



CDBG-DR Fraud, Waste, and Abuse Policy

**DEPARTMENT OF HOMELAND SECURITY AND
EMERGENCY MANAGEMENT**

This policy is effective as of 3/20/2026 and may be updated periodically to reflect program implementation and evolving guidance from the U.S. Department of Housing and Urban Development (HUD).

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I. PURPOSE AND SCOPE

Purpose: The purpose of this policy is to establish clear procedures for preventing, detecting, reporting, and addressing fraud, waste, and abuse in connection with the Community Development Block Grant – Disaster Recovery (CDBG-DR) program administered by the State of New Mexico. This policy aligns with the requirements of the State of New Mexico Procurement Code and HUD’s CDBG-DR Program guidelines.

Scope: This policy applies to all employees, subrecipients, contractors, consultants, vendors, and beneficiaries involved in CDBG-DR funded projects. It covers all aspects of program administration including procurement, contract management, financial oversight, construction, and service delivery.

II. BACKGROUND

As a recipient of federal funding under the Community Development Block Grant – Disaster Recovery (CDBG-DR) program, the State must also comply with the U.S. Department of Housing and Urban Development’s (HUD) strict standards for ethical administration, as outlined in 2 CFR Part 200, 24 CFR Part 570, and applicable HUD Office of Inspector General (OIG) guidance. These regulations mandate proactive oversight, internal controls, and clear mechanisms for the reporting and resolution of suspected misconduct.

This policy serves to formalize the State of New Mexico’s approach to fraud risk management under the CDBG-DR program by:

- Defining prohibited conduct and examples of fraud, waste, and abuse;
- Outlining prevention strategies, including training and internal controls;
- Establishing monitoring, detection, and reporting protocols;
- Providing guidance on investigation and enforcement actions;
- Ensuring consistent recordkeeping and compliance with federal audit standards.

The goal of this policy is not only to meet federal compliance expectations but also to foster a culture of ethical stewardship that protects public resources, strengthens community trust, and supports effective disaster recovery across New Mexico’s most vulnerable communities.

III. POLICY STATEMENT

The State of New Mexico is committed to upholding the highest standards of integrity, accountability, and transparency in the administration of federal and state-funded programs. In alignment with the New Mexico Procurement Code (NMSA 1978, §§ 13-1-28 to 13-1-199) and the Governmental Conduct Act (NMSA 1978, §§ 10-16-1 et seq.), all agencies and program



participants are required to prevent and respond to any instances of fraud, waste, and abuse in government operations and public spending.

IV. DEFINITIONS

Term	Definition
Abuse	Intentional destruction, diversion, manipulation, maltreatment, or misuse of resources: extravagant or excessive use as to abuse one’s position or authority for personal benefit or to the detriment of program goals. Abuse can occur in financial or non-financial settings and includes misuse of resources or authority that violates program intent or ethical standards, including unethical behaviors and actions that do not break a law or regulation..
Bid Rigging	Promising a contract to one party even though, for the sake of appearance, several other parties are invited to present a bid.
Fraud	Any intentional act or omission designed to deceive or misrepresent, resulting in a loss to an individual or entity and a gain for the perpetrator.
Scope Creep	When the extent of a project is not properly defined, allowing uncontrolled growth.
Underbidding a Contract	Bidding less than the amount the contract will actually cost to perform, then finding ways to recover the money that was lost in the underbid.
Waste	Using material or financial resources carelessly without regard to cost-effectiveness or necessity in program operations, including incurring unnecessary cost from inefficient or ineffective practices, systems or controls.

V. SCOPE OF WORK AND EVALUATION CRITERIA

Under the HUD Community Development Block Grant – Disaster Recovery (CDBG-DR) program, preventing fraud, waste, and abuse is a critical component of program integrity. Key requirements include:

- **Verification of Applicant Information:** Grantees must have procedures to verify the accuracy of information provided by applicants to ensure eligibility and prevent fraudulent claims.



- **Evaluation of Subrecipient Capacity:** Grantees are required to assess the capacity of potential subrecipients to manage funds appropriately, reducing the risk of mismanagement or fraud. The capacity of a subrecipient will be evaluated by completing a capacity assessment before entering into a subrecipient agreement which could include, but not limited to, looking at the experience of the subrecipient, monitoring and audit history, internal controls and systems used by the subrecipient.
- **Conflict of Interest Policies:** A written standard of conduct and conflicts of interest policy must be in place, complying with 24 CFR 570.489(g) and (h), to promptly identify and address any conflicts that could lead to fraudulent activities.
- **Training Requirements:** Grantees and subrecipients must attend fraud-related training provided by HUD's Office of Inspector General (OIG) when offered, to assist in the proper management of CDBG-DR funds.
- **Reporting Mechanisms:** Instances of fraud, waste, and abuse must be reported to the HUD OIG. Grantees are also required to inform HUD and the OIG in writing when they have credible evidence of violations involving fraud or related misconduct.

A. Training and Education

The New Mexico Department of Finance and Administration (DFA) provides procurement training that includes discussions on fraud prevention as it relates to state purchasing. These trainings are designed to educate procurement professionals on ethical standards and the importance of adhering to the Procurement Code.

B. Federal False Claims and Fraudulent Statements

In addition to state laws and HUD program requirements, all employees, subrecipients, contractors, consultants, vendors, and beneficiaries must comply with federal statutes that prohibit fraudulent conduct in connection with federal funds.

C. Duplication of Benefits (DOB) – Stafford Act Compliance

In accordance with Section 312 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5155), the State of New Mexico shall ensure that no CDBG-DR assistance is provided for losses or needs already fully covered by other sources of funding (“duplication of benefits”). The New Mexico Home Recovery Program has an established DOB Policy that covers verification procedures, calculation requirements, exclusions, compliance, subrogation and recapture related to DOB.

D. 2. General Examples of Fraud

- Theft or misuse of money, equipment, supplies and/or other materials.
- Falsifying financial records to conceal the theft of money or property.



- Intentionally misrepresenting goods provided, or services rendered or the cost of goods and services.
- Soliciting or accepting a bribe or kickback.
- Falsifying payroll records.

E. Specific Examples of Fraud

- Billing for goods or services not rendered.
- Billing for unnecessary goods or services.
- Duplicate billing.
- Performing inadequate inspection of properties to allow a contractor to get away with shoddy workmanship or non-performance.
- Removing or using surplus construction supplies for personal use.
- Maintaining fictitious applicants, jobs, vendors, or employees.
- Bid rigging – promising a contract to one party even though, for the sake of appearance, several other parties are invited to present a bid.
- Underbidding a contract – bidding less than the amount the contract will actually cost to perform, then finding ways to recover the money that was lost in the underbid.
- Scope creep – when the extent of a project is not properly defined, allowing uncontrolled growth.
- Falsely posing as a Minority or Women-Owned Business Enterprise (MWBE), defined as a business owned by women, minorities, or service-disabled veterans.
- Paying a bribe to a contractor or employee of a contractor or a subrecipient in exchange for preferential treatment such as a contract award.

F. Contractor Fraud

The New Mexico CDBG-DR New Mexico Home Recovery Program will be administered by the State of New Mexico through direct service delivery. DHSEM will directly procure a pool of licensed and insured contractors through a competitive procurement process, pursuant to 2 C.F.R. Part 200, to ensure that all costs are necessary, reasonable, allowable, and allocable. Homeowners will not receive direct financial assistance; instead, DHSEM will assign projects to vetted contractors, manage progress and performance, and pay contractors directly upon verified completion of work milestones. DHSEM Contractors are required to comply with all local, state, and federal regulations. DHSEM's CDBG-DR Team will assume the responsibility for monitoring contractor work. This approach ensures that New Mexico residents receiving disaster recovery assistance through CDBG-DR funds do not fall victim to contractor fraud.



It is common in post-disaster environments that persons posing as contractors or as staff members associated with the housing program may approach property owners to solicit business. Note that the only way that a program-associated staff member or construction contractor will make contact with a property owner is if that property owner has submitted an application to the program. Program staff members and contractors will never ask the homeowner for a down payment, payment, or payment guarantee. Any staff member, program contractor, homeowner, or member of the public who suspects a person or company of misrepresenting themselves as program staff or program contractors should report this suspicious activity to:

The New Mexico Department of Homeland Security and Emergency Management (DHSEM)

By email: DHSEM-DCM@dhsem.nm.gov

By mail: Department of Homeland Security and Emergency Management

Attention: New Mexico Home Recovery Program, Complaints

PO Box 27111

Santa Fe, NM 87502

By Phone: Call a program representative by calling the State Disaster Case Management mainline at 505-670-4662 for assistance.

DHSEM will report suspicions of contractor fraud to the New Mexico Department of Regulations and Licensing (RLD).

G. General Examples of Waste

- Purchasing unnecessary supplies, materials, and equipment.
- Purchasing supplies without regard to cost.
- Using surplus, materials, and equipment carelessly, resulting in unnecessary waste.
- Failing to reuse or recycle major resources to reduce the generation of waste.

H. General Examples of Abuse

- Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
- Receiving favor for awarding contracts to certain vendors.
- Using one's position for personal gain or to gain an advantage over another.
- Failing to report damage to equipment or property.
- Creating unneeded overtime.
- Requesting staff to perform personal errands or work tasks for a supervisor or manager.



- Choosing travel arrangements that are contrary to existing travel policies or are unnecessarily extravagant or expensive.
- Using State or Federal funds or equipment for non-State or Federal purposes.

VI. ROLES AND RESPONSIBILITIES

Stakeholder	Roles & Responsibilities
New Mexico Department of Homeland Security and Emergency Management (DHSEM)	Lead agency responsible for overall program monitoring, ensuring compliance with HUD and state requirements.
Subrecipients and Contractors	Obligated to cooperate with monitoring activities, provide necessary documentation, and implement corrective actions as directed.

VII. COMPLIANCE & ENFORCEMENT

A. Reporting Procedures

DHSEM has established clear channels for reporting suspected fraud, waste, or abuse, including anonymous reporting options. An employee who observes, has knowledge of, or suspects that fraud, waste, or abuse is occurring or has occurred, and does **not** desire anonymity, should report fraud, waste and abuse via two ways:

- **Internal Reporting:** Individuals are encouraged to report suspected misconduct to the New Mexico Department of Homeland Security and Emergency Management (DHSEM) Compliance Office.
- **External Reporting:** Reports can also be made to the New Mexico Office of the State Auditor, which handles issues such as conflicts of interest, procurement improprieties, and fraud by employees.

Reporting can be done either **in person or by phone**. DHSEM will be responsible for notifying the Director of the Department of Finance and Administration (DFA), Office of Accounting, Internal Audit Section, or his/her designee, in person or by phone of the suspected activity.

The employee should be prepared to provide the following information verbally or in writing, to the extent known, regarding the incident:

- Who was involved? (Names and phone numbers, if available)
- What happened? (Summary of events, additional sources of evidence)
- Where did it happen? (Location, city, state)
- When did it happen? (Date, time, frequency)



- What was the cost involved? (Estimated loss to the government, gain to violator)
- How did it happen? (What scheme was used)
- Who else is aware of the incident, to your knowledge? (Names and phone numbers, if available)
- What is the source of the information? (Personal observation, employee complaint, monitoring results)

Follow any instructions provided by management and the DFA Director of Internal Audit, or his/her designee, regarding “Next Steps” in the investigation.

An employee who observes, has knowledge of, or suspects that fraud, waste, or abuse is occurring or has occurred, and wishes to remain anonymous, should:

- Immediately report the incident to the DFA’s Fraud, Waste, and Abuse Hotline, which can be accessed via Department of Finance and Administration (DFA) website or report the incident to the HUD Office of Inspector General (OIG) via their hotline at 1-800-347-3735 or online at <https://www.hudoig.gov/report-fraud>.
- The employee, though anonymous, must be willing to share specific information regarding the incident. The employee should be prepared to provide the following information, to the extent known, regarding the incident.

1. Whistleblower Protections

Federal and state laws provide protections for whistleblowers, including but not limited to:

- The Whistleblower Protection Enhancement Act of 2012 (5 U.S.C. § 2302(b)(8)).
- 41 U.S.C. § 4712, which protects employees of contractors, subcontractors, grantees, and subgrantees from reprisal when reporting gross mismanagement of federal funds, abuse of authority, or violations of law.

The State of New Mexico is committed to protecting individuals who report suspected fraud, waste, or abuse in good faith. No employee, subrecipient, contractor, consultant, vendor, or beneficiary shall suffer harassment, retaliation, discrimination, or adverse personnel or contractual action for making a good faith report of suspected misconduct, even if the report is not substantiated. To the maximum extent practicable and permitted by law, DHSEM will protect the confidentiality of whistleblowers. Any suspected retaliation against a whistleblower shall itself be reported through the same fraud, waste, and abuse reporting channels and may be subject to disciplinary action, contract remedies, or referral to law enforcement.

B. Monitoring and Detection

Routine audits, site inspections, and program monitoring will be conducted by DHSEM staff and/or independent auditors. Red flags such as duplicate payments, unauthorized changes, or irregular procurement practices must be escalated for investigation.



1. HUD CDBG-DR Requirements

In accordance with HUD guidelines, the New Mexico Department of Homeland Security and Emergency Management (DHSEM) will:

- **Conduct Regular Monitoring:** Implement ongoing oversight of program activities to ensure compliance with federal regulations and program objectives.
- **Utilize HUD Monitoring Tools:** Employ HUD's monitoring checklists and tools to assess program performance and compliance (see Appendix).
- **Document Findings:** Maintain thorough records of monitoring activities, findings, and corrective actions taken.

2. State of New Mexico Procurement and Financial Oversight

In alignment with the State of New Mexico's procurement policies and financial oversight standards:

- **Implement Internal Controls:** Establish and maintain internal control systems to detect and prevent irregularities in procurement and financial transactions.
- **Conduct Audits:** Perform regular audits and reviews of procurement activities and financial records to identify and address potential issues.
- **Ensure Transparency:** Maintain transparency in procurement processes and financial management to uphold public trust and accountability.

3. Corrective Actions

- **Investigation Procedures:** Promptly investigate reported issues and take appropriate corrective actions to resolve identified problems.
- **Continuous Improvement:** Use findings from monitoring activities to inform continuous improvement of program operations and controls.
- **Internal Auditor requirement:** If the grantee has a grant of \$100 million or more, the grantee has or will employ an internal auditor that provides both programmatic and financial oversight of grantee activities, and has adopted policies that describes the auditor's role in detecting and preventing fraud, waste, and abuse.

C. Investigation and Resolution

All reports of fraud, waste, and abuse will be reviewed and investigated in accordance with applicable state and federal regulations. Confirmed violations may result in administrative action, contract termination, recapture of funds, or criminal prosecution.



1. Investigation Procedures

- **Initiation:** Upon receiving a report, DHSEM will initiate a preliminary review to determine the validity and severity of the allegation.
- **Collaboration:** If the allegation involves procurement or financial misconduct, DHSEM will coordinate with the State Purchasing Agent and the Office of the State Auditor for further investigation.
- **Documentation:** All investigative activities will be thoroughly documented, maintaining confidentiality and integrity of the process.

2. Resolution and Corrective Actions

- **Findings:** If an investigation confirms misconduct, appropriate corrective actions will be determined based on the severity and nature of the violation.
- **Sanctions:** Possible actions include suspension or debarment of contractors as outlined in Section 13-1-178 of the New Mexico Procurement Code.
- **Recovery:** Efforts will be made to recover any misused funds, and legal action may be pursued if necessary.

3. Compliance with HUD Requirements

In alignment with HUD's CDBG-DR policies, grantees are required to:

- **Develop Procedures:** Establish and maintain procedures to detect and prevent fraud, waste, and abuse.
- **Financial Controls:** Implement financial controls and procurement processes that meet HUD's certification requirements.
- **Training:** Ensure that all staff and subrecipients receive training on fraud prevention and ethical standards.
- **Fraud:** Ensure that all CDBG-DR beneficiaries and contractors are provided with information that raises awareness of possible fraudulent activity and how to avoid it. Anti-fraud educational materials (e.g., brochures, flyers, and posters) will be made available at intake centers, public events, and online through the State's disaster recovery website. These materials will describe:
 - Examples of fraud risks, waste, and abuse in the disaster recovery context;
 - How to identify and prevent potential fraud schemes/scams;
 - What to do if a beneficiary is contacted by a fraudulent contractor, fake government official, or someone requesting bribes;
 - How to report suspected fraud;



- Direct applicants to the NMRLD website (<https://www.rld.nm.gov/about-us/public-information-hub/consumer-protection/verify-a-license/>) for contractor verification;
- HUD OIG alerts and best practices for avoiding fraud.
- If a CDBG-DR beneficiary becomes a victim of contractor or disaster-related fraud, the State will:
 - Provide guidance and referrals to assist the individual in filing a formal complaint with law enforcement, the HUD OIG office and the State internal office.
 - Reassess eligibility for additional assistance if new unmet needs arise due to the fraudulent activity.
 - Coordinate with HUD and applicable federal or state authorities for appropriate remedies. These procedures ensure that the State not only prevents fraud but also responds appropriately when it affects program beneficiaries. Program communications will be provided in English. Where required by federal civil rights law, such as Title VI of the Civil Rights Act of 1964, reasonable steps will be taken to ensure access to individuals with limited English proficiency.

VIII. CONFLICTS OF INTEREST AND MODIFICATIONS

To maintain the highest standards of integrity, all stakeholders, including DHSEM staff, subrecipients, contractors, and partners, must adhere to strict conflict of interest guidelines and the Conflict of Interest Policy.

Individuals involved in the decision-making or procurement processes must disclose any personal or financial interests that might influence their objectivity in fulfilling fraud, waste, and abuse objectives. This requirement is crucial to ensuring that all actions taken under the Fraud, Waste, and Abuse Policy are impartial and align with the principles of fairness and equity. Regular training will reinforce these standards and help identify and address potential conflicts proactively.

The Fraud, Waste, and Abuse Policy is subject to continuous evaluation and refinement to adapt to changing legal requirements and community needs. Annual reviews, based on comprehensive feedback from stakeholders and affected communities, facilitate necessary modifications to enhance policy effectiveness. Modifications are implemented in a structured manner, ensuring alignment with both federal mandates and local objectives. All changes are documented, disseminated across all levels of involvement, and incorporated into subsequent training sessions, preserving the policy's integrity and responsiveness to emerging challenges.

IX. DOCUMENTATION & RECORDKEEPING

All fraud, waste, and abuse reports, investigations, and corrective actions shall be documented and maintained in accordance with 2 CFR § 200.334 and the State of New Mexico records retention schedule. All records related to investigations, findings, and corrective actions will be maintained



in accordance with federal and state record retention policies, ensuring transparency and accountability.

X. REFERENCES

Executive Order, Federal and State Laws and Regulations	Description
<p>State of New Mexico Procurement Code (<i>NMSA 1978, §§ 13-1-28 to 13-1-199</i>)</p>	<p>Establishes a comprehensive framework to prevent fraud, waste and abuse in public procurement processes. These measures ensure transparency, accountability, and integrity in the expenditure of public funds.</p> <p>The Code aims to ensure fair and equitable treatment of all parties involved in public procurement, maximize the value of public funds, and maintain a procurement system of quality and integrity. It explicitly seeks to protect against favoritism, nepotism, patronage, collusion, fraud, and corruption in the award of public contracts.</p>
<p>Debarment and Suspension (<i>Section 13-1-178 NMSA 1978</i>)</p>	<p>Outlines the causes for debarment or suspension of contractors, including convictions under state or federal statutes related to embezzlement, theft, forgery, bribery, fraud, falsification or destruction of records, making false statements, or receiving stolen property.</p>
<p>Conflict of Interest (<i>Section 13-1-190 NMSA 1978</i>)</p>	<p>Prohibits public officers or employees from participating directly or indirectly in a procurement when they have a financial interest in the business involved, thereby preventing conflicts of interest that could lead to fraudulent activities.</p>
<p>Campaign Contribution Disclosure (<i>Section 13-1-191.1 NMSA 1978</i>)</p>	<p>Prospective contractors are required to disclose campaign contributions made to applicable public officials, promoting transparency and reducing the risk of undue influence or corruption in procurement decisions.</p>
<p>Bribes, Gratuities, and Kickbacks (<i>Section 13-1-191 NMSA 1978</i>)</p>	<p>The code strictly prohibits the offering, giving, receiving, or soliciting of bribes, gratuities, or kickbacks in connection with procurement processes. Such actions are grounds for debarment and may lead to criminal prosecution.</p>
<p>Civil Penalties for Violations (<i>Sections 13-1-196 to 13-1-198 NMSA 1978</i>)</p>	<p>These sections impose civil penalties for violations of the Procurement Code, including:</p>



	<ul style="list-style-type: none"> • A civil penalty of up to \$1,000 for knowingly violating any provision of the code. • Recovery of the value transferred or received in violation of the code. • Additional civil penalties for kickbacks equal to the amount of the kickback.
Governmental Conduct Act (GCA) (<i>NMSA 1978, §§ 10-16-1 et seq.</i>)	Establishes ethical standards for public officers and employees, including those involved in federal contracts.
False Claims Act (<i>31 U.S.C. §§ 3729–3733</i>)	Any person who knowingly submits a false or fraudulent claim for payment or knowingly makes or uses a false record or statement material to a claim for federal funds, is subject to treble damages and civil penalties. Liability may extend to individuals, organizations, and their officers.
False Statements (<i>18 U.S.C. § 1001</i>)	It is a federal crime to knowingly and willfully make false, fictitious, or fraudulent statements or representations in any matter within the jurisdiction of the U.S. government. Violations may result in fines and imprisonment.
Whistleblower Protection Enhancement Act of 2012 (<i>5 U.S.C. § 2302(b)(8)</i>)	Strengthens federal whistleblower laws, protecting U.S. government employees who report waste, fraud, abuse, or dangers to public health/safety from employer retaliation, clarifying that disclosures to supervisors or previously reported issues still count, and ensuring Non-Disclosure Agreements include a standard whistleblower notice.
Section 312 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (<i>42 U.S.C. § 5155</i>)	Ensures that no CDBG-DR assistance is provided for losses or needs already fully covered by other sources of funding (“duplication of benefits”).
41 U.S.C. § 4712	Establishes a permanent pilot program providing enhanced whistleblower protections for employees of federal contractors, subcontractors, and grantees, shielding them from retaliation (like firing or demotion) for reporting waste, fraud, abuse, substantial danger to health/safety, or violations related to federal contracts/grants to designated authorities like Congress, Inspectors General, or law enforcement.



2 CFR 180	Fraudulent misuse of federal funds may also trigger suspension, debarment, recovery or misused funds, and criminal prosecution.
Uniform Guidance (2 CFR 200)	Comprehensive federal rulebook from the Office of Management and Budget (OMB) setting unified standards for administrative requirements, cost principles, and audit rules for all non-federal entities (like universities, non-profits, state/local governments) receiving federal funds (grants/awards).
2 CFR 200.334	Sets the primary record retention rule for federal awards: recipients and subrecipients must keep all records for three years from the date they submit their final financial report.
24 CFR 570	Governs the administration of the CDBG program.
24 CFR 570.489(g) and (h)	CDBG-DR procurement and conflict of interest provisions.
24 CFR 570.490(a)(1)	Mandates that States administering CDBG funds must establish and maintain comprehensive records to allow for HUD review and audits, covering funding decisions, criteria for selecting projects, and especially demographic data (race, ethnicity, sex) for applicants, participants, and beneficiaries, ensuring compliance with fair housing and equal opportunity requirements.
24 CFR 570.490(c)(1)	Describes the access rights to records for federal oversight and the public for CDBG funds, stating that representatives from HUD, the Inspector General (IG), and the Government Accountability Office (GAO) must have full access to all related financial and administrative records, while States and local governments must also provide citizens reasonable access to records concerning past CDBG fund usage, respecting personal privacy.
24 CFR 570.490(d)	Outlines the record retention requirements for CDBG funds, stating that records for the State and local governments must be kept for the greater of three years from the grant's closeout by HUD, or for longer periods required by other laws; these records must allow for review by HUD, the Inspector General (IG), the Government Accountability



	Office (GAO), and provide citizen access, and cover project details, finances, and compliance with CDBG rules.
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XI. APPENDICES

The appendix contains supplementary material which forms a part of this document but is not essential for its completeness, containing supporting information and will appear in this section.

Form Name, Process Map Name, OR Document Name	Link to Document
CPD Monitoring Resources	https://www.hudexchange.info/programs/cpd-monitoring/#monitoring-overview
Disaster Recovery Library: Monitoring and Compliance	https://www.hudexchange.info/resources/disaster-recovery-library/monitoring/#all-resources