

CHAPTER 12

CDBG GRANT MONITORING HANDBOOK

Introduction

Congress amended the Housing and Community Development Act of 1974 (HCD Act) in 1981 to give each state the opportunity to administer the Community Development and Block Grant (CDBG) program for non-entitlement communities. Non-entitlement communities are cities and counties that do not receive CDBG funds directly from the U.S. Department of Housing and Urban Development (HUD) as part of the entitlement program. The Department of Housing and Community Development (HCD) administers the State of California CDBG program by awarding CDBG funds to eligible grantees (units of city or county government) for the implementation of eligible CDBG programs and activities.

Grantee responsibilities for the day-to-day management of the program are outlined in the CDBG Standard Agreement (the contract between the State of California and the local governmental agency), federal CDBG regulations, Title 25 of the California Code of Regulations, Department Management Memos and the HCD CDBG Grant Management Manual. The Standard Agreement also identifies the federal and state requirements that CDBG funds are to be used only for eligible activities and expenses. While authority is delegated to CDBG grantees for the day-to-day implementation of the program, the Department is responsible to HUD that all program funds and activities meet federal, state and local rules, regulations, statutes and guideline requirements.

The Department must ensure grantees comply with all regulations governing administrative, financial and programmatic operations, and achieve performance objectives on time and within budget. Monitoring allows the Department to verify compliance with both regulatory and performance requirements.

HCD identifies grantee training needs by analyzing monitoring data. To increase local grant management capacity and provide relevant technical assistance, training will be targeted to address the most common challenges revealed in monitorings.

This chapter summarizes the process of program monitoring. It also provides grantees an outline to better understand the program and its objectives, and offers methods to improve program implementation.

Overview

HUD describes monitoring as an integral management control technical and critical Government Accounting Office (GAO) standard. Through monitoring HCD assesses a

participant's program compliance and performance over time. Monitoring provides critical statistical information for making informed judgments about participants' management efficiency and program effectiveness. Monitoring is also helpful in identifying fraud, waste and abuse.

HCD acknowledges its responsibilities to HUD to ensure all CDBG funds are used in accordance with federal regulations. It is HCD's goal to help grantees comply with these federal regulations, as well as all state statutes and requirements, and to help resolve problems in the implementation of their CDBG program activities.

Monitoring is the primary tool HCD uses to ensure this compliance. Monitoring is also an opportunity to provide focused, specific technical assistance and guidance based on evaluation of a jurisdiction's processes and practices. Whenever possible, deficiencies will be rectified through discussion, negotiation and technical assistance.

All programs and activities that fall under the CDBG umbrella (including the disaster relief initiatives, or DRI; the Neighborhood Stabilization Program, or NSP; and the American Recovery and Reinvestment Act, or ARRA) will be monitored by the CDBG monitoring staff.

Monitoring may include on-site visits to the local government's offices or desk monitorings at HCD. On-site monitoring will be based on annual risk assessments. Planning and Technical Assistance (PTA) grants will be desk monitored.

HCD uses monitoring to accomplish the following objectives:

- Ensure all CDBG activities and projects are carried out effectively, efficiently and in compliance with applicable laws, regulations and requirements.
- Provide technical assistance and information to grantees to improve performance, develop or increase capacity, and augment management and technical skills.
- Assure that grantees with management responsibilities are performing monitoring(s) based on regular risk assessments, and taking appropriate steps to improve compliance and reduce risks identified by those risk assessments and monitorings.
- Assure that compliance roles and responsibilities are clearly established across the grantees' systems and that care is given to delegating substantial authority.
- Assure that grantees implement standards of conduct, have written policies and procedures and internal controls capable of ensuring compliance and reducing possible ethics concerns within their organizations.
- Assure that individuals responsible for CDBG program compliance and ethics have adequate resources, authority and competencies to carry out their responsibilities.
- Assure that the grantee's CDBG compliance standards, procedures and expectations are effectively communicated to employees and sub-grantees

through education and training programs, publications and other appropriate means.

- Assure that reasonable steps have been taken to achieve compliance throughout the grantee's organization through auditing and monitoring systems, as well as periodic evaluations of program compliance.
- Assure that grantees maintain an effective mechanism for employees and agents to report or seek guidance regarding potential or actual wrongdoing, including mechanisms for anonymous reporting, and appropriate safeguards against retaliation.
- Report on effectiveness of compliance to the appropriate HCD staff.
- Take other actions, or make other recommendations, as necessary to promote an ethical organizational culture.

Monitoring may include review of the following programs, activities and technical areas:

1. National Objective and Eligible Activities
2. Financial Management and Eligible Costs
3. OMB A-133 Single Audits
4. OMB A-122 and A-87 Standards
5. Program Progress and Accomplishment Reporting
6. Procurement
7. Cooperative Agreements
8. Sub-Recipient or Sub-Contractor Agreements
9. Sub-Recipient or Sub-Contractor Oversight
10. Public Participation and Information
11. Fair Housing and Equal Opportunity
12. Section 3 Hiring Outreach
13. Minority Owned / Women Owned Businesses
14. Income Determinations
15. Homebuyer Programs
16. Homeowner Rehabilitation Programs
17. Rental Projects
18. Public Improvements
19. Economic Development Financial Assistance
20. Micro-Enterprise Technical and Financial Assistance

21. Public Facilities
22. Public Services
23. Environmental Reviews
24. Continued Affordability Requirements (NSP)
25. Lead Based Paint Compliance
26. Relocation and Real Property Acquisition Requirements
27. Business Relocation Requirements
28. Fraud, Waste and Mismanagement
29. Labor Standards Administration
30. Disaster Grants
31. Program Income and Revolving Loan Accounts Activities

Section 1 - Monitoring Visits

The CDBG Monitoring Representative (Monitor) will contact the grantee between 60 and 90 days prior to the monitoring to advise them of the upcoming visit and present the dates and times tentatively scheduled. These dates are based on the jurisdiction's ranking in risk assessment results. Approximately 6 weeks prior to the agreed monitoring dates, the Monitor will send an official letter notifying the jurisdiction of the monitoring. Included in the letter will be the Monitoring Information Sheet, which is a brief outline of the program areas to be reviewed at monitoring. (The Monitoring Information Sheet is Attachment 1 of this chapter.) This summary provides the grantee an opportunity to review their files prior to the visit to ensure that complete records will be available, as required.

The grantee is required to have all records, files and documentation available for review during the visit. (See "Chapter 7: Accounting and Recordkeeping" for a list of files to be maintained.) If the jurisdiction engages other public agencies, operators or consultants for program implementation, all records must be available at the grantee's office during the visit. Failure to have all records readily accessible will result in an "unresolvable" monitoring finding.

The monitoring visit should be viewed as an opportunity to build a sense of partnership and increase the grantee's capacity to deliver services to CDBG beneficiaries. Monitorings are opportunities for communications and problem solving technical assistance between HCD and grantees.

Entrance Conference

The monitoring visit will begin with the Monitor conducting an entrance conference. The meeting should include the jurisdiction's authorized representative (chief elected official, chief administrator, or the person that signed the CDBG Standard Agreement), program staff, fiscal staff and other interested parties the jurisdiction may want included. The Monitor will briefly outline the purpose of the visit, discuss the activities to be monitored,

explain the process of the review, and identify the possible outcomes. The Monitor will ask the jurisdiction to identify contact staff for each activity and/or general support functions, such as the location of copiers, access hours, fire exits, etc.

Monitoring Activities

The Monitor will use the monitoring checklists as a guide to the applicable laws and requirements when reviewing program files and records. A general description of each area follows.

- Program Progress: The Monitor will compare the schedule in the Standard Agreement to the actual progress to date (both in actual results and funds expended) to ensure the program is progressing in accordance with the time frame established.
- Program Benefit: Each CDBG activity must provide a specific benefit, which is referred to as the National Objective of that activity. The activity and the corresponding National Objective are listed in the Standard Agreement.

The Monitor will review the program files to ensure the appropriate National Objective has been met, and that the method of determining eligibility was performed in compliance with the State's *Income Calculation and Determination Guide for Federal Programs*. The Monitor will review progress reports submitted by the grantee to determine how many beneficiaries have been served, and compare the actual number to the number projected in the approved funding application.

For economic development projects, the Monitor will confirm the business has hired/retained the workers required in the approved business loan application, commitment letter and loan agreement. Job creation/retention is verified through the review of payrolls and employee and/or new hire income certifications. A visit to the project site may also be part of the review. The grantee will be advised by the Monitor in advance to schedule meetings with borrowers and/or business personnel.

Activities that do not meet the defined National Objective may be determined to be ineligible and a repayment of funds may be required.

- Environmental Review: A review of the Environmental Review Record (ERR) will be conducted during the visit to verify that environmental clearance procedures comply with National Environmental Protection Act (NEPA) requirements. This includes determining whether required procedures, finding forms, applicable supporting documentation, and necessary notices, public participation and actions are part of the ERR and available at the local government office for public review. The Monitor will make sure that any required mitigation or follow-up actions indicated by HCD correspondence have been carried out. (Refer to "Chapter 3: Environmental Review Requirements.")
- Procurement: The grantee's records will be reviewed for compliance with federal, state and local bidding and contract requirements. Monitors will evaluate the method of procurement, records of bids and proposals, selection procedures and the processes and documents for procuring professional services, supplies, materials, and construction contracts. Contracts and sub-recipient agreements will

be reviewed to ensure the required language and provisions are included. (Refer to “Chapter 8: Procurement” and “Chapter 2: Program Operators” for details.)

- Labor Standards: This review is to assure compliance with applicable labor laws and state required record keeping. Documentation and compliance requirements are outlined in “Chapter 5: Labor Standards.” It is important for the recipient to understand that the Department of Labor can become involved if serious problems are found.
- Property Acquisition, Relocation and Displacement: Monitors will determine if state and federal procedures and requirements were followed, including the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 as amended by the Uniform Relocation Act Amendments of 1987 (URA). The review will include Section 104(d) relocation and one-for-one replacement housing requirements, where applicable. The Monitor will determine if the recipient followed the correct procedures, including initial contact with the property owner, documentation of response, appraisal and review, just compensation determined, and offer made and accepted, etc. “Chapter 6: Relocation and Acquisition” provides details associated with URA.
- Housing Activities: The grantee’s records must include a copy of the HCD approval notification for program guidelines, policies and procedures, and the approval must pre-date work performed. When the grantee is carrying out housing activities, the review may include on-site visits to HCD-selected properties. The Monitor will notify the grantee which sites are to be visited and will allow sufficient time to arrange with the households. On-site inspections will include a review of the rehabilitated unit for property standards compliance, and assessment of the quality of the work, reasonableness of cost, and compliance with applicable laws and requirements. Monitors will also verify that the number and location of units agree with the application. See Chapter 16: Housing Rehabilitation, and Chapter 17: Homebuyer Assistance.
- Public Improvements, Public Services and Public Facilities: Monitors will review grantee records to ensure the projects or services funded are in compliance with all related regulations, meets a national objective and serve the area approved by HCD.
- Equal Opportunity and Fair Housing: Grantees must outline the actions to be taken to affirmatively further fair housing in a fair housing plan submitted to the Department prior to the release of grant funds. At monitoring, grantee records must include an assessment of the effectiveness of the program’s marketing and outreach to ensure equal access to and non-discrimination in all program benefits. This includes a comparison between the jurisdiction general population, program applicants and beneficiaries that received assistance or services. Applicants and beneficiaries that do not mirror the general population may indicate inadequate outreach. Documentation of actions taken is reviewed.

The Monitor also reviews employee hiring practices to see if they are exclusionary. The Monitor will request details if there are outstanding complaints or lawsuits related to equal employment. This review will also determine compliance with

Section 504 of the Rehabilitation Act regarding non-discrimination on the basis of disability and accessibility to program benefits, facilities and services. Compliance with the requirements of Section 3 will also be reviewed.

- Financial Management: Monitors will determine compliance with the financial management requirements in Chapter 7: Accounting and Recordkeeping and Chapter 9: Funds Request. In particular, the review will determine if records are maintained in compliance with 24 CFR Part 85, OMB Circular A-87 and other State requirements. Typically, ledgers, invoices, canceled checks, bank statements and draw down requests are reviewed to see that the recipient has an adequate system of financial management. Monitors may also review documentation relating to the management of a grant or program income. Chapter 19: Asset and Property Management outlines loan portfolio requirements.
- Program Income: When applicable, a review will ensure that records pertaining to CDBG program income are maintained and expenditures comply with federal requirements and an approved *Program Income Reuse Plan* (refer to Chapter 14: Program Income and Revolving Loan Accounts for more information). The Monitor will determine if the appropriate accounting records are being maintained and if accurate annual reports are being submitted to HCD. An on-site review will be made to determine that program income expenditures were carried out as approved in the *Program Income Plan*. Chapter 19: Asset and Property Management includes details for loan portfolio management.
- Certifications: The Monitor must determine compliance with the certifications submitted with the application. The Monitor will review the Citizen Participation Plan, Needs Assessment, public hearings and all meeting minutes and citizen comments, and the Residential Anti-displacement and Relocation Assistance Plan. Policy statements concerning excessive force by law enforcement will be reviewed along with lobbying, special assessments and public access to records.
- Program Management: This area is monitored to assure the continuing capacity of the grantee to properly administer approved CDBG funds. The Monitor will look at program record keeping, timeliness of reporting, history of receiving stop payments, program files, the grantee's ability to work within a designated time frame, and the effectiveness of the grantee's management system.

On-Site Project Inspections

On-site project inspections will be conducted along with the file review. The grantee or their designee is expected to accompany the Monitor during this phase.

Exit Conference

The visit is concluded with an exit conference. Responsible officials such as the Mayor, Chairman of County Council, or Administrator, as well as the program staff, are expected to attend. The Monitor(s) will identify the issues revealed in the monitoring. Monitors will provide details of the issues identified, explain the impacts of the practices and provide the associated regulation(s). As with all phases of monitoring, the information provided in the exit conference is technical assistance and designed to build capacity and ensure program compliance. If an issue is not discussed in the exit

conference it will not appear in the monitoring report.

Issues will not be categorized as a “finding,” “concern” or “information” during the exit conference. The final monitoring category and necessary corrective actions will be transmitted to the jurisdiction via a formal Monitoring Report.

Monitoring Report

After the visit, the Monitor will meet with the CDBG Section Chief, Program Manager, Program Representative and Monitoring Manager. Each issue will be identified as either a Finding or a Concern. HCD prefers that program deficiencies be rectified through constructive discussion, negotiation and technical assistance. The Monitoring Report will reflect technical assistance provided on site during the visit and corrective actions will be structured to reinforce capacity building.

A “Finding” is an action, or lack of action(s), in direct violation of a statutory requirement or regulation. A “Concern” is an action or actions that could result in a Finding if not corrected. Both Findings and Concerns require corrective actions to be submitted to HCD for review and approval. A Finding may result in the repayment of CDBG funds if the problem is an ineligible activity or project. “Information” will be provided as technical assistance to strengthen the grantee’s program management capacity and usually does not require corrective action.

Within sixty days of the visit, the grantee's chief elected or administrative official will receive formal notification of the monitoring results. In rare cases, depending on the severity of the issues, a follow-up visit may be necessary. If so, the jurisdiction will be advised within the 60 day window after the monitoring visit.

Post Monitoring

A letter with a detailed monitoring report summarizing each program area monitored, any related findings or concerns and the associated corrective actions will be prepared and delivered to the jurisdiction. The grantee will be required to provide a written response, including corrective actions to clear all findings or concerns, within sixty days of the monitoring letter date.

Upon receipt of the required response and corrective actions, the Monitor will review all items for compliance. If necessary, the Monitor will contact the jurisdiction for revisions or clarification. Once all items have been satisfactorily addressed a Clearance Letter will be issued to the jurisdiction. Clearance letters, as with all monitoring correspondences, are to be maintained in the jurisdiction’s records to evidence compliance.

Section 2 - Actions

HCD, as a HUD grantee, must prevent the continuation of program deficiencies identified; mitigate, to the extent possible, the adverse effects or consequence of deficiencies identified; and/or prevent a recurrence of deficiencies identified.

If the grantee is uncooperative, does not comply with the monitoring report requirements or does not act to clear the findings and concerns, HCD will consider this a violation of the Standard Agreement.

HCD actions may include, but are not limited to:

- Issue a letter of warning that additional action(s) will be taken if deficiencies are not corrected or are repeated.
- Advise the grantee that additional information or assurances will be required before acceptance of one or more certifications required in future CDBG program or project applications, including Program Income Waiver requests.
- Advise the grantee that future CDBG applications will be assessed negative points during rating and ranking due to non-compliance with monitoring clearances.
- Suspend or terminate the expenditure of funds for a deficient activity or grant.
- Refrain from extending any further assistance to the recipient until the grantee is in full compliance.

Attachment 1

Section 3 - CDBG Monitoring Information Sheet

CDBG, NSP, DRI and ARRA processes are the same for most topic areas. We suggest you review the monitoring chapter of the HCD CDBG Grant Management Manual located at: <http://www.hcd.ca.gov/fa/cdbg/manual/chapter12.html>.

Records we will review include:

1. General compliance with federal and state requirements, including:
 - Citizen Participation (including required documentation in Public Information Binders);
 - Equal Opportunity and Fair Housing;
 - City Employment Policies;
 - Drug Free Workplace;
 - Program Recordkeeping;
 - Conflict of Interest; and,
 - Other requirements.
2. Procurement process compliance with 24 CFR 85.36:
 - Types of procurement processes used;
 - Documentation that the proper processes were followed;
 - Review of procurement files;
 - Required contract clauses/provisions;
 - Subrecipient oversight and monitoring; and,
 - Other procurement requirements.
3. Review of the City's NEPA documentation:
 - Level of review by activity;
 - Supporting documentation for each compliance area;
 - Complete environmental review record (ERR);
 - Clearance prior to obligation of federal funds;
 - Changes to scope of work vs. originally prepared NEPA; and,
 - Other NEPA requirements.
4. Review of compliance for national benefit (eligible activities):
 - Activity eligibility;
 - Target area(s);
 - Low/Mod job creation (if applicable);
 - Program application log;
 - Approved files;
 - Declined files;
 - In process files;
 - Assisted (completed) files; and,
 - Proper income qualification processes.

5. Labor standards compliance:
 - Wage rates;
 - Proper wage classifications;
 - Original certified payrolls;
 - Timely reviews of certified payrolls; and
 - Other related requirements.

6. Financial Management of NSP/CDBG funds (eligible costs):
 - Accounting department ledger printouts for each separate account (grant and/or program income) reflecting all cash receipts and disbursements;
 - Contractor/Consultant/Subrecipient financial oversight and disbursements;
 - CDBG/NSP fiscal reporting;
 - Cash management procedures; and,
 - Other requirements.

7. Project Management Review:
 - Initial Rent Roll;
 - Tenant Files, at time of Project Completion Report;
 - Tenant Selection Plan;
 - Management Plan;
 - Final Cost Certificate;
 - Project Administrative Procedures;
 - Supporting Financial Documentation for each Project Drawdown Request (Activity, Activity Delivery Costs, Administration) ;
 - General Ledger for Time Period of the Project Drawdown Request(s);
 - Indirect Cost Rate Plan;
 - Recorded Regulatory Agreement;
 - Promissory Note;
 - Development Agreement Between the City and the Developer;
 - Title Policy;
 - Owner's Notice to Proceed;
 - Project File;
 - Construction Contract; and,
 - Any Change Orders for the Project.

Section 4 - CDBG Grant Monitoring Checklists

- 1.1. National Objectives – LMA
- 1.2. National Objectives – LMC
- 1.3. National Objectives – LMH
- 1.4. National Objectives – LMJ
- 1.5. National Objectives – Slums or Blight
- 1.6. National Objectives – Urgent Needs
- 2. General Compliance
- 3. Fair Housing and Equal Opportunity
- 4. Relocation and Real Property Acquisition
- 5. Environmental Review
- 6. Lead-Based Paint
- 7. Financial Management
- 8.1. Procurement – Competitive Bids
- 8.2. Procurement – Sealed Bids
- 8.3. Procurement – Small Purchase or Non-Competitive
- 8.4. Procurement – Summary
- 8.5. Subrecipient Management
- 9.1. Rehabilitation – Grantee or Developer
- 9.2. Rehabilitation – Homeowner
- 10. Homebuyer Program
- 11. Continued Affordability
- 12. Disposition
- 13. Rental Programs
- 14. Construction and Lease Up (NSP Rental Housing)
- 15. Labor Standards Administration
- 16. Force Account Labor
- 17.1. Economic Development – Business Assistance
- 17.2. Economic Development – Micro Enterprise
- 17.3. Economic Development – Over-the-Counter
- 18. Business Relocation
- 19. Program Income
- 20. ARRA Inspector General Advisory Guidance

Chart - identifying which checklists covers each activity