

Emergency Solutions Grants (ESG)

Subrecipient Monitoring Plan and Procedures



Version: 05.11.2026

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Monitoring subrecipients should not be a one-time event. To be an effective tool for avoiding problems and improving performance, monitoring must be an on-going process. The most successful strategy is to establish a monitoring plan at the beginning of the contract. That plan should include a schedule for monitoring, documents and reporting to be reviewed, a checklist of items to be reviewed through a monitoring visit and/or desk monitoring, and issuance of a monitoring letter.

RISK MANAGEMENT

Monitoring plays a key role in identifying and mitigating programmatic fraud, waste and abuse. All organizations are required to develop and implement internal risk management and anti-fraud, waste and abuse policies, procedures and resource tools. These policies, procedures and tools can aid the organization in identifying deficiencies that go beyond programmatic errors, and ensure reporting processes are carried out properly.

MONITORING SCHEDULE

The frequency and coverage of monitoring is highly dependent on the risk associated with a particular subrecipient, as measured by:

- Experience of the subrecipient with ESG. An organization which has never been exposed to ESG requirements needs a lot more training and "handholding" than one which has years of experience (unless, of course, that experience has been consistently inadequate);
- Stability of the subrecipient's organization, particularly as measured by staff turnover;
- Previous experience with the execution of government-funded programs, particularly if there were previous compliance or performance problems; and
- Ability to spend funds in a timely manner and meet the expenditure milestones in the Standard Agreement.

The subrecipient should establish a monitoring schedule early on. The frequency should be based on the assessment of risk, noted above. There is no required frequency, except that there must be **at least one** formal monitoring during the life of the contract. Other than risk assessment, the general rule of thumb is to schedule monitoring at the time when it can have the most beneficial impact; not too early (when there's nothing to look at), or too long after the fact (when resolution becomes more difficult). Additionally, schedule visits at "logical" points in the process, when certain programmatic milestones are expected and/or payment is requested.

By establishing a schedule early in the process, the subrecipient does not have to "worry" about the prospect of "surprise" inspections. The certainty of a systematic evaluation process is established in a business-like manner.

MONITORING CHECKLISTS

The monitoring plan should specify which areas will be examined during the course of any given monitoring visit and/or desk monitoring. At the same time, it should be clear what documents, processes, reports and files will be examined during any given monitoring. This list will vary, depending on the components and activities to be monitored.

To ensure that the proposed areas are covered adequately, as well as to promote thoroughness and consistency, it is helpful to use standardized monitoring checklists for on-site and/or desk reviews. The subrecipient has several options in this regard:

Develop a checklist(s) specifically tailored to the subrecipient. In constructing this checklist, the subrecipient can "borrow" from checklists, however the HCD Subrecipient Monitoring or HUD Monitoring Checklists are recommended.

MONITORING VISIT/DESK MONITORING

While there is no formal requirement as to how to conduct the monitoring visit/desk monitoring, the following are suggested steps to make the process predictable, understood and well documented:

1. *Initiate the monitoring visit/desk monitoring with a notification letter.* This serves as a reminder to the subrecipient of the upcoming visit, as well as the issues which will be examined.
2. *Conduct an entrance conference.* This reinforces the purpose of the visit and allows the subrecipient an opportunity to ask any questions, clarify the expectations and make any necessary arrangements for access to staff and files.
3. *Keep good notes.* Document any conversations with staff or reminders on issues to check later. Write it down rather than trust it to memory.
4. *Conduct an exit conference.* Give the subrecipient a summary of tentative conclusions. This provides an opportunity for clarifications, if appropriate, and cuts down on the prospect of big surprises in the formal monitoring letter. Take good notes on what was said, so that the letter isn't inconsistent with what transpired.

MONITORING LETTER

The subrecipient should prepare and send a formal monitoring letter. As a matter of good management practice, not to mention legal standing, formal feedback is crucial. This letter should be sent expeditiously; obviously the length of time it will take to prepare the letter is dependent on the complexities of the issues monitored and the extent of problems encountered. The letter should clearly identify any "Concerns" and/or "Findings" that must be addressed. See "Monitoring Follow Up" below.

Always require a response, addressing any concerns and outlining the steps to be taken to correct the problem. In the final analysis, these letters are the ultimate proof to HCD that the subrecipient is executing its formal monitoring responsibilities.

Other Sources: The subrecipient is not required to rely solely on monitoring visits/desk monitorings to check subrecipient performance and progress. Annual required audits are an appropriate source of information. The subrecipient can also require certain documentation beyond what is necessary to support requests for drawdowns of ESG funds, such as "mini-monitorings". This documentation can give the subrecipient periodic "snapshots" of progress or problems before they get too large. In addition, another effective tool is periodic informal site-visits (as opposed to the formal monitoring visit). Finally, the subrecipients can (and should) require review of annual reports, such as the HCD Annual Performance Report, which can be used as a method to track the work of the subrecipient. The subrecipient can require submission and review those reports by the subrecipient ahead of the due date to HCD.

FOLLOW-UP

The Monitoring Letter should identify problems that were found as a result of the entire monitoring process. Any "problem" should be classified as either a:

- **Concern**, a matter, which, if not properly addressed, can become a finding and can ultimately result in sanctions. Concerns are often used to point out operational or management problems, or patterns of performance which could lead to larger problems later, even if they are not evident at the time of monitoring; or
- **Finding (of noncompliance)**, a violation of law or regulation which **must** be remedied. A finding is always a condition of contract default and can result in an immediate sanction or threat of sanction if corrective action or cure (if appropriate and required) is not taken in a specified manner and/or timeframe. For each finding, the subrecipient must determine if a corrective action, either to correct a past problem or to avoid further problems, must be taken by the subrecipient.

If a subrecipient is not in compliance with its contract with the subrecipient, the subrecipient may be in default of its agreement with HCD. The subrecipient should consult with its legal counsel where enforcement of the subrecipient contract is required.

Sanctions as a result of noncompliance can range from a warning, temporary suspension of payments, cancellation of the project, to a demand that all funds be returned. The rule of thumb in determining what level of sanction to impose is to "let the punishment fit the crime". For instance, it might be considered "overkill" to demand repayment of all ESG funds for failure to submit the required audit on a timely basis. On the other hand, it would send the wrong signal to "reprimand" the subrecipient spending funds illegally.

Risk Management is an important element of monitoring and Program staff should be familiar with and follow their organization's Risk Management policies and procedures. If deficiencies are identified that rise to the level of suspected fraud (not programmatic errors), Program staff must follow their organization's risk management protocol by escalating up the leadership authority structure within the Program. Subrecipients should consult with HCD within 3-5 business days when they are uncertain as to the appropriate level of sanction for noncompliance.