**, whereby no one individual has authority over an entire financial transaction. Separation of duties specifically involves the separation of three types of functional responsibilities: (a) authorization to execute a transaction, (b) recording of the transaction, and (c) custody of the assets involved in the transaction. No one person should have control of more than one of these functional responsibilities.²
- **Control over access to assets, blank forms, and confidential documents.** Physical access to records, blank forms, cash, and other assets should be limited to authorized personnel only. For example, access to accounting records should be limited to only those individuals having record-keeping or supervisory responsibility for them.
- **Periodic evaluations of financial records comparing actual assets and liabilities (reconciliation)** and taking corrective action in response to any discrepancies. As with separation of duties, this is a crucial task to uncover and correct inadvertent record-keeping errors in a timely manner. It is also essential for identifying likely weaknesses in your organization's system for safeguarding resources and uncovering instances of fraud or misuse of assets.

2.3 ACCOUNTING RECORDS

See [2 CFR 200.302\(b\)\(1-7\)](#) and [Chapter 5](#), Records Retention.

Your accounting records must **adequately identify the source and application of CDBG funds.** ([2 CFR 200.302\(b\)\(3\)](#)). To meet this requirement, your system should provide for the following elements:

- **A chart of accounts.** This is a list of names, classifications, and the numbering system for your individual accounts containing basic information about specific financial transactions for the organization. Accounts are created and, in turn, used to summarize the financial transaction data, according to some common characteristics. For example, a typical chart of accounts might have separate account categories for describing assets (cash in a checking account, accounts receivable, prepaid insurance, etc.); liabilities (loans, accounts payable, obligated funds, etc.); revenue (drawdowns from CDBG awards, cash contributions, proceeds from sales, other program income, etc.); and expenses (rent, wages, heat, telephone, etc.).
- **A cash receipts journal.**³ This journal documents chronologically the date funds are received, in what amounts, and from what sources.
- **A cash disbursements journal.** This journal documents chronologically your organization's expenditures (e.g., when the expense was incurred, how much was spent, and to whom funds were paid and for what purpose).

² It is often beneficial to have different individuals or even different departments handle the various steps in the processing of transactions. First, separation of functional responsibility results in cross-checking by the individuals involved, increasing the likelihood that errors will be discovered and corrected. Second, fraud is more difficult to carry out if it requires the collusion of two persons or more. In organizations with very limited staff, however, it may be difficult to achieve optimal separation of duties. In such instances, the most critical functional areas are separation between custody for cash, record keeping for cash, and control of assets easily converted to cash.

³ A journal is a chronological record of transactions showing the charges to be recorded as a result of each transaction. Every transaction is initially recorded in a journal. Therefore, a journal is called a record or book of original entry. Each entry in the journal states the names of the individual accounts to be debited and credited, the dollar amount of each debit and credit, the date of the transaction, and any other necessary explanation of the transaction. The act of entering a transaction in a journal is called "journalizing." Information for a journal entry can originate from a variety of sources, such as checks issued or received, invoices, cash register tapes, and time sheets.

- **A payroll journal.** This journal documents your organization's expenses on salaries and benefits and distinguishes different categories for regulatory purposes.
- **A general ledger.** After a transaction is entered in a journal, that information also should be transferred to the proper accounts contained in the general ledger. The general ledger summarizes chronologically the activity and financial status of all the accounts of your organization. The process of transferring transaction information from a journal to a ledger is known as "posting." Cross-indexing entries in the journal and ledger permits tracking of any recorded transaction (i.e., an "audit trail").

Periodically, a "trial balance" is performed, to test the mathematical accuracy of the ledger and to prepare a statement of your organization's financial position as of a specific date.

Sources and Uses of Funds

For the CDBG program, these **accounting records must contain reliable and up-to-date information** about the sources and uses of funds, including:

- **Your Federal grant awards** (or subgrant allocations) received.
- **Current authorizations and obligations** of CDBG funds.
- **Unobligated balances** (funds remaining available for distribution).
- **Assets and liabilities.**
- **Program income earned** ([24 CFR 570.500](#)) and disbursed ([24 CFR 570.504](#)).
- **Actual outlays or expenditures**, with further breakdowns by:
 - The grant program from which the funds are derived.⁴
 - The "eligible activity" classifications specified in [24 CFR 570.201-204](#)⁵ (housing rehabilitation, economic development, public facilities, public services, etc.) or similar classifications that clearly indicate the use of program funds for eligible activities.

Maintenance of Records

See [2 CFR 200.334-338](#)⁶ and [24 CFR 570.502\(a\)\(7\)\(ii\)](#) regarding record retention.

The internal control requirements provide for the **separation of duties** and the **secure storage** of accounting records in limited access areas. In maintaining these accounting records, you should also certify that:

- Journal entries are properly approved, explained, and supported.
- Posting and trial balances are performed regularly.
- Fidelity bond coverage is obtained for responsible officials of the organization, if required by HUD.

The grantee may require you to purchase additional fidelity bond coverage in cases where they believe the normal policy coverage is not enough to protect the interest of the government ([2 CFR 200.304](#), [2 CFR 200.326](#), and [2 CFR 200.427](#)).

2.4 ALLOWABLE COSTS

See [2 CFR 200.402-406](#) and [2 CFR 200.83](#).

2 CFR Part 200, Subpart E—Cost Principles list the standards for determining whether your project costs are reasonable ([2 CFR 200.404 \(a-e\)](#)), allowable ([2 CFR 200.403 \(a-g\)](#)), allocable ([2 CFR 200.405 \(a-e\)](#)) or have an applicable credit ([2 CFR 200.406 \(a-c\)](#)) incurred as part of CDBG-financed activities.

⁴ Subrecipients are encouraged, but not required by HUD, to identify expenditures by the specific grant.

⁵ [24 CFR 570.204](#) is only applicable to Community Based Development Organizations (CBDO) that have been designated as subrecipients.

⁶ For the record retention requirements, the requirements identified at [24 CFR 570.502](#) are ALSO applicable.

According to basic regulations in the Omnibus Circular, **a cost is allowable** ([2 CFR 200.403 \(a-g\)](#)) under the CDBG program if the expenditure is:

- Necessary, reasonable, and directly related to the grant.
- Authorized by the grantee.
- Not prohibited under federal, state, or local laws or regulations.
- Consistently treated.
- Allocable to the CDBG program.
- Net of all applicable credits.

Each of these requirements is addressed in more detail below:

Necessary, reasonable, and directly related to the grant.

This standard applies equally to:

- Salaries and administrative services contracts.
- Real property and equipment purchase or leases.
- Publication costs for electronic and print media, including distribution, and promotion ([2 CFR 200.461](#)).
- Travel and other administrative expenditures.

In determining the reasonableness of a given cost, pay attention to the following:

- Is the cost commonly recognized as ordinary and necessary for the operation of your organization or the performance of the award?
- Are the restrictions or requirements imposed by generally accepted sound business practices, arms-length bargaining, Federal and state laws and regulations, and terms and conditions of the award?
- Are the individuals performing their duties with good judgment under the circumstances, considering their responsibilities to the organization, its members, employees, clients, the public-at-large, and the government?
- Have there been significant changes from the established practices of the organization that have unreasonably increased costs?

Authorized by the grantee

The grantee that provides the CDBG funds to the subrecipient authorizes the expenditure by approving the budget for the activity.

For example, in its agreement with a subrecipient, the grantee may stipulate that all funded home repairs meet the local building code. To ensure that the expense is allowable, you need to maintain the necessary records documenting the contractor obtained building permits and inspection approvals as required for code compliance; otherwise, any expenditures on such activities may be disallowed by the grantee based upon the provisions of the Subrecipient Agreement.

Not prohibited under Federal, state, or local laws or regulations.

For example, [2 CFR Part 200.420](#), "General Provisions for Selected Items of Cost," explicitly prohibits the expenditure of Federal funds for entertainment ([24 CFR 200.438](#)); contributions and donations ([2 CFR 200.434](#)); fines and penalties, damages, and other settlements ([2 CFR 200.441](#)); and bad debts ([2 CFR 200.426](#)).⁷

⁷ Uniform Guidelines also prohibit expenditures on interest ([2 CFR 200.449](#)) and other financial costs ([2 CFR 200.451](#)) except where authorized by legislation as is the case under Section 105(a)(13) of Title I of the Housing and Community Development Act of 1974, as amended, which specifically identifies "reasonable ... carrying charges related to the planning and execution of community development and housing activities" as eligible costs under the CDBG program.

In addition, the CDBG regulations ([24 CFR 570.207](#)) prohibit the use of program funds for:

- **Buildings used for the general conduct of government** ([24 CFR 570.207\(a\)\(1\)](#)).
- **General governmental expenses** ([24 CFR 570.207\(a\)\(2\)](#)).
- **Political activities** ([2 CFR 200.450](#)).

Program regulations also specify that the following activities may **not** be assisted with CDBG funds **unless** (a) authorized as a special economic development activity under [24 CFR 570.203](#) **or** (b) when carried out by CBDOs under the provisions of [24 CFR 570.204](#):

- **Purchase of construction equipment** unless purchased for use as part of a solid waste disposal facility, which is eligible under [24 CFR 570.201\(c\)](#).
- **Personal property, furnishings, fixtures, or motor vehicles** unless these items constitute part or all of a public service activity under [24 CFR 570.201\(e\)](#), are eligible as firefighting equipment under [24 CFR 570.201\(c\)](#), or are necessary in the administration of activities assisted with CDBG funds.
- **Operating and maintenance expenses** except for expenses associated with public service interim assistance activities, In Rem, carried out under the authority of Section 105(a)(23) of the Housing and Community Development Act of 1974, or office space for program staff employed in carrying out the CDBG program.
- **New housing construction**⁸ unless performed in accordance with the “last resort” housing provisions of [24 CFR Part 42](#) or carried out by a CBDO under [24 CFR 570.204](#).
- **Income payments** except for emergency grant payments made over a period of up to 3 consecutive months directly to the service provider of such items as food, clothing, housing, or utilities ([24 CFR 570.207\(b\)\(4\)](#)).

Consistently treated

Expenditures are consistently treated when your organization applies generally accepted accounting principles (GAAP) in computing the cost and uses the same procedures in calculating costs for its non-Federally assisted activities.

Allocable to the CDBG program

A cost is allocable to a specific cost objective (e.g., grant, program, or activity) in part to the relative benefits received by that objective ([2 CFR 200.405 \(a-e\)](#)). This means that:

- If an office is used by two programs during the same hours, the costs of the office should be allocated between the two programs equitably.
- The same expense cannot be claimed against more than one grant (i.e., double billing is prohibited). In addition:
 - A cost originally allocable to a specific Federal grant program **cannot be shifted to another Federal grant program** to overcome funding shortages, avoid restrictions imposed by the grant or by law, or any other reasons.
 - In accordance with the guidance found in [2 CFR Part 200, Subpart E](#), the structure of direct and indirect costs must be clear. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently either as a direct or indirect cost.
 - **Direct costs** are directly related to a specific cost activity, as noted in [2 CFR 200.413 \(a-f\)](#).
 - **Indirect costs** are for common objectives that benefit more than one activity (e.g., salaries of executive officers, accounting and auditing, other costs of general administration ([2 CFR 200.414 \(a-g\)](#))).

⁸ [The Neighborhood Stabilization Program](#) allows new construction activities under eligible use E

- For major nonprofit organizations,⁹ indirect costs must be classified within two broad categories: Facilities and Administration (F & A) as noted in [2 CFR 200.414 \(a\)](#). For such organizations, indirect costs must be supported by an indirect cost proposal/cost allocation plan approved by the Cognizant Agency, on behalf of all Federal agencies (see [2 CFR 200.1](#)).

Net of all applicable credits

Any credits such as purchase discounts or price adjustments must be deducted from the total costs charged. You are not allowed to make a profit from any costs charged to CDBG funds ([2 CFR 200.406 \(a-c\)](#)).

2.5 SOURCE DOCUMENTATION

The general standard is that **all accounting records must be supported by source documentation** (see [2 CFR 200.302\(b\)\(3\)](#)). Supporting records are necessary to prove that your organization incurred the costs during the effective period of your agreement with the grantee, actually paid or properly accrued the costs, spent the funds on items that are allowable, and confirmed that the responsible official(s) in your organization approved the payment.

The source **documentation must explain the basis of the costs incurred** as well as show the actual dates and amount of expenditures. For example:

- For **payrolls**, source documentation should include employment letters and all authorizations for rates of pay, benefits, and employee withholdings. Documentation might include union agreements or minutes from the board of directors' meetings where salary schedules and benefits packages are established, copies of written personnel policies, W-4 forms, etc. For staff time charged to the CDBG program activity, **time and attendance records should be retained in the file**. If an employee's time is split between CDBG and another funding source, there must be time distribution records supporting the allocation of charges among the sources. [CPD Notice 13-07](#) discusses allocating staff costs between Program Administrative Costs (PAC) versus Activity Delivery Costs (ADC). Documentation of the payment of payroll may include records indicating payroll deposit, payroll summary, timesheets, bank statements, and/or evidence of direct deposits showing payments to employees, or insurance providers, etc.
- You can use rental or lease documents to support **space costs**. Utility bills serve as documentation for **utility costs**. Both types of expenses may be supported by bank statements. If the cost of space or utilities is split between the CDBG program and other sources, costs must be allocated fairly among the sources, consistent with the guidelines covering allocable costs in Section 2.4.
- For **supplies** ([2 CFR 200.314](#)), documentation includes purchase orders or requisition forms initiated by an authorized representative of your organization, an invoice from the vendor (which has been signed-off on by your appropriate and authorized personnel to indicate the goods were received), bank statements or other evidence of payment, and information regarding where the supplies are being stored and for what cost objective(s) you are using them.

Some additional requirements related to source documentation include:

- All source documentation does not have to be in the CDBG project files, but it must be readily available for review by the grantee, HUD, or other authorized representatives at all times ([2 CFR 200.337 \(a-c\)](#)). For example, you may maintain employment letters and salary schedules in the organization's central personnel files. The subrecipient agreement should establish the grantee's requirements for the documentation to be kept in your records ([24 CFR 570.503\(b\)\(2\)](#)). Documentation of the receipt of payment by vendors may be kept on file with the financial institution holding the account as long as (a) the grantee allows this practice in your agreement and (b) the documentation is readily available on request for review by the grantee or by HUD.

⁹ Major non-profit organizations are those receiving more than \$10 million in Federal funding.

- You must confirm that either (a) **an encumbrance/obligation is recorded** whenever a contract is signed or a purchase order is issued or (b) **up-to-date information on the status of all obligations** is otherwise readily accessible.
- You must maintain a complete, accurate, and up-to-date record of the receipt and use of CDBG-generated **program income** (see [Chapter 6](#)).

2.6 BUDGET CONTROLS

You must have procedures to monitor obligations and expenditures against their approved budget(s) for CDBG-funded activities. Depending on the language in your Subrecipient Agreement, the grantee may be under no obligation to reimburse you for expenditures that exceed approved budget line items or the overall budget for CDBG-assisted activities. As a result, you need to have an ongoing system to compare actual receipts, encumbrances, and expenditures with the CDBG budget to determine **whether it will be necessary to initiate a formal budget revision**. Since the budget reflects your best estimate of the resources necessary to accomplish the CDBG project, any pattern of cost overruns should prompt a careful review of the budget.

To compare and control expenditures to approved budgets, you must:

- Maintain in your accounting records **the amounts budgeted for eligible activities**.
- **Include unexpended/unobligated balances** for budgeted categories, as well as obligations and expenditures.
- Periodically **compare actual obligations and expenditures to date** against planned obligations and expenditures, and against projected accomplishments from such outlays.

You will need to review these comparisons on an ongoing basis before most of the funds have been committed or spent. It is critical that you maintain a close watch over your project or program progress and the amount of funds spent. It does no good to stay within the budget line if the actual accomplishments are lagging.

2.7 CASH MANAGEMENT

You are required to have procedures in place to minimize the time between receipt of funds from the grantee and disbursement to your vendor. This requirement will reduce the cost to the U. S. Treasury financing the CDBG program.

Grantees have two general methods available to transfer CDBG grant funds to subrecipients: the reimbursement method and the cash advance method ([2 CFR 200.305](#)).

- **The reimbursement method** is a transfer of grant funds to your organization **based on actual expenditures paid before the request for funds**.
- **The cash advance method** is the transfer of CDBG funds from the grantee based upon your organization's request (and information on obligations) **before the actual cash disbursements have been made**.

Both methods must be implemented in compliance with the cash management requirements. In accordance with [2 CFR 200.305](#)¹⁰ as applicable, and [31 CFR Part 205](#)¹¹ these requirements include:

- You must include **accurate information in your drawdown** request to a grantee. This requirement will address the intentional falsification of drawdown information. The Federal Government is also concerned that you have adequate systems in place to be able to determine your cash on hand and your immediate cash needs.

¹⁰ See also [24 CFR 570.502\(a\)\(1\)](#) for lump sum drawdowns.

¹¹ These are the regulations of the U.S. Department of the Treasury governing withdrawal of cash from the Treasury for an advance under a Federal grant program.

- Although there is no explicit regulation for cash advances, the general standard is that you should disburse the funds to pay for CDBG program costs **within 3 business days of the receipt of those funds** from the grantee. You should also maintain written justification in your files each time a disbursement of an advance takes longer than 3-days.
- You must **return erroneously drawn funds to the grantee in a timely fashion**. This applies to both advances and reimbursement payments when it is determined that the transfer resulted in more funds being drawn down than what was required by your organization's immediate disbursement needs.

For example, if you drew down CDBG funds in anticipation of the start of a public facilities project, and the project's commencement was delayed, HUD requires that you return the CDBG funds to the grantee and re-initiate the drawdown process at a later point.

- If CDBG **advances** are placed in an interest-bearing account by your organization, you must return this interest income to the Department of Health and Human Services Payment Management System (PMS) via the grantee annually (per [2 CFR 200.305](#), [2 CFR 200.449](#), or [24 CFR 570.502\(b\)\(3\)\(i\)](#), as applicable, and [24 CFR 570.500\(a\)\(2\)](#)). Such interest income is not considered program income. Similarly, if you use a "revolving loan fund account" under the CDBG program, the funds must be deposited in an interest-bearing account, and all interest earned on funds on deposit must be returned to the Treasury via the grantee no less frequently than annually ([24 CFR 570.500\(b\)](#)).
- You must disburse **program income**, as defined in [24 CFR 570.500 \(a\) \(1-3\)](#) (other than program income deposited in a revolving fund) for program costs before requesting further drawdowns from the grantee (see [24 CFR 570.504\(b\)\(2\)\(ii\)](#), [570.504\(c\)](#) and [2 CFR 200.305\(b\)\(5\)](#)).
- If you put program income in an approved **revolving fund**, you must disburse this program income for the same activity for which the revolving fund was established before making any cash drawdown requests to the grantee for the activity. The account must be interest-bearing, and interest earned or funds held in the account must be remitted to the grantee at least annually ([24 CFR 570.504\(b\)\(2\)\(i\)](#) and [24 CFR 570.500 \(b\)](#)).
- For lumpsum drawdowns for property rehabilitation, the requirements in [2 CFR 200.305](#) are modified by [24 CFR 570.513](#) (see [2 CFR 570.502\(a\)\(1\)](#)).
- Funds held in an escrow account for rehabilitation activities generally must be disbursed within 10 days ([24 CFR 570.511\(a\)\(4\)](#)).

While avoiding excessive drawdowns, you need to determine and document that the legitimate cash needs of your CDBG activities are being met. As noted in the preceding section, your organization needs to forecast accurately what its project expenses are going to be. If your CDBG activities are relatively stable (the same type and level of activities from month to month), you can review the previous month's financial activity as a starting point to estimate your current period cash needs. But remember to modify this estimate:

- For periodic expenses or seasonal variations in costs, such as for heating and electricity;
- If your activities are expanding; or
- If your programs have irregular fluctuations in expenses.

A "cash requirements report" is a good tool for anticipating the monthly (or even weekly) cash flow needs. If you encounter large fluctuations in your disbursement obligations (as can happen, for example, in construction activities), you may be tempted either to invade other non-CDBG funds or to borrow CDBG funds for non-CDBG purposes. Such inter-fund transfers that result in using CDBG funds for non-CDBG purposes are not allowed and may result in program sanctions or termination of the CDBG contract by the grantee.

2.8 FINANCIAL REPORTING

All organizations' financial reports must be accurate, timely, current, and represent a complete disclosure of the financial activity and status in each Federal grant program under which assistance is received ([2 CFR 200.328-330](#) and [24 CFR 570.502\(a\)\(1-7\)](#)).

Your organization must have the capacity to provide the following information for each CDBG activity:

- **Amount budgeted.**
- **Advances/reimbursements** received to date.
- **Program income** and other miscellaneous receipts in the current period and to date.
- **Actual expenditures/disbursements** in the current period and cumulatively to date, for both program income and regular CDBG grant funds.
- **Current obligations** in addition to disbursements.
- **Unpaid requests for payment** previously submitted at the time of the latest drawdown.

Your accounting and recordkeeping system must support the data included in (a) its drawdown requests, (b) its other financial and progress reports, and (c) the grantee's Consolidated Annual Performance and Evaluation Report (CAPER) submitted to HUD.

2.9 OTHER MISCELLANEOUS REQUIREMENTS FOR YOUR FINANCIAL MANAGEMENT SYSTEMS

- **Loan servicing:** You must have a system for properly servicing all CDBG-funded loans, where applicable, including:
 - **Loan agreements** with clear repayment terms and default definitions, descriptions of how defaults can be resolved, actions to be taken if a loan is in default, and security for each loan.
 - **Collection procedures** that recognize current amounts due and when past payments were received, notify borrowers when payments are overdue, provide a procedure to collect overdue amounts, and establish criteria for writing off bad debts.
- **Cash depositories:** You may follow regular banking procedures without any separate bank account or special bank eligibility requirements. You should obtain information on bank ratings before depositing CDBG funds with a financial institution.¹²

HUD encourages using minority-owned financial institutions in conjunction with their CDBG activities whenever possible. (for example, see [24 CFR 570.904\(d\)](#))

- **Real property:** You must:
 - Keep track of CDBG-acquired real property to ensure that program income from sales or rental of such property or assets is properly recorded and reported ([24 CFR 570.503\(b\)\(3\)](#)).
 - Have procedures for ensuring ongoing compliance with the National Objectives requirements associated with real property acquired or improved with CDBG funds in excess of \$25,000 ([24 CFR 570.503\(b\)\(7\)](#)).
 - Report on the status of property acquired with CDBG funds annually or as required by HUD ([2 CFR 200.330](#)).
 - Ensure that the property is used for an eligible activity that meets a national objective.

Guidelines and Objectives for Evaluating Project Costs and Financial Requirements ([Appendix A to Part 570](#)). Appendix A provides recommendations for developing underwriting criteria for use in assessing risk, using CDBG to support economic development projects.

¹² Bank rating and research firms which provide information on the comparative financial strength of local banks and other financial institutions are found in most regions of the country. Frequently the local city or county treasurer's office subscribes to a bank rating service and may be able to provide subrecipients with useful information on the ratings of local financial institutions.

EXERCISE FOR CHAPTER 2—FINANCIAL MANAGEMENT QUESTIONS

NOTES

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 to planned obligations and expenditures, and to projected accomplishments for such outlays.

TRUE FALSE

6. You may retain interest income from CDBG advances and revolving loan accounts as program income.

TRUE FALSE

The answers are on the next page.

EXERCISE FOR CHAPTER 2—FINANCIAL MANAGEMENT ANSWERS

NOTES

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:
 - a. Have been authorized by the grantee (through an approved budget or other mechanisms).
 - b. Be reasonable.
 - c. Have been treated by the subrecipient in a manner consistent with its normal procedures for computing costs.
 - d. Be allocable to an approved-CDBG cost objective.
 - e. Be net of all applicable credits.
4. **TRUE.** Source documentation does not have to be stored in the CDBG project files if 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, [24 CFR 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.

CHAPTER 3

PROCUREMENT AND CONTRACTING

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In this chapter, you will find the requirements for purchasing materials, products, or services with CDBG funds. Regardless of whether you are a small agency purchasing office supplies or a large organization contracting for millions of dollars of construction services, the requirements for the purchasing process ensure that you:

- Follow a **free and open competitive process** in acquiring products or services.
- Properly **document** your purchasing activities and decisions.
- Observe the special **rules for specific types of purchases** (micro and small purchases, competitive sealed bids, competitive proposals, and sole source procurements).
- Properly **bond and insure** large construction contracts and/or subcontracts.
- Use **local businesses** and contract with **small, minority, and/or women-owned businesses** whenever feasible.

When spending taxpayers' money, no matter the amount, you must confirm that you are paying competitive prices and getting the best value for your community. The rules require that you pay a fair price; they do not require that you get the latest technology at the lowest possible cost, but they do require that you shop based on price and that you get what you paid for. You should use CDBG funds to buy only what is necessary under the terms of your Subrecipient Agreement. You need to: 1) ensure the integrity of your purchasing decisions; 2) document the history, results, and decisions of all your purchases; 3) follow the rules for certain kinds of transactions; and 4) offer opportunities to local and disadvantaged firms to respond to your purchasing needs. By following these requirements, you ensure that CDBG funds are not being wasted.

Observing basic rules makes purchasing decisions more efficient.

Example

Set up a standardized purchasing system for getting price quotes and preparing purchase orders.

Results

- Avoids reinventing the wheel every time you buy materials and supplies.
- Stretches limited budgets.
- Documents fair price paid for every purchase.

Whenever you use CDBG funds to purchase materials or services, you need to document that you followed the rules to get the lowest price. To avoid disallowed costs and/or repayment for ineligible expenditures, document the circumstances, need, and details of every purchasing decision, whether it involves renting an office or buying two-by-fours. Initially, this may be burdensome, but full documentation will help you avoid serious problems in the long run.

AS YOU READ THIS CHAPTER, THINK ABOUT...

1. Setting up a purchasing system designed to confirm that you are getting the best value for your money.
2. Creating or updating the list of vendors and contractors from whom you plan to purchase materials, supplies, equipment, and services over the next 12 months.
3. Developing or updating a written procurement manual describing your procedures and a code of conduct for all employees involved in purchasing.
4. Identifying ways to confirm that all purchasing documents—cost and price solicitations, purchase orders, contracts, delivery receipts, invoices, payables records, and check vouchers—are integrated into one system.
5. Ensuring the honesty and fairness of all your vendor relationships and purchasing decisions. (faster than progress is attained).

3.1 GENERAL PROCUREMENT REQUIREMENTS

The procurement standards and procedures are to certify that supplies, equipment, construction, and other services acquired in whole or in part with Federal funds are:

- Obtained as efficiently and economically as possible.
- Acquired in a manner that provides open and free competition ([2 CFR 200.319\(a\)](#)).

Your solicitations must clearly explain all requirements that the bidder/offeror must achieve for you to further consider his or her bid/offer. Requests for goods and services must contain a clear and accurate description of the material, product, or service to be purchased, eliminating any features which unduly restrict competition. Examples of restrictive competition include:

- Placing unreasonable qualifying requirements on firms.
- Requiring unnecessary experience and excessive bonding.
- Inappropriately specifying “brand name” products and not allowing “an equal or similar” product.
- Noncompetitive pricing practices between firms or affiliated companies.
- Noncompetitive awards to consultants on retainer contracts.

STATES: 24 CFR 570.489(g) and (h) require that States develop policies and procedures for themselves and for their units of general local government (UGLGs) relating to procurement and conflict of interest, respectively. These State CDBG regulations give special attention to conflicts in procurement, including the acquisition and disposition of real property and the provision of assistance with CDBG funds by the UGLG or its subrecipients, to individuals, businesses and other private entities.

Make your contract award to the bidder/offeror whose bid/offer is most responsive to your solicitation when taking into account price and other factors. You may reject any or all bids with documented reasons. You must confirm that awards are made only to responsible contractors possessing the ability to perform successfully based on the terms and conditions of the proposed procurement. You must also review the contractor’s integrity, compliance with public policy, record of past performance, and financial and technical resources.

The Federal contracting guidelines ensure that contracts are structured and managed consistently with good administrative practices, using sound business judgment.

The Federal procurement requirements are at Uniform Guidance [2 CFR Part 200, Subpart D, Procurement Standards](#) and include the following:

- All procurement transactions for the acquisition of property or services must be conducted consistent with the standards in [2 CFR 200.318](#) and [2 CFR 200.319](#), and one of the procurement methods at [2 CFR 200.320](#).
- All organizations must maintain **records detailing the history of your procurement** ([2 CFR 200.318\(2\)\(i\)](#)). These records should include your rationale for the method of procurement used, selection of contract type, contractor selection/rejection process, and the basis for the contract cost or price.
- **Pre-qualified lists of vendors/contractors**, if used, must be current, must be developed through open solicitation, must include several qualified sources, and must allow entry of other firms to qualify at any time during the solicitation period ([2 CFR 200.319\(e\)](#)).
- To eliminate an unfair competitive advantage, you must **exclude contractors that develop or draft specifications**, requirements, statements of work, invitations for bids (IFB), and/or requests for proposals from competing for such procurement ([2 CFR 200.319\(b\)](#)).
- You must certify that **awards are not made to any party which is [debarred](#) or [suspended](#) or is otherwise excluded from or ineligible for participation** in Federal assistance programs under Executive Order 12549, “Debarment and Suspension” ([24 CFR 570.609](#) and [2 CFR 200.214](#)).
 - You must check the Federal Government’s [System for Award Management \(SAM\)](#) and conduct a public search before making an award.

- You must have clear **written selection procedures for procurement transactions** ([2 CFR 200.319\(d\)](#)) and confirm that:
 - You are **avoiding the purchase of unnecessary or duplicate items**. Where appropriate, you should analyze whether a lease or a purchase is more cost-effective ([2 CFR 200.318\(d\)](#)).
 - To foster greater economy and efficiency, you should consider entering into state or local **intergovernmental agreements for procurement** for common or shared goods and services ([2 CFR 200.318\(e\)](#)) or using **Federal excess and surplus property** when feasible and reduces project costs ([2 CFR 200.318\(f\)](#)).
 - As appropriate, you should provide a **preference for the purchase or use of goods produced in the United States**, including but not limited to such items as iron, aluminum, steel, cement, glass, lumber, plastics, and other manufactured products. Language to this effect must be included in all subawards, such as contracts and purchase orders for work or products ([2 CFR 200.322](#)).
 - **Authorized official(s) of your organization have signed all purchase orders and contracts** as required by your procurement procedures.
 - **Items delivered and paid for are consistent with the purchase order** and/or contract for the goods or services.
 - **Timely payment to vendors** occurs once the order is delivered, inspected, and accepted, and the payment is authorized.
 - **A cost or price analysis** is performed for every procurement action—including contract modifications—and documented in your files. The method and degree of analysis are dependent on the facts surrounding the particular procurement situation. You must make independent estimates before receiving bids or proposals ([2 CFR 200.324\(a\)](#)).
 - **Profit or fee is negotiated separately** from price where competition is lacking. To establish a fair and reasonable profit, consideration will be given to the following factors:
 - The complexity of the work to be performed.
 - The risk borne by the contractor.
 - The contractor's investment.
 - The amount of subcontracting.
 - The quality of past performance.
 - Industry rates for the area ([2 CFR 200.324\(b\)](#)).
 - **Contract provisions** described in [Appendix II to Part 200](#) must be included in any contracts, as applicable.
- Your organization must **not use “cost plus a percentage of cost” pricing** for contracts ([2 CFR 200.324\(d\)](#)). You may use “time and material” type contracts only after you have documented that no other contract is suitable, and the contract includes a ceiling price that the contractor exceeds at its own risk. The cost is the sum of the actual materials, direct labor hours, general administration, and profit ([2 CFR 200.318\(j\)\(1-2\)](#)).
- You must have **procedures in place** to handle and resolve protests and disputes relating to your procurement and in all instances report such disputes to the grantee ([2 CFR 200.318\(a\)](#)).
- You must have a **documented system of contract administration** for determining the adequacy of contractor performance ([2 CFR 200.318\(h\)](#)).
- Your organization must have a **written code of conduct** for all persons engaged in the award or administration of contracts. Such standards must ensure that no employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest ([2 CFR 200.318 \(c\)\(1\)](#)).

3.2 PERMITTED APPROACHES TO PROCUREMENT

NOTES

Depending on the scarcity of an item or service desired, and the size of the purchase, you may use different methods of procurement under the Federal regulations.¹

Permitted Procurement Approaches			
Method	Preferred for:	Type of Purchases	Other Requirements/Notes
Micro-purchases (2 CFR 200.320(a)(1))	When your total purchase is less than \$10,000. See 2 CFR 200.1 for the definition of micro-purchase threshold.	For supplies or services.	You must distribute purchases equitably among qualified suppliers (2 CFR 200.320(a)(1)).
Small purchases (2 CFR 200.320(a)(2))	Simple and informal purchasing decisions.	Buying services, supplies, or other property that does not exceed the simplified acquisition threshold ² amount (currently \$250,000)	You must receive price quotes from several qualified sources Your procurement of more than \$250,000 over the simplified acquisition threshold may not be broken up into smaller parts solely to qualify for this less complicated process under the “small purchases” approach.
Competitive sealed bids (formal advertisement, 2 CFR 200.320(b)(1))	Firm, fixed-price contract (lump sum or unit price) where the selection is based on price (2 CFR 200.320(b)(1))	Preferred for but not limited to construction services.	Two or more responsible bidders are willing and able to compete (2 CFR 200.320(b)(1)(i)(B)). You must solicit bids from an adequate number of sources and provide sufficient response time. Local and tribal governments must publicly advertise invitations for bids. (2 CFR 200.320(b)(1)(ii)(A)). Your IFB must include complete, accurate, and realistic specifications and clear definitions of items or services needed that are sufficiently detailed for bidders to properly respond, plus any pertinent attachments (2 CFR 200.320(b)(1)(ii)(B)). Bids must be opened publicly at the time and place stated in your IFB (2 CFR 200.320(b)(1)(ii)(C)). If awarded, the contract must be given to the lowest responsive and responsible bidder (you can decide to reject all bids, documenting the reason, along with the reason for rejecting any bids [2 CFR 200.320(b)(1)(ii)(D) and (E)], and retain this documentation in the file.)

¹ Subrecipients need to be aware, however, that local or state laws or policies may require additional procedures or set lower dollar-value thresholds for some forms of procurement. Therefore, it is important to check with your grantee to learn whether any such additional procurement provisions apply.

² Simplified Threshold is set by the Federal Acquisition Regulation at [48 CFR Subpart 2.1 \(definitions\)](#) and in accordance with 41 U.S.C. 1908 and is periodically adjusted for inflation. See [OMB Memorandum 18-18](#).

³ It is important to note that many states have laws which require the use of qualifications-based selection (QBS) procedures when purchasing professional A/E services. Absent a state QBS law, a recipient could opt to use QBS or competitive proposals. In the latter instance, prices are solicited from all contractors and considered in the selection process.

Permitted Procurement Approaches			
Method	Preferred for:	Type of Purchases	Other Requirements/Notes
Noncompetitive proposals/ sole source (2 CFR 200.320(c))	Single source. Public emergency or condition.		Noncompetitive negotiations may be used only under very limited circumstances when another procurement method is not feasible because: • The item or service is only available from a single source. (2 CFR 200.320(c)(2)). • There is a public emergency or condition requiring urgency that cannot be delayed (2 CFR 200.320(c)(3)). • The Federal awarding agency or pass-through entity has authorized noncompetitive proposals upon your written request (2 CFR 200.320(c)(4)). • After solicitation from several sources, competition is determined inadequate. (2 CFR 200.320(c)(5)). For the acquisition of property or services, the aggregate dollar amount cannot exceed the micro-purchase threshold.

Among the procurement approaches previously described, the *competitive sealed bid* resulting in a firm, fixed-price contract is the preferred procurement approach for construction when:

- There are two or more responsible and qualified providers ([2 CFR 200.320\(b\)\(1\)\(i\)\(B\)](#)).
- The requirements and specifications are thoroughly detailed ([2 CFR 200.320\(b\)\(1\)\(i\)\(A\)](#)).
- The selection of the successful bidder can be made principally based on price ([2 CFR 200.320\(b\)\(1\)\(i\)\(c\)](#)).

For complicated rehabilitation projects or unique human service activities, other forms of competitive and non-competitive procurement may be necessary or desirable. When the price is not the single most important objective, it is still important to assure the highest quality of purchase at the lowest reasonable price through “open and free competition.”

3.3 BONDING REQUIREMENTS

The requirements for bonding in procurement are as follows:

- **For construction or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold**, you must ensure that the Federal interest is adequately protected. You may accomplish this by meeting the following *minimum Federal requirements* (see [2 CFR 200.326](#)),⁴ for bid guarantees, performance bonds, and payment bonds.
 - **A bid guarantee from each bidder equal to 5 percent of the bid price** must be a firm commitment in the form of a bid bond, certified check, or other negotiable instrument provided at the time of the bid as assurance that the bidder is prepared to execute a contract within the time specified for the bid amount ([2 CFR 200.326\(a\)](#)).
 - **A performance bond from the (sub)contractor must be for 100 percent of the contract price** to secure the contractor’s fulfillment of all obligations under the contract ([2 CFR 200.326\(b\)](#)).
 - **A payment bond from the (sub)contractor must be 100 percent of the contract price** to assure payment of all persons supplying labor and material under the contract ([2 CFR 200.326\(c\)](#)).

⁴ For the current Simplified Acquisition Threshold, see [OMB Memorandum 18-18](#).

3.4 USE OF LOCAL BUSINESSES, CONTRACTING WITH SMALL, MINORITY, AND/OR WOMEN-OWNED BUSINESSES

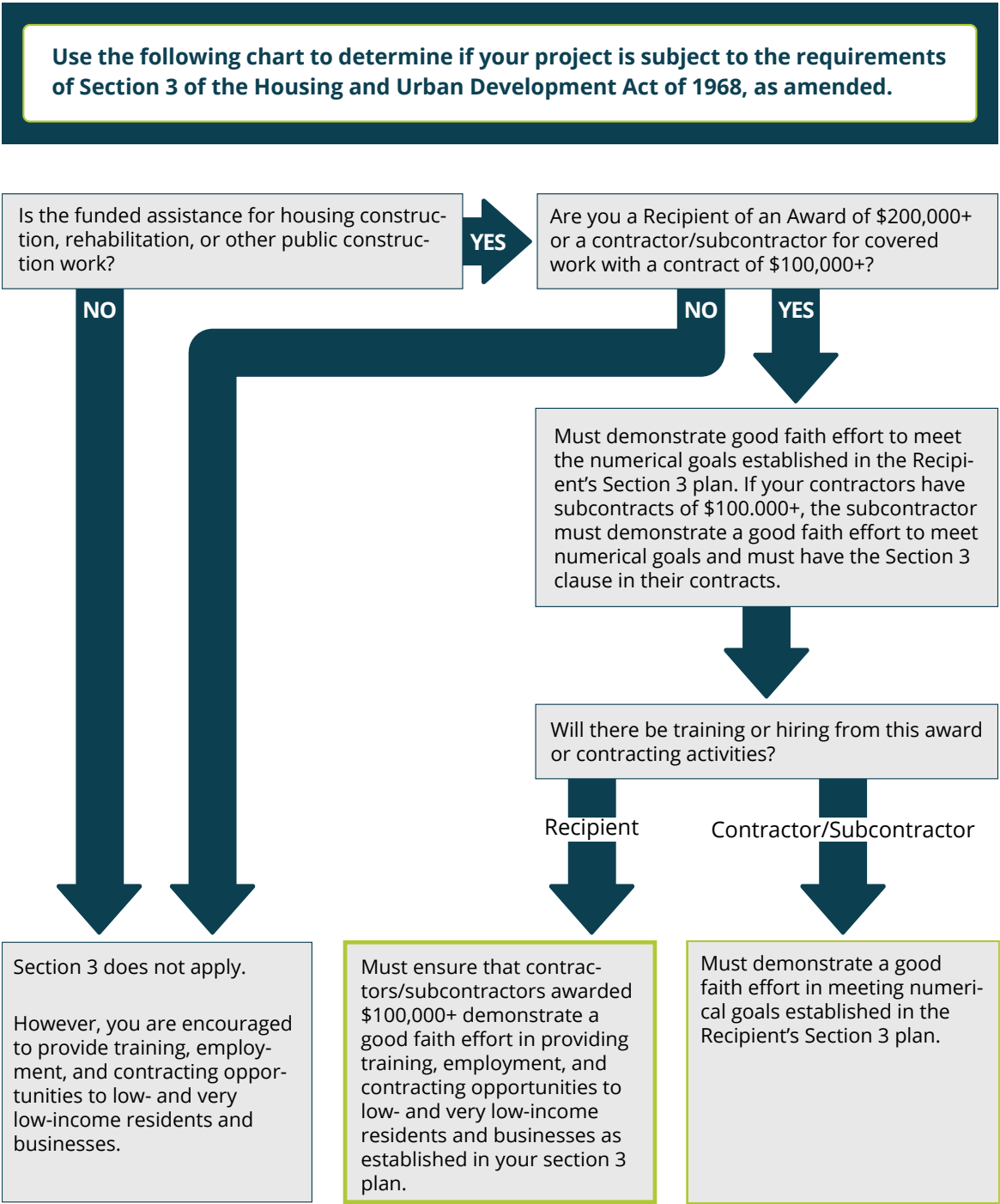
Federal regulations, both CDBG and non-CDBG, require that you make every effort to use local business firms and contract with small, minority-owned, and/or women-owned businesses in the procurement process. Specifically,

- You must take affirmative steps to use small firms, minority-owned firms, women-owned firms, or labor surplus area firms in your CDBG-financed activities ([2 CFR 200.321](#)). Affirmative efforts you should make include:
 - Placing these businesses on **solicitation lists** as potential sources ([2 CFR 200.321\(b\)\(1\)](#)).
 - Ensuring that **such businesses are solicited** as potential sources ([2 CFR 200.321\(b\)\(2\)](#)).
 - **Dividing total requirements and/or delivery schedules** into smaller tasks, when economically feasible, to permit maximum participation of such businesses ([2 CFR 200.321\(b\)\(3\) and \(4\)](#)).
 - Requiring prime contractors, when **subcontracts** are let, to take affirmative steps to contract with these firms ([2 CFR 200.321\(b\)\(6\)](#)).
- **Section 3** of the Housing and Community Development Act of 1968, requires that sub-recipients make reasonable efforts to award contracts for construction-related work to be performed by eligible business concerns located in or owned by residents of the target area. The purpose of Section 3 is to ensure that low- and very low-income persons, especially recipients of housing assistance, receive maximum benefit from the employment and other economic opportunities generated by CDBG-assisted activities (see [24 CFR 570.607\(b\)](#)).

You should note, however, that the desire to award contracts to local firms is not a legitimate excuse for avoiding an open and competitive procurement process.

Exhibit 3–1: Section 3 Flow Chart

NOTES



Section 3 requirements apply to the entire project or activity funded with Section 3 covered assistance, regardless of whether the Section 3 activity is fully or partially funded with Section 3 covered assistance.

EXERCISE FOR CHAPTER 3—PROCUREMENT AND CONTRACTING QUESTIONS

NOTES

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 is only required for major purchases.

TRUEFALSE

3. A governmental subrecipient is justified in breaking up a procurement into components of \$150,000 or less to utilize the “small purchase” procedures if the procurement process for each purchase is still competitive.

TRUEFALSE

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

TRUEFALSE

The answers are on the next page.

EXERCISE FOR CHAPTER 3—PROCUREMENT AND CONTRACTING ANSWERS

NOTES

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 stationery supplies will require that the subrecipient maintain a very modest level of documentation of how comparative prices were analyzed (such as 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 exceed \$250,000 in the aggregate. For example, it is not allowable to break up arbitrarily a \$300,000 procurement of weatherization materials into \$100,000 purchases just to be able to use the less complicated “small purchase” procedures, since the larger purchase volume entailed in a larger purchase may be likely to result in lower per-unit prices. The purchase of such materials should be handled through a sealed bid method of procurement.
4. **FALSE.** Both sets of requirements must be satisfied. Therefore, the competitive procurement procedures adopted by the subrecipient must also be designed to facilitate and encourage local businesses to compete for the proposed work.

CHAPTER 4

PROPERTY MANAGEMENT AND DISPOSITION

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If you use CDBG funds as a subrecipient to acquire real or personal property, you are responsible for ensuring:

- That the property is used for its intended (and approved) purpose.
- That you take care of it.
- That if you sell it, you reimburse the grantee for the CDBG share of the property's value.

In managing the ownership of such property, keep in mind that:

- The rules about property management and disposition differ slightly depending on whether you are a public-sector or a private-sector subrecipient (the rules are generally more restrictive for governmental subrecipients).
- The rules depend on the nature of the property; the rules treat real property (e.g., land and buildings) differently than personal property (e.g., equipment, supplies, and intangible property like copyrights).

This chapter outlines the rules for subrecipients regarding the ownership, management, and disposition of real and personal property. Several key themes apply to most property:

- You may only acquire property with CDBG funds for a specific purpose defined in your agreement and approved by the grantee.
- The use of that property for its approved purpose must continue:
 - You must need and use personal property for the CDBG activity.
 - Real property acquired or improved with CDBG funds in excess of \$25,000 must generally be used for its approved purpose for at least five years following the expiration of your Agreement ([24 CFR 570.505](#)).
 - Conditions for the acquisition, use, and disposition of such real property are outlined in your subrecipient agreement, ([24 CFR 570.503\(b\)\(7\)](#)).
- You must *keep accurate records* for it (e.g., purchase date, ownership documents, price, location, physical description, maintenance history and condition, original and current use, and other inventory types of data).
- You have to ensure the use of the property in accordance with its intended purpose and subsequently prevent its damage, theft, or loss.
- If you no longer need the property, you must dispose of it according to specific rules which address issues such as paying back the grantee, accounting for program income, etc.

The following chart summarizes the applicability of specific sections of the regulations to particular categories of property for subrecipients and shows the relevant regulations affecting its ownership, use, and disposition.

Note: In general, the rules for acquisition, management, and disposition of real property are found in the CDBG Regulations ([24 CFR 570](#)), and the rules for ownership, use, and sale of personal property are in the Omnibus Circular ([2 CFR 200](#)).

Exhibit 4-1: Rules for Property Management and Disposition

NOTES

CDBG Regulations (24 CFR 570) and Omnibus Circular (2 CFR 200)	Real Property (Acquired with CDBG funds)	Personal Property Acquired with CDBG funds		
		Tangible		Intangible
Typical Example	Land/Buildings	Equipment	Supplies	Copyrights
Ownership	See property acquisition, 24 CFR 570.201(a) , 201(c) , rehabilitated 24 CFR 570.202 , inc. for economic development 24 CFR 570.203(a)	Vested in sub-recipients 2 CFR 200.313(a) , also see 24 CFR 570.207(b)(1) and 2 CFR 200.439(b)	Vested in sub-recipients 2 CFR 200.314	Nonexclusive license to govt. 2 CFR 200.315
Rental or Leases	2 CFR 200.465	2 CFR 200.465	2 CFR 200.465	
Use & Management	24 CFR 570.503(b)(7) ¹	2 CFR 200.313(c-d)	2 CFR 200.314	2 CFR 200.315
Disposition	24 CFR 570.503(b)(7)	2 CFR 200.313(e) also see 24 CFR 570.502(a)(6)	2 CFR 200.314	2 CFR 200.313(e)

AS YOU READ THIS CHAPTER, THINK ABOUT YOUR RESPONSIBILITY...

1. To exercise the same care for property as if you had purchased it with your agency's own funds.
2. To ensure that your agency's records are current and complete in documenting the ownership, use, management, and/or disposition of your property.
3. To implement clear written procedures for maintaining and protecting your property.
4. When property is no longer needed, to ensure that you follow the applicable disposition rules for the particular type of property involved.

4.1 OVERVIEW

For these Federal regulations, "property" is classified according to the following distinct categories:

- **Real property:** Land, including any structures located on the land, but excluding any movable machinery or equipment.
- **Personal property:** Any kind of property other than real property. Personal property can be *tangible* (such as equipment, furniture, and supplies), or *intangible* (such as copyrights, patents, and inventions).

Further distinctions can be made between:

- **Equipment**, which describes *tangible* personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the grantee or subrecipient for financial statement purposes, or \$5,000 (see [2 CFR 200.1](#)).

¹ [24 CFR 570.501\(b\)](#) requires that units of general local government participating with, or as part of, an urban county, or as part of a metropolitan city, follow the same requirements as are applicable to subrecipients, except that the five-year period identified under [24 CFR 570.503\(b\)\(7\)\(i\)](#) begins with the date that the unit of general local government is no longer considered by HUD to be a part of the urban county or metropolitan city, instead of the date that the subrecipient agreement expires.

- **Supplies**, which include all *tangible* personal property other than equipment. A computer is a “supply” if the acquisition cost is less than the lesser of the capitalization level established by the grantee or the subrecipient for financial statement purposes or \$5,000, regardless of the length of its useful life (see [2 CFR 200.1](#)).

The Federal requirements relating to property are organized according to title (i.e., ownership), use, and disposition, according to Exhibit 4-1 above. In general, your organization's property management system must provide for accurate records, the conduct of regular inventories, adequate maintenance and control, and sales procedures that provide for competition when practical, and that result in the highest possible return. The sections below explain these requirements for each type of property.

4.2 REAL PROPERTY

For real property acquired or improved in whole or in part with CDBG funds over \$25,000, the grantee cannot permit a change of use or planned use of the property (including the beneficiaries of such use) without first providing its citizens notice and opportunity to comment (as governed by [24 CFR 570.505](#)) and determining that either:

- The contemplated new use meets one of the National Objectives ([24 CFR 570.208](#)) and is not a building for the general conduct of government ([24 CFR 570.207\(a\)\(1\)](#)).
- The grantee determines that the contemplated new use is appropriate (after consultation with its citizens) but will not meet a National Objective. In this latter case, the grantee must reimburse the CDBG program in the amount of the current fair market value of the property, less the value attributable to the non-CDBG portion of the acquisition or improvements.

For subrecipients, your Subrecipient Agreement must be explicit about the use of any real property under your control that your organization acquired, leased, or improved in whole or in part with CDBG funds over \$25,000. For such instances, [24 CFR 570.503\(b\)\(7\)](#) mandates that for such real property either:

- Meet one of the CDBG program's National Objectives for at least 5 years after the expiration of the Subrecipient Agreement (or longer time as specified by the grantee in your Agreement) ([24 CFR 570.503\(b\)\(7\)\(i\)](#)).
- If a National Objective is not met during this period, your organization must reimburse the grantee for the CDBG share of the current fair market value ([24 CFR 570.503\(b\)\(7\)\(ii\)](#)).

If the subrecipient agreement has no end date, the CDBG use requirements extend indefinitely.

Rental costs of real property are allowable provided the rates are reasonable in comparison to rental costs of comparable property; the market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased ([2 CFR 200.465 \(a-c\)](#)).

[CPD Notice CPD 17-09, “Managing of Community Development Block Grant Assisted Real Property](#) provides additional guidance to grantees and subrecipients in meeting program requirements relating to real property acquisition, management, and disposition. The Notice includes common scenarios for acquisition, demolition, and disposition in the CDBG program, including special sections on change of use.

4.3 PERSONAL PROPERTY – EQUIPMENT

The purchase of equipment, fixtures, motor vehicles, and furnishings, is generally ineligible ([24 CFR 570.207\(b\)\(1\)\(iii\)](#)). Personal property must be an integral fixture to an assisted structure to be eligible.

In certain cases, CDBG funds may be used for equipment:

- To purchase, lease, or to pay depreciation in accordance with [2 CFR part 200, subpart E](#), for such items when necessary for your organization to administer activities assisted with CDBG funds.
- When eligible as fire fighting equipment.

- When such items constitute all or part of a public service pursuant to [24 CFR 570.201\(e\)](#), such as a Meals on Wheels vehicle; however, leasing vehicles is normally the preferred option ([2 CFR 200.465\(e\)](#)).

For organizations using CDBG funds for equipment, the following principles apply:

- **Acquisition** ([2 CFR 200.313\(a\)](#)): Title to equipment acquired with CDBG funds is vested in your organization, subject to the conditions described in the following section.
- **Use** ([2 CFR 200.313\(c\)](#)): Your organization must use equipment purchased with CDBG funds for the CDBG program or project as long as needed, whether or not the program or project continues to be supported by Federal funds.
 - During the time that your organization or its designee is using equipment for the CDBG-funded program, you must also make the equipment available for use on other Federally funded projects or programs, provided that such use does not interfere with work on the CDBG-funded program ([2 CFR 200.313\(c\)\(2\)](#)).
 - When no longer needed for the CDBG-funded program, other Federally-supported agencies may use the equipment, in the following order of priority: (i) Activities under a Federal award from HUD, then (ii) Activities under Federal awards from other Federal agencies. This includes consolidated equipment for information technology systems ([2 CFR 200.313\(c\)\(i\)\(ii\)](#)).
 - HUD prohibits your organization from using CDBG-acquired equipment to provide services for a fee that competes unfairly with private companies that provide equivalent services unless specifically authorized by Federal statute ([2 CFR 200.313\(c\)\(3\)](#)).
 - With the approval of the grantee, you may trade in equipment acquired with CDBG funds for updated equipment ([2 CFR 200.313\(c\)\(4\)](#)).
- **Management requirements** ([2 CFR 200.313\(d\)](#)): For equipment (including replacement equipment) you have acquired in whole or in part with CDBG funds, you must have procedures and control systems in place to:
 - Keep adequate equipment records ([2 CFR 200.313\(d\)\(1\)](#)), including:
 - Description of the property.
 - Identification (such as an ID or serial number).
 - Funding source.
 - Titleholder.
 - Acquisition date and cost.
 - Federal share of the cost.
 - Location, use, and condition.
 - Unit acquisition or rental cost.
 - When appropriate, disposition data (date of disposition and sale price).
 - Conduct a physical inventory of the property no less often than every two years, with a reconciliation of the inventory with the equipment records ([2 CFR 200.313\(d\)\(2\)](#)).
 - Ensure adequate safeguards for preventing loss, damage, or theft of property ([2 CFR 200.313\(d\)\(3\)](#)).
 - Maintain the equipment in good condition ([2 CFR 200.313\(d\)\(4\)](#)).
- **Disposition** ([2 CFR 200.313\(e\)](#)): When original or replacement equipment acquired with CDBG funds is no longer needed for the original program or other activities currently or previously assisted with Federal funds, the following rules of disposition will apply:
 - You may retain, sell or otherwise dispose of equipment with a current per-unit fair market value of less than \$5,000 after notice to the grantee, subject to the conditions in 3) below ([2 CFR 200.313\(e\)\(1\)](#)).
 - You may retain or sell equipment with a current per-unit fair market value of \$5,000 or more after notice to the grantee; the grantee retains the right to compensation in an amount equal to multiplying the current market value or proceeds from the sale by

HUD's percentage of participation in the cost of the original purchase ([2 CFR 200.313\(e\)\(2\)](#)).

- The grantee may reserve the right to transfer the title of the equipment to the Federal Government or a third party ([2 CFR 200.313\(e\)\(3\)](#)).
- Governmental subrecipients may have their own disposition procedures. In those cases, the more restrictive requirements would apply.

In addition, per [24 CFR 570.502\(a\)\(8\)](#), in all cases when equipment purchased with CDBG funds is sold, the net proceeds are considered **program income**.

4.4 PERSONAL PROPERTY – SUPPLIES

See [2 CFR 200.314](#) Supplies.

Title to supplies will vest in your organization upon acquisition, subject to the following conditions:

- If there is a residual inventory of unused supplies exceeding \$5,000 upon completion of the program and the supplies are not needed for any other Federal award, you may keep the supplies for use in other activities or sell them when the CDBG award or agreement ends. But in either case, you must compensate the grantee for its share. The amount of compensation must be computed in the same manner as for equipment (see [2 CFR 200.313\(e\)\(2\)](#)).
- As long as the Federal Government retains an interest in the supplies, you must not use supplies acquired under a Federal award to provide services to other organizations for a fee that is less than private companies charge for equivalent services ([2 CFR 200.314\(b\)](#)).
- In all cases in which the residual inventory of supplies is sold, the proceeds are considered program income.

4.5 PERSONAL PROPERTY – INTANGIBLE

See [2 CFR 200.315](#)—Intangible Property.

The Federal Government **reserves a royalty-free, nonexclusive, and irrevocable license** ([2 CFR 200.315\(b\)](#)) to reproduce, publish, or otherwise use and authorize others to use:

- The copyright to any work developed with CDBG funds.
- Any rights of copyright that a subrecipient or a contractor purchases with CDBG support.

EXERCISE FOR CHAPTER 4—PROPERTY MANAGEMENT AND DISPOSITION QUESTIONS

NOTES

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 following the expiration of the Subrecipient Agreement that such property must be used to continue to meet a National Objective?
 - a. One year.
 - b. Three years.
 - c. Five years.
 - d. Ten 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 subrecipient has in its inventory a computer acquired with CDBG funds that is 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 the next page.

EXERCISE FOR CHAPTER 4—PROPERTY MANAGEMENT AND DISPOSITION ANSWERS

NOTES

1. **(c) Five years.** Although a grantee may stipulate a longer period (in a closeout agreement, for example), five 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 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. **(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 CDBG program.
3. **FALSE.** Regardless of 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.

CHAPTER 5

RECORDKEEPING AND REPORTING REQUIREMENTS

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Accurate recordkeeping for reporting compliance is crucial for the successful management of your CDBG-funded activities. It is essential for tracking your performance against your contract goals and allows your grantee to provide management support in its oversight of your activities.

Failure to document your CDBG-funded activities adequately will undermine the success of your CDBG projects, leading to monitoring findings that are much more difficult to resolve when records are missing, inaccurate, or otherwise deficient.

As a result, it is very important to follow the recordkeeping and reporting requirements of the CDBG program, the Omnibus Circular, and any applicable cross-cutting regulations. To document your activities adequately, you will need to know:

- What information you need to collect and why.
- When you need to collect information (and how often).
- How your information is acquired, organized, and stored.
- How you report your information.
- The required retention period for your records.

This chapter covers the minimum standards for:

- General recordkeeping.
- File organization and maintenance.
- Retention of records.
- Access to records.
- Reporting.

A comprehensive chart at the end of this chapter (see Exhibit 5-1) identifies key files you will need for three specific types of records:

- Administrative records.
- Financial records.
- Project records.

Previous chapters provide you with the required elements for financial and general administrative records (see [Chapters 1](#) and [2](#)). This chapter discusses the CDBG requirements for your project files or case files. Exhibit 5-1 is a checklist of the most important files you should maintain, which your grantee will need to access when monitoring your activities.

AS YOU READ THIS CHAPTER, ASK YOURSELF...

1. Does your agency have a clearly defined process for acquiring, organizing, storing, retrieving, and reporting information?
2. Can your documentation and reporting systems be strengthened?
3. Which persons in your agency are responsible for various recordkeeping and reporting tasks?
4. Can you streamline your recordkeeping and reporting procedures by standardizing your process to eliminate duplicate records?
5. Are your recordkeeping and reporting tasks automated (computerized)?

5.1 GENERAL RECORDKEEPING REQUIREMENTS

NOTES

As a subrecipient, you are required to establish and maintain at least three major categories of records:

Category	Types of Files and Records Maintained
Administrative records	• Overall administration files and records of your CDBG activities. • Personnel files • Property management files • General organizational management files: • Articles of incorporation • Bylaws • Tax status • Board minutes • Contracts • Other agreements (memorandum of understanding) • Program funding award files: • Your application and all related records requesting CDBG funds • Program policies and guidelines • All grantee correspondence • Your subrecipient agreement • Compliance reports
Financial records	• Chart of accounts • Accounting procedures manual • Accounting journals and ledgers • Source documentation (purchase orders, invoices, bank records, etc.) • Procurement files • Bank account records • Financial reports • Audit files
Project or case files	• Project activities • Regulatory compliance (e.g., cross-cutting requirements, etc.) • Individual beneficiaries • Property owners and/or properties

The universal CDBG recordkeeping standard is that all records must be *accurate, complete, and orderly*. In your subrecipient agreement, your grantee will establish the specific recordkeeping requirements ([24 CFR 570.503\(b\)\(2\)](#)). Detailed recordkeeping requirements for subrecipients are found in [24 CFR 570.506](#). Through monitoring, your grantee will confirm your compliance with all program requirements applicable to the activities you undertake. Therefore, you need to maintain records sufficient to:

- Provide a full description of each activity assisted with CDBG funds that includes:
 - The address or legal description (location) of where the activities occur.
 - The amount of CDBG funds budgeted, obligated, and expended for the activity.
 - The regulatory provision under which the activity is eligible.
- Demonstrate that each activity undertaken meets one of the **CDBG National Objectives** ([24 CFR 570.208](#)).
- Meet the recordkeeping standards specified in [24 CFR 570.506\(b\)\(1\)-\(12\)](#).
- Document your CDBG **eligibility determinations** as required for certain activities, including:

- Interim assistance ([24 CFR 570.201\(f\)](#)).
- Relocation ([24 CFR 570.201\(i\)\(2\)](#)).
- Technical assistance ([24 CFR 570.201\(p\)](#)).
- Loans to refinance existing indebtedness secured by a property being rehabilitated ([24 CFR 570.202\(b\)\(3\)](#)).
- Activities carried out by Community-Based Development Organizations (CBDOs) ([24 CFR 570.204](#)).
- The preparation of applications for other Federal programs ([24 CFR 570.206\(f\)](#)).
- Special economic development activities ([24 CFR 570.209](#)).
- Document your compliance with **any change of use of real property** acquired or improved with CDBG funds ([24 CFR 570.503\(b\)\(7\)\(i\) and \(ii\)](#)).
- Demonstrate your compliance with the **acquisition, displacement, relocation, and replacement housing** ([24 CFR 570.606](#)).
- Detail your **fair housing** activities and compliance with **equal opportunity** ([24 CFR 570.601](#)).
- Maintain all necessary information for cross-cutting program requirements specified in [Subpart K of 24 CFR Part 570](#), which includes:
 - Labor standards.
 - National flood insurance.
 - Employment and contracting opportunities.
 - Lead-based paint.
 - Use of debarred, suspended, or ineligible contractors or subrecipients.
 - Conflict of interest ([24 CFR 570.611](#)).

Your organization is not responsible for providing environmental review documentation for an activity because subrecipients cannot assume the grantee's environmental responsibilities ([24 CFR 570.503\(b\)\(5\)](#)). However, actions that you provide to support the grantee in carrying out its environmental review responsibilities and any other actions you take to abate or address environmental findings must be documented.

5.2 FILE ORGANIZATION AND MAINTENANCE

You should structure your project case files and other records to facilitate compliance with the general requirements noted in the preceding section. For example, you should include all grantee requested documentation needed for their reporting into the Integrated Disbursement and Information System (IDIS) and the grantee's Consolidated Annual Performance and Evaluation Report (CAPER).

For each type of activity undertaken, you should consult with your grantee to determine the data that must be maintained in each of your case files and establish a system for ensuring that every file contains this necessary information. Your list may vary from activity to activity. However, each project or case file should include documentation sufficient to establish the:

- National Objective being met ([24 CFR 570.208](#)).
- Characteristics and location of beneficiaries.
- Eligibility of activities ([24 CFR 570.201-203](#)).
- Compliance with special program requirements, including your local policies.
- Allowability of the costs ([2 CFR 200.403](#)).
- Status of the case or project.

You can use this guide to develop a list of all the documents you must maintain on a project or activity basis. For example, if you are carrying out a housing rehabilitation program using private contractors, each project case file should contain relevant records, including:

1. The owner's application for assistance with the property address.

2. Household size and income documentation for all occupants residing at the property (including multi-unit buildings).
3. Necessary financial information to determine program eligibility and conduct underwriting to determine the amount of financial assistance.
4. The demographic information on the anticipated or actual beneficiaries of the project activity.
5. The property's rehabilitation work write-up and cost estimates.
6. Verified evidence of any owner contribution or private loan match.
7. Your financial assistance agreement between you and the property owner, which should specify:
 - The amount of assistance.
 - Intended uses.
 - Matching requirements, along with details of any owner contribution needed to complete the job.
 - General program requirements, such as occupancy by low- and moderate-income households.
 - Repayment terms.
 - Any other requirements specific to your homeowner rehab program, such as:
 - Lien requirements.
 - Up-to-date payment of property taxes.
 - Requirements to maintain property insurance.
 - The contractor license.
 - Changes in the scope of work during the project.
 - Participation in inspections and/or sign-off for contractor payment.
 - Any post-project owner-occupancy or lease requirements, etc.
8. Copies of liens securing your loan.
9. Documentation of the contractor solicitation and selection process.
10. Copies of rent affordability, where applicable.
11. The executed construction contract, with all necessary provisions.
12. Documentation of compliance, as applicable, with:
 - Historic preservation ([24 CFR 570.202\(d\)](#)).
 - Flood insurance ([24 CFR 570.605](#)).
 - Lead-based paint requirements ([24 CFR 570.608](#)).
 - [Davis-Bacon](#) (typically not triggered by single-unit homeowner rehabilitation).
 - Relocation/anti-displacement ([24 CFR 570.606](#)).
 - Other relevant program rules.
 - Any specific requirements included in your subrecipient agreement or your agreement with the homeowner.
13. Evidence of your periodic on-site inspection and sign-off on rehabilitation work, including final inspections by your staff, the grantee, and/or the local government, as applicable.
14. Copies of all change orders, with proper authorization.
15. Disbursement records for completed and approved work. (Review to ensure that the data in your project files agrees with your financial records.)

Implementing an efficient method for assembling cumulative data on your activities to be included in periodic reports required by the grantee is important. As cases or projects are initiated, consider creating systems for recording and totaling programmatic data (by type of activity, units of service, numbers of beneficiaries, etc.) collecting aggregated statistics you can use when a progress report is due. By establishing such logs at the start of a CDBG activity

based on your grantee's reporting requirements (see [Section 5.5](#)), you can save considerable time and effort for the duration of the activity.

Subrecipients should develop an automated reporting system that permits the collection and manipulation of all data elements you will need to produce your required reports, plus any future reports you may want later. Your assessment requires a careful review of your current and anticipated operations and an evaluation of the "interface" between your computer system and your staff who will input the data and the staff who will use the generated reports. In establishing such a system, it will be helpful to become familiar with the data entry requirements and processes needed by your grantee for IDIS.

5.3 RETENTION OF RECORDS

See [24 CFR 570.502](#) and [2 CFR 200.334](#).

The grantee will expect to see adequate documentation of all program activities when monitoring your program. To ensure all program records are readily available, and ensure public access to information on your activities, you must retain your records for extended periods, even though the activity may have been completed for some time.

For all subrecipients, the provisions of [2 CFR 200.334](#) as modified by [24 CFR 570.502\(a\)\(7\)\(ii\)](#) apply:

1. In general, you must retain records on CDBG-funded activities for the longest of the following:
 - Three years after the expiration or termination of the subrecipient agreement.
 - Three years after your grantee's submission of the CAPER in which your specific activity is reported for the last time ([24 CFR 570.502\(a\)\(7\)\(ii\)\(A\)](#)).
2. You must retain records for individual activities subject to the reversion of assets provisions at [24 CFR 570.503\(b\)\(7\)](#) for as long as this provision continues to apply to the activity ([24 CFR 570.502\(a\)\(7\)\(2\)\(B\)](#)).
3. You must retain records for individual activities for which there are outstanding loan balances, other receivables, or contingent liabilities until such receivables or liabilities have been satisfied ([24 CFR 570.502\(a\)\(7\)\(ii\)\(C\)](#)).
4. If any litigation, claim, audit, negotiation, or other action involving your records has started before the expiration of the 3-year period, your records must be retained until all findings involving your records have been resolved and final action is taken ([2 CFR 200.334\(a\)](#)).

5.4 ACCESS TO RECORDS

Representatives of the grantee, HUD, the Comptroller General of the United States, or other authorized governmental agencies have the right to access any of your pertinent records to make audits, examinations, excerpts, and transcripts ([2 CFR 200.337](#)).

Consistent with applicable state and local laws regarding privacy and obligations of confidentiality, you also must provide citizens with reasonable access to records on the past use of CDBG funds ([24 CFR 570.508](#) and [2 CFR 200.338](#)).

5.5 REPORTING REQUIREMENTS

Your reporting requirements are specified by the grantee in your subrecipient agreement ([24 CFR 570.503\(b\)\(2\)](#)). These reporting requirements must also be consistent with the provisions of [2 CFR 200](#), Appendix II-Contract Provisions.

Your grantee has discretion over the type and frequency of reports they will require, but is likely to request at least three kinds of reports from you:

1. Information on drawdown requests.

For periodic drawdown requests, you need to provide information to your grantee on the financial status of your operations, including (for each activity) the amount of:

- Funds budgeted.
- Funds already received to date.
- Funds obligated in the current period and to date.
- Funds expended in the current period and to date, with backup documentation for any funds being requested.
- Cash on hand (including identified program income).
- Previous drawdowns requested but not yet received.

2. Regular progress reports.

You need to provide regular progress reports (typically on a monthly or quarterly basis) to your grantee. Progress reports track actual project accomplishments, obligations, and spending patterns against planned operations and accomplishments in accordance with the project schedule and budget sections of your subrecipient agreement.

3. CAPER data.

To prepare and submit its CAPER to HUD as required by [24 CFR 570.507](#), your grantee will use information from your progress reports and will notify you if they need additional information. Although the information needed varies by activity type, generally, the grantee must report the following items in IDIS and in its CAPER for each funded activity:

- The activity's name, description, and location.
- The type of eligible activity (matrix code).
- The National Objective being met.
- The amount expended during the program year.
- The total cost of each single-unit and multi-unit housing structure rehabilitated ([24 CFR 570.202\(a\)](#)) and economic development activity [24 CFR 570.203\(b\)](#).
- The amount of unliquidated obligations for each public service, and planning and administration activity if CDBG funds are not disbursed during the 90 days after the end of the grantee's program year.
- Activity status and specific units of accomplishments, including compliance with the applicable National Objective, during each program year.

The CAPER requires information on rehabilitation activities (separated for single units and each multi-unit property), including:

- Activity delivery costs expended in carrying out rehabilitation reported as part of the cost of the rehabilitation activity or reported as a separate activity.
- The number of units proposed and completed.
- The number of units in each multi-unit structure initially occupied by low- and moderate-income households following rehabilitation.
- For multi-unit properties, the amount proposed and expended from CDBG and other public and private sources.

The CAPER also requires data on:

- CDBG-assisted beneficiaries of direct benefit activities (expressed in total households/persons assisted; number of extremely low-income,¹ low-income,² and moderate-income households/persons;³ and ethnic characteristics of beneficiaries).
- The source and amount of program income received during the program year.
- Number and total dollar amount of outstanding loans.

¹ Households earning equal to or less than 30% of area median income

² Households earning equal to or less than 50% of area median income

³ Households earning equal to or less than 80% of area median income

- CDBG-acquired property to be sold.
- Households displaced in connection with CDBG activities.

As mentioned in Section 5.5 above, you should carefully identify your CDBG reporting responsibilities when designing the recordkeeping system for your CDBG-funded activities.

A final area of reporting not discussed in this chapter concerns annual audits, which is addressed in [Chapter 7](#).

Exhibit 5–1: Recordkeeping Checklist for Tracking Activities



- Use this checklist for each grant awarded.
- Enter a new date each time you update the checklist.
- Update the checklist after you conduct an internal project review, after your grantee monitoring visit, or when key documents are modified or received from your grantee.

Date Checklist Last Updated: _____

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?		Location
Project Application			Y	N	
☐ Original Application	☐ Subrecipient				
☐ Notice of Award	☐ Grantee				
☐ Amendments to Application	☐ Subrecipient/Grantee				
☐ Approval of Amendments	☐ Grantee				
☐ Correspondence	☐ Subrecipient/Grantee				
Pre-Award Documentation			Y	N	
☐ 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				
☐ Résumés 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 Statement	☐ Subrecipient				
☐ Environmental Review	☐ Subrecipient				
Subrecipient Agreement			Y	N	
☐ Subgrant/Subaward Amount	☐ Grantee				
☐ Date of Subgrant/Subaward	☐ Grantee				
☐ Statement of Work	☐ Subrecipient				

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?	Location	
☐ Budget by Task/Activity	☐ Subrecipient				
☐ Schedule by Task/Activity	☐ Subrecipient				
☐ Standard Provisions Included?	☐ Grantee				
☐ Amendments (Dates)	☐ Grantee				
Financial Records			Y	N	
☐ 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	☐ Subrecipient				
☐ Financial Status Report (total budget, amount expended, unliquidated obligations, obligations, unobligated balance)	☐ Subrecipient				
☐ Drawdown Request Forms	☐ Subrecipient				
☐ Drawdown Request Reports	☐ Subrecipient				
☐ Executed Contracts/Bid Documents	☐ 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 Records (Davis-Bacon applicable)	☐ Subrecipient				
☐ Approved Cost Allocation Plan	☐ Subrecipient/Grantee				
☐ Relevant Financial Correspondence	☐ Subrecipient/Grantee				
Project Monitoring and Control			Y	N	
☐ Completed Monitoring Reports	☐ Grantee				
☐ National Objectives Documentation	☐ Subrecipient				
☐ Eligible Activities Documentation	☐ Subrecipient				

Documents to be Maintained	Document Source		Status		
	Source	Date	Complete?		Location
☐ Activity Status Report (scope, cost, schedule/ actual vs. agreement)	☐ Subrecipient				
☐ Drawdown Requests/ Reports	☐ Subrecipient				
☐ Subrecipient Staffing	☐ Subrecipient				
☐ Meeting Minutes	☐ Subrecipient				
☐ Telephone Log/Notes	☐ Subrecipient				
☐ Correspondence	☐ Subrecipient				
Regulatory Compliance Files			Y	N	
☐ 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 (Part 50)	☐ Grantee				
☐ Loan Status Reports (Economic Development, Rehabilitation)	☐ Subrecipient/Grantee				
☐ Administrative Activities	☐ Subrecipient				
☐ Flood Insurance Purchase	☐ Subrecipient				
Other Project/Activity Files			Y	N	
☐ Plans and Specs (rehabilitation, historic preservation)	☐ Subrecipient				
☐ Orientation and Training	☐ Subrecipient				
☐ Special Case Records	☐ Subrecipient				

EXERCISE FOR CHAPTER 5—RECORDKEEPING AND REPORTING REQUIREMENTS QUESTIONS

NOTES

Review the following examples, then decide if the approach being taken is adequate or inadequate. Explain where you feel the approach is “inadequate” and why. 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 Consolidated Annual Performance and Evaluation Report (CAPER) detailing Family Support, Inc.’s counseling services. The independent public accountant (IPA) audit performed for Family Support, Inc. 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 recordkeeping 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, 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 the next page.

EXERCISE FOR CHAPTER 5—RECORDKEEPING AND REPORTING REQUIREMENTS ANSWERS

NOTES

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

1. Although John Smith has taken steps to ensure that his agency could provide the grantee with the required report data, the necessity of having to search through each case file each time a report is due might be not 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 3-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 3 years have elapsed and request access to such records concerning some questionable costs. Therefore, even after the 3 years, for your own protection, you may want to place the records in storage for an additional year or two, rather than discard them.
3. When automating recordkeeping and reporting functions, a key consideration is **ongoing flexibility**. In this case, because the software was designed specifically for the *current* record/reporting requirements, if the data desired by either the subrecipient or the grantee changed, it is not clear whether the agency had 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 this guide 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 demand on these systems or other problems that may arise.

CHAPTER 6

OTHER ADMINISTRATIVE AND CROSS-CUTTING REQUIREMENTS

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In approving your organization's CDBG-funded activities, your grantee has determined that your activities are eligible and will meet **one of three National Objectives** ([24 CFR 570.208](#)). This requirement is the foundation for the regulatory framework of the CDBG program in [24 CFR 570](#). However, specific administrative and program requirements spelled out in Part 570 and elsewhere apply to your use of CDBG funds. Some of these requirements apply to all CDBG-funded activities while others may or may not apply, based on the type of activity you are undertaking.

Subpart J, "Grant Administration," is located in [24 CFR 570.500-513](#). Subpart K, "Other Program Requirements," is comprised of [24 CFR 570.600-615](#). Together, they provide a guide to many of the federal requirements related to the CDBG program that apply to both grantees and subrecipients.

As you plan your program, be sure to familiarize yourself with these sections of the CDBG regulations. Failure to comply with applicable requirements in these areas—such as lead-based paint hazard reduction, Davis-Bacon labor standards, or relocation—can result in substantial disallowance of costs for your organization and possibly repayment of expended CDBG monies with non-federal dollars. Knowing the rules ahead of time will prepare you to navigate these requirements successfully.

This chapter addresses six of the key administrative requirements of the CDBG program. Four of these are elements of Subpart J, "Grant Administration" ([24 CFR 570.500-513](#)) and two are elsewhere in the CDBG regulations:

- Program Income ([24 CFR 570.504](#)).
- Subrecipient Agreements, including programmatic and budget changes ([24 CFR 570.503](#)).
- Program Monitoring ([24 CFR 570.501\(b\)](#), [2 CFR 200.331-332](#)).
- Suspension and Termination ([24 CFR 503\(b\)\(6\)](#)).
- Political Activity ([24 CFR 570.207\(a\)\(3\)](#)).
- Conflict of Interest ([24 CFR 570.611](#)).

Other chapters in this guide address other administrative requirements in Subpart J:

- Use of Real Property (see [Chapter 4](#)).
- Records and Reports (see [Chapter 5](#)).
- Grant Closeout (see [Chapter 8](#)).

Several Federal statutes outside the CDBG program apply to CDBG-funded activities. Most of these are specifically identified in Subpart K, "Other Program Requirements." You will often hear these requirements referred to as "cross-cutting requirements," because they cut across departments to apply to all activities delivered by the Federal Government.

This chapter addresses these cross-cutting requirements:

- Civil Rights and Fair Housing ([24 CFR 570.601](#)), Employment and Contracting Opportunities ([24 CFR 570.607](#)), and Architectural Barriers and Americans with Disabilities ([24 CFR 570.614](#)).
- Labor Standards ([24 CFR 570.603](#)).
- Environmental Requirements ([24 CFR 570.604](#)).
- Historic Preservation ([24 CFR 570.202\(d\)](#)).
- Floodplain Management ([24 CFR 55](#)).
- National Flood Insurance Program ([24 CFR 570.605](#)).
- Relocation, Real Property Acquisition, and One-for-One Housing Replacement ([24 CFR 570.606](#)).
- Lead-based Paint ([24 CFR 570.608](#)).

This chapter provides a summary of these requirements and their applicability to the CDBG program. The links in the sections below will help you access not only the specific regulations, Executive Orders, and laws which are the primary sources for these requirements, but also HUD notices and other resources with further information on these regulations.

Finally, carefully review the subrecipient agreement from your grantee for any other administrative requirements that may be unique to your community or your program.

AS YOU READ THIS CHAPTER, THINK ABOUT...

1. Which of your agency's activities may involve or be affected by any of the requirements summarized in this chapter?
2. Whether any of these requirements might require a change in the way you currently conduct your CDBG-assisted activities and, if so, how?
3. How you could adapt your procedures (e.g., through staff training or changes in systems) to ensure that compliance with these requirements will not hinder fulfilling the objectives of your subrecipient agreement?
4. Will you need technical assistance to understand or implement any of these requirements?
5. Does your current subrecipient agreement adequately address the requirements summarized here?

6.1 PROGRAM INCOME

See [24 CFR 570.504](#)¹.

The term “**program income**” means any gross income you receive that was directly generated from the use of CDBG funds ([24 CFR 570.500\(a\)](#)). See [Chapter 2](#) of this guide for information on how to treat program income in your financial management system.

Program income includes:

- Proceeds from the **sale or long-term lease of real property** purchased or improved with CDBG funds.
- Proceeds from the **disposition of equipment** purchased with CDBG funds.
- Gross income from the **use or rental of property** acquired, constructed, or improved by the grantee or subrecipient with CDBG funds, minus the costs incidental to the generation of the income.
- Payments of **principal and interest on loans** made using CDBG funds.
- Proceeds from the **sale of loans** made with CDBG funds.
- Proceeds from the **sale of obligations secured by loans** made with CDBG funds.
- **Interest earned on program income**, pending the disposition of such program income.
- **Interest earned on funds held in a lump sum drawdown account**, which must be used for the activities for which the balance is being held (see [24 CFR 570.513\(c\)](#)).
- Funds collected through **special assessments** made against properties owned and occupied by households, not of low- and moderate-income, where such assessments are used to recover part or all of the CDBG portion of a public improvement.

Program income does not include interest earned on cash advances from the grantee or funds held in a revolving loan fund account. Such interest must be returned to the grantee for remittance to HUD.

Other tips on the treatment of program income:

- For an activity assisted partially with CDBG funds that generate income, use the percentage that is CDBG-funded to determine the portion that is program income.
- Your subrecipient agreement should specify whether you should return program income to the grantee or retain it to carry out CDBG activities ([24 CFR 570.504\(c\)](#)).
- When the subrecipient agreement specifies that you can retain and reuse the program income, it will also specify how you may use it.

¹ Note that 2 CFR 200.307 on program income does not apply to CDBG. See [24 CFR 570.502\(a\)\(3\)](#).

- You must record receipt and expenditure of program income in your financial records.
- When you retain program income, you must spend it for an authorized activity before you draw down additional grant funds from the grantee, except in the case of a revolving loan fund.
- When you draw down program funds, you must certify that you do not have program income on hand that you can use to fund the activity.
- If you deposited program income in a revolving loan fund, you must use the program income for the revolving fund activity before drawing down additional grant funds for that activity.
- When your subrecipient agreement expires, you must return any program income on hand or subsequently received, back to your grantee. See [“Smart Management of CDBG Program Income.”](#)

6.2 SUBRECIPIENT AGREEMENTS, INCLUDING PROGRAMMATIC AND BUDGET CHANGES

The relationship between your organization and your grantee is defined by your subrecipient agreement. This agreement will include key requirements for the performance of your CDBG project or program; certain provisions that HUD requires are cited in [24 CFR 570.503](#).

Your subrecipient agreement from the HUD grantee will specify the process for requesting a change in your program or budget.

The subrecipient agreement and the grantee’s written policies must specify when prior approval from the grantee is necessary for a programmatic or budget change relative to the subrecipient’s CDBG-funded activities. For example, you will usually need prior approval and/or a written amendment to the agreement for any of the following changes:

- A revision to the scope or objectives of your CDBG activities, including purpose, location, or beneficiaries.
- Extending the term of your program or project.
- Changes in key personnel when specified in the application package or grant award.
- In non-construction projects, when contracting out a portion of the activity to a third party, unless specified in the application.
- A request for an increase in the amount of CDBG funds awarded.
- Cumulative transfers among direct cost categories or among separately budgeted activities or projects which exceed 10 percent (unless this requirement is waived by the grantee).

Your grantee may allow pre-award costs in certain cases. For allowability of pre-award costs, contact your grantee. See [2 CFR 200.458](#) and [24 CFR 570.200\(h\)](#). Such expenditures require prior approval, per [2 CFR 200.407\(u\)](#).

6.3 PROGRAM MONITORING

See [24 CFR 570.501\(b\)](#) and [2 CFR 200.331-332](#).

Your grantee is responsible for ensuring that you use the CDBG funds under its oversight in accordance with all program requirements, and for determining the adequacy of your performance.

Accordingly, your grantee will review the documentation you submit, make site visits, and review program files as necessary to fulfill these responsibilities. [Chapter 5](#): Recordkeeping addresses the documents in your files that you can expect your grantee to review during a monitoring visit in greater detail.

Your grantee may visit your project sites or program operations and speak with beneficiaries and program participants.

Your grantee will issue a report with their observations after its monitoring. The report may include “findings” (areas where your grantee will require corrective action) and/or “concerns” (areas for improvement identified during their monitoring).

HUD has developed a [Community Planning and Development \(CPD\) Monitoring Handbook](#) for its staff to use when monitoring a grantee. The CPD Monitoring Handbook addresses the entire range of CPD programs (e.g., HOME Investment Partnerships Program [HOME], Emergency Solutions Grants [ESG], etc.). Since you are implementing your CDBG-funded program or project on behalf of your grantee, you can expect your grantee to ask you many of these same questions during your monitoring; the CPD Monitoring Handbook is a useful guide on what to expect when your grantee monitors your organization. [Chapter 3](#) of the handbook addresses the CDBG Entitlement Program.

6.4 SUSPENSION AND TERMINATION

See [24 CFR 570.503\(b\)\(6\)](#).

When problems arise in the performance of a subrecipient, the grantee is responsible for taking appropriate actions for correcting these deficiencies. Such measures typically include specifying corrective actions to be taken by your organization and/or disallowing incurred costs.

Your grantee has the authority to suspend or terminate CDBG activities carried out by its subrecipients ([24 CFR 570.501\(b\)](#)). Consistent with [24 CFR 570.503\(b\)\(6\)](#), your agreement must specify that suspension or termination may occur if your organization materially fails to comply with any term of the CDBG award and that the agreement may also be terminated for convenience (also see [2 CFR 200.339-343](#) and [2 CFR 200 Appendix II](#)).

Debarment is an action that may be undertaken for a variety of reasons, including certain convictions or civil judgments, serious violations of public agreements, and causes of a serious or compelling nature that affect your present responsibility. [2 CFR 180](#) includes further information on procedures for government-wide suspension and debarment.

6.5 POLITICAL ACTIVITY

See [24 CFR 570.207\(a\)\(3\)](#).

The regulations prohibit you from using CDBG funds to finance the use of facilities or equipment for political purposes or to engage in other partisan political activities such as candidate forums, voter transportation, or voter registration.

However, a facility originally assisted with CDBG funds may be used on an incidental basis to hold political meetings, candidate forums, or voter registration, provided that all parties and organizations have access to the facility on an equal basis and are assessed equal rent or use charges if any.

6.6 CONFLICT OF INTEREST

See [24 CFR 570.611](#) and [2 CFR 200.112](#).

There are two sets of conflict of interest provisions applicable to activities carried out with CDBG funding. The first set, applicable to your procurement of goods and services, is the procurement regulation located in [2 CFR 200.318](#). The second set of provisions are the CDBG Conflict of Interest requirements at [24 CFR 570.611](#) that address situations regarding the administration and carrying out of CDBG-assisted activities.

For procurement activities, the subrecipient must maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts ([2 CFR 200.318\(c\)\(1\)](#)). At a minimum, these standards must:

- Require that no employee, officer, or agent may participate in the selection, award, or

administration of a contract supported by federal funds if a real or apparent conflict would be involved. Such a conflict would arise when any of the following parties has a financial or other interest in the firm selected for an award:

- An employee, officer, or agent of your organization.
- Any immediate family member of an employee, officer, or agent.
- A partner of an employee, agent, or officer.
- An organization that employs or is about to employ any of the persons in the preceding section.
- Require that employees, agents, and officers from your organization neither solicit nor accept gratuities, favors, or anything of value from contractors or parties to sub-agreements. However, your organization may set standards for situations in which the financial interest is not substantial, or the gift is an unsolicited item of nominal value.
- Provide for disciplinary actions to be applied for any violations of such standards by employees, agents, or officers of your organization.

For all other CDBG-assisted activities, the general standard is that no employee, agent, or officer of your organization with decision-making responsibility for CDBG funds and activities is allowed to benefit from CDBG activities or have a financial interest in any agreement regarding those activities or in the proceeds of the activities ([24 CFR 570.611\(b\)](#)). Specific provisions include that:

- This requirement applies to any person who is an employee, agent, consultant, officer, or elected or appointed official of the grantee, a designated public agency, or a subrecipient, and to their immediate family members and business partner(s).
- The requirement applies for such persons during their tenure and for a period of one year after leaving the grantee or the subrecipient organization.
- Upon written request, exceptions may be granted by HUD on a case-by-case basis, after consideration of the cumulative effect of various factors listed in [24 CFR 570.611\(d\)](#), and only with: (a) full disclosure of the potential conflict and (b) a legal opinion of the grantee's attorney that there would be no violation of state or local laws in granting the exception.

For more information, see HUD's "[Seven Keys to Handling Conflicts of Interest](#)," which provides additional guidance in such areas as internal procedures to avoid conflicts, staff training, and implementing regulations.

6.7 CIVIL RIGHTS AND FAIR HOUSING; EMPLOYMENT AND CONTRACTING OPPORTUNITIES

See [24 CFR 570.601-602](#) and [24 CFR 570.607](#).

Your subrecipient agreement will require you to administer your CDBG funds in compliance with the following federal laws and Executive Orders and their implementing regulations:

- **Title VI of the Civil Rights Act of 1964** (Public Law 88-352 implemented in [24 CFR Part 1](#)): This law states that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.
- **Fair Housing Act, Title VIII of the Civil Rights Act of 1968:** The Fair Housing Act prohibits discrimination in housing practices on the basis of race, color, religion, sex, and national origin. The Fair Housing Act was amended in 1988 to protect families with children and persons with disabilities from discrimination in the sale or rental of housing. The Fair Housing Act also establishes requirements for the design and construction of new rental or for-sale multi-family housing to increase accessibility for persons with disabilities ([24 CFR 570.614](#)).

TIP: For more information on strategies to promote Fair Housing and Non-Discrimination, see [HUD's CDBG Cross-Cutting Issues Toolkit, Module 5](#).

- **Executive Order 11063, as amended by Executive Order 12259** (implemented in [24 CFR 107](#)): This order and its implementing regulations require HUD to take all actions necessary to prevent discrimination because of race, color, religion, sex, or national origin in the use, occupancy, sale, lease, rental, or other disposition of residential property assisted with federal funds.
- **Section 104(b) of Title I of the Housing and Community Development Act of 1974 (§5304), as amended**: This law provides that any grant under Section 106 shall be made only if the grantee certifies to the satisfaction of the Secretary of HUD that the grantee will, among other things, affirmatively further fair housing.
- **Section 109 of Title I of the Housing and Community Development Act of 1974 (§5309), as amended** ([42 U.S.C. 5301 et. seq.](#), particularly [42 U.S.C. 6101 et. seq.](#) and [29 U.S.C. 794](#)): This law mandates that no person on the grounds of race, color, national origin, sex, or religion shall be excluded from participation in, denied the benefits of, or otherwise be subject to discrimination under any activity funded in whole or part with CDBG funds.
- **Section 3 of the Housing and Community Development Act of 1968 (§1701u)** ([12 U.S.C. 1701u](#)): This section implemented in [24 CFR 75](#) requires that, to the greatest extent feasible, you must:

- Ensure that low- and very low-income persons who live in the metropolitan area of the CDBG project receive opportunities for training and employment resulting from housing rehabilitation (including reduction and abatement of lead-based paint hazards), housing construction, or other public construction projects. Where feasible, low- and very low-income residents within the project's service area or neighborhood, and low- and very low-income participants in other HUD programs, should receive priority.
- Award contracts for work on housing rehabilitation (including reduction and abatement of lead-based paint hazards), housing construction, or other public construction projects to businesses that hire low- and very low-income persons residing within the metropolitan area in which the CDBG-funded project is located; where feasible, give priority to businesses that hire low- and very low-income residents of the service area or neighborhoods where the project is located, and to low- and very low-income participants in other HUD programs.

For more information on Section 3, see also [Chapter 3](#), Section 3.4 of this Guide, "Use of Local Businesses, Contracting with Small, Minority, and/or Women-Owned Businesses."

- **Section 504 of the Rehabilitation Act of 1973, as amended**. This section specifies that no qualified individual shall, solely because of his or her disability, be excluded from participation (including employment), denied program benefits, or subjected to discrimination under any program or activity receiving federal assistance. [24 CFR 8](#) requires that your programs are accessible to and usable by persons with disabilities. Part 8 also prohibits you from employment discrimination based upon disability.
- **The Americans with Disabilities Act (ADA) of 1990**: This law prohibits state and local governments, public accommodations, and commercial facilities from employment discrimination. The ADA also requires that facilities that are newly constructed or altered, by or for use by a public entity, be designed and constructed so that the facility is readily accessible to and usable by persons with disabilities. The Act defines the range of conditions that qualify as disabilities and the reasonable accommodations that must be made to assure equality of opportunity, full participation, independent living, and economic self-sufficiency for persons with disabilities.
- **The Age Discrimination Act of 1975, as amended**: This law provides that no person shall be excluded from participation, denied program benefits, or subjected to discrimination on the basis of age under any program or activity receiving federal assistance.

TIP: For more resources on these regulations, see [CPD Notice 05-10](#), "Accessibility for Persons with Disabilities to Non-Housing Programs Funded by Community Development Block Grant Funds—Section 504 of the Rehabilitation Act of 1973, the Americans With Disabilities Act, and the Architectural Barriers Act."

- **Executive Order 11246** (as amended by Executive Orders 11375 and 12086)—**Equal Opportunity Under HUD Contracts and HUD-Assisted Construction Contracts**: This order requires that you, your contractors, and their subcontractors, not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin.
- **The Architectural Barriers Act of 1968**: The Architectural Barriers Act (ABA) of 1968 (42 U.S.C. 151-4157) requires that certain buildings financed with federal funds be designed, constructed, or altered to ensure accessibility for persons with physical disabilities. The ABA covers any building or facility receiving federal funds, except privately-owned residential structures. Any covered buildings and facilities designed, constructed, or altered with CDBG funds are subject to the ABA and must comply with the [Uniform Federal Accessibility Standards](#).
- **Equal Access in Accordance with an Individual's Gender Identity in Community Planning and Development Programs**: Through this final rule, HUD ensures equal access to individuals in accordance with their gender identity in programs and shelters funded by HUD's Office of Community Planning and Development (CPD). The final rule ensures equal access to CPD-funded facilities, benefits, accommodations, and services in accordance with the individuals' gender identity and their family.

6.8 LABOR STANDARDS

See [24 CFR 570.603](#) Labor Standards.

You must pay "prevailing wages" to all laborers and mechanics employed by contractors or subcontractors on construction work in excess of \$2,000 and using CDBG funds. These prevailing wages are determined in accordance with the Davis-Bacon Act as amended ([40 U.S.C. 276a–276a-5](#)). The Contract Work Hours and Safety Standards Act ([40 U.S.C. 327–333](#)) also applies to such activities.

These labor standards apply to the rehabilitation of residential property only if the property contains at least eight units.

You should consult closely with your grantee as you plan construction or rehabilitation projects to ensure that you comply with all applicable labor standards; note that the applicable prevailing wage may be affected by building type, number of stories, etc. Pay particular attention to the technical complexities in:

TIP: For more information on requirements regarding labor standards, see [HUD's CDBG Cross-Cutting Issues Toolkit, Module 3](#).

- Determining whether a project is subject to Davis-Bacon requirements.
- Obtaining the appropriate prevailing wage rates and inserting the wage determination and the appropriate provisions in the contract.
- Requesting additional wage rate classifications that may not appear on a wage decision.
- Conducting an adequate pre-construction conference.
- Monitoring the worksite and contractor/subcontractor payrolls to document compliance with these requirements. Include on-site employee wage interviews.

For more information:

- ["Making Davis-Bacon Work: A Practical Guide for State, Indian Tribes, and Local Agencies."](#) A guide to prevailing wage requirements for HUD-funded construction projects.
- ["Making Davis-Bacon Work: A Contractor's Guide to Prevailing Wage Requirements for Federally-Assisted Construction Projects."](#)
- [Department of Labor Regulations, 29 CFR, Subtitle A, Parts 1, 3, 5, 6 & 7.](#) A guide to the predetermination of wage rates.

6.9 ENVIRONMENTAL REQUIREMENTS

See [24 CFR 570.604](#).

In their use of CDBG funds, grantees are required to assume responsibility for environmental review and decision-making under the National Environmental Policy Act of 1969 (NEPA) and other related provisions of law, generally found in HUD regulations in [24 CFR 58](#). The CDBG regulations explicitly prohibit you, as a subrecipient, from assuming the grantee's environmental responsibilities (see [24 CFR 570.503\(b\)\(5\)\(i\)](#)).

Neither you nor any other party may commit funds to a CDBG-funded project, including incurring project costs, until:

- Your grantee completes the appropriate environmental review and public notification process.
- HUD approves a certification of compliance (Environmental Certification) with environmental laws and Request for Release of Funds from environmental conditions.

Some CDBG-funded activities, classified as “exempt,” are not subject to this restriction. However, before any party involved with the project can incur costs, the grantee must first make a formal determination that the activities are, in fact, exempt. A list of activities that are exempt from an environmental review is found in [24 CFR 58.34](#).

TIP: For help in understanding the environmental review process, see HUD's CDBG Cross-Cutting Issues Toolkit, Module 2.

For activities that are not exempt, your grantee will determine the level of environmental review and advise you of specific procedures. Close communication with your grantee is important during this process. You will be anxious to start your project, but actions that you may be inclined to undertake prior to starting your project may be deemed to be “choice-limiting actions.” Such actions can negate the environmental review process and render the entire activity ineligible for CDBG funds. You may not undertake any choice-limiting actions prior to the notices, publications, waiting periods, and determinations that 24 CFR 58 requires. The HUD Exchange website includes several [environmental review training materials](#).

6.10 HISTORIC PRESERVATION

See [36 CFR 800](#) Protection of Historic Properties.

As a CDBG subrecipient, you are responsible for compliance with the Historic Preservation Act and related laws and Executive Orders in your CDBG-funded activities. Before committing to any physical improvement, alterations, or demolition project, you should confirm with your grantee that you have complied.

Prior to undertaking a project, your grantee will determine whether the regulations of Section 106 of the National Historic Preservation Act may apply to the property. This may involve consultation with your State Historic Preservation Officer (SHPO) to determine if the property either:

- Is or could be declared a historic property.
- Is located in a historic district or an area that could be declared a historic district.

If historic properties could be adversely affected, an agreement must be reached on appropriate mitigating measures with all parties identified in [36 CFR 800](#). For further guidance, see the HUD Exchange for [historic preservation resources](#).

6.11 FLOODPLAIN MANAGEMENT

For projects involving new construction or substantial improvement of existing buildings, you should select sites located outside of special flood hazard areas. Your organization should “avoid direct or indirect support of floodplain development wherever there is a practicable alternative” ([24 CFR 55](#)).

6.12 NATIONAL FLOOD INSURANCE PROGRAM

See [24 CFR 570.605](#)—National Flood Insurance Program and [44 CFR 59.79](#)—Insurance and Hazard Mitigation.

As noted above, flood-prone areas should generally be avoided by CDBG-funded projects. However, if the successful implementation of your program requires that you conduct a project in an area where your community has had notice for more than a year that the area has been identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards, CDBG funds cannot be spent for acquisition or construction purposes in the area unless the community is participating in the National Flood Insurance Program and such insurance has been purchased for the properties in question.

Note that federal assistance may not be provided to a person who had previously received federal flood disaster assistance conditioned on obtaining and maintaining flood insurance if that person failed to obtain and maintain such insurance ([24 CFR 58.6\(b\)](#)).

HUD provides resources on flood insurance on the HUD Exchange including:

- [Flood Insurance](#): Compliance and documentation requirements for HUD-funded projects.
- Notice CPD-17-13: “Notice for Interpreting the Limits of the Floodway for Linear Infrastructure Projects Complying with HUD Floodplain Management Regulations, [24 CFR Part 55](#).” Part 55 prohibits the use of HUD financial assistance for any action “located in a floodway.” The purpose of this Notice is to define when linear infrastructure activities are considered to be located in a floodway under [24 CFR Part 55](#).

6.13 RELOCATION, REAL PROPERTY ACQUISITION, AND ONE-FOR-ONE HOUSING REPLACEMENT

See [24 CFR 570.606 \(b\) and \(c\)](#) Displacement, relocation, acquisition, and replacement of housing.

You must comply with both:

- The Uniform Relocation Assistance (URA) and Real Property Acquisition Policies Act of 1970, as amended, [24 CFR 570.606\(b\)](#), and [49 CFR 24](#).
- The requirements of [24 CFR 570.606\(c\)](#) and [24 CFR 42, Subpart C](#) governing the Residential Antidisplacement and Relocation Assistance Plan (RARAP) under Section 104(d) of the HCD Act.

Under the URA and your grantee’s RARAP, your organization must provide relocation assistance to persons (families, individuals, businesses, non-profit organizations, and farms) displaced as a direct result of acquisition, rehabilitation, demolition, or conversion for a CDBG-assisted project. All property occupants must be issued certain notices on a timely basis; failure to issue timely notices may result in substantial additional cost to your organization.

TIP: For additional information on URA, please see HUD’s CDBG Cross-Cutting Issues Toolkit, Module 4 and URA the HUD Way training.

The RARAP also requires the one-for-one replacement of any occupied or occupiable low-/moderate-income housing that is demolished or converted to another use in connection with a CDBG-assisted project. Finally, the RARAP requires the identification of the steps that will be taken to minimize displacement.

Real property acquisition requirements are described in [49 CFR 24, Subpart B](#).

6.14 LEAD-BASED PAINT

NOTES

See [24 CFR 570.608](#) and [24 CFR 35](#).

CDBG-funded activities, such as the acquisition, construction, or rehabilitation of residential structures, may not use lead-based paint. However, until prohibited in 1978, lead-based paint was widespread, and its presence in older homes presents a continuing public health hazard.

As a result, specific requirements apply to the use of CDBG funds for the rehabilitation of a residential property constructed before 1978. This section provides basic information on lead-based paint requirements. Consult the applicable portions of [24 CFR 35](#) and contact your grantee or the HUD field office for greater detail if you are carrying out an activity subject to these requirements.

At a minimum, for dwellings built before 1978, you are required to:

- Notify a purchaser or lessee of the presence of any known lead-based paint and/or lead-based paint hazards.
- Test surfaces to be disturbed or removed during rehabilitation for the presence of lead-based paint or presume the presence of lead-based paint.
- Notify the occupants of the results within 15 days of when the evaluation report is received or the presumption is made.
- Provide each of these occupied dwelling units with the Environmental Protection Agency (EPA)-approved lead hazard information pamphlet [Protect Your Family From Lead in Your Home](#).
- Reduce lead hazards as required by the applicable subparts of [24 CFR 35](#).
- Perform clearance testing, including dust testing, before re-occupancy after all but minimal (*“de minimis”*) amounts of paint disturbances ([24 CFR 35.1350\(d\)](#)) describes *de minimis* lead paint levels).

The CDBG regulation at [24 CFR 570.608](#) states that the following subparts of [24 CFR 35](#) apply to the use of CDBG funds in pre-1978 housing:

- A—Disclosure of Known Lead-Based Paint and/or Lead-Based Paint Hazards Upon Sale or Lease of Residential Property.
- B—General Lead-Based Paint Requirements and Definitions for All Programs.
- J—Rehabilitation.
- K—Acquisition, Leasing, Support Services, or Operation.
- R—Methods and Standards for Lead-Based Paint Hazard Evaluation and Hazard Reduction Activities.

[24 CFR 35, Subpart A](#) is called the Lead Disclosure Rule; and [Subparts B through R](#), are called the Lead Safe Housing Rule.

Certain properties are exempt from the requirements of the Lead Safe Housing Rule. They include:

- Housing built on or after January 1, 1978.
- Zero-bedroom dwellings, including efficiency apartments, single-room occupancy housing, dormitories, or military barracks.
- Housing exclusively for the elderly or people with disabilities unless a child under age 6 resides or is expected to reside there.
- Units that are declared free of lead-based paint by a certified lead-based paint inspector.
- Units where all lead-based paint has been removed.
- Unoccupied housing that will remain vacant until it is demolished.
- Non-residential portions of mixed-use buildings, except that spaces serving both residential and non-residential uses are covered by the rule.
- Units that are to be rehabilitated without disturbing a painted surface.

- Units that are subject to emergency repair action needed to safeguard against imminent danger to human life, health, or safety, or to protect the property from further structural damage.

For properties covered by the Lead Safe Housing Rule, the lead-based paint requirements for rehabilitation depend on the amount of federal rehabilitation assistance provided to the unit. The amount of federal rehabilitation assistance is the average per-unit amount of federal funds for the hard costs of rehabilitation, excluding lead-based paint hazard evaluation and hazard reduction activities. In calculating this assistance amount, you must consider both the total amount of federal assistance to be used (including CDBG and other funds) and the hard costs of rehabilitation (including federal and non-federal funds). Whenever these two amounts are not the same, the smaller of the two determines the type and level of lead-based paint remediation. For a structure with more than one dwelling unit, apply the threshold against the average amount of federal assistance per unit or the average hard cost of rehabilitation per unit, whichever is lower.

The following is a general overview of the requirements based on dollar thresholds per year per assisted housing unit:

- **Up to and including \$5,000**—Provide the occupants with both notice of the presence or presumption of lead hazards, provide EPA pamphlet “Protect Your Family From Lead In Your Home,” test paint on surfaces to be disturbed or presume the presence of lead-based paint, incorporate safe work practices as part of rehabilitation (except for minimal amounts of paint disturbances), repair any paint that is disturbed, and provide clearance after the work and before re-occupancy.
- **\$5,001–\$25,000**—Provide the occupants with both notice of the presence or presumption of lead hazards, provide EPA pamphlet “Protect Your Family From Lead In Your Home,” test paint or presume the presence of lead-based paint, conduct risk assessment to identify lead-based paint hazards, incorporate interim control or standard treatment of lead-based paint hazards using safe work practices, and provide clearance after the work and before occupancy.
- **Over \$25,000**—Provide the occupants with both notice of the presence or presumption of lead hazards, provide EPA pamphlet “Protect Your Family From Lead In Your Home,” test paint or presume the presence of lead-based painter, conduct risk assessment, abate all lead-based paint hazards using safe work practices, and provide clearance after the work and before occupancy.
- **Minimal (“*de minimis*”) amounts**—Safe work practices and clearance are not required when maintenance or hazard reduction activities do not disturb painted surfaces that total more than 20 square feet on exterior surfaces, two square feet in any one interior room or space, or 10 percent of the total surface area on an interior or exterior type of component with a small surface area (e.g., windowsills, baseboards, and trim); see [24 CFR 35.1350\(d\)](#).
- **Pamphlet**—You can download the EPA’s pamphlet [Protect Your Family From Lead in Your Home](#) in several languages and formats. Single paper copies can be obtained from the National Lead Information Clearinghouse at 1-800-424-LEAD. Persons with hearing or speech impediments may access this telephone number via TTY by calling the toll-free Federal Information Relay Service at 1-800-877-8339.

HUD provides helpful resource materials in:

- [Basically CDBG, Chapter 17, Lead-Based Paint.](#)
- [Lead Safe Housing](#), (formerly called Making it Work), HUD’s training course on lead-paint hazard reduction.
- [Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing](#), offering helpful advice on renovations in older housing, lead-based paint inspections, and risk assessments, and where to go for help.

EXERCISE FOR CHAPTER 6—OTHER ADMINISTRATIVE AND PROGRAM REQUIREMENTS QUESTIONS

NOTES

Circle the correct answer.

1. You must use available program income before you request additional grant funds from the grantee.

TRUE FALSE

2. You must use program income for the same CDBG-funded activity that generated it.

TRUE FALSE

3. Amendments to the subrecipient agreement are necessary only 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, you must ensure that to the greatest extent feasible, jobs created by the activity are made available to local low- and moderate-income persons.

TRUE FALSE

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

TRUE FALSE

6. You 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

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

TRUE FALSE

9. If you find lead-based paint in a structure to be rehabilitated that has historic significance, 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 nonprofit 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 reimbursed only for the cost of materials.

TRUE FALSE

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

TRUE FALSE

The answers are on the next page.

EXERCISE FOR CHAPTER 6—OTHER ADMINISTRATIVE AND PROGRAM REQUIREMENTS ANSWERS

NOTES

1. **TRUE.** According to [24 CFR 570.504\(b\)\(2\)](#), you must use program income on hand before drawing down additional grant funds, except in the instance of program income in a revolving fund. In this case, you 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 your organization will be allowed to retain program income ([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 your organization 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.** There are a variety of 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. Written amendments serve to protect both the grantee and your organization by making explicit the current expectations and legal responsibilities of each party to the agreement.
4. **TRUE.** A requirement of Section 3 of the Housing and Community Development Act of 1974, as amended, states both HUD grantees and their subrecipients must make every reasonable effort to ensure that such low- and moderate-income persons in the local area benefit from employment opportunities created by CDBG-funded projects.
5. **FALSE.** In general, the 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, Davis-Bacon requirements apply only to projects of eight or more units.
6. **FALSE.** Although you may not incur program expenses for a CDBG project before the receipt of environmental clearance, the grantee has the responsibility of completing the environmental review, not the subrecipient.
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 you cannot comply with both sets of requirements with the available funding, then you may not assist the unit.

10. **FALSE.** Even if the contractor receives reimbursement only 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 [24 CFR 570.611\(d\)](#). In this type of instance, HUD may determine that the appearance of a conflict is avoided because 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 has broad discretion in scheduling on-site visits and examining any program records that it deems necessary to monitor for compliance with CDBG requirements. However, it is good practice for your grantee to cooperate with your organization when scheduling such a visit.

CHAPTER 7

AUDITS

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Typically, you will have an independent auditor ([2 CFR 200.1](#)) review your financial and program results to determine whether you are meeting your goals and complying with financial management requirements. As a recipient of Community Development Block Grant (CDBG) funds, you share the responsibility with your grantee to ensure that you are expending Federal resources “efficiently, economically, and effectively to achieve the purposes for which the funds were furnished.”¹ The financial and performance audits discussed in this chapter and noted in [2 CFR Part 200, Subpart F—Audit Requirements](#) are designed to ensure that grantees and subrecipient agencies are accountable to the public and meet this mutual responsibility, in particular for:

1. **Financial audit:** an independent, objective review of your agency’s financial reporting processes and financial statements, indicating they are accurate and complete.

A primary purpose is to give assurance that your agency adheres to specific financial requirements related to your accounting systems and procedures and that your financial statements are prepared in accordance with accepted accounting standards.

2. **Performance audit:** an independent examination of a program, function, operation, or management systems and procedures of your agency.

The audit assesses whether your agency has efficiently and effectively carried out your operations and achieved the intended results from your programs.

In general, a formal audit by an independent public accounting (IPA) firm is the third phase of what may be a four-part examination process. The first phase involves your internal bookkeeping systems and procedures, including your operating results for a given period of time. Here, you are comparing your agency’s financial and program results for that period against your overall goals and objectives. A second phase may involve an outside accountant’s collection and review of your operating data for a given period. However, such a review may be informal and result in the accountant’s formal opinion as to the reliability and accuracy of the results.

The third phase of the examination, discussed in this chapter, involves a “single audit” that must be performed by an IPA firm any time your agency expends \$750,000 or more in Federal funds in a year ([2 CFR 200.501\(a\)](#)). The primary goal of the audit is to determine whether your agency has adequate systems in place to assure that:

- Goals and objectives are met.
- Resources are safeguarded.
- Laws and regulations are followed.
- Reliable data are obtained, maintained, and accurately disclosed.

This level of review should always result in a formal opinion of the accuracy and reliability of the data presented as expressed in a management letter, included as part of the audit.

The fourth phase of an audit may involve a detailed evaluation by the Government Accountability Office (GAO) or HUD’s Office of Inspector General (OIG). Such a review is designed to improve the compliance of agencies using Federal funds by identifying and correcting poor management practices within the agency. These types of audits are not discussed in detail here, but your grantee or local HUD office can provide you with information on GAO and OIG procedures and standards.

This chapter summarizes Federal requirements for IPA audits of subrecipients subject to the provisions of the Single Audit Act and discusses:

- General audit requirements ([2 CFR 200.501](#)).
- Internal control and compliance reviews ([2 CFR 200.61](#)).
- Audit reports ([2 CFR 200.515](#)).
- Auditor selection and procurement ([2 CFR 200.509](#)).
- Audit costs ([2 CFR 200.425](#)).
- Audit review and resolution procedures.

¹ U. S. General Accounting Office, Government Accounting Standards (U.S. Government Printing Office: Washington, D.C., 19

This chapter summarizes the procedures needed to comply with Federal requirements and demonstrates how an IPA audit can measure the strengths and weaknesses of your program to improve your agency's performance.

AS YOU READ THIS CHAPTER, THINK ABOUT...

1. Which of your agency's activities may involve or be affected by any of the requirements summarized in this chapter?
2. Based on prior financial reviews or audits, does your agency have sufficient control over your financial situation and your CDBG-related activities?
3. Are there any specific financial or program concerns that you need to address as part of your next audit?
4. Before your next audit, what files, records, or procedures need to be organized and updated so that the auditor can more efficiently collect and organize your data to provide feedback on your financial and program results?

7.1 GENERAL AUDIT REQUIREMENTS

Agencies that expend **\$750,000 or more** in total Federal financial assistance in a year are responsible for obtaining **an independent audit** in accordance with the Single Audit Act of 1984 (with amendment in 1996) [2 CFR 200, Subpart F—Audit Requirements](#).

A single audit covers the entire operations of your agency, or at the option of the agency, a series of audits that cover departments, agencies, and other organizational units that expended or otherwise administered Federal awards during such audit period. The audit must include both the entity's financial statements and the Federal funds it has expended (see [2 CFR 200.514\(a\)](#)).

The total computation of assistance includes all Federal funds received by the entire entity and not just the department or division receiving the CDBG funding. To determine the amount of Federal assistance expended, all Federal assistance must be considered, including funds received:

- Directly from a Federal agency.
- Through a state or local government.
- Through nonprofit organizations.
- Through any combination thereof ([2 CFR 200.502\(a-j\)](#)).

Federal financial assistance includes:

- Grants
- Loans
- Contracts
- Cooperative agreements
- Loan guarantees
- Property
- Interest subsidies

If you expend **less than \$750,000** per year in Federal financial assistance, you are exempt from Federal audit requirements. However, your records must still be available for review by HUD, the grantee, or GAO ([2 CFR 200.337](#)). Also, there may be separate state or local laws imposing additional audit requirements.

If your agency has expended **more than \$750,000 in a year under only one Federal program and you received no other Federal funding**, you may elect to have a program-specific audit conducted in lieu of a single audit. If your agency elects this option, the auditor(s) will perform the compliance testing for the individual grant program in accordance with program-specific audits noted in [2 CFR 200.501\(c\)](#) and [2 CFR 200.507](#).

Whether your agency has a single audit or a program audit, you will be responsible for providing the auditor with:

- Access to personnel, accounts, books, records, supporting documentation, and other information as needed ([2 CFR 200.508\(c\)](#)).
- Financial statements that reflect your financial position, results of operations or change in your net assets, and cash flows for the fiscal year ([2 CFR 200.510\(a-b\)](#)).
- A summary schedule of any prior audit findings noting whether corrective action was taken and the status of corrective actions not yet completed.

7.2 INTERNAL CONTROL AND COMPLIANCE REVIEW

See [2 CFR 200.1](#) Definitions.

The Single Audit Act requires, among other things, that the independent auditor determine and report on whether your organization or governmental entity has **internal control systems** to provide reasonable assurance that you are managing your Federal assistance programs in compliance with applicable laws and regulations (see [2 CFR 200.514\(c\)\(2-3\)](#)). The auditor will perform tests of these controls to evaluate the effectiveness of the design and operation of your policies and procedures in preventing or detecting material noncompliance.

The auditor will also conduct **compliance testing** ([2 CFR 200.514 \(c-d\)](#)). For the CDBG program, the auditor will examine a sample of transactions to determine whether:

- Your reported expenditures were for allowable services, and your records document the eligibility of the beneficiaries that received program benefits.
- Your established applicable limitations (such as ceilings on administrative costs, or funding for public services, as well as allocations for activities to principally benefit low- and moderate-income individuals) were met ([24 CFR 570.206](#)).
- Your financial reports and claims for advances and reimbursements contain information that is supported by the systems and records from your basic financial statements.
- Program income received was properly recorded and used before drawing additional grant funds ([24 CFR 570.504](#)).
- Your claimed expenses comply with the applicable cost principles and uniform administrative requirements ([24 CFR 570.502](#)).

7.3 AUDIT REPORTING

See [2 CFR 200.515](#).

An audit report must be prepared following the completion of the audit. The auditor's reports may be in the form of either combined or separate reports and must state that the audit was conducted in accordance with [2 CFR 200.515](#). For a single audit, the report must contain:

- **An opinion (or disclaimer of opinion) on whether your financial statements are presented fairly** in all material respects in accordance with generally accepted accounting principles, and an opinion (or disclaimer of opinion) on whether your schedule of Federal award expenditures is fairly stated in all material respects in relation to your financial statements as a whole ([2 CFR 200.515\(a\)](#)).
- **A report on your internal control measures over your financial reporting and compliance** ([2 CFR 200.515\(b\)](#)) with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on your financial statements. This report must describe the auditor's scope of testing of your internal controls and the results of these tests and, where applicable, refer to the separate schedule of findings and questioned costs (see [2 CFR 200.515\(d\)](#)). This report is expected to identify your internal accounting controls and those controls designed to ensure that your Federally-assisted programs are being managed in compliance with applicable laws and regulations.
- **A report on compliance for each major program ([2 CFR 200.518](#)) and a report on internal control over compliance** describing the auditor's scope of testing and an opinion (or disclaimer of opinion) that your organization complied with Federal statutes, regulations, terms, and conditions of Federal awards for each major Federally-assisted program being administered ([2 CFR 200.515\(c\)](#)).
 - A statement of positive assurance for those items tested.
 - Negative assurance for those items not tested.
 - A summary of all instances of noncompliance.
 - Identification of total amounts questioned.

- **A schedule of findings and questioned costs** must include the following three components ([2 CFR 200.515\(d\)](#)):
 1. A summary of the auditor's results ([2 CFR 200.515\(d\)\(1\)](#)).
 2. Findings related to the financial statements ([2 CFR 200.515\(d\)\(2\)](#)).
 3. Findings and questioned costs ([2 CFR 200.515\(d\)\(3\)](#)).

The audit must be completed and submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or 9 months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day ([2 CFR 200.512\(a\)\(1\)](#)). You must electronically submit the data collection form SF-SAC used in the audit to the Federal Audit Clearinghouse (FAC) along with a copy of the reporting package indicating that the audit was completed accordingly ([2 CFR 200.512\(b\)\(1\)](#)), and provides:

- Information about your organization.
- Your Federal programs.
- The results of your audit.
- Necessary information for Federal agencies to ensure the integrity of Federal programs.
- The data elements and format used, include collections of information from the reporting package ([2 CFR 200.512\(c\)](#)).
- A signed statement from a senior representative (director of finance, chief executive officer, chief financial officer) of your organization indicating:
 - Compliance with the preparation and collection of data.
 - Exclusion of protected personally identifiable information.
 - All of the information included is accurate and complete.
 - The reporting package and form can be publicly available on the FAC website.

Your auditor must complete the data collection form and sign a statement indicating:

- The source of the information.
- The auditor's responsibility for the information.
- The form is not a substitute for the reporting package ([2 CFR 200.512\(b\)\(3\)\(c\)\(1-4\)](#)).
- The content is limited to the collection of information prescribed by OMB ([2 CFR 200.512\(b\)\(3\)](#)).

You must submit a copy of the reporting package to HUD and your grantee. Unless restricted by Federal statutes or regulations, you must make copies available for public inspection, ensuring the reporting package does not include protected personally identifiable information ([2 CFR 200.512\(a\)\(2\)](#)).

You should maintain copies of your audit reports on file for a minimum of 4 years from the date of their issuance. Similarly, you should ensure that your auditor maintains copies of their audit work information for a minimum of 4 years from the date of the report issuance. If there remain unresolved audit issues at the end of this 4-year period, you should notify the auditor in writing to extend the retention period.

7.4 AUDITOR SELECTION/PROCUREMENT

In arranging for audit services, you must follow the procurement requirements found in [2 CFR 200.509\(a-c\)](#). You must ensure that small audit firms and audit firms owned and controlled by minorities or women have the maximum practicable opportunity to participate in audit contracts ([2 CFR 200.321](#)).

Your request for proposals for audit services should clearly state the objectives and scope of the audit. In selecting an auditor you should consider such factors as:

- The responsiveness to the request for proposal.
- Relevant experience.

- Availability of staff with professional qualifications and technical abilities.
- The results of peer and external quality control reviews.
- Price.

An auditor who prepares an indirect cost proposal or allocation plan cannot also perform your audit when your organization receives indirect costs in excess of \$1 million. This restriction applies to the year the auditor prepared your indirect cost proposal or allocation plan and any subsequent years where this indirect cost agreement or allocation plan is used to recover costs ([2 CFR 200.509\(b\)](#)).

7.5 AUDIT SERVICES

See [2 CFR 200.425](#).

A reasonably proportionate share of the costs of audits made in accordance with the Single Audit Act Amendments of 1996 ([2 CFR 200.425\(a\)](#)) is an allowable charge to Federal assistance programs. This charge can be treated as either a direct cost or an allocated indirect cost. For allocated indirect costs, the percentage of costs generally charged to Federal assistance programs for a single organization-wide audit should not exceed the percentage that your organization's Federal funds represent of total funds expended during the applicable year. The percentage may be exceeded, however, if appropriate documentation demonstrates higher actual costs.

The following audit charges are not allowed:

- When the audit(s) is not conducted in accordance with the Single Audit Act Amendments and Subpart F—Audit Requirements ([2 CFR 200.425\(a\)\(1\)](#)).
- When auditing an organization whose Federal award expenditures are less than \$750,000 during its fiscal year ([2 CFR 200.425\(a\)\(2\)](#)).

7.6 AUDIT REVIEW AND RESOLUTION

See [2 CFR 200.511](#).

As noted in section 7.3 above, you must provide a copy of the reporting package to HUD and your grantee. Unless restricted by Federal statutes or regulations, you must make copies available for public inspection, ensuring the reporting package does not include protected personally identifiable information. In its role as the entity providing the funds, your grantee will review all such reports to determine whether they meet relevant standards and are acceptable.

Your organization must establish a system to ensure a **timely and appropriate resolution** to audit findings and recommendations. This system must address both independent audits performed relative to the Single Audit Act and audits completed on your organization's operations by the HUD OIG, GAO, or other governmental bodies.

Your first step in the resolution of an audit is the preparation of your "Management Response" to the findings and recommendations in the audit report for follow-up and corrective action on all audit findings. Your response should provide a summary schedule of any prior audit findings ([2 CFR 200.511\(b\)](#)) noting:

- If the audit findings were fully corrected ([2 CFR 200.511\(b\)\(1\)](#)).
- If the audit findings were not corrected or only partially corrected—the summary schedule must describe the reasons ([2 CFR 200.511\(b\)\(2\)](#)).
- The audit findings are no longer valid or warrant no further action ([2 CFR 200.511\(3\)](#)).
- For findings/recommendations with which your organization agrees: Information on the actions you have taken (or plan to take) to correct the specified noncompliance or financial system deficiencies.
- For findings/recommendations with which your organization does not agree: The basis for your belief that an audit finding or recommendation is inaccurate or inappropriate, includ-

ing relevant documentation.

Typically, the written **management response** is due within 30 days of your organization's receipt of an audit report. If, in its management response, your organization disagrees with any of the audit findings or recommendations, your grantee will re-examine the points in question to determine whether any revisions to the report's findings and recommendations are warranted and issue a management decision concerning the finding(s) or recommendation(s) ([2 CFR 200.521](#)) within six months of acceptance of the audit report.

If your organization agrees with the findings and recommendations, or if your challenge to the audit report is not upheld in the grantee's management decision, the next step in the resolution process is:

- The development of a corrective action plan.
- Implementation of procedures to prevent the deficient conditions from re-occurring.

This corrective action plan must address each audit finding and provide:

- The name(s) of the contact person(s) responsible for the corrective action.
- The action planned.
- The anticipated completion date ([2 CFR 200.511\(c\)](#)).

In general, action to correct findings or to implement recommendations must be initiated as rapidly as possible and begin no later than upon receipt of the audit report ([2 CFR 200.521\(d\)](#)). Your grantee may perform a site visit or require documentation that the corrective action has been implemented or may require your organization's independent auditor to report on whether you have implemented the prior year's corrective action plan and/or recommendations.

A "**repeat finding**" (a deficiency or area of noncompliance that appears in more than one successive audit for your organization) will be viewed very seriously by a grantee and can result in special conditions being attached to your organization's CDBG funding or other sanctions ([2 CFR 200.505](#) and [2 CFR 200.339](#)).

Occasionally, the findings from an audit will result in "**questioned costs**." Your organization's costs associated with its CDBG funding may be questioned for any of the following reasons:

- There is inadequate documentation to support the expenditure or the amount charged to the grant.
- The expenditure does not appear to be related to the grant project.
- You incurred the cost outside the effective period of the subrecipient agreement or before environmental review clearance was achieved.
- The expense is unallowable under the program regulations and applicable cost principles ([2 CFR 200.410](#)).
- The cost required the prior approval of the grantee, and no prior approval was obtained ([2 CFR 200.407](#)).

To resolve a questioned cost ([2 CFR 200.1](#)), you must:

- Provide the missing documentation to support the expenditure and amount.
- Offer a detailed explanation of how the cost relates to the grant program.
- Seek retroactive approval for an expense that required prior approval (which your grantee may or may not give).

If you are not able to resolve a questioned cost to the satisfaction of the auditor and/or your grantee, the expense will be **disallowed**. A disallowed expense for which Federal funds were originally used must be reimbursed from non-CDBG/non-Federal funds. On occasion, you may be able to negotiate a repayment schedule with your grantee or the other relevant officials (e.g., HUD/OIG representatives).

EXERCISE FOR CHAPTER 7—AUDITS QUESTIONS

NOTES

Circle the correct answer.

1. A nonprofit subrecipient that has expended \$35,000 in Federal financial assistance in a year from multiple Federal programs 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 nonprofit subrecipient that has expended a total of \$750,000 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? Select all that apply.
 - 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

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 nonprofit subrecipients that expend a total of \$750,000 or more in a single year from multiple Federal programs, the nonprofit can charge the full cost of the audit to those Federal programs.

TRUE FALSE

The answers are on the next page.

EXERCISE FOR CHAPTER 7—AUDITS ANSWERS

NOTES

1. **(d) No audit is required.** No audit is required because the subrecipient expended less than the \$750,000 in total Federal assistance that would have triggered the requirement for an audit.
2. **(c), Either (a) or (b).** 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 [2 CFR 200, Subpart D](#), 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.

CHAPTER 8

CLOSEOUT

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It would be nice if the closeout process for completing your activities under a subrecipient agreement were as simple as closing out a bank account or making a final payment on a mortgage. However, closeout procedures involve many steps, depending on the complexity of the activities undertaken and the nature of any contingent assets or liabilities surviving the completion of your CDBG-funded activities.

The key to effectively closing out your activities is clarity. Your agency remains responsible for certain closeout activities despite having completed all requirements under its agreement and despite having paid/received all accounts due. To ensure a smooth closeout, you will need to carefully and completely document all your financial and program activities up to the point of closeout; weak documentation, a complicated program, or an agreement extended for a long time may make it more difficult for both your agency and your grantee to resolve all the relevant issues at closeout.

This chapter is designed to help you understand the closeout process with respect to:

- General issues that you must address.
- Specific closeout procedures your organization must undertake.
- Adjustments you must make to account for final costs, cash, and other asset balances.
- Continuing subrecipient responsibilities mandated by Federal regulations.

Understanding the closeout requirements and process will ensure that you and the grantee are ready to address issues that may arise during the project that may hinder your ability to finalize activities and deliverables under your subrecipient agreement.

AS YOU READ THIS CHAPTER, ASK YOURSELF ABOUT...

1. The status of any of your open CDBG-funded activities that may be nearing or ready to close out.
2. Whether your financial and progress reports are up-to-date and accurately reflect your completion of work under each subrecipient agreement.
3. Whether there are any outstanding monitoring issues (findings or concerns) that remain unresolved.
4. How you will meet your grantee's requirements for any commitments that survive the close out of your activities

8.1 OVERVIEW

The subrecipient agreement closeout process allows the grantee to confirm that all required work under the agreement has been completed. This includes the resolution of all financial, administrative, and performance requirements for the program or project funded through the agreement.

The Federal regulations applicable to the CDBG program include few specific requirements relative to a subrecipient project's closeout. The lack of specific Federal requirements means that there will be some variation in closeout procedures among communities. Nonetheless, many grantees, through the incorporation of appropriate language in their subrecipient agreements, require that their subrecipients follow closeout procedures that are similar to the ones that the grantees themselves must follow under [24 CFR 570.509](#).

8.2 CLOSEOUT PROCEDURES

[24 CFR 570.509\(a\)](#) describes the criteria that HUD uses to determine when a grantee is ready for grant closeout. Grantees often use the same criteria to determine subrecipients' readiness for closeout. According to this section, a grantee will usually initiate closeout procedures relative to a subrecipient when:

- All costs paid with CDBG funds have been expended and drawn, with the exception of closeout costs (e.g., audit) or contingent liabilities ([24 CFR 570.509\(a\)\(1\)](#)).

- All work financed with CDBG has been completed, is eligible, and meets a national objective, including activities financed through escrow accounts, loan guarantees, or similar mechanisms; performance and expenditure reports have been submitted and account for program income and administrative expenditures ([24 CFR 570.509\(a\)\(2-5\)](#)).
- All other responsibilities under the agreement with the grantee have been met or the grantee has determined that there is no further benefit in keeping the agreement open to secure performance ([24 CFR 570.509\(a\)\(6\)](#)).

When the grantee has determined that you have met these criteria or upon the expiration or termination of the subrecipient agreement, [24 CFR 570.502\(a\)\(8\)](#) stipulates that the grantee will follow procedures in [2 CFR 200.344](#) for closing out subrecipients. The grantee usually will require that you provide final versions of all financial, performance, and other reports that were a condition of the award. These reports may include:

- A final performance or progress report.
- A financial status report (including all program income).
- A final request for payment.
- A final inventory of property in your organization's possession that was acquired or improved with CDBG funds. The inventory should identify real property acquired with over \$25,000 of CDBG funds including its current use, to facilitate compliance with requirements for the continuing eligible use of property in [24 CFR 570.505](#).

Although the grantee and the subrecipient may establish an earlier deadline, these reports are due within 90 days of the expiration/termination of the grantee's subrecipient agreement or notification; however, your grantee may authorize an extension when properly justified. If you fail to complete these requirements, your grantee may proceed in closing out your grant based on the information available to it.

The grantee will generally require that your organization liquidate all obligations incurred under the CDBG award within 120 days of the expiration or termination of the subrecipient agreement and before the submission of the final financial status report.

Based on your final reports and other relevant information, the grantee may execute a close-out agreement that specifies:

- Closeout costs or contingent liabilities that are subject to payment with CDBG funds after the closeout agreement is signed.
- The amount of any unused CDBG funds (see Section 8.3 regarding the disposition of these funds).
- Your responsibilities after closeout (see Section 8.4).
- Other provisions appropriate to special circumstances.

8.3 COST AND CASH ADJUSTMENTS

See [24 CFR 570.503\(b\)\(7\)](#).

Upon receipt of the reports noted in the preceding section, the grantee will make upward or downward adjustments to your allowable costs. The grantee should make prompt payment to your organization for any outstanding allowable reimbursable costs (see [2 CFR 200.344\(c-e and g\)](#)).

Pursuant to [24 CFR 570.503\(b\)\(7\)](#), the subrecipient agreement must specify that any grant funds remaining in your possession at the expiration or termination of the agreement must be refunded immediately to the grantee. Similarly, you must transfer to your grantee any accounts receivable attributable to the use of CDBG funds.

The agreement must also provide that, for any real property under your control that was acquired or improved using more than \$25,000 in CDBG funds, you must either:

- Use the property to meet one of the CDBG national objectives for at least five years after the expiration of the subrecipient agreement.

- Pay your grantee the current market value of the property for any portion of the value attributable to the CDBG funds used for the acquisition or improvement of the property. This payment is program income to the grantee.

Funds paid to your organization in excess of the amount to which it is finally determined to be entitled under the CDBG program constitute a debt to the Federal Government ([2 CFR 200.346](#)). If not paid within 90 calendar days after demand, your grantee may reduce this debt by making an offset against other requests for reimbursement from your organization by withholding advance payments or by other action permitted by law.

8.4 CONTINUING SUBRECIPIENT RESPONSIBILITIES

As specified in [2 CFR 200.345](#), the closeout of a CDBG award to a subrecipient does not affect:

- The grantee's right to disallow costs and/or recover funds on the basis of a later audit or other review.
- Your organization's obligation to return funds due to the grantee from subsequent refunds, corrections, or other transactions.
- Your responsibilities for records retention as specified in [2 CFR 200, Subpart D—Post Federal Award Requirements, Records Retention and Access](#), including [2 CFR 200.334-338](#), as modified by [24 CFR 570.502\(a\)\(7\)\(ii\)](#).
- Your organization's responsibilities for property management and disposition:
 - For real property in [24 CFR 570.503\(b\)\(7\)](#).
 - For other property, as applicable in [2 CFR 200, Subpart D, Post Federal Award Requirements, Property Standards](#), including:
 - [2 CFR 200.310](#) (Insurance coverage).
 - [2 CFR 200.312](#) (Federally owned and exempt property).
 - [2 CFR 200.313](#) and [24 CFR 570.502\(a\)\(6\)](#) (Equipment).
 - [2 CFR 200.314](#) (Supplies).
 - [2 CFR 200.315](#) (Intangible property).
 - [2 CFR 200.316](#) (Property trust relationship).
- Audit requirements in [2 CFR 200, Subpart F](#).

EXERCISE FOR CHAPTER 8—CLOSEOUT QUESTIONS

NOTES

Circle the correct answer.

1. On the date that its subrecipient agreement with the Midtown Community Development Agency (Midtown) expired, the nonprofit Family Services Organization (FSO) submitted its 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. The Mica City Housing Authority (MCHA) conducted \$800,000 in CDBG-funded housing rehabilitation over the last year and had not yet been audited. However, when the funds were fully expended and assisted units completed, MCHA submitted its final reports to the Mica City CD Office (the City) and received certification that the grantee considered its program to be closed out. Must the MCHA still arrange for an audit of its CDBG funds?

YES

NO

3. As a subrecipient under Central County's (the County's) CDBG program, the City of Lobos implemented a public facilities effort to remove architectural barriers. The City agreed in the subrecipient agreement to match the CDBG funds in the project on a dollar-for-dollar basis. The project had been formally closed out by the County by the time that the City contracted for an IPA audit of this activity. The completed audit revealed that the amount contributed as the City's match against the CDBG assistance was less than the dollar-for-dollar match previously reported by the City of Lobos in its final closeout report. Can the County disallow some of the expenses covered with CDBG funds?

YES

NO

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

YES

NO

The answers are on the next page.

EXERCISE FOR CHAPTER 8—CLOSEOUT ANSWERS

NOTES

1. **NO.** It is up to Midtown, the grantee, to determine when the conditions for “closeout” have been satisfied, consistent with its standard procedures (as documented). Once FSO has met these conditions, Midtown should either 1) enter into a closeout agreement with FSO or 2) send written notification regarding FSO’s closeout status along with any special conditions or continuing responsibilities that FSO must satisfy. Until it receives such formal notification, FSO should *not* assume that Midtown has “closed out” its CDBG activity.
2. **YES.** The applicable regulations are clear that the closeout of a CDBG award does not affect the MCHA’s audit requirements. And, according to [2 CFR 200, Subpart F, Audit Requirements](#), any entity that expends \$750,000 or more a year in Federal financial assistance must have an audit completed in accordance with the standards found in Subpart F.
3. **YES.** [2 CFR 200.345](#) specifies 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 County could choose to reduce the allowable CDBG costs to an amount equal to the City investment needed to complete the project.
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 HRI under recapture provisions of a funding agreement would constitute accounts receivable. Therefore, HRI would need to return these funds to the grantee.