



CDBG-DR

SUBRECIPIENT MANAGEMENT POLICY

Applicable to all PRDOH CDBG-DR Programs

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Table of Contents

1	Overview	6
2	Policy	6
3	Subrecipients	7
3.1	Who is a Subrecipient?	7
3.2	Who is not a Subrecipient?	8
4	National Objectives	8
4.1	National Objectives Documentation	10
5	Eligible Activities	11
6	Start-Up and Post Award	11
6.1	Selection Criteria	11
6.2	Models for Selecting Subrecipients	11
6.2.1	Formal Application	11
6.2.2	Direct Selection.....	12
6.3	Capacity Assessment.....	12
6.4	Pre-Agreement Procedures	12
6.5	Post Award Responsibilities.....	13
7	Subrecipient Agreement	13
8	Technical Assistance and Trainings	14
9	Communications with Subrecipients	15
10	Administrative Requirements	15
10.1	Financial Management.....	15
10.1.1	Internal Controls.....	16
10.1.2	Accounting Records	17
10.1.3	Allowable Costs	17
10.1.4	Source Documentation	18
10.1.5	Budget Controls	18
10.1.6	Cash Management.....	18
10.1.7	Financial Reporting	19
10.2	Procurement & Contracting.....	19
10.3	Recordkeeping	20
10.4	Monthly Reports	21

10.5	Policies and Procedures.....	21
10.6	Other Administrative Aspects	21
10.6.1	Program Income (24 C.F.R. § 570.503 and § 570.504).....	21
10.6.2	Programmatic and Budget Changes.....	22
10.6.3	Civil Rights and Fair Housing; Employment and Contracting Opportunities (24 C.F.R. § 570.601, § 570.607 and § 570.614)	22
10.6.4	Suspension and Termination (24 C.F.R. § 570.503 (b) (6))	23
11	Monitoring and Contract Oversight	23
12	Monitoring and Audit Requirements	25
13	Project Closeout	25
14	Cross Cutting Guidelines.....	25
15	Noncompliance.....	26
16	Approval	27

1 Overview

This **Subrecipient Management Policy (Policy)** sets forth direction for the administration of programs funded by the Puerto Rico Department of Housing (**PRDOH**) Community Development Block Grant – Disaster Recovery (**CDBG-DR**) Program¹ under a Subrecipient Agreement (**SRA**) with a non-federal entity. It is intended to establish the policy pertaining to PRDOH management and oversight of Subrecipient activities as well as provide the Subrecipient with the general expectations for Program compliance. Although some portions of this policy involve complex Federal regulations; this Policy summarizes the essential elements for proper Program operation applicable to the key management areas.

This Policy is neither intended to be all-inclusive nor so restrictive that it cannot be amended. This Policy does not apply to entities who were determined to be Contractors by the PRDOH. 2 C.F.R. § 200.330.

2 Policy

Proper subrecipient management is necessary not only to comply with Federal regulations, but to improve service delivery to the hurricane ravaged Island of Puerto Rico. CDBG-DR funds invested in the Puerto Rican communities have to be meticulously managed through practices that ensure federal and local compliance.

An inadequate administration of CDBG-DR funds may result in wasted Program funds, lost opportunities, grant reduction, and an adverse effects in future grants. Through a clear assignment of responsibilities and tasks, as well as robust monitoring program, these potential negative fallouts can be avoided.

Responsibilities of Subrecipients include:

- Meet PRDOH's selection criteria;
- Carry out specified program and/or program activity on behalf of PRDOH;
- Comply with all Federal and state statutes, regulations, Program requirements, and PRDOH's policies and procedures;
- Comply with all terms and conditions of the Subrecipient Agreement; and
- Meet established performance goals.

Ultimately, however, PRDOH, as the grantee, is responsible for Subrecipient compliance and performance. 24 C.F.R. § 570.501.

Prior to the release of CDBG-DR funds from the PRDOH, a written SRA must be executed with the Subrecipient. The SRA remains in effect during any period that the Subrecipient

¹ Active Disaster Grants information can be found at <https://www.hudexchange.info/programs/cdbg-dr/cdbg-dr-grantee-contact-information/#all-disasters>.

is operating a program or implementing a program in which CDBG-DR funds are being invested, in compliance with the terms agreed upon by the parties in the SRA, or until PRDOH notifies the suspension or termination of the SRA, whichever is the earliest.

In addition to federal and state requirements applicable to the administration of CDBG-DR funds, as specified through published PRDOH policy, the Subrecipient shall comply with the requirements, policies, regulations, and criteria contained in the SRA and further acknowledged in this Policy.

The Subrecipient is responsible for obtaining the necessary federal, state, and local permits and licenses required to execute the program. The Subrecipient shall also comply with applicable federal, state, and local codes, regulations, statutes, ordinances, laws, policies and procedures applicable to the administration of CDBG-DR funds. Failure to comply with any of the above may result in forfeiture of the CDBG-DR funding provided to the Subrecipient under an SRA, and consequently in the termination of the SRA.

The Subrecipient Management Team (**SMT**), within the PRDOH Legal Division, is responsible for establishing policies, procedures and guidance, as necessary, to allow for the adequate management and oversight of PRDOH Subrecipients. SMT will work closely with Program and Operational Areas in establishing strategies and tools to ensure that their Subrecipient oversight activities are carried out appropriately to meet regulatory requirements. SMT is responsible for ensuring open lines of communications between Program Areas and Operational Areas such as Monitoring and Finance, but also with the Secretary and Disaster Recovery Deputy Secretary (**DRDS**).

3 Subrecipients

A Subrecipient may be a public or private nonprofit agency, authority, or organization which receives CDBG-DR funds from PRDOH to undertake eligible activities. 24 C.F.R. § 570.500(c). It is further defined at 2 C.F.R. § 200.93 as a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program. Unless otherwise noted, the term "**Subrecipient**" will be used throughout this Policy to denote entities who the PRDOH determined were subrecipients and who are receiving CDBG-DR funds pursuant to an executed written SRA. 2 C.F.R. § 200.330.

3.1 Who is a Subrecipient?

- Governmental entities, such as government agencies and municipalities;
- Private Non-profits organizations; and
- Private For-profits organizations only as authorized under 24 C.F.R. § 570.201 (o)².

² The provision of assistance either through the recipient directly or through public and private organizations, agencies, and other subrecipients (including nonprofit and for-profit subrecipients) to facilitate economic development by: (1) Providing credit, including, but not limited to, grants, loans, loan guarantees, and other forms of financial support, for the

There are also considerations for Community Based Development Organizations (**CBDOs**) under 24 C.F.R. § 570.204 when carrying out special activities such as economic development or new housing construction. If PRDOH explicitly designates that CBDO as a Subrecipient, this Policy shall apply.

3.2 Who is not a Subrecipient?

- Contractor of competitively procured services.
- Developer (either a non-profit or for-profit entity).
- Privately- or publicly -held for-profit entity receiving funds as a beneficiary under a program.

4 National Objectives³

All projects in the Program must meet one (1) of three (3) national objectives, as defined by the United States Department of Housing and Urban Development (**HUD**), in addition to meeting a HUD eligible activity as defined by the Housing and Community Development Act of 1974 (**HCDA**), as amended, 42 U.S.C § 5305. Funds expended for planning and program administrative costs are considered to address national objectives requirements. Federal Register Vol. 83, No. 28 (February 9, 2018), 83 FR 5844 and 24 C.F.R. § 570.208(d)(4).

An activity or program may present the challenge of meeting more than one (1) national objective. Subrecipients are responsible for documentation of compliance with this requirement in accordance with published Program Guidelines pertinent to the program funding for which the Subrecipient is implementing. An activity that does not meet a national objective is in noncompliance with CDBG-DR requirements and will most likely require remedial actions.

All CDBG-DR Program Guidelines are available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/programs/> and <https://www.cdbg-dr.pr.gov/programas/>.

establishment, stabilization, and expansion of microenterprises; (ii) Providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and (iii) Providing general support, including, but not limited to, peer support programs, counseling, child care, transportation, and other similar services, to owners of microenterprises and persons developing microenterprises. (2) Services provided this paragraph (o) shall not be subject to the restrictions on public services contained in paragraph (e) of this section. (3) For purposes of this paragraph (o), "persons developing microenterprises" means such persons who have expressed interest and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. (4) Assistance under this paragraph (o) may also include training, technical assistance, or other support services to increase the capacity of the recipient or subrecipient to carry out the activities under this paragraph (o). 24 C.F.R. § 570.201.

³ This Policy presents a summary of the National Objectives. For a full description, see *Managing CDBG A Guidebook for CDBG Grantees on Subrecipient Oversight*, Appendix 1-14 <https://www.hudexchange.info/resource/407/managing-cdbg-guidebook-for-cdbg-grantees-on-subrecipient-oversight/>; and *Basically CDBG*, Chapter 3 (May 2014), <https://files.hudexchange.info/resources/documents/Basically-CDBG-Chapter-3-Nat-Obj.pdf>.

In compliance with CDBG-DR regulations at 42 U.S.C § 5305 and 24 C.F.R. § 570.483, eligible projects or activities must result in a benefit to low- and moderate-income persons (**LMI**) citizens, serve an urgent need, or eliminate slum and blight conditions for local citizens as a complete activity or project.

All CDBG-DR funded activities must meet at least one (1) of the following three (3) national objectives defined in the authorizing statute of the CDBG Program:⁴

1. Benefit to LMI (24 C.F.R. § 570.483(b))⁵

Under this national objective, the Subrecipient client who benefits from the CDBG-DR funded activities or program must have low- and moderate-incomes, as defined by HUD. Low- and moderate-income is defined as a household that does not exceed eighty percent (80%) of HUD Income Limits. These limits are updated annually.

- a. Low - and Moderate-Income Area Benefit Activity - An area benefit activity is an activity whose benefits are available to all the residents in a particular area, where at least fifty one percent (51%) of the residents are low and moderate income persons. 24 C.F.R. § 570.483(b)(1).
- b. Low- and Moderate-Income Limited Clientele Activity - A limited clientele activity is an activity that benefits a specific group of people, rather than all the residents in a particular area. 24 C.F.R. § 570.483(b)(2).
- c. Job creation or retention activities - Job creation or retention activities are activities designed to create permanent jobs in an area where at least fifty one percent (51%) of the jobs involve the employment of low- and moderate-income persons. 24 C.F.R. § 570.483(b)(4).

2. Aid in prevention or elimination of Slums or Blight (**SB**) (24 C.F.R. § 570.483(c))

Activities under the national objective of prevention of slums or blight are directed at changes in the physical environment of a deteriorating area. These activities are to address one (1) or more of the conditions that contributed to the deterioration of the area.

3. Urgent Need (**UN**) activities (24 C.F.R. § 570.483(d))

Activities that address an urgent need are designed to alleviate existing conditions that have a particular urgency. These needs should pose a serious and immediate threat to the health or welfare, be of recent origin, the grantee is unable to finance the activity on its own, and there is no other funding available.

⁴ Additional national objectives for Housing Incentives and Buyouts can be found in CDBG-DR Policy Guide, Chapters 3 and 4, <https://files.hudexchange.info/resources/documents/CDBG-DR-Policy-Guide.pdf>.

⁵ CDBG income limit information can be found at <https://www.hudexchange.info/resource/5334/cdbg-income-limits/>.

4.1 National Objectives Documentation

NATIONAL OBJECTIVE	REQUIRED DOCUMENTATION
LMI Area	<ul style="list-style-type: none"> • Boundaries of service area • Census data including total persons and percentage of LMI • Evidence area is primarily residential • Survey documentation (if applicable)
LMI Limited Clientele	Documentation that the beneficiaries are low/moderate income or presumed to be low/moderate income (by category).
LMI Job Creation or Retention	<ul style="list-style-type: none"> • Number of jobs created or retained • Type and title of jobs created or retained • Income of persons benefiting from the jobs created or retained; National Objective Documentation 24 CFR 570.483(b)(4)(i) is waived. HUD considers the person income-qualified if annual wages or salary is at or under the HUD established income limit for a one-person family.
Slum and Blight	<ul style="list-style-type: none"> • Area designation (e.g., boundaries, evidence area meets State slum/blight requirements) • Documentation and description of blighted conditions (e.g., photographs, structural surveys, or development plans) <p>If applicable, evidence that the property meets spot designation requirements (examples may include acquisition and demolition of a dilapidated property, elimination of code violations on a community facility, preservation of a historic property, or financial assistance to a business to demolish a decayed structure).</p>
Urgent Need	<ul style="list-style-type: none"> • Documentation of urgency of need and timing • Certification that other financing resources were unavailable and CDBG-DR meets the unmet need.

5 Eligible Activities

All CDBG-DR funded activities must clearly address an impact of the disaster for which funding was allocated. 83 FR 5844. Subrecipients should consider the following key aspects when identifying CDBG-DR funded activities:

- Determine if it is a CDBG eligible activity (or be eligible under a waiver or alternative requirements).⁶
- Determine if the activity meets a national objective.
- Determine if the activity addresses a direct or indirect impact from the major disaster.

6 Start-Up and Post Award

6.1 Selection Criteria

PRDOH may use any reasonable criteria to select a subrecipient, including but not limited to:

- Issuing a Request for Qualifications;
- Issuing a Notice of Funding Availability (**NOFA**);
- Issuing an application process;
- Selecting a qualified non-profit organization serving a specific geography;
- Selecting a Unit of General Local Government;
- Selecting a Governmental Agency or Organization;
- Direct Selection; or
- Other method(s), as applicable.

6.2 Models for Selecting Subrecipients

The following models are examples of methods PRDOH may use to select a Subrecipient. These are not meant to be all inclusive.⁷

6.2.1 Formal Application

Depending on the selection criteria, prospective subrecipients may be required to submit formal applications to PRDOH. These applications shall describe proposed activities, implementation schedule, budget, staffing structure, related past experience, and to assure compliance with program regulations. PRDOH shall then evaluate the applications according to the selection criteria, CDBG-DR program priorities, and the Action Plan. A formal application process may be followed when:

⁶ Eligible activities are described in 24 C.F.R. Part 570 Subpart C and discussed in *Managing CDBG A Guidebook for CDBG Grantees on Subrecipient Oversight*, <https://www.hudexchange.info/resource/407/managing-cdbg-guidebook-for-cdbg-grantees-on-subrecipient-oversight/>. Any eligibility waivers provided, are found in the different Federal Register Notices that involve CDBG-DR assigned funds, <https://www.cdbg-dr.pr.gov/en/resources/federal-register/>.

⁷ For a full description, see *Managing CDBG A Guidebook for CDBG Grantees on Subrecipient Oversight*, Chapter 2 <https://www.hudexchange.info/resource/407/managing-cdbg-guidebook-for-cdbg-grantees-on-subrecipient-oversight/>;

- Project activities are numerous and/or complex;
- There is a pool of potential applicants with varying degrees of expertise and capacity;
- The cost and level of potential program failure are high; and
- There are limited funds and many competing needs and/or approaches for addressing these needs.⁸

6.2.2 Direct Selection

PRDOH has the discretion to directly identify and select a prospective Subrecipient to carry out the desired CDBG-DR program/activities and approach them directly to determine their interest and suitability for the work. Direct selection may be followed when:

- An entity is uniquely qualified due to having sole jurisdiction over project or complete control/ownership over a project site;
- There is reasonable basis to conclude that it will result in increased efficiencies and produce quicker results, thereby more quickly addressing the unmet need; and
- It can be reasonably concluded that the minimum needs of the Program project can only be satisfied by the selected Subrecipient.

6.3 Capacity Assessment

PRDOH is responsible for determining the adequacy of performance under SRAs. 24 C.F.R. § 570.501. The adequacy of performance must be gauged before any work begins. It is required under 2 C.F.R. § 200.331 (b) for grantees to assess their subrecipients' capacity. A well thought-out assessment, prior to the selection of a subrecipient, helps reduce the risk of future problems and increases the chance of success. PRDOH will accomplish this by assessing the capacity of the Subrecipients. The Capacity Assessment Report is conducted and prepared by PRDOH CDBG-DR Monitoring Division. A capacity assessment provides the information needed by considering key functions such as:

- Grant management history (track record)
- Grantee monitoring reports
- Internal and external audits (i.e. Office of Inspector General (**OIG**))
- Ability to comply with Federal rules & regulations (capacity)
- Staffing (New or experienced staff and turnover rate)
- Program and activity experience/ knowledge of CDBG/CDBG-DR
- Management of similar programs/activities

6.4 Pre-Agreement Procedures

Prior to agreement execution, Subrecipients, as applicable, must have the needed staffing support, confirmed matching resources, sufficiently developed plans, a program site (if required), and budget to start the proposed program after the funding approval,

⁸ Id.

in accordance with the requirements of the proposed SRA. Program Areas will provide the support, as needed, for the preparation of agreement related documents and execution thereof.

6.5 Post Award Responsibilities

Upon execution of the agreement between PRDOH and the Subrecipient, the Subrecipient shall:

1. Comply with provisions of the SRA and its Exhibits, including but not limited to:
 - a. General requirements included thereunder.
 - b. Reporting requirements, performance and delivery of services requirements.
 - c. Any special conditions, as applicable, which may include development of necessary policies and procedures and/or adoption of PRDOH CDBG-DR Policies, as well as capacity building and training requirements, among others.
2. Participate in initial meetings with the Program areas for program implementation, and ensure understanding of Program Guidelines, procurement, and finance requirements.
3. Establish and implement a sound structure for internal controls in compliance with 2 C.F.R. part 200 requirements and as indicated herein.

7 Subrecipient Agreement

The SRA is the basis for the contractual obligation between PRDOH and the Subrecipient to fund and implement the awarded activity or program as required by 24 C.F.R. § 570.503. The agreement denotes responsibilities attributable to each party, and outlines in exact measure the scope of services provided under the agreement, methods of accountability, and a schedule for payment. Execution of the agreement binds the Subrecipient for a specified period of time (term) and may be revised only upon written authorization from PRDOH. Subrecipient Agreements include the following:

- Legal means to convey all applicable requirements, roles, and responsibilities (see CDBG regulations 24 C.F.R. § 570.503);
- Statement of work/scope of services as included in the SRA and pertinent Exhibit;
- Period of performance;
- Records to be maintained, reports to be submitted;
- Uniform administrative/ financial and cross-cutting requirements;
- Provisions on budgeting, program income, suspension/termination, reversion of assets and enforcement;
- Provisions on Payments to Subrecipients based on the reimbursement basis; and,

- Provisions regarding compliance with federal and local statutes and regulations and terms and conditions of the CDBG-DR federal awards and additional PRDOH requirements.

PRDOH utilizes a standardized SRA template, which may be amended from time to time.

8 Technical Assistance and Trainings

PRDOH provides ongoing technical assistance to the Subrecipient to support the compliant implementation of the program and to ensure timely contracting and expenditure of funds. Technical assistance is either provided on a scheduled basis, on an ad-hoc basis determined by an analysis of risk assessment criteria, or at the Subrecipient's request.

Additionally, an initial one-on-one meeting may be scheduled at the discretion of PRDOH to discuss specific requirements and benchmarks. This initial session(s), held with the Program Area and the SMT after the execution of the SRA and prior to the first deliverable, serves to educate the Subrecipient about the basic rules under which all CDBG-DR activities must operate. It also provides an opportunity to establish clear expectations with respect to performance standards, policies, and procedures. Additional technical assistance is available upon request to the Program Area who is responsible to coordinate with training areas. Subrecipients who are identified through PRDOH's monitoring processes, may receive additional and/or customized assistance as needed.

It is required for both, PRDOH and subrecipients, to attend fraud related training provided by the HUD Office of Inspector General to assist in the proper management of CDBG-DR grant funds. Federal Register Vol. 83 No. 26 (February 7, 2018), 83 FR 5844. For more information, see the PRDOH CDBG-DR Anti-Fraud, Waste, Abuse, and Mismanagement Policy (AFWAM Policy).

The AFWAM Policy and all CDBG-DR General Policies are available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/resources/policies/> and <https://www.cdbg-dr.pr.gov/recursos/politicas/>.

As a result of the recommendations in the Capacity Assessment Report, conducted and prepared by PRDOH CDBG-DR Monitoring Division, the Subrecipient shall have to comply with mandatory trainings to address topics such as, but not limited to:

- Record Retention (2 C.F.R. §§ 200.333 - 200.336), and local regulation.
- Financial Management (2 C.F.R. § 200.302), Financial Reporting (2 C.F.R. § 200.327), Payment (2 C.F.R. § 200.305), Cost Principles (2 C.F.R. Part 200 Subpart E), Internal controls (2 C.F.R. § 200.303).
- Grant administration requirements (24 C.F.R. § 570.501).
- Internal controls development and implementation.

- Monitoring procedures to ensure the effectiveness of internal controls.
- Procurement requirements.
- CDBG-DR Program invoicing requirements, format and methodology.
- All applicable systems to manage CDBG-DR Program data.
- Citizen complaints management and reporting.
- Protection of Personally Identifiable Information (PII).

Compensation on personal services and fringe benefits in 2 C.F.R. § 200.430 and § 200.431, respectively. Collection of amounts due (2 C.F.R. § 200.345)

Due dates for completion of such trainings will depend on the SRA. The above mentioned trainings and technical assistance will be conducted by PRDOH for the Subrecipients and, in an effort to preserve documented records of such trainings, the information gathered from these events will be documented and logged by the PRDOH Operations Division.

9 Communications with Subrecipients

A productive support and service strategy requires open and consistent communications between PRDOH and Subrecipients in order for these to implement CDBG-DR programs included in the Action Plan as required by federal legislation.⁹ PRDOH shall ensure effective communication with the Subrecipients by having, at a minimum, monthly communications with the respective Program Area. These may be, but are not limited to, electronic channels, written notifications, and/or meetings. Program Areas can establish a preferred method of communication with its Subrecipient and may request and receive support and guidance from SMT to ensure that Subrecipient communications are managed appropriately.

10 Administrative Requirements

10.1 Financial Management

Financial Management systems and reporting requirements are established in 24 C.F.R. § 570.502, which in turn refer to 2 C.F.R. part 200 (save for the exceptions established in 24 C.F.R. § 570.502). These requirements are set forth in order to ensure that a subrecipient's financial management system is sufficient. Subrecipient's financial management system shall:

- Provide effective control over and accountability for all funds, property, and other assets.

⁹ Federal Register Vol. 83, No. 28 (February 9, 2018) 83 FR 5844.

- Identify the source and application of funds for Federally-sponsored activities, including the “reasonableness, allowability, and allocability” of costs and verification that the funds have not been used in violation of any of the restrictions or prohibitions that apply to this Federal assistance.
- Permit the accurate, complete, and timely disclosure of financial results in accordance with the reporting requirements of PRDOH or HUD.
- Minimize the time elapsing between the transfer of funds and disbursement by the subrecipient.¹⁰

The Subrecipient shall expend and account for all CDBG-DR funds received under the SRA in accordance with:

1. Accounting Standards

The Subrecipient must comply with 2 C.F.R. §200.302 - §303 and shall adhere to the accounting principles and procedures required therein, utilize adequate internal controls, and maintain necessary source documentation for all costs incurred.

2. Cost Principles

The Subrecipient must administer its program in conformance with Cost Principles as outlined in 2 C.F.R. part 200 subpart E, as applicable. These principles shall be applied for all costs incurred whether charged on a direct or indirect basis.

The Financial Policy is available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/resources/policies/> and <https://www.cdbg-dr.pr.gov/recursos/politicas/>.

10.1.1 Internal Controls

PRDOH, as grantee, and all Subrecipients, must have effective control and accountability practices in place. Subrecipients must establish and maintain internal controls as defined at 2 C.F.R. § 200.303 to ensure CDBG-DR funds are managed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. A good internal control system should include several basic features, regardless of the organization's size. The characteristics include:

- An organizational plan that safeguards resources by segregating duties;
- A system of authorization and recording procedures that provides effective accounting control over assets, liabilities, revenues, and expenses;
- An established system of procedures followed by each organizational component in performing its duties and functions;
- Personnel capable of performing their responsibilities; and

¹⁰ Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems, March 2005, <https://files.hudexchange.info/resources/documents/Playing-By-the-Rules-a-Handbook-for-CDBG-Subrecipients-On-Administrative-Systems.pdf>

- An effective system of internal reviews.
- Internal controls can help provide assurance that operations comply with federal requirements.

For example, responses to question such as those below can affect the outcome of an audit:

- Are there payroll records to support charges to federal funds and do they meet the requirements laid out in the applicable cost principles?
- Are there procedures to verify that charges are allowable under grant provisions?
- Are there adequate procedures to verify that program participants are eligible?
- Are corrective actions recommended and implemented as a result of self-monitoring activities?

10.1.2 Accounting Records

Subrecipients must have accounting records that adequately identify the source and application of CDBG-DR funds. The following elements should be incorporated into a subrecipient's accounting system:

- Chart of accounts;
- Cash receipts journal;
- Cash disbursements journal;
- Payroll journal; and
- General ledger.

All accounting record must contain reliable and up-to-date information about the sources and uses of funding including grant awards received, current authorizations to CDBG-DR funds, unobligated balances, assets and liabilities, program income, and expenditures.

10.1.3 Allowable Costs

Basic guidelines set forth by the United States Office of Management and Budget (**OMB**) establish a cost is allowable under the CDBG Program if:

- The expenditure
 - Is necessary, reasonable, and directly related to the grant.
 - Has been authorized by the grantee.
 - Is not prohibited under Federal, state, or local laws or regulations.
 - Is consistently treated.
- The cost
 - Must be allocable to the CDBG Program.
 - Is net of all applicable credits.

10.1.4 Source Documentation

All accounting records must be supported by source documentation. Supporting documentation evidence that the costs:

- Were incurred during the effective period of the subrecipient's agreement;
- Were paid out (or properly accrued);
- Were expended on allowable items; and
- Had been approved by the responsible official(s) in the subrecipient's organization.¹¹

10.1.5 Budget Controls

Subrecipients must have practices in place that allows them to monitor the approved budget allocation, obligations and expenditures. For this, subrecipients must:

- Maintain records of the amounts budgeted for eligible activities;
- Include unexpended/unobligated balances for budgeted categories, as well as obligations and expenditures; and
- Compare, on an ongoing basis, actual obligations and expenditures to date against planned obligations and expenditures, and against projected accomplishments for such outlays.

10.1.6 Cash Management

Subrecipients are required to have procedures in place to minimize the time elapsed between receipt of funds from the grantee and the actual disbursement of those funds. CDBG grant funds have two (2) general methods to transfer these funds to subrecipients: reimbursement and cash advance.

- Reimbursement

The Reimbursement method shall be the preferred method for disbursement to Subrecipients. The Subrecipient shall submit to PRDOH on a monthly basis, or as otherwise required by the SRA, Requests for Reimbursements of activities under the terms of their executed SRA and consistent with the approved Budget and Scope of Work.

The Subrecipient shall submit Requests for Reimbursements to PRDOH, utilizing the form(s) created by the CDBG-DR Finance Division and with the supporting content specified and required by PRDOH, which may include but is not limited to, supporting invoices/ bills, time sheets, monthly reports, and any other documents necessary for the payment or any other supporting document requested by PRDOH.

¹¹ Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems, March 2005, <https://files.hudexchange.info/resources/documents/Playing-By-the-Rules-a-Handbook-for-CDBG-Subrecipients-On-Administrative-Systems.pdf>.

PRDOH may provide orientations to Subrecipients regarding requests for reimbursement of funds.

10.1.7 Financial Reporting

A subrecipient must have the capacity to provide accurate, timely, and current reports that represent a complete disclosure of at least the following information for each CDBG activity:

- Amount budgeted.
- Advances/reimbursements received to date.
- Program income and other miscellaneous receipts in the current period and to date.
- Actual expenditures/disbursements in the current period and cumulatively to date, for both program income and regular CDBG grant funds.

10.2 Procurement & Contracting

The Uniform Guidance procurement requirements (2 C.F.R. part 200, subpart D) are applicable to CDBG-DR funded projects. These policies and procedures ensure that Federal dollars are spent fairly and encourage open competition at the best level of service and price. These requirements are to be adhered to by all parties participating in the procurement.

On August, 4, 2020, PRDOH approved "Procurement Manual for the CDBG-DR Program", Regulation No. 9205, effective on September 3, 2020 (**Regulation No. 9205**), which repeals the "Procurement Manual and Contractual Requirements for CDBG-DR", Regulation No. 9075 of February 26, 2019 (**Regulation No. 9075**); and any other previous regulation, manual, administrative order, or circular letter regarding this matter. The Procurement Manual Frequently Asked Questions was also approved on August 25, 2020. However, all ongoing procurements initiated before September 3, 2020, must abide by the repealed Regulation No. 9075.

The procurement policies contained in Regulation No. 9205 are applicable to every procurement action under the PRDOH's CDBG-DR Program and activities, whether funded in whole or in part with CDBG-DR funds. PRDOH, in the administration of CDBG-DR funds, has elected to adopt these procurement policies for itself and all subgrantees and/or subrecipients of the CDBG-DR Program.

The Subrecipient shall not enter into any contract for goods or services with any entity without the written consent of the PRDOH prior to the execution of such contract. Unless specified otherwise, the Subrecipient shall procure all materials, property, equipment, or services in accordance with the requirements of Regulation No. 9205. Prior to the commencement of any procurement action covered by the current Procurement Manual, the Subrecipient shall receive specific training detailing the rules and

requirements of the Manual. PRDOH monitors the procurement actions of their Subrecipients as part of their oversight.

The Procurement Manual for the CDBG-DR Program and the Procurement Manual for the CDBG-DR Program Frequently Asked Questions are available in English and Spanish at <https://cdbg-dr.pr.gov/en/cdbg-dr-procurement/> and <https://cdbg-dr.pr.gov/adquisiciones-cdbg-dr/>.

Information on the procurement processes under the CDBG-DR funds is also available in English and Spanish at <https://www.cdbg-dr.pr.gov/en/procurement-and-nofa/> and <https://www.cdbg-dr.pr.gov/subastas-y-nofas/>.

10.3 Recordkeeping

Accurate recordkeeping is one of the most important aspect in successful management of CDBG-DR funded activities. Failure to maintain adequate documentation is one of the most serious administrative issues undermining program performance and regulatory compliance of subrecipients. Without adequate record keeping, it is nearly impossible to track performance against SRA goals and adequate management support is limited. Insufficient documentation and reporting on the Subrecipient's part leads to serious monitoring findings which are likely to be much more difficult to resolve in cases where records are missing, inaccurate, or otherwise deficient.¹²

While the Subrecipient has been provided with general reporting and recordkeeping requirements under the executed SRA, the Subrecipient may find further details and information on this matter in the CDBG-DR Record Keeping, Management, and Accessibility Policy (**RKMA Policy**). During the agreement period, Subrecipients and administering entities are responsible for record retention as it relates to the specific CDBG-DR program(s) or project(s) under agreement.

In addition, Subrecipient and administering entities can look to the RKMA Policy for standard file management and recordkeeping guidance. This guidance includes standard formatting procedures to support file transfers at agreement closeout. At the end of the agreement period, PRDOH determines the manner in which files are transferred from the Subrecipient or administering entity to PRDOH and issues guidance on how to complete the file transfer.

The RKMA Policy is available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/resources/policies/general-policies/> and <https://www.cdbg-dr.pr.gov/en/resources/policies/general-policies/>.

¹² Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems, March 2005, <https://files.hudexchange.info/resources/documents/Playing-By-the-Rules-a-Handbook-for-CDBG-Subrecipients-On-Administrative-Systems.pdf>.

Subrecipients and administering entities are responsible for adhering to PRDOH-approved policies. In the event a Subrecipient or administering entity does not have existing recordkeeping policies, the PRDOH RKMA Policy may be adopted and implemented.

10.4 Monthly Reports

The Subrecipient is required to submit regular monthly progress reports to PRDOH utilizing the published PRDOH form(s) and with the content specified and required by the SRA.

Subrecipients must follow the instructions for monthly reporting as set forth by PRDOH CDBG-DR programs and the SRA.

Program Areas provide Subrecipients with the monthly progress report templates to be filled and submitted to PRDOH. Program Areas review and evaluate content of Monthly Reports to ascertain that Subrecipients are carrying out activities contemplated in the SRA and performing as agreed to, among other things.

10.5 Policies and Procedures

The Capacity Assessment Report, conducted and prepared by PRDOH CDBG-DR Monitoring Division, will inform the Subrecipient the required policies it should implement, update and develop.

The Subrecipient is required to update its policies and procedures in compliance with PRDOH CDBG-DR Program policies, state, and federal regulations. However, for the implementation of particular activities, the Subrecipient may be required to adopt and implement specific PRDOH CDBG-DR General policies. Therefore, PRDOH will provide all Subrecipients a list of which PRDOH CDBG-DR General policies shall adopted and implemented and which shall be used to create or edit their own. This list may be amended from time to time to ensure that new policies and edits to previously adopted policies are included.

All PRDOH CDBG-DR Program General Policies are available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/resources/policies/general-policies/> and <https://www.cdbg-dr.pr.gov/en/resources/policies/general-policies/>.

10.6 Other Administrative Aspects

10.6.1 Program Income (24 C.F.R. § 570.503 and § 570.504)

Program income is defined as any gross income received by the subrecipient that was directly generated from the use of CDBG-DR funds, except as provided in the requirements related to Revolving Loans, and received by the grantee or subgrantee. 24 C.F.R. § 570.500(a). In situations where program income is generated in an activity which is only partially funded by CDBG-DR funds, the income should be prorated to correctly reflect income attributable to CDBG-DR funds.

PROGRAM INCOME	NOT PROGRAM INCOME
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Proceeds from the sale or long-term lease of real property purchased or improved with CDBG-DR funds.	Total amounts of less than \$35,000 received in a single year.
Proceeds from the disposition of equipment purchased with CDBG-DR funds.	Amounts generated related to assistance to neighborhood-based nonprofit organizations, local development corporations, nonprofit organizations serving the development needs of the communities in non-entitlement areas, to carry out a neighborhood revitalization or community economic development or energy conservation project, and assistance to neighborhood-based nonprofit organizations, or other private or public nonprofit organizations, for the purpose of assisting, as part of neighborhood revitalization or other community development, the development of shared housing opportunities in which elderly families benefit as a result of living in a dwelling in which the facilities are shared with others in a manner that effectively and efficiently meets the housing needs of the residents and thereby reduces their cost of housing.
Gross income from the use or rental of property acquired by the grantee or subrecipient with CDBG-DR funds, less the costs incidental to the generation of such income.	
Gross income from the use or rental of property owned by the grantee or subrecipient that was constructed or improved with CDBG-DR funds, less any costs incidental to the generation of such income.	
Payments of principal and interest on loans made using CDBG-DR funds.	
Proceeds from the sale of loans made with CDBG-DR funds.	
Proceeds from the sale of obligations secured by loans made with CDBG-DR funds.	
Interest earned on program income, pending the disposition of such program income.	
Funds collected through special assessments made against properties owned and occupied by households not of low- and moderate-income, where such assessments are used to recover part or all of the CDBG-DR portion of a public improvement.	

Program Income must follow the agreed upon clause(s) by PRDOH and the Subrecipient on the executed SRA.

10.6.2 Programmatic and Budget Changes

Any programmatic and/or budget changes are subject to PRODH review and approval. The appropriate steps to propose and implement a change that affects either a programmatic or budget aspect, is established as part of the SRA Amendment process.

10.6.3 Civil Rights and Fair Housing; Employment and Contracting Opportunities (24 C.F.R. § 570.601, § 570.607 and § 570.614)

The Subrecipient shall administer its CDBG-DR funds in compliance with the following Federal laws and Executive Orders, and implementing regulations discussed. These

regulations focus on prohibiting discriminations and ensuring opportunities are available to those who need it.

- Title VI of the Civil Rights Act of 1964, 42 U.S.C. § 2000(d) *et seq.*;
- Fair Housing Act, Title VIII of the Civil Rights Act of 1968, 42 U.S.C. § 3601 *et seq.*;
- Executive Order 11063 – Equal Opportunity in Housing;
- Section 104(b) of Title I of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. § 5301 *et seq.*;
- Section 109 of Title I of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. § 5301 *et seq.*;
- Section 3 of the Housing and Community Development Act of 1968, 12 U.S.C. § 1701(u);
- Section 504 of the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 *et seq.*;
- The Americans with Disabilities Act (ADA) of 1990, 42 U.S.C. § 12101 *et seq.*; and
- Others as established in the SRA between PRDOH and Subrecipient Exhibit for HUD General Provisions.

10.6.4 Suspension and Termination (24 C.F.R. § 570.503 (b) (6))

PRDOH is responsible of ensuring the correct use of CDBG-DR funds. If any problems arise in the performance of a Subrecipient, PRDOH shall take the appropriate actions to correct deficiencies. As part of these actions, PRDOH may choose to suspend or terminate the SRA.

11 Monitoring and Contract Oversight

It is in the Island's best interest that CDBG-DR funds are spent effectively, thus accomplishing their intended purpose. Through monitoring efforts, these funds, and their results are safeguarded. A lack of monitoring, or an insufficient monitoring, risks the loss of CDBG-DR funds. To ensure Subrecipients are properly carrying out activities, PRDOH has oversight mechanisms in place to track progress and monitor performance. Under 2 C.F.R. Part 200, PRDOH monitoring of subrecipients is required to ensure that:

- Subawards are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and
- Subaward performance goals are achieved.

The Subrecipient shall be monitored as necessary to ensure that the funds allocated to the Subrecipient are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the SRA. 2 C.F.R. § 200.331(d). This review shall include: reviewing financial and performance reports required by the PRDOH, following-up and ensuring that the Subrecipient takes timely and appropriate actions on all deficiencies pertaining to the Federal award provided to the Subrecipient from PRDOH detected through audits, on-site reviews, and other means. By reviewing financial

and performance reports, PRDOH ensures the funds are used for authorized purposes, if inadequate, a Subrecipient may be moved to a higher level of risk and additional conditions to mitigate that risk of non-compliance may be assigned. PRDOH may issue management decisions¹³ for audit findings pertaining to the Federal award provided to the Subrecipient from PRDOH as required by 2 C.F.R. § 200.521. The CDBG-DR Program monitoring area has developed a Monitoring Manual and Plan for this process. Substandard performance, as specified in policies and procedures reviewed and approved by PRDOH, will inform determinations of noncompliance with the SRA.

Through ongoing monitoring, PRDOH may consider whether the results of the Subrecipient's audits, on-site reviews, or other monitoring indicate conditions that require adjustments to the SRA. Based on the indications, PRDOH may consider taking enforcement action against noncompliant subrecipients as described in 2 C.F.R. § 200.338 which speaks to remedies for noncompliance.

Contract oversight performed by the Program Areas will consider staff responsibilities (administrative, financial, programmatic and technical); policies, procedures, and tools utilized; methods of nonperformance issues and findings are identified and resolved in a timely manner. For these, PRDOH will use the results of capacity assessments to require needed training or technical assistance. The level of risk associated to the Subrecipient will be determined by their knowledge of program requirements and cross-cutting Federal requirements, the size and complexity of the program(s), financial management indicators, management factors, and citizens' complaints (quantity and management and handling process).

Should PRDOH deem it necessary based on the level of risk, they will identify a schedule for review of Subrecipient activities, which will be shared with the Subrecipient. This schedule will include milestones, which will shall be included in the SRA. Monthly financial progress will be tracked by comparing actual expenditures to the Subrecipients budget and programmatic progress will be tracked by using information from the Quarterly Performance Report (**QPR**).

While Program Areas are primarily responsible of performing oversight of their Program Subrecipients, SMT will work closely with Program Areas to provide guidance and support in overseeing Subrecipients to ensure performance and compliance are in accordance with the SRA. These efforts, coupled with the monitoring performed by the CDBG-DR Monitoring Division, will ensure adequate performance and compliance of the Subrecipient, and as a result thereof, appropriate use of CDBG-DR funds and overall CDBG-DR Program success.

¹³ Management decision means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary. 2 C.F.R. § 200.66.

The above Program based oversight of Subrecipients is part of PRDOH's overall efforts to ensure activities are carried out in compliance with CDBG-DR requirements, program funds are expended in accordance with requirements and achieve the Program's success. Lastly, Subrecipients will be monitored annually per the Monitoring schedule.

12 Monitoring and Audit Requirements

PRDOH will verify that subrecipients are audited as required by Subpart F - Audit Requirements of 2 C.F.R. § 200.500 when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 C.F.R. § 200.501. The responsibility for review and handling of noncompliance in 83 FR 5844 state that "[t]he State shall make reviews and audits, including on-site reviews of any subrecipients, designated public agencies, and local governments, as may be necessary or appropriate to meet the requirements of section 104(e)(2) of the HCDA, as amended, as modified by 83 FR 5844." The CDBG-DR Monitoring Division has developed a Monitoring Manual and Plan with information regarding Subrecipient monitoring.

The SRA provides that the Subrecipients will be audited as required by 2 C.F.R. part 200, subpart F when it is expected that the Subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

Subrecipient shall provide an annual certification form to PRDOH for the previous fiscal year which states that the Subrecipient did not reach the annual expenditure threshold as a result it is not required to undergo a single audit as required under 2 C.F.R. part 200. PRDOH will provide such annual certification form to the Subrecipient.

13 Project Closeout

The closeout of a grant is a process in which PRDOH determines that applicable administrative and program requirements of the applicable SRA between PRDOH and the subrecipient have been completed. The closeout process will include steps taken to ensure the subrecipient:

- Expends all grant funds in accordance with needs or return funds
- Updates accomplishments data to reflect all activities completed (or canceled)
- Update the performance measures for actual versus proposed

14 Cross Cutting Guidelines

Some federal and local requirements apply to all programs funded by CDBG-DR. These Cross-Cutting Guidelines cover topics such as: financial management; environmental review; labor standards; acquisition; relocation; fair housing; among others. The

requirements described in the above referenced Cross-Cutting Guidelines, apply to all programs described in PRDOH's CDBG-DR Initial Action Plan and its amendments.

The Cross-Cutting Guidelines is available in English and Spanish on the CDBG-DR webpage at <https://www.cdbg-dr.pr.gov/en/resources/policies/> and <https://www.cdbg-dr.pr.gov/recursos/politicas/>.

15 Noncompliance

Notwithstanding the actions included in the Monitoring and Contract Oversight section of this Policy, should the Subrecipient not comply with the requirements set forth in this Policy and referenced documents, 83 FR 5844 allows PRDOH to "take such actions as may be appropriate to prevent a continuance of the deficiency, mitigate any adverse effects or consequences, and prevent a recurrence." PRDOH shall also establish remedies to address noncompliance. The specific conditions, as set forth in 2 C.F.R. § 200.207, may be required of the Subrecipient if the latter presents a risk, a history of noncompliance, fails to meet performance goals or when the Subrecipient is not responsible. These additional conditions shall be notified to the Subrecipient.

A Subrecipient is expected to comply with and meet the established requirements contained in the SRA. Through documented oversight efforts, the Program Area and SMT will ensure that necessary actions are followed when a nonperformance or lack of progress or instances of possible non-compliance are identified by the Program Area and notified to SMT. In such cases, PRDOH may generally proceed as follows:

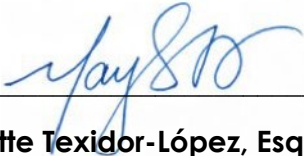
1. Written notification sent to Subrecipient which may include a statement and explanation of instance of non-performance, lack of progress or possible non-compliance and corrective action. Such notification is intended to provide Subrecipient with a term for corrective action.
 - a. PRDOH and the Subrecipient may work together to identify a solution to the problem and will develop a plan to meet the performance requirements.
2. PRDOH may impose a recovery plan in the event that Subrecipient is unable to provide corrective action based on the above.
3. Initiation of termination of SRA and recovery of funds in accordance with the provisions found thereunder and adopted applicable SOPs.

In order for the DRDS, the PRDOH Legal Director and the PRDOH Finance Director (PRDOH Management) to be aware of actions taken with Subrecipients as outlined above, the SMT will provide them quarterly reports with pertinent actions, information and any adequate recommendations related to the Subrecipient in question. However, in instances where the termination of SRA and recovery of funds is recommended, the SMT will immediately report any such instances to the Legal Director and subsequently to the

DRDS and the Secretary for final determination to proceed with termination of the SRA in accordance with the provisions found thereunder.

16 Approval

This Subrecipient Management Policy will take effect immediately after its approval. This document supersedes any previously approved version.



Maytte Texidor-López, Esq.

Legal Division Director
CDBG-DR Program

October 5, 2020

Date

END OF POLICY.