



Office of Internal Audit

**Compliance Audit 2022-04
Subrecipient Grant Monitoring**

October 2022

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OUR MISSION

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

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Subrecipient Grant Monitoring Highlights

Objective:

To determine if the City is monitoring subrecipient activities to provide reasonable assurance that subrecipients are in compliance with grantor requirements.

Scope:

- 6 subrecipients awarded CDBG funds during fiscal year 2020 to fiscal year 2022

Background:

- The Department of Housing and Urban Development (HUD) oversees the Community Development Block Grant (CDBG) program.
- The City has flexibility to use these funds within the following objectives:
 - Benefit low and moderate income persons;
 - Prevent or eliminate slum and blight; and
 - Meet urgent needs that threaten health or safety.
- Nonprofit organizations (subrecipients) assist the City in carrying out the selected activities.
- The City must provide reasonable assurance the funds are used in compliance with guidelines.
- The City was awarded CDBG funds totaling \$4,763,545 from fiscal year 2020 to fiscal year 2022.

Highlights:

- Statements of work for subrecipient agreements included:
 - Conflicting language, and
 - Administrative and case management costs without defining what these costs should include.
- Agreements did not completely and accurately contain all required provisions and identifying information.
- The Department did not use a risk assessment to determine the frequency or extent of monitoring to conduct for each subrecipient.
- Monitoring was not provided for all subrecipients and program years sampled.
- Monitoring checklists used for all reviews, both in person and virtual, did not always provide sufficient details to explain the review process or results of the review.
- 18 agreements were fully executed after the effective dates.
 - The time from the effective date and the execution date was between 21 and 212 days, averaging 94 days.
- All payments reviewed were made after the contracts were fully executed.

Conclusion:

Internal Audit concluded work on the audit of Subrecipient Grant Monitoring. Based upon test work performed, Internal Audit concluded subrecipient agreements were in place and monitoring was performed. However, controls could be improved through:

- Updates to agreement templates;
- Staff training on use and monitoring of the funds, and
- Establishing written procedures.

BACKGROUND

The Department of Housing and Urban Development (HUD) oversees the Community Development Block Grant (CDBG) program. States, cities and counties are awarded these funds to develop new affordable housing for both renters and homebuyers, rehabilitate existing homes and expand economic opportunities within the following objectives:

1. Benefit low and moderate income persons;
2. Prevent or eliminate slum and blight; and
3. Meet urgent needs that threaten health or safety.

The City is given a high level of flexibility within the program's objectives to select activities which best meet the needs of the community. To assist in accomplishing the selected activities, the City (grant recipient) contracts with nonprofit organizations (grant subrecipients). When the City passes this funding to the subrecipient, the compliance requirements applicable to the grant program are also passed to the subrecipient. However, the City is responsible to provide reasonable assurance the funds passed to the subrecipient are used and managed in compliance with HUD, State and City requirements. Therefore, the City must establish and conduct a subrecipient monitoring program, since HUD could monitor the City's use of CDBG funds at any time to ensure program effectiveness and determine if programs are carried out in compliance with applicable laws and regulations.

As an entitlement community, the City is awarded funds annually. A total of \$4,763,545 in CDBG funds was awarded to the City from fiscal year 2020 to fiscal year 2022 as shown below.¹

Fiscal Year	Allocation Amount
FY20	\$1,534,192
FY21	\$1,622,224
FY22	\$1,607,129
Total	\$4,763,545

AUDIT OBJECTIVES

The objective of the audit was to determine if the City is monitoring subrecipient activities to provide reasonable assurance that subrecipients are in compliance with grantor requirements.

AUDIT SCOPE

The scope of the audit included six subrecipients awarded CDBG funds by the City during fiscal year 2020 to fiscal year 2022.

AUDIT METHODOLOGY

To determine compliance, Internal Audit:

- Reviewed applicable written policies, procedures, and guidelines to include but not limited to:
 - 24 CFR Part 570 and
 - 2 CFR Part 200;
- Interviewed Economic & Community Development Department personnel;
- Reviewed subrecipient agreements, monitoring documentation and any other documentation associated with the subrecipient awards and monitoring,

¹ This does not include CDBG Coronavirus funds authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

- Reviewed subrecipient payment records in JD Edwards and the HUB, the City’s Enterprise Resource Planning Systems; and
- Considered the risk of fraud, waste and abuse.

***FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

Finding 1

Agreement language was not clear and complete.

Criteria: Per federal regulations, the statement of work in the subrecipient agreements should be in sufficient detail to provide a sound basis for the recipient to effectively monitor performance under the agreements.

In addition, the federal regulations established provision requirements for the subrecipient agreements.

Condition: Statements of work for subrecipient agreements included:

- Conflicting language, and
- Administrative and case management costs without defining what these costs should include.

In addition, the City used agreement templates. However, the agreement templates did not completely and accurately contain all required provisions and identifying information.

Cause: When changes to the federal regulations occurred, the agreement templates were not updated to accommodate the changes.

Effect: If the subrecipient is unaware of the requirements, funds could be spent on unallowable costs, and the City could be responsible for those costs.

Recommendation

The Economic & Community Development Department management should:

1. With guidance from the City Attorney’s Office, update the agreement templates with the required provisions and identifying subaward information to comply with all federal, state, and City requirements.
2. Annually review changes to the federal regulations and update the agreement templates accordingly.
3. Clearly define allowable costs in each agreement’s statement of work.

Management’s Response

We concur. Management is in full agreement with the recommendation. On July 14, 2021 the Department contracted with Civitas, LLC for on call technical assistance to ensure compliance with the Code of Federal Regulations (CFR) that pertains to all Housing and Urban Development (HUD) grant entitlements under the purview of the Economic and Community Development Department (ECD). The first goals for the consultants were related compliance with Environmental Review Procedures and Housing Programs. For agreements executed at the time of this audit, a review was conducted and required provisions were included, the scope of work for each agreement was clearly defined to a greater level of detail than previously provided. With guidance from our technical experts, the City will base a new subrecipient agreement on the template provided on the Housing and Urban Development website and will check annually for an updated template.

Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager

Implementation Date: July 1, 2022

Finding 2

Subrecipient monitoring did not consistently follow federal requirements.

Criteria: Federal regulations require the non-federal entities (City) to establish and maintain effective internal controls over federal awards that provide reasonable assurance the awards are being managed in compliance with federal statutes, regulations and the terms and conditions of the federal award.

In addition, the City should:

- Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms of the subaward (agreement); and
- Monitor as necessary to include but not limited to ensuring:
 - The subaward is used for authorized purposes;
 - Performance goals are achieved; and
 - Subrecipients take timely action on all deficiencies and resolve audit findings related to the subaward.

Condition:

- The Department did not use a risk assessment to determine the frequency or extent of monitoring to conduct for each subrecipient.
- Monitoring was not provided for all subrecipients and program years sampled;
- Monitoring checklists used for all reviews, both in person and virtual, did not always provide sufficient details to explain the review process or results of the review.

Cause: Staff lacked the training needed to ensure monitoring was sufficiently documented and provided reasonable assurance that subrecipients were complying with federal, state, and contractual guidance. In addition, documentation was saved in a manner that was not accessible or readily available to all employees.

Effect: Insufficient subrecipient monitoring could result in audit findings. These findings could result in fines, repayment of grant funds, or a loss of future CDBG awards.

Recommendation

The Economic & Community Development Department management should:

1. Use the risk assessment to create a risk based monitoring schedule for each program year. For each subrecipient, the schedule should include, but not be limited to:
 - The frequency of monitoring; and
 - The extent of the monitoring to include if it will be on-site or virtual.
2. Create and implement written procedures on subrecipient monitoring to include, but not limited to:
 - Documentation requirements;
 - Determining if costs were an eligible use of funds and in accordance with contract terms;
 - Checking for suspension and debarment of subrecipients and contractors of the subrecipients;
 - Determining if conflict of interests existed with contractors of the subrecipients, and
 - Conducting an inventory of property purchased using grant funds.
3. Research available training on use and monitoring of CDBG funds and have staff attend these trainings.
4. Train employees on the monitoring expectations to include, but not limited to:
 - Providing the details necessary to show and/or explain what, when, and how each review area was assessed for compliance; and
 - Saving all monitoring documentation in a way that is accessible to all department staff.

Management's Response

We partially concur. Management is in agreement with a portion of the recommendation. The ECD uses a risk assessment annually as part of its application process for subrecipients. However, the risk assessment does not impact the frequency and depth of our annual monitoring of subrecipients. ECD will continue to

monitor all subrecipients in-depth and on an annual basis at approximately the sixth month of the year-long agreements. For new subrecipients, the Department provides onsite technical training on the front-end of the contract. On August 23, 2021 the Department contracted with Urban Design Ventures, LLC to develop a program-wide standard operating procedure that includes guidance on subrecipient monitoring. This standard operating procedure will be implemented by December of 2022. Training has been conducted and will be conducted annually as a refresher to all managers. Monitoring of multiple subrecipients was requested but had not yet been conducted during the current program year. All monitoring has been conducted and is available for review. Other subrecipients were monitored in the prior years but documentation was not included in the files, it has now been included. Lastly, monitoring of one subrecipient was not documented during the prior two program years so reports could not be produced. Subsequent to this Internal Audit, this subrecipient was monitored for the current program year and no significant findings were noted. Management will ensure all documentation is present prior to closeout by utilizing the newly implemented Neighborly workflow software.

Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager

Implementation Date: July 1, 2022 (for updated subrecipient agreements) and December 31, 2022 (established policies and procedures)

Finding 3

Subrecipient agreements were executed after the effective date.

Criteria: Subrecipient agreements identify the rules and regulations the subrecipients must follow and provide a basis for the City to enforce those requirements.

In addition, federal regulations required a signed written agreement in place before disbursing any CDBG funds to a subrecipient.

Condition: Of the 19 agreements reviewed, 18 were fully executed after the effective dates. For these 18 agreements, the time from the effective date and the execution date was between 21 and 212 days, with an average of 94 days.

However, all payments reviewed were made after the contracts were fully executed.

Cause: Staff did not understand when agreements could be executed.

Effect: Subrecipients waited for the agreements to be fully executed before receiving payment. In addition, without an executed agreement, there is no legal obligation for the subrecipient to perform according to contract requirements.

Recommendation

The Economic & Community Development Department management should establish written procedures to have agreements ready to be fully executed once funds are appropriated by City Council.

Management's Response

We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved. This deficiency is attributable to three causes: 1) Nearly full turnover of staff, 2) Influx of work due to COVID recovery funding, and 3) delays in "loading" the budget in the financial system due to a misunderstanding of 24 CFR Part 570.200(h).

The Department will monitor agreements to ensure that they will be executed within the month of July annually and will work with Finance to ensure funds are made available in a timely manner.

Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager

Implementation Date: August 1, 2022

CONCLUSION

Internal Audit concluded work on the audit of Subrecipient Grant Monitoring. Based upon test work performed, Internal Audit concluded subrecipient agreements were in place and monitoring was performed. However, controls could be improved through:

- Updates to agreement templates,
- Staff training on use and monitoring of the funds, and
- Establishing policies and procedures.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.