

## CHAPTER 13 – FINANCIAL

### **Financial Management System**

Grantees should take the following steps to prepare a financial management system for implementation of a HOME 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 HOME funds is governed by the following:

#### **Units of Local Government -**

- 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (only sections as identified in 24 CFR 92.505);
- OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments";
- OMB Circular A-133, "Audits of States, Local Governments and Non-profit Organizations"; and
- Department Requirements

#### **Non-profit Organizations (including CHDOs undertaking non CHDO set-aside projects) –**

- 24 CFR Part 84 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations " (only sections as identified in 24 CFR 92.505);
- OMB Circular A-122, "Cost Principles for Non-profit Organizations";
- OMB Circular A-133, "Audits of States, Local Governments and Non-profit Organizations"; and
- Department Requirements

#### **CHDOs acting as owners, sponsors or developers on a CHDO set-aside project –**

- 24 CFR 84.21 "Standards for Financial Management Systems";
- OMB Circular A-133, "Audits of States, Local Governments and Non-profit Organizations"; and
- Department Requirements

**Note: The Department highly recommends CHDOs always follow all the financial management requirements of non-profit organizations in order to be eligible for non-CHDO set-aside projects.**

The financial management system requirements identified in 24 CFR Part 85.20 for units of local government:

(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 application 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 will 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.

Note: 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 financial management system requirements identified in 24 CFR Part 84.21 for non-profit organizations (including CHDOs doing CHDO set-aside projects):

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Sec. 84.52. If a recipient maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for their reports on the basis of an analysis of the documentation on hand.
- Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
- Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data.
- Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source documentation.

### **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 should be related to activities proposed in the grant application approved by the Department.
- 3) All expenditures of HOME 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 HOME 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 HOME activities.
- 3) Accounting methods should be in accordance with Generally Accepted Accounting Principles.

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

Grantees must be able to report HOME expenditures by approved activity and budgeted line item. Budget balances must be maintained for each approved activity that account for HOME 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 HOME project should be identified through a code or by using the HOME grant number, activity number and budget line item code. This will assure that the charges against the project are properly recorded in the HOME 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 HOME.

Contracts should be kept in a separate file. The signed contract represents an obligation of HOME 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.

### **Receipt Procedures**

In addition to HOME payments from the Department, cash receipts may also include program income and project funds received from other outside sources.

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, if required.

All HOME project receipts should be promptly deposited to the proper bank account and recorded as a receipt in the accounting system. HOME funds are to be drawn down only as required to pay immediate obligations or preferably to reimburse the grantee for payments already made for HOME-eligible expenses. The Department will consider the grantee in violation of the requirement to minimize the elapse of time between receipt and expenditure of HOME funds, if more than fifteen working days elapses between receipt and expenditure.

### **Electronic Funds Transfer**

All HOME 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 HOME grant payments with no additional action required by the local government grantee except to transfer HOME funds when received to a non-interest bearing account in accordance with HOME program requirements.

If a non-profit grantee needs to establish a bank account for receipt of state funds or if a local government grantee wishes to have HOME funds deposited directly into a 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 HOME funds, unless the grantee has not ever established an account with the State Treasurer. If no action is taken by the grantee, the electronic address previously established will apply for the receipt of HOME funds. If a HOME-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 HOME grant; however, it is necessary to submit this form as a change action whenever a bank account in which HOME funds are currently being deposited has been changed (financial institution or account number).

If the local government or non-profit grantee wishes to direct HOME funds to a designated 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 HOME 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 or non-profit organization, i.e. City of Seward, Village of Otoe, Gage County, Wayne Housing Development Corporation, etc. "Address" is the Mailing Address (normally a PO Box Number). "Federal Tax ID #" is the local governments or non-profits federal identification number.

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 HOME PAYMENTS ONLY (if to be used for HOME grant payments only). The Department will not forward an ACH Enrollment Form to State Accounting for a specific HOME 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  
HOME Financial Administrator  
PO BOX 94666  
Lincoln, NE 68509-4666

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

### **Bank Accounts**

Grantees are not required to maintain separate bank accounts for the deposit of HOME funds. However, grantees must be able to reconcile HOME balances in the depository account.

Since interest may not be earned on the deposit of HOME funds, grantees must make every effort to not earn interest on HOME funds or to draw down HOME funds on a reimbursement basis. Under this system, the grantee pays all project costs (both the HOME share and the local share) and reimburses the account for the HOME share. In this way there are never unexpended HOME funds on deposit that would accrue interest earnings.

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

Program income and CHDO proceeds may and should be deposited in interest bearing accounts. See Chapter 9 – Income & Proceeds for information on program income, recaptured funds and CHDO proceeds.

### **Payment Procedures**

A 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 HOME regulations. The governing body of the grantee should review and approve all payments.

The grantee should determine when HOME 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.

The Department payment process is not designed to be used as the initial payment for an activity, such as a loan closing, contractor payment, or administration payment. If grantees choose to use HOME funds in that manner, they do so at their own risk. There is no guaranteed HOME payment process timeline. It is considered a good idea to have access to other funds to make payment of HOME-eligible costs and use HOME funds to reimburse the grantee.

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 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. Source documentation must be attached to submitted Request for HOME Funds forms before the Department will issue payment of HOME funds for rental projects.

### **Administrative Costs**

Note that each HOME award is unique. The Department provides funds for administrative costs in a variety of ways depending upon the nature of the project and the type of grantee. Grantees should understand the budget in the HOME Contract, including the line item to be used for administrative costs.

Grantees should confirm with their program representative as to the budget line item authorized for general administration of the award. This often will vary from the budget submitted with the original application.

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 administration and housing management are typically the administrative line items in the budget in the HOME Contract. Housing management (code 0580) funds are set-up and drawn on an address (activity) by address (activity) basis.

Note: The terms housing management, housing administration and project soft costs are interchangeable.

All administrative costs charged to the project must be documented, i.e., through timesheets, purchase orders, and invoices. OMB Circular A-87 (local governments) and OMB Circular A-122 (non-profits) provide guidelines for determining allowable costs.

Employees paid in whole or in part from HOME 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 amount of time attributed to working on the HOME project and a brief description of the activities should be prepared and placed in the appropriate files.

### **Matching Funds**

Matching funds committed to the project as a part of the approved HOME 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 or non-profit, project records should identify the source and amount. Note that HOME does not require proportional drawdowns (showing matching funds in the same proportion as in the budget in the HOME Contract), however, matching funds must be shown on Request for HOME Funds forms, Activity Completion Reports and the Final Financial Report for the project. Grantees failing to meet the match required in the HOME Contract budget by the end of the project are subject to penalties that include repayment of HOME funds to the Department.

Although grantees are not required to show proportional match on each draw, the Department may elect to not process request for funds if satisfactory progress of match contribution is not demonstrated in Quarterly Results Assessment Forms.

### **Indirect Costs**

Grantees who will charge indirect costs to the grant must submit an indirect cost allocation plan to the Department and receive approval prior to the Notice of Release of Funds.

### **Requesting HOME Funds**

The request by the grantee for HOME funds is made using the Request for HOME Funds form. This form can be downloaded from the Department's website. If a grantee is unable to download the form, it may be requested from the Department. The website includes complete instructions for properly completing the form to request funds.

### **Warning: prior to drawing down HOME funds, a grantee must:**

- Receive a Notice of Release of Funds;
- Incur HOME-eligible costs

### **AND**

- To draw down HOME funds for an address (activity), an Activity Set-up Report must be submitted to the Department and an activity number must be returned to the grantee.

### **“Setting-up HOME Funds”**

An Activity Set-up Report (the form is available on the Department’s website) must be submitted to the Department for each address, such as 126 Marigold Circle (called an activity in HOME) that will be assisted with HOME funds. A separate report must be completed for each address (rental projects may generally use one set-up report to “set-up” all the units in the project). The information on the report allows the Department to “set-up” HOME funds for use by the grantee for a particular address (activity). After the Department “sets up” the HOME funds for the address, the Department will provide the grantee with an “activity number” to be used for drawing down HOME funds for that address.

An activity (address) may require HOME funds from a “hard cost” line item in the HOME Contract budget, such as code 0542 new construction homebuyer and HOME funds from the code 0580 project soft cost line item. In order to draw funds for budgeted line items in the HOME Contract, activities (addresses) must be set-up using the Activity Set-up Reports indicating the amount of HOME funds needed for that activity (address) broken down by hard costs and soft costs. Amounts on Activity Set-up Reports must be in whole dollars.

Grantees should “set-up” sufficient HOME funds to cover the estimated costs of an activity (address). Revisions to Activity Set-up Reports may be made at any time and must be made when any item on the report changes. Grantees that remain diligent in revising set-ups, especially revising set-ups decreasing the amount of HOME funds for activities (addresses) that have not needed the entire amount of HOME funds set-up for the activity (address), are able to re-allocate HOME funds to additional activities (addresses) in a timely manner. Keep in mind; the maximum amount of HOME funds that can be set-up for all activities in a project is capped by the amount of HOME funds in the budget in the HOME Contract.

The timeline of events associated with the HOME Activity Set-up Report:

1. **Notice of Release of Funds** –grantees must receive a notice of release of funds prior to submitting any HOME Activity Set-up Reports.
2. **HOME Activity Set-Up Report** –grantees should send this report to the Department each time an address is identified and estimated costs are known for the address. **Note that all addresses in a project do not need to be set-up at the same time.**
3. **Activity Number** – the Department will provide grantees a unique number for each address “set-up”. The activity number is needed by the grantee to request HOME funds.
4. **Request for Receipt of HOME Funds** – grantees may submit a request for HOME funds using the activity number assigned to each address (the Request for Receipt of HOME Funds allows funds to be requested for more than one address). Funds may not be drawn before costs are incurred.

The only budgeted line items that do not need to be “set-up” and tied to an address are codes 0181 general administration and 0505 organizational operating. Grantees may draw general administration and organizational operating funds using the Request for HOME Funds form (using 0181 or 0505 as applicable in the activity code description) following release of funds and incurring eligible costs.

### **Drawing Funds**

The Request for HOME Funds Form must be used to draw down HOME funds. The form with instructions is available on the Department’s website.

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

- A request for funds may not be submitted until the grantee has received a Notice of Release of Funds and activity numbers (activity numbers are not needed for general administration and organizational operating funds).
- Double and triple check the completed Request for HOME 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.
- Funds may be requested at any time and in any frequency; however, the minimum request is \$500 except for the final request on a grant.
- Program income must be disbursed prior to requesting additional 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 excessive amounts of cash (over \$5,000) are on hand for an extended period of time (over fifteen working days), the grantee must return the excess 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 HOME Contract and the approved Activity Set-up Reports.

- 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.
- For rental projects, source documentation (i.e. invoices, etc.) must accompany the request for funds.

One copy of the completed Request for HOME 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 HOME Funds form (initially required for Release of Funds) the Department has on file. Grantees must send in a new Authorization to Request HOME Funds form whenever the individuals authorized to sign Requests for HOME Funds change.

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 HOME funds. The Department's website has a HOME Contract Amendment Request form for use by the grantee in requesting changes to the contract.

All HOME 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) based on the "electronic address" established by the Nebraska State Treasurer.

### **Contract Records**

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

A proper system of management should include:

- A contract file for each signed contract.
- Enter the contract in a contracts register.
- Establish 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 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.