

### CHAPTER 4.0: PARTICIPANT EXERCISES

#### 4.1 Overview

The questions and answers provided here are reproduced from the subrecipient handbook Playing by the Rules. They may be used in a training scenario to:

- Identify the level of knowledge of participants at the beginning of training (for advanced subrecipients).
- Initiate discussions around key issues identified during the trainers' presentations.
- Establish participant comprehension of materials presented in the sessions.

### 4.2 Exercise for Financial Management

#### Circle the Correct Answer

1. Which of the following are components of an organization's system of *internal controls* for financial management?
  - (a) Written procedures and policies.
  - (b) Specified job responsibilities.
  - (c) Job qualifications.
  - (d) Accounting records.
  - (e) All of the above.
  
2. The sole purpose of *accounting records* is to provide reliable and up-to-date information on the cash controlled by an organization or agency.

**TRUE**                      **FALSE**
  
3. An expenditure by a subrecipient will be considered an *allowable* CDBG expense if it is necessary to carry out an approved activity, and is not explicitly prohibited by Federal, state or local regulations.

**TRUE**                      **FALSE**
  
4. *Source documentation* does not have to be located in the CDBG project files.

**TRUE**                      **FALSE**
  
5. An effective system of *budget controls* requires a periodic comparison of actual obligations and expenditures against planned obligations and expenditures, and against projected accomplishments for such outlays.

**TRUE**                      **FALSE**
  
6. Interest income from CDBG advances and revolving loan accounts may be retained by the subrecipient as program income.

**TRUE**                      **FALSE**

*The answers are on next page.*

## Exercise for Financial Management (continued)

### Answers to questions from preceding page

1. “(e) All of the above.”
2. **FALSE.** The purpose of accounting records is to provide information *not only on cash* but also on *all the assets and liabilities* of an organization, including property, receivables, payables, and other obligations.
3. **FALSE.** The fact that an expenditure is both necessary and not explicitly prohibited by law and program regulations *is only part of the criteria* that must be met for it *to be considered an allowable CDBG expense*. In addition, the expenditure must:
  - Have been authorized by the grantee (through an approved budget or other mechanism).
  - Be reasonable.
  - Have been treated by the subrecipient in a manner consistent with its normal procedures for computing costs.
  - Be allocable to an approved CDBG cost objective.
  - Be net of all applicable credits.
4. **TRUE.** *Source documentation does not have to be stored in the CDBG project files so long as it is readily available to be reviewed by the grantee, HUD, or other authorized representatives.* In general, however, subrecipients will find that it is more efficient in the long run to maintain as much project information as possible in files specifically dedicated to their CDBG activities.
5. **TRUE.**
6. **FALSE.** One of the primary purposes of a subrecipient’s *cash management* system is to minimize the time between receipt of CDBG funds and their disbursement; therefore, if the subrecipient’s system is working efficiently, *there shouldn’t be any interest income* generated on cash advances. In fact, 24 CFR 570.500(a)(2) makes explicit that *the definition of program income does not include interest earned on the investment of the initial proceeds of a grant advance, including funds advanced from a grantee to a subrecipient*, and any such funds must be promptly remitted to the U.S. Treasury. Moreover, 570.500(b) makes it clear that cash balances held in a revolving fund must be held in an interest-bearing account and that any interest earned on funds held in such an account will be considered to be interest income generated on a cash advance and must be remitted to the Treasury at least annually.

### 4.3 Exercise for Procurement and Contracting

#### Circle the Correct Answer

1. The reason for Federal competitive procurement requirements is:
  - (a) To ensure that supplies, equipment, and services are acquired efficiently.
  - (b) To help guarantee a “fair” price for items or services bought with Federal funds.
  - (c) To give the public confidence in the procurement practices of Federal assistance programs.
  - (d) To allow more firms, particularly local firms, small businesses, and minority- or women-owned businesses, to have an opportunity to compete for work under Federal programs.
  - (e) All of the above.
  
2. A cost or price analysis and documentation of the procurement process are only required for *major purchases*.

**TRUE**

**FALSE**

3. A governmental subrecipient is justified in breaking up a procurement into components of \$100,000 or less in order to utilize the “small purchase” procedures so long as the procurement process for each purchase is still competitive.

**TRUE**

**FALSE**

4. The “Section 3” requirements for awarding work to local business concerns takes precedence over the competitive procurement requirements.

**TRUE**

**FALSE**

*The answers are on next page.*

## Exercise for Procurement and Contracting (continued)

### Answers to questions from preceding page

1. “(e) All of the above.”
2. **FALSE.** A subrecipient must do a cost or price analysis and maintain documentation of the procurement process for *every* procurement. However, the level of complexity of the analysis and detail of the documentation should vary by the size of the procurement and the extent of competitiveness in the process. Therefore, the purchase of desktop stationary supplies will require that the subrecipient maintain a very modest level of documentation of how comparative prices were analyzed (through catalogs and/or price quotes). A sole source procurement, on the other hand, will require much more extensive documentation to justify the noncompetitive process and to demonstrate that the price incurred was fair.
3. **FALSE.** The standard for “small purchases” is that the procurement for services, supplies, or property does not cost more than \$100,000 *in the aggregate*. Therefore, for example, it is not allowable to break up arbitrarily a \$150,000 procurement of weatherization materials into three \$50,000 purchases just to be able to use the less complicated “small purchase” procedures. The purchase of such materials should be handled through a *sealed bid* method of procurement, with the larger purchase volume entailed in this approach likely to result in lower per unit prices.
4. **FALSE.** *Both* sets of requirements must be satisfied. Therefore, the competitive procurement procedures adopted by the subrecipient also must be designed to facilitate and encourage local businesses to compete for the proposed work.

#### 4.4 Exercise for Property Management and Disposition

##### Circle the Correct Answer

1. For **real property** controlled by a subrecipient and acquired or improved with CDBG funds in excess of \$25,000, what is the *minimum* period of time following the expiration of the Subrecipient Agreement that such property must be used to continue to meet a national objective?
  - (a) 1 year.
  - (b) 3 years.
  - (c) 5 years.
  - (d) 10 years.
  - (e) As long a period as the grantee feels is appropriate.
  
2. When are the proceeds from a subrecipient's sale of equipment purchased with CDBG funds considered to be **program income**?
  - (a) Never.
  - (b) When the proceeds are returned to the grantee as compensation for the original CDBG funding.
  - (c) When the net proceeds exceed the compensation due to the grantee.
  - (d) When the depreciated value of the equipment exceeds the CDBG portion of the original acquisition cost.
  - (e) Always.
  
3. A non-profit subrecipient has in inventory a computer acquired with CDBG funds that is currently worth less than \$500. The subrecipient may retain it without paying the grantee for its current value if the grantee does not need it for any other Federally sponsored program or project.

**TRUE**

**FALSE**

4. The Federal Government's copyright license for any written work developed by a subrecipient with CDBG funds does not preclude the subrecipient from reproducing or otherwise publishing such work.

**TRUE**

**FALSE**

*The answers are on next page.*

## Exercise for Property Management and Disposition (continued)

### Answers to questions from preceding page

1. The correct answer is “(c) 5 years.” Although a grantee may stipulate a longer time period (in a closeout agreement, for example), 5 years is the *minimum* period during which such property must continue to be used to address a CDBG National Objective. If, on the other hand, during that time period a national objective is no longer being met or the subrecipient chooses to dispose of the real property, the subrecipient must reimburse the grantee for the fair market value of the property, less any portion attributable to non-CDBG funds.
2. The correct answer is “(e) always,” with the qualification that if a portion of the equipment purchase was financed with non-CDBG funds, only the CDBG portion of the proceeds would be program income for the purposes of the CDBG program.
3. **FALSE.** The pertinent regulations for non-profit subrecipients [24 CFR 570.502(a)(8) and (b)(3)(vi)] require that, regardless of the dollar value, equipment acquired with CDBG funds and no longer needed by the subrecipient for CDBG activities must be transferred to the grantee or retained by the subrecipient only after compensating the grantee.
4. **TRUE.** Although the Federal Government reserves a copyright license on such work, it is a *nonexclusive* license.

#### 4.5 Exercise for Record-Keeping and Reporting Requirements

**Review the following examples and indicate whether the approach being taken is adequate or inadequate. Where you feel the approach is “inadequate,” explain why and what might be done differently.**

1. John Smith, the program director for the CDBG-funded housing rehabilitation activities of Housing Alliance, Inc., worked diligently with his staff to ensure that every case file contained the information specified in the Subrecipient Agreement for necessary records. As a result, in preparing periodic progress reports, Mr. Smith was able to review each case file and be confident of finding all the data necessary to be included in the reports.

Adequate?

Inadequate?

Comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Four years had passed since the submission of the grantee’s final Comprehensive Annual Performance and Evaluation Report detailing Family Support, Inc.’s counseling services. The independent public accountant (IPA) audit performed for Family Support for the time period in question had not included any findings or questioned costs relating to this project. Joanne White, the executive director of Family Support, Inc., consequently directed her staff to discard the records of this CDBG-funded activity.

Adequate?

Inadequate?

Comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Delroy Blaise wanted his subrecipient agency to take advantage of the efficiencies of automated data processing for its record-keeping and reporting functions but did not have anybody on his staff with computer expertise. Therefore, he hired a computer consultant who assisted the agency in purchasing a microcomputer and wrote specific software for entering data and generating reports for all the information currently required by the grantee, and trained the staff in its use.

Adequate?

Inadequate?

Comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*The answers are on next page.*

## Exercise for Record-Keeping and Reporting Requirements (continued)

### Answers to questions from preceding page

Each of the three cases on the previous page is an example of a situation where the subrecipient in all probability is in *technical compliance with the requirements* for record keeping and reporting but may not be taking sufficient action to maximize the efficiency of its operations to avoid future problems.

1. Although John Smith has taken pains to ensure that his agency could provide the grantee with the required report data, the necessity of having to comb through each case file each time a report is due might not be an efficient use of his agency's personnel resources. Mr. Smith's organization should also have developed summary sheets of the case files and chronological program logs with key characteristics, from which periodic aggregate tallies could be derived much more efficiently.
2. The 4-year retention rule for records might best be viewed as a *minimum*. It is always theoretically possible that an entity like the HUD Office of the Inspector General (OIG) or the General Accounting Office (GAO) may show up to perform an audit after the 4 years have elapsed and request access to such records in support of some questionable costs. Therefore, even after 4 years, for your own protection, it is probably best to place the records in storage for a year or so rather than to discard or destroy them.
3. When automating record-keeping and reporting functions, a key consideration is **ongoing flexibility**. In this case, because the software was designed specifically for the *current* records/reporting requirements, if the data desired by either the subrecipient or the grantee changed, it is not clear that the agency had acquired the technical capacity to modify its computer system accordingly. The agency may have been better served if it had purchased a more "user friendly" generic software package that its own staff could learn to modify.

These examples have been included to remind the reader that the requirements contained in the handbook represent **minimum standards** for administrative, financial, and management systems. These minimums should not automatically become your maximums. Although HUD cannot *require* grantees and subrecipients to go beyond these regulatory standards, it is often in your agency's interest to strive for the "best management practice" possible, or to build an extra margin into your systems, in recognition of the fact that there will always be some unexpected demands on these systems or other problems that will arise over time.

#### 4.6 Exercise for Other Administrative and Program Requirements

##### Circle the Correct Answer

1. Available program income must be used by the subrecipient before requesting additional grant funds from the grantee.

**TRUE**

**FALSE**

2. Program income must be used by the subrecipient for the same CDBG-funded activity that generated it.

**TRUE**

**FALSE**

3. Amendments to the Subrecipient Agreement are only necessary if the amount of the CDBG funding or the period in which it will be available is to be changed.

**TRUE**

**FALSE**

4. Regardless of the National Objective being addressed by a CDBG-funded public construction activity, in carrying out that activity, a subrecipient must ensure that to the greatest extent feasible, jobs are made available to local low- and moderate-income persons.

**TRUE**

**FALSE**

5. Davis-Bacon “prevailing wage” standards apply to all CDBG-funded construction or rehabilitation projects.

**TRUE**

**FALSE**

6. Subrecipients are required to perform an environmental review before incurring any program expenses in connection with a CDBG-funded activity.

**TRUE**

**FALSE**

7. In areas identified by FEMA as having special flood hazards, the National Flood Insurance requirements apply only to CDBG-funded new construction projects.

**TRUE**

**FALSE**

8. The “one-for-one replacement” rule for low/moderate income dwelling units that are demolished as a result of a CDBG-funded project only applies if the unit was occupied at the time that the CDBG project was initiated.

**TRUE**

**FALSE**

9. In a structure to be rehabilitated that has historic significance and is found to contain lead paint, the lead-based paint abatement requirements take precedence over the historic preservation requirements.

**TRUE**

**FALSE**

10. If a contractor, who sits on the board of directors of a non-profit subrecipient, offers to donate his time to perform rehabilitation on the subrecipient’s homeless shelter, there is no conflict of interest if the contractor is only reimbursed for the cost of materials.

**TRUE**

**FALSE**

11. A grantee may only perform an on-site monitoring at a time convenient to the subrecipient, and during that monitoring the grantee does not have a right to inspect individual client files.

**TRUE**

**FALSE**

*The answers are on next page.*

## Exercise on Other Administrative and Program Requirements (continued)

### Answers to questions from preceding pages

1. **TRUE.** According to 24 CFR 570.504(b)(2), program income on hand must be used before drawing down additional grant funds, **except** in the instance of program income in a revolving fund, in which case the subrecipient must use the program income for the activity for which the revolving fund was established before drawing down additional funds for that same activity.
2. **FALSE.** The Subrecipient Agreement must specify whether the subrecipient will be allowed to retain program income [per 24 CFR 570.504(c)]. The Agreement should also specify the CDBG activities for which this program income may be used, which do not have to be the same activities that generated it. For example, the Agreement could specify that program income generated from repayment of economic development loans to for-profit businesses is to be used subsequently for housing rehabilitation loans. On the other hand, the grantee could authorize the subrecipient to keep the income in a revolving fund, in which case it would have to be used for making other economic development loans.
3. **FALSE.** In addition to changes to the total funding and period of performance, there are a variety of other circumstances under which a formal amendment to the Agreement should be executed. For example, a formal amendment should be made if additional activities are added to the scope of work, funds are substantially re-budgeted among activities, or the performance objectives for a particular activity are modified. Although sometimes incorrectly dismissed as a mere formality, written amendments serve to protect both the grantee and the subrecipient by making explicitly clear what the current expectations and legal responsibilities are for each party to the agreement.
4. **TRUE.** A requirement of Section 3 of the Housing and Community Development Act of 1974, as amended, states that it is the responsibility of grantees and subrecipients to make every reasonable effort to ensure that such employment opportunities are created for low- and moderate-income persons within in the area.
5. **FALSE.** In general, Davis-Bacon “prevailing wage” standards apply only to construction contracts in excess of \$2,000 for construction work financed in whole or in part with CDBG assistance. For rehabilitation or new construction of residential properties, a CDBG-financed project is only subject to Davis-Bacon requirements if the property includes eight (8) or more units.
6. **FALSE.** Although a subrecipient is not allowed to incur program expenses for a CDBG project prior to the receipt of environmental clearance, it is the *grantee* that has the responsibility of completing the environmental review, *not* the subrecipient.

7. **FALSE.** The National Flood Insurance Program requirements apply to *any CDBG-funded acquisition or construction project (including rehabilitation)* in a community that has had notice from FEMA for more than a year that the project area has special flood hazards.
8. **FALSE.** The “one-for-one replacement” requirement applies if the low/moderate-income unit had been *occupiable* and not just if it was actually occupied.
9. **FALSE.** Both the lead-based paint abatement and the historic preservation requirements must be satisfied. If the subrecipient cannot comply with both sets of requirements with the available funding, then it cannot assist the unit.
10. **FALSE.** Even if the contractor only receives reimbursement for materials “at cost,” the contractor will be considered to have a “financial interest” and therefore a conflict would exist. However, the grantee could request that HUD provide an exception in accordance with § 570.611(d) in this type of instance, where the contractor’s interest does not include payment for his or her services.
11. **FALSE.** In its efforts to fulfill its oversight responsibilities, a grantee is given broad discretion in the establishment of schedules for on-site visits and for examining any program records that it deems necessary for monitoring compliance with CDBG requirements. However, it is good practice to consider the subrecipient’s situation when scheduling such a visit, so as not to create too much of an inconvenience.

#### 4.7 Exercise for Audits

##### Circle the Correct Answer

1. A non-profit subrecipient that has expended \$35,000 in Federal financial assistance in a single year must have:
  - (a) An audit of its entire operations.
  - (b) A program-specific financial audit for each Federal award.
  - (c) Either (a) or (b).
  - (d) No audit is required.
  
2. A non-profit subrecipient that has expended a total of \$350,000 in Federal financial assistance in a single year, but only from one Federal program, must have:
  - (a) An audit of its entire operations.
  - (b) A program-specific financial audit for the Federal award.
  - (c) Either (a) or (b).
  
3. Which of the following are necessary components of a financial audit report under the Single Audit Act?
  - (a) An organizational chart or description of the entity's organizational structure.
  - (b) Financial statements and schedule of Federal assistance.
  - (c) An inventory of non-disposable property.
  - (d) An itemization of personnel positions and salaries.
  - (e) An evaluation of internal control systems.
  - (f) A report on compliance.
  - (g) An assessment of the entity's efficiency and effectiveness in its operation of the Federal program(s).
  
4. A subrecipient may procure independent audit services from any source of its choosing.

**TRUE**

**FALSE**

5. Cost considerations must be the dominant factor in the selection of auditors.

**TRUE**

**FALSE**

6. Since the Single Audit Act mandates a single audit for non-profit subrecipients that expend a certain level of funds in a single year from multiple Federal programs, the non-profit can charge the *full* cost of the audit to those Federal programs.

**TRUE**

**FALSE**

*The answers are on next page.*

## Exercise for Audits (continued)

### Answers to questions from preceding pages

1. “(d).” No audit is required because the subrecipient expended less than the \$300,00 in total Federal assistance that triggers the requirement for an audit.
2. (c) The subrecipient may have either type of audit.
3. “(b),” “(e),” and “(f).”
4. **FALSE.** Subrecipients must follow procurement rules in either the Federal Acquisition Regulation or in 24 CFR Parts 84 or 85, as applicable.
5. **FALSE.** Cost should only be a selection factor when the other selection criteria such as the qualifications and independence of the firms being considered have been met.
6. **TRUE.** Since the audit is a mandated Federal requirement, the Federal programs can pay the full cost of the audit.

## Training CDBG Subrecipients in Administrative Systems

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### 4.8 Exercise for Closeout Procedures

#### 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 it is 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**

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 the next page.*

## Exercise for Closeout Procedures (continued)

### Answers to questions from preceding page

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.