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Division of Federal Financial Assistance

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CDBG Management Memo #26-01

Date: June 25, 2026

To: Community Development Block Grant (CDBG) and CDBG-CV Grantees

Subject: CDBG & CDBG-CV Program Monitoring Report for 2025

Purpose

The purpose of this memo is to inform CDBG and CDBG-CV Grantees about the monitoring findings and concerns issued during the 2025 calendar year. The Department of Housing and Community Development (Department) hopes that by informing grantees of the common issues that occurred in the prior years' monitoring, Grantees will be better prepared for future monitoring visits.

Background Requirements

The U.S. Department of Housing and Urban Development's (HUD) has performance review requirements for CDBG grant awards for funds administered by the Department, contained in 24 CFR Part 570. Specifically, 24 CFR 570.900(b)(3) states, "in conducting performance reviews, HUD will primarily rely on information obtained from the recipient's (the Department) performance report, records maintained, findings from monitoring, grantee and subrecipient audits, audits and surveys conducted by the HUD Inspector General..."

HUD relies on the Department to conduct monitoring of Grantees to ensure compliance that federal funding is being used responsibly and appropriately, following all requirements set forth by the Department and/or HUD.

HCD is responsible for ensuring that its Grantees comply with all regulations and requirements governing the administrative, programmatic, financial management, risk management, and prevention of fraud, waste, and abuse in the administration of CDBG



funds. Monitoring is the primary tool HCD uses to ensure that CDBG activities are being carried out in accordance with applicable federal requirements.

Monitoring is not restricted to a one-time event but is an ongoing process beginning with eligibility review and concluding with grant closeout.

Program Monitoring Statistics

This section will show a breakdown, by federal grant program, the total monitoring visits conducted by the Department during calendar years 2025 (in-person, remotely, or hybrid), along with monitoring topics.

CDBG Program

The CDBG Program conducts ongoing monitoring activities throughout the year to support strong program performance and ensure compliance across all active contracts. These activities include:

- Threshold Review at time of application submission, review, and award packaging;
- Cost Eligibility and Debarment Checks at time of financial report submission; and
- National Objective and Section 3 (if applicable), at time of closeout.

Since the last edition of this Management Memorandum, the Department has created a Single Audit Coordination Team (SACT) to further strengthen our alignment with HUD requirements. Many CDBG and CDBG-CV Grantees have partnered with SACT to successfully address their Single Audit findings. This collaborative approach helps grantees build and maintain strong financial management practices to be compliant with 2 CFR 200. By supporting grantees in these efforts, the Department aims to promote long-term compliance and uninterrupted eligibility for future funding opportunities.

CDBG-CV Program

During the 2025 calendar year, the CDBG-CV Program completed monitoring of **74 grantees**, reviewing a total of **120 contracts**.

All CDBG-CV monitoring processes took place remotely, often using Microsoft Team meetings and the Grants Management System (GMS) Monitoring Module. Through GMS, grantees were able to upload supporting documentation directly to their assigned Grant Administrator, streamlining communication and review. Monitoring staff reviewed all or a combination of the following areas, depending on the contract:

- Cost Eligibility



- Davis-Bacon/Labor Standards (if applicable)
- Duplication of Benefits
- Economic Development Manual (Appendix H, if applicable)
- Environmental Review
- National Objective Completion
- Section 3 (if applicable)
- Threshold Review
- **Contracts Monitored**

Of the 120 Contracts monitored:

- CV1 Funds: 24 Contracts were monitored
- CV2/3 Funds: 90 Contracts were monitored
- CV2/3 Tribal Set-Aside: 4 Contracts were monitored
- CV2/3 Homekey Set-Aside: 2 Contracts were monitored

Of the 74 Grantees monitored:

- CV1 and/or CV2/3: 69 Grantees
 - **23 Grantees under CV1 and/or CV2/3 were issued findings and/or concerns in 2025.**
- CV2/3 Homekey Set-Aside: 2 Grantees
 - **Only 1 Grantee with CV2/3 Homekey funding was issued findings and/or concerns in 2025.**
- CV2/3 Tribal Set-Aside: 3 Grantees
 - **Only 1 Grantee with CV2/3 Tribal funding was issued findings and/or concerns in 2025.**

Summary of Monitoring Findings and Concerns

This section provides an overview of the monitoring outcomes, organized by federal grant program. It includes a summary of items identified across grantees as well as a list of areas reviewed during monitoring. These topics align with the Department's current



Monitoring Checklists and reflect program requirements under the applicable federal regulations.

Of all the findings and concerns issued by the Department during the last calendar year, some of the issued findings and concerns listed below were issued to more than one monitored Grantee. Additionally, the Department has provided a list, by monitoring topic, of all issued findings and concerns, which may/may not include the corresponding federal citation found in the Department's current Monitoring Checklists.

CDBG Findings & Concerns

As the CDBG Program did not conduct formal monitoring during the 2025 calendar year, there are no items to present in this section of the report.

CDBG-CV Findings

The CDBG-CV Program issued **32 findings** to Grantees monitored during the last calendar year.

- Cost Eligibility – 1 finding
- Davis-Bacon/Labor Standards – 21 findings
- Economic Development Manual (Appendix H) – 1 finding
- National Objective Completion – 6 findings
- Section 3 – 3 findings
- No findings to report under Duplication of Benefits, Environmental Review, and Threshold Review

The summary of issued Monitoring Findings under CDBG-CV are as follows:

Cost Eligibility/Financial Management

1. Non-compliance with program guidelines for maximum amount of assistance.

Davis-Bacon/Labor Standards

1. Grantee did not provide evidence to show that all appropriate notifications were posted at the construction site (**HCD GMM Chapter 7 and Federal Labor Standards Requirements in HUD Programs Handbook 1344.1, REV-2, Paragraph 1-5(1)**).
2. Davis-Bacon Labor Standards notification compliance posting not provided in an easy to access spot at the construction site (**HCD GMM Chapter 7 and Federal Labor**



Standards Requirements in HUD Programs Handbook 1344.1, REV-2, Paragraph 1-5(1)).

3. Project files did not contain payroll or interview records with subcontractor staff to confirm compliance with Davis-Bacon (**HCD GMM Chapter 7; Federal Labor Standards Requirements in HUD Programs Handbook 1344.1, REV-2, Paragraph 1-5(1)); Executed Standard Agreement between HCD & Grantee, Exhibit D, Section 9, Compliance with State & Federal Laws & regulations**).
4. Non-compliance with Davis-Bacon Labor Standards (**Federal Labor Standards Requirements in HUD Programs Handbook 1344.1 REV-2, Paragraph 1-5(B)(1)**).
 - **Basis:** *No reference to Davis-Bacon and grantee(s) did not follow steps to meet wage rates and bulletin board postings.*
5. Monitored grantee(s) did not have staff designated for labor standards administration and enforcement, or qualified labor standards consultant(s) to assist (**Federal Labor Standards Requirements in HUD Programs Handbook 1344.1, REV-2, Paragraph 1-5(B)(1)**).

Economic Development

1. Missing SAM registration and debarment documentation for assisted businesses (**CDBG-CV NOFA Appendix H – Economic Development**).

National Objective

1. Non-compliance with required National Objective documentation (**HCD GMM Chapter 2 & 24 CFR 570.483**).
 - **Basis:** *Non-compliant Program guidelines. Program guidelines were insufficient to determine the National Objective, as they were missing required LMI income limits of beneficiaries served under the program, nor do the guidelines include reference to program details for the CDBG-CV funding, COVID nexus, intake process, and/or verification that the program will service LMI families.*
2. No verification of Low-Moderate Jobs created or retained was completed (**24 CFR 570.483**).
 - **Basis:** *Application and post-award monitoring process did not include sufficient supporting documentation to verify LMI jobs created or retained to meet the National Objective.*
3. Unconfirmed LMI jobs created and/or retained reported on accomplishments of the Closeout Report (**24 CFR 570.483**).
 - **Basis:** *Insufficient supporting documentation from beneficiaries to report LMI jobs created and/or retained.*

Section 3



1. Non-compliance with Section 3 Safe Harbor reporting and documentation (**HCD GMM Chapter 7 and HUD Section 3 Final Rule, effective on November 30, 2020, codified at 24 CFR Part 75**).
 - **Basis:** *Files documenting compliance with Section 3 or Targeted Section 3 Workers were not available during monitoring. Additionally, documentation of at least one qualitative effort was not provided.*

CDBG-CV Concerns

The CDBG-CV Program issued a total of **24 concerns** to Grantees monitored during the 2025 calendar year.

- Cost Eligibility – 3 concerns
- Davis-Bacon/Labor Standards – 9 concerns
- Environmental Review– 1 concern
- National Objective Completion – 2 concerns
- Procurement – 3 concerns
- Section 3 – 2 concerns
- Threshold Review – 4 concerns
- No concerns issued under Duplication of Benefits and Economic Development Manual (Appendix H)

The summary of issued Monitoring Concerns under CDBG-CV are as follows:

Cost Eligibility/ Financial Management

1. Increase Grantee oversight required of financial reporting, supporting documentation, and subcontractor management, including system of record submittals.
 - **Basis:** *Financial reporting included claims for other jurisdictions managed by the subcontractor.*
2. Corrective Action Plan on previously issued findings not appropriately applied as a requirement of HCD clearance.
 - **Basis:** *Grantee was previously issued a finding regarding incorrect indirect rate. The corrective action previously provided to the Department was not implemented, as required.*



3. Project oversight and delayed financial report reimbursements.
 - **Basis:** *Inconsistent and delated submission of financial reports.*

Davis-Bacon/Labor Standards

1. Grantee does not have designated staff for labor standards administration and enforcement.
 - **Basis:** *Grantee was activity working on establishing policies and procedures, as well as providing training opportunities to staff.*
2. No photo documentation was available to confirm the posting of all appropriate notifications in accessible location at the construction site.
 - **Basis:** *Grantee and Consultant were unable to provide photo documentation but did provide a signed Affidavit stating that posting was completed and visible to all staff onsite. Recommend Grantee to establish labor compliance policies and procedures to include photo documentation requirements of DBRA site postings.*
3. Insufficient documentation for labor compliance.
 - **Basis:** *Grantee's bid package should have referenced DBRA compliance within federal provisions, with federal wage rate pulled prior to bidding. Recommend having designated labor compliance officer to support federal funded construction projects to ensure compliance.*

Environmental Review

1. Inaccurate determination of environmental reviews.
 - **Basis:** *Grantee provided corrected documentation, with recommendation to review HCD GMM Chapter 3 and HUD Exchange to find information on the correct level of review determination.*

National Objective

1. National Objective reporting was not fully completed according to the LMC criteria. Incomplete reporting was due to limitations in program operations and the application process, which did not require a comprehensive intake process or full application of the LMC NO criteria.
 - **Basis:** *Incomplete accomplishment section of the "Completion form" due to lack of race and ethnicity data. Their application did not request applicants to disclose that, which raises a compliance confirm, as the*



subsistence program does not serve an assumed beneficiary group. Demographic data collection is for proper and complete reporting to the Federal system of accomplishments and grantee performance.

2. Enhancement of beneficiary monitoring and documentation pertaining to the verification of the LMJ National objective.
 - **Basis:** *Formal LMJ verification was not fully completed in the beneficiary files.*

Procurement

1. Insufficient documentation of procurement when a single bid response was received.
 - **Basis:** *Grantee should have requested approval from the Department, providing documentation of cost reasonableness.*
2. Missing documentation in the procurement files.
 - **Basis:** *Missing records of quotes for services and selection process. Review GMM Chapters 5 & 10.*
3. No SAM debarment requirement for Service Providers procured and paid with CDBG-CV funding.
 - **Basis:** *Grantee(s) must establish policies and/or procedures that all subrecipients are registered and not debarred prior to awarding agreements under federal and/or state funded projects.*

Section 3

1. Non-compliance with required documentation associated with Section 3 labor hours to verify the relevant benchmark hours for LMI and targeted workers.

Threshold

1. Missing proof of Flood Insurance documentation.
2. Missing Sam debarment documentation.

Monitoring Clearance

As of the date of this writing, none of the Grantees monitored in 2025 are in a repayment situation with the Department. All Grantees that were issued monitoring findings and/or concerns under the CDBG-CV Program have been resolved and the contracts have been



closed. The Department requires **all** issued monitoring report findings and/or concerns to be resolved prior to contract close-out.

As part of the Department's ongoing compliance with HUD, assigned CDBG Staff have continued to work with Grantees with outstanding monitoring findings and/or concerns from prior year's monitoring that requires remediation. At the date of this writing, the Department has 5 Grantees with outstanding monitoring finding and/or concerns. During the 2025 calendar year, the Department has been in communication with all of them, providing technical assistance to help them get items cleared. The Department hopes to get all of these communities cleared so they can be eligible for CDBG funding. Until these outstanding issues are cleared, these Grantees are unable to apply for new CDBG funding.

Many of the outstanding findings and/or concerns previously issued did involve creating and/or updating policies and procedures. The creation and/or updates have taken time for some jurisdictions to complete, due to limited staffing and other factors. The goal of the Department is to not only help the Grantee clear these outstanding issues, but to ensure the Grantee has achieved compliance for future success within the CDBG Program.

Upcoming Monitoring & Opportunities

As a result of the monitoring conducted under the CDBG-CV Program, the CDBG Program has been working to improve internal processes and determine training deficiencies.

For example, because numerous monitoring findings and concerns related to Davis-Bacon/Labor Standards were identified under the CDBG-CV Program, the Department held a two-day Labor Standards Training on February 10 and 11, 2026, which was open to all current and prospective Grantees. The live sessions were recorded, and all training materials were made available to attendees and individuals who registered. The CDBG Program has since posted the [training](#) and all related materials on its website.

Assigned CDBG Program staff have consistently been making updates to the documents found under the Grants Management Manual (GMM), noticing Grantees during Office Hours of those updates. The Department has continued to work on directing all Grantees to this resource so that they too can continue to gain knowledge and expertise of the CDBG Program.



During the last year, assigned CDBG Program staff have been working to make updates to the following GMM Monitoring documents, to be posted during the 2026 calendar year:

- Updated Risk Assessment;
- Updated Procurement Checklist to include Build America, Buy America (BABA);
- Updated Section 3 Checklist to include the updated threshold amounts, effective March 16, 2026; and
- Updates to all Monitoring Checklists, revised to provide clarity before and during CDBG Program monitoring, such as corrected federal citations, avoid duplicate questions, and formatting.

The monitoring schedule for 2026 will be developed using the risk assessments that were previously completed in 2025. At the time of this writing, the 2026 monitoring schedule is in development to include in-person, remote, and hybrid monitoring. The Department has also completed one in-person monitoring.

For this calendar year, the Department will continue to conduct activity-specific monitoring and offer technical assistance as needed, but the Department will be adding the option of Desktop Review to its monitoring process. The Desktop Review will include a combination of one or more of the following topics:

- Environmental Review
- Financial Management
- Individual Economic Development Activities (if applicable)
- Davis-Bacon/Labor Standards (if applicable)
- National Objective
- Procurement, to be updated to include Build America, Buy America (if applicable)
- Section 3 (if applicable)
- Proper Program Income (PI) Management

The goal of adding the Desktop Review is for the CDBG Program to be able to conduct more monitoring, as required by HUD. The Desktop Review has been successful under the CDBG-CV Program, thus the CDBG Program is optimistic to achieve the same outcome.



Questions

If you have general process questions, please contact your Grant Administrator or HCD Representative/Specialist.

If you have specific questions about the information in this Management Memo, or any other questions regarding the CDBG Program, please contact Mamie Early at mamie.early@hcd.ca.gov or 916-776-7753.