



## Subrecipient Oversight and Monitoring – A Roadmap for Improved Results

This bulletin highlights the importance of effective subrecipient management and oversight by grantees receiving funds from the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development (CPD). On December 26, 2013, the Office of Management and Budget issued revised guidance under 2 CFR (Code of Federal Regulations) Part 200. The result was consolidation of and changes to government-wide uniform administrative requirements, cost principles, and audit requirements for Federal awards. These changes emphasized a grantee's responsibility to manage and monitor its subrecipients, including monitoring a subrecipient's performance and compliance with applicable laws and regulations, as well as taking appropriate action when performance and compliance issues arise. This bulletin provides key tips for improving effective oversight of subrecipients.

### The Importance of Monitoring

The American public wants accountability from government and assurance that Federal funds are spent effectively to accomplish their intended purpose. For CPD programs, grantee oversight of subrecipients is a critical place "where the rubber meets the road." It is where

**2 CFR 200.93 defines a subrecipient as a non-federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program.**

results are attained and funds are safeguarded. Under 2 CFR Part 200, grantee monitoring of subrecipient activities is required to ensure that (1) subawards are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and (2) subaward performance goals are achieved. When no monitoring or insufficient monitoring occurs, the grantee may risk losing HUD funding. Regulations at 2 CFR Part 200 require grantees to establish and maintain effective internal controls for themselves and ensure that their subrecipients do the same. One way a grantee can develop internal controls is by designing an effective monitoring process.

### Step 1 – Build Monitoring Into Your Work Plan

Effective subrecipient oversight includes building a monitoring strategy into a grantee's annual work plan. The purpose of a monitoring strategy is to define the scope and focus of a grantee's monitoring efforts, including establishing a framework for determining the appropriate level of monitoring for subrecipients based on the resources available. A grantee's work plan should include time to conduct a risk analysis on each subrecipient as well as where and when the grantee will apply staff and travel resources for monitoring, training, or technical assistance of its subrecipients.

## Step 2 – Assess Your Subrecipients

The new rules under 2 CFR 200.331(b) require that grantees assess their subrecipients' capacity to be successful. This is done by annually conducting a risk assessment on each subrecipient. A risk assessment provides the information needed to prioritize your administrative resources to subrecipients that pose the greatest risk to the integrity of CPD programs. This process includes identifying the subrecipients to be monitored (either onsite or remotely), the program areas to be covered, and the depth of the monitoring review. The selection process should result in identifying those subrecipients and activities that represent the greatest vulnerability to fraud, waste, mismanagement, or lack of capacity.

**Tip:** A key first step is to verify that the subrecipient is not on the suspension and debarment list before making a subaward. This step is often missed.

There are several resources (listed at the end of this document) available to assist in developing a risk assessment. In determining which format is best for your organization, make sure the following factors are covered:

1. What is their prior experience?
2. Were prior audits conducted?
3. Were prior audit findings resolved?
4. Does the subrecipient have the capability to comply with Federal rules?
5. Have financial systems changed?
6. Did prior monitoring identify problems?
7. Were past awards large or complex?
8. Is the funded activity prone to problems?
9. Does the award present potential conflicts of interest?
10. Has there been turnover of key personnel?

When conducting a risk assessment, use all information available, including news items or citizen complaints, to identify problem areas. Some activities have higher levels of risk than others and warrant additional attention. Activities that are riskier than others include rehabilitation projects involving lump-sum drawdowns; economic development activities that assist for-profit businesses; assistance to small or newly formed nonprofits that may struggle with implementing internal controls; and subrecipients not previously monitored, especially when they lack previous CPD program experience.

Be sure to document your risk assessments and show how they affected your risk plan and monitoring schedule. After completing this analysis for each subrecipient, compile a written monitoring schedule, identifying which grantees will be monitored, the method of monitoring (onsite or remote), programs and areas to be monitored, the type of monitoring (in-depth or limited), areas of technical assistance and training needed, resources needed, and projected timeframes. If adjustments are required in the middle of the program year, be sure to document those changes as well.

### **Step 3 – Create Your Monitoring Strategy**

Keep notes on what factors contributed to the selection of each subrecipient as you go through the 10 questions above and additional factors you add to your own checklist or spreadsheet. A best practice is to rate recipients by a high-, medium-, and low-risk designation for each area reviewed and then give an overall rating. Once you have the ratings for all subrecipients, you can determine how best to monitor them and provide needed technical assistance and training. Your monitoring strategy should include a schedule for the frequency and types of monitoring (desk review or onsite) based on your resources, subrecipient risks, and number of subrecipients and distance from them. A schedule should also be written and approved by managers that specifies how each subrecipient will be monitored, when, and by whom on the staff. Any adjustments to the risk rating or monitoring schedule should be noted. Office of Inspector General (OIG) audits frequently find that grantees fail to conduct onsite monitoring visits or follow the schedules they have set. Be sure to commit the resources needed to accomplish monitoring as planned.

Develop a checklist for your lower risk subrecipients that can be used in a desk review and create individual onsite checklists for the higher risk subrecipients based on the risks identified in their assessments. At the end of this bulletin, several resources are listed that contain sample checklists for various CPD programs and compliance requirements. As a practical matter, you cannot complete all checklists for all subrecipients, which is why the results of the assessments should be used to tailor your monitoring approach. Choose the checklists that would be most useful in covering the weaknesses identified. You may also choose which questions on a particular checklist to use if some questions don't apply or if you have reason to believe the subrecipient will perform adequately in the areas covered by the questions. A best practice is to put a note next to the questions on why you are omitting them.

#### **A. Conduct Remote Monitoring**

Remote monitoring can be an appropriate tool for monitoring lower risk subrecipients. This practice, also known as a desk review, is a good way for grantees and subrecipients to share information on program updates, changes to policies, and other information that impacts the activity. A good technique is for the grantee to ask narrative, open-ended questions about how the activity is going and whether the subrecipient is encountering any obstacles or difficulties. The focus of such a review should be on determining whether major operational changes have occurred since the last review. In addition to the desk review of submitted reports, conduct telephone interviews and determine whether the initial risk assessment score is correct or additional monitoring is needed. Note that for CPD programs, guidance for HUD staff conducting monitoring, including remote monitoring, is found in the CPD Monitoring Handbook, which grantees may also refer to in designing their monitoring checklists and procedures.

#### **B. Conduct a Site Review**

An onsite review should be conducted for subrecipients that score higher on the risk assessment or have not had a site visit in some time (2 CFR 200.331(d) and (e)). Make sure that your staff has updated checklists (see note above) and understands them in advance. A best practice is to develop a customized comprehensive checklist before the site visit based on factors identified during the risk assessment. This practice will allow staff to focus on the most important and riskiest areas to review. Encourage staff to ask questions and not have the review become a mechanical series of checkoffs. One way to avoid this problem is to build into the checklist an area to take notes, attach copies (or

photos) of what was examined, and document the resulting analysis. Another person analyzing the checklist should be able to determine what was reviewed and how it supports the determinations made.

### **Example of Insufficient Monitoring**

City officials did not perform adequate onsite monitoring of all of a city's Community Development Block Grant (CDBG) subrecipients and did not have adequate procedures in place to effectively track the status of subrecipient monitoring and any related findings. While the city's 2013 and 2014 annual action plans stated that the city would monitor each subrecipient receiving Federal funds and conduct onsite visits to each subrecipient annually, the city's records showed that it did not adequately monitor 19 of its 41 subrecipients. For example, 13 of the 35 subrecipients were not included on the city's monitoring status tracking documents, and city officials informed auditors that the city had not monitored 6 of its subrecipients during the past few program years.

## **Step 4 – Document the Site Review and Issue a Monitoring Report**

### **A. Documentation**

Documentation is key to a monitoring review, demonstrating whether adequate subrecipient oversight is provided. While on site, keep notes about the items reviewed, activities physically inspected, and items unsupported by receipts or ineligible expenditures. Make copies of documentation that supports the review and any findings. Organize the files for easy retrieval. (Reference U.S. Government Accountability Office (GAO) Green Book, OV4.08, for additional guidance.)

### **B. Reporting**

Once an onsite monitoring review has been completed, grantees should provide a timely written report to the subrecipient (2 CFR 200.328(d)). The report should summarize the review, document performance, and identify issues. It should identify delays or adverse conditions that will materially impair the subrecipient's ability to meet the objective of the Federal award. These shortcomings must be tied to specific program requirements to be sustainable if questioned by the subrecipient. To the extent necessary, the report should include any corrective actions the subrecipient must take as well as the required deadlines for the subrecipient's response and completion of the corrective actions.

### **Example of Insufficient Documentation**

A State onsite monitoring review of a regional commission (subrecipient) was not adequately supported and a later audit of the State could not find any evidence that the State reviewed the commission's documentation of grant expenditures. The State awarded CDBG Disaster Recovery funding to this subrecipient to administer its buyout program. The State did not maintain documentation to support the details of the review, including checklists, notes, write-ups, or other documentation supporting its monitoring work or activities. The State should have discussed documentation requirements with the subrecipient at the time of the award or caught the problem in onsite reviews. Ultimately, with no documentation by the commission, HUD could not confirm that all procedures were followed and that costs were eligible.

## Step 5 - Follow up with Subrecipients

### A. Corrective Actions

After issuing a monitoring report, grantees must follow up with the subrecipient until all corrective actions are completed. Corrective action plans should include:

1. A description of each finding and recommendation.
2. Specific steps to be taken to implement the recommendation.
3. A timetable for performance of each corrective action.
4. A description of future monitoring to be performed to ensure implementation.

If subrecipients fail to correct problems, you should consider what sanctions are appropriate as listed in 2 CFR 200.338 to .342. The purpose of monitoring is to ensure that the results are used to achieve compliance and performance expectations. Enforcing regulatory sanctions helps ensure that appropriate actions are taken to protect taxpayers and the program as a whole. If audited by OIG or GAO, you, the grantee, could be left footing the bill for uncorrected problems.

### Example of Insufficient Follow-up

There was no evidence that a State maintained documentation to confirm how findings from an onsite monitoring review of a subrecipient were resolved. The State requested a response from the subrecipient on how these findings were resolved but received no reply. There was no evidence that the State followed up to ensure how or whether the deficiencies noted were corrected or took action to require the subrecipient to do so. The State should have maintained a tickler file and pursued further efforts to obtain corrective action after the target date passed.

### Summary

Subrecipients play a significant role in the effective implementation of many programs administered by CPD. To ensure that Federal funds awarded achieve their intended purposes, it is important for grantees to competently oversee the process from the award stage through closeout. Establishing comprehensive policies and procedures that incorporate the provisions of 2 CFR Part 200 as well as program-specific requirements is one of the keys to that oversight process. The second key is a strong and effective monitoring method that checks for compliance, rapidly addresses performance shortcomings, and provides a basis for compliance actions when warranted. Both OIG and CPD staff members are available to assist grantees in undertaking these important efforts, and we urge grantees to seek advice and guidance that will enhance subrecipients' use of Federal funds.

### Resources Available

- Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight: [https://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_17086.pdf](https://portal.hud.gov/hudportal/documents/huddoc?id=DOC_17086.pdf)
- Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems: <https://www.hudexchange.info/resource/687/playing-by-the-rules-a-handbook-for-cdbg-subrecipients-on-administrative-systems/>
- CPD's monitoring handbook, [6509.2, REV-6, CHG-2](#),
- Suspension and Debarment listing: ([http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/enforcement/susdebar](http://portal.hud.gov/hudportal/HUD?src=/program_offices/enforcement/susdebar))

New rules at 2 CFR 200.113 require you to report if you have knowledge of possible fraud. Promptly report it to the HUD Office of Inspector General at <https://www.hudoig.gov/report-fraud%20>.