



# Integrity Bulletin

U.S. Department of Housing and Urban Development  
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## Documenting the Life Cycle of a CPD Grant

### Overview & Purpose

Community Planning and Development (CPD) grantees and subrecipients endeavor to meet program requirements as they use grant funds for housing and community development activities. While carrying out program activities should be the main focus, grantees must remember that documentation provides the evidence that grant funds were spent and activities completed appropriately. When grantees and subrecipients fail to generate, gather and retain necessary documentation, justifying what was done or how much it cost becomes a significant challenge. As a result, audits and monitoring reviews frequently cite *lack of documentation* and *questioned costs* in findings. For fiscal years 2011 to 2015, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) conducted 269 audits of CPD programs, and questioned nearly \$2.8 billion for ineligible or undocumented program costs. The purpose of this bulletin is to make grantees and subrecipients aware of the impact that insufficient documentation can have on their grant programs and offer guidance on how to avoid these findings through the life cycle of a CPD grant.

### The Importance of Documentation

Grantees are custodians of federal funds and should take special care to document how use of these funds complies with applicable federal requirements. Establishing procedures to produce adequate documentation is particularly important for new grantees and subrecipients, who may be less familiar with federal rules regarding the spending of grant funds. Once grantees and subrecipients are awarded a CPD grant, program execution often becomes their primary focus; recordkeeping may be an afterthought or local procedure may be used as a default, even if it is inconsistent with federal rules.

When audit findings cite questioned costs, grantees must redirect time and resources from program execution to locating or producing the appropriate documentation. When such documentation cannot be produced, grantees must reimburse the federal funds associated with the questioned costs. With an audit generally completed a year or more after the grant funds have been spent, it is often difficult for the grantee and subrecipients to know or have documentation of what actually occurred. In a worst case scenario, the grantee may be required to repay grant funds for completed eligible activities that are not adequately documented.

### Document! Document! Document!

In many cases grantees do not realize that, in addition to spending-related documentation, key decisions, plans, policies and procedures must all be

documented as well. Audits often show that while some documentation is maintained, problems generally arise because grantees and subrecipients do not realize the extent of the documentation that is required, don't know the requirements or misinterpret them. At every phase of the grant life cycle, grantees must be careful to generate and maintain appropriate documentation and stress the importance to their subrecipients of maintaining appropriate documentation (see the Appendix for specific types of documentation required at each of the phases described below).

### **Phase 1. Post-award Start-up**

After the grant is awarded, documentation must be maintained regarding expenditures, staffing, facilities, equipment, program and administrative policies and procedures associated with the grant. Eligibility of CPD funded activities must be documented, including any national objectives if funded by CDBG grants. If activities involve beneficiaries, appropriate criteria must be developed and verifications of eligibility applied to document who may receive funding. As discussed in the [Integrity Bulletin on Subrecipient Oversight](#), risk assessments and monitoring plans and schedules for subrecipients need to be established and documented. Any applicable policies, plans, and procedures needed to comply with the CPD grant should also be documented. Examples include labor (Davis-Bacon), environmental and conflict-of-interest standards.



#### Example of undocumented post-award start up activities

A State's contractor running a housing rehabilitation program was required to verify homeowner eligibility and implement a management information system meeting State specifications and internal control requirements. Of 22,135 grants, the contractor coded 418 (2 percent) grants as ineligible. However, despite being coded ineligible or lacking an eligibility determination, the homeowners were still awarded grants. This occurred because the management information system lacked controls to stop ineligible homeowners from being awarded funds. The audit questioned \$14.6 million and recommended all funded homeowners be reviewed to ascertain eligibility. In this case, had the contractor tested the software before implementing the system, the very costly glitch could have been identified and the finding could have been prevented.

### **Phase 2. Administration and Spending**

Administration refers to the internal management of the CPD funds awarded to grantees and subrecipients. As discussed in the [Integrity Bulletin on Internal Controls](#), administration is where documentation for control activities is developed and issued. Administrative responsibilities include budget, accounting, cash management systems, procurement policy plans and procedures, all of which must be documented to demonstrate compliance with CPD program rules.



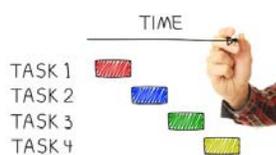
Rules for documenting spending are based on a set of standards—some universal, as described in 2 Code of Federal Regulations (CFR) Part 200, and others specific to the program requirements under which the funding is made available—that grantees and subrecipients must follow. The three key regulatory cost principles are that costs must be allowable, reasonable, and allocable. In general, adequate documentation includes an invoice or receipt that identifies: who authorized the expense, what it was for, the amount and when it was spent; which award was charged; and a determination that it is allowable, reasonable and allocable per the regulation standards (see [2 CFR Part 200, Subpart E](#) on Cost Principals and specific program regulations for more information). Executive and financial staff must be familiar with these principles to ensure grant funds are spent appropriately.

The most common documentation deficiency found in OIG audits relates to payroll. Often grantees have an administrative budget that lists, for instance, one full-time and three half-time staff. They will then charge the grant for the full salary of the one person and half the salaries for the other three regardless of how their time was actually spent. This is incorrect. Instead, grantees should be requiring the staff to maintain individual timesheets by funding source, cost objective and grant year (if there are multiple grants or years involved). The time sheets are required to be approved by a supervisor and entered into the payroll system accurately. Alternatively, some employees may charge their time through an indirect cost allocation plan. These are all acceptable administrative protocols, but audits find that some grantees or subrecipients neither documented the rationale nor submitted a request to HUD for approval of a cost allocation plan.

#### Example of incorrect payroll allocation

A non-profit coalition overseeing housing programs incorrectly allocated nearly \$41,000 in program staff salaries to its HUD grants. Employee timesheets were inconsistent with the Coalition's payroll records. The Coalition required its program staff members to classify and separate hours worked by grant on their timesheets. During an audit, coalition officials stated that actual costs incurred often exceeded the total amount of its grants. Management and accounting staffs met on a periodic basis to reallocate costs away from over-expended grants. These reallocations could take place months after the employee timesheets were certified. The grantee should not have reallocated the costs as there was no documentation to justify the changes in the accounting records.

### **Phase 3. Program and Project Management**



In this phase, documentation focuses on the scheduling of activities to project completion and monitoring of subrecipients to ensure that all requirements are being followed. Where matching funds are required, grantees must track the source and age of matching funds for their annual matching report to HUD. This is also true for any program income the grant funds may generate. Grantees and recipients are expected to have support for all progress reports and monitoring notes

and reports. It's a best practice to maintain a chronology file for each project that contains a running history of everything that occurs on the project, including decisions, significant phone call summaries or emails and texts related to major events in the life of the project. Such a document allows a new manager or supervisor to know the exact status of the project and how it got to its current point.

Example of lack of timely progress

A city achieved minimal progress on its economic development activities. It could not demonstrate that more than \$4.7 million in funds were spent in a timely manner. The majority of funds for three fiscal years had gone unspent. The city failed to monitor its subrecipient and failed to require and monitor progress reports. The city should have removed a subrecipient that did not have the capacity to administer the activity and should have requested a reprogramming of funds for other eligible activities.

**Phase 4. Close-out**

The end of a grant occurs after all activities are completed and expenditures paid (other than close-out costs such as an audit) and grant agreements with subrecipients satisfied. Close-out also requires full reconciliation of all funding and expenditures and securing and disposition of equipment or property per grant requirements. At the end of a grant's period of performance grantees and subrecipients have 90 days to submit (unless an extension is granted) all financial, performance, and other reports, as required by the terms and conditions of the Federal award ([2 CFR 200.343 \(a\)](#)).



**Summary**

Every year grantees and subrecipients lose the benefit of millions of dollars of grant funds because they fail to adequately document their actions and expenditures. Knowing the tests for allowability, reasonableness, and allocability, and the types of documentation need to support the entire life cycle of your grant will make grant funds go further and avoid repayments from your own funds. If you have questions regarding documentation, contact your local CPD representative.

Following is a chart that shows the general life cycle activities of a grant and the documentation that will be required. Records must be accurate, complete and orderly. A grantee or recipient must establish the specific requirements for record keeping in its subrecipient agreements.

<b>DOCUMENTATING EACH PHASE OF THE GRANT LIFE CYCLE</b>	
<b>Grant Phase</b>	<b>Documentation needed</b>
<b>Phase 1: Post-award Start-up</b>	
Funding Approvals and Eligibility	<ul style="list-style-type: none"> <li>• Grant applications and amendments</li> <li>• Award and amendment approvals</li> <li>• Consolidated/Action/Annual Plans</li> <li>• Grant correspondence</li> </ul> <p>Make sure to have a full description of each activity that includes location, the financials, targeted beneficiaries, and the regulatory provisions confirming eligibility. Don't forget to include citations for cross-cutting regulations such as environmental, uniform administrative requirements (2 CFR Part 200), labor, lead hazard, and fair housing to name a few.</p>
Capacity, Conflict of interest, and Institutional Internal Controls	<p>Examples of support that would apply to CPD grantee and subrecipients:</p> <ul style="list-style-type: none"> <li>• A Charter or Articles of Incorporation/Bylaws</li> <li>• Tax status</li> <li>• List of Board of Directors and Authorized Official</li> <li>• Organizational Chart with Job Descriptions</li> <li>• Résumés of Chief Admin. and Chief Fiscal Officers</li> <li>• Lobbying Statement</li> <li>• Financial Statement and Audit</li> <li>• Conflict of Interest Statement</li> <li>• Results of debarment and suspension checks</li> <li>• Statement of Work</li> <li>• Written Agreements</li> <li>• Executed Memorandums of Understanding with Service Providers</li> <li>• Program policies and procedures</li> <li>• Personnel Policies and Procedures</li> <li>• Grievance Policy</li> <li>• Policy Privacy/Confidentiality Policy</li> <li>• Drug-Free Workforce Policy</li> <li>• Record retention policies</li> </ul>
<b>Phase 2: Administration and Spending</b>	
Financial Systems	<ul style="list-style-type: none"> <li>• Policy and procedures on budgeting, budget management, cash management, accounting systems, processing payments, drawing funds, and maintaining program income</li> <li>• Project applications should be maintained to ensure costs</li> </ul>

	<p>charged against the grant are consistent with the approved budget items identified in the applications.</p> <ul style="list-style-type: none"> <li>• Chart of accounts and ledgers for the source, application and balance of funds showing budget, obligation, expense, revenue, credit and cash amounts</li> <li>• Reconciliation reports showing the general ledger accounts match the federal financial management systems, performance reports, and federal cash transaction reports (SF-425)</li> <li>• Purchase orders, contracts, leases, invoices, and receipts to support obligations and costs</li> <li>• The financial assistance agreement between the subrecipient and owner (specifying levels of assistance, intended uses for funds, matching requirements, repayment and recapture procedures)</li> <li>• Financial underwriting to support the level of assistance, viability of the project, capacity to carry-out the project, and eligibility of the funding</li> <li>• Cost Principles (Reasonable, Allocable, and Applicable) reviews with a formal certification for each review asserting that the expenditures and the review is true, complete and accurate (2 Part 200, Subpart E)</li> <li>• Canceled checks or wire transfers to verify receipt of funds</li> <li>• Bank account records</li> <li>• Indirect Cost Allocation Plans (ICAP), Indirect Cost Rate Proposals (ICRP), and executed ICRP agreements</li> <li>• For indirect costs, records to show the formula or rate applications</li> <li>• Documentation to support that the formulas used for distributing costs across funding sources are based on actual reasonable usage for the activities and not portioned based on award amounts or any estimated amounts</li> <li>• Standards for documenting personnel expenses are found in 2 CFR Part 200.430(i), must be incorporated into the official records of the entity, reflect the employees' total activities including the federal- and nonfederal-funded portions and may include payroll, cancelled checks or direct deposit advices, personnel activity reports (PAR forms), and certified time sheets. Draws based on budgeted costs must be adjusted to reflect documented actual costs.</li> <li>• Annual inventories for assets and equipment</li> </ul>
<p>Procurement and contracting</p>	<ul style="list-style-type: none"> <li>• Formally adopted written procurement policies and procedures in compliance with 2 CFR Part 200 – Procurement Standards</li> <li>• A written code of conduct governing employees, officers or</li> </ul>

	<p>agents engaged in the award and administration of contracts supported by grant funds</p> <ul style="list-style-type: none"> <li>• Description of Goods and Services</li> <li>• Cost estimates and analysis to determine the price is reasonable</li> <li>• Depending on the type of Procurement:             <ul style="list-style-type: none"> <li>- Micro-Purchases - Invoices, logs showing distribution of orders among qualified vendors, quotations unless price is documented as reasonable</li> <li>- Small Purchases - Written or faxed quotes, or if by telephone, a record of the telephone solicitation</li> <li>- Sealed Bids – Bid tabulation, advertisements, outreach notifications, bid evaluations, award determination</li> <li>- Competitive Proposals - advertisements, outreach notifications, list of evaluation factors, evaluation reviews and scores, negotiation correspondence, award determination</li> <li>- Noncompetitive Proposals – Must show why the other forms of procurement were infeasible because: single source; public emergency; or inadequate competition after a number of solicitations were made; and HUD approval prior to contract award</li> </ul> </li> <li>• Executed Contracts signed by an authorized official</li> <li>• Results of debarment and suspension checks</li> <li>• Performance oversight documentation may include inspection reports and punch lists</li> <li>• Approved change orders must include justifications and cost analyses to determine the prices are reasonable</li> <li>• Contractor billing oversight means reviews are documented to show that the services or items delivered and paid for are consistent with the items contained in the corresponding purchase orders and/or contracts and timely payment of vendors occurs once requested</li> <li>• Required Bonding and Insurance documents</li> <li>• Records showing affirmative steps to use small, minority-owned and women-owned businesses in grant funded contracts</li> <li>• Contract standard award templates found in 2 CFR Part 200, Appendix II – Contract Provisions for non-Federal Entity Contracts under Federal Awards</li> </ul>
<p><b>Phase 3: Program and Project Management</b></p>	
<p>Project management</p>	<ul style="list-style-type: none"> <li>• Project case files with documenting what makes the activity eligible (i.e. documenting a disability for permanent supportive housing, documenting an exclusive benefit to disabled adults for public accessibility improvements, work write-ups for housing rehabilitation, and documenting rent</li> </ul>

## Appendix

	<p>and utility rates for affordable rental housing, etc.)</p> <ul style="list-style-type: none"> <li>• Full description of each activity and eligibility determination</li> <li>• National objective determination (CDBG)</li> <li>• Use and changes for real property, property management</li> <li>• Applicable compliance areas and certifications</li> <li>• Characteristics and location of beneficiaries</li> <li>• Evidence of liens to secure loans</li> <li>• Schedules with start and end dates, assignments, progress status (contents vary based of the type of activity being conducted)</li> <li>• Applicable property standards with inspections, building permits, and occupancy certifications</li> <li>• Verifying completion of work with inspections and site visits</li> </ul>
Complaints	<ul style="list-style-type: none"> <li>• Policies and procedures for handling complaints from beneficiaries, citizens, contractors, and subrecipients</li> <li>• Written responses</li> <li>• Investigation reports</li> <li>• Correspondence with investigation results and remediation actions if applicable</li> <li>• Verifications that complaints have been sufficiently addressed</li> </ul>
Beneficiary eligibility	<ul style="list-style-type: none"> <li>• Proof of Income/address/ other qualifying characteristic depending on the approved activity</li> <li>• Intake/screening procedures</li> <li>• Applications for assistance including property address if applicable</li> <li>• Program participant files with proof of income eligibility and proof of program eligibility as applicable (i.e. elderly, homeless, disabled)</li> </ul>
Outcome	<ul style="list-style-type: none"> <li>• Documentation that Annual Performance Reports were submitted timely</li> <li>• Performance plan and progress reports</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>• Policy and procedures</li> <li>• Risk assessments</li> <li>• Monitoring schedules and plans</li> <li>• Monitoring results and reporting</li> <li>• Tracking of corrective actions</li> </ul>
Subrecipient oversight	<p>Subrecipients are considered extensions of the grantees/recipients and therefore must maintain documents for federally-funded activities in the same manner as grantees and recipients. They maintain the same documents required by grantees and recipients in this guidance. The responsibilities to maintain records is passed on through the written agreement.</p> <ul style="list-style-type: none"> <li>• Policies and procedures for maintenance and access to subrecipient records</li> </ul>

	<ul style="list-style-type: none"><li>• Periodic requests and reviews of subrecipient activities and the records to support them</li></ul>
<b>Phase 4: Close-out</b>	
	<p>Records to be maintained are typically specified in a close-out notice. They may include:</p> <ul style="list-style-type: none"><li>• Asset/property disposition</li><li>• Matching requirements met</li><li>• Final Status and Evaluation Report (ASER).</li><li>• Financial Status Report SF-425.</li><li>• Final request for payment</li><li>• Subrecipient close out agreement</li></ul>