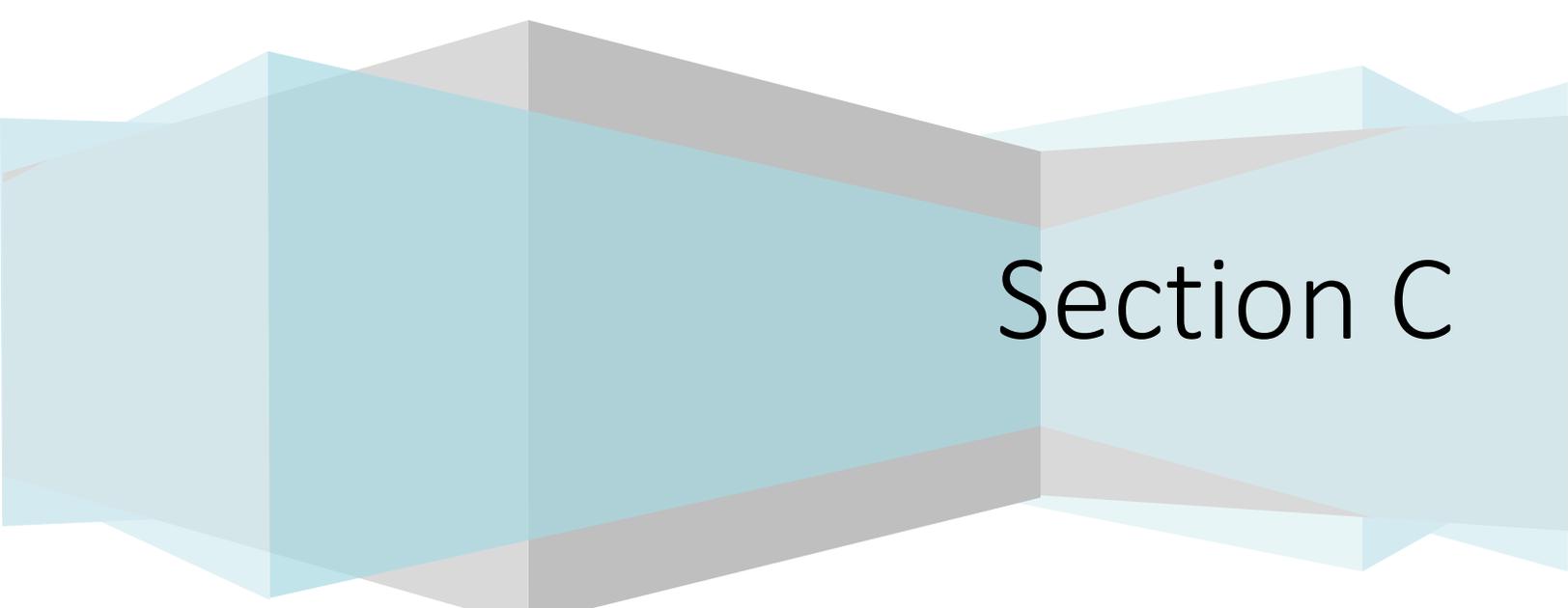


# Financial Management

CDBG/HOME Guidebook



Section C



## I. UNIFORM ADMINISTRATIVE REQUIREMENTS

Kitsap County receives annual appropriations of federal CDBG and HOME funds from HUD. The County is therefore charged with a fiduciary responsibility to see that the taxpayers' money is used appropriately and to require proper accountability from the recipients of its awards.

Acceptance of a grant from the County creates a legal obligation to use the funds in accordance with the terms of the grant and to comply with the grant's provisions and conditions. The grant recipient thus assumes full responsibility for the conduct of project activities and becomes accountable for meeting Federal standards in the areas of financial management, internal control, audit and reporting.

The financial management system required for subrecipients awarded CDBG and HOME funds is governed by:

- 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**Governmental and Non-Governmental** entities must comply with the requirements and standards of 2 CFR Part 200. HOME recipients who will be developing housing under an Owner Sponsor Developer agreement will not be subject to the requirements under 2 CFR Part 200.

## II. FINANCIAL MANAGEMENT STANDARDS (2 CFR 200 Subpart D)

Many alternative methods exist for implementing financial management systems, and your organization should choose methods appropriate for your particular scale of operations and develop written policies & procedures. The Board of Directors should be aware of, and if appropriate approve or adopt, the policies as part of their fiduciary responsibility.

If the organization is unable to meet the standards that are covered here, funding may be terminated and the organization may be deemed ineligible to receive subsequent grant awards.

- a) Grant recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project.
- b) Grant expenditure records must be at least as detailed as the cost categories indicated in the approved budget (including indirect costs that are charged to the project). Actual expenditures are to be compared with budgeted amounts.
- c) Accounting records are to be maintained on a current basis and balanced monthly.
- d) Costs to be reimbursed by the grant may be incurred only during the term of the agreement (contract).
- e) The records must be supported by source documentation such as cancelled checks, invoices, contracts, and personnel activity reports.
- f) The same costs cannot be claimed and reported on more than one Federal grant.
- g) For every employee whose salary is charged, in whole or in part to the grant, personnel activity reports (i.e. timesheets) must be maintained to account for all compensated time, including time spent on other activities.

- h) The applicable OMB cost principles and the terms and conditions of the grant award shall be followed in determining the reasonableness, allowability and allocability of costs.
- i) Requests for payment shall be limited to reimbursement for costs already incurred; CDBG and HOME funds cannot be paid in advance.

### Internal Controls

Organizations must provide safeguards for all grant property, whether cash or other assets, and assure that it is used solely for authorized purposes. Control will be enhanced if the duties of the members of the organization are divided so that no one person handles all aspects of a transaction from beginning to end. Although a complete separation of functions may not be feasible for the small organization, some measure of effective control may be obtained by planning the assignment of duties carefully.

Organizations must ensure the following:

- An organizational chart setting forth the actual lines of responsibility of personnel involved in financial transactions;
- Written definition and delineation of duties among key personnel involved in financial transactions;
- An accounting policy and procedures manual that:
  - Includes specific approval authority for financial transactions and guidelines for controlling expenditures.
  - A set of written procedures for recording of transactions that utilizes a chart of accounts.
- Separation of duties is adequate so that no one individual has authority over a financial transaction from beginning to end. In other words, one person should not have responsibility for *more than one* of the following functions:
  - Authorization to execute a transaction.
  - Recording of the transaction.
  - Custody of the assets involved in the transaction.
- Hiring policies ensuring that staff qualifications are commensurate with job responsibilities.
- Control over assets, blank forms and confidential documents so that these types of documents are limited to authorized personnel only.
- Periodic comparisons of financial records to actual assets and liabilities (i.e., reconciliation).

### Budget Controls

Organizations must have procedures in place to compare and control expenditures against approved budgets for CDBG and HOME funded activities and document the following:

- Maintain accounting records and the amounts budgeted for eligible activities;
- Periodically compare actual obligations and expenditures to date against planned obligations and expenditures, and against projected accomplishments for such outlays; and
- Report deviations from budget and program plans, and request approval for budget and program plan revisions

### Cost Principles

Beginning with the submission of an application for CDBG or HOME funds, staff will review your project for allowable costs. When funds are awarded to your organization a written agreement (contract) will be executed and will contain a project budget which has been reviewed to make sure the costs covered by CDBG or HOME funds are eligible for reimbursement.

#### Indirect Costs – Public Agencies

For grant recipients who are also a public agency, 2 CFR §200.414 establishes requirements for indirect costs.

#### Indirect Costs – Nonprofits

For nonprofit subrecipients, 2 CFR §200.414 methods for allocating indirect costs. Each method is applicable to certain specific circumstances.

- Simplified allocation method:
  - Used when a nonprofit organization has only one major function, or where all its major functions benefit from its indirect costs to approximately the same degree.
  - The indirect cost rate is calculated by separating the organization's total costs for the base period (e.g., fiscal year) as either direct or indirect, and dividing the total allowable indirect costs by an equitable distribution base (total direct costs, direct salaries or other equitable distribution base).
- Multiple allocation base method:
  - Used when major functions benefit in varying degrees from indirect costs.
  - Costs are separated into distinct groupings, and each grouping is then allocated to benefiting functions by means of a base which best measures relative benefits. An indirect cost rate must be developed for each grouping.
- Direct allocation method:
  - This method may be used for those nonprofits that treat all costs as direct costs *except* general administration and general expenses.
  - These joint costs are prorated individually as direct costs to cost objectives using a base most appropriate to the particular cost being prorated. The base must be established in accordance with reasonable criteria and must be supported by current data.

- Special Indirect Cost Rates:
  - Used when a particular segment of work may be performed under a single Federal award or consists of work under a group of Federal awards performed in a common environment.

Indirect cost rates must be submitted to and approved by the federal agency that provides the largest dollar value of funds to the nonprofit. The Block Grant program will check to ensure a written agreement is executed between the nonprofit and the approving federal agency signifying the approval of the proposed indirect cost rate.

### Audit Standards

An annual financial audit performed by an independent auditor is required for all organizations funded with CDBG or HOME funds.

Non-profit organizations that expend \$750,000 or more in a year in Federal awards (this includes all federal funds, not just CDBG or HOME) must have a single or program-specific audit conducted for that year in accordance with the provisions of 2 CFR §200.501.

- Audits are performed by independent public accounting firms engaged by the grantee organizations.
- Costs for audits are borne by the grantee organizations but are allowable as charges to grant projects; they may be considered either direct costs or allocated indirect costs as determined by the Federal cost principles.
- When arranging for audit services, organizations must follow procurement standards found in 2 CFR §200.318. Whenever possible, small businesses, minority-owned firms, and women’s business enterprises, should be included when soliciting proposals.

Non-profit organizations that expend less than \$750,000 in a year in Federal awards are exempt from Federal audit requirements for that year; however, records must be available for review or audit by appropriate officials of the federal agency, pass-through entity and the Government Accountability Office (GAO).

### Shortcomings to Avoid

Monitoring conducted by HUD has uncovered some common deficiencies in the administration of federal grants. Among these were:

- Personnel costs charged to grant projects were not supported by adequate documentation. (For example, personnel activity reports should be maintained that show the actual activity of each employee, whose compensation was charged, in whole or in part, to CDBG/HOME projects.)
- Reported grant project costs did not agree with the accounting records, i.e., the financial status reports were not prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts.

- Section 504 Self-Evaluation checklists were not on file as required.
- No documented basis was provided to support the amount allocated to the CDBG/HOME grant project for common (indirect) costs which benefitted all projects and activities of the organization.
- Independent audits required by 24 CFR §200.501 were not performed or did not meet the standards for audits of Federal grants.
- Grantees' financial management systems lacked adequate internal controls (for example, proper segregation of duties to safeguard resources or procedures for comparing actual outlays with the budget).

### Accounting Procedures

Procedures clarify the roles (who does what) and tell the “doers” how to do it – which steps to take, which forms to use, where to file documentation, who to inform about activities, etc. The level of detail in accounting procedures will depend to some degree on how complex your organization is and how many people are involved in financial decision making. At a minimum, your organization should consider the following areas when developing procedures.

- A. Cash management: Deposits, Reconciliations, Credit Cards, Cash Receipts and Account Receivable.
- B. Capital Assets: Acquisition & disposal, dollar thresholds, useful lives, property management & control.
- C. Revenue Sources: Contributions, special events, program service fees, grants, unrelated business income.
- D. Payroll

## III. Allowable Costs & Reimbursement Procedures for your Grant

### Authorizations

In order to assure the budget, budget revisions and requests for payment are properly authorized; all forms will require the signature of an individual designated by the agency to submit the documents to the County.

- It may be helpful to obtain two or three signatures to assure the availability of required authorized signers at any given time.
- The chief executive or certifying officer must authorize these persons to sign budgets, budget revisions and requests for payment by executing the **Signature Authorization** form after obtaining the necessary signatures.

- If the authorized signers change for any reason, a new signature authorization form is required.

### Allowable Costs

A cost is allowable under the CDBG or HOME program if:

- The expenditure is necessary, reasonable, and directly related to the grant
- The expenditure has been authorized by the County or City.
- The expenditure is not prohibited under Federal, state, or local laws or regulations
- The expenditure is consistently treated
- The cost must be allocable to the CDBG or HOME program

### Reimbursement and Source Documentation

When grant recipients receive billings or incur costs for projects, the amount due must be paid and then reimbursement may be requested from the County. To request payment for projects, the ***Request for Reimbursement*** must be completed. This form includes the amount requested by line items according to the budget for the project. A **Reimbursement Summary** must also be attached which summarizes the total costs incurred and a breakdown of the portion paid with CDBG or HOME funds. Block Grant staff will provide an example of the summary for use in developing one appropriate to your project.

Additionally, supporting documentation is necessary to show that the costs charged against CDBG or HOME funds were incurred during the effective period of the agreement (contract).

Documentation needed to support reimbursement requests should at a minimum include the following:

<u>Cost Category</u>	<u>Backup Documentation</u>
Personnel:	Copies of times sheets signed and dated by both the employee and the supervisor, journal entries showing the personnel expenses paid.
Supplies/Equipment	Copies of invoices, receipts or contracts for expenditures with transaction dates, copies of checks paying for expenditures or journal entries showing expenses paid.
Administration	Receipts for any allowable travel or meal expenditures, the number of miles traveled, location/destination and cost per mile, copies of phone bill and identification of long distance calls related to project, copy of invoice and receipt for rent and utilities and copies of checks paying for

	expenditures or journal entries showing administrative expenses paid.
Acquisition Costs	Copies of Promissory Notes, Real Estate Closing Statements, Real Estate Contract and other relevant real estate documents.
Developmental Soft Costs	Work performed by appraisers, architects, engineers, or consultants must include a statement of the work completed which justifies the requested billing. A spreadsheet of the bid items and units completed for the pay period can be attached. This should include the Request for Payment signed by the owner, contractor and architect or engineer. Evidence that your agency has authorized and paid the billing should be attached.
Developmental Hard Costs	Copies of invoices, receipts or contracts for expenditures with transaction dates, copies of checks paying for expenditures.
Other Costs	Copies of invoices, receipts or contracts for expenditures with transaction dates, copies of checks paying for expenditures or journal entries showing the expenses paid.

### Program Income

- Program income is defined as the gross income that is received by an organization and has been directly generated from the use of CDBG or HOME funds. Program income includes:
  - Repayments of principal and interest on loans made using CDBG or HOME funds.
    - Repayment of homebuyer loans during the HOME Period of Affordability is recaptured funds, not Program Income.
  - Interest earned on program income.
  - Proceeds from the disposition of real property that has been acquired or improved with CDBG or HOME funds where the disposition occurs during the period of restricted use (CDBG) or the period of affordability (HOME).
- The contract between each grant recipient and the County requires the reporting of any program income to the County. Program income must be used in accordance with the terms of the contract.

### Budget Amendment and Fund Reallocation

Changes to the approved project budget of less than 10% of the total grant amount require a submission of a **Request for Budget Revision** form to the Block Grant office. The form must be signed by the authorized signer and submitted for approval.

Changes to the project budget greater than 10% require a contract amendment. Contract amendments must be reviewed and executed in the same manner as the original agreement. Requests to amend the contract must be made in writing. Your project contact will work with you to determine the timeline for approval of the amendment.

If there are unspent funds at the close-out of the project, any remaining funds will be included in the next application cycle for re-allocation to an eligible project.