



Integrity Bulletin

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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.