



MANAGING SUBRECIPIENTS OF CDBG GRANTEES



U.S. Department of Housing and Urban Development
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Managing Subrecipients of CDBG Grantees

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FOREWORD

The primary goals of this report were to advance knowledge of best practices in subrecipient performance management and to enhance the capacity of the Community Development Block Grant (CDBG) program office to help grantees meet their obligations. How do CDBG grantees select and manage the organizations they use as sub-recipients to carry out their program activities? The research identified and studied 11 communities that demonstrated effective sub-recipient management practices.

This report addresses the following research questions about subrecipient participation and administrative arrangements: What are the types of grantees and activities involved? How do subrecipient management procedures vary? Why do some grantees and subrecipients appear to be more successful than others? How do they improve or adapt? What administrative, programmatic, and political factors most shape the adoption and use of good subrecipient management practices?

To answer these questions, researchers documented how 11 grantees carried out the following six basic steps of the subrecipient management process: pre-award assessment; subrecipient agreements; training and technical assistance; tracking program progress; monitoring strategies and procedures; and follow-up procedures.

Reliance on subrecipients is widespread throughout the CDBG program; some grantees devote more than half of their grant funds to activities carried out by subrecipients. The extensive reliance on subrecipients also means that their ability and willingness to comply with federal statutes and regulations is very important. Between 2000 and 2004, subrecipient management was the second-most monitored area from among the approximately 30 areas identified in HUD's management information system. Monitoring of individual grantees in that time period turned up findings of non-compliance with subrecipient management requirements 35 percent of the time.

The two major factors differentiating effective and ineffective subrecipient management are: attention to the capacity of subrecipients to comply with program requirements; and creation of a framework of incentives and penalties. The most effective oversight combines positive incentives for good performers with sanctions for those who do not comply with program requirements. Effective management systems also provide subrecipients with the knowledge and tools to comply.

There is no single model for successful subrecipient management. Grantees must weigh the risks, impacts, and tradeoffs, and calibrate their use for local conditions.



Darlene F. Williams
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Executive Summary

Many American neighborhoods need help to create the economic and social conditions that foster individual and family well-being. These are communities that may lack affordable housing; thriving businesses; high-quality infrastructure; adequate health, recreational, cultural, and educational facilities; and other elements of supportive neighborhoods. To help improve conditions in these neighborhoods, city and county governments have created community development programs, which aim to enlist the participation of many public and private actors needed to help make conditions better.

The federal government supports these local efforts, primarily through the Community Development Block Grant (CDBG) program. Operated by the Department of Housing and Urban Development (HUD), the program allocates funding to municipal and county governments to carry out affordable housing, economic development, social services, public works, and other programs. Some of these activities are highly specialized and must be carried out by public agencies with the expertise and programs needed to design and implement them effectively. Other activities benefit from the in-depth knowledge of communities that nonprofit agencies often have. For this reason, units of general local government that receive CDBG funds sometimes delegate the job of implementing CDBG-funded programs to other agencies.

These delegate agencies are often known as “subrecipients,” because they receive funds from local governments that have received funds from the federal government. Although these federal funds can be used for a wide variety of activities that local officials are free to choose among, there are strings attached. Funds can be used only for eligible activities that meet national objectives declared by the United States Congress. The nation’s labor and environmental laws apply to the uses of federal funds for development. Federal standards of financial management and accounting must also be observed.

These and other laws pertain to the uses of funds regardless of whether activities are carried out directly by local governments or by subrecipient agencies. One of HUD’s most important responsibilities is to ensure that these program requirements and civil rights laws are observed. And one of local governments’ most important responsibilities is to ensure that their own subrecipients comply with these requirements as well. But because subrecipients are one step removed from federal oversight, there is a greater risk that their activities will not be compliant, and this has been a continuing area of concern for HUD.

Recently, HUD has re-focused its attention to the role of subrecipients in the delivery of the CDBG program and, specifically, the methods that grantees have used to ensure that subrecipients observe program rules. In early 2005, HUD released updated guidelines for grantee operation of management systems to oversee subrecipient compliance with federal requirements. It also commissioned Econometrica, Inc. and its subcontractors to research how some of the better performing subrecipient management systems operated by grantees have worked. This report is the product of that research.

Purposes and Methods

This report describes the actual approaches being used by grantees to obtain compliance and achieve good community development results. The report focuses on the following research questions:

- Generally, for which types of grantees and for which types of activities is subrecipient use most prevalent?
- Do there appear to be different types of administrative arrangements that typify subrecipient management practices? What variations are there across the different types of subrecipient management procedures?
- What makes for successful subrecipient management? Why do some grantees and subrecipients appear to be more successful than others? How have grantees managed to improve their own subrecipient management practices, or adopt those used by other grantees?
- What administrative, programmatic, and political factors most shape the adoption and use of good subrecipient management practices? For example, how much of a role do local political leaders play in the process, and what impact does this have on effective operation of management systems?

To answer these questions, we documented how a small sample of grantees carried out the subrecipient management process, understood as following six basic steps:

1. *Pre-award assessment*, which includes methods to invite project proposals from subrecipients, assess the quality of the projects and subrecipient capacity to carry them out, and make ultimate funding decisions.
2. *Subrecipient agreements* between the grantee and the subrecipient that specify types of products or services required, project timelines, documentation of results, and contract incentives or penalties.
3. *Training and technical assistance* provided to subrecipient agencies, including provision of orientation materials, training, and other special instruction to new subrecipients or those carrying out particularly large or complex projects; and delivery of timely assistance upon request, or upon identification of issues through monitoring.
4. *Tracking program progress*, including reporting against work plan objectives and targets, assessment of project performance and response to performance findings, and documentation and communication of results.
5. *Monitoring strategies and procedures*, including procedures for assessing risk; assessing the scope of monitoring (for example, financial, procurement, project

- progress, program income, benefit determinations to low and moderate income persons, and other issues of compliance with their agency agreement); and inspection of work products and the quality of reporting.
6. *Follow-up procedures*, including corrective action to handle detected violations of law and regulations, and effective action on the part of agency decision-makers to resolve continuing problems in subrecipient management.

This report draws upon three major data sources to answer the research questions posed above: (1) a review of internal HUD management systems to gather information about monitoring findings with respect to subrecipients, (2) a survey of HUD field office staff to gather information about the current quality of subrecipient management, and (3) in-depth field research with 11 selected communities noted for the quality of their subrecipient management.

Use of Subrecipients in the CDBG Program

Reliance on subrecipients appears to be widespread throughout the CDBG program. Some grantees rely on them heavily, devoting more than one-half of their dollars to activities carried out by subrecipient agencies. This means that subrecipient ability and willingness to comply with federal statutes and regulations are crucial to compliance of the program as a whole. In fact, as federal officials monitor CDBG grantees to determine whether their programs are in compliance, subrecipient management is one of the most actively monitored areas and is one in which monitoring “findings” are most likely to be made.

Between 2000 and 2004, subrecipient management was the second-most monitored area from among approximately 30 areas identified in HUD’s management information system. In other words, HUD field office staff members focused on subrecipient management as an area of prime concern to the program in view of the frequency with which subrecipients are used in the program and, consequently, its susceptibility to possible compliance problems. In terms of the results of these visits, monitoring of individual grantees turned up findings of noncompliance with subrecipient management requirements 35 percent of the time—an incidence of problems that ranked fifth among all areas. (By comparison, monitoring for grantee compliance with rules covering national objectives resulted in findings 48 percent of the time; monitoring for eligible activities, the area third-most-frequently monitored, produced findings 25 percent of the time.)

Because of their monitoring responsibilities, HUD’s field office personnel are among the most knowledgeable outside observers of how well subrecipient management systems work. Our survey of field office staff asked them to assess aspects of management for a sample of CDBG entitlement grantees. (This sample of 206 grantees was drawn to reflect the experiences of those grantees receiving larger grants, primarily.) Field offices generally rated overall performance highly, including whether grantees “identify problems and take action

before they become serious”; “take actions to ensure that projects contribute to effective community development”; and “keep the program free of serious infractions.”¹

Much less favorably rated were whether grantees change the mix of subrecipients in response to changing priorities and subrecipient capabilities. Such a change would be desirable if it resulted in a pool of subrecipients whose program activities better reflected local priorities as they changed, or improved the grantee’s overall ability to carry out programs. If such changes are not made, it could mean either that subrecipients are merely re-funded each year, regardless of needs, or that the pool of capable subrecipients is small. Either way, but especially in the latter case, problems with noncompliance might be more likely to arise.

Approaches to Subrecipient Management

To find out how CDBG management systems operated on the ground, the research team visited 11 CDBG grantees with strong reputations among field office staff, HUD headquarters staff, and independent observers in national community development organizations for operating effective subrecipient management systems. We recorded information about the operation and effects of these systems, as well as the challenges they faced, for each of the elements of the subrecipient management process.

We found that there was no one right way to carry out each particular step. For example, every grantee had a process for selecting subrecipients. Some of these processes were designed as open, competitive applications similar to a conventional Request for Proposal (RFP) process. Others continued to fund the same subrecipients repeatedly through a process that varied only with respect to how much money would be available and for what activities. Differences in grantee approaches to each of the six steps suggest that any HUD-suggested management process should be customized to fit the local environment.

The research for this study suggests two major discriminators between effective and ineffective subrecipient management approaches: attention to the capacity of subrecipients to comply with program requirements and creation of the right framework of incentives and penalties. Subrecipients need to have the knowledge and tools to be able to comply, which is why grantees invest so heavily in technical assistance, ranging from provision of guidebooks and other program materials to active, hands-on help with financial documentation.

In addition to being *able* to comply, subrecipients must be *willing* to comply. Effective grantees have recognized that this willingness reflects more than a desire to avoid penalties, as when future funding is based on past performance, or legal sanctions are applied when money is misspent. This study found that *sanctions alone are not a sufficient motivator of adherence to the system*. Grantee monitoring budgets are tight, and most subrecipients can gauge the likelihood of being “caught” with noncompliant actions. In addition, a system based entirely on sanctions requires constant and detailed vigilance by the grantee. Instead, this study found that the most effective subrecipient oversight systems combine sanctions

¹ We did not define the terms “effective community development” or “serious infractions,” preferring to let field office staff rate grantees according to their own understandings.

with positive incentives for good performers, such as public recognition. In addition to funding, subrecipients are motivated by a number of other incentives, including demonstrated benefit to the communities they serve, adherence to norms of good performance embraced by fund providers and peers, and ability to leverage non-public funding on the strength of their ability to be compliant with demanding federal rules.

Successful grantees understand this range of subrecipient incentives, disincentives, and capacity issues, and they build those into their processes. For example, selection criteria might provide bonus points to nonprofits with an exceptional track record of participating in the grantee's subrecipient system; or, the grantee's annual subrecipient training might include modules on fundraising, organizational development, or other topics needed to create strong nonprofits.

Grantee Responses to Costs and Risks

All subrecipient management systems have to resolve issues of administrative cost, and the risk that compliance issues will emerge. Just as there is no one way to carry out each subrecipient management step, there are several ways to reduce the costs of systems and the risks of noncompliance. For example, some grantees have found that investing in lower-cost assessments of subrecipient capacity at the front end can help them avoid higher-cost monitoring and invoice review once projects are underway. This is because the subrecipients they select have the internal management systems they need to comply with requirements relatively easily, and they are therefore able to submit sufficient and appropriate documentation of their activities. Other grantees avoid funding more complicated activities, like housing rehabilitation, using subrecipients.

Some grantees handle the risk of low subrecipient capacity to comply by investing heavily in technical assistance; one grantee even paid for independent consultants to diagnose nonprofits' personnel, financial management, and governing systems and to recommend a work plan for their organizational development. Another, opposite approach is to accept that subrecipients may not have, or not want to develop, the capacity to comply with the most demanding federal rules. In these circumstances, grantee staff members often wind up actually doing some of the more complicated elements of subrecipient activities, like preparing bid documents for review.

Aside from the uncertain capacity of some subrecipients to comply fully with program requirements, the most considerable risk to operation of a subrecipient management system that safeguards program compliance standards is interference in the impartial application of rules for selecting, monitoring, and evaluating the performance of subrecipients. Such interference is damaging when it compels agency officials to overlook legislative and regulatory requirements, violates principles of sound program management, or leads to ineffective or inefficient delivery of community development programs.

Our research shows, however, that even where elected officials play a less than supportive role in the administration of subrecipient management systems, agency staff can devise

strategies to shield their programs from inappropriate meddling by political decision-makers. Some have done this by creating open, transparent systems that go far beyond the statutory citizen participation requirements. Open systems include those in which proposal reviews are done by citizen bodies, the ranking results are fully public, and in some cases, annual performance reviews are also public. This openness makes it difficult to disguise inappropriate influence over the funding allocations, which may result in less capable organizations being funded. Others have introduced as much competition as possible into the allocations process or, at a minimum, established thresholds of project quality, below which subrecipients are ineligible for funds award. And some grantees have found that the introduction of performance measurement systems has reminded all the players that achieving the best community outcomes is paramount, thereby tending to discourage actions that would undermine this goal.

Conclusions

Grantees depend upon subrecipients to reach deep into the community in order to expand the government's capacity to provide essential programs and services. Subrecipients and grantees alike are inherently motivated to improve communities. In places where subrecipients are managed well, they are motivated to abide by the myriad of federal regulations that govern the CDBG program and to meet the twin challenges of effectiveness and accountability.

The most effective subrecipient oversight systems combine positive incentives for good performers with sanctions for those who will not or cannot comply with program requirements. The research suggests that the discriminator between effective and ineffective subrecipient management approaches is that effective grantees not only embrace the steps outlined in the HUD guidance materials (pre-award assessment, subrecipient agreement, training and technical assistance, performance tracking, monitoring, and follow-up), they also reward adherence. They provide incentives to encourage subrecipients to comply willingly. Some of the incentives are obvious and natural, such as abiding by the rules to avoid monitoring findings. Others are more complex, such as those that tie funding to performance goals and use public reviews of performance and public scrutiny to coax subrecipients to perform at their best.

Effective subrecipient management systems also provide subrecipients with the knowledge and tools to comply. Motivating subrecipients to perform is not enough to ensure compliance; subrecipients must have the ability to comply, and the rules must be clear to them. Some grantees reviewed in this study invested year after year, in training, technology, and on-line resources to simplify the process and increase subrecipient capacity to comply with program requirements.

There is no single model for success. Grantees mix and match elements of their subrecipient management systems in ways that suit local circumstances; one needn't address each step of the management sequence equally well to be successful, but certain characteristics—such as transparency, a relentless desire to innovate and experiment to improve the system,

committed leadership at the political and agency level, professionalism, and consistency—are important elements of successful subrecipient management systems. In sum, effective subrecipient management practices are an amalgam of inputs which, together, forge strong and creative community development programs. Effective practices, however, are well-tooled for local conditions. Grantees must weigh the risks, impacts, and tradeoffs of approaches they choose, and they must calibrate their use for local conditions.

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1. Introduction

Relationship Among Public and Private Entities in Community Development

Successful community development requires the cooperation of many parties. For example, to build affordable housing, for-profit or nonprofit developers, private financial institutions, building contractors, government regulatory bodies, and public-sector providers of financial subsidies all must work together. To deliver meals to the home-bound elderly, nonprofit social service providers often rely on financial support from local government agencies. And to boost neighborhood employment, one public agency may invest in business expansion while another invests in workforce development.

Effective community development efforts take full advantage of the financial, technical, and political power of government agencies and of the market responsiveness of private-sector entities, including their freedom from many of the restrictions that envelop public agencies. But partnerships among public agencies and between public agencies and private-sector entities can be problematic as well as productive. Both public agencies and private entities sometimes fail to pursue community development effectively or to use public resources wisely and account for them fully.

Relationships among public agencies and their private-sector partners are further complicated by the reliance of public agencies (and many private-sector partners) on federal funds to support community development efforts. The most important source of these funds is the Community Development Block Grant (CDBG) program, one of several federal block grant programs enacted in the 1970s. Such programs redefined the relationship between the federal and state and local governments. Previously, the federal government determined the type of projects for which grant funds could be used. Moreover, specific details of each project to be funded had to be reviewed and approved by federal staff before the grant funds were made available. Under the new approach with respect to CDBG, local governments are provided grant funds that may be used for a rather wide variety of projects, with the choice of which to carry out determined by the grant recipient. The federal government merely set the boundaries within which the choices are made.

With this new freedom, grant recipients took on new responsibilities. The CDBG statute contains several requirements that restrict the nature of the projects that can be funded and, in some cases, where and how they have to be carried out. For example, the grant recipient could decide to fund a street improvement, but it has to ensure that the specific nature and location of the street improvement meets several requirements. The program requires that funded projects meet one of three national objectives: principally benefit low- and moderate-income persons; prevent or eliminate slums and blight; or meet other urgent community development needs. It also requires that projects be reviewed in advance for adherence to a series of crosscutting laws, including, for example, Title VI of the Civil Rights Act of 1964,

Section 109 of Title 1 of the Housing and Community Development Act of 1974, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, the National Environmental Protection Act, and others. Most construction projects require that the wages paid are consistent with certain federal labor standards. Recent federal initiatives to assist faith-based projects in receiving funding for programs and activities for which they are eligible must also be accommodated. Thus, it is now necessary for units of government to be aware of a large number of restrictions and requirements applicable to the CDBG program as it makes decisions as to which projects will be carried out with the grant funds.

Moreover, the federal government imposes certain other general requirements on grant recipients (and subgrantees) with respect to the financial management systems and procurement practices they employ. The federal government does not approve funded projects in advance as it once did. It must give the funds to units of local government and follow up to make sure that they use them in accordance with applicable requirements. It holds the grant recipient responsible for meeting all the program requirements, but must monitor effectively in order to identify cases in which they may not be met. Failure on the part of a grantee to meet a restriction or requirement can result in termination of the grant and repayment of funds spent incorrectly, leaving the grantee to pay for ineligible costs incurred out of local funds. So, the stakes can be high for them.

The CDBG program also authorizes grant recipients to use public and private nonprofit agencies to carry out community development activities. This gives the local government flexibility in deciding to fund such an agency to carry out specific activities rather than use local government staff to do so. However, it must do so with the realization that it is responsible for overseeing how the agency uses the funds to ensure that it meets local community development objectives and stays within the many requirements applicable to the use of federal funds in general, and CDBG funds in particular. Inserting another level of entities using the CDBG funds into the process, and one with which the federal government does not have a grant agreement, further complicates the federal role of monitoring the program for compliance.

This report describes ways in which local governments receiving funds through the CDBG Entitlement Program have met some of these challenges. The final product of a year-long research effort, the report documents how selected CDBG grantees have developed systems to enlist the participation of both private- and public-sector partners—so-called subrecipients—in community development programs and to hold them accountable for compliance with federal requirements.

Research in the 1990s found that at least half of all entitlement cities and counties delegated at least a portion of their programs to other agencies, especially in the area of public services.² Nonprofit agencies accounted for the bulk of public services spending and about one-half of the economic development activities. Given the significant role that subrecipients play in the delivery of CDBG programming, this analysis of the effectiveness and

² *Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program*, The Urban Institute, Center for Public Finance and Housing. May 1995.

accountability of subrecipient activities is integral to understanding the effectiveness and accountability of the CDBG program itself.

Research Questions

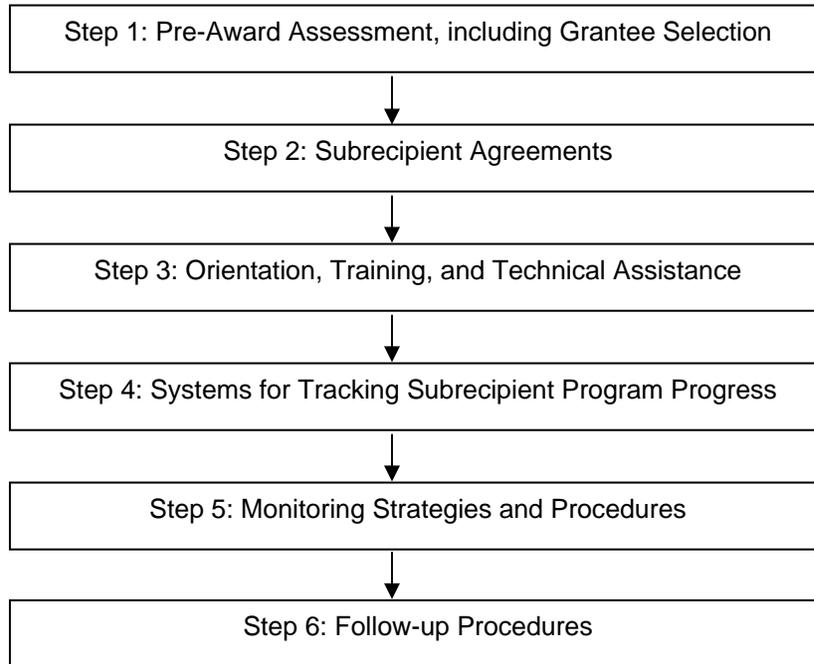
This report comes shortly after the Department issued extensive guidance and training materials on subrecipient management.³ While the recent HUD guidance recommends a series of management practices in a technical assistance mode, this report describes the actual approaches and incentives being used by grantees to obtain compliance and achieve good community development results. The report focuses on the following research questions:

1. Generally, for which types of grantees and for which types of activities is subrecipient use most prevalent?
2. Do there appear to be different types of administrative arrangements that typify subrecipient management practices? What variations are there across the different types of subrecipient management procedures?
3. What makes for successful subrecipient management? Why do some grantees and subrecipients appear to be more successful than others? How have grantees managed to improve their own subrecipient management practices, or adopt those used by other grantees?
4. What administrative, programmatic, and political factors most shape adoption and use of good subrecipient management practices? For example, how much of a role do local political leaders play in the process, and what impact does leadership (political or otherwise) appear to have on outcomes?

Analysis Framework

Once the decision is made to use subrecipients, the process, or processes, of “subrecipient management” play out through the lifecycle of a community development project—from recruitment and selection of subrecipients, through the implementation of activities, to the concluding assessment of program effectiveness. These stages (hereinafter “the management sequence”) include the following six basic steps, which served as the analytical framework for this report:

³ See *Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight; Playing by the Rules, A Handbook for CDBG Subrecipients on Administrative Systems; and Training CDBG Subrecipients in Administrative Systems*.



1. *Pre-award assessment* includes methods of outreach and advertisement of funds availability; assessment of subrecipient capacity and project quality, application components, and required documentation of capacity to perform requested services; experience and capacity of staff or citizen panel review of applications; and the relationship between the recommendations from the review process and subsequent funding decisions.
2. *Subrecipient agreements* are made between grantees and the subrecipients. Topics for negotiation may include the types of products or services required, project timelines, allocation of costs to services, cost documentation, documentation of benefits to low- and moderate-income persons and other program requirements, the treatment of program income, performance measures and benchmarks, and contract incentives or penalties. The final product is a written agreement.
3. *Training and technical assistance* are provided to subrecipient agencies throughout the sequence, including provision of orientation materials, training, and other special instruction to new subrecipients or those carrying out particularly large or complex projects; and delivery of technical assistance upon request or upon identification of issues through monitoring.
4. *Tracking program progress* includes reporting against work plan objectives and targets; performance assessment and response to performance findings, including quality and completeness of measurement; use of benchmarks and comparisons; drawing of inferences based on available data; and documentation and communication of results.

5. *Monitoring strategies and procedures* track the actual provision of subrecipient services. Topics investigated here may include internal controls to guard against financial mismanagement and conflicts of interest; procedures for assessing risk; the scope of monitoring (for example, financial, procurement, project progress, program income, determinations of benefit to low- and moderate-income persons, and other issues of compliance with agency agreements); inspection of work products; and the quality of reporting and documentation.
6. *Follow-up procedures* include corrective action to handle detected violations of law and regulations, and effective action on the part of agency decision-makers to resolve continuing problems in subrecipient management.

Each of these steps has observable outcomes in terms of the number and character of activities that define each one. For example, for any activity or program that has used subrecipients, it can be determined whether outreach activities were sufficient to induce multiple applications for program funding, and whether the number of applicants exceeded funds available, requiring either a reduction in funding levels relative to amounts applied for or outright denial of funding to some applicants.

There are two broad criteria available for assessing whether subrecipient management practices are worth recommending to others: (1) their contribution to effective community development; and (2) their value in safeguarding the public interest in the legal and financial integrity of programs. One critically important research question is how grantees have balanced tradeoffs to be made between the risk management goals implied by many of the actions taken throughout the subrecipient management sequence, and the need to ensure efficient and effective completion of requested services. How do grantees effectively safeguard the legal and financial integrity of programs while still supporting the accomplishment of community development objectives, resulting in more effective programs?

Each of the steps in the management sequence might lead to this result. For example, public agency investments in technical assistance to nonprofit organizations, which often concern organizations' ability to satisfy financial management or other program requirements, could also help them improve other aspects of their operations, such as governance. This might mean cooperation with the traditional funders of nonprofit capacity building—local foundations, community development intermediaries, and other investors in the nonprofit sector. In this way, public agency efforts to safeguard the program can help promote more effective program delivery.

Study Methodology

This report draws upon three major data sources to answer the research questions posed above: (1) a review of internal HUD management systems to gather information about monitoring findings with respect to subrecipients; (2) a survey of HUD field office staff to gather information about the current quality of subrecipient management; and (3) in-depth field research with 11 selected communities noted for the quality of their subrecipient management. Each of these sources and their application in this study are described below.

Part of HUD's responsibilities as the federal agency in charge of the CDBG program is to ensure that grantees comply with all federal statutes and regulations. To help fulfill this obligation, each field office is required to conduct an annual "risk assessment" in order to determine which grantees and program areas should be monitored. Upon completion of the monitoring, a monitoring letter describing the result is sent to the grantee. If any findings or concerns are identified, they must be described in the letter, along with any corrective actions HUD deems necessary. HUD records the monitoring results in its *Grants Management System*. The system contains information on the monitoring efforts by field office staff across a range of monitoring areas (for example, program benefit, program progress, rehabilitation, and third-party contractors). This database records, for each grantee and area monitored, the number of monitoring findings and monitoring concerns, communicated in field office monitoring letters. The Grantee Management Program (GMP) allows field offices to record key monitoring and risk assessment information into a database that can be viewed in the field and at headquarters.

HUD's Office of Community Planning and Development (CPD) provided the research team with the "Field Office Summary Monitoring Report" for fiscal year 2003 (FY2003) and FY2004. These national reports list grantees that were monitored in each of the last 2 years and the findings, concerns, and sanctions identified in various program areas, including subrecipient monitoring. Our analysis of the GMP, which is reported in Chapter 2, examines the relative frequency with which grantees are monitored for subrecipient-related issues and the frequency of resulting findings compared to findings recorded in other areas monitored. We examine the GMP data in this study because information about field office monitoring can suggest the scope of problems that accompany use of subrecipients and the types of grantees for which these problems are most likely to occur.

Secondly, the research team conducted a *survey of local HUD field offices* to solicit information about the use of subrecipients in the administration of CDBG programs and the quality of grantees' subrecipient management. The survey, which can be found in Appendix B, asked field office staff for responses to close-ended survey items on the subrecipient management practices of each member of a sample of grantees in their regions. The survey was distributed in an electronic format via e-mail by CPD field office management on behalf of the research team, completed by field office staff, and returned via e-mail. The survey's most critical feature asked respondents to nominate particularly good examples of management practices (as well as ineffective examples) from within their jurisdiction. That information was used to help identify communities for site visits.

Finally, and of greatest importance for this report, the team conducted *site visits* to 11 grantees with reputations for good subrecipient management (see Table 1.1 for a list of the 11 communities). Site visits consisted both of reviewing documentary grantee materials—for example, applications, subrecipient contracts, annual plans and performance reports, and monitoring reports—and a series of semi-scripted interviews both with grantee staff and with subrecipient staff. For each site, grantee staff members who were interviewed included the director of the department administering CDBG funds, senior program managers for programs in which subrecipients are used, and persons responsible for monitoring of subrecipient performance, if any. The research team also interviewed a sample of subrecipients in each community. Subrecipients were purposively selected for interviews based on funding amounts, subrecipient size, subrecipient sector (public and private), administrative relationships between public and private subrecipients in the same program, and performance (that is, the research team explicitly asked each grantee to identify a few subrecipients that had encountered challenges, as such cases offered an important opportunity to observe how management systems identify and respond to adverse circumstances). Questionnaires used to guide both grantee staff and subrecipient interviews are included in Appendix C.

Study Samples

Two samples were drawn to support data collection: (1) a sample of grantees for inclusion in the field office survey and (2) a sample of grantees for onsite data collection.

The field office survey asked field staff to assess the subrecipient management practices of a sample of grantees. This sample was drawn to reflect a range of sizes based on entitlement amounts. Because of the funds potentially at risk in larger population jurisdictions within the CDBG program—roughly 80 percent of the money allocated in the program goes to about 20 percent of grantees—the sample was drawn to produce a bias toward larger population jurisdictions. Also, to keep the response burden low and thereby encourage survey response, we limited the sample drawn from any area office jurisdiction to five grantees.

To select the sample, we arrayed the grantees within each area office in descending order of their FY2004 entitlement amounts. We then calculated the cumulative amount represented by each grantee's allocation, showing the contribution of each grantee to the total. We chose a random number between 1 and the total number of dollars allocated to all grantees in the area office jurisdiction. We then chose the jurisdiction that contributed the amount to the cumulative total that included the random number. After removing that grantee from the list, we calculated a new cumulative total and relative contribution, selected a new random number between 1 and the cumulative total, identified the grantee that contributed the amount needed to include the new random number, and removed it from the list. We repeated this procedure until we had selected five grantees from the jurisdiction. (For example, assume that an area office jurisdiction included 10 grantees, totaling \$10 million in total 2004 funds allocated, and that one large grantee contributed \$5 million of this total. The first random number chosen has a 50/50 chance of being \$5 million or below; in other words, the largest grantee has a 50-percent chance of being selected on the first pass. Every other

grantee in the jurisdiction has an equal share of the remaining \$5 million or \$555, or a roughly 6-percent chance of selection.) The resulting national sample contained roughly 18 percent of the total number of entitlement grantees in the program, and about 48 percent of the total funds allocated in FY2004. The survey results are reported in Chapter 2 of this report.

To select sites for onsite research, we worked from a list of grantees recommended through the field office survey and other knowledgeable practitioners to draw a sample that met several objectives: first, the sites had to meet the “face validity” tests noted in the scope of work—specifically, sites that roughly met the regional, grantee size, and city and urban county patterns of the overall pool of CDBG grantees. Second, the sites had to reflect the diversity of use of subrecipients across types of administrative arrangements, program activities, and political and institutional contexts. Third, they had to provide sufficient evidence of good practice that documentation of local efforts contributes to the purposes of the final report. Lastly, the number of sites had to be between 10 and 12 for budgetary reasons. (The first-sampled site served as a pre-test of the instruments, allowing us flexibility to modify them later.)

In making the final determination of sites, we also considered whether the subrecipient management systems appeared to have been in place long enough to develop a track record of performance, and whether grantees appeared to use good-quality subrecipient management practices across a variety of program types and local administrative arrangements.

Table 1.1. Field Site Grantees

Grantee	Jurisdiction Type	Region	2005 CDBG Entitlement Amount	Funds Allocated to Subrecipient Activities (1)
Albany, New York	City	Northeast	\$4,271,799	\$1,862,216
Asheville, North Carolina	City	South	\$1,465,512	\$1,322,500
Dayton, Ohio	City	Midwest	\$7,241,610	\$5,540,000
Duluth, Minnesota	City	Midwest	\$3,224,428	\$2,501,000
Fairfax County, Virginia	County	South	\$6,905,321	\$2,356,995
Gwinnett County, Georgia	County	South	\$4,615,969	\$1,003,927
Los Angeles County, California	County	West	\$34,621,264	\$37,550,147
Memphis, Tennessee	City	South	\$9,202,561	\$4,401,457
Palm Beach County, Florida	County	South	\$7,868,623	\$3,771,421
Phoenix, Arizona	City	West	\$19,258,051	\$5,289,509
Westchester County, New York	County	Northeast	\$6,520,720	\$4,418,973

(1) Note the funds allocated to subrecipients may include program income and other reallocated funds, and thus amounts may exceed entitlement amount.

Source: Compiled by Econometrica, Inc. based on Action Plans and other documents supplied by field site grantees for FY04 or 05.

Report Contents

In addition to the introduction, this report is divided into the following chapters:

- Chapter 2, Characteristics of CDBG Subrecipients, describes the characteristics of CDBG subrecipient use, management, and capacity. It provides the empirical framing for the more analytical and issue-oriented chapters that follow.
- Chapter 3, Approaches to Subrecipient Management, describes the management sequence, with illustrations from the 11 study sites. It also explores how subrecipient management systems create incentives for subrecipients to respond to federal requirements and help build their capacity to run more effective and accountable programs. Chapter 3 identifies both general issues posed in subrecipient management and issues and challenges specific to individual steps in the management sequence.
- Chapter 4, Opportunities and Challenges in Creating Effective Subrecipient Management Systems, discusses how elements of the subrecipient management system respond to specific costs and risks faced by grantees, including risks of political interference in the subrecipient management process. It also discusses some of the broader factors that influence choices of management elements.
- Chapter 5, Conclusion, summarizes major issues facing grantees and program administrators regarding the use of CDBG subrecipients; the lessons learned from grantees that have developed effective systems for using subrecipients; and examples of strategies, impacts, and tradeoffs waged by grantees in the administration of the CDBG program.

Four appendixes are also included:

- A. Field Office Survey Sample
- B. Field Office Survey
- C. Interview Guides for Community Development Directors, Program Mangers, and Subrecipients
- D. Exemplary Practices/Materials of Interest.

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2. Characteristics of CDBG Subrecipients

Reliance on subrecipients appears to be widespread throughout the CDBG program. Some grantees rely on them heavily, devoting more than one-half of their dollars to activities carried out by subrecipient agencies. It follows that subrecipient ability and willingness to comply with federal statutes and regulations are critical to the accountability of the overall program. However, subrecipient agencies, especially nonprofit organizations, do not always have the management systems, staff capacity, or program experience needed to comply fully with these requirements. Accordingly, many grantees establish management systems to help subrecipients carry out their responsibilities and to take appropriate action when they do not. Federal officials monitor CDBG grantees to determine whether these systems are effective. In fact, this area is one of the most actively monitored in the program, and the one in which monitoring “findings” are most likely to occur.

Definitions

In this chapter, two definitions of subrecipients are used: a “regulatory” definition and a “research” definition that varies across different studies.

Regulatory Definition

The program regulations at §570.500(c) define a subrecipient as follows:

“Subrecipient means a public or private nonprofit agency, authority or organization, or a for-profit entity authorized under 570.201(o), receiving CDBG funds from the recipient or another subrecipient to undertake activities eligible for such assistance under subpart C of this part. The term excludes an entity receiving CDBG funds from the recipient under the authority of 570.240, unless the grantee explicitly designates it as a subrecipient. The term includes a public agency designated by a unit of general local government to receive a loan guarantee under subpart M of this part, but does not include contractors providing supplies, equipment, construction, or services subject to the procurement requirements in 24 CFR 85.36 or 84.40, as applicable.”

The regulatory definition developed by HUD for the CDBG program generally applies to organizations outside the grantee’s government with whom the grant recipient contracts to conduct CDBG activities. However, such organizations that are selected by the recipient to carry out a CDBG-funded activity through the *procurement process* are considered to be contractors and are not subrecipients. Subrecipients are usually public or private nonprofits that the recipient elects to use to provide services and support needed to carry out the objectives identified in its annual plan.

Although not included in the regulatory definition, 24CPR570.50(b) provides that units of general local government that participate with a county as part of an *urban county* in the CDBG program are subject to the same requirements as though they are subrecipients. For example, the regulations require the county to enter into the same basic written agreements that apply to subrecipients with any included unit of government that receives CDBG funds from the county.

Technically, nonprofit developers who acquire, renovate, or construct housing are not subrecipients, although these entities do have to comply with federal requirements pertaining to such matters as financial management and national objectives, as well as additional provisions specific to construction projects, such as historic preservation rules and labor standards.

Research Definition

Many grantees, including some of those we visited for this research, consider any third-party program delivery organization as a subrecipient for management purposes, even though they may not be considered as such by the regulations. Such entities would include housing development organizations, independent governmental bodies (such as housing or redevelopment authorities), and other city departments (such as Public Works or Code Enforcement) that administer CDBG program funds, but which are separate from the agency or department charged with overseeing the CDBG program for the grantee. We term these entities “subgrantees.” Previous research has used the term “subrecipient” to refer both to subrecipients defined according to regulation and to subgrantees, sometimes without marking the distinction.

Treatment of the Term for Purposes of this Study

Because the grantees we visited did not use the term consistently, we use the term “subrecipient” in this research to refer to both subrecipients and subgrantees. In fact, HUD recommends that its guidance on managing subrecipients apply to subgrantees where the grantee determines it is appropriate. (However, in choosing which entities to interview onsite, we did not consider programs carried out by city or county agencies that were part of the same unit of local government as subrecipients.) Where distinguishing between the two is important for clarity, we will so note this.

CDBG Program Reliance on Subrecipients

To examine patterns of subrecipient use in the CDBG program, we draw on two sources, primarily. The first is an evaluation of the CDBG program conducted in the early 1990s by

the Urban Institute’s Center for Public Finance and Housing.⁴ It is the only known study of the use of subrecipients and subgrantees in the program nationwide. That study included field research in 61 cities, more than 1,000 mail and telephone surveys, and extensive analysis of HUD budget and expenditure data. The second is our own survey of HUD field office staff to obtain their assessments of grantee subrecipient management performance and solicit their views on which grantees within their jurisdictions displayed promising practices, and the frequency of use of subrecipients by CDBG grantees.⁵

The federal government does not prescribe administrative arrangements that grantees must use to carry out their programs, except that a “lead agency” within a unit of general local government (as distinct from a specialized authority or commission) must receive the funds and allocate them to implementing agencies. These lead agencies are responsible for ensuring compliance with all program requirements.

Unsurprisingly, grantees have devised many different types of arrangements to carry out their programs. Entitlement cities use two basic program models. In one model, a small coordinating department or office is the lead agency recipient of funds, but it does not deliver *any* of the funded programs. Instead, funds are allocated to other city agencies, such as the housing or public works departments, to fund activities carried out by agency staff or their subrecipients. In the other model, a city agency receives the funding *and* carries out programs. This is most often the case when cities establish departments of housing and community development, community and economic development, or other similarly named departments. These agencies can decide to carry out programs entirely with city staff or use subrecipients to carry out a portion of the programs.

The Urban Institute study found that cities commonly adopt a hybrid management structure, in which some or all of the program delivery responsibility is delegated to entities other than the lead agency. It found that more than half of “lead” agencies delegate at least a portion of program management to other entities; this is particularly common in public services, with over half of lead entities (54.8 percent) delegating all services spending to other entities.

Urban counties work much the same way, except that many counties include both incorporated units of general local government within them, as well as unincorporated areas for which county agencies are responsible. Urban counties award CDBG funds to these units of general local government in two basic ways. The first is to award funds to constituent cities by a formula, as if they were mini-entitlement jurisdictions. These cities can then devise and carry out community development activities. The second is to require cities to apply to counties for funding, with no assurance that their applications will be successful. Under either arrangement, funded cities are considered subrecipients to the county. Moreover, these subrecipient cities might choose to use their own subrecipient agencies to

⁴ *Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program*, The Urban Institute, Center for Public Finance and Housing. May 1995.

⁵ We also reviewed HUD’s CDBG reporting system—IDIS—and found that it does not identify which CDBG activities were carried out by subrecipients. In July 2005, changes were made to IDIS that will make this possible by requiring grantees to identify activities being carried out by nonprofit subrecipients, for-profit entities, or other public agencies, and whether the organization is faith-based.

carry out programs, creating in effect “sub-subrecipients.” Examples of both were observed in our study.

There is no doubt that subrecipients play a significant role in local CDBG programs. The Urban Institute’s 1995 study found that at least half of all entitlement cities and counties delegated some portion of their programs to other agencies. (In dollar terms, the Urban Institute found that subrecipients accounted for 28 percent of CDBG expenditures; nonprofits accounted for the largest part of these expenditures at 17 percent of all funds.) In the survey of field office staff carried out for this report, respondents reported that more than 60 percent of grantees allot at least 25 percent of their funds to subrecipients and that one-third of grantees allot 50 percent of their funds or more.⁶

The sites selected for our field investigations make extensive use of subrecipients and other subgrantees. In fact, some sites spend the majority of their funds through subrecipients. Five of the 11 grantees visited onsite devoted more than one-half of their available funds to activities carried out by public or nonprofit subrecipients (see Table 2.1). The average for the 11 sites was 48 percent.

Table 2.1. Spending on Subrecipient Activities by Field Site Grantees

Grantee	2005 CDBG Entitlement Amount	Funds Available (1)	Funds Allocated to Subrecipient Activities	Percent of Funds to Subrecipient Activities
Asheville	\$1,465,512	\$1,725,170	\$1,322,500	76.7%
Duluth	\$3,224,428	\$3,333,928	\$2,501,000	75.0%
Los Angeles County	\$34,621,264	\$56,752,466	\$37,550,147	66.2%
Dayton	\$7,241,610	\$8,499,200	\$5,540,000	65.2%
Westchester County	\$6,520,720	\$6,887,000	\$4,418,973	64.2%
Palm Beach County	\$7,868,623	\$8,700,000	\$3,771,421	43.4%
Albany	\$4,271,799	\$5,000,000	\$1,862,216	37.2%
Fairfax County	\$6,905,321	\$7,457,000	\$2,356,995	31.6%
Phoenix	\$19,258,051	\$20,300,000	\$5,289,509	26.1%
Memphis	\$9,202,561	\$18,958,368	\$4,401,457	23.2%
Gwinnett County	\$4,615,969	\$5,078,130	\$1,003,927	19.8%

(1) The funds available for subrecipients include the funding for nonprofits, municipalities, or other public agencies as identified by interviewers from the most recent 2004 or 2005 action plan or approved budget provided by the grantee. These amounts may include program income and unexpended funds from the prior year and are thus larger than the entitlement amount.

Source: Compiled by Econometrica, Inc., based on Action Plans and other documents supplied by field site grantees.

⁶ These figures are based on valid responses from 169 of 206 sampled grantees, a response rate of 82 percent.

Reliance specifically on nonprofit subrecipients, which turns out to be the area of highest risk in subrecipient management (as discussed below), ranges widely across our small sample, from 5.9 percent in Phoenix to 74.6 percent in Asheville. Two of the smaller grantees, Duluth and Asheville, were proportionately the largest funders of nonprofits in our study. They distributed almost half to 75 percent of the funds in their annual plans to nonprofits. Two of the largest grantees, Los Angeles County and Phoenix, distributed less than 10 percent of their funds to nonprofits (see Table 2.2).

Table 2.2. Types of Subrecipients Funded by Field Site Grantees

Grantee	Percent of CDBG Funds to All Subrecipients (1)	Percent of Funds Available To:		
		Nonprofits	Other Public Agencies	Municipalities (2)
Albany	37.2%	27.1%	10.1%	0.0%
Asheville	76.7%	74.6%	2.0%	0.0%
Dayton	65.2%	11.0%	54.2%	0.0%
Duluth	75.0%	48.6%	26.4%	0.0%
Fairfax County	31.6%	29.1%	1.7%	0.9%
Gwinnett County	19.8%	17.8%	2.0%	0.0%
Los Angeles County	66.2%	7.2%	33.9%	25.0%
Memphis	23.2%	15.3%	7.9%	0.0%
Palm Beach County	43.4%	23.3%	3.3%	16.7%
Phoenix	26.1%	5.9%	20.2%	0.0%
Westchester County	64.2%	12.2%	1.5%	50.5%

(1) The funds for subrecipients include the funding for nonprofits, municipalities, or other public agencies as identified by interviewers from the most recent 2004 or 2005 action plan or approved budget provided by the grantee.

(2) The extent to which municipalities form part of an urban county can vary substantially. For the counties included above, this variation is clearly evident. For example, Westchester County and Los Angeles County each have over 40 municipalities, while Gwinnett County has about 15 and Fairfax County has only 4. Source: Compiled by Econometrica, Inc., based on Action Plans and other documents supplied by field site grantees.

Some study sites used other government organizations, such as housing authorities, regional authorities, or other agencies within the unit of general local government, to help them carry out their programs. Most often, they treated these other organizations, for management purposes, just as they would any other subrecipient; that is, their status as public agencies did not mean separate treatment throughout the subrecipient management process. Their overall funding can be a very significant part of the overall distribution of funds. Larger grantees

visited, such as Los Angeles County, provided more than twice as much funding to other public agencies as to nonprofits. In all, 3 of the 11 sites provided substantially more funds to other public agencies than to nonprofits.

Comparative Advantages and Disadvantages of Subrecipient Use

Why do CDBG grantees use subrecipients to such an extent? Cities use public agency subrecipients because of their specialization; for example, only the public works department has the materials and expertise needed to improve streets. Counties use municipal government subrecipients because they have been granted the authority to carry out programs for incorporated areas within counties. Both cities and counties use nonprofit subrecipients for a variety of reasons, which are worth exploring in depth because they bear on the unique assets and liabilities that this class of subrecipients brings to community development, and the corresponding opportunities and challenges they present for subrecipient management.

Previous research has explored the various ways in which private nonprofits can help advance public purposes, including through their:⁷

- Ability to engage community members (residents, business owners, clergy, and others) who might not otherwise participate in community development activities—for example, because of advisory group or board ties to these constituencies.
- Mastery of program technologies—for example, community health programs, community lending—that are not otherwise available within the lead agency.
- Ability to tailor programs to the specific needs and capacity of communities, based on superior understanding of their characteristics—for example, with immigrant communities, youth at risk, manufacturing firm owners and employees.
- Superior ability to leverage contributions from other parties—for example, private contributions and foundation grants.
- Flexibility to initiate and discontinue programs without erecting, then dismantling, government infrastructure to deliver them.
- Provision of programs and services that local government may not be authorized to provide and that may avoid cumbersome local requirements which increase costs and slow service delivery.

These advantages were often observed in our study sites. Subrecipients provided scores of specially tailored services and programs, such as micro loans for new business startups, job

⁷ This body of work pertains to the literature on contracting by public agencies. Dating to the late 1970s and 1980s, the literature primarily explored the circumstances in which private contracting was to be preferred to the direct provision of public services. For a relatively recent review, see *Privatization of Public Services*, a background paper by Demetra Smith Nightingale and Nancy Pindus, The Urban Institute, 1997.

training for people who were homeless and unemployed, transitional housing, housing rehabilitation, career counseling, minor home repairs, credit counseling, congregate meals, and many more. Subrecipients leveraged the contributions of others through heavy reliance on volunteers to expand their reach and technical ability. In one large urban county, a subrecipient reported that it used approximately 1,000 volunteers a year to deliver needed services. Others reported donations of computers, software, and other expensive systems, the costs of which might otherwise be borne by the local government, or whose benefits might never be realized.

Based on areas where their involvement is concentrated, nonprofits seem to have comparative advantages in the delivery of particular kinds of activities. Earlier Urban Institute research, for example, showed that while overall subrecipient expenditures accounted for 28 percent of all CDBG dollars, they accounted for 55 percent of public services spending. In our own survey, field staff observed that for 60 percent of grantees, subrecipient activities accounted for the majority of public services funding. Substantially fewer grantees used subrecipients for the majority of their housing activities (39 percent of grantees) or economic development activities (30 percent of grantees).

This same pattern generally held for those grantees visited onsite. Nonprofit subrecipients tended more often than not to be used to deliver public services activities. Public services activities accounted for approximately 40 percent of all nonprofit funding, the remainder being economic development, housing, or public improvements. Public services were generally the highest share for all grantees visited, except for Fairfax, Albany, Asheville, and Los Angeles, where housing was higher.

We explored CDBG response to the current Administration's efforts to increase the use of nonprofit faith-based entities, many of which are already players in the delivery of local programs. Not much appeared to have changed recently in this regard. Most of the 11 grantees with which we met reported that there had been little change in the extent to which they are used in the CDBG program. Approximately 43 percent of the field offices we surveyed said that they did not know whether grantees had taken action to increase the role of faith-based organizations in the CDBG program; 28 percent said grantees had taken action; and 29 percent said that, to their knowledge, grantees had not taken action. Ninety-six percent of the field offices also said they were unaware of any particular challenges their grantees were experiencing in managing faith-based subrecipients to carry out CDBG activities.

Although nonprofit agencies bring considerable advantages to the delivery of community development programs, they bring disadvantages as well. The Urban Institute report singled out nonprofit subrecipient ability to comply with program requirements as a serious concern among city and county program officials. More recently, a June 2004 report by the HUD Office of Inspector General (OIG) questioned whether management controls are sufficient to provide reasonable assurance that grantees and subgrantees with "capacity" participate in programs funded by the Office of Community Planning and Development. As the OIG defined it, capacity consists of the organizational resources needed to successfully implement

the grant activities in a timely manner; experience in carrying out activities similar to those provided for in the grant; and systems to properly account for the grant funds.

The Inspector General's report had two main findings:⁸ 1) CPD's management controls do not provide adequate protection against the funding of grantees and subgrantees lacking capacity; and 2) CPD needs to improve its monitoring function to ensure it accurately identifies the highest risk grantees and has the resources to perform the appropriate level of monitoring. With regard to the sufficiency of CPD's management controls, the audit noted that while CPD has controls in place to minimize the risk that grantees and subgrantees lacking capacity receive CPD program funding, unverified assumptions, incomplete and outdated guidance, and limited onsite monitoring undermine these controls. It also noted that CPD cannot demonstrate prior to funding that grantees have sufficient capacity or that grantees are fully evaluating the capacity of their subgrantees. The audit recommended that CPD needs to provide guidance for grantees to use to evaluate the capacity of their subgrantees.

While the Inspector General's report covered all CPD programs, the impact of funding nonprofits without capacity was illustrated with an example (among others) from the CDBG program, in which a local economic development corporation and a grantee, a county government, each failed to provide adequate documentation for more than \$400,000 in CDBG loans. The local development corporation claimed to be unaware that it needed to maintain supporting documentation for 4 years, and the County failed to adequately monitor the administrator to ensure that Block Grant Program loans were used for eligible purposes and serviced properly.

The second finding, regarding improving management controls over monitoring, found that CPD based its monitoring goals and grantee risk analyses on unverified assumptions. The report stated that while CPD's risk assessment provides a basis for allocating limited resources, CPD has never evaluated the aggregate risk associated with its programs or made a decision as to what level of risk is acceptable, and that CPD has not tested its grantee risk analysis process to ensure that it accurately identifies the highest risk grantees. The audit suggested that CPD should compare the significance of monitoring findings and concerns to grantees' risk assessment scores to determine whether a correlation exists. The report concluded that without such an analysis, CPD cannot state that its process effectively targets its limited resources to the highest risk grantees, and further, CPD lacks assurance that it has the resources to perform the appropriate level of monitoring.

The audit report also noted that Congress has not appropriated technical assistance funds for the CDBG program since FY1999, and that the lack of technical assistance funding prevents CDBG from developing the types of resources that other CPD programs have for increasing capacity.

Our survey of field offices identified some of these capacity concerns, although the problem of applicant capacity appears to be concentrated in a minority of jurisdictions. The survey

⁸ Audit of Management Controls over Grantee and Subgrantee Capacity Community Planning and Development, Washington, DC; Regional Inspector General for Audit, D. Michael Beard, June 18, 2004.

asked field staff to indicate whether a grantee “had access to a pool of public and nonprofit subrecipients that was ‘large enough and capable enough,’ to carry out community development programs effectively.” Staff reported that, for two-thirds of the jurisdictions sampled (65 percent), this pool *was* sufficiently large and capable. In fact, in most of the sites we visited, a shortage of capable subrecipients seemed hardly the problem. Rather, there often were so many as to make choices among multiple claimants for funds very difficult to make. (However, this competition can be beneficial in helping administrators run problem-free programs, as discussed more fully in Chapter 4.)

Federal Efforts to Ensure Compliance with Program Requirements

As the Inspector General’s report stresses, it is the job of HUD field staff to oversee grantee use of subrecipients and the management systems they put in place to ensure that, among other things, they have the capacity to carry out their programs, comply with program requirements, and account for their use of program funds. Staff members do this by monitoring subrecipient management systems and providing technical help to grantees when these systems are deficient in some way.

Monitoring is the review of information that indicates how a grantee has used (or is using) grant funds to determine whether the use of funds complies with applicable statutes and regulations. This review most frequently takes place through the scrutiny of reports submitted by the grantee covering the commitment and expenditure of grant funds. But HUD staff members also conduct periodic performance reviews onsite by visiting grantees’ offices and sometimes the actual site where funded activities have been carried out. Whenever such reviews reveal that the grantee (or a subrecipient) has used grant funds in a manner that does not comply with a specific statute or regulation, HUD refers to the infraction as a “finding” and takes remedial action. If monitoring reveals that the grantee appears to be moving in the direction of noncompliance, HUD identifies this as a “concern” and notifies the grantee accordingly.

Information about field office monitoring can suggest the scope of problems that accompany use of subrecipients and the types of grantees for which those problems are most likely to occur. The Grantee Management Program (GMP) is the system used by the Office of Community Planning and Development (CPD) for reporting grantee monitoring information. It covers about 30 monitoring areas, including subrecipient management, national objective compliance, financial management, rehabilitation, allowable costs, and many others. The database records any findings for each area monitored based on the official letters sent to grantees after the conclusion of each monitoring visit. Our analysis of the GMP provides a window into the monitoring performed on grantees nationally between the years 2000 and 2004, including the relative frequency with which grantees are monitored for subrecipient-related issues, and an indication of how subrecipient findings or concerns vary by type and size of grantee. Because each monitoring visit can cover multiple monitoring areas, we refer to each visit and area monitored as a “monitoring event.”

These data show that subrecipient management is one of the areas most frequently monitored by HUD field staff, and that findings in this area are comparatively common (though not as prevalent as in some other areas of program management). Over the 5-year period from 2000 through 2004, a field office monitoring visit covering subrecipient management resulted in a finding about one-third of the time, less than for national objectives, environmental, or financial management, but higher than for all other monitoring categories. Almost 15 percent of the nearly 2,000 events in which monitoring resulted in findings were due to problems in subrecipient management, second only to compliance with national objectives (25 percent) (see Table 2.3).

Table 2.3. Number of Monitoring Events and Findings by Area Monitored, 2000–2004

Area Monitored	Number of Monitoring Events (1)	Number of Monitoring Findings	Percent of Monitoring Events Resulting in Findings
National Objective Compliance	916	437	47.7%
Environment	237	101	42.6%
Financial Management	592	247	41.7%
Relocation	105	40	38.1%
Subrecipients	824	286	34.7%
Procurement	325	102	31.4%
Allowable Cost	361	101	28.0%
Eligibility	807	200	24.8%
Economic Development	252	61	24.2%
Section 108 (Unique Issues)	108	26	24.1%
Rehabilitation/Lead Based Paint	476	98	20.6%
Citizen Participation	249	50	20.1%
Audits Management	145	29	20.0%
Timeliness	370	70	18.9%
Labor Standards	124	23	18.6%
Program Income	288	53	18.4%
Overall Benefit	314	31	9.8%
Fair Housing	368	26	7.1%
Total (2)	7,703	2,062	26.8%

Notes: (1) Each visit by a field office monitor to review grantee compliance is considered a monitoring event. Grantees usually are monitored for multiple areas in any given year.
 (2) Table entries exclude areas monitored if fewer than 100 monitoring events were recorded over the period. Total includes all areas monitored, including those not shown in the table.
 Source: Compiled by Econometrica, Inc., from data generated by HUD's Grantee Monitoring Program (GMP) Database.

Data from the same source also suggest (but the relationship is not strong) that larger grantees are more likely to have problems with subrecipient management. This is probably because they usually have more subrecipients to manage than do small grantees. (Certainly this was true in the group of grantees visited onsite for this research.) Data over 3 years (2002, 2003, and 2004) reveal that field offices seem to monitor larger grantees for subrecipient management more frequently than they do smaller grantees, and that these monitoring events are more likely to turn up findings. The same is true for urban counties,

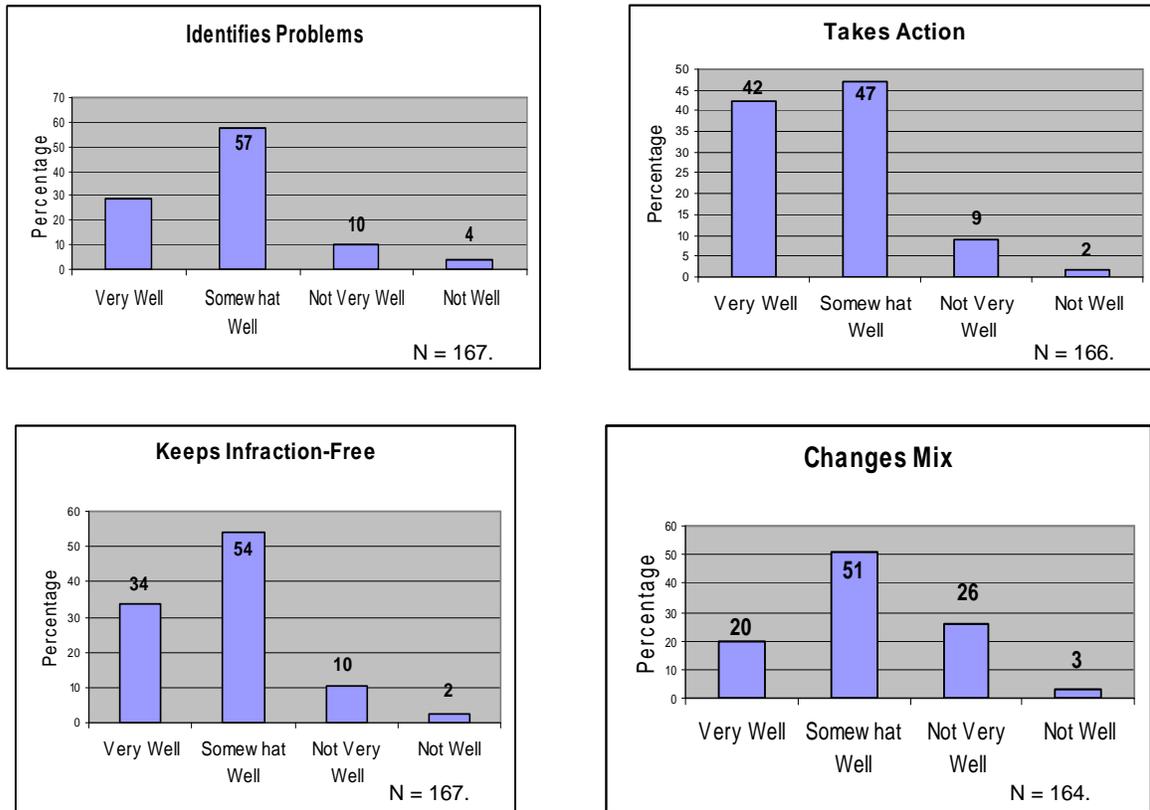
probably because of their more complicated administrative relationships, in which subrecipient municipalities use their own sub-subrecipients to deliver programs.

Where Are Subrecipient Management Problems Most Concentrated?

The Department's field office staff members are the most well-informed outside observers of grantee subrecipient management systems: each year, about 15 percent of entitlement grantees are monitored for subrecipient compliance with federal requirements. To tap that expertise, we surveyed field office staff to find out how well they believed grantees carried out each aspect of subrecipient management.

We first asked about four core indicators of overall subrecipient management system performance—the outcomes HUD and grantees should expect from a well-functioning system. These include whether a grantee: (1) identifies problems and takes action before they become serious; (2) takes action to ensure that projects carried out by subrecipients contribute effectively to community needs and priorities; (3) keeps the program free of serious infractions; and (4) changes the mix of subrecipients in step with the changes in community development needs (see Figure 2.1).

Figure 2.1. Grantee Performance on Indicators of Subrecipient Management



Source: Econometrica, Inc., survey of field office staff.

Field offices generally rated overall performance highly, including problem identification and resolution, effective subrecipient programs, and running a program free from serious infractions. Much less favorably rated were grantee changes in the mix of subrecipients in response to changing priorities and subrecipient capabilities. In Chapters 3 and 4 of this report, we explore some of the ramifications of this last point for the stability of the subrecipient pool. Some are positive, some negative.

In our analysis of specific elements of the subrecipient management process—the way in which these overall outcomes are achieved—we focused on specific areas of vulnerability: Which elements of the process are *least* likely to be done well? Our survey specified eight subrecipient management components and asked field office staff to rate each. Did a grantee carry them out “very well,” “somewhat well,” “not very well,” or “not at all well?” Taking only the “not very well” and “not at all well” responses as a measure of vulnerability to problems, management components were assigned to the categories summarized in Table 2.4. (A more complete description of each component is provided in Table 2.5.) Ratings in specific areas include:

Table 2.4. Vulnerability of Subrecipient Management Components

Vulnerability	Subrecipient Management Component
Low	Quality of agreements; Reasonableness of standards
Medium	Procedures tailored to size and complexity of subrecipients; Monitoring of financial management; Monitoring of program income; Collection and use of performance data
High	Capacity building; Sanctioning for poor performance

Source: Based on field office survey results reported in Table 2.5.

The more detailed results are shown in Table 2.5. Components are ranked in order of increasing vulnerability as indicated by the percentage of time grantees were thought to perform “not very well” or “not at all well.”

Table 2.5. Field Office Ratings of Grantee Performance on Subrecipient Management Components

Subrecipient Management Component	Percent of Grantees Rated: (N = 167 Grantees)		
	Very Well	Somewhat Well	Not Very Well or Not At All Well
Agreements clearly state subrecipient responsibilities	49	42	9
Reasonableness of standards for record-keeping and financial management	41	46	13
Procedures tailored to size and complexity of subrecipients	19	64	17
Monitors subrecipient financial management, record-keeping and performance	27	54	18
Monitors subrecipient documentation and use of program income	29	53	18
Collection and use of appropriate performance data from subrecipients	25	55	19
Provides capacity-building funding and/or targets technical assistance to troubled subrecipients	15	56	29
Sanctions subrecipients for sub-par performance	17	54	29

Source: Econometrica survey of HUD field office staff.

HUD Efforts to Improve Subrecipient Management

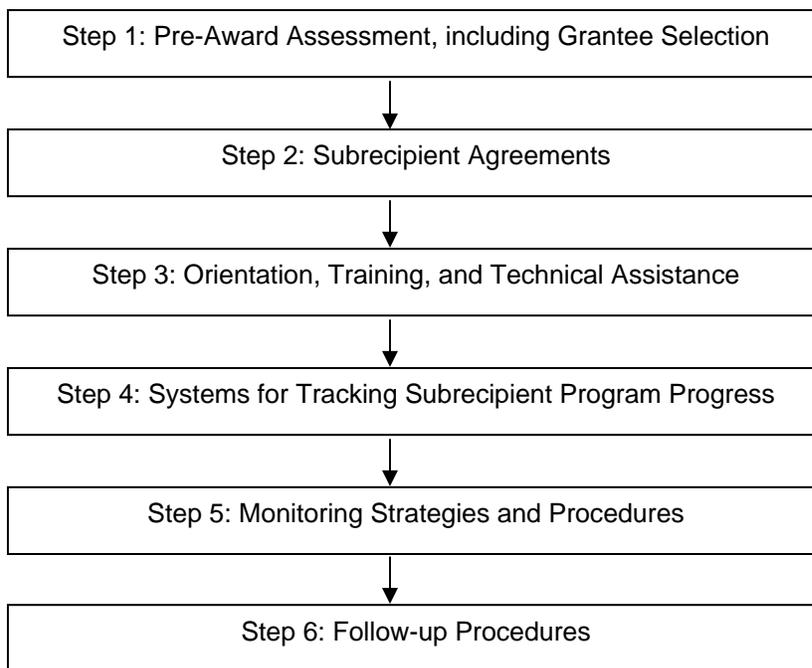
Over the years, HUD has worked to improve the quality of grantee subrecipient management. As the program grew during the 1980s, so did the use of subrecipients. Surveys by HUD’s OIG of grantees’ use of CDBG funds found that grantees were failing to properly manage the spending of subrecipients. Around the beginning of the 1990s, the OIG declared that grantees’ use of subrecipients constituted a Material Weakness in the program. As a result, HUD commissioned a review of grantee subrecipient management practices and preparation

of a set of guidebooks to improve this aspect of program management. Following their publication in 1993, HUD conducted a nationwide training program to acquaint CDBG grantees with guidebook content and initiated closer monitoring of subrecipient management practices. Over time, changes in the CDBG statute rendered the guidebooks increasingly obsolete. Earlier this year, HUD reissued revised guidebooks to all grantees.

3. Approaches to Subrecipient Management

Introduction

In 2005, HUD issued an updated guidebook for CDBG grantees on the management of subrecipients (*Managing CDBG: A Guidebook for Grantees on Subrecipient Oversight*, dated March 2005). The purpose of this HUD guidebook is to assist grantees in implementing and overseeing effective subrecipient programs. The guidebook describes the following basic elements of a system for overseeing subrecipients:



The *Managing CDBG* guidebook provides detailed advice for grantees about each of these steps. The Econometrica research team used the HUD guidance as a framework for the onsite assessment of the systems and specific tactics used by the 11 selected grantees to successfully manage their subrecipients. The research team wanted to find out what did and did not work from the viewpoint of both the grantees and their subrecipients. The site visits also sought to collect good examples of approaches used in each of the subrecipient management steps outlined above.

This study confirms that the tasks outlined in the HUD guidebook are indeed the essential steps used by effective grantees in overseeing the subrecipient process. Each grantee included each of these general steps within its subrecipient management system, although there was no consensus on one “right way” to address any particular step. For example, every grantee had a process for selecting subrecipients. Some were designed as open, competitive applications similar to a conventional RFP process. Others funded the same subrecipients

repeatedly through a process that mirrored an annual entitlement. These differences point out the importance of customizing implementation of the HUD-suggested process to local circumstances. Each of the 11 successful grantees assessed local needs and conditions and developed specific approaches to particular subrecipient management tasks.

The Econometrica team considered a successful subrecipient management system as producing two outcomes: (1) the services or products provided by the grantee's chosen subrecipients were considered effective in meeting community needs; and (2) the activities funded by the grantee with CDBG funds were compliant and well documented. Nationwide, many CDBG grantees already carry out most of the tasks suggested by HUD for subrecipient oversight, but even so, a significant portion of these systems are unable to both deliver services successfully and ensure compliance with CDBG rules. In other words, simply carrying out each of the steps in the HUD-defined subrecipient process is not enough to ensure success.

Our research suggests that the discriminator between effective and ineffective subrecipient management approaches is the degree to which both grantee and subrecipient staff have the right incentives to observe system requirements and supply the data needed to track compliance and results. In other words, it is essential that grantees incorporate the six steps in their subrecipient management process, but they must also ensure that the system rewards adherence to the tasks set out at each step.

These incentives must be properly structured for both grantee and subrecipient staff. Some of the incentives (and disincentives) for grantee staff are obvious, such as avoidance of HUD monitoring findings. If HUD monitors find that an activity is ineligible or insufficiently documented, they can require that the grantee repay the activity's cost using its own dollars. Well-designed grantee subrecipient oversight processes will help avoid this result. In addition, grantee staff will adhere closely to the subrecipient process if they believe it will produce better community outcomes. However, other factors can sometimes counteract these incentives, such as inappropriate pressure from elected officials, lack of funding for compliance tasks, or simple inertia.

Incentives and disincentives for subrecipients themselves may be more varied and complex than for grantee staff. Some grantees hinge future subrecipient funding on the subrecipient's past performance, meaning that subrecipients that fail to comply fully with subrecipient procedures can lose funds (and face additional sanctions). But sanctions alone may not be sufficient motivators of compliance, as subrecipients may gauge the likelihood of being "caught" with noncompliant actions as being quite low. Moreover, a system based entirely on sanctions is expensive, requiring constant and detailed vigilance. Instead, this study found that the most effective subrecipient oversight systems combine sanctions with positive incentives for good performers, such as public recognition or increased funding for outstanding performance.

In addition to funding, subrecipients are motivated by a desire to benefit the communities they serve, and they sometimes see that subrecipient requirements promote that outcome. Most subrecipients also belong to a cadre of fellow nonprofits: recognition as a good

performer among the group reportedly conveys important reputational benefits. This can be especially helpful when applying for other nonpublic funding.

The study also found that subrecipients must not only be motivated to comply, they must have the ability to do so. It is not sufficient to lay out expectations and create rewards for compliance. *Effective systems also provide subrecipients with the knowledge and tools they need to be able to comply. So, capacity building is a major attribute of most effective subrecipient systems.*

Successful grantees, like those in the Econometrica study, understand these subrecipient incentives and capacity issues and build them into their processes. For example, selection systems have included bonus points for an exceptional track record of compliance with subrecipient management systems; and annual subrecipient trainings have included modules on fundraising, organizational development, or other topics needed to create strong nonprofits.

The remainder of this chapter highlights each of the six steps outlined in HUD's guidance on subrecipient management. It analyzes the systems employed by the 11 grantees visited by the evaluators in terms of building capacity and providing incentives for grantee staff and subrecipients. It also describes any especially good practices noted at specific sites for particular subrecipient oversight tasks.

Step 1: Pre-Award Assessment

This step in the subrecipient oversight process involves selecting subrecipients to carry out CDBG-funded activities. Grantees are not required to follow a competitive process in selecting subrecipients (unlike those pertaining to contractors). Subrecipients may be selected using any reasonable criteria established by the grantee. The HUD guidebook describes five typical approaches to selecting subrecipients, including:

- *Formal application or Request for Proposal (RFP) process:* Under this approach the grantee publishes a notice of fund availability (or RFP) requesting applications and specifying selection criteria. In general, this process is run similarly to a competitive selection.
- *Simplified or limited application:* This approach is similar to the more formal process outlined above, except that the grantee simplifies or streamlines the application requirements. Upon receiving these more limited applications, the grantee performs a basic screening process that enables it to work with selected nonprofits to complete a more detailed application.
- *Grantee survey of qualified organizations with direct solicitation:* Under this approach, the grantee identifies a pool of qualified applicants and then directly requests that these organizations submit an application or undertake an activity.

- *Response to unsolicited applications:* Using this process, the grantee allows nonprofits and other subrecipients to approach it directly about potential projects. The grantee reviews proposed activities and compares them to community need and available funding.
- *Reviewing the performance of current subrecipients:* This model involves continuing to re-fund organizations that are currently working with the grantee. In this instance, HUD still recommends an assessment of the subrecipient's performance.

In reality, many grantees employ a combination of these approaches. For example, a grantee might use an RFP to select nonprofits working on housing issues, but do simple performance reviews and renewals for existing social service providers. Grantees shape their systems in response to the mix of projects they carry out and their local management philosophies.

Of any of the six steps, the pre-award step displayed the widest variation among the 11 study grantees. All used some form of a pre-award assessment as part of their processes, although not all used it for the same purpose or in the same way. In some cases, evaluations of the proposed projects and subrecipient capabilities aimed to ensure that only the best possible projects were funded. In others, pre-assessment aimed primarily to provide feedback to applicants on ineligible or unwanted activities, to help develop a strong pool of proposals and help new subrecipients improve their funding chances. For example, Westchester County staff provided informal, but important, feedback to city subrecipients at the beginning of each grant cycle. The County's program administrator and staff actually accompanied the mayor or city representatives in a County van to preview potential projects and provide feedback on their strengths and weaknesses *before* applications were even submitted. This helped cities prioritize their projects and submit applications with greater funding chances. Table 3.1 summarizes the subrecipient selection approach by grantee and type.

Table 3.1. Subrecipient Selection Approach by Grantee and Type

Grantee	Selection Process	Description
Palm Beach County	Formal application	Two-stage application, where the grantee scores the initial application for threshold criteria, and then the screened applicant is given the chance to clarify application deficiencies prior to scoring applications for award.
Dayton	Modified formal application	Uses a Citizen and Neighborhood Advisory Board to select awards every two years. City departments must compete as well as nonprofits, although they also receive funds through a noncompetitive allocation process. Awards are geographically divided among areas.
Gwinnett County	Formal application and response to unsolicited applications	Staff members make outreach to nonprofits and allow applications any time, although there is also a specified application window. Staff rate and rank proposals.
Westchester County	Formal application	County staff members work with local communities to identify sites and eligible projects. Staff members make the final decision on funding projects. Uses a 3-year application cycle.
Los Angeles County	Reviews performance of current subrecipients and responds to unsolicited applications	Participating cities receive a formula-derived amount based on the county's annual entitlement, and may create their own processes for selecting subrecipients. In the unincorporated areas, the County administering agency assesses subrecipient capability and makes a recommendation to fund prior to the County Supervisors' approval of funding.
Albany	Reviewing the performance of current subrecipients	The city is working to reduce its overall number of subrecipients and so currently works with its existing organizations.
Fairfax County	Formal application	Uses a formal application process with multiple opportunities for outreach prior to submission.
Memphis	Formal application	Applicants submit a formal proposal but can access resources to help with their applications.
Duluth	Formal application and mandatory pre-application	Uses a mandatory pre-application to help screen potential projects, then rates and ranks the final submitted projects.
Asheville	Formal application	Annual NOFA published to which public agencies and departments respond. Applications are received, reviewed, and scored by city staff. City Council subcommittee reviews scoring, interviews applicants, and makes recommendations to full Council.
Phoenix	Formal application	City departments that receive CDBG funds may create their own process for selecting subrecipients, but management of subrecipients comes back to lead department. Lead department issues annual RFP for nonprofit public service and public facilities' providers. Applications are reviewed by staff; 11-member committee made up of 5 citizens and 6 members chosen from 2 city boards scores the proposals. Applications scored above a threshold are presented to the committee and recommendations are sent to City Council.

Most grantees use some form of competitive approach to funding decisions. This appears to have four advantages: a diversity of applications, submissions from new organizations, reductions of monitoring and technical assistance needs after selection, and an approach perceived as free from the appearance of political favoritism.

First, the subrecipient selection model appears to influence the variety, and perhaps quality, of subrecipient proposals. One large grantee has a fully open and competitive process in which any nonprofit, regardless of size and capacity, can apply for funding. This grantee

offers assistance to nonprofits in understanding the CDBG program through several tools—such as a CD-Rom, staff technical assistance, and a video. Both grantee staff and a committee of citizens review proposals. Nonprofits whose proposals exceed a minimum threshold score are invited to make a short presentation to the committee. After selection decisions are made, a list of selected funding recipients and those who were not funded is published. Through this open process, the grantee receives 100 applications annually and winnows them down to the 25 best. The grantee notes that this process is generally free from inappropriate political influence and results in a transparent process that helps to select projects that meet community needs and are likely to succeed. In fact, this grantee surveyed its nonprofits and found that there were no differences in perception of “fairness” between organizations that were funded and those that were not.

Second, some grantees made strong efforts to work with entities new to their CDBG programs. One grantee clearly welcomed newcomers, setting aside an amount of its grant each year for “new starts.” This grantee reported that it would meet with any interested party to discuss how its interests might fit with those of the CDBG program and local community development goals. It further reported that it would accept a proposal for funding submitted at any time during the year, holding it for further consideration in the next competition. Another grantee visited invested considerable effort to post information about the CDBG program and its own community development program on its Web site. Entities unfamiliar with either are directed to the site.

Other study grantees used a selection process in which the same nonprofits were re-funded each year, sometimes because much of the review and decision-making rested with elected officials. Some grantees, however, avoided a competitive process as a program improvement strategy, a response to earlier processes that funded too many unqualified subrecipients. One grantee that wound up with “too many” subrecipients as a result of extensive funding of new groups devoted 2 years to a concerted effort to cut back on the number funded. It did this by negotiating directly with a smaller number of highly-capable applicants. Another of the grantees visited, Gwinnett County, contracted with an independent organization to operate its CDBG program. This agency preferred to limit participation to experienced and capable subrecipients, in part due to a desire to avoid compliance problems. For one grantee, the choice of which entities would participate in the program was determined to a large degree by the governing political board. Accordingly, grantee staff spent a great deal of effort in reviewing the nature and capacity of any of the organizations proposed for funding by the board, in an attempt to preempt the award of CDBG funds to any that were likely to be poor performers and thus create problems after a contract was awarded.

Third, the process for pre-award assessment by the grantee sometimes influences the monitoring workload. For example, in one large grantee with a non-competitive selection process, staff members were driven to do rigorous and in-depth monitoring and oversight to maintain compliance standards. As a result, some subrecipients complained that too much of their time was spent assembling the documentation required for each monthly or quarterly invoice.

Fourth, local political involvement in the selection of subrecipients is a factor in each grantee's subrecipient management system, if only because formal approval of CDBG grant awards by the governing body is required. But among the 11 grantees seen during the field work, there appeared to be a wide variation in how much influence grantees' governing boards exerted. In all cases, CDBG administering staff worked hard to assess and improve the capacity of subrecipients being considered for participation, even where low-capacity entities were selected for funding because of inappropriate interference by elected officials.

It is important to note that several of the grantees in the study sought to minimize risk by limiting the types of activities available for subrecipient implementation. For example, one grantee with a prior history of problems with economic development activities had determined that the required compliance documentation was so complex that it did not permit applications relating to this activity. The philosophy of another grantee, Gwinnett County, was to fund subrecipients with capital projects (such as facilities improvements or purchase of vehicles) rather than those requesting operating support, believing that this targeting helped to screen out less capable organizations. Westchester County also preferred to fund its subrecipients' capital expenses over administrative expenses, and plainly told its subrecipients to "ask for the project," not the administrative costs. When operating and administrative expenses are funded, subrecipients know that they are unlikely to be funded again in the next grant cycle for that activity.

The county's preference for funding capital over operations is easily illustrated in the projects awarded to one city subrecipient during a recent 3-year grant cycle. The subrecipient submitted 21 applications during the 3-year period. Eleven projects were funded for a total of \$1.6 million. Funded projects included five infrastructure projects (sidewalks), two public facilities (parks, spray and play), two van purchases for public service activities, and two operating support grants for public service activities. According to the subrecipient, projects seeking administrative support are much less likely to be funded than capital projects. From the grantees' perspective, it is easy to see that the degree of monitoring, documentation, and risk is far less, for example, for the purchase of a van to transport clients to a medical facility, than it is to provide salary support for the facility's employees. Declining resources and the competing needs of an urban county's aging capital stock also weigh-in to the decision-making, as does the county's ability to diminish the construction risks through extensive technical involvement in the pre-construction phase of capital projects.

In summary, all the grantees visited engaged in a pre-award assessment of the applicants (and the activities proposed for funding). The extent to which they engaged in outreach to those not already participating varied dramatically, from exuding a "welcome to all" attitude to outsiders to a conscious decision to keep the door closed, at least for the near future.

Step 2: Subrecipient Agreements

HUD requires that grantees sign a written contract between the grantee and the subrecipient, known as the subrecipient agreement. The CDBG regulations specify the minimum content. There are two primary purposes served by the agreement. First, it contains a scope of work

that clearly specifies tasks to be undertaken and identifies applicable CDBG requirements and penalties for non-compliance. Second, the agreement often establishes benchmarks or measures of subrecipient performance. For example, the agreement might stipulate that 200 households are to be counseled annually, and that 60 percent of those counseled should go on to become homebuyers. Thus, these agreement clauses establish performance and outcome targets that the grantee and subrecipient can then track.

Survey results presented in Chapter 2 of this report indicated that, in the opinion of HUD staff, subrecipient agreements are the least problematic of the steps in the management process. Onsite reviews of the 11 selected grantees confirmed this HUD staff assessment. All the site visit grantees paid careful attention to making program expectations and requirements clear in their agreements, containing all the elements required in the applicable HUD regulations. Asheville, in particular, took great care in crafting detailed scopes of work and customized reporting requirements suited to the unique circumstances of each subrecipient project.

One way that grantees seek to use the agreement to minimize the risk of noncompliance is to fund line items that are particularly easy to track. For example, it can be very time consuming and difficult for a nonprofit to use time sheets to allocate staff costs to the various activities they carry out. So, some grantees have chosen to fund only items, such as rent, that require less documentation. It should be noted, however, that if this approach is employed, grantees need to be very careful to pay for only that portion of common costs (such as rent, utilities, office expenses) attributable to the CDBG-eligible activity, rather than to the operations of the nonprofit as a whole.

Negotiation of the subrecipient agreements also provided grantees with an opportunity to clarify how subrecipient performance was to be measured, especially where outputs and outcomes are included in the community's overall performance measurement process. Subrecipients interviewed during site visits all seemed to understand the need for such performance measures. (Some reported that they had learned how to develop outcome measurements through previous United Way experience.) Often, finding just the right measure proved difficult. For example, one subrecipient that operated a youth mentoring program questioned the grantee's request for student grades as a measure of performance. The subrecipient viewed these as both burdensome to collect and inappropriate given the services being provided. A health clinic operator questioned the same grantee's desire to use *number of patients served* as a performance measure, preferring instead to use the *number of patient visits*. The subrecipient often treated patients with chronic illnesses who required frequent visits, and feared that using patient counts would create a bias toward serving healthier persons.

In summary, one way to minimize the risk of noncompliance and encourage a subrecipient to contribute effectively to the grantee's community development efforts, is to clearly state what the subrecipient must do in the contract between the parties. We found that all the grantees visited were providing the foundation for this. Each also claimed that it was requiring the subrecipients to perform in accordance with their agreements or to face, at least, the likelihood of not being refunded.

Step 3: Orientation, Training, and Technical Assistance

Training and technical assistance are essential parts of any subrecipient process. Without such outreach and learning opportunities, new subrecipients would be unable to become funded, and existing organizations would not refine and improve their performance. According to the HUD guide, grantees typically provide one or more of three types of outreach:

- *Orientation:* Orientation sessions usually address program goals and often are designed to help ensure that subrecipients understand the basic requirements of participation in the CDBG program. The training may be one-on-one or may be in a group session. Some grantees offer alternative training tools, such as guidebooks, Web-based learning, videos, or CD-Roms. Orientation sessions often are provided at two points in time, one at the time of application to ensure that potential applicants understand what the grantee requires and another after subrecipients have been selected, focusing on the process for implementing and overseeing their CDBG funding.
- *Training:* Typically, training is performed in a classroom or more formalized situation. Some grantees provide their subrecipients with training not only on how to manage their CDBG funds under the grantee's subrecipient oversight system, but also on key technical topics. This study found that such training typically revolves around activity-based topics, such as effective rehabilitation processes for housing recipients, or on other key federal requirements, such as relocation, Davis Bacon, financial accountability, or fair housing. Some grantees take this approach even farther and offer training and outreach on topics related to the continued health of the subrecipient, such as grant writing.
- *Technical Assistance (TA):* Under this outreach technique, the grantee works individually with a particular subrecipient to provide help in addressing a particular concern or issue. For example, a grantee might bring in a financial management expert to assist a subrecipient whose monitoring findings have demonstrated a lack of accounting capacity.

As with other steps in the subrecipient process, training and outreach are unique to the particular grantee. If a grantee works primarily with a limited number of successful, established nonprofits, it might offer only periodic training, covering changes to the CDBG regulations, or technical assistance on specific issues uncovered during monitoring. High turnover in subrecipient populations and an influx of new, inexperienced, subrecipients might impel a grantee to offer all three types of outreach on a regular and recurrent basis.

Each of the 11 grantees visited incorporates training into its subrecipient management approach. Many of the grantees hold pre-application workshops to inform potential applicants of the process for receiving funds. In some jurisdictions, this task is accomplished by sharing guidebooks or Web/CD-Rom based materials. Each also holds an annual orientation or training session for subrecipients that received new awards. Most stated that

they require attendance, some even using the meeting to present and execute the contract, providing a clear incentive for key staff to attend.

The actual content of material presented at these pre-application and orientation sessions varies substantially. Most grantees use pre-application or orientation sessions to apprise subrecipients of any new requirements or changes in emphasis, or to clarify requirements that subrecipients found difficult to understand or comply with. Clearly, any organization new to the CDBG program would find such pre-award training and technical assistance worthwhile. Of the subrecipients interviewed at the 11 field sites, most indicated that they found such sessions to be worth attending. Some (usually the newer ones) stated that they learned quite a bit there. Such sessions also provided the opportunity for nonprofit organizations to get to know each other better and to network with one another.

Some of the grantees provide training that goes beyond the application process and awarding of funds. For example, Fairfax County found that their smaller subrecipients lacked the skills they needed to maintain and expand their work. To level the playing field between these groups and their older, more established colleagues, the county hired a consultant to do baseline capacity assessments and then conduct workshops on issues such as strategic planning, information technology, or fundraising. The grantee reassessed the same organizations 2 years later, and convened best practices conferences so that all its subrecipients could share techniques.

Los Angeles County relies heavily on its Web site as a way for a large, various, and far-flung cadre of subrecipients to get the technical assistance they need. The county has devoted considerable staff resources to develop materials that can be used by many entities that cannot be reached on a one-on-one basis, although numerous training sessions are held to update subrecipients on program requirements and address capacity issues. The county's on-line financial training is a good example of a comprehensive approach that is tailored to the subrecipients needs *by the subrecipient*. Although the example is not easily explained here (its utility lies in the depth of resources, guidance, and training materials, which are neatly organized for the reader and just a "click" away), some of the screen shots appear in Appendix D.

Many of the subrecipients interviewed at the 11 field sites expressed great appreciation for the one-on-one assistance that grantee staff provided in response to a specific application. In several cases, grantee staff provided such assistance onsite, sometimes in response to a formal monitoring issue, sometimes to build a subrecipient's capacity to handle new tasks. For almost all the grantees visited, the provision of hands-on technical assistance was an integral part of their ongoing relationships with their subrecipients. Palm Beach County, for example, funded an emerging nonprofit that filled a service need in a troubled municipality. Staff visited the nonprofit early in the contract period and spent significant time helping the organization establish an adequate accounting system.

Westchester County has taken technical assistance in a different direction by providing key technical services directly to particular projects. For example, the county provides design services for physical improvements through a team of in-house landscape architects. These

services—which are provided primarily to other governments within the county—help to develop the scope of work and deliver completed bid packages for the member community to issue. Other grantee communities may address similar tasks through consultants, or they may encourage municipalities and nonprofits to use their own staff or seek the help of outside consultants.

Clearly, this part of the management sequence plays an important role in building the capacity of subrecipients. There are other ways to build capacity for an organization needing it, such as connecting the needy organization with another known to have good capabilities in the subject matter (so-called peer-to-peer training). But it is difficult to get both parties to agree to participate in such a sharing experience. A grantee may also elect to provide CDBG funds to a nonprofit to be used exclusively to build its capacity (such as paying for subrecipient staff to attend training conducted by another entity with expertise in a particular area), but we did not encounter any such instances as part of the field work, and it is likely that grantees find this a difficult thing to manage at arm's length. It appears that provision of training and technical assistance directly by grantee staff is the preferred method at this time.

Step 4: Systems and Procedures for Tracking Subrecipient Progress and Outcomes

As a part of an effective subrecipient system, grantees must track the progress of subrecipient activities. This is done through periodic reporting as well as tracking of financial draws and other information. Some grantees have automated this process, although many still receive paper reports. The *Managing CDBG* guide provides examples of how grantees can automate systems.

This step also relates to the procedures used to track the results of subrecipient activities. This is done to ensure that milestones are met, but also to assess whether the subrecipient reached its intended goals. There are a number of incentives that grantees can build into their systems to reward strong performers.

The grantees visited relied to a great extent on the receipt and review of periodic performance reports submitted by their subrecipients. Some of them also carefully reviewed payment vouchers as they were received from their subrecipients. In the latter case, the grantee usually required a fairly high level of supporting documentation to accompany the vouchers, thus making it possible to get a better sense of what was happening with the funded activity.

Earlier research by the Urban Institute, referred to in the last chapter, suggested that financial management and accounting had been problem areas for subrecipients. This study suggests that enhanced computerization may have enabled subrecipients to comply with federal financial requirements more easily. For example, one grantee staff member reported that most of its subrecipients now have the accounting software to allow it to comply readily with financial management and other requirements, a view corroborated in our interviews with

subrecipients. Much less common, however, are client tracking systems that would allow easier compliance with beneficiary reporting requirements.

One large grantee, Los Angeles County, is pushing the CDBG program (and its subrecipients) to use more automated systems. Applications, invoices, quarterly reports, guidelines, contracts, day-to-day communication, and even some training sessions are handled electronically. (Subrecipients are permitted to do the training on-line, provided they pass a test upon completion.) This grantee takes the training very seriously, and subrecipients are allowed to proceed in the contract and award process only after they successfully complete the training. As in other jurisdictions that are trying to conduct more and more CDBG business electronically, the transition has presented some challenges. Both the grantee and subrecipients are struggling to achieve a comfortable balance between the paperless and paper-driven world without being overly redundant.

In order to reward good reporting and encourage effective programs, some grantees have adopted “pay for performance,” in which subrecipients receive funds proportionate to progress. One grantee allows subrecipients to draw down up to 75 percent of the agreement costs, but additional amounts are released on a *pro rata* basis as the subrecipient reaches its goals. Subrecipients that do not meet their targets receive less than the full award amount. This system clearly signals the importance of both timely report submission and progress toward meeting contract goals, although some (but not all) subrecipients felt that the system encouraged them to serve easier-to-reach populations.

Several of the grantees in this study adopted strong performance measurement systems in order to capture data about progress and provide feedback to subrecipients and to their communities. For example, one grantee implemented an on-line system to allow subrecipients to enter information about goals and progress toward those goals. The system also tracks whether reports have been submitted, so that these can be checked before invoices are processed. Even with less well-developed or less automated systems, grantees can encourage subrecipients to produce timely, accurate reports simply by elevating the importance of the performance reporting function.

Performance reporting gives subrecipients an incentive to accept responsibility for supplying the grantee with timely, accurate information. One grantee publishes a report summarizing monitoring findings and performance data for all subrecipients, and then holds a public meeting at the beginning of the funding allocation process to review it. A difficult situation unfolded when performance-report information that pointed out an inaccuracy had not been previewed by a subrecipient. The subrecipient reported losing funding for that activity as a result. Grantee staff members have since taken steps to improve the process, and both grantees and subrecipients would probably agree that the importance of timely and accurate performance reporting has been elevated.

In summary, the successful grantees in this study use the reporting process not only as a tool to ensure status and compliance but also as a way of ensuring and measuring performance.

Step 5: Monitoring Strategies and Procedures

Under the CDBG regulations, grantees are responsible for episodic subrecipient monitoring, which may consist of onsite reviews of files and activities or desk reviews of reports. Monitoring aims to ensure that subrecipients have complied with subrecipient agreements and CDBG rules, delivered agreed-upon products and services, and achieved the results or outcomes intended. Most CDBG grantees do monitor their subrecipients for general program compliance, but in practice it appears that fewer grantees nationwide focus on assessing the outcomes of subrecipient activities.

The 11 grantees all stated that they monitored at least some of their subrecipients each year onsite. Several claimed that they monitored *all* of their subrecipients annually. Upon closer examination, however, it is clear that the monitoring that takes place usually does not cover all the bases for each subrecipient.

Where grantees had construction specialists on staff, they usually made a practice of visiting projects at various stages of construction. Some were deeply involved in overseeing critical construction planning and contractor selection stages, hoping to avoid future problems with timing or quality of work. Most grantees had at least one person who was responsible for overseeing the financial systems used by their subrecipients. The person would often participate in the onsite monitoring, sometimes alone and sometimes as a member of a team of grantee monitors.

Some grantees had staff whose primary responsibility was to monitor subrecipients. In such cases, however, the monitoring they performed was not limited to formal, onsite reviews. They carefully reviewed the periodic performance reports submitted by the subrecipients and spent considerable time in discussions with them by phone, by e-mail, or in some cases during informal onsite visits. It appeared from the interviews of subrecipients as part of the field work that such monitoring staff provided a great deal of technical assistance and helped greatly in upgrading their capacity to comply.

Some of the grantees visited set aside a particular time of their program year for monitoring visits. For instance, Fairfax County staff visit subrecipients at least twice a year to perform financial and program monitoring. A special effort is made to visit new subrecipients during the first three months of the contact period to identify small problems early on. Other grantees performed the visits at various time during the year. This seemed to be a function of how tightly the grantees administered their subrecipients' contract periods. For those that used a shorter contract period (for example, 12 or 18 months), it probably made sense to stage an onsite visit at a time when some work of substance should have occurred or was completed.

Those grantees that did not monitor all their subrecipients each year generally engaged in some sort of risk assessment to determine which ones to visit. For example, in Asheville, the city used a risk assessment process that considered seven factors to determine whether a subrecipient is a high, moderate, or low risk. The factors included: new subrecipient; new or expanding activities; multiple activities; past compliance problems; performance problems

(for example, slow-moving activities); staff turnover in key positions; and activities involving complex compliance issues, such as rental housing or economic development projects. Based on a review of these factors, city staff developed an annual monitoring plan. Staff viewed these monitoring visits as an opportunity to provide technical assistance as well, claiming that considerable individualized assistance was provided to subrecipients during these visits. Risk assessment was used, in other locations, in an informal way, to determine the subject areas to review during a given monitoring.

For all the grantees visited, onsite monitoring was an important element in their attempts to identify weak areas of performance and provide technical assistance, thereby building the capacity of subrecipients to perform vital community development tasks.

Step 6: Follow-Up Procedures

This step is related to ensuring that the results of monitoring visits and other assessments are shared and that further guidance is provided. The HUD guide establishes four criteria for effective follow-up:

- *Follow-up:* Subrecipients must understand the necessity of following their agreements and complying with the federal rules. Grantees need to ensure that subrecipients are aware that sanctions will be imposed if the rules are not followed. Gwinnett County, for example, noticed that a subrecipient had failed to include the required labor standards language in advertising a construction procurement and required the subrecipient to re-bid the project. (Note that had grantee staff *not* monitored procurement language and caught this violation prior to construction, the appropriate sanction would have been far more severe—the disallowal of project costs.)
- *Standards:* Grantees need to ensure that the standards for good performance are clear and *consistently* applied. The grantee should neither change its expectations after an agreement has been signed nor hold different subrecipients to different standards. The difficulty of following through on grantee promises can not be underestimated. Reducing a subrecipient's grant for nonperformance, or requiring ineligible expenditures to be repaid, may be viewed harshly by the subrecipient. But strong program administrators who have the support of elected and other high-level officials, as was the case in Los Angeles and Duluth, make it possible for program staff to follow through on tough decisions and send a strong message to the subrecipient community that compliance standards contained in the subrecipient agreements will be enforced, and that project monitoring is seriously regarded.
- *Regular feedback:* Grantees should not just wait until the end of the monitoring cycle to provide feedback to subrecipients. Grantees should share information periodically, as reports are reviewed or information is received. Palm Beach and Phoenix are good examples of communities that provide timely reviews and regular feedback to their subrecipients. They reportedly review each payment voucher and monthly report

shortly after receipt. They then contact the subrecipient and ask questions or express concerns whenever the review so merits.

- *Timeliness:* Finally, grantees need to ensure that reviews (both desk and onsite) are timely and complete. It is ineffective to threaten consequences but not impose those sanctions until months or years after noncompliance has occurred. In Los Angeles, despite the large number of subrecipients, monitoring schedules were firmly adhered to. Staff communicated regularly with subrecipients, creating an awareness of what the monitoring protocol involved and when it would occur over the course of the subrecipient's grant. As a result, subrecipients seemed knowledgeable about what was expected of them, and what the timing and potential outcome from monitoring could be. Staff follow-through after findings was precise, timely, and carefully documented. Findings were also communicated to both the subrecipient and the management of the community development agency.

All the grantees that participated in the onsite reviews incorporated some form of feedback for their subrecipients. In some cases, such as the threatened loss of funding, feedback was negative. In other cases, feedback was used to “sharpen the saw”—to strengthen the community development process and to refine activities and procedures for future funding cycles. For example, during a monitoring visit, one subrecipient providing construction training to minority jobseekers urged the grantee to *more* aggressively monitor other program participants for compliance with Section 3 requirements.⁹ The group argued that more vigorous enforcement of this requirement could expand employment opportunities for its trainees. The community development director responded by writing all housing contractors, reminding them of Section 3 requirements and warning that this would be a focus in future monitoring efforts. Onsite reviews provide grantees an opportunity to educate the subrecipient about program requirements, and also give the grantee a chance to learn more about the subrecipient's capacity. Both Memphis and Fairfax recognized the importance of this and made a point of visiting new subrecipients early in their grant activities.

It is also important to note that some of the grantees in this study not only provided feedback to subrecipients, but also sought feedback in return. Some grantees conducted evaluations of their training and technical assistance, and some actively solicited feedback by encouraging e-mail and phone contact with program managers. Some, like Los Angeles, even conducted annual customer service surveys of their subrecipients. This information is used to improve the quality of the services the grantee provides.

⁹ Section 3 of the HUD Act of 1968 requires that employment and other economic opportunities created by federal financial assistance for housing and community development programs should, if possible, be directed toward low- and very-low-income persons, particularly those who are recipients of government assistance for housing.

Conclusion

In our research we observed that to manage subrecipients effectively, grantees must have a complete oversight system and they must be consistent—but this alone is not enough. Grantees must also support subrecipient capacity and provide incentives and education for subrecipients to perform well. This chapter has examined the various ways grantees have taken on each of the subrecipient management steps recommended by HUD. The research found that successful grantees have adapted these steps to their own local circumstances—there is no one right way to manage subrecipients. Common to all systems, however, is the recognition that a system relying entirely on sanctions is expensive, requiring constant vigilance. Better to design selection systems, subrecipient agreements, and other steps so that they reward active cooperation at each step. At several stages—subrecipient agreement and monitoring especially—performance measures that focus both subrecipients and grantees on achieving good performance have proven particularly valuable. In fact, at various steps, opportunities for exchange between grantees and subrecipients have helped both improve the way they carry out programs.

4. Opportunities and Challenges in Creating Effective Subrecipient Management Systems

In Chapter 3, we reviewed subrecipient management systems in terms of the willingness and ability of subrecipients to comply with federal program requirements. We concluded that effective systems are marked by two features: they appeal to a range of subrecipient motivations, not just the desire to avoid sanctions for noncompliance; and they help subrecipients build capacity to carry out effective programs. And at each stage of the management sequence, grantees have found valuable ways to carry out its basic steps.

Grantees have not created subrecipient management systems from whole cloth; they have assembled their systems over time, piece by piece. Staff members have done this by borrowing some good practices from other jurisdictions and inventing others to meet local needs. In other words, they have often consciously adopted elements of subrecipient management systems to handle the costs and risks they face in using subrecipients to carry out their programs.

This chapter discusses how grantees have responded to the costs they incur and risks they face. There are two major types of risk: shortfalls in capacity of subrecipients to comply with federal requirements; and inappropriate interference by elected officials in the impartial administration of local rules for program management and decision-making. The first two sections of this chapter examine grantee responses to these two types of risk. The third and last section discusses some of the factors that influence the effective operation of subrecipient management systems.

Grantee Responses to Costs and Risks

To examine the subrecipient management process, we first attempted to construct models that illustrated the links among the various aspects of the subrecipient management systems. Are decisions made at the funding allocation stage, for example, linked to decisions about how grantees would be monitored? Does pay-for-performance mean that grantees have to monitor their subrecipients in a particular way? Are there profiles or models of how elements are related to one another, allowing us to classify grantees for further analysis?

The answer to these questions appears to be no. Grantees appear to mix and match elements of subrecipient management systems to suit local circumstances. Of course, agency staff members consider how decisions about some parts of their systems affect other parts. And many of their decisions seem to follow explicit strategies to reduce the costs and risks they face as managers. In this part, we discuss responses to administrative costs and the risks of shortfalls in capacity of subrecipients to comply with federal requirements.

Reducing Administrative Costs

Subrecipient management can be expensive. Palm Beach County spends a lot of its CDBG funds for program administration, at least in part because of the costs of its subrecipient management efforts. They expected to spend about 20 percent of total CDBG resources for program administration and indirect costs (up to their statutory limitation) for the year 2003/2004. They also expected to spend another 8.4 percent on “project implementation,” which appears to contain some costs for subrecipient supervision.

Our review of grantee experience uncovered three basic ways of reducing program costs: (1) investing in lower-cost efforts at the front end of the sequence to avoid later and higher-cost monitoring and invoice review activities; (2) shifting costs onto other entities; and (3) reducing overall costs and risks.

Investing strategically in priority program elements. Phoenix invests at the front end. Staff members charged with day-to-day management of subrecipients consist of only 3 persons for more than 200 active projects (not all of which are drawing funding each month, which would require review of reports). Senior program staff report that solid front-end work—at the outreach, technical assistance, and contracting stages—reduces downstream mistakes and therefore the investment needed in extensive program reviews. (In other words, reducing risks reduces costs.)

EXAMPLE 1: Elements of each stage in the management process can be viewed as capacity-building opportunities. In Phoenix, technical assistance is built into the monitoring process; for example, monitoring letters after visits are completed will extend advice to subrecipient staff even if there are no formal findings. In the opinion of staff, the monitoring process is expected to be helpful to the subrecipient, including comments on practices that are not, strictly speaking, required by the program or the city. As an example, a written procurement manual is not required of subrecipients, but after one monitoring visit, the monitor wrote to suggest that the organization adopt one, even though there were no specific findings tied to the lack of one.

Some grantees are explicit about the choices they have made to emphasize one or other part of the process:

- In Los Angeles County, some practices, like the financial risk assessment undertaken prior to award, and the extensive monitoring protocol that employs a large number of certified accountants to conduct financial reviews, may compensate for other aspects of the management sequence that are weaker.
- Palm Beach County runs a “front-end-loaded” program that appears to concentrate a great deal of time and resources on interaction with subrecipients at the pre-selection and selection stages. The County also invests heavily in the post-award oversight stages. It requires detailed records to accompany requests for reimbursement, and it enforces the requirement that the subrecipient submit monthly reports containing specific performance information. It states that it has withheld reimbursement when either of these requirements has not been met in a satisfactory manner.

- Asheville places great weight on negotiating an agreement that is as detailed and outcomes-focused as possible.
- Dayton places great weight on the invoicing function, which is among the most detailed of any community visited. Although the city does onsite monitoring, the bulk of the compliance function really takes place through invoice approval.
- Because Albany is now working diligently to reduce substantially the number of nonprofit agencies it funds, it makes little to no effort for outreach but targets staff efforts heavily toward assessing which subrecipients are worthy to be refunded.

EXAMPLE 2: The HUD field office recommended the City of Asheville as a study site largely because of the clarity of the agency's statements of work in its subrecipient agreements. Staff acknowledged that, previously, they had just taken what the applicant had stated in the application. Now, they negotiate the specific details of each subrecipient's statement of work and add detail to the agreement where necessary to make clear what is expected. This process still begins with the subrecipients, who submit their proposed statements of work for review by the city. The city evaluates the statement of work and proposed accomplishments of each subrecipient and provides a response. Eventually, a mutual agreement is made as to the statement of work and required accomplishments, which is then formalized into the written agreement (which is otherwise largely a "boilerplate" document of legalities.) Staff indicated that through this process the city has been putting a larger focus on making sure that the subrecipient agreements also contain "outcome" measures and not just "output" numbers. Asheville customizes the report format for each subrecipient to align the items required to be reported with the key items contained in the statement of work. Beginning this year, the city now also requires the subrecipient to report on progress toward meeting specified outcomes.

Shifting Administrative Burdens

Duluth shifts administrative burdens onto other parts of the system. In Duluth, management resources are spread fairly evenly throughout the sequence, but the pre-award assessment and the community's involvement in the selection of subrecipients are noteworthy. City staff members lead the effort, but many of the business meetings are conducted by the Community Development Advisory Committee (CDAC). The CDAC is staffed by community volunteers appointed by the Mayor and meets about a dozen times a year, including four times between the time the applications go out in June and August. It is a hard-working, time-consuming committee. In Fairfax, the process for setting funding priorities, reviewing applications, and recommending funding relies heavily on community and staff experts and volunteers, who participate in a highly structured and effective review process that emphasizes the funding of programs over organizations.

EXAMPLE 3: In Phoenix, three persons are assigned to oversee all active subrecipients, which typically number about 250, including the projects that are carried out by other agencies of the city government. When CDBG funds are provided to another city agency for a particular project, Neighborhood Services Department (NSD) (the city agency that administers the CDBG program) prepares an interagency agreement, which is signed by officials of the agency and NSD. An NSD program monitor is assigned to oversee any such agency project, and that person works with the respective agency staff at the front end to ensure that agency staff members understand the particular requirements of using CDBG funds. The NSD representative attends meetings held by the agency concerning the CDBG-funded project, to keep up on the status of the project.

Reducing Overall Risk

There are three primary risk minimization strategies that can apply to any of the individual program management steps. These strategies are to: (1) avoid use of subrecipients to carry out high-risk activities, (2) invest in the capacity of subrecipients to carry out programs, and (3) substitute agency staff for subrecipient staff to carry out critical program compliance tasks. These might be described as avoidance, capacity-building, and hand-holding strategies.

Avoidance of high-risk subrecipient use. One obvious strategy is to avoid relying on subrecipients in the first place, particularly in areas where compliance with requirements may be more difficult. Palm Beach County, for example, appears to carry out as many of its CDBG-funded activities as it possibly can with its own staff, resorting to the use of subrecipients only for those it feels it cannot handle on its own. The county runs its own housing rehabilitation program and only reluctantly allows its constituent jurisdictions to do so. Memphis Housing and Community Development (HCD) does not undertake economic development at all with CDBG funds. That is because HCD was cited by an Inspector General's report for not following the "necessary and appropriate" requirements that were in place in the mid-1990s when the city did fund such projects.

In an interesting twist on this strategy, Gwinnett County leaders decided to accord priority to funding requests for capital projects such as building renovations. This decision was taken in response to a community development need, and not with a view to limiting subrecipient compliance risk. However, by restricting the amount of funding that goes to social services and other activities often carried out by small nonprofit agencies (which may not have the administrative systems or experience to comply with program requirements readily), the emphasis on capital projects may effectively screen out applications from these weaker groups.

What are the tradeoffs involved in opting for approaches that respond to potential subrecipient capacity (and subsequent compliance) problems by coaching or steering subrecipients into particular activities? They increase the chances that subrecipients will get funding, produce a successful result, and operate a problem-free program; but possibly at the cost of supporting projects that are not high-priority community needs. In effect, this could be thought of as bypassing capacity-building in favor of capacity assessment.

Another way of reducing risk tied to lack of capacity is to work to reduce the overall number of organizations that enter the system. In Albany—because the city previously had been funding virtually all the eligible nonprofits in the city and now is working diligently to reduce substantially the number that get funded—there is little to no effort being made for outreach or pre-award assessment. The city targets its staff efforts toward assessing which subrecipients are worthy to be re-funded. The most impressive aspect of the Dayton "story" is the city's restructuring of its subrecipient activities, going from more than 50 subrecipients in the mid-1990s (many with small awards) to about 12 to 15 with much higher funding levels and much more strategic focus of their activities. This shift has also allowed Dayton to reduce the number of projects to a more manageable number in relation to the CDBG monitoring staff.

Substitution of agency capacity. One model observed in the growing suburban county of Gwinnett, GA, transfers the burden of community development management to an experienced third-party contractor. In this model, programmatic and regulatory expertise is concentrated in a capable, dependable, stable, private for-profit entity that is highly motivated and highly qualified to manage all subrecipient activities. This contrasts with the model that invests heavily in government staff and technology, building institutional capacity to manage programs and subrecipients alike.

Westchester County provides a great deal of “real time” or “on the job” technical assistance. In fact, the county provides extensive project management assistance for subrecipients (for example, bid packages and design work for construction projects as well as project identification). Acknowledging that many of the 40 municipal subrecipients do not have the capacity to provide the level of technical expertise required, and that the expertise is readily available at the county level, makes things work smoothly between municipality and county.

Investments in subrecipient capacity. In 2001-2002, Fairfax County made a commitment to improve nonprofit capacity. (We really did not see anything like this elsewhere.) The county had observed that large, older nonprofits were far better prepared to compete for Consolidated Funding Pool resources than were small, start-up nonprofits. Agency staff said they hoped to “level the playing field” so that small nonprofits could be more successful. To do this, they hired a consultant to provide baseline capacity assessments, technical assistance, and training to 50 nonprofits. Six workshops on strategic planning, information technology, and fundraising were held, and a re-assessment of the 50 organizations was conducted in 2003-2004. (None of the training was geared toward compliance.) For the past several years, Phoenix has made it a practice to set aside some CDBG funds each year for “start-up” organizations, aimed at helping a few new entities get into the game.

Efforts to create e-government systems are an important cross-cutting strategy intended to build capacity among subrecipients to comply with program requirements and reduce administrative burden for agency staff. Among the sites visited, Los Angeles County and Fairfax County have devoted considerable effort to electronic forms of application, communication, technical assistance, and reporting. Los Angeles does a great job of providing access to resources to help subrecipients succeed (see the example below). A vast array of self-help information is available on the agency’s secure Web site, which is geared to its subrecipient “partners.” This push to go “all electronic” has presented challenges, though. Some subrecipients reported being overwhelmed with all the bulletins and reminders they receive from the county, in which it is difficult to distinguish between the more and less important items. Fairfax County has created “WebR,” a Web-based reporting system to simplify and automate the collection and dissemination of performance information, which allows the county to electronically track whether subrecipient performance goals have been met and whether required reports have been submitted before invoices are processed.

EXAMPLE 4: In Los Angeles County, applications, invoices, quarterly reports, guidelines, contracts, day-to-day communication, and even training sessions are handled electronically. Subrecipients are permitted to do the training on-line, provided they pass a test upon completion. They are allowed to proceed in the contract and award process only after they successfully complete the training. Like other jurisdictions that are trying to conduct more and more CDBG business electronically, the transition has presented some challenges. Both the county and its subrecipients are struggling to achieve a comfortable balance between the paperless and paper-driven world without being overly redundant. The county's determination to automate has left subrecipients little choice but to keep up.

Elected Officials, Program Allocations, and Performance

The uneven capacity of subrecipients to comply fully with program requirements is the most serious risk to a program's compliance with federal requirements. A close second is exertion of inappropriate influence by elected officials over selection, monitoring, and performance evaluation of subrecipients. Elected officials are the legitimate representatives of the citizenry: their articulation of community needs is an important part of community development decision-making, and in most jurisdictions, they are the source of final approval of all funding decisions.

Most of the time, the decisions made by elected officials are in full compliance with program standards, as indicated by the review of monitoring findings in Chapter 2. But in extreme cases, these decisions may violate legislative and regulatory requirements, ignore principles of sound program management, or lead to ineffective or inefficient delivery of community development programs. Interference by elected officials in an otherwise impartial application of already-adopted rules, such as procedures for ranking of funding proposals or identifying instances of subrecipient noncompliance and taking appropriate action, heightens the risk that program standards will not be met.

Our research shows that even where elected officials exercise considerable influence over the selection of program activities and choice of subrecipients to carry them out, agency staff can operate exemplary subrecipient management systems. With that said, agency staff must sometimes work very hard to shield their programs from inappropriate meddling by elected officials. Some of the management procedures designed to handle other tasks—for example, the creation of performance measurement systems—may also have considerable value in protecting the impartial application of program rules. In the discussion that follows, we first note some of the variation in elected officials' influence over the allocation of CDBG funds to subrecipients. We then note some of the explicit and implicit defenses erected by grantees to preserve compliance with front-end program standards (at funding allocation) and at the back end (in the review of subrecipient performance).

The Role of Elected Officials in Funding Allocations

One of the most important roles played by elected officials in local government is to decide how money will be spent. Elected executives prepare and present budgets reflecting administrative spending priorities and oversee systems for making grant awards and monitoring results. Elected legislators approve final budgets, appropriate funds, and review and approve grant awards and contracts (usually only those above a certain size).

Grantees make different choices about the way in which these functions are handled when it comes to their federal CDBG funds. From the earliest days of the program, many communities placed great weight on citizen advisory groups, charged with reviewing funding proposals, recommending the better ones for funding, and sometimes, reviewing the results of the activities they fund. In other communities, these groups may play only a limited role, or there may be no such group at all. To anticipate the discussion to follow, where these groups play an active role they can help ensure that staff and elected officials observe established rules for making program decisions, including rules that safeguard program compliance.

For their part, elected officials may pay considerable deference to the decisions reached by these bodies, if they exist, or may simply consider their judgments along with a number of other factors as they reach final funding decisions. Again to anticipate, where elected officials play the most active role, there is increased risk that program rules will not be followed, however valuable the involvement of elected officials in community development may be.

Our group of field sites can be classified into four categories, reflecting the activism of citizen advisory groups, boards, or commissions in the CDBG funding and program management process and the activism of elected officials in these same matters. This classification is presented in Table 4.1.

Table 4.1. Classification of Field Sites

Role of Citizens in Funding Allocation	Role of Elected Officials in Funding Allocation	
	Limited	Active
Limited	Group A Westchester County, Gwinnett County	Group B Los Angeles County, Asheville
Active	Group C Fairfax County, Phoenix, Memphis, Dayton	Group D Palm Beach County, Albany, Duluth

A group of five grantees appear to have settled on funding allocation systems in which elected officials play an active role, at least in some years. There is a range of activism within the group, from year-to-year swings in their degree of involvement to near-complete control in every year over which subrecipients would be funded, at what levels, and to carry out which activities. This group of five includes Los Angeles County, Asheville, Palm Beach, Albany, and Duluth.

Among the six other grantees, the involvement of elected officials is more limited. Staff in Westchester, Gwinnett, Fairfax, Phoenix, Memphis, and Dayton reported that the final slate of subrecipients recommended for funding at the end of the outreach, review, and selection process is almost never changed by elected officials, nor do they play a significant role up to that point. (In Dayton, only the portion of funds allocated to private, nonprofit organizations is handled in this manner; the larger portion, which is allocated among city agencies through a noncompetitive process, is handled differently.)

These 11 grantees differ in their use of citizen bodies to help in funding allocation (and sometimes other) tasks. Seven grantees make active use of this mechanism; four grantees much less so. Table 4.1 above classifies grantees into four groups according to how active or limited the roles of elected officials and citizen groups are in the funding allocation process. (As noted at various points in the text below, activism may not be limited to funding allocations; it sometimes extends to performance reviews of funded projects, as well.)

Group A (Westchester and Gwinnett Counties) consists of grantees with limited elected official involvement and limited citizen involvement, resulting in a staff-driven process. Neither citizens nor elected officials are completely excluded, but application reviews and initial rating and ranking are done entirely by staff, and these rankings almost always determine the funding allocations.

Group B (Los Angeles County and Asheville) consists of grantees in which elected officials appear to play much more active roles, but citizens are less active.

Group C (Fairfax County, Phoenix, Memphis and Dayton) consists of grantees with limited elected official involvement and active citizen involvement. This group might be thought of as embracing a conception of “good government” often encountered in the public management literature. (In fact, Fairfax County and Phoenix both have well-established reputations for strong public management, as reflected by the awards conferred by various national organizations with an interest in this area.)

In Group C, Fairfax County has a particularly elaborate process for selection of subrecipients for funding in which a policy committee sets priorities and a selection advisory committee decides which proposals will be accepted. The selection committee is made up entirely of Fairfax County citizens, who review and rate all proposals based on the criteria set by the policy committee. In Dayton, technical reviews are first conducted by a staff team, which screens for eligibility, zoning, application completeness, and so on. Eligible applications are sent to a community and neighborhood advisory board for ranking, scoring, and public hearings in which applicants can testify before final funding recommendations are made.

In Group D (Albany, Duluth, and Palm Beach), both elected officials and citizens are active. The distinction between groups B and D is important. Those with active citizen advisory groups allow staff to take advantage of the transparency that a public application review process creates to shield programs from inappropriate interference by elected officials in established procedures for decision-making. It is difficult for elected officials to ignore the

very public funding recommendations of citizens and staff. The grantees without active citizen bodies (Los Angeles and Asheville) have no such advantage: their staff members bear considerably more risk that decisions will be made without regard to established rules.

It should be emphasized that both groups have demonstrated success in keeping their programs problem-free. In other words, even in systems where elected officials play a strong role in program allocations, exemplary subrecipient management systems are possible. In Los Angeles County, an aggressive screening and compliance system keeps the program operating smoothly. For example, some nonprofit subrecipients in Los Angeles County indicated that their funding was due in part to their special relationships with public officials. In some situations, these subrecipients might be shielded from staff efforts to hold them accountable; however, that but seems not to be the case in Los Angeles County. Program staff members in Los Angeles County clearly enjoy the respect and support of the county supervisors, because they have developed good systems, applied rules consistently, and followed through on policies and procedures without regard for what might otherwise be seen as political favoritism or expediency.

Value of Competition for Funds

Under some circumstances, the allocation of community development funding can be thought of as a three-cornered fight, in which agency staff, elected officials, and the subrecipients themselves aim to influence the outcomes of the selection process. In our study sites, staff members were primarily interested in ensuring compliance with program standards through neutral application of rules for rating project applications and ranking them for subsequent funding decisions. In some places, staff members are caught between subrecipients exerting the strongest possible claims on funding and elected officials aiming to steer awards to favored organizations.

One way for staff to defend their impartial decisions is to introduce as much competition into the system as possible, forcing applicants to demonstrate capacity, develop feasible projects, and respond to city community development priorities or fall short of the standards set by their competitors.

For example, Memphis staff initiated a competitive process for funding special-needs subrecipients with CDBG and other Office of Community Planning and Development (CPD) program funds to end a system in which local officials lobbied for funds. By running the process, the agency avoided day-to-day pressure from council members who represented groups seeking funds for projects by opening competition to all organizations. Similarly, in Dayton, a new competitive selection removed a sense of entitlement among neighborhood groups and improved subrecipient attention to performance.

Los Angeles County offers a natural experiment on the value of competitive systems over entitlement to funding. Both the nonprofit subrecipients and the county reported that the overall management system contributes substantially to their ability to produce and demonstrate successful outcomes while complying with applicable regulations and

requirements. Municipal subrecipients were of a somewhat different opinion, tending to be far more critical. Some of this difference in opinion is at least partially due to the fact that participating cities are essentially guaranteed their *pro rata* share of CDBG funds each year, provided there are no major compliance or performance problems identified through the county's monitoring and reporting systems.

One related strategy for keeping the awards process impartial is to use "thresholds" to filter the applicant pool. Los Angeles County established minimum requirements for entities to qualify as eligible subrecipients. Staff members conduct a review of subrecipient financial management systems before considering an applicant for funding. Therefore, entities that do not meet the requirements do not even enter the pool of potential subrecipients, regardless of what political support they might have. Other jurisdictions, like Duluth, Palm Beach County, and Phoenix, employ a two-stage process for reviewing applications, in which an early review ensures that an application can meet basic requirements before more time and effort are put into its consideration.

Mechanisms of Transparency and Their Value

Transparency can be an important device for maintaining compliance with program standards. Staff members in two communities were particularly emphatic on this point: Phoenix (where elected officials play a limited role) and Duluth (where elected officials are more active).

In Phoenix, a citizen community development review committee assigns anonymous ratings to proposals. Those below a cutoff score are given no further consideration, and all other applicants are then given the opportunity to appear before the committee and make a short presentation to support their proposals. They can focus the presentation on specific points (or questions) that are raised as part of the initial review by the committee. In our interviews, Phoenix program staff emphasized the transparency of the process: the public presentations, citizen participation in reviews, and published lists of winners and losers, among others. (The winning subrecipients were pretty clear about the process and its relevance to their own application, review, and selection.)

Phoenix staff noted that transparency and perceived lack of bias in the funding process short-circuited the lobbying that might otherwise be carried out by nonprofits among their political supporters to spring loose CDBG funds. Staff noted that they no longer get city council pressure to select certain subrecipients. In fact, a survey of applicants to obtain their views of the process found no differences in perception of fairness between funded and non-funded applicants. And as part of staff efforts to maintain the non-political character of the system, they tend relationships with failed applicants. For example, after a decision to deny funds to an application, they debrief the organization's staff, provide some advice, and give some positive feedback (even if the review was not all that positive).

EXAMPLE 5: The “green sheet” is a summary of the ranking and funding recommendations each application has received, including its priority relative to the comprehensive plan, its score as evaluated by the CD Committee, and the funding recommendations made by the Community Development manager, the CD Committee, and finally the City Council. It provides, for all to see, the score each application receives and, ultimately, the level of funding decided. It plainly summarizes the overall program funding priorities, amounts requested within each priority area, and the amounts ultimately budgeted. What is remarkable here is not only the layered process for evaluating applications and the evaluation criteria, but that a large effort is made by city staff to keep the community informed about the rigors of the process.

In Duluth, transparency extends to the “back end” of the subrecipient management process—the review of subrecipient performance on CDBG-funded projects. This public scrutiny of subrecipient performance pushes the community to examine and justify its funding decisions against the backdrop of subrecipient performance. It also creates a rather educated subrecipient community—educated in terms of knowing what other subrecipients are doing, how much they are funded, and how well they are performing. Low performers will presumably lose funding eventually, because political favoritism cannot stand up to this level of public scrutiny for very long. Indeed, due to the public nature of the monitoring report and funding recommendations, every subrecipient in the city was well aware that one under-performing subrecipient was pulling political favors to maintain its relatively robust funding.

EXAMPLE 6: Duluth holds a “Monitoring Public Hearing” each year to review subrecipient performance. The hearing takes place at the onset of the new funding cycle and prior to the submission of new applications. A report prepared by city staff, called the “CDBG Monitoring Report,” forms the basis for the hearing. Subrecipient performance is described in great detail, and any monitoring findings or questions are reported as well. Subrecipients are required to be present at the hearing and to be available to answer any questions about their program activities.

Value of Performance Management and Outcomes Orientation

The same three grantees that have invested most heavily in transparency also seem to have taken performance management most seriously. Fairfax County, Phoenix, and Duluth have tried hard to write good performance indicators into their grant agreements, track subrecipient progress against the indicators, assess the results at the end of each grant period, and, if necessary, sanction poor performers.

Senior agency staff members in Phoenix justify their emphasis on strong subrecipient management by the need to achieve good community outcomes. To achieve these outcomes, strong partners are needed (because the city cannot change neighborhoods through its own efforts alone), as is a focus on whether or not communities are, in fact, getting better. This focus on community outcomes has led the city to target funds to designated revitalization areas (a strong aspect of the Palm Beach program, as well).

The city’s subrecipient management system is intended to further both of these purposes by selecting capable subrecipients and helping them grow more so, and by building performance measures into subrecipient agreements. Staff members argue that performance standards for

subrecipients also help shield the process from inappropriate interference by elected officials by:

- Helping alter perceptions of nonprofits as incapable of high-quality work (and therefore good only for the delivery of political benefits).
- Communicating performance information to the broader community, whose primary interest is to see as much progress as possible made against neighborhood problems.
- Reinforcing the ethos of high standards established in the competitive application process.
- Engaging private-sector funders in community development, who become interested parties in the performance of the system.

Staff members in other jurisdictions were not as explicit about the value of performance management systems, although elements of these could be observed. Duluth's public reviews of subrecipient performance have been noted above. Staff there stressed the connection between front-end participation by citizens in the funding process and back-end emphasis on performance outcomes. According to the CD Program Manager, "there is community consensus to use subrecipients because they do a better job of getting direct impact and getting out in the community."

In Duluth, pay for performance was introduced in 2004 in an effort to improve subrecipient performance. The city wrote a provision into the subrecipient agreements that allows subrecipients to draw reimbursements for program costs up to only 75 percent of the agreement. The remaining 25 percent can be drawn, on a *pro rata* basis, but only after the CD agency has documented that the subrecipient has fulfilled its annual contract goals. Funding is reduced for subrecipients who fail to meet their performance goals. Palm Beach County limits the amount that many subrecipients may bill the County each month to a per-person-actually-served level specified in the agreement.

EXAMPLE 7: In Duluth, a powerful punch has been added to the subrecipient agreement. Written plainly into Exhibit A of the subrecipient agreement, the subrecipient is informed that it may draw reimbursements for program costs up to only 75 percent of the agreement. The remaining 25 percent may be drawn only on a *pro rata* basis, after the CD agency has documented that the subrecipient has fulfilled its annual contract goals. Subrecipients must be on track to meet their performance and spending goals by the end of the third quarter of their agreement, or *lose funding* in the last quarter. Essentially, the city retains a portion of each contract until the subrecipient meets its goals or the contract expires. For example, in one subrecipient's job creation program, the goal was to train and then "create" 15 jobs, but they created only 11. They lost \$3,000 from their grant of \$49,000.

Other communities have also introduced elements of performance measurement that are worth consideration by others. Fairfax has implemented an Internet-based reporting system called "WebR." Grantees complete an outcomes worksheet online based on their contract, which saves time and inconvenience compared to the paper process of the past. In Memphis, performance measures are included for projects where appropriate, and the funding agency

requires subrecipients to submit a written explanation if the specific number of persons assisted is less than 80 percent of the objectives.

Not all grantees have pursued performance measurement with equal enthusiasm. Performance responsibilities noted in one site's CDBG Program Manual consist mainly of cautionary advice about the need to expend funds as quickly as possible. Another site claims that it will not award another grant to an entity that fails to perform in accordance with its subrecipient agreement; but from interviews with subrecipients, it appears that the performance level required in the agreement is set relatively low so that it does not challenge the entity much. In another site, goals couched in terms of "estimated accomplishments" and performance measures appear not to be used to tighten up activities that do not go through a rigorous application review. In yet another site, elected official interest in retaining certain groups as grantees and the lack of alternatives to currently funded subrecipients may prevent staff from effectively sanctioning nonperformance.

EXAMPLE 8: Several grantees formally solicit feedback on the management process from subrecipient entities, which reinforces agency commitment to operating a good subrecipient management system. Los Angeles County requests comments at training sessions or technical assistance visits, encourages contact with program managers, and even conducts annual customer service surveys of subrecipients. The county's Annual Customer Service Survey of Partner Agencies solicits evaluations of the quality of service provided to its agencies. Phoenix also surveys its customers.

Factors That Influence Effective Operation of Subrecipient Management Systems

Good subrecipient management systems do not arise from nowhere, and they are not sustained without continued reinvestment. Our review of the experience of field sites points to the importance of agency leadership committed to good performance, a culture of active engagement among agency staff and subrecipients, and elements of the local environment that are supportive of good government and nonprofit capacity. Initially, major system reforms came in reaction to the publicized failure of previous arrangements (including HUD findings) and local budget crises, but administrators have not ended their attempts to improve: an ethos of continuing performance improvements appears to drive the evolution of each of these systems.

Importance of Committed Leadership

Behind every good subrecipient management practice is an agency leader committed to making it work. In Memphis, a new executive director turned around a troubled housing and community development department and housing authority. In Albany, a new director created a more streamlined and effective program by initiating a politically difficult reduction in the number of subrecipients funded.

Leadership is exercised in more mundane ways, as well. Westchester has a 3-year funding cycle; but because many capital projects cannot wait that long, both subrecipients and local

administrators accept the necessity of reprogramming to other capital projects that will arise by the time the funds are available. Staff members in Los Angeles County and Duluth have worked excruciatingly hard to improve their systems.

In Duluth, subrecipients accept that senior management has adopted new strategies to improve subrecipient performance, and that city staff are resolved to follow through on these strategies and apply them fairly. Subrecipients also recognize staff willingness to correct their course when problems arise. Subrecipients agreed that the city is trying to improve the program, and that the process for input and reform works. In Palm Beach County, the executive director led a system that had proven effective for the better part of a decade. But a few years back, county leaders opted to target funds to needy areas within the county, requiring many adjustments to program procedures.

Value of Trust and Good Relationships

Successful managers work hard to engage subrecipients as partners in the delivery of community development programs, which means creating a culture of communication, trust, and mutual support. (With that said, some systems appear to rely more heavily on the threat of sanction than others, especially those that are most vulnerable to inappropriate political interference in subrecipient management.)

For example, in Phoenix, site visits by agency staff are not a prominent feature of the system—there were only nine in FY2004—but city staff do participate in subrecipient activities, such as client award recognitions and groundbreakings, and are willing to engage with subrecipient staff whenever needed. In Gwinnett, we found a considerable willingness on the part of subrecipients to comply with whatever the county required, partly attributable to the contract administrator's active engagement with them. Subrecipients we visited at almost every site spoke highly of the grantee's CDBG administration staff. They seemed both to appreciate the assistance they offer and to respect their professionalism as well.

Related to a point made in the first part of this section, a level of mutual engagement in the system also helps reduce the costs and risks involved in system operation by increasing subrecipient willingness to identify possible issues and comply faithfully with program requirements. In Fairfax, agency staff visit subrecipients at least twice a year for financial and program monitoring, and more frequent contact between the contract monitors and community organizations is common. The goal is to address small problems early on, before they become large ones.

This culture of engagement is abetted by open funding allocation systems. In Duluth, subrecipients were familiar with the priorities and acknowledged the participatory system that produced them. Even when individual subrecipients were feeling pinched for funds, they expressed faith in the system and its administrators.

It appears that communities that are not too large geographically can expect their CD staff to keep better aware of the entire community and its nonprofits. From discussions with

Albany's CD director and staff (and with those in the city of Asheville), it seemed that they were more fully in tune with happenings throughout the entire community. Even the nonprofits in such communities appeared to know one another better and had established effective networking arrangements.

Admittedly, although the "just down the street" informality of city and subrecipient relationships can be beneficial in many ways, such as when negotiating statements of work and clearing up issues during monitoring visits, it may also limit strict enforcement of performance expectations and financial penalties. However, independent audit and frequent reporting requirements, along with funding activities on a reimbursement basis with invoices subject to review, help to ensure that funds are spent legally.

"Environmental" Supports

Just as some political features of local systems threaten to undermine the integrity of subrecipient management systems, there are elements of the broader context that can be supportive of well-functioning systems. Some systems have embraced professionalism and performance across the board, which becomes reflected in the operation of subrecipient management systems.

For example, the city of Phoenix has a strong reputation for being well run. Staff members say that the city is a fairly "open" system and not turf-conscious; people are willing to share models across agencies and cooperate in ways that lead to better outcomes. They say the nonprofits do this too and are willing to share models without being overly jealous of their competitive advantage.

Memphis has adopted organizational changes to establish a separate department that reviews all subrecipient projects for compliance with federal requirements. Staff from the department review projects internally to try to identify problems before they result in findings or concerns.

Grantee embrace of management excellence in overall culture as well as specific practices can be supported by investments made by others within the same systems. In both Phoenix and Duluth, staff pointed to organizational development investments made by the Local Initiatives Support Corporation as a direct support to nonprofit capacity and similar funding available from local foundations. In Duluth and Asheville, staff pointed to the United Way's efforts to encourage local nonprofits to adopt performance measurement as a further support to the city's own management goals.

Incentives for System Creation and Evolution

Creation and growth of strong subrecipient management systems seem to be motivated by previous run-ins with HUD over the quality of local management, increasing scarcity of

funding that creates a premium on wise use of available funds, and the expenditure of locally appropriated dollars, which heightens taxpayer scrutiny.

In Memphis, one key administrative event that triggered major organizational changes occurred after HUD designated the Memphis Housing Authority as “troubled.” Shortly afterwards, HUD expressed concern that the city’s Housing and Community Development Department was not drawing down funds as rapidly as needed to meet HUD’s minimum regulatory requirements. These challenges spurred the city to explore new ways to operate more efficiently, resulting in the functional consolidation of the Memphis Housing Authority and the Housing and Community Development Department.

In Duluth, Fairfax, Phoenix, and several other jurisdictions, resource scarcity caused HUD grantees to tighten their grip on subrecipient performance and to attempt to create a culture in which funding is tied to performance. In Fairfax, the rise of a systematic, public, and performance-oriented funding process was attributed to an especially enlightened county management, which saw an opportunity to make major structural changes in the allocation of community development resources during a budget crisis in the late 1990s. In Phoenix and in Fairfax, the use of large amounts of locally appropriated funding has a lot to do with the amount of attention paid to the subrecipient management system and the care and professionalism with which subrecipient management responsibilities are carried out.

Nearly all the systems we reviewed were built by degrees. It would appear that a well-functioning system not only carries out the core tasks of subrecipient management well, but also encourages innovation as a matter of course. The range of improvements made to systems in the past several years alone is impressive:

- Duluth introduced pay for performance, a pre-application to ensure that subrecipients get end-of-year staff guidance earlier in the process, and a new end-of-year monitoring report on subrecipient performance as the focal point for a public hearing.
- Memphis developed a new competitive funding process and created a separate compliance division to house specialized expertise in HUD regulations, which supports the overall operation of the agency and allows other staff to focus on making and managing grants.
- Albany has reduced the number of subrecipients it funds to a more manageable level, streamlined the agreements to make them more relevant to the work to be performed, and reduced the frequency and content of reports required.
- The city of Asheville has improved its subrecipient management process over the years, most notably in increased reporting requirements, review of all invoices for payment on a reimbursement basis, and conducting risk assessments for monitoring activities.
- Dayton has reduced the number of subrecipients from 50 to about 12 to 15, allowing much larger average funding levels and a more strategic focus of activities.

- Palm Beach County has developed an approach to strengthen its geographic targeting of CDBG in its participating municipalities by providing “entitlement” funds to them only if they will use the funds in areas that meet specific needs criteria.

These examples of continuing improvement strongly suggest that no subrecipient management system can be considered fully built; good ones evolve as grantees continue to experiment with new approaches and adjust to new realities.

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5. Conclusion

Based primarily on a review and analysis of exemplary management practices in 11 cities and counties across the country, this report has explored examples of successful subrecipient management practices and their elements. It has described and analyzed steps of the management sequence from two vantage points: the willingness and ability of subrecipients to comply effectively with federal requirements, and the opportunities and challenges of creating effective subrecipient management systems.

Effective subrecipient management systems are something of a conundrum. At some level they look alike: they all use, at a general level, the six steps (or basic elements) of the HUD-recommended system for overseeing recipients. Looking at them more closely, however, we did not find two in our group that are very similar. How do we define the characteristics of successful subrecipient management practices, and what sets them apart from those that are less so? Is it possible to distinguish those that are likely to succeed from those that are more likely to fail? What are the elements that demand our attention? What is useful for other grantees and subrecipients to know?

This chapter summarizes what we have learned and what we believe program officials would find useful. It summarizes major issues facing grantees and program administrators regarding the use of CDBG subrecipients and the lessons learned from grantees that have developed effective systems for using subrecipients. We identify what appear to be successful systems that other grantees might want to replicate.

As an important part of the CDBG program delivery machinery, grantees depend on subrecipients to reach deep into the community to expand the government's capacity to provide essential programs and services. Subrecipients and grantees alike are inherently motivated to improve communities. What motivates them to abide by the myriad of federal regulations that govern the CDBG program, and how does each of them meet the twin challenge of effectiveness and accountability? This research not only identified the systems that grantees have devised to manage subrecipients effectively, it also looked at the incentives that were built into the systems to gain compliance, and the choices and tradeoffs that grantees made in adopting various management approaches.

The most effective subrecipient oversight systems combine positive incentives for good performers with sanctions for those who will not or cannot comply with program requirements. Our research suggests that the discriminator between effective and ineffective approaches to subrecipient management is that effective grantees not only embrace the steps outlined in the HUD guidance materials (pre-award assessment, subrecipient agreement, training and technical assistance, performance tracking, monitoring, and follow-up), they also reward adherence. They establish incentives to encourage subrecipients to comply willingly and to perform well. Public recognition for contributions to the community is one such incentive. Others are more complex, such as those that tie funding to performance goals and use public reviews of performance and public scrutiny to coax subrecipients to perform at their best.

Effective subrecipient management systems also provide subrecipients with the knowledge and tools to comply. Motivating subrecipients to perform is not enough to ensure compliance; subrecipients must have the ability to comply, and the rules must be clear to them. Some grantees reviewed in this study have chosen to invest year after year in training, technology, and on-line resources to simplify the process and increase subrecipient capacity to comply with program requirements.

Characteristics of Effective Subrecipient Management Practices

The following summary highlights the features of effective subrecipient management systems, based on our findings for the 11 sites we studied for this project. While not a checklist or litmus test for successful management practice, the list distills the important findings.

- Grantees mix and match elements of their subrecipient management systems in ways that suit local circumstances. There is no single model for success.
- Grantees emphasize one or more elements of their systems as a way to reduce costs and risks. It is not necessary to address each step of the management sequence equally well to be successful.
- Grantees use three basic approaches to reducing program costs: (1) investing in lower-cost efforts at the front end of the sequence to avoid higher-cost monitoring and invoice review activities; (2) shifting costs to other entities; and (3) reducing overall costs and risks.
- Grantees use three primary strategies to minimize risk: (1) avoidance of subrecipient use in high-risk activities; (2) investment in the capacity of subrecipients to carry out programs; and (3) substitution of agency staff for subrecipient staff to carry out activities critical to program compliance.
- The most considerable risk to operation of a subrecipient management system that safeguards program integrity is the injection of inappropriate political influence over the selection, monitoring, and performance evaluation of subrecipients. Grantees have devised strategies at the front end in the funding allocation process and at the back end in the review of subrecipient performance to promote effective programs. These practices include, for example, reliance on a citizens' process to review and rank subrecipient applications and introducing competition into the system to force subrecipients to meet published funding criteria or risk falling short of the standards set by their competitors.
- Transparency is an important device for maintaining program compliance standards. Transparency can short-circuit the lobbying that might otherwise be carried out by

nonprofits among their political supporters. It can also push the community to examine and justify its funding decisions against the backdrop of subrecipient performance.

- Performance measurement systems can help limit opportunities for inappropriate political involvement in the grant-making process by helping to alter the perception of nonprofits as incapable of high-quality work. They also provide staff with concrete information on which to base their funding recommendations (although not all grantees pursue performance measurement with equal enthusiasm).
- Good subrecipient management systems are sustained by continued reinvestment, committed leadership, and a willingness to make corrections when problems arise and new strategies fall short of expectations.
- Well-functioning systems, like well-run governments, embrace professionalism and performance across the board, learn from past mistakes, and continue to innovate and experiment with new approaches to adjust to new realities.

Examples of specific strategies, impacts, and tradeoffs used by the 11 grantees in this study are summarized in Table 5.1.

In summary, effective subrecipient management practices are an amalgam of inputs which, together, forge strong and creative community development programs. Effective practices, however, are well-tooled for local conditions. Grantees must weigh the risks, impacts, and tradeoffs of approaches they choose—and calibrate their use for local conditions.

Table 5.1. Examples of Strategies, Impact, and Tradeoffs Waged by Grantees

Strategy	Impact	Tradeoff
Creating a culture of openness and community participation	<p>Invites public scrutiny of resource allocation.</p> <p>Creates more opportunities for the mingling of ideas and community development actors.</p> <p>Promotes opportunities for partnership among subrecipients, thus strengthening the nonprofit base.</p> <p>Brings community residents closer to program administrators.</p> <p>Stimulates peer review.</p> <p>Creates opportunities for new programming and creative solutions.</p> <p>Creates a medium for efficiencies, cost-saving technologies, and voluntary contributions to flourish.</p>	<p>Grantee may find it harder to set priorities.</p> <p>Process becomes more elaborate, more politically charged.</p> <p>More nighttime meetings.</p>
Establishing multi-year funding	<p>Reduces administrative burden on the local government and subrecipient applicants.</p> <p>Reduces uncertainty about funding for public services subrecipients and allows subrecipients more time to devote to programming.</p>	<p>Subrecipients seeking to undertake capital projects may have a tougher time estimating costs.</p> <p>Capital projects may need funding sooner than the budget cycle permits (capital projects may not be able to wait for 2 to 3 years).</p> <p>More difficult to fund projects that respond to newly developed problems.</p>
Mandatory pre-application	<p>Gets subrecipients focused earlier.</p> <p>Creates opportunity for grantee to troubleshoot proposals early in the process.</p> <p>Allows the grantee to communicate its funding priorities and establish a dialogue with applicants about what it would clearly prefer; increases the likelihood that stronger, worthy project applications will be submitted.</p>	<p>Lengthens the process.</p> <p>Experienced subrecipients may resent the extra work.</p> <p>Requires grantee to develop an effective outreach effort, or subrecipients may miss the pre-application and get closed out of funding for the year.</p>

Table 5.1. Examples of Strategies, Impact, and Tradeoffs Waged by Grantees (continued)

Strategy	Impact	Tradeoff
Pushing technology (for example, paperless applications, electronic communications and reporting, on-line training)	Saves a good deal of paper, postage, and transportation.	Large sunk costs for new technology and new electronic financial and reporting systems can draw resources away from other pressing program needs. Paper trail, verification of receipt, and supporting documentation may become less precise (for example, important notices, like environmental approvals, may go unread, or may not be "delivered," causing unnecessary delays or disruptions in business). Initial positive reaction of subrecipients may give way to frustration if electronic systems haven't been adequately "debugged." Subrecipients may have a hard time keeping up with increased volumes of electronic mail (for example, it may be hard to discern important notices from day-to-day bulletins).
Screening grant applications for subrecipient capacity	Weeds out "mom and pop" operations that lack capacity to meet some program requirements. Helps avoid likely performance problems after funding is provided. Allows the grantee to provide technical assistance to build capacity at early stages (prior to or shortly after funding).	May miss opportunities to cultivate promising subrecipients. May shortchange communities that could benefit from services.
Funding subrecipient capital costs over operating costs to minimize program risk	Reduces grantee monitoring burden. Reduces subrecipient reporting burden.	Priority needs may go unfunded when the application process is distorted (applicants may tailor applications to funds available rather than what is most needed).

Table 5.1. Examples of Strategies, Impact, and Tradeoffs Waged by Grantees (continued)

Strategy	Impact	Tradeoff
Performance-based-funding penalty clauses in subrecipient agreements	Elevates importance of performance goals. Increases compliance and achievement of performance goals.	Subrecipients do not like it when their funds are reduced; creates bad feelings between grantee and subrecipients. Subrecipients may begin to lower their goals or shy away from challenging programs or clients to ensure program success.
Contracting out program management	De-politicizes the process. May lower administrative costs, leaving more funding for programs.	Grantee gives up control of funding decisions. Contractor's first priority may be to keep the program problem free. May avoid funding challenging projects.

APPENDIXES

Appendix A—Field Office Survey Sample

Appendix B—Field Office Survey

**Appendix C—Interview Guides for Community
Development Directors, Program Manager,
and Subrecipients**

Appendix D—Exemplary Practices/Materials of Interest

Appendix A—Field Office Survey Sample

The Field Office Survey sample is intended to generate a list of communities for Field Office review. Staff will be asked to rate each grantee selected on a series of indicators pertaining to subrecipient management. These ratings can be found in Appendix B.

Because of the funds potentially at risk in larger jurisdictions within the CDBG program—roughly 80 percent of the money allocated in the program goes to about 20 percent of grantees—the sample has been drawn to produce a bias toward larger jurisdictions. One critical constraint is to keep the number of grantees selected in each field office to a relative few to keep response burden low and thereby encourage survey response. Therefore, we have limited the sample drawn from any area office jurisdiction to five grantees.

To select the sample, we arrayed the grantees within each area office in descending order of their fiscal year 2004 entitlement amount. We then calculated the cumulative amount represented by each grantee's allocation, showing the contribution of each grantee to the total. We chose a random number between 1 and the total number of dollars allocated to all grantees in the area office jurisdiction. We then chose the jurisdiction that contributed the amount to the cumulative total that included the random number. After removing that grantee from the list, we calculated a new cumulative total and relative contribution, selected a new random number between 1 and the cumulative total, identified the grantee that contributed the amount needed to include the new random number, and removed it from the list. We repeated this procedure until we selected five grantees from the jurisdiction.

For example, assume that an area office jurisdiction contained 10 grantees, totaling \$10 million in total 2004 funds allocated, and that one large grantee contributed \$5 million of this total. The first random number chosen has a 50/50 chance of being \$5 million or below; in other words, the largest grantee has a 50 percent chance of being selected on the first pass. If every other grantee in the jurisdiction has an equal share of the remaining \$5 million, or \$555, there is a roughly 6 percent chance of selection.

The resulting national sample contains roughly 18 percent of the total number of entitlement grantees in the program, and about 48 percent of the total funds allocated in 2004.

**Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample**

Field Office Survey Sample

Area Office	City	Amount
ALBUQUERQUE	ALBUQUERQUE	5,249,000
	FARMINGTON	520,000
	LAS CRUCES	1,189,000
	RIO RANCHO	346,000
	SANTA FE	689,000
	Total	7,993,000
ANCHORAGE	ANCHORAGE	2,285,000
	FAIRBANKS	305,000
	Total	2,590,000
ATLANTA	AUGUSTA	2,755,000
	COBB COUNTY	3,921,000
	COLUMBUS-MUSCOGEE	2,189,000
	DE KALB COUNTY	6,893,000
	SAVANNAH	3,323,000
	Total	19,081,000
BALTIMORE	ANNAPOLIS	414,000
	ANNE ARUNDEL COUNTY	2,577,000
	BALTIMORE	28,469,000
	BALTIMORE COUNTY	5,094,000
	HOWARD COUNTY	1,409,000
	Total	37,963,000
BIRMINGHAM	AUBURN	860,000
	BIRMINGHAM	8,017,000
	HUNTSVILLE	1,559,000
	MOBILE	3,433,000
	MONTGOMERY	2,548,000
	Total	16,417,000
BOSTON	BROCKTON	1,723,000
	FALL RIVER	3,603,000
	PORTLAND	2,567,000
	PROVIDENCE	6,792,000
	SPRINGFIELD	5,007,000
	Total	19,692,000
BUFFALO	AUBURN	1,296,000
	BINGHAMTON	2,825,000
	BUFFALO	19,551,000
	GLENS FALLS	678,000
	TROY	2,494,000
	Total	26,844,000
CARIBBEAN	AGUADILLA MUNICIPIO	2,249,000
	CAGUAS MUNICIPIO	4,097,000
	CAYEY MUNICIPIO	1,581,000
	SAN JUAN MUNICIPIO	12,558,000
	TOA ALTA MUNICIPIO	1,847,000
	Total	22,332,000
CHICAGO	BERWYN	1,596,000
	CHICAGO	100,852,000
	COOK COUNTY	12,693,000

**Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample**

Field Office Survey Sample (continued)

Area Office	City	Amount
	EVANSTON	2,395,000
	OAK PARK	2,327,000
	Total	119,863,000
COLUMBIA	CHARLESTON COUNTY	2,438,000
	COLUMBIA	1,543,000
	GREENVILLE COUNTY	2,860,000
	RICHLAND COUNTY	1,647,000
	SOUTH CAROLINA STA PROG	27,827,996
	Total	36,315,996
COLUMBUS	AKRON	8,226,000
	CLEVELAND	29,027,000
	EAST CLEVELAND	1,339,000
	STARK COUNTY	1,729,000
	TOLEDO	9,459,000
	Total	49,780,000
DENVER	BOULDER	1,141,000
	COLORADO SPRINGS	3,101,000
	DENVER	11,025,000
	GRAND FORKS	504,000
	LAYTON	409,000
	Total	16,180,000
DETROIT	EAST LANSING	727,000
	FLINT	5,216,000
	MACOMB COUNTY	1,984,000
	PONTIAC	1,900,000
	WAYNE COUNTY	6,543,000
	Total	16,370,000
FT WORTH	BRAZORIA COUNTY	2,329,000
	DALLAS	21,645,439
	HARRIS COUNTY	12,729,000
	HOUSTON	36,210,000
	MESQUITE	1,120,758
	Total	74,034,197
GREENSBORO	CHARLOTTE	5,599,000
	DURHAM	2,304,000
	GREENSBORO	2,296,000
	RALEIGH	2,813,000
	SALISBURY	397,000
	Total	13,409,000
HARTFORD	BRISTOL	714,000
	HARTFORD	4,672,000
	NEW BRITAIN	2,266,000
	STRATFORD	796,000
	WATERBURY	2,713,000
	Total	11,161,000
HONOLULU	HAWAII COUNTY	2,797,603
	HONOLULU	11,856,000
	KAUAI COUNTY	936,202

**Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample**

Field Office Survey Sample (continued)

Area Office	City	Amount
	MAUI COUNTY	2,404,518
	Total	17,994,323
INDIANAPOLIS	HAMMOND	2,774,000
	INDIANAPOLIS	11,328,000
	LAFAYETTE	782,000
	NEW ALBANY	866,000
	SOUTH BEND	3,379,000
	Total	19,129,000
JACKSON	BILOXI	580,000
	GULFPORT	928,000
	HATTIESBURG	748,000
	JACKSON	2,981,665
	PASCAGOULA	376,000
	Total	5,613,665
JACKSONVILLE	HILLSBOROUGH COUNTY	7,074,000
	MANATEE COUNTY	1,814,000
	MELBOURNE	677,000
	ORANGE COUNTY	7,330,000
	TAMPA	4,505,000
	Total	21,400,000
KANSAS CITY	JOHNSON COUNTY	1,427,000
	KANSAS CITY	13,610,000
	TOPEKA	2,388,000
	WICHITA	3,464,000
	Total	20,889,000
KNOXVILLE	KNOX COUNTY	1,203,000
	KNOXVILLE	2,262,000
	MEMPHIS	9,742,000
	NASHVILLE-DAVIDSON	5,954,000
	SHELBY COUNTY	1,366,000
	Total	20,527,000
LITTLE ROCK	FAYETTEVILLE	761,000
	FORT SMITH	1,007,000
	LITTLE ROCK	2,023,000
	PINE BLUFF	894,000
	SPRINGDALE	595,000
	Total	5,280,000
LOS ANGELES	BALDWIN PARK	1,797,671
	LOS ANGELES	87,424,859
	LOS ANGELES COUNTY	36,553,521
	MORENO VALLEY	2,082,000
	UPLAND	855,000
	Total	128,713,051
LOUISVILLE	ASHLAND	842,000
	COVINGTON	2,018,000
	HENDERSON	306,000
	LEXINGTON-FAYETTE	2,505,000

**Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample**

Field Office Survey Sample (continued)

Area Office	City	Amount
	LOUISVILLE	14,333,000
	Total	20,004,000
MILWAUKEE	DANE COUNTY	1,317,000
	EAU CLAIRE	771,000
	FOND DU LAC	670,000
	KENOSHA	1,287,000
	MILWAUKEE	20,716,000
	Total	24,761,000
MPLS ST PAUL	ANOKA COUNTY	1,359,000
	BLOOMINGTON	501,000
	DULUTH	3,402,000
	MINNEAPOLIS	16,313,000
	ST PAUL	9,526,000
	Total	31,101,000
NEW ORLEANS	BATON ROUGE	5,096,000
	KENNER	827,000
	LAFAYETTE-LAFAYETTE	1,976,000
	MONROE	1,063,000
	NEW ORLEANS	18,071,000
	Total	27,033,000
NEW YORK	NASSAU COUNTY	18,477,000
	NEW YORK CITY	218,835,000
	ORANGE COUNTY	1,970,000
	POUGHKEEPSIE	1,244,000
	SUFFOLK COUNTY	4,474,000
	WESTCHESTER COUNTY	6,887,000
	Total	251,887,000
NEWARK	BAYONNE	2,255,000
	BERGEN COUNTY	12,648,000
	CLIFTON	1,705,000
	HUDSON COUNTY	4,402,000
	UNION COUNTY	6,316,000
	Total	27,326,000
OKLAHOMA CITY	ENID	678,000
	LAWTON	1,056,000
	MIDWEST CITY	586,000
	OKLAHOMA CITY	6,355,000
	TULSA	4,512,000
	Total	13,187,000
OMAHA	AMES	589,000
	DES MOINES	5,108,000
	DUBUQUE	1,481,000
	LINCOLN	2,131,000
	OMAHA	6,115,000
	Total	15,424,000
PHILADELPHIA	CHESTER COUNTY	3,319,000
	DELAWARE COUNTY	4,937,000
	LANCASTER COUNTY	4,057,000

**Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample**

Field Office Survey Sample (continued)

Area Office	City	Amount
	PHILADELPHIA	63,067,000
	SCRANTON	4,140,000
	Total	79,520,000
PITTSBURGH	BEAVER COUNTY	4,672,000
	HUNTINGTON	2,546,000
	PITTSBURGH	20,290,000
	WASHINGTON COUNTY	5,228,000
	WESTMORELAND COUNTY	5,282,000
	Total	38,018,000
PORTLAND	BOISE	1,562,000
	GRESHAM	1,067,000
	PORTLAND	12,105,000
	SPRINGFIELD	739,000
	VANCOUVER	1,606,000
	Total	17,079,000
RICHMOND	DANVILLE	1,258,000
	HENRICO COUNTY	1,760,000
	NEWPORT NEWS	1,961,000
	NORFOLK	6,249,000
	RICHMOND	6,008,120
	Total	17,236,120
SAN ANTONIO	AUSTIN	8,967,000
	BEXAR COUNTY	2,067,000
	HARLINGEN	1,149,000
	LAREDO	4,336,000
	SAN BENITO	609,000
	Total	17,128,000
SAN FRANCISCO	LAS VEGAS	6,122,000
	PHOENIX	20,324,000
	PIMA COUNTY	3,033,000
	TUCSON	7,456,000
	VACAVILLE	686,000
	Total	37,621,000
SEATTLE	AUBURN	482,000
	BELLINGHAM	1,022,000
	KITSAP COUNTY	1,402,000
	PIERCE COUNTY	3,555,000
	SEATTLE	14,803,000
	Total	21,264,000
SOUTH FLORIDA	BROWARD COUNTY	5,543,000
	FT LAUDERDALE	2,357,000
	MIAMI	9,928,000
	MIAMI BEACH	2,118,000
	MIAMI-DADE COUNTY	23,677,000
	Total	43,623,000
ST. LOUIS	COLUMBIA	1,010,000
	JEFFERSON CITY	381,000
	JEFFERSON COUNTY	1,379,000

Managing Subrecipients of CDBG Grantees
Appendix A—Field Office Survey Sample

Field Office Survey Sample (continued)

Area Office	City	Amount
	ST LOUIS	24,898,000
	ST LOUIS COUNTY	6,480,000
	Total	34,148,000
WASHINGTON DC	ALEXANDRIA	1,499,000
	PRINCE GEORGES COUNTY	7,445,000
	MONTGOMERY COUNTY	6,221,000
	PRINCE WILLIAM COUNTY	2,238,000
	WASHINGTON	22,463,000
	Total	39,866,000

Appendix B—Field Office Survey

CDBG Subrecipient Management Study Field Office Survey

Field Office Information:

Name of Field Office: _____

Name of Staff Person to contact if needed for clarification:

Name: _____

Telephone No.: _____

Introduction:

HUD's Office of Policy Development and Research is funding a study aimed at evaluating the effectiveness of the management of CDBG subrecipients by grantees. For purposes of this study "management" includes all aspects of subrecipient oversight: pre-award assessment, crafting subrecipient agreements, orientation, training, technical assistance, monitoring strategies, system/procedures for tracking progress, follow-up procedures and performance reviews/audits. As part of this effort, we are seeking to learn more about how grantees go about this aspect of managing their grant funds. The study will enable us to identify best practices and improve the technical assistance that HUD can offer to grantees on this issue.

The survey is divided into two parts. The first part asks you to nominate grantees (within your field office's jurisdiction) that have particularly effective, or ineffective, management practices. Those nominated will be considered as candidates for further onsite research. All names will remain confidential

The second part asks for an assessment of the subrecipient management practices of *selected* grantees. These grantees were randomly chosen from among entitlement jurisdictions with a bias towards larger grantees. No more than five grantees have been selected for this portion of the survey. This part may be completed by more than one person.

Part 1: Grantees with Particularly Effective or Ineffective Practices

This section asks you to identify *any* grantees within your field office’s jurisdiction that you would recommend to us as having particularly effective or ineffective practices.

1. Which, if any, of your CDBG grantees are particularly *effective* in their management of subrecipients? Which aspect of their management do you believe to be superior? You may name up to two grantees below.

Part A. **Grantee Name:** _____

Identify superior subrecipient management approach(es): _____

Indicate activity area(s) from activity legend:¹⁰ _____

Part B. **Grantee Name:** _____

Identify superior subrecipient management approach(es): _____

Indicate activity area(s) from activity legend: _____

2. Which, if any, of your CDBG grantees are seriously *deficient* in their management of subrecipients? Which aspect of their management do you believe to be deficient? (You may name up to two candidates below.)

Part A. **Grantee Name:** _____

Identify subrecipient management problem(s): _____

Indicate activity area(s) from activity legend: _____

Part B. **Grantee Name:** _____

Identify subrecipient management problem(s): _____

Indicate activity area(s) from activity legend: _____

For any grantee that you listed in Questions 1 or 2 above, place an asterisk by the name if the grantee hires an outside firm to manage its CDBG program.

3. What proportion of the CDBG monitoring findings/concerns your office has made as part of monitoring or audits over the past several years involve the use of subrecipients? (An estimate is acceptable)

- | | |
|--|---|
| <input type="checkbox"/> 1 High (Over 75%) | <input type="checkbox"/> 3 Medium-Low (25-50%) |
| <input type="checkbox"/> 2 Medium High (50-75%) | <input type="checkbox"/> 4 Low (Under 25%) |

4. Are you aware of any particular challenges *any* of your grantees are experiencing in managing faith based subrecipients to carry out CDBG activities? (If yes, please elaborate in comments section below)

- 1** Yes **2** No

5. Are you aware of any successes your grantees have had in utilizing faith-based subrecipients? (If yes, please elaborate in comments section below.)

¹⁰ Activity Type Legend:

H: Housing

ED: Economic Development

PS: Public Services

CNR: Comprehensive Neighborhood Revitalization – a mixture of activities carried out by community development organizations.

1 Yes 2 No

Additional Comments:

(Please use the space below to provide additional comments on any of the questions above.)

CDBG Subrecipient Management Study Field Office Survey Part 2: Questions about Selected Grantees

Field Office Information:

Name of Field Office: _____

Name of Staff Person to contact if needed for clarification:

Name: _____

Telephone No.: _____

We have developed a sample set of grantees to examine in greater detail to assist us in this effort. We would like for you to review the following grantees in the sample set which fall under your field office's purview. The number of grantees we are requesting that you review is at most five grantees. Please answer the questions below about each of these grantees based on your knowledge of their *current* performance. Please complete a separate "Part 2" questionnaire for each of the sampled grantees (see attached sample list).

Grantee Name _____:

1. What proportion of the CDBG spending in an average year would you *estimate* is allocated to subrecipients?

1 (Over 75%) 3 (25-50%)
 2 (50-75%) 4 (Under 25%)

2. Indicate below if subrecipients are used to deliver *more than* 50 percent of the funding in the Housing, Economic Development, and Public Services activity areas:

Housing	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Economic Development	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Public Services	<input type="checkbox"/> Yes	<input type="checkbox"/> No

3. Please indicate whether you agree or disagree with the following statement: generally speaking, the pool of potential public and nonprofit subrecipients (in this grantee's jurisdiction) is large enough, and capable enough, to carry out community development programs effectively.

Strongly Agree Agree Neither Agree nor Disagree Disagree Strongly Disagree

4. The following are some indicators of effective performance in managing programs and activities delivered by subrecipients. Indicate how well you believe the grantee fits the description for each. Where performance is different across different types of programs (for example, economic development or social services) please weight your answer toward programs with higher levels of funding.

Managing Subrecipients of CDBG Grantees
Appendix B—Field Office Survey

Identifies problems with subrecipient activities before they become serious and takes appropriate action to correct the problems.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Takes actions to ensure that the projects carried out by subrecipients contribute effectively to the community's needs and priorities.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Keeps the portion of the program carried out by subrecipients free from serious infractions of program rules and applicable laws.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Changes the mix of subrecipients in response to changes in community development needs, subrecipient capabilities and performance, or city program delivery policies.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

5. The following are some characteristics of specific practices used by grantees to manage subrecipients. Please indicate how well you believe the grantee fits the description for each characteristic:

Conducts effective outreach to encourage participation by a range of subrecipient agencies.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Selects subrecipients based on risk analysis of their capacity to carry out programs effectively.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Tailors subrecipient selection procedures to match project size and complexity.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Tailors subrecipient selection procedures to match applicant size.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Uses a competitive process to select subrecipients.

1 Yes 2 No 3 Don't Know

Executes agreements that clearly stipulate subrecipient responsibilities.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Imposes reasonable record-keeping and financial management standards.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Effectively monitors subrecipient financial management, record keeping and performance.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Effectively monitors subrecipient documentation and use of program income

Managing Subrecipients of CDBG Grantees
Appendix B—Field Office Survey

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Makes timely payments to, or supplies needed authorizations to contractors.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Provides capacity-building funding and/or targets technical assistance to troubled subrecipients.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Collects appropriate and high-quality accomplishments information from subrecipients.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

Sanctions subrecipients for sub-par performance.

1 Very Well 2 Somewhat Well 3 Not Very Well 4 Not at All Well

6. To your knowledge has this grantee taken action to increase the role of faith-based organizations in its CDBG program as a result of recent administrative emphasis?

1 Yes 2 No 3 Don't Know

Additional Comments:

(Please use the space below to provide additional comments on any of the questions above.)

Appendix C—Interview Guides for Community Development Directors, Program Managers, and Subrecipients

This guide will be used to interview the Community Development Director or senior Program Managers.

GRANTEE:

RESPONDENT:

A brief introduction will be provided along the following lines: *We are conducting a study for the US Department of Housing and Urban Development to describe a range of effective management practices used by CDBG grantees in managing their subrecipients and to highlight certain practices that might be helpful to policymakers and practitioners around the country. As part of our study, we selected a number of grantees that have earned a reputation for effectively managing their subrecipients. The grantee may have demonstrated a particularly effective management practice or set of practices that makes the grantee more successful than others in using subrecipients to carry out its CD program. We have identified the grantees through a survey of CPD field office staff, conversations with leaders in the community development field, and an examination of IDIS and GMP data.*

Over the next two days we hope to document the practices or activities you use to manage your subrecipients. We hope to interview a number of subrecipients as well. We aim to gather enough information to paint a detailed picture of your practices. It is our goal to share this information in a format that will allow policymakers and practitioners alike to benefit from your experience and ideas. Thank you for agreeing to speak with us today. Your opinions and experiences are important for our study. The information you provide will be summarized in our research reports but we will not identify you personally in any of our reports. We want to assure you that the information you provide will not be attributable to you or any individual respondent we meet with during our visit. I have a set of topics that I would like to discuss today, but please feel free to raise any other issues that you think are important.

Background

1. Confirm basic information about CDBG program. (Background information will be supplied in advance and confirmed by Interviewer)
2. City/county's annual CDBG grant for FY 04-05 is _____.
3. The agency/department within the city/county that has overall responsibility for managing the CDBG grant is _____.
4. Obtain a copy of the approved, FY 04-05 CDBG budget and the FY05-06 Proposed CDBG budget if it is available.
5. How many subrecipients currently operate portions of your CD program?

6. What services/programs are these organizations/agencies providing?
7. Would it be possible to obtain a few examples of executed copies of your subrecipient agreements?

Outreach, Selection and Capacity Evaluation

1. How do you determine which activities will be delegated to subrecipients?
2. What does your agency do to attract new subrecipients? (Advertise, outreach, etc.)
3. How do you select subrecipients? Is there a formal process for reviewing and selecting subrecipients?
4. What does your agency do to select the most qualified subrecipients?
5. Does your agency evaluate the capacity of subrecipients? How is this done? What do you do when there is more than one qualified subrecipient for an activity?
6. How do you know whether the subrecipient has the capacity to carry out the proposed activities? Do you establish capacity thresholds to qualify subrecipients?
7. What does your agency do to ensure the successful outcome of the subrecipient's CD program?

Management Practice (General)

1. Can you describe any significant problems your city/county encountered in managing its CDBG subrecipients which resulted in a monitoring finding or which seriously impacted the outcome of your CD program during the last ten years?
2. Did you develop any new approaches to managing your subrecipients to address these problems? (Describe)
3. How has this worked for you? Has the problem reoccurred?
4. Was it difficult to implement the new management strategy?

5. What did it “take”, in terms of staffing and other resources to develop and implement the new practice?
6. Who was involved in the decision to change the management practice? (Was it initiated at the staff level, director level, elected official level, other?)

Management Practice (Specific)

Follow “A.” if we have learned about a specific practice, if not use “B.” to lead into questions 1, 2, 3 and 4.

A. Through conversations with CPD Field offices and others in the CD arena, we learned of certain practices that you are using to better manage your subrecipients. We learned that in your city/county (-x- management practice) is used to ensure the best possible CD outcomes are achieved.

1. Can you explain how this (practice) works?
2. Can you illustrate the practice with some examples? We are particularly interested in finding out what it takes to implement such a strategy. We’d like to take back concrete examples of how it is implemented and the impacts of its use. (For example., any written supporting documents such as instructions to subrecipients, reporting formats, training materials, meeting agenda, communication protocols, staffing flowcharts, etc.)
3. How difficult would it be to transfer this practice to another large/small grantee? What problems would you envision? Do you think there would be value in sharing your approach(es) with other grantees?
4. If you were going to implement these practices for the first time, knowing what you know now, would you do anything differently? Would you improve upon what you do now in any way?

B. Through conversations with CPD Field Offices and others in the CD arena, your city/county was identified as being an effective manager of CDBG subrecipients. What do you think your city/county is doing in the management of its subrecipients that sets you apart from other CD grantees and how does this impact upon your successful delivery of CD programs? (Go to 1, 2, 3 and 4).

Are you currently facing any problems with subrecipients that you wish there were solutions for?

Training and Technical Assistance

1. What activities are undertaken to “cultivate” (educate, train, inform, increase capacity, acquaint and orient) subrecipients?
2. Would you describe these activities (to “cultivate” subrecipients) as a high, medium, or low priority of your agency?

3. Can you estimate how much money is spent on training and educating subrecipients, distinguishing between money spent on educating/outreach to *applicants* and money spent on educating/training the actual *subrecipient*?
4. Are *new* subrecipients provided any training or other special instruction? Are old ones trained again each year?
5. Are subrecipients that are carrying out particularly large or complex projects provided any special training or targeted assistance by the grantee? Is training provided in response to needs identified during monitoring? Upon subrecipient's request?

Performance Assessment, Negotiation and Agreements

1. Can you describe the activities your agency undertakes to evaluate the subrecipient's performance and when these activities occur over the grant period?
2. Is information on the subrecipient's prior performance used in a meaningful way during the negotiation and development of new subrecipient agreements?
3. Can you describe your approach to establishing the formal subrecipient agreement that binds the subrecipient to the grantee? How important is the subrecipient agreement in the management of the subrecipient? Who "drives" the development of the agreement? (Attorney's, program staff, the subrecipient, the grantee?) Are the subrecipient agreements used as an active management tool during the course of the grant's administration?
4. Does the subrecipient agreement clearly identify products, timetables, regulations, cost documentation, documentation of public benefit and other statutory requirements, treatment of program income, etc.?
5. Is the subrecipient's "pay" contingent upon its performance and is this aggressively monitored and enforced?

Self-Assessment / Management Oversight

1. What aspects of your management practice do you feel contribute most to the overall accomplishment of community development objectives and ultimately to more effective delivery of subrecipient programs?
2. Many "management activities" are required or recommended in the administration of the CD program. Are there particular management functions which you are required to perform but which you feel are not productive, either in terms of promoting the subrecipient's productivity or your

own? What would you eliminate from your required or recommended, administrative/management load?

PROGRAM MONITOR INTERVIEW GUIDE

This form should be used to interview public agency staff responsible for overseeing various elements of subrecipient management systems. For those who are responsible for only one element or aspect of the system, ask the questions as they pertain to only that aspect. The Subrecipient Management System Form should be used to consolidate information about a system as a whole.

Each respondent will be informed at the beginning of the interview that the information they provide will be summarized in our research reports but that we will not identify them personally in any of our reports.

GRANTEE:

RESPONDENT:

1. Please describe the various elements of the subrecipient management system.
2. How are applicants selected to carry out activities? Describe the elements of the selection process, as well as application requirements and related documentation. How do you assess subrecipient capacity to carry out program(s)? On what basis do you make funding decisions? Are there other funders of this activity, typically, and if so, how does this process compare to those used by other funders of this activity?
3. What information or training do you give concerning federal and other requirements of the program; for example, on meeting national objectives, qualifying eligible activities, documenting expenditures and beneficiary information, and adhering to environmental, labor, procurement, and other requirements. Are there areas in which you believe your training on these issues could be better?
4. Specifically, what performance measures, if any, are included in your agreements with subrecipients? Are there penalties or incentives for meeting, or not meeting, them? As a result of these requirements, have you sanctioned subrecipients in any way? Has it triggered corrective action, or technical assistance in concrete instances? What affect do you believe these measures have had on your, and subrecipient, ability to carry out programs?
5. What kinds of reports do you require? What documents and information are you expected to record / retain?
6. What kind of training or technical assistance do you provide, either out of this office, another part of city government, or by consultants or other parties funded by local government? So far as you know, in terms of content, timing, and quality, how does this training/TA compare to that provided by other funders of this activity?

7. From your perspective as a manager, do you believe that the CDA's requirements and subsequent efforts to document / enforce them are *reasonable* in light of the need to protect the financial and legal integrity of this program? Are there areas in which they might be strengthened to better defend the public interest? Or relaxed as being unnecessary or overly burdensome to at least some of your grantees (which ones)?
8. From your perspective as a manager, do you believe the CDA's requirements and subsequent efforts in any way help organizations better carry out this activity (aside from making sure they comply with all applicable laws and regulations)? Are there areas in which your efforts might help subrecipients accomplish their goals more effectively?

SUBRECIPIENT INTERVIEW GUIDE

This interview guide will be used to collect information on the subrecipient management sequence as viewed by the subrecipients themselves. Respondents will be informed at the beginning of the interview that the information they provide will be summarized in our research reports but that we will not identify them personally in any of our reports.

GRANTEE:

SUBRECIPIENT:

TYPE OF ACTIVITY CONDUCTED:

FUNDING AMOUNT IN FY 2004:

1. What is the mission of your organization? How does this activity contribute to that mission?
How well does the mission of the CDA / other public agency funder of this activity match up to your own?
2. Please describe the funded activity. Discuss its level of difficulty, relationship to previous work, level of funding in relation to expected outputs, sources of other funding?
3. How were you selected to carry out this activity? Describe the elements of the selection process, as well as application requirements and related documentation? So far as you know, how did the CDA assess your capacity to carry out this program? On what basis did they make their funding decision? In your view, was the application process reasonable and fair? If there are other funders, how did this process compare to those used by other funders of this activity, if any?
4. What information or training were you given concerning the federal and other requirements of the program; for example, on meeting national objectives, qualifying eligible activities, documenting expenditures and beneficiary information, and adhering to environmental, labor, procurement, and other requirements. Do you believe the information you received was

adequate? How could it have been better? Did you learn anything that might be of value in your other, non-CDA-funded work?

5. Specifically, what performance measures, if any, were included in your agreement? Do you agree with the CDA that these measures were the right ones? Do they accurately capture your accomplishments? Are there penalties or incentives for meeting, or not meeting, them? As a result of these requirements, have you done anything differently than you might have in the past, or in non-CDA-funded work? Has this been beneficial, or detrimental, to your ability to carry out programs? How did the performance measures used by the CDA compare to those used by other funders of this activity, if any?
6. What kinds of reports are you obliged to file? What documents and information are you expected to record / retain? As a result of the CDA's requirements and monitoring, have you put procedures in place or introduced other management changes that you believe will aid your ability to carry out programs? Are there changes that you believe inhibit your ability to carry out programs? How do the CDA's requirements compare to those imposed by other funders of this activity?
7. What kind of training or technical assistance have you received from the CDA, or funded by the CDA, since the beginning of your grant-funded activities? In terms of content, timing, and quality, how does this training/TA compare to that you may have received in the past, or concurrently, from other local supporters? From other funders of this activity?
8. From your perspective as a subrecipient, do you believe that the CDA's requirements and subsequent efforts to document / enforce them are *reasonable* in light of the need to protect the financial and legal integrity of this program? Are there areas in which they might be strengthened to better defend the public interest? Or relaxed as being unnecessary or overly burdensome?
9. From your perspective as a subrecipient, do you believe the CDA's requirements and subsequent efforts have helped you accomplish your organization's mission, or better carry out this activity (aside from making sure that you comply with all applicable laws and regulations)? Are there areas in which the CDA's management efforts could help you accomplish your goals more effectively?

Appendix D—Exemplary Practices/Materials of Interest

This appendix provides examples and contacts for several exemplary management practices. Although it is not practical to reproduce many of the examples referenced in the report (for example, funding packets or contents of a Web site), contact information and directions for obtaining direct Internet access, along with some illustrative materials are provided below.

1. The “Green Sheet,” Duluth’s project ranking and funding evaluation form.

The Green Sheet that follows is used by program administrators to track the “scores” a project receives as it moves through the critical junctures of the funding allocation process. The Green Sheet provides the public with a clear record of how the project was perceived at critical review points, and enhances the transparency of the grant approval process. For additional information about this project ranking and funding evaluation form, contact Keith Hamre, as follows:

Keith Hamre
Community Development Manager
Office of Planning and Development
407 Duluth City Hall
Duluth, MN 55802
Telephone: 218-730-5480
E-mail: KHAMRE@ci.duluth.mn.us

2. Los Angeles County “Partners” Web site

Los Angeles County Community Development Corporation (LACDC) has created a controlled access, comprehensive Web site that provides subrecipients with everything they need to know about how to manage a CDBG grant. The Web site provides historical as well as current program information, and a rich, comprehensive, well-organized, and attractively designed technical assistance component that draws from numerous resources. The resources are each just a click away for the user. A limited series of screenshots is provided here to illustrate the site, including an example from the “on-line” financial training; however, to do this site justice requires more space than is available in this report. LACDC has, however, offered to grant access to its Web site for a subscription fee of \$300 per year. For additional information about how to obtain access to the “Partners” Web site, contact Linda Jenkins, as follows:

Linda Jenkins, Manager
CDBG Division
Community Development Commission
Telephone: 323-890-7168
Email: Linda.Jenkins@lacdc.org

3. Fairfax County Web-based Reporting and Invoicing System (WebR)

Fairfax County’s Web-based reporting system is illustrated here with examples from their monthly demographic, expenditure, and quarterly program activity reports, which all contractors are required to submit on-line. Once submitted, the program analyst reviews and approves or rejects (for corrections) the reports. An automatic e-mail is sent to the preparer stating that the report has been approved or rejected. For additional information about this Web-based reporting system, contact Alice Morris, as follows:

Alice Morris
 Department of Administration for Human Services
 12011 Government Center Parkway, Suite 738
 Fairfax, VA 22035
 Telephone: 703-324-5968

Demographic Report

The screenshot shows a web browser window displaying the Fairfax County Web-based Reporting and Invoicing System (WebR). The browser address bar shows the URL: http://www.fairfaxcounty.gov/web/pr_demographic.asp?Month=8. The page title is "Monthly Demographic Report".

Contract Information:

- Contract Number: RQ0473722624E
- Contract Title: Building for the Future

August Report

General Household/Client Info

	Households	Clients
Number of Unduplicated Households & Clients Served This Month (A)	<input type="text"/>	<input type="text"/>
Number of Households & Clients Served for the First Time This Fiscal Year (B)	<input type="text"/>	<input type="text"/>
Extremely Low Income (D1)	<input type="text"/>	<input type="text"/>
Low Income (D2)	<input type="text"/>	<input type="text"/>
Low/Moderate Income (D3)	<input type="text"/>	<input type="text"/>

Household Totals by Race and Ethnicity

	Hispanic or Latino	Not Hispanic or Latino
White (F1)	<input type="text"/>	<input type="text"/>

The screenshot also shows a sidebar with navigation links: Contract Forms, Viewing Contract Form Matrix, View Past Contracts, User Maintenance, and Logout. The browser's taskbar shows several open applications, including Microsoft Outlook, WebR, and Microsoft Word.

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

Demographic Report (continued)

		Hispanic or Latino	*	Not Hispanic or Latino	*
White	(F1)	<input type="text"/>	*	<input type="text"/>	*
Black or African American	(F2)	<input type="text"/>	*	<input type="text"/>	*
Black or African American and White	(F3)	<input type="text"/>	*	<input type="text"/>	*
American Indian or Alaskan Native	(F4)	<input type="text"/>	*	<input type="text"/>	*
American Indian or Alaskan Native and White	(F5)	<input type="text"/>	*	<input type="text"/>	*
American Indian or Alaskan Native and Black or African American	(F6)	<input type="text"/>	*	<input type="text"/>	*
Native Hawaiian / Other Pacific Islander	(F7)	<input type="text"/>	*	<input type="text"/>	*
Asian	(F8)	<input type="text"/>	*	<input type="text"/>	*
Asian and White	(F9)	<input type="text"/>	*	<input type="text"/>	*
Other Multi-Race	(F10)	<input type="text"/>	*	<input type="text"/>	*
Not Reported	(F11)	<input type="text"/>	*	<input type="text"/>	*

Race Totals By Ethnicity

Other Data by Households

		Total Households	*
Female Headed Household	(G)	<input type="text"/>	*
Familial Status (# of families w/ children under age 18)	(H)	<input type="text"/>	*
Disabled (# of households with persons having a physical or mental impairment that substantially limits one or more major life activities)	(I)	<input type="text"/>	*

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

Demographic Report (continued)

The screenshot shows a web browser window titled "WebR - Web-based Reporting and Invoicing System, DAHS - Fairfax County, Virginia - Microsoft Internet Explorer". The address bar shows the URL: http://www.fairfaxcounty.gov/web/pr_demographic.asp?Month=8. The main content area is a form for demographic data entry. It features a table with the following rows:

		TOTAL HOUSEHOLDS	
Female Headed Household	(G)	<input type="text"/>	*
Familial Status (# of families w/ children under age 18)	(H)	<input type="text"/>	*
Disabled (# of households with persons having a physical or mental impairment that substantially limits one or more major life activities)	(I)	<input type="text"/>	*
Elderly (# of households w/ persons age 55 or older)	(J)	<input type="text"/>	*
Number of households w/ unemployed persons (Do not include dependents in high school or below)	(K)	<input type="text"/>	*
TANF (# of households enrolled in TANF)	(L)	<input type="text"/>	*

Below the table, there are fields for:

- Provider Preparer: Date:
- Provider Reviewer: Date:
- Contract Analyst: Date:
- Notes:

At the bottom of the form, there are three buttons: "Save into Drafts", "Submit to Contract Analyst", and "Reset".

The browser's taskbar at the bottom shows several open applications: "Inbox - Microsoft Outlook", "WebR - Web-based Rep...", "WebR - Web-based R...", and "Document2 - Microsoft ...". The system clock shows 8:19 AM.

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

Quarterly Program Report

Quarterly Leveraging Report

Contract Forms

- Viewing Contract Form Matrix
 - Demographics Form
 - Financial Statement
 - Request for Funds
 - Program Report

View Past Contracts

User Maintenance

Logout

Other Related Sites : [homepage](#) > [health and human services](#) > [human services](#) > [community funding pool](#)

Contract Number: RQ0473722624E
 Contract Title: Building for the Future

1st Quarter

Volunteer Resources	Quarter		Year to Date	
	Actual	Projected	Actual	Actual
Total Non-Professional Volunteers	<input type="text"/>	*	65.00	0
Total Non-Professional Hours	<input type="text"/>	*	1,950.00	0
Value of Total Non-Professional Hours	\$0.00		\$39,078.00	\$0.00
Total Professional Volunteers	Quarter		Year to Date	
	Actual	Projected	Actual	Actual
Total Professional Volunteers	<input type="text"/>	*	10.00	0
Total Professional Hours	<input type="text"/>	*	100.00	0
Value of Total Professional Hours	<input type="text"/>	*	\$2,500.00	0

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

Quarterly Program Report (continued)

WebR - Web-based Reporting and Invoicing System, DAHS - Fairfax County, Virginia - Microsoft Internet Explorer

Address: http://www.fairfaxcounty.gov/web/pr_prog_report_3.asp?Qtr=1

Total Professional Hours	<input type="text" value="100.00"/>	*	100.00	0
Value of Total Professional Hours	<input type="text" value="\$2,500.00"/>	*	\$2,500.00	0

Other Resources	Quarter	Year to Date
	Actual	Projected Actual
Cash Resources (Other grants, donations, or client revenues)	<input type="text" value="\$65,801.00"/>	* \$65,801.00 \$0.00
Non-Cash Resources (Equipment, space, supplies, services, and waived fees)	<input type="text" value="\$41,614.00"/>	* \$41,614.00 \$0.00

Provider Preparer: _____ Date: _____
 Provider Reviewer: _____ Date: _____
 Contract Analyst: _____ Date: _____

Leveraging Notes

Save into Drafts Submit to Contract Analyst Calculate Reset

SEARCH Go • Advanced Search
 entire site • Site Map Top of Page

Living Here (Home) | Doing Business | Visiting | Government
 Contact Us | eServices | Using this Site

http://www.fairfaxcounty.gov/web/pr_prog_report_3.asp?Qtr=1#top

Start Inbox - Microsoft Outlook WebR - Web-based Rep... WebR - Web-based R... Document2 - Microsoft ... 8:20 AM

Quarterly Program Report (continued)

Quarterly Program Report

Other Related Sites : [homepage](#) > [health and human services](#) > [human services](#) > [community funding pool](#)

Contract Number: RQ0473722624E
Contract Title: Building for the Future

1stQuarter

Service/Activity: Provide a homework help program. (Goal: 30 or 75% of the children will maintain or improve their grades.)
Outcome: 30 or 75% of the children will maintain or improve their grades.

	SERVED THIS QUARTER		SERVED YEAR-TO-DATE	
	CLIENTS	HOUSEHOLDS	CLIENTS	HOUSEHOLDS
Projected Annual			40	40
Actual	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Outcome Achieved

	CLIENTS		HOUSEHOLDS	
	Actual	Projected	Actual	Projected
Achieving Outcome for Clients:	<input type="text"/>	30	<input type="text"/>	30

Comments (Optional)

Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest

Quarterly Program Report (continued)

WebR - Web-based Reporting and Invoicing System, DAHS - Fairfax County, Virginia - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address http://www.fairfaxcounty.gov/webr/pr_prog_report_2.asp?Qtr=1&ServOCID=2779496 Go Links >>

Comments (Optional)

Provider Preparer: _____ Date: _____
Provider Reviewer: _____ Date: _____
Contract Analyst: _____ Date: _____

Notes: _____

Save into Drafts Submit to Contract Analyst Reset

SEARCH: Go • Advanced Search • Site Map Top of Page

Living Here (Home) | Doing Business | Visiting | Government
Contact Us | eServices | Using this Site

[Web Privacy Policy](#)
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Last Modified: 9/26/2005

Start | Inbox - Microsoft Outlook | WebR - Web-based Rep... | WebR - Web-based R... | Document2 - Microsoft ... | 8:22 AM

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

Expenditure Report

The screenshot shows a web browser window titled "WebR - Web-based Reporting and Invoicing System, DAHS - Fairfax County, Virginia - Microsoft Internet Explorer". The address bar shows "http://www.fairfaxcounty.gov/webr/pr_financial.asp". On the left, there is a navigation menu with links for "Statement", "Request for Funds", "Program Report", "View Past Contracts", "User Maintenance", and "Logout". The main content area displays a table with the following columns: EXPENDITURE CATEGORY, BUDGET, ACTUAL, CUMULATIVE, and REMAINING BALANCE. The table is divided into two main sections: I. Personnel Expenditures and II. Direct Expenditures. Each section lists sub-categories with their respective budgeted amounts. The actual and cumulative columns are currently empty, and the remaining balance is calculated as Budget minus Actual.

EXPENDITURE CATEGORY	BUDGET	ACTUAL	CUMULATIVE	REMAINING BALANCE
I. Personnel Expenditures				
A. Salaries	\$31,946.00		\$0.00	\$31,946.00
B. Benefits	\$1,874.00		\$0.00	\$1,874.00
C. Payroll Taxes	\$2,663.00		\$0.00	\$2,663.00
II. Direct Expenditures				
A. Rent/Mortgage	\$0.00		\$0.00	\$0.00
B. Space Utilities / Maintenance / etc.	\$0.00		\$0.00	\$0.00
C. Audit	\$0.00		\$0.00	\$0.00
D. Financial Services	\$0.00		\$0.00	\$0.00
E. Consultant Services	\$12,430.00		\$0.00	\$12,430.00
F. Insurance	\$0.00		\$0.00	\$0.00
G. Equipment Lease / Purchase	\$6,000.00		\$0.00	\$6,000.00
H. Supplies	\$3,200.00		\$0.00	\$3,200.00
I. Telecommunications	\$0.00		\$0.00	\$0.00
J. Printing / Copying	\$0.00		\$0.00	\$0.00

4. Outcome-based Project Agreement, Asheville

The following is a good example of a grantee's subrecipient agreement that is tailored to the individual subrecipient and its activities. For additional information pertaining to this agreement, contact Charlotte Caplan, as follows:

Charlotte Caplan
Community Development Director
City of Asheville
P.O. Box 7148
Asheville, NC 28802
Telephone: 828-259-5723
E-mail: ccaplan@ashevillenc.gov

5. Pre-Application Format

Following is the combined CDBG/HOME ESGP Pre-Application used by the City of Duluth to help focus the review process earlier. For additional information about this pre-application form, contact Keith Hamre, as follows:

Keith Hamre
Community Development Manager
Office of Planning and Development
407 Duluth City Hall
Duluth, MN 55802
Telephone: 218-730-5480
E-mail: KHAMRE@ci.duluth.mn.us

PRE - APPLICATION INSTRUCTIONS CDBG/HOME/ESGP 2006

ELIGIBLE APPLICANTS are: nonprofit agencies, for-profit businesses, governmental units and Institutions of Higher Education.

Please note that the following activities are generally ineligible under HUD regulations:

- # Buildings for the general conduct of government
- # Political activities
- # Income payments for housing
- # Religious activities

Your proposal should consist of the Cover Page, Program Budget Form, and a one page narrative proposal responding to the items listed below. Narrative responses should be complete but as concise as possible.

I. PROJECT PROPOSAL (narrative page)

- < Briefly describe your project or program, including services to be provided or activities undertaken and any collaborations.
- < Describe what geographic area does your project cover
- < Who are you going to serve in this proposal
- < Describe the need for a program like your proposal, i.e. How many people need this project or activity within the community

Describe what the CDBG/HOME/ESGP funding will be specifically used for in the program or project. (The Budget Form should have the amounts, this section should describe that line item)

**FY 2006 APPLICATION
CITY OF DULUTH
HOME / CDBG / ESG Programs**

Organization:			
Address:		Duluth, MN	Zip:
Contact Person:		Phone:	
New Applicant (check one):	Yes	No	

Proposed Project(s)			
	Project Title:		
	Amount Requested		
	CDBG \$	HOME \$	ESGP \$
Organization Type (check all that apply):			
For Profit	Non Profit	Public	CBDO*
	*Certification Date:		

Program goal:	(Number & type):
Percent of goal that is income eligible:	

Project Type (check all that apply):				
CDBG:				
Housing	Economic Development	Public Facility Improvement	Public Services	Planning (Contact City Staff)
HOME :				
Rehabilitation	New Construction	CHDO	CHDO Operating	
ESGP:				

FY 2006 HOME / CDBG / ESG Programs - Application

I. Project Description

A. Proposal:

B. Program Need and Assistance:

II. Program Inputs

A. Service and Activities:

B. Program Timeline:

III. Program Outcome Measurements

A. Outcome Objectives:

B. Outcome Measurement:

C. New Applicants (only):

FY 2006 HOME / CDBG / ESG Programs

IV. Budget Narrative

A. Total Program Sources			
	Amount	Secured	Anticipates
CDBG			
HOME			
ESGP			

B. Program Uses:

C. Housing Applications (only):

**Managing Subrecipients of CDBG Grantees
Appendix D—Materials of Interest**

**FY 2006 CDBG/HOME/ESG PRE-APPLICATION
PROGRAM BUDGET FORM**

Total Program Budget for FY 2006 Project _____ * (Total of All Program Sources)

SOURCES AND USES OF FUNDING FOR 2006 PROJECT (Itemize budget and list what source(s) will pay for each line item.)

Budget Item*	CDBG	HOME	ESG	Other Public	Other Private	Line Item Total
TOTALS FOR FUNDING SOURCE						