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***SUBRECIPIENT GRANT MONITORING  
FOLLOW-UP  
(A2022-04F)***

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January 2024





**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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# ORIGINAL REPORT HIGHLIGHTS

## Subrecipient Grant Monitoring (A2022-04)

Original Report Issued:  
October 2022

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

**Scope:** Six 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.

### WHY THIS MATTERS

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.

# Action Since Original Audit Report



## Subrecipient Grant Monitoring Follow-Up (A2022-04F)

The Office of Internal Audit has completed follow-up on the Subrecipient Grant Monitoring Audit approved by the Audit Committee on October 27, 2022.

### **Objective and Scope**

Determine whether management implemented corrective actions to the audit recommendations reported by the Office of Internal Audit.

The scope of the follow-up audit was limited to the findings and accepted recommendations in the original audit of subrecipient grant monitoring. This included observations, and review of documents and electronic files, to include FY2024 subrecipient agreements, departmental policies and procedures, annual risk assessments, monitoring schedules and training documentation.

### **Background**

The original audit report, dated October 2022, had eight agreed upon recommendations. The audit provided management with recommendations to:

- Update the subrecipient agreement templates and clearly define allowable costs in each agreement;
- Use a risk assessment to create a risk-based monitoring schedule, including monitoring frequency and extent;
- Ensure staff were trained on Community Development Block Grant (CDBG) and subrecipient monitoring requirements and expectations; and
- Establish written policies and procedures for subrecipient monitoring.

### **Summary Results**

**8** recommendations proposed in October of 2022

Testing included an evaluation of the agreed upon recommendations to determine if corrective actions were implemented as reported. The Department implemented the recommendations by updating the subrecipient agreement template, ensuring risk assessments were completed, creating a subrecipient monitoring schedule, researching CDBG training, creating policies and procedures and training their employees.

To further strengthen controls Internal Audit recommends ECD personnel conduct a documented review of the risk assessments behind the nonprofits for accuracy.

The Office of Internal Audit has concluded the Subrecipient Grant Monitoring follow-up audit and expresses appreciation for the assistance provided by Department staff.



**FULLY  
IMPLEMENTED**

**8**



**PARTIALLY  
IMPLEMENTED**

**0**



**NOT  
IMPLEMENTED**

**0**

## Finding 1 - Agreement language was not clear and complete.

<b>Recommendation 1.1</b>	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.
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	The FY23-24 agreement template was updated to include required provisions.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>
<b>Recommendation 1.2</b>	Annually review changes to the federal regulations and update the agreement templates accordingly.
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	Agreement templates were updated to include the required provisions. Current City Policies and Procedures Manual for the CDBG, Home, & HOPWA Programs designate the Business Manager as the responsible party for ensuring agreement templates are updated annually after consultation with the HUD exchange and the City Attorney's Office.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>
<b>Recommendation 1.3</b>	Clearly define allowable costs in each agreement's statement of work.
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	Allowable costs for the agreements reviewed were clearly defined.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>

## Finding 2 – Subrecipient monitoring did not consistently follow federal requirements.

<b>Recommendation 2.1</b>	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:
<b>SUMMARY OF ORIGINAL FINDING</b>	<ul style="list-style-type: none"> <li>• The frequency of monitoring; and</li> <li>• The extent of the monitoring to include if it will be on-site or virtual.</li> </ul>
<b>CURRENT OBSERVATION</b>	A risk assessment was used to determine the risk level for the subrecipients reviewed. This risk level was incorporated in a monitoring schedule created by the Department which included the frequency and extent of monitoring the subrecipients.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>

<b>Recommendation 2.2</b>	Create and implement written procedures on subrecipient monitoring to include, but not limited to: <ul style="list-style-type: none"> <li>• Documentation requirements;</li> <li>• Determining if costs were an eligible use of funds and in accordance with contract terms;</li> <li>• Checking for suspension and debarment of subrecipients and contractors of the subrecipients;</li> </ul>
<b>SUMMARY OF ORIGINAL FINDING</b>	<ul style="list-style-type: none"> <li>• Determining if conflict of interests existed with contractors of the subrecipients, and</li> <li>• Conducting an inventory of property purchased using grant funds.</li> </ul>
<b>CURRENT OBSERVATION</b>	The Department developed the City Policies and Procedures Manual for the CDBG, HOME, & HOPWA Programs for monitoring subrecipients.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>

<b>Recommendation 2.3</b>	Research available training on use and monitoring of CDBG funds and have staff attend these trainings.
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	<p>Training is available through the HUD Exchange which offers “<i>Basically CDBG Online.</i>” ECD staff stated that this training is mandatory for all Department staff and provided an example of the confirmation received by an employee upon its completion.</p> <p>The primary objective of the Basically CDBG Online curriculum is to help CDBG grantees and subrecipients understand and comply with CDBG regulations and requirements.</p>
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>

<b>Recommendation 2.4</b>	Train employees on the monitoring expectations to include, but not limited to: <ul style="list-style-type: none"> <li>• Providing the details necessary to show and/or explain what, when, and how each review area was assessed for compliance; and</li> <li>• Saving all monitoring documentation in a way that is accessible to all department staff.</li> </ul>
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	Department management stated that all documentation is stored on the ECD shared drive which is accessible by all department staff and provided documentation showing that staff were trained on the updated ECD policies and procedures.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>

### Finding 3 – Subrecipient agreements were executed after the effective date.

<b>Recommendation 3.1</b>	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.
<b>SUMMARY OF ORIGINAL FINDING</b>	
<b>CURRENT OBSERVATION</b>	The departmental policies and procedures manual included guidance to make efforts to prepare agreements prior to the beginning of the program year for execution after the start of the program year, July 1.
<b>DETERMINED STATUS</b>	<b>IMPLEMENTED</b>