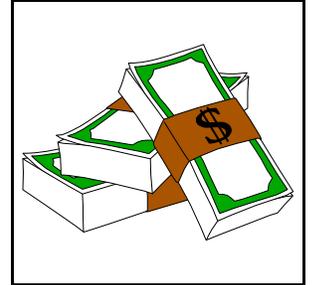


SECTION D - FINANCIAL MANAGEMENT

1. OVERVIEW

This section provides grantees with guidelines to meet the CDBG financial requirements. The purposes of these guidelines are:

- a. To ensure that the grantee maintains accurate and complete financial records,
- b. To outline source documentation that must be kept with the financial records,
- c. To help the grantee establish control and accountability for all funds, property, and other assets used during the implementation of the CDBG funded activity, and
- d. To outline internal controls which eliminate the potential for fraud and abuse.



2. LOCAL FINANCIAL MANAGEMENT RESPONSIBILITIES

Local financial management procedures should allow one to trace each CDBG dollar to see where it went. The grantee's financial staff will be required to do the following:

- Review all expenditures through contracts, invoices, and purchase orders;
- Ensure proper coding of expenditures;
- Review and process requests for payments by contractors;
- Maintain records;
- Prepare financial reports;
- Prepare checks for approved expenditures.

Most financial record keeping and reporting requirements are consistent with accounting systems used by Utah counties and municipalities. There is no need to redesign local accounting systems that already provide for adequate recording procedures. In many instances, the CDBG recording procedures require only minor adjustments or additions to the existing system.

3. INCURRING COSTS

The receipt of a CDBG award letter or executed contract does not authorize the grantee to begin incurring costs. Under no circumstances can CDBG funds be used to reimburse costs incurred prior to obtaining an environmental release letter from the state. As a general rule, costs incurred prior to contract execution will also not be reimbursed. The state regulations at 24 CFR Part 579(b) gives the state a little flexibility in this regard. If a grantee has a special situation and must incur costs prior to contract execution, it must submit a request **in writing** outlining its needs. The state CDBG staff will make a determination and respond **in writing**. The grantee cannot proceed without written approval.

4. MULTI-YEAR CONTRACTS

If a grantee has a multi-year CDBG contract, costs associated with the second or third years can be incurred at any time after the environmental release and original contract execution. The state, however, cannot *reimburse* costs for the amount of the second year's funding until the second year of the contract and the third year's funding until the third year.

The grantee must pay expenditures up front and wait for reimbursement. For example, a grantee has a three-year CDBG contract with funding at \$25,000 per year for a total of \$75,000 that begins in June. In July the grantee obtains an environmental release. In August it spends \$75,000 on the project. When the RFF and documentation is submitted to the state, the grantee will be reimbursed \$25,000. In June of the following year the contract will be amended to a total of \$50,000. Another RFF is submitted and another \$25,000 will be reimbursed. In June of the next year the final \$25,000 will be added to the contract and the final RFF for \$25,000 will be processed.

5. FINANCIAL DOCUMENTATION

Every CDBG transaction must be supported by adequate source documentation. Documentation should be kept to support the claims (Request for Funds) submitted in WebGrants. Examples of source (or back-up) documentation include:

- Employee time sheets that identify time spent on the CDBG project (time sheets must account for 100% of employee time, not just the portion relevant to CDBG)
- Payroll registers that identify salary and benefit amounts
- Heavy equipment logs (when city/county employees do construction projects)
- Contractor invoices
- Other invoices or receipts
- Travel receipts and supporting documentation
- Copies of canceled checks
- Copies of deposit slips and/or bank statements verifying deposits
- Indirect cost plan
- Cost allocation plan

Inadequate or unacceptable documentation includes:

- Purchase orders (without a supporting invoice or receipt)
- Statements (without supporting invoice details)
- Contractor bids or estimates

The type of documentation needed depends on the type of project being funded. Some projects require a contractor while others use city/county employees. Some grantees include "administration" expenses in their budget. Documentation for a construction project using a contractor with no administration expenses would be the following:

- Contractor's invoices,
- Copies of the canceled checks made out to contractor,
- Copies of the deposits of CDBG funds – (Bank Statements, not ledgers)

On the other hand, if city employees perform the work, (Force Account Labor) the documentation would be:

- Employee time sheets with time spent on CDBG projects specified,
- Payroll registers,
- Heavy equipment logs, with time spent on the CDBG project specified,
- Invoices for construction materials and supplies,
- Canceled checks,
- Copies of deposits of CDBG funds.

All CDBG financial documentation should be kept in a single CDBG file to simplify the WebGrants claims process.

6. INCURRING ADMINISTRATIVE COSTS

The state CDBG program allows up to 10 percent of the grant to be used for administrative costs. Administration covers the costs of implementing a local project, including preparing the environmental review, planning, accounting costs, fees paid to a consultant for administering the project and other contractual costs for professional services used in administration of the grant.

If the grantee wants to charge administration to the grant, it must be included in the contract budget. You must also document all administrative expenses just as you would project costs.

7. APPLICABLE LAWS

The following state and federal requirements apply to the financial management function for local CDBG programs:

- 24 CFR Part 85 ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS

This part establishes uniform administrative rules for Federal grants including guidance on financial administration, procedures for control and disposition of property, and retention of records. Federal requirement for record retention is three years after close out of the grant, but the state requires retention for five years after close out.

Also, the following Federal Regulations apply to grantees and sub-grantees (as appropriate).

- A-87 Cost Principles for State, Local and Indian Tribal Governments
- A-102 Grants & Cooperative Agreements with State and Local Governments
- A-21 Cost Principles for Non-Profit Organizations
- A-110 Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
- A-122 Cost Principles for Non-Profit Organizations*

Grantees may contact the state staff for copies of any of the above regulations.

8. COST PRINCIPLES FOR STATE AND LOCAL GOVERNMENT

OMB Circular A-87 establishes the following criteria for determining whether specific costs are allowable under the CDBG program. The cost must:

- (a) Be necessary and reasonable for the proper and efficient administration of the grant activities,
- (b) Be allocable to the grant,
- (c) Be authorized or not prohibited under State or local law,
- (d) Conform to any limitations or exclusions set forth in federal laws and regulations.

9. INTERNAL CONTROLS

The grantee must establish internal controls that eliminate the potential for fraud and abuse of CDBG funds. The system of internal controls must meet the following criteria:

- No person shall have complete control over every phase of a significant transaction. For example, the person who authorized payments to contractors cannot also cut and issue the checks to the contractor.
- Fiscal record keeping shall be separate from other program management operations.
- Monthly bank reconciliations shall be made by someone who is not responsible for handling cash or issuing checks.
- Preparation of payrolls and issuance of paychecks shall be handled by different individuals.

10. REQUEST FOR FUNDS (Claim)

All Request for Funds (claims) must be submitted online through WebGrants; the division's electronic grants management system. After logging into WebGrants, grantees click on "My Grants" and open the current CDBG grant. From there, grantees click on "Request for Funds" and "Add" to enter a claim. All supporting documentation must be attached to the claim and will be reviewed by the state CDBG staff. After clicking "submit", the state staff are notified electronically that a claim has been submitted. No further action from the grantee is required. The level of documentation required will depend on the grantee's ability to demonstrate adequate internal financial controls. (An Internal Control Questionnaire is completed as part of the application process.) If a claim lacks the proper documentation, it will be put into "correcting" status and the grantee will be notified that more information is needed. Generally, claims are paid within one week of receipt. The status of a claim can be tracked in WebGrants. The claim will be marked as "paid" when a check has been issued to the grantee.

11. CDBG/HOME PROGRAM ADMINISTRATION

CDBG funds cannot be used to fund HOME program administration. CDBG funds can be used to pay program delivery costs in the HOME program. The difference between administration and program delivery is not strictly defined. Probably the best way to look at costs is that if a cost can be identified to a specific project, it is program delivery and can be charged to CDBG. If a cost was incurred for a mixed function such as accounting, budgeting, coordinating, and program management, it is an administrative cost and should be charge to HOME administration. CDBG funds used for HOME program delivery are subject o CDBG eligibility and national objective requirements.

12. REVOLVING LOAN FUNDS - PROGRAM INCOME

Program income, for the purposes of the CDBG program, is gross income that is received by either a grantee or sub-grantee 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.

Examples of CDBG program income include:

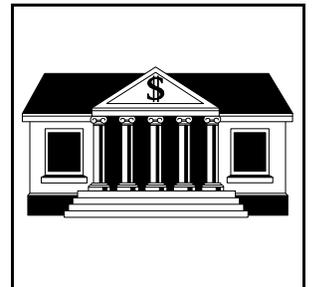
- Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds.
- Proceeds from the disposition of equipment bought with CDBG funds.
- Gross income from the use or rental of real property that has been constructed or improved with CDBG funds and that is owned by the recipient of subrecipient.
- Payments of principal and interest on loans made using CDBG funds.
- Proceeds from the sale of loans made with CDBG funds.
- Proceeds from the sale of obligations secured by loans made with CDBG funds.
- Any interest earned on funds held in a revolving fund account.
- Any interest earned on program income pending its disposition.

Both the state CDBG regulations and the Administrative regulations at 24 CFR Part 85 have sections devoted to program income. Under the regulations the state will have to track a grantee's program income as long as there is program income, even after contract closeout. There is one exception. Program income excludes amounts less than \$10,000 collected and retained by local governments in a single year. The state has identified the year to be the entity's fiscal year. If a grantee receives less than \$10,000 in program income in a fiscal year, that amount is no longer considered program income and can be used at the discretion of the grantee. If a grantee receives more than \$10,000 in a fiscal year, the entire amount is considered program income.

Grantees must disburse program income to fund the same activity before seeking new program funds. The state always requires a statement of program income balance when requesting new revolving loan money. Quarterly program income reports are also a requirement of the state program. These reports are as of March 31, June 30, September 30 and December 31. Program income is a complicated issue. If you have questions please consult with the state CDBG staff.

13. SINGLE AUDIT

CDBG funds are federal funds and are subject to the requirements of OMB Circular A-133, Audits of States; Local Governments and Non-profit Organizations. This circular establishes uniform requirements for audits of Federal financial assistance. This document is available on line at http://www.access.gpo.gov/su_docs/help/hints/fr.html or through the state CDBG staff. It establishes uniform requirements for audits of federal financial assistance provided to states, local governments, and non-profit organizations and promotes the efficient and effective use of audit services.



Who Must Have A Single Audit?

- a. Grantees that expend **\$500,000.00** or more in federal financial assistance (CDBG funds plus all other federal funds) in the recipient's fiscal year must have a single audit completed. Determining

the amount of federal funds expended shall be based on actual cash disbursed, not notice of an award, execution of a contract or receipt of funds.

What Is A Single Audit?

A single audit includes an audit of a grantee's financial statements, additional tests of compliance with applicable laws and regulations, review of the schedule of federal financial awards and expenditures of said funds, reports on internal controls, findings and proposed corrective actions, and a letter from the independent auditor.

Reporting Requirements

OMB Circular A-133 requires the auditor to issue on behalf of the entity:

- A report on the general purpose or basic financial statements of the entity as a whole, or the department, agency, or establishment covered by the audit.
- A report on internal accounting control based solely on a study and evaluation made as a part of the audit of the general purpose of basic financial statements.
- A report on compliance with laws and regulations that may have material effect on the financial statements.

OMB Circular A-133 requires that the auditor include, for the entity's federal financial assistance programs--

- A report on a supplementary schedule of the entity's federal financial assistance programs, showing total expenditures for each federal financial assistance program.
- A report on internal controls (accounting and administrative) used in administering federal financial assistance programs.
- A report on compliance with laws and regulations identifying all findings of noncompliance and questioned costs.
- A report on fraud, abuse, or an illegal act, or indications of such acts, when discovered (a written report is required); normally, such reports are issued separately.

Who Can Perform A Single Audit?

An independent Certified Public Accountant must perform the single audit.

When Is The Audit Due And Where Should It Be Sent?

The audit is due 6 months after the end of the grantee's fiscal year. It should be sent to: Utah State Auditor's Office, Room E310, East Capitol Complex, SLC, UT 84114-2310
Please direct any questions to Macray Curtis at (801) 538-1335.

Who Pays For A Single Audit?

The state prefers to have a grantee pay for its single audit out of general funds. The cost of a Single Audit is, however, an allowable charge to the CDBG grant **IF THE RECIPIENT EXPENDED \$500,000.00 OR MORE IN FEDERAL ASSISTANCE IN THEIR FISCAL YEAR AND ARE REQUIRED TO HAVE THE AUDIT COMPLETED.** (If the recipient is not required to have a Single Audit completed, but merely elects to have one completed, federal funds may not be used to finance the cost of the audit.) The percentage of audit costs charged to the CDBG grant should not exceed the percentage of CDBG funds expended. In other words, if 25% of an organization's expenditures were CDBG expenditures, 25% of the cost of the audit may be charged to CDBG.

Follow-Up Of Sub-Recipient Audits

For audits performed at the sub-recipient level, a DCED Accountant will review the audit reports for compliance with the Single Audit Act and to identify questioned costs and other audit findings and recommendations, and decide whether to sustain the findings. In instances where the State sustains the questioned costs, the State will account for them as a receivable and pursue recovery, or take other appropriate follow-up action. In other instances, the State will review the audit report with the audited sub-recipient and/or the auditor and decide not to sustain the costs. In either instance, the resolution should be within a reasonable time, which has been established to be within 6 months from receipt of the audit.

Resolving Findings And Grant Close-Out

An unresolved audit finding may result in one or more of the following sanctions: a withholding of the questioned cost (or repayment of the questioned cost), suspension of current CDBG awards, terminations of current CDBG awards or denial of future CDBG awards. Likewise, these sanctions may be imposed if the Single Audit is not completed as required.