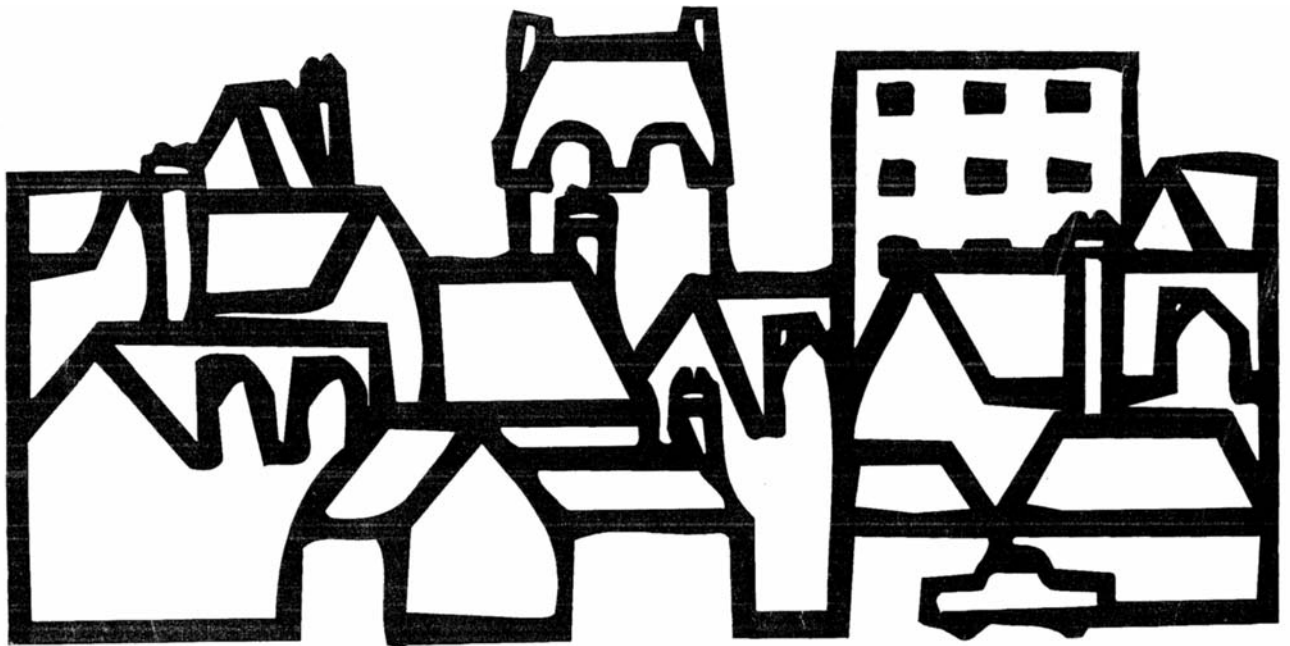




Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

March 2005



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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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TABLE OF CONTENTS

CONTENTS	PAGE
PROLOGUE: A MESSAGE TO CDBG SUBRECIPIENTS	V
1.0 INTRODUCTION	1-1
1.1 How to Use This Handbook	1-2
1.2 Summary of Principal Regulations Governing CDBG Administrative Systems.....	1-3
2.0 FINANCIAL MANAGEMENT.....	2-ERROR! BOOKMARK NOT DEFINED.
2.1 Overview	2-Error! Bookmark not defined.
2.2 Internal Controls.....	2-Error! Bookmark not defined.
2.3 Accounting Records.....	2-Error! Bookmark not defined.
2.4 Allowable Costs	2-8
2.5 Source Documentation.....	2-11
2.6 Budget Controls	2-13
2.7 Cash Management	2-13
2.8 Financial Reporting	2-16
2.9 Other Miscellaneous Requirements for Subrecipient Financial Management Systems	2-17
Exercise for Chapter 2.0 — Financial Management.....	2-19
3.0 PROCUREMENT AND CONTRACTING	3-ERROR! BOOKMARK NOT DEFINED.
3.1 General Procurement Provisions.....	3-Error! Bookmark not defined.
3.2 Permitted Approaches to Procurement.....	3-Error! Bookmark not defined.
3.3 Bonding	3-Error! Bookmark not defined.
3.4 Use of Local Businesses; Contracting with Small, Minority, and/or Women-Owned Businesses.....	3-Error! Bookmark not defined.
Exercise for Chapter 3.0 — Procurement and Contracting.....	3-11
4.0 PROPERTY MANAGEMENT AND DISPOSITION.....	4-ERROR! BOOKMARK NOT DEFINED.
4.1 Overview	4-Error! Bookmark not defined.
4.2 Real Property	4-Error! Bookmark not defined.
4.3 Personal Property — Equipment	4-Error! Bookmark not defined.
4.4 Personal Property — Supplies	4-Error! Bookmark not defined.
4.5 Personal Property — Copyrights	4-Error! Bookmark not defined.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

Exercise for Chapter 4.0 — Property Management and Disposition.....4-9

5.0 RECORD-KEEPING AND REPORTING REQUIREMENTS5-ERROR! BOOKMARK NOT DEFINED.

- 5.1 General Record-Keeping Requirements5-Error! Bookmark not defined.
- 5.2 File Organization and Maintenance.....5-Error! Bookmark not defined.
- 5.3 Retention of Records5-Error! Bookmark not defined.
- 5.4 Access to Records.....5-Error! Bookmark not defined.
- 5.5 Reporting Requirements5-Error! Bookmark not defined.

Exercise for Chapter 5.0 — Record-Keeping and Reporting Requirements5-Error! Bookmark not defined.

6.0 OTHER ADMINISTRATIVE AND PROGRAM REQUIREMENTS6-ERROR! BOOKMARK NOT DEFINED.

- 6.1 Program Income.....6-Error! Bookmark not defined.
- 6.2 Programmatic and Budget Changes6-Error! Bookmark not defined.
- 6.3 Civil Rights and Fair Housing; Employment and Contracting Opportunities6-Error! Bookmark not d
- 6.4 Labor Standards6-Error! Bookmark not defined.
- 6.5 Environment Requirements.....6-Error! Bookmark not defined.
- 6.6 Historic Preservation.....6-Error! Bookmark not defined.
- 6.7 National Flood Insurance Program.....6-Error! Bookmark not defined.
- 6.8 Floodplain Management.....6-Error! Bookmark not defined.
- 6.9 Relocation, Real Property Acquisition, and
One-for-One Housing Replacement6-Error! Bookmark not defined.
- 6.10 Lead-Based Paint6-Error! Bookmark not defined.
- 6.11 Political Activity6-Error! Bookmark not defined.
- 6.12 Conflict of Interest6-Error! Bookmark not defined.
- 6.13 Program Monitoring.....6-Error! Bookmark not defined.
- 6.14 Suspension and Termination.....6-Error! Bookmark not defined.

Exercise for Chapter 6.0 — Other Administrative and Program Requirements6-Error! Bookmark not defined.

7.0 AUDITS 7-ERROR! BOOKMARK NOT DEFINED.

- 7.1 General Audit Requirements7-Error! Bookmark not defined.
- 7.2 Internal Control and Compliance Review7-Error! Bookmark not defined.
- 7.3 Audit Reports7-Error! Bookmark not defined.
- 7.4 Auditor Selection/Procurement7-Error! Bookmark not defined.
- 7.5 Audit Costs7-Error! Bookmark not defined.
- 7.6 Audit Review and Resolution.....7-Error! Bookmark not defined.

Exercise for Chapter 7.0 — Audits.....7-Error! Bookmark not defined.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

8.0	CLOSEOUT	8–ERROR! BOOKMARK NOT DEFINED.
8.1	Overview	8–Error! Bookmark not defined.
8.2	Closeout Procedures	8–Error! Bookmark not defined.
8.3	Cost and Cash Adjustments	8–Error! Bookmark not defined.
8.4	Continuing Subrecipient Responsibilities.....	8–Error! Bookmark not defined.
	Exercise for Chapter 8.0 — Closeout	8–Error! Bookmark not defined.
EXHIBITS:	1-1 Regulatory Framework for CDBG Entitlement Program	1–7
	4-1 Rules for Property Management and Disposition	4–2
	5-1 Record-Keeping Checklist for Tracking Activities	5–11

PROLOGUE: A MESSAGE TO CDBG SUBRECIPIENTS

As Community Development Block Grant (CDBG) subrecipients, you are an indispensable part of the CDBG Entitlement program. You provide grantees and the U.S. Department of Housing and Urban Development (HUD) with assurance that the diverse communities, groups, and individuals whom the CDBG program is intended to serve are in fact reached by the program. Your participation provides:

- Access to, and knowledge of, the specific neighborhoods and beneficiaries served by the program.
- Technical and managerial capabilities that might not otherwise be available to grantees.
- A mechanism for assuring citizen participation by involving the intended beneficiaries in the design and delivery of those services.

Without your continued involvement and support, the CDBG program could not address the broad range of needs in our communities. Whether you are a governmental agency, a non-profit organization, or a for-profit entity, HUD and the more than 1,000 CDBG Entitlement grantees count on you to make sure that needed services are delivered in a cost-effective way. This is not an easy task. Despite numerous accomplishments in program delivery, many of you have encountered administrative problems in achieving your mission; hence, the motive for this handbook.

Common Subrecipient Problems

The majority of difficulties experienced by subrecipients lay in the area of financial management, administrative systems, documentation, and record keeping. Many of these problems are attributed to:

- Limited experience in dealing with Federally-funded programs.
- Lack of adequate staffing or financial resources available on a consistent basis.
- Limited understanding about how to meet the complex administrative requirements that must be satisfied in using Federal funds for CDBG activities.
- Limited oversight, communication, or management support from grantees.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

Subrecipient Responsibilities

You and your grantees share joint responsibility for carrying out permitted activities in conformance with applicable Federal requirements. Grantees and subrecipients are partners. Both partners must accept the fact that there is no such thing as a “free lunch.” In return for Federal funding, grantees and subrecipients agree to comply with the laws and regulations governing the use of those funds. A central principle is that most of the Federal requirements imposed on the grantee are passed along to you, the subrecipient. As more experienced subrecipients can attest, 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 funds).

Regulatory compliance and performance go hand-in-hand. Performance measurement is an effective management technique that enables grantees to analyze the benefits of their investments. It is a mechanism that tracks the progression of projects and evaluates their overall program effectiveness. The CDBG program requires that each grantee submit a performance and evaluation report concerning the use of CDBG funds, together with an assessment of the relationship of the use of funds to the objectives identified in the grantee’s Consolidated Plan. Subrecipients should also establish goals and measure their performance in a manner consistent with the grantee’s performance measurement system.

In using Federal funds the cardinal rule is: **documentation**. The achievement of program goals and the completion of activities must be supported by adequate documentation of the facts. If your activities, personnel, procedures, expenditures, and results are not documented properly, from the Federal Government’s perspective, you have not done your job, *regardless of your accomplishments*. Appropriate records are the lifeblood of all successful CDBG agencies.

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

This handbook is designed to help you understand the administrative requirements that apply to the use of Federal funds for the delivery of CDBG programs and 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 handbook about meeting CDBG administrative requirements will save you from major headaches later on.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

You will also recognize that most of the standards presented in this handbook represent the *minimum requirements* prescribed by Federal regulations, not *optimum* or *maximum*. Therefore, we hope your agency will resist the temptation to allow these standards to become “maximums” for its activities, but rather, will seek to use these regulations as a path to optimum performance and full achievement of all your goals.

This handbook had not been updated since its first printing in 1993. The changes currently being made reflect the incorporation of OMB Circulars A-102 and A-110 into the HUD Common Rule at 24 Code of Federal Regulations (CFR) Parts 84 and 85, as well as changes to the CDBG regulations that were made between 1993 and 2003.

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

Over 10 years have passed since CPD first issued the three related publications dealing with subrecipients. This material is now being updated because in the intervening years, some administrative requirements have changed, grantees and subrecipients have experienced staff turnover, and new subrecipients are participating in the program. It is again time to focus grantees' attention on their responsibilities for subrecipient oversight and to encourage entitlement communities to take a fresh look at their internal processes for subrecipient selection, training, management, and monitoring.

This is an opportunity for grantees to distribute copies of Playing by the Rules to all their subrecipient organizations and to conduct training for both grantee and subrecipient staff, using the newly issued Training CDBG Subrecipients in Administrative Systems as a guide. Because both these publications are available from the HUD Web site^{*}, it has been made easier for grantees to distribute materials and to conduct this training. In addition to promoting program compliance, the sound management practices advocated in these publications can also serve to facilitate the development of performance measures for project implementation. Such actions will result in improved delivery of CDBG programs to the intended program beneficiaries, the low- and moderate-income residents of the community.

^{*}<http://www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm>

CHAPTER 1.0: INTRODUCTION

The purpose of this handbook is to provide subrecipients of CDBG Entitlement funds with an explanation of the basic administrative requirements of the CDBG program. A “**subrecipient**” is a public agency, a private non-profit organization, in some circumstances a Community-Based Development Organization (CBDO), or perhaps even a for-profit entity that has been provided CDBG funds by the local “grantee” (the city or county) to carry out agreed upon activities that are eligible under the Federal regulations. While you may not technically meet the CDBG definition of a “subrecipient,” your grantee may want to treat you like one to achieve its own objectives. In the administration of its CDBG funds, each subrecipient must meet the administrative requirements covered in this handbook.

The CDBG Entitlement program for metropolitan cities and urban counties is a “block grant” program. Through the block grant approach, the Federal Government offers localities a great deal of flexibility in the way they may use their funds, and in the activities they support, either directly or through subrecipients.

Since the start of the CDBG program over 30 years ago, HUD has issued numerous rules and regulations governing the program to ensure that the intent and requirements of the law are fulfilled, and that the opportunities for fraud, waste, mismanagement, and abuse of program resources are minimized. Although the regulations cover administrative and program requirements for both grantees and subrecipients, **this handbook is primarily concerned with:**

- The regulations that apply to internal management and financial systems of subrecipients; and
- Subrecipients’ responsibilities to document and report their CDBG-funded activities.

The administrative systems that are the subject of this handbook are *critical* to a subrecipient’s ability to comply with CDBG program requirements. For example, a non-profit organization may indeed be providing highly effective public services to its low-income clientele; but it is only through its record-keeping and financial systems that the subrecipient will be able to justify its use of CDBG funds by showing that the activities were both eligible and consistent with its Subrecipient Agreement with the grantee, and that its expenses were appropriate and allowable under the program guidelines.

For those subrecipient organizations having little prior experience with Federal grant programs, the complexity of regulations that mandate specific procedures (“means”) for achieving program objectives (“ends”) can be daunting. The emphasis on specific procedures and extensive record keeping may appear on the surface to be bureaucratic red tape. However, many of the required systems and procedures are based on widely-accepted standards for good business practices that

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

are extensively observed in the private sector. They are also designed to help ensure that every entity administering CDBG funds has basic management controls and financial safeguards in place to reduce the likelihood of mismanagement in the use of public funds. With the oversight and analytic capacity that these systems provide, many program managers find they are able to adjust their operations continuously and improve their performance on a regular basis.

1.1 How to Use This Handbook

This Handbook is organized into chapters corresponding to particular components of a subrecipient's administrative operations:

- Financial Management (Chapter 2.0).
- Procurement and Contracting (Chapter 3.0).
- Property Management and Disposition (Chapter 4.0).
- Record-Keeping and Reporting Requirements (Chapter 5.0).
- Other Administrative and Program Requirements (Chapter 6.0).
- Audits (Chapter 7.0).
- Closeout (Chapter 8.0).

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 must be met as specified in the applicable regulations or circulars.

It is important to note that sometimes differences exist in the specific requirements for governmental versus nongovernmental subrecipients. In such cases, the set of requirements that is generally more stringent or detailed is described first and then any exceptions to such rules are discussed. For example, the rules for procurement spelled out in Parts 84 and 85 of Title 24 of the Code of Federal Regulations (CFR) for nongovernmental and governmental subrecipients, respectively, distinguish how the rules differ depending on the type of subrecipient. Therefore, the chapter on procurement first outlines the requirements of 24 CFR Part 85 for governmental subrecipients and then discusses how those in Part 84 for nongovernmental subrecipients differ.

To the extent feasible, performance standards have been listed in order from the most basic requirements to the most specialized. This has been done to facilitate use of the handbook as a

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

checklist for building administrative systems “from the ground up,” and/or for reviewing existing systems for their adequacy in meeting the standards.

Subrecipients (and grantees) are cautioned to use this handbook as a supplement to, not a replacement for, the applicable regulations. It is assumed that the reader has access to, or copies of, the basic regulations identified in Section 1.2, which follows. Over time, use of the handbook as a reference tool should help the recipient de-mystify the regulations and become more familiar with the requirements of the CDBG program. This knowledge, in turn, should assist the subrecipient avoid the pitfalls (and penalties) of noncompliance.

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

1.2 Summary of Principal Regulations Governing CDBG Administrative Systems

The key regulations that form the basic administrative requirements of the CDBG Entitlement program are summarized here to acquaint the reader with the various sources for the following standards described throughout the remainder of this handbook. At the end of this chapter, Exhibit 1–1 describes the regulatory framework for the CDBG program. Regulations are developed in response to, or in fulfillment of, Federal statutes that govern the CDBG Entitlement program, both those specific to the CDBG program and those addressing other Federal laws or policies that apply to the CDBG program (e.g., National Environmental Policy Act, Americans with Disabilities Act, Davis-Bacon Act).

The basic program regulations governing management and financial systems for the CDBG program are contained in **24 CFR Part 570, Subparts J and K**. They are applicable both to grantees and subrecipients in the public and private sectors:

- a) **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.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

- b) *Subpart K (24 CFR 570.600–570.613)* deals with **other program requirements** of the CDBG program, including civil rights; labor standards; environmental standards; flood insurance; relocation; displacement; acquisition; employment and contracting opportunities; lead-based paint; use of debarred, suspended, or ineligible contractors; uniform administrative requirements and cost principles; and conflicts of interest.

In addition to the basic regulations of the CDBG program contained in 24 CFR Part 570, there are three other categories of requirements that affect the administrative systems and procedures subrecipients must have in place to receive support:

- Federal regulations governing administrative and audit requirements for grants and cooperative agreements (governmental subrecipients) for which HUD has oversight responsibilities.
- Administrative circulars from the Office of Management and Budget (OMB) and Department of the Treasury governing cost principles, administrative systems, fiscal procedures, and audit requirements for grantees and subrecipients.
- Executive Orders from the Office of the President implementing various equal employment opportunity and environmental policies.

The applicability of these administrative requirements depends upon the public or private status of the organization receiving funds. **For subrecipients that are private, *non-profit organizations*,¹ the key regulations defining administrative requirements are:**

24 CFR Part 84 “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations”²: These regulations implement OMB Circular A-110 and specify standards relative to cash depositories, bonding and insurance, retention and custodial requirements for records, financial management systems, monitoring and reporting on performance, property management, and procurement.

¹ For-profit entities organized pursuant to Section 301(d) of the Small Business Investment Act of 1958 (15 U.S.C. 681(d)) and for-profit local development corporations (LDCs) may also qualify as CBDOs under the requirements of 24 CFR 570.204 and thus serve in the role of a subrecipient under the CDBG program if so designated by the grantee. The CDBG regulations pertaining to non-profit organizations apply to such for-profit entities.

² Not all the requirements of 24 CFR Parts 84 and 85 are applicable to CDBG subrecipients; 24 CFR 570.502(a) and (b) specify the sections and paragraphs of the Common Rule that apply to CDBG recipients and subrecipients.

Playing by the Rules

A Handbook for CDBG Subrecipients on Administrative Systems

OMB Circular A-122 “Cost Principles for Non-profit Organizations”: A publication of OMB, this document establishes principles for determining costs that are allowed to be charged to Federal grants, contracts, and other agreements with non-profit 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.

OR,

OMB Circular A-21 “Cost Principles for Educational Institutions”: This document covers much of the same subject matter as OMB Circular A-122, only it is aimed at educational institutions (public and private).

AND,

OMB Circular A-133 “Audits of States, Local Governments and Non-profit Organizations”: This circular defines audit requirements for both governments and non-profits receiving Federal funds. The document addresses mandated frequency and scope of audits, allowability of audit costs, and the process of auditor selection.

For “governmental subrecipients” (*a 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), **the key administrative requirements are:**

24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally-recognized Indian Tribal Governments” (also known as “the Common Rule”)²: For governmental entities and public agencies, Part 85 of Title 24 of the CFR details standards for financial management systems, payment, allowable costs, property management, procurement, monitoring and reporting program performance, financial reporting, record retention, and termination.³

OMB Circular A-87 “Cost Principles for State and Local Governments”: For governmental entities receiving CDBG or other Federal funds, this document is the equivalent of OMB Circular A-122. The circular establishes 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 to promote efficiency.

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.

Playing by the Rules

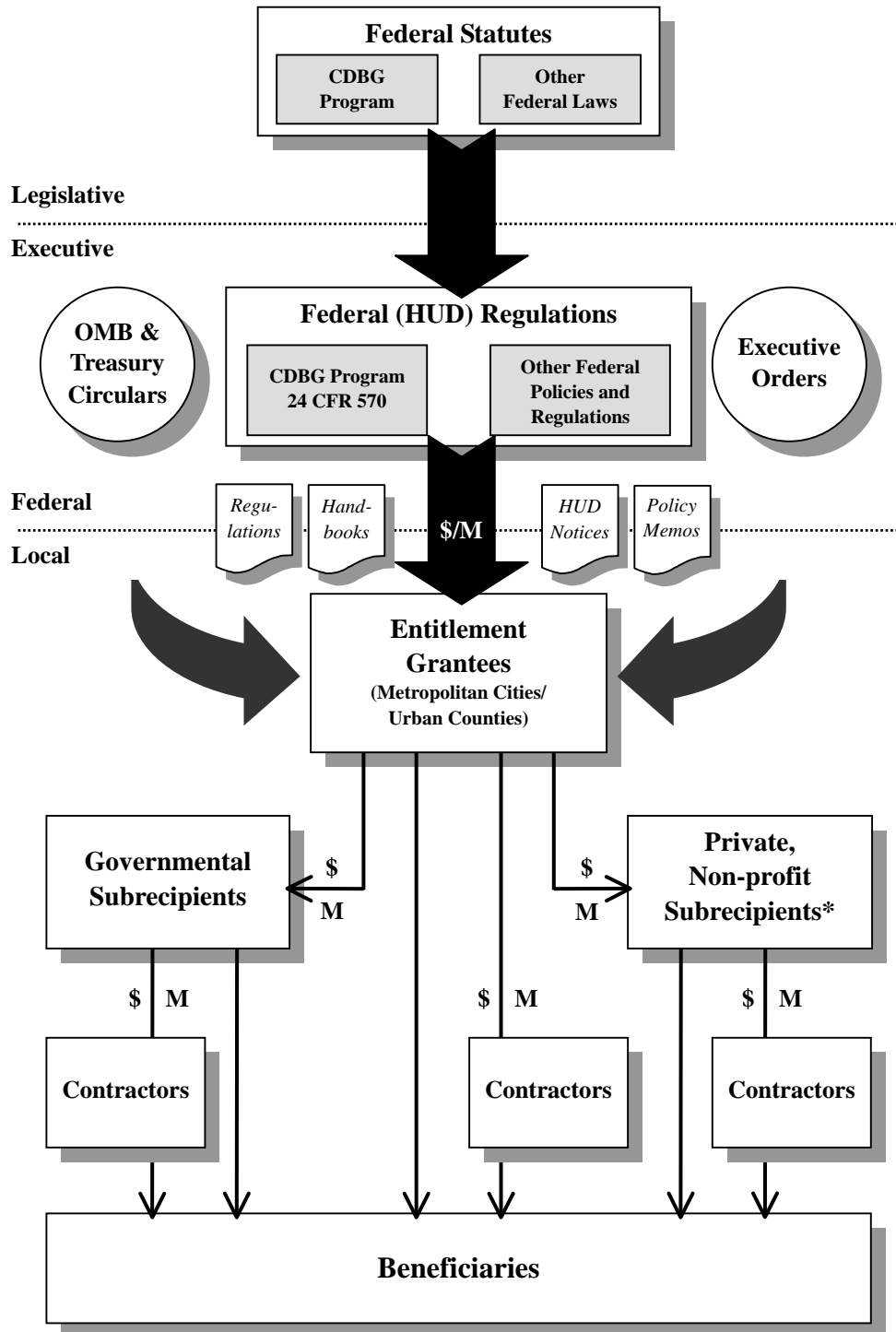
A Handbook for CDBG Subrecipients on Administrative Systems

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

For state and local governments which receive Federal aid, this document describes audit requirements, including frequency and scope of audit, audit standards, and auditor selection procedures.

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

Exhibit 1–1: Regulatory Framework for CDBG Entitlement Program



\$=Funds provided. M=Monitoring required. *Includes §204(c)(2) for-profit CBDOs.