

HUD Grantees Need to Enhance Monitoring of ESG CARES Act Subrecipients

Audit Report Number: 2024-LA-0001

September 17, 2024

To: Marion McFadden

Principal Deputy Assistant Secretary for Community Planning and Development, D

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From: Kilah S. White

Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: HUD Grantees Need to Enhance Monitoring of ESG CARES Act Subrecipients

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's subrecipient and contractor monitoring for the Emergency Solutions Grants Coronavirus Aid, Relief, and Economic Security (CARES) Act program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call Tanya Schulze, Audit Director, Grants Management Audit Division, at (213) 534-2471.

Highlights

HUD Grantees Need to Enhance Monitoring of ESG CARES Act Program Subrecipients | 2024-LA-0001

What We Audited and Why

We audited HUD and its grantees' monitoring of subrecipients and contractors in HUD's Emergency Solutions Grants Coronavirus Aid, Relief, and Economic Security Act (ESG-CV) program to assess subrecipient monitoring in the program. ESG and ESG-CV grantees often rely on subrecipients and contractors to carry out ESG-CV-funded activities on behalf of the grantees, and are required to monitor subrecipients to ensure that the purpose of the grant funds awarded is achieved and funds are spent on only eligible applicants and activities. HUD is responsible for ensuring that grantees are performing this oversight.

In August 2022, OIG found that 87 percent of ESG-CV grantees provided funds to subrecipients, and of that group 84 percent reported the pandemic affected their ability to effectively monitor subrecipients. The ESG-CV funding represented a 1,379 percent increase to the regular 2020 annual ESG appropriation. These factors place an increased importance on HUD's Office of Community Planning and Development's (CPD) monitoring how well its grantees, in turn, monitor subrecipients and contractors.

What We Found

CPD conducts risk-based monitoring of its ESG-CV grantees to ensure that grantee monitoring of subrecipients met 2 CFR part 200 requirements. Through this monitoring, CPD identified deficiencies in grantees' subrecipient monitoring and CPD took steps to resolve these findings with the grantees. In addition, CPD provided training on monitoring requirements and best practices. CPD's efforts to ensure that ESG-CV grantees appropriately monitored their subrecipients helped to safeguard the \$3.96 billion in ESG-CV funds.

We also independently reviewed nine ESG-CV grantees that relied heavily on subgrantees and received significant pandemic response funding. We found eight grantees could have improved their subrecipient monitoring, including inadequate or delayed subrecipient monitoring, lack of ESG-CV policies and procedures, and missing required information on agreements. These three areas were similar to the issues CPD found when monitoring grantees. CPD and some grantees stated that the pandemic impacted the grantees' ability to monitor, citing staffing capacity issues due to the increase in CARES Act funding. In addition, some grantees did not fully understand the ESG-CV subrecipient and contractor monitoring and agreement requirements. While the issues we found were similar to those identified in CPD's own monitoring of grantees, they demonstrate the importance of continued monitoring and training by CPD in the area of subrecipient monitoring.

What We Recommend

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development take corrective action on subrecipient monitoring and agreement deficiencies cited for the eight ESG-CV grantees and provide additional guidance or technical assistance as needed to ensure that they

understand the requirements, and develop and implement additional training and guidance for all ESG grantees.	

Table of Contents

Background and Objective	1
Results of Audit	
HUD Grantees Need to Enhance Monitoring of ESG CARES Act Program Subrecipients	
Scope and Methodology	10
Appendixes	11
Appendix A – Auditee Comments and OIG's Evaluation	11
Appendix B – Findings for Nine Selected Grantees	12
Appendix C – Findings for Nine Selected Grantees – Subagreements	13

Background and Objective

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) into law. The CARES Act provided \$4 billion¹ for the Emergency Solutions Grants (ESG) program to "prevent, prepare for, and respond to coronavirus among individuals and families who are homeless or receiving homeless assistance and to support additional homeless assistance and homeless prevention activities to mitigate the impacts created by coronavirus" in two rounds of funding, as follows:

- Round 1: On April 2, 2020, \$1 billion was allocated under the ESG formula to grant recipients.
- Round 2: On June 9, 2020, \$2.96 billion was allocated under a formula targeted toward communities with a high incidence of sheltered and unsheltered homeless and those at most risk for homelessness.

Overall, the ESG-CV award was nearly 14 times the 2020 annual ESG award,² with individual grantee awards ranging from 5 to 46 times their 2020 award allocations.

As of November 29, 2023, grant recipients had drawn nearly \$3.7 billion, or 93 percent, of the \$3.96 billion ESG-CV amount. Please refer to the table below.

ESG-CV funding	Total allocated ³ by CPD	Obligated⁴ in IDIS⁵	Funded activities ⁶	Drawn ⁷ amount	
\$3,960,000,000	\$3,960,000,000	\$3,959,999,994	\$3,928,021,614	\$3,698,141,318	

The CARES Act authorized the U.S. Department of Housing and Urban Development (HUD) to waive or specify alternative requirements for any provision of any statute or regulation that the HUD Secretary administers in connection with the obligation by the Secretary or the use by the recipients of these amounts, except for requirements related to fair housing, nondiscrimination, labor standards, and the environment. The CARES Act also initially established that the ESG-CV funds would remain available until September 30, 2022. However, on April 18, 2022, HUD's Office of Community Planning and Development (CPD) extended the spending deadline to September 30, 2023, 8 except for administration and Homeless

¹ The Office of Community Planning and Development (CPD) also used \$40 million, or 1 percent, of the CARES Act appropriation for the ESG program to increase capacity building and technical assistance for ESG recipients.

² The 2020 ESG annual award was \$290 million.

³ CPD awarded \$3.96 billion in funds to 362 grant recipients.

⁴ CPD signed grant agreements and made funds available for disbursement.

⁵ The Integrated Disbursement and Information System (IDIS) provides HUD with current information regarding the program activities underway across the Nation, including funding data. HUD uses this information to report to Congress and to monitor grant recipients.

⁶ Grantee recipients must fund a grant activity in IDIS before funds may be drawn.

⁷ Grant recipients have drawn funds to pay for grant-specific activities.

⁸ CPD recaptured more than \$52 million in ESG-CV funds from grantees that did not meet interim expenditure goals and reallocated it to 62 of the 362 grantees. The grantees must spend the reallocated funds by June 30, 2024.

Management Information System (HMIS) funds necessary for ESG-CV closeout, which had to be spent by December 31, 2023.

The ESG funding provided through the CARES Act is expected to mitigate the health and economic impact of COVID-19 among some of the Nation's most vulnerable individuals and families. Eligible recipients generally consist of States, metropolitan cities, urban counties, and territories, as defined in 24 CFR (Code of Federal Regulations) 576.2. ESG subrecipients may include units of general-purpose local government or private nonprofit organizations. Local governments (whether recipients or subrecipients) may also subgrant ESG funds to public housing agencies and local redevelopment authorities.

Monitoring is an integral management control technique and a U.S. Government Accountability Office standard.⁹ It is the activities that management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Monitoring provides information about program participants that is critical for making informed judgements about program effectiveness and management efficiency. It also helps in identifying instances of fraud, waste, and abuse.

On June 29, 2022, CPD issued a change to HUD Handbook 6509.2, Community Planning and Development Monitoring Handbook. The primary purpose of this revision was to provide updated directions for monitoring supplemental funding made available under the CARES Act. A new chapter, chapter 36, was added with exhibits that addressed the unique requirements for the supplemental CARES Act funding, including CPD's Community Development Block Grant, Housing Opportunities for Persons With AIDS, and ESG programs. The purpose of the exhibits was to supplement existing program guidance for requirements unique to the CARES Act funds. Among the 8 exhibits applicable to ESG-CV, Exhibit 36-4C – Guide for Review of ESG-CV Subrecipient Grant Management of ESG-CV was designed to help HUD staff monitor and assess the grant recipient's compliance with subrecipient grant management requirements of the ESG-CV program and included 41 monitoring questions covering (A) subgrants management and oversight, (B) systems coordination requirements, (C) record keeping, (D) HMIS, (E) other ESG-specific requirements, (F) additional 2 CFR part 200 review for sub-subawards, (G) the Violence Against Women Act, and (H) the Equal Access Rule.

Our audit objective was to assess monitoring of ESG-CV subrecipients and contractors that carry out the program met 2 CFR part 200 requirements.

⁹ http://www.gao.gov/assets/670/665712.pdf

Results of Audit

HUD Grantees Need to Enhance Monitoring of ESG CARES Act Program Subrecipients

In the course of its monitoring, CPD identified deficiencies with its grantees' subrecipient monitoring and took steps to resolve findings with the grantees. In addition, CPD provided training on monitoring requirements and best practices. CPD's efforts to ensure that ESG-CV grantees appropriately monitored their subrecipients helped to safeguard the \$3.96 billion in ESG-CV funds.

Our independent review of nine ESG-CV grantees¹⁰ found that eight had deficiencies, including (1) inadequate subrecipient monitoring, (2) lack of ESG-CV policies and procedures, and (3) missing required information on agreements, which was similar to the deficiencies CPD found when monitoring grantees. CPD and some of the grantees stated that the pandemic impacted the grantees' ability to conduct sufficient monitoring of subrecipients and contractors. In addition, despite HUD's training efforts, some grantees appeared to not have fully understood the ESG-CV subrecipient and contractor monitoring and agreement requirements. While the issues we found were similar to those identified in CPD's own monitoring of grantees, they demonstrate the importance of continued subrecipient monitoring and training by CPD and help safeguard funds.

CPD's Monitoring Review Identified the Need for Grantees to Improve Monitoring of Subrecipients

CPD took steps to ensure that grantees monitored subrecipients in accordance with 2 CFR 200.329, Monitoring and reporting program performance. After updating its CPD Monitoring Handbook (6509.2) in 2022 to provide its staff with additional guidance for CARES Act-funded programs, CPD issued 37¹² monitoring reports that included the ESG-CV program, of which 33 (89 percent) covered subrecipient monitoring. Of the 172 findings, 169 (98 percent) were related to subrecipient issues. When performing the monitoring of its grantees, the field offices selected subrecipients for review, such as their agreements, policies and procedures, homeless eligibility, and expenditure review, to ensure that program requirements were met. The following are examples of CPD's findings pertaining to subrecipient issues:

- No subrecipient monitoring.
- Lack of policies and procedures.
- Issues with subrecipient agreements, such as missing identifiers (unique entity identifier or the Federal award identification number).
- Lack of documentation.
- Not ensuring that subrecipients' audit requirements were met.

¹⁰ Refer to the Scope and Methodology section for the selection process of the nine grantees.

¹¹ This section was under 2 CFR 200.328 in the January 1, 2020, edition and changed to 2 CFR 200.329 as of January 1, 2021

¹² Issued between July 2022 and April 2023, within our audit period.

• Timeliness issues with payments to subrecipients.

We selected four ESG-CV monitoring reports and found that after CPD issued the monitoring reports to the grantees, it appropriately followed up with the grantees to resolve and close the findings. CPD assigned target dates when corrective actions were required and relayed that information to the grantees, and it documented and communicated followup actions to grantees. CPD also appropriately addressed grantees that were unresponsive or uncooperative. For instance, when a grantee was found to be unresponsive to CPD's monitoring findings, the field office properly documented its ongoing attempts to ensure that corrective actions would be implemented. Although the program has passed the September 30, 2023, spending deadline, CPD informed us that it planned to continue to pursue corrective action of open monitoring findings as they would still be relevant to the regular ESG program. Overall, CPD's followup allowed grantees the opportunity to implement corrective actions, thereby improving grantee performance and preventing possible fraud, waste, and abuse.

CPD also provided monitoring training for grantees' use to help ensure that they understood the requirements and to provide best practices, as follows:

- ESG-CV State Recipients Office Hours on March 25, 2021, which covered ESG-CV monitoring basics, setting programs up for success, and common findings and issues. This training mainly covered CPD's monitoring of the grantees, but also included subrecipient monitoring.
- Office Hours for ESG-CV State Recipients on May 27, 2021, which covered Maryland Monitoring Practices as best practices.
- ESG-CV Monitoring via <u>HUD Exchange YouTube</u> on January 24, 2022, which included subrecipient monitoring.
- ESG Onboarding Toolkit Monitoring, a video that discussed internal and external strategies to contribute to more equitable outcomes for ESG programs across race, gender, and age and provided materials to access the process.

CPD stated that the pandemic impacted the grantees' ability to monitor. Many recipients needed to staff up to even spend the funding, let alone monitor their subrecipients.¹³ However, CPD's efforts in conducting monitoring of its grantees to ensure that subrecipient monitoring occurred and providing training that covered monitoring requirements for grantees' use helped to safeguard ESG-CV funds.

Grantees Need to Improve Their Subrecipient Monitoring

While CPD had provided multiple trainings and guidance on monitoring requirements and adequately performed monitoring of grantees to ensure that adequate subrecipient monitoring was performed, improvement by grantees was still needed. We reviewed nine¹⁴ grantees, and eight had issues related to

¹³ CPD's view mirrors information we obtained from ESG-CV grantees as part of our prior audit survey, <u>2022-LA-0002.pdf</u> (hudoig.gov) Emergency Solutions Grants CARES Act Implementation Challenges, in which grantees expressed the need for extensions of the original program spending deadlines to use their funding, a majority believed the pandemic would impact their ability to monitor their subrecipients and identified staff capacity as a top challenge for the program.

¹⁴ Refer to the Scope and Methodology section for the selection process.

subrecipient monitoring or agreements, which were similar to those identified by CPD as part of its monitoring reviews. Specifically, we noted issues pertaining to

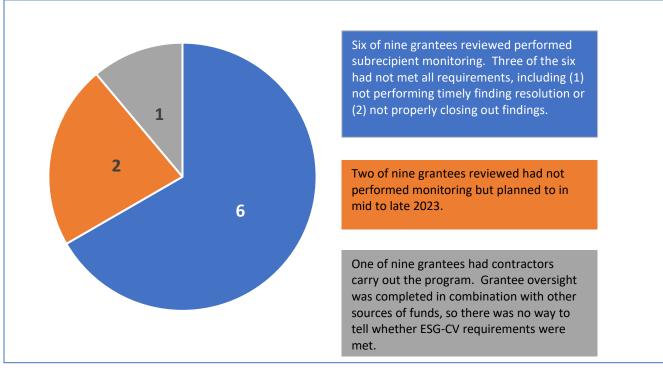
- Subrecipient monitoring.
- Lack of ESG-CV policies and procedure.
- Missing required information on subrecipient agreements.

Subrecipient Monitoring

According to 2 CFR 200.329(a), the grantee is responsible for oversight of the operations of the Federal award-supported activities. The grantee must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and that performance expectations are achieved. Our review of the nine grantees found that six performed subrecipient monitoring, but three of the six did not meet all requirements, including not performing timely finding resolution or not properly closing out findings. (See table 1 below and appendix B.) Two grantees had not performed monitoring, which they attributed to capacity issues that delayed subrecipient monitoring.¹⁵ In addition, a grantee incorrectly believed HUD regulations only required subgrantee monitoring every three years, which showed it did not have a complete understanding of the applicable monitoring requirements. However, monitoring is an integral internal control to ensure that Federal funds are used in accordance with Federal statutes, regulations, and the terms and conditions of the awards. The lack of oversight elevates the risk of fraud, waste, and misuse of program funds.

¹⁵ Their subrecipient monitoring was planned for mid to late 2023.

Table 1: Subrecipient monitoring results for nine selected grantees

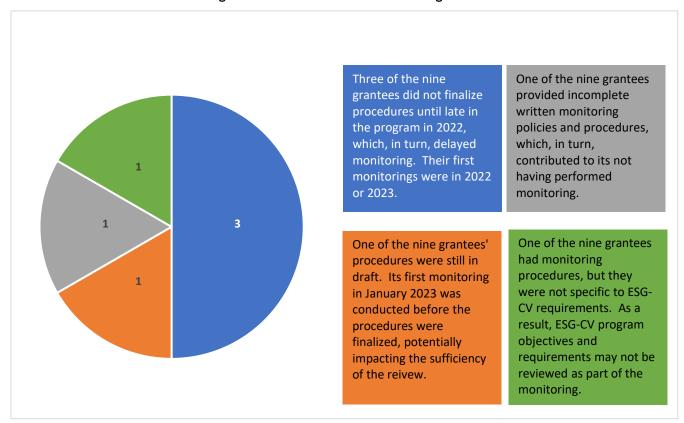


Lack of ESG-CV Policies and Procedures

Based on 24 CFR Subpart F – Grant Administration 576.500(a), Recordkeeping and reporting requirements, the recipient must have policies and procedures to ensure that requirements of this part are met, including those required by 2 CFR part 200. The policies and procedures must be established in writing and implemented by the recipient and its subrecipients to ensure that ESG funds are used in accordance with the requirements. In addition, sufficient records must be established and maintained to enable the recipient and CPD to determine whether ESG requirements are met. We determined that three of the nine grantees had adequate policies and procedures. However, the remaining six grantees had policies and procedures that were not adequate to monitor the program. For instance, a grantee stated that it issued guidance¹⁶ on ESG-CV to its program divisions; however, it did not have policies and procedures specific to ESG-CV requirements. (See table 2 below and appendix B.) The grantee stated ESG-CV activity was no different than activity funded through other sources and therefore inaccurately believed a holistic approach to oversight was sufficient. Without adequate policies and procedures and schedules, the program may not be operated in compliance with the regulations.

¹⁶ A power point presentation of "An ESG-CV Overview - CARES Act Funding to Grantee Through ESG Program Briefing dated January 12, 2021

Table 2: Procedures and monitoring schedules results for nine selected grantees



Missing Required Information on Subrecipient Agreements

According to 2 CFR 200.332(a), ¹⁷ Requirements for pass-through entities, all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward with the required information at the time of the subaward, ¹⁸ and if any of these data elements change, include the changes in subsequent subaward modifications. Three of the nine grantees ensured that their subagreements were clearly identified as a subaward and included required information. However, six did not meet the requirements. Two of these grantees agreed that they missed the information in its subawards and will take the needed steps to ensure in the future that its subaward will meet requirements. As a result, the six grantees' subagreements did not meet Federal requirements, which are in place to help ensure that the terms of the agreement and program objectives are met and that appropriate recourse is available. (See table 3 below and appendix C for additional details.)

¹⁷ This section was under 2 CFR 200.331 in the January 1, 2020, edition and changed to 2 CFR 200.332 as of January 1, 2021

¹⁸ See the Table 3 below for examples of the required information.

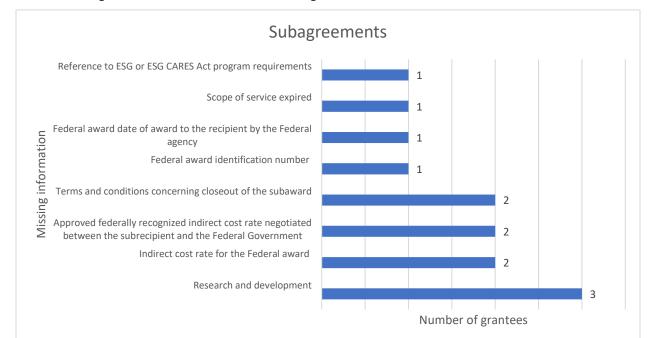


Table 3: Subagreements results for nine selected grantees¹⁹

Conclusion

CPD identified subrecipient deficiencies as part of its monitoring and developed and ensured that grantees implemented corrective actions. CPD also provided ESG monitoring training for its grantees, which included subrecipient monitoring and best practices. CPD's efforts in conducting monitoring of its grantees to ensure subrecipient monitoring and providing training for grantees' use helped to safeguard the \$3.96 billion in ESG-CV funds.

OIG's independent review of nine grantees found that eight grantees had subrecipient and contractor monitoring and agreement deficiencies and some grantees did not fully understand monitoring and agreement requirements and responsibilities. As cited earlier, the pandemic had impacted grantees' ability to conduct sufficient monitoring, which may have impacted the grantees' understanding of the ESG requirements. These deficiencies were similar to those identified in CPD's own monitoring of grantees, they demonstrate the importance of continued monitoring and training by CPD in the area of subrecipient monitoring. When grantees are unable to meet monitoring requirements, CPD lacks assurance that grantees are safeguarding program integrity, putting their respective grant programs at risk for potential fraud, waste, and abuse. It is important for CPD to resolve the issues identified in our review of the 8 grantees, as it will be relevant to the grantees' regular ESG and other HUD-funded programs. Finally, while CPD's efforts to provide training to the ESG-CV grantees helped safeguard funds, the deficiencies both HUD and OIG identified with subrecipient monitoring show a continued need for additional training and guidance.

¹⁹ The number of grantees is not a distinct count.

We found other matters that we did not consider to be significant, but believe it warrants management attention. Therefore, we will communicate these matters to management in a separate memorandum.

Recommendations

We recommend that the Principal Deputy Assistant Secretary for Community Planning and Development

- 1A. Take corrective action for the subrecipient monitoring and agreement issues cited for eight of the ESG-CV grantees reviewed, and provide additional guidance and technical assistance as needed to ensure that they understand requirements.
- 1B. Develop and implement additional subrecipient monitoring training and guidance for all ESG grantees.

Scope and Methodology

We conducted our audit fieldwork from April through November 2023 in Los Angeles, CA. The audit covered the period April 2, 2020, through March 31, 2023. We developed a questionnaire and sent it to the selected nine participating ESG-CV grantees. All records were collected electronically. Interviews and discussions were conducted remotely via TEAMS.

To gain an understanding and adequately conduct our assessment, we performed the following:

- Reviewed pertinent criteria and guidance, including 2 CFR part 200 and 24 CFR part 576.
- Reviewed HUD CPD's policies and procedures and guidance pertaining to ESG, including CPD Monitoring Handbook 6509.2, as well as other relevant documentation.
- Reviewed CPD ESG-CV monitoring reports and a sample of finding followup.
- Reviewed the questionnaire and records provided by the nine selected grantees and communicated via emails and TEAMS interviews for additional information.
- Interviewed and held discussions with the HUD Office of Special Needs Assistance Programs and Director of Field Management.

We developed and used an ESG-CV subrecipient tool to analyze risk for ESG-CV grantees. The tool combined information from three risk categories to determine a combined risk score for the universe of 362 grantees, including (1) number of subrecipients listed in IDIS, (2) percentage of committed funds to subrecipients, and (3) CARES Act funding increase. Using the tool, we selected a total of nine grantees, with three high-risk grantees each from the State, urban county, and city categories. Our review of the nine grantees was limited, focusing on their ESG-CV subrecipient or contractor monitoring, as applicable. Since the nine grantees were selected through a risk-based approach, their results cannot be projected to the universe of ESG-CV grantees with subrecipients or contractors that carry out the program.

We used a nonstatistical sample to select four CPD monitoring reports²⁰ for review to determine whether CPD followed up and resolved its findings and concerns. The selection was based on the following criteria: (1) those with significant or multiple findings, (2) time had passed to allow CPD to follow up and for the grantee to potentially resolve the finding(s), and (3) ensure that each monitoring report was from a different CPD regional office.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

²⁰ About 11 percent (4 of the universe of 37 ESG-CV monitoring reports issued between July 2022 and April 2023) of the ESG-CV monitoring reports CPD issued during our audit period.

Appendixes

Appendix A – Auditee Comments and OIG's Evaluation

We provided a discussion draft of the subject audit report to CPD officials on August 28, 2024. HUD informed us on September 9, 2024, that CPD had no formal written response to the report.

Appendix B – Findings for Nine Selected Grantees

ESG-CV grantees	Grantees' monitoring procedures & schedules	Grantee did not perform monitoring	Grantees' monitoring report & finding resolution	Subrecipient and contractor agreement elements ²¹
State				
Grantee 1				Х
Grantee 2	Х	Х	Х	
Grantee 3	Х			
Urban county				
Grantee 4	Х		Х	Х
Grantee 5			Х	Х
Grantee 6	Х		Х	Х
City				
Grantee 7				
Grantee 8	Х	Х	Х	Х
Grantee 9	Х	Х	Х	Х
Total findings	6	3	6	6

²¹ See appendix C for additional breakdown.

Appendix C - Findings for Nine Selected Grantees - Subagreements

ESG-CV grantees	No reference to ESG or ESG-CV program requirements	Scope of service expired	Federal award date not Identified ²⁴	Federal award identification number not identified ²⁵	Closeout terms and conditions ²⁶	No approved federally recognized indirect cost rate ²⁷	No indirect cost rate for the Federal award ²⁸	Did not list if award is research and develop ment ²⁹
State								
Grantee 1								Χ
Grantee 2								
Grantee 3								
Urban county								
Grantee 4					Χ	Х	Х	Х
Grantee 5			Χ			Х	Х	Х
Grantee 6					Χ			
City								
Grantee 7								
Grantee 8		Х		X				
Grantee 9	Х							
Total findings	1	1	1	1	2	2	2	3

²² SNAPS-Shots guidance dated July 24, 2015, stated that contractors are responsible for complying only with those requirements and conducting those activities that the recipient or subrecipient specifies in their contracts. Therefore, when a recipient/subrecipient uses a contractor, the recipient/subrecipient must ensure the contract specifies the program requirements and policies that apply to the tasks the contractor is to perform.

²³ 2 CFR 200.332(a)(1)(v) requires subawards include the period of performance start and end date. In the instance cited, the subaward agreement was not renewed or amended to reflect performance continuing past end date.

²⁴ 2 CFR 200.332(a)(1)(iv) requires subawards include the federal award date of the award to the recipient by the Federal Agency.

²⁵ 2 CFR 200.332(a)(1)(iii) requires subawards include the Federal Award Identification Number (FAIN).

²⁶ 2 CFR 200.332(a)(6) requires subawards include appropriate terms and conditions concerning closeout of the subaward.

²⁷ 2 CFR 200.332(a)(1)(xiv) requires subawards include the indirect cost rate for the federal award.

²⁸ 2 CFR 200.332(a)(4)(i) requires subawards include an approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government.

²⁹ 2 CFR 200.332(a)(1)(xiii) requires the subaward to identify whether or not it is for research and development (R&D).