

CHAPTER 12 – FINANCIAL

Financial Management System

Grantees should take the following steps to prepare a financial management system for implementation of a CDBG grant:

- Appoint person to be responsible for Financial Management.
- Establish accounting records.
- Set up bank accounts and establish receipting procedures.
- Establish payment schedules and approval procedures.

The financial management system required for grantees and the use and accounting for CDBG funds is governed by:

- 24 CFR Part 570 “Community Development Block Grants”
- OMB Circular No. A-87, "Cost Principles for State, Local, and Indian Tribal Governments";
- OMB Circular A-133, "Audits of State and Local Governments";
- 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (only sections as identified in 24 CFR Part 570)
- Department Requirements

The financial management system requirements identified in 24 CFR Part 85.20:

(1) **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and use of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) **Internal control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) **Allowable cost.** Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs.

(6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

(7) **Cash management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award.

The Department's Requirements

The Department identifies three basic functions that must be served by the financial management system:

- 1) The financial management system must have an identified procedure for recording all financial transactions.
- 2) All expenditures must be related to activities proposed in the grant application approved by the Department.
- 3) All expenditures of CDBG funds should be in accordance with applicable laws, rules, and regulations.

Accounting Records

Each grantee should determine the accounting records that will assist in providing accurate and complete financial information. The CDBG accounting records may be fully integrated into the grantee's existing accounting system or may be partially integrated into the existing system with subsidiary ledgers developed as needed to provide the required grant accounting. At a minimum, the grant accounting system must:

- 1) Clearly identify all receipt and expenditure transactions of the grant; and
- 2) Provide for budgetary control by tracking expenditures and accrued obligations by approved CDBG activity.

Department staff or the grantee's auditors should be able to readily trace CDBG transactions through the accounting system. Also, all amounts shown on CDBG reports should reconcile to the grantee's accounting records.

Grantees must be able to report CDBG expenditures by approved activity. Budget balances must be maintained for each approved activity that accounts for CDBG expenses accrued or obligations incurred (e.g. contracted amounts) which have not yet been paid.

Source Documents

Source documents provide information to be transferred to the accounting records. A source document may be a check, invoice, purchase order, time sheet, or contract. All source documents that pertain to the CDBG project should be identified through a code or by using the CDBG grant number. This will assure that the charges against the project are properly recorded in the CDBG accounting records.

Purchase orders should be used when requesting supplies and materials for the project. The purchase order is prepared in the same manner as all other purchase orders for the grantee and should include a reference to CDBG.

Contracts should be kept in a separate file. The signed contract represents an obligation of CDBG funds. When payments are made on the contract, these should be recorded in the contract file on a contract control card. If there are several contracts, a contract register should be used as a management tool.

An invoice or statement for services rendered is typically submitted by a contract seeking payment. The accuracy of the invoice should be verified against purchase orders or contracts.

Time sheets are another important source document. If staff time is charged to the project, time sheets must support the number of hours worked.

Cancelled checks, bank deposit slips, receipts, and other miscellaneous documents represent important source documents which are used in accounting for program expenditures or program income. These source documents must be maintained in the grantee's files and generally do not need to be submitted to the Department. The grantee should only submit these documents to the Department if the contract specifies that this is a requirement.

Receipt Procedures

In addition to CDBG payments from the Department, cash receipts may also include program income and project funds received from other outside sources. Program income is funds earned through the repayment of housing rehabilitation loans, sale of property, and other miscellaneous receipts.

The Grantee must be certain that project receipts are adequately safeguarded. This includes providing for proper bonding in accordance with state law of those individuals that handle program funds.

All CDBG project receipts should be promptly deposited to the proper bank account and recorded as a receipt in the accounting system. CDBG funds are to be drawn down only as required to pay immediate obligations. The Department will consider the grantee in violation of the requirement to minimize the elapse of time between receipt and expenditure of CDBG funds, if more than ten working days elapses between receipt and expenditure.

Electronic Funds Transfer

All CDBG payments to grantees are by Electronic Funds Transfer (EFT) to a designated local bank account. These payments are made through the Nebraska Information System (NIS), the new state accounting system that became effective in March 2003 for all federal and state grant payments to local governments and other organizations.

All local governments in Nebraska – cities, villages, counties – have an “electronic address” established by the State Treasurer’s Office which corresponds to a designated local bank account for receipt of funds from the State of Nebraska. This electronic address and corresponding bank account will be used for CDBG grant payments with no additional action required by the local government grantee. However, if the designated local bank account is an interest bearing account, the local government grantee must take further action to transfer CDBG funds to a non-interest bearing account in accordance with CDBG regulations.

If a local government grantee wishes to have CDBG funds deposited directly into a different designated local non-interest bearing bank account, the grantee should complete and submit the State Treasurer ACH Enrollment Form. This form may be downloaded from the State Treasurer website at <http://www.treasurer.state.ne.us> or from the Department’s website and mailed to the Department upon completion. The Department will review the completed form and forward to State Accounting for action and State Treasurer for information. The State Treasurer is the designated “automated clearinghouse” or ACH for the State of Nebraska.

It is not required that the ACH enrollment form be submitted to receive CDBG funds. If no action is taken by the grantee, the standard electronic address will apply for the receipt of CDBG funds. If a CDBG-designated account (or Department-designated account) has been previously established through submission and processing of an ACH enrollment form, it is not necessary to submit this form for each new CDBG grant; however, it is necessary to submit this form as a change action whenever a bank account in which CDBG funds are currently being deposited has been changed (financial institution or account number).

ACH enrollment form instructions

If the local government grantee wishes to direct CDBG funds to a different designated local non-interest bearing account, a completed State Treasurer ACH Enrollment Form must be sent to the Department. The form must be checked NEW (no bank account designated for CDBG or Department funds currently exists) or CHANGE (making change to financial institution or account number).

In the VENDOR INFORMATION section, “Name” refers to the local government, i.e. City of Seward, Village of Otoe, Gage County, etc. “Address” is the Mailing Address (normally a PO

Box Number). “Federal Tax ID #” is the 9-digit number which (for local governments) begins with “47” followed by a dash and 7 additional digits.

In the area below “FAX #” enter: DED PAYMENTS ONLY (if this account may be used for CDBG, HOME/NAHTF grant payments, or other Department payments of any type) or CDBG PAYMENTS ONLY (if to be used for CDBG grant payments only). The Department will not forward an ACH Enrollment Form to State Accounting for a specific CDBG grant, as these accounts tend to be transitory, subject to closure when account activity ceases, and frequently create confusion when multiple accounts are established.

The local bank completes the FINANCIAL INSTITUTION INFORMATION section. The service agreement portion of the form should be completed by both parties as to notification procedures on receipt of funds via EFT. Make sure both parties sign the form and that all other entries are completed and accurate. Mail the completed form to:

Nebraska Department of Economic Development
CDBG Financial Administrator
PO BOX 94666
Lincoln, NE 68509-4666

It may be up to 4 weeks or longer before the locally designated CDBG or Department account has been assigned an electronic address by state government or an account number for an existing electronic address has been revised. Local government grantees should confirm with the Department that action has been completed before submitting an applicable request for CDBG funds.

Bank Accounts

Grantees are not required to maintain separate bank accounts for the deposit of CDBG funds except for program income revolving loan fund (RLF) accounts. However, grantees must be able to reconcile CDBG balances in the depository account.

Since interest may not be earned on the deposit of CDBG funds, grantees must make every effort to avoid earning interest on unexpended CDBG funds. To meet this requirement, grantees may put CDBG funds in a non-interest bearing account or draw down CDBG funds on a reimbursement basis. Under the reimbursement system, the grantee pays all project costs (both the CDBG share and the local share) and reimburses the account for the CDBG share. Using the reimbursement method ensures there are never unexpended CDBG funds on deposit that would accrue interest earnings.

Program income revolving loan fund accounts should be kept in separate interest bearing accounts. See Chapter 9 – Program Income for information on revolving loan funds.

Bank accounts must be secured by F.D.I.C. insurance or bank pledged collateral for the full amount of CDBG funds held in the account. Reconciliation of bank statements should be performed promptly.

Payment Procedures

The grantee must establish a system to review and approve all billings presented for payment under the grant. All invoices should be reviewed to determine that the costs are accurate, reasonable and allowable under CDBG regulations. The governing body of the grantee should review and approve all payments.

The grantee should determine when CDBG disbursements will be made--weekly, bi-weekly, monthly, quarterly. Identifying a cut-off time when all invoices and vouchers must be submitted will assist in the planning for the request for funds. This timeline should be communicated to contractors and vendors. All parties should also know that it will generally be about 14 days from the time a drawdown request is approved by the Department until the grantee receives the CDBG funds.

Contractors' invoices should be paid after verification has been made of work completed. A list of disbursements to be made should be prepared and the total federal cash requirements should be submitted to the Department on the appropriate forms. All payments for expenditures must be supported by source documentation, i.e., invoices or vouchers and kept on file. Again, it is generally not necessary to submit this documentation to the Department to receive CDBG funds.

Administrative Costs

Administrative costs are the costs associated with implementation of the grant. These costs may include: salaries for personnel who devote full or part time to the grant, cost of equipment and supplies used for grant activities, and the cost of administrative services provided by other agencies. General administrative costs for the grant should be separated from administrative costs for a particular activity. General administration costs are those costs directly related to the administration of grant requirements (e.g. submitting Requests for CDBG Funds, completing Project Status Reports, etc.). Costs that are administrative in nature but are in direct support of a project activity should be charged to the project activity rather than general administration.

All administrative costs charged to the project must be documented, i.e., through timesheets, purchase orders, and invoices. OMB Circular A-87 provides guidelines for determining allowable costs.

Employees paid in whole or in part from CDBG funds should prepare timesheets indicating the hours worked for each pay period. Based on these timesheets and the hourly payroll costs for each employee, a voucher statement indicating the distribution of payroll charges should be prepared and placed in the appropriate files.

Matching Funds

Matching funds committed to the project as a part of the approved CDBG Contract should be accounted for in grant records. The receipt and expenditure of the matching funds should be carefully documented. If matching funds are derived from a source outside the local government, project records should identify the source and amount.

Indirect Costs

Grantees who will charge indirect costs to the grant must submit cost allocation plans to the Department and receive prior approval to claim such costs. Guidelines on cost allocation plans can be found in OMB Circular A-87, Attachment E.

Requesting CDBG Funds

The request by the grantee for CDBG funds is made using the Request for CDBG Funds form. **There are two separate and distinct Request for CDBG Funds forms. One form is for all project implementation costs. The second form is for general administration activity 0181 only costs.** The grantee must use the correct form for requesting CDBG funds reimbursement of project implementation costs and general administration. The grantee may not combine project implementation costs and general administration costs on one form. Separate requests for the two types may be submitted concurrently. The Department will return the CDBG request for funds form when the incorrect form is submitted. These forms can be downloaded from the Department's website at <http://www.neded.org/content/view/107/239/>. If a grantee is unable to download the form, it may be requested from the Department. The website and the reverse side of the form include complete instructions for properly completing the form to request funds.

Grantees should normally receive payments of requested CDBG funds within two weeks of receipt of the request by the Department if there are no errors in the request or other reasons for delay. All CDBG payments to grantees are by Electronic Funds Transfer (EFT) to a designated local bank account or to a DED designated electronic address. These payments are made through the Nebraska Information System (NIS) based on the "electronic address" established by the Nebraska State Treasurer. Refer to a prior section of this chapter on Electronic Funds Transfer "automated clearinghouse" (EFT\ACH). The State Treasurer is the designated "automated clearinghouse" or ACH for the State of Nebraska

One copy of the completed Request for CDBG Funds form must be mailed to the Department for processing. The signatures on the form must be original and correspond to those signatures on the current Authorization to Request CDBG Grant Funds form (initially required for Release of Funds) the Department has on file. Grantees must send in a new Authorization to Request CDBG Grant Funds form whenever the individuals authorized to sign Requests for CDBG Funds change.

Please take special note of the following concerning the request, receipt and expenditure of CDBG funds:

- A request for funds may not be submitted until the grantee has received a Notice of Release of Funds.
- Double and triple check the completed Request for CDBG Funds form before sending it to the Department, as any errors will cause considerable delay in payment.
- Request only the amount of funds needed to pay immediate obligations.
- **A request for project implementation costs must be submitted separate from general administration. Check to make sure the correct CDBG request for funds form is used to request reimbursement of general administration activity 0181 costs and for project implementation costs, which are non-general administrative costs.**

- Effective July 1, 2006 the minimum CDBG drawdown request is \$1,500. The exception is when the request is for only general administration, which is a \$500 minimum request or the final request on a grant. Failure to satisfy these standards will result in the return of the CDBG request for funds.
- The maximum allowable percentage of approved CDBG general administrative activity 0181 costs as contracted that may be requested by the grantee through the CDBG drawdown process are as follows:
 - 50% upon removal of grantee contracted special conditions---DED issuance of release of funds certifies that grantee contracted special conditions are met.
 - 90% prior to the submission of project closeout---no more than 90% CDBG funds may be drawn prior to the grantee submission and the Department's receipt of closeout documents. The grantee closeout documents are the final financial report, project status report, clearance of monitoring (compliance) report, and if applicable the final wage report, final jobs report, and planning document. The local government recipient may need to submit an audit, or notification of annual audit. The Department holds 10% general administrative CDBG funds until the closeout documentation process for receipt and acceptance of documents is met. [CDBG Planning grants are not subject to the 90% draw maximum for the general administration activity prior to submission of the closeout documents].
 - 100% following submission by the grantee and receipt by the Department of all closeout documents. The grantee may submit the CDBG request for the final 10% general administration activity 0181 CDBG funds along with the closeout documents. The Department will process the final 10% general administrative costs following receipt and acceptance of closeout documents. The grantee closeout documents are the final financial report, project status report, clearance of monitoring (compliance) report, and if applicable the final wage report, final jobs report, and planning document. The local government recipient may need to submit an audit, or notification of annual audit [CDBG Planning grants are not subject to the 10% hold back for general administration activity.]
- Program income must be disbursed prior to requesting additional non-general administrative funds.
- Federal funds on hand must be disbursed prior to requesting additional funds.
- Grantees may not earn interest on the deposit of federal funds pending disbursement.
- If more than \$5,000 is on hand for over ten working days, the local government must return the excess amount to the Department.
- The request for payment must be in accordance with the approved budget for the grant contained in the Sources & Uses of Funds section of the grant contract.
- Grantees are required to show local match or other funds in the proportionate amount for each activity as included in the approved budget when requesting funds for an activity.

- The request for funds should show the status of all approved activities even if no funds are requested for one or more activities in a specific request.
- Amounts must be requested in whole dollar amounts only. Be sure to round to the nearest dollar.

Grantees must contact their Program Representative if budget amendments, extensions of contract completion dates, match waivers, or other actions are needed in connection with requesting CDBG funds. Written approval of changes affecting the budget may be required before payment requests will be processed.

Reallocation of Funds and Departmental Approval

Grantees may reallocate funds between approved activities without prior approval or a budget amendment if such reallocation is less than 10% of the total original grant amount and does not exceed \$10,000. However, the grantee must notify their program representative of reallocations between approved activities that do not require formal budget amendments to avoid problems with drawdown requests.

If the reallocation between approved activities is 10% or more of the total original grant amount or \$10,000 or more (whichever is the lesser amount) grantees must initiate a formal budget amendment process. Grantees that wish to reallocate funds that reach these thresholds must complete the CDBG Contract Amendment Request form found on the Department's website (www.neded.org) and must receive written approval from the Department in order to reallocate funds.

Approved budget amounts for General Administration and/or Housing Administration/Management activities may not be increased without written approval. Changes to these budget amounts also must be initiated by completing the CDBG Contract Amendment Request form found on the website (www.neded.org).

Contract Records

Grantees will enter into contracts that will require record keeping and reporting consistent with the CDBG financial management requirements.

A proper system of management should include:

- A contract file for each signed contract.
- A contracts register to enter each contract into.
- A control card for each contract that tracks invoices and payments.

The file for each contract must contain the following:

- A signed contract and amendments.
- A schedule of payments supported by copies of time sheets; copies of checks or transfer notifications; copies of approved authorization/payment forms; and copies of invoices.

- All project related correspondence.
- Property records (where appropriate).
- Any notice of cancellation, termination or suspension of the contract.
- Final inspection reports.

A contracts register should be used to record all contracts signed. This register will be the summary record for all contracts. The register also indicates which contracts require compliance with other federal requirements.

In conjunction with the contract register a contract card should be established for each contract. This card is used to record all payments on the contract and the percent of the work that has been completed.

Property Records and Management

During the operation of the CDBG project, there are several different types of real or personal property for which funds may be spent ranging from office supplies to real estate. Property purchased in whole or in part with CDBG funds is governed by 24 CFR Part 570.201, CFR Part 570.505, and 24 CFR Part 85.

All purchases of \$300 or more of real or personal property which are made in full or in part with CDBG funds must be recorded in a property management record. Furthermore, any real or personal property of \$300 or more purchased in whole or in part with CDBG funds must be authorized as a separate budgetary line item in the application or be approved by separate communication from the Department.

The property management record will consist of a property register that summarizes all property acquisitions and dispositions. This record must be available at the time of the audit. In addition, an accounting of property acquired with grant funds must be made at the time of closeout.

The property register will also include information on the date acquired, a description, identification numbers, purchase order and check numbers, costs, percent of CDBG funds used in the acquisition, where the property is located, the condition, and disposition of the property.

The grantee may also utilize a control card for each acquisition. Disposition of the property can be recorded on the back side of the card.

Records must be kept for real property including land, air rights, easements, water rights, right-of-way, buildings and other real property improvement and any other interests in the real property. An interest in the real property is defined as purchase, long-term lease (15 years or more), donation, or otherwise. Public improvements such as water systems or rehabilitation of facilities owned by others are not considered real property for purposes of record keeping.

Real property does not include moveable equipment, furnishings and other personal property, or machinery. These are not CDBG eligible activities in most circumstances.

The ownership of property purchased with CDBG funds is governed by federal regulation. The title to real property acquired with CDBG funds vests with the grantee subject to the continuing use of the real property for the authorized purpose. If the property is no longer needed for the authorized purpose, the grantee should contact the Department to determine the options available for using the property for another purpose or for disposal instructions.

Disposition of Property

Real Property

Disposition of real property is governed by 24 CFR 85.31(c). When real property is no longer needed for the authorized purpose, there are three alternatives available to the grantee. First, the grantee may retain title after compensating the Department. The amount to be paid to the Department is calculated by applying the CDBG percentage of participation in the cost of the original purchase to the fair market value of the property. Second, the grantee may sell the property and compensate the Department. The compensation to the Department in this instance is calculated by applying the CDBG percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and repair expenses. Third, the grantee may transfer title to the Department or to a third-party designated or approved by the Department. In this case, the grantee would be compensated with an amount calculated by applying the grantee's percentage of participation in the purchase of the property to the current fair market value.

Equipment

Disposition of equipment is governed by 24 CFR Part 85.32(e). When original or replacement equipment acquired under a grant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment falls into one of two categories:

- 1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the Department;
- 2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the Department shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the CDBG percentage of the equipment.

If the grantee fails to take appropriate disposition actions, the Department may direct the grantee to take excess and disposition actions.

Supplies

Disposition of supplies is governed by 24 CFR Part 85.33(b). If there is a residual inventory of unused supplies exceeding \$5,000 in total aggregate fair market value upon termination or

completion of the grant and if the supplies are not needed for any other federally sponsored programs or projects, the grantee shall compensate the Department for its share.

Change in Use of Property

Real property that was acquired or improved in whole or in part using CDBG funds in excess of \$25,000 is subject to 24 CFR 570.505. These standards prohibit a change in use or planned use of a property from that for which the acquisition or improvement was made, unless the grantee provides affected citizens with reasonable notice of, and an opportunity to comment on, any proposed change. In addition, one of the following conditions must be met:

- 1) the new use of the property meets one of the CDBG national objectives and is not a building for the general conduct of government; or
- 2) if the use does not meet a national objective, the grantee reimburses the Department in the amount of the current fair market value of the property, less any portion of the value attributable to expenditures of non-CDBG funds for acquisition and/or improvements to the property.

These standards are applicable to the property until five years after closeout of the grant. Once reimbursement of CDBG funds has been made, the property will no longer be subject to any CDBG requirements.

Revisions

September 2008-Clarification concerning Reallocation of Funds and Departmental Approval on page 12-9