

## CHAPTER 8.0: CLOSEOUT

It would be nice if the closeout process for completing your activities under a Subrecipient Agreement were as simple as closing out a bank account or making a final payment on a mortgage. Unfortunately, closeout procedures can be somewhat drawn out, depending on the complexity of the activities undertaken and the nature of any contingent assets or liabilities which may survive the completion of your CDBG-funded activities.

What this means is that your agency may remain “on the hook” (i.e., responsible) despite having completed all requirements under its Agreement and despite having paid/received all accounts due. ***The key to closing out your activities effectively is “clarity.”*** Clarity can only be achieved if you have carefully and fully documented all of your financial and program activities up to the point of closeout. The weaker your documentation, or the more complicated your program, or the longer time that has elapsed over the life of the Agreement, the more difficult it may be to achieve a resolution of closeout issues to the satisfaction of both your agency and the grantee.

This chapter is designed to help you understand the closeout process with respect to:

- General issues that must be addressed.
- Specific closeout procedures typically undertaken by subrecipients.
- Adjustments made to account for final costs, cash, and other asset balances.
- Continuing subrecipient responsibilities mandated by Federal regulations.

By knowing these ahead of time, you can *take appropriate steps now* to assure that you and the grantee are fully aware of the likely issues to be addressed during the settlement process. You can also clear up any documentation problems that may hinder your ability to finalize activities and deliverables under your Subrecipient Agreement.

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#### AS YOU READ THIS CHAPTER, THINK ABOUT ...

1. Whether any of your CDBG-funded activities may be ready to closeout, and what their status is.
2. Whether your financial and progress reports are up-to-date and accurately reflect the completion of your work under the Agreement.
3. Whether there are any outstanding monitoring issues (findings or concerns) that have not been resolved to the satisfaction of the grantee.
4. Whether there are any commitments (e.g., affordable housing) that may survive the closeout of your activities with the grantee, and how you plan to handle them.

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#### **8.1 Overview**

The closeout of a Subrecipient Agreement is the process by which the grantee determines that all required work under the Agreement has been completed. This means that all financial, administrative, and performance issues related to the activities undertaken by the subrecipient have been resolved to the satisfaction of both the grantee and the subrecipient.

The Federal regulations applicable to the CDBG program include few specific requirements relative to the closeout of subrecipient projects. The lack of specific Federal requirements means that there will be some variation in closeout procedures among communities. Nonetheless, many grantees, through the incorporation of appropriate language in their Subrecipient Agreements, require their subrecipients to follow closeout procedures that are similar to the ones that the grantees themselves must follow pursuant to 24 CFR 570.509. The following section describes the general process detailed in 24 CFR 570.509 that is often used by grantees as a standard for the closeout of subrecipients.

#### **8.2 Closeout Procedures**

A grantee will usually initiate closeout procedures relative to a subrecipient when:

- All costs to be paid with CDBG funds have been incurred, with the exception of closeout costs (e.g., audit) or contingent liability costs.
- The work to be financed with CDBG has been completed, including activities financed through escrow accounts, loan guarantees, or similar mechanisms.
- The other responsibilities of the subrecipient under its agreement with the grantee have been met, or the grantee feels that there is no further benefit in keeping the Agreement open for the purpose of securing performance.

When the grantee has determined that these criteria have been met, or upon the expiration or termination of the Subrecipient Agreement, the grantee usually will require the subrecipient to provide final versions of all financial, performance, and other reports that were a condition of the award. These reports may include but are not limited to:

- A final performance or progress report.
- A financial status report (including all program income).
- A final request for payment.

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- A final inventory of property in the subrecipient's possession that was acquired or improved with CDBG funds.

Although an alternate deadline may be established by the grantee, frequently these reports are due within 90 days of the expiration/termination of the Subrecipient Agreement or notification by the grantee. The grantee generally will also require the subrecipient to liquidate all obligations incurred under the CDBG award before the submission of the final financial status report.

Based on the information provided by the subrecipient in these final reports and other relevant information, the grantee may execute a closeout agreement with the subrecipient that specifies:

- Any closeout costs or contingent liabilities subject to payment with CDBG funds after the closeout agreement is signed.
- The amount of any unused CDBG funds (see Section 8.3 regarding the disposition of these funds).
- The subrecipient's responsibilities after closeout (see Section 8.4).
- Other provisions appropriate to any special circumstances.

### **8.3 Cost and Cash Adjustments (24 CFR 570.503(b)(7))**

Upon receipt by the grantee of the reports referred to in Section 8.2 in the preceding section, the grantee will make upward or downward adjustments to the subrecipient's allowable costs. The grantee should make prompt payment to the subrecipient for any outstanding allowable reimbursable costs.

Pursuant to 24 CFR 570.503(b)(7), the Subrecipient Agreement must specify that any grant funds that are remaining in the subrecipient's possession at the expiration or termination of the agreement must be refunded immediately to the grantee. Similarly, any accounts receivable must be transferred to the grantee.

According to 24 CFR 85.52 (which specifically applies to subrecipients that are governmental entities), any funds paid to the subrecipient in excess of the amount to which the subrecipient is finally determined to be entitled under the CDBG program constitutes a debt to the Federal Government. If not paid by the subrecipient within a reasonable period of time, a grantee may reduce this debt by making an offset against other requests for reimbursement from the subrecipient by withholding advance payments or by other action permitted by law.

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#### **8.4 Continuing Subrecipient Responsibilities**

As specified in 24 CFR 84.72 and 85.51, the closeout of a CDBG award to a subrecipient does not affect:

- The grantee's right to disallow costs and/or recover funds on the basis of a later audit or other review.
- The subrecipient's obligation to return funds due to the grantee from subsequent refunds, corrections, or other transactions.
- The subrecipient's responsibilities for records retention.
- The CDBG property management and disposition requirements.
- Audit requirements.

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#### Exercise for Chapter 8.0 — Closeout

##### Circle the Correct Answer

1. On the date that its Subrecipient Agreement with the Midtown Community Development Agency expired, the non-profit Family Services Organization submitted final performance, financial status, and inventory reports, and a final request for payment. Once the final payment is received from the grantee, can this subrecipient consider itself “closed-out”?

**YES**

**NO**

2. Although its CDBG-funded \$500,000 housing rehabilitation effort over the last year had not yet been audited, when the funds were fully expended and assisted units completed, the Mica City Housing Authority submitted its final reports to the Mica City CD Office and received certification that the grantee considered its program to be closed-out. Must the Mica City Housing Authority still arrange for an audit of its CDBG funds?

**YES**

**NO**

3. As a subrecipient under Central County’s CDBG program, the city of Lobos had implemented a public facilities effort aimed at removing architectural barriers, with the municipality agreeing in the Subrecipient Agreement to match the CDBG funds in the project on a dollar-for-dollar basis with city funds. The project had been formally closed out by the time that the city contracted for an IPA audit of this activity. The completed audit, however, revealed that the final costs of the public facilities effort and the amount contributed as the city’s match against the CDBG assistance were less than the figures previously submitted by Lobos in its final reports for closeout. Can the grantee still disallow some of the expenses covered with CDBG funds?

**YES**

**NO**

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4. The subrecipient, Housing Resources, Inc., had been operating a CDBG-funded rehabilitation grant program for low- and moderate-income households. *After closeout*, one of the property owners that had been assisted by the program decided *not* to make the rehabilitated unit, which had been recently vacated, available to a low- or moderate-income tenant, and under the recapture provisions of the program, returned the amount of the assistance (plus an interest penalty) to Housing Resources, Inc. Can Housing Resources keep these funds for its own use?

**YES**

**NO**

*The answers are on next page.*

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#### Exercise for 8.0 — Closeout (continued)

#### Answers to questions from preceding pages

1. **NO.** It is up to the grantee to determine when the conditions for “closeout” have been satisfied, consistent with its standard procedures (which should be spelled out in writing for subrecipients). Once these conditions have been met, the grantee should either enter into a closeout agreement with the subrecipient or send written notification to the subrecipient regarding the latter’s closeout status along with any special conditions or continuing responsibilities which the subrecipient must satisfy. Until a subrecipient receives such formal notification, it should **not** assume that any CDBG activity has been closed out.
2. **YES.** The applicable regulations are clear that the closeout of a CDBG award does *not* affect the subrecipient’s audit requirements. And, according to OMB Circular A-133, any entity that expends \$500,000 or more a year in Federal financial assistance must have an audit completed in accordance with the standards found in that circular.
3. **YES.** 24 CFR 84.72 and 85.51 specify that even after closeout of the CDBG project, the grantee has the right to disallow costs and recover funds based on a later audit. In this case, the grantee could choose to reduce the allowable CDBG costs to a level equal to the actual amount of cash match contributed by the city of Lobos.
4. **NO.** According to 24 CFR 570.503(b)(7), at the expiration of the Subrecipient Agreement, the subrecipient must transfer to the grantee any CDBG funds on hand and *any accounts receivable attributable to the use of CDBG funds*. The obligations of assisted property owners to reimburse the subrecipient under recapture provisions of a funding agreement would constitute accounts receivable. Therefore, the subrecipient would need to return these funds to the grantee.