

CHAPTER III: FINANCIAL MANAGEMENT

OVERVIEW

The purpose of this section is to provide local grant administrators with a basic understanding of the financial management requirements related to the CDBG program. Local grant administrators must be aware that as recipients of CDBG funds, their jurisdictions must be in compliance with these requirements in addition to any local or other State requirements.

FEDERAL & STATE LAWS

All State CDBG programs are required to have financial management standards or fiscal and administrative requirements as described in the regulations at 24 CFR 570.489(d). Other related regulations include:

- 24 CFR Part 85 – Administrative requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments

OMB Super Circular, codified at 2 CFR part 200:

In December 2013, the Office of Management and Budget (OMB) issued the [OMB Super Circular](#), which is codified at 2 CFR Part 200. The uniform guidance supersedes, consolidates, and streamlines requirements from eight OMB Circulars:

- A-21, Cost Principles for Educational Institutions,
- A-87, Cost Principles for State, Local and Indian Tribal Governments,
- A-89, Catalog of Federal Domestic Assistance,
- A-102, Grants and Cooperative Agreements With State and Local Governments,
- A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations,
- A-122, Cost Principles for Non-Profit Organizations,
- A-133, Audits of States, Local Governments, and Non-Profit Organizations, and
- The guidance in OMB Circular A-50, Audit Follow-up, on Single Audit Act follow-up.

HUD adopted this guidance at a new part, 2CFR part 2400. The uniform guidance also removed: 2 CFR parts 215, 220, 225 and 230. HUD amended 24 CFR parts 84 and 85, which had codified OMB Circulars superseded by 2CFR part 200, by removing all substantive provisions and including a saving provision that provides that Federal awards made prior to December 26, 2014, will continue to be governed by parts 84 or 85 as codified in the 2013 edition of the Code of Federal Regulations (CFR) or as provided under the terms of the Federal award.

The goal of this reform is to deliver on the President's directive to streamline guidance for Federal awards and ease administrative burden. It will also allow for stronger oversight over Federal funds to reduce risk of waste, fraud, and abuse.

Major reforms and policy changes are:

- Eliminate duplicative/conflicting guidance
- Focus on performance over compliance for accountability
- Encourage efficient use of information technology shared services

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- Provide for consistent treatment of costs
- Limit allowable costs for the best use of Federal resources
- Incorporate standard business processes using data definitions
- Strengthen oversight
- Target audit requirements on risk of waste, fraud, and abuse.

In addition to the consolidation of the OMB Circulars, major audit changes include:

- The Single Audit threshold is raised from \$500,000 to \$750,000
- The questioned cost limit in Single Audits is raised from \$10,000 to \$25,000
- Assessment of government-wide audit quality is to be conducted every six years, beginning in 2018.

The biggest change for CDBG grant managers, as a result of this streamlining, is that the Single Audit is not required for units of local government that receive less than **\$750,000** in federal funds in the fiscal year. Below is a brief summary of what each federal regulation entails:

1. [24 CFR Part 85](#) states that fiscal control and accounting procedures of local recipients must be sufficient to: 1) permit preparation of reports required by statute and regulation, and 2) permit tracing of funds to establish that they have not been used in violation of any statutory or regulatory restrictions. Financial management systems must meet the following standards:

- Accurate, current and complete financial reporting
- Accounting records that identify the source and application of funds
- Effective internal controls and accountability for all assets, including cash and real/personal property
- Budget controls with actual expenditures compared with budgeted amounts
- Use of OMB Circular A-87 in determining the reasonableness, allowability and allocability of costs
- Complete source documentation for all accounting records
- Effective cash management to maximize timeliness of spending

Basic elements of internal control include having an organizational chart, written definitions of duties, a formal system of authorization and supervision, a separation of duties (e.g. CDBG Contact, Local Accounts personnel etc.), control over access to assets, blank forms, and confidential documents, and regular analysis of actual assets and liabilities to financial records.

State and Local Standards: The fiscal and administrative requirements established by each State CDBG program must:

- Show that uses of funds comply with all applicable statutory and regulatory requirements
- Document that all funds received have been spent only for reasonable and necessary costs of program operation
- Demonstrate that program funds have not been used for general expenses of State or local government
- Comply with NRS 353A - Internal Accounting and Administrative Control
- Follow Local Government Accounting procedures
- Be in line with CDBG Annual Participation Statement/Grant Agreement

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FILE MAINTENANCE & DOCUMENTATION

It is necessary to maintain records in order to document compliance with all applicable state and federal regulations and to complete ongoing required reports. The filing system should be easy to use and provide a historical account of activities for review by state, federal, and local staff. As soon as a grant is awarded, a filing system should be set up for project information. The grant filing checklist is included at the end of this chapter and identifies the major file categories to maintain and a listing of the materials in each file. For example, the first section of the filing system is “Project Application”, which should include a copy of the grant application, minutes of public meetings, amendments/revisions to the application, etcetera.

In some cases, a unit of general local government (UGLG) will serve as a “pass through” organization to grant funds to a sub recipient. In this case, the UGLG should have a sub recipient agreement between the two organizations which establishes, among other things, documentation required to be retained at each organization. This ensures that each sub recipient is aware of and will follow the same guidelines by which UGLGs abide.

In terms of financial documentation, each UGLG must retain detailed accounting records with supportive source documentation; source documentation is essential to explain the basis for any costs incurred. CDBG costs can only be incurred during the grant period (after a Notice to Proceed is issued) and can only be expended on allowable items. Other financial records include the following:

- Grant Agreement
- Related correspondence (i.e. grant extensions)
- Certification Letter identifying who is authorized to request grant funds (prepared on UGLG letterhead)
- A budget and, if applicable, revised budget with related correspondence
- Notice to Proceed and, if applicable, Authority to Use Grant Funds
- Draw Requests, including supporting information (invoices/check copies) and correspondence
- Financial Summary, to be completed at project closeout

The UGLG grant files, including the financial/budget sections, are subject to monitoring by CDBG staff and the U.S. Department of Housing and Urban Development (HUD) representatives during the course of any given project. All related correspondence, findings, responses, etcetera should be kept in the project file also.

Record Retention

Per [24 CFR Part 91.115g](#), CDBG has a record retention requirement of 5 (five) years from the final closeout of the grant. All project records, including financial documentation and reports, should be kept in accordance with this federal regulation. In the case of any litigation, negotiation, or audit involving the records has started before the expiration of the five-year period, the records must be retained until completion of the action and resolution of all issues which arise from it.

BUDGET CONTROL

It is important that project managers and sub recipients are cognizant of the original application’s budget

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(or revised budget) and scope of work when managing a project's budget and drawdowns. If the original budget is not the same as the grant award allocated by the Advisory Committee, a revision is essential before drawing funds. The budget is intended to inform and guide project expenditure throughout the life of the project.

Project managers should keep a record of the amounts budgeted in each line item, as well as spent and unspent balances. CDBG staff members utilize a form called the "Draw Request Record" to track project budgets; project managers are encouraged to use it as well. A copy has been included at the end of this chapter for reference.

Budget Revisions

Budget revisions are reviewed and approved by CDBG staff on a case-by-case basis. Minor revisions will be reviewed by CDBG staff and do not require a formal request on the jurisdiction's letterhead. Significant budget revisions may reflect a change in the Scope of Work as submitted in the application and approved in the grant agreement. If this is the case, an amendment to the grant agreement may be required. Such a revision requires a formal request on letterhead, including a revised budget and justification for the needed change. In all budget revision matters, the grantee must contact CDBG staff.

De-obligations

If there are remaining grant funds and the project is complete or the entire scope of work has been finished, the remaining funds **must** be de-obligated and returned to the State for reallocation. A de-obligation request must be sent on the jurisdiction's letterhead detailing how much the UGLG wishes to de-obligate and an explanation (for reporting purposes) on why there is a need to de-obligate. Once this is approved by CDBG staff, the project will begin closeout procedures.

TIMING OF EXPENDITURE

Notice to Proceed

Grant funds may only be expended when a Notice to Proceed is issued, which is sent to the UGLG after a thorough environmental review has been completed and approved. Notices to Proceed are provided in a formal letter format by CDBG staff with approval from the Program Administrator. For some projects (Environmental Reviews and Environmental Impact Statements), this letter is accompanied by an Authority to Use Grant Funds form (Form HUD-7015.16). Please note that no CDBG funds can be obligated prior to receipt of this notice, except in rare instances.

State CDBG program regulations at 24 CFR 570.489(b) do allow for reimbursement of costs incurred by a local CDBG recipient before the establishment of a formal grant relationship and the UGLG (pre-agreement costs), however this must be for eligible activities and requires staff approval. This is only granted in special cases; pre-agreement costs are not guaranteed to be reimbursed. Any such request must be approved by the CDBG office prior to any expenditures.

HUD Reporting

HUD requires ongoing reporting in the areas of financial expenditure and resulting benefits using their

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online software, the Integrated Disbursement & Information System (IDIS). HUD measures the State's progress in several different ways:

- Total unexpended amount on open grants
- Amount expended in last 12 months
- Ratio of unexpended amount relative to most recent grant amount
- Average monthly expenditure over last 12 months

The target is that 60 days before the end of the program year, the State should have no more than 2.5 times the annual grant in the State's line of credit with HUD.

HUD also tracks individual grants using IDIS software. Grantees should submit a first draw request within the first nine (9) months of grant award; each project will make their first drawdown of funds. If no draw is made by March 31st, the project will appear on a HUD "At Risk" list and can require a remediation plan. CDBG strongly encourages all project managers to meet this nine (9) month deadline to avoid being placed on HUD's list of projects at risk.

DRAWDOWNS

When the UGLG is prepared to submit its first draw request (and any thereafter), there are two options for drawing funds: reimbursement, or cash advance.

When an UGLG submits a draw for **reimbursement**, the local government has already paid for the allowable costs. A request for reimbursement needs to include a copy of the invoice, detailing of billable work/activities/services, and a check copy proving payment as supporting documentation.

When an UGLG submits a draw as a **cash advance**, the work/activities/services have been completed, and the local government has been billed but has not paid the invoice. In this case, a copy of the invoice is needed to verify the billable costs. It should be noted that all cash advance draw requests must be proven out before future draws can be approved. The check copy proving payment can be submitted in between draws or with the next draw request as a supplemental document.

How to Complete a Draw Request

Key steps to complete the Draw Request Form are: (A copy of the form is at the end of this chapter.)

1. Have the form signed by an authorized signatory (as identified on the **Certification** letter). If the authorized signatory has changed, the Certification Letter must be updated before a Draw Request can be made.
2. Use the following checklist to determine if the Draw Request is complete:
 - a. Have all previous draws/payments been proven out?
 - b. Are signatures correct, per the Certification letter?
 - c. Are expenses and obligations in line with the budget?
 - d. Is the grant still valid? When does it expire?
 - e. Are all supporting documents attached and explained?
 - f. If a construction project, are all labor compliance documents in place?
 - g. Have all Vendors been Debarred and are active in SAM.gov?

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h. Is Quarterly Reporting up to date?

CDBG also has a tool called the “Annotated Draw Request” which is an explanation of how each section of the Draw Request form should be filled out. Project managers may find this a useful tool to ensure accurate completion of the form.

Once complete, **the Project Ledger** and Draw Request, along with any supporting documentation (invoices, check copies, etc.) must be submitted in hard copy with original signatures to the CDBG staff for review and processing.

The following are common errors in Draw Requests and should be avoided by proofreading all requests and consulting with CDBG staff if there are any questions before submitting:

- Miscalculations
- Missing information, i.e. UGLG name/address, reporting period, etc.
- Requests for reimbursement for items not covered in the original/revised scope of work
- Requesting to draw more than is available in an individual budget line, even if within total grant award budget
- Missing documentation of expenses/obligations

Once a local government receives its funds from the State CDBG program, fund transfers must be in compliance. This includes accurate information in the disbursement request and timely (within three (3) days) disbursement to pay for CDBG program costs. It should be noted that UGLGs are not allowed to profit from CDBG funds in any way. In the rare case that funds are drawn erroneously, UGLGs are required to return these to the State in a timely manner.

INTERNAL CONTROLS

The most important feature of any financial management system is an adequate and reliable internal control system. Internal controls ensure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports. Some important characteristics of a reliable internal control system are:

- Personnel possessing qualities commensurate with their job responsibilities
- An organizational plan which provides for adequate segregation of financial responsibilities
- Control over access to assets, blank forms, and confidential documents

Separation of duties becomes a complex issue in a small entity due to the size of the entity and the number of people employed. The most critical areas, in these cases, are generally cash handling and related recordkeeping. Separation of these functional responsibilities can be achieved by assigning duties among personnel in a manner that separates custody of the cash from recordkeeping for cash. As an additional measure, the entity may also establish a manager to oversee and supervise all important authorization, recordkeeping, and custodial functions to ensure an appropriate level of internal control.

PROGRAM INCOME

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Program income refers to gross income that is received by a local government and has been directly generated from the use of CDBG funds. For those program income generating activities that are only partially assisted with CDBG funds, such income is prorated to reflect the actual percentage of CDBG funds that were used (Ref.: [24 CFR 570.500\(a\)](#)). Some examples of program income include, but is not limited to: payments of principal and interest on loans made using CDBG funds, proceeds from the disposition of equipment bought with CDBG funds, and any interest earned on funds held in a revolving fund account (Ref.: 24 CFR 570.500(a)(1)). Program income does not include the following:

- Interest earned on grant advances from the U.S. Treasury
- Proceeds from fundraising activities carried about by sub-recipients that are receiving CDBG assistance to implement eligible activities
- Funds collected through special assessments that have been made to recover the non-CDBG portion of a public improvement
- Proceeds from the disposition of real property that has been acquired or improved with CDBG funds where the dispositions occurs within a five year period (or more) after the expiration of the agreement between the grantee and the sub-recipient

The Nevada State CDBG program funded a revolving loan program in the past that generated program income, but that program has since been discontinued. The current revolving loan fund, established in 2008, is structured so that funds generated from loans are retained at the sub-recipient level, and therefore are not considered program income. Due to the heavy administrative burden, projects that generate program income are funded only under special circumstances.

FINANCIAL REPORTING

There are essential financial reports that project managers are required to complete during the course of and at the end of a CDBG grant. This reporting must be accurate, complete, and include full disclosure of financial results of funded activities in accordance with the financial reporting requirements of the state.

Financial Summary

The Financial Summary is just that - a summary of all financial activity throughout the life of the project. This is completed during closeout, once all funds are drawn, and is generally required within 30 days of full expenditure. Note that leveraging must also be reporting on this form. If the actual leveraging amounts differ from the projected leveraging, project managers must submit a brief statement explaining the reason for the difference. This information is used for HUD reporting purposes. A copy of the Financial Summary is at the end of this chapter for reference.

Quarterly Report

Each quarter, each local government is required to submit a progress report per project. These reports provide CDBG and HUD with grant information for the most recent quarter and should include how much of the grant award has been expended to date along with notable accomplishments during the period. CDBG also provides for any questions or concerns regarding project management so that issues can be addressed proactively. [Quarterly reports](#) are due at the following deadlines:

- Program Year Quarter 1 (July – September): due October 15th

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- Program Year Quarter 2 (October –December): due January 15th
- Program Year Quarter 3 (January – March): due April 15th
- Program Year Quarter 4 (April – June): due July 15th

A copy of the quarterly report has been provided at the end of this chapter for reference.

Audits

As noted on Page 1 of this section, previously, Audits were required when a City or County received more than \$500,000 in Federal funds per year. The new OMB Super Circular, issued in December 2013, amended this threshold. Now a single audit only applies to UGLGs that receive more than **\$750,000** per year.

Audits must be in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the OMB Super Circular. Include the date of the entity's fiscal year end and list sources of all federal expenditures). Upon completion, the UGLG must submit a copy of the Audit to the CDBG office in either hard copy or electronic format.

UGLGs are responsible for follow up and corrective action on all audit findings by preparing a corrective action plan to address findings, which should include the name of the person responsible, corrective action planned, and the anticipated completion date.

SUSPENSION OR TERMINATION

If an UGLG or its sub recipient materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State regulation, plan, or application, a notice of award, or elsewhere, the Governor's Office of Economic Development may take one or more of the following actions, as appropriate in the circumstances:

1. Temporarily withhold cash payments pending correction of the deficiency
2. Disallow all or part of the cost of the activity or action not in compliance
3. Wholly or partly suspend or terminate the current award
4. Withhold further grant awards
5. Take other remedies that may be legally available

All efforts should be made by both the grantee and GOED to avoid suspension or termination of projects and funds in order to make the most effective use of federal funds.

SUMMARY

Sound financial practices, management, and reporting are essential to the successful execution of a CDBG project. Local governments that receive CDBG funds must comply with all applicable Federal, State, and local laws, regulations, standards, and procedures. UGLGs also must conduct financial management methods and procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS). All financial management practices will be monitored by the State CDBG program and examined closely by independent auditors.

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Table I: OMB A 87 Attachment B: Allowable and Unallowable Costs

Allowable	Unallowable
1. Advertising and public relations costs	1. Alcoholic beverages
2. Advisory councils	2. Bad debts
3. Audit costs and related services	3. Contingency provisions
4. Bonding costs	4. Defense and prosecution of criminal and civil proceedings, and claims
5. Communication costs	5. Donations and contributions
6. Compensation for personal services	6. Entertainment costs
7. Depreciation and use allowances	7. Fines and penalties
8. Employee morale, health, and welfare costs	8. Fund raising and investment management costs
9. Equipment and other capital expenditures	9. General government expenses
10. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs	10. Goods or services for personal use
11. Insurance and indemnification	11. Idle facilities and idle capacity
12. Interest	12. Lobbying
13. Maintenance, operations, and repairs	
14. Materials and supplies costs	
15. Meetings and conferences	
16. Memberships, subscriptions, and professional activity costs	
17. Patent costs	
18. Plant and homeland security costs	
19. Pre-award costs	
20. Professional service costs	
21. Proposal costs	
22. Publication and printing costs	
23. Rearrangement and alteration costs	
24. Reconversion costs	
25. Rental costs of building and equipment	
26. Royalties and other costs for the use of patents	
27. Selling and marketing	
28. Taxes	
29. Termination costs applicable to sponsored agreements	
30. Training costs	
31. Travel costs	

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ADDITIONAL RESOURCES

Federal Register, Vol. 78, No. 248: OMB Super Circular:

<http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf>

24 CFR Part 85:

http://www.hud.gov/offices/lead/library/lead/24_CFRPART_85.pdf

OMG Circular A-87:

http://www.whitehouse.gov/omb/circulars_a087_2004

OMB Circular A-122:

http://www.whitehouse.gov/omb/circulars_a122_2004/

OMB Circular A-133:

http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014

24 CFR 91.115(g):

http://www.ecfr.gov/cgi-bin/text-idx?SID=3e4b72b06f8a04eb5474cbe1673736d2&node=se24.1.91_115&rgn=div8

24 CFR 570.500(a):

http://www.ecfr.gov/cgi-bin/text-idx?SID=8d8318c9ea5fbaa9c3fca702a273fc59&node=se24.3.570_1500&rgn=div8

GOED/CDBG Annotated Draw Request Tool:

http://diversifynevada.com/documents/Draw_Request_with_Annotations.xlsx

CDBG Draw Request Form:

http://diversifynevada.com/documents/Draw_Request_2013.xls

CDBG Quarterly Report Form:

http://diversifynevada.com/documents/Quarterly-Project_Report.xlsx