

## 3. FINANCIAL MANAGEMENT

### 3.1 Federal Financial Management System Requirements

The financial management system required for awardees and the use and accounting for HOME funds is governed by 2 CFR 200. **The financial management system requirements previously identified in 24 CFR Part 85.20 and 84.21 have been superseded by 2 CFR Part 200.300 - 200.309.** The language has changed, but the requirements remain substantially the same. Contact the Department for clarification of any of these standards.

The key financial management requirements are:

- 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 award.
- 2) **Accounting records.** Awardees and subrecipients must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to the award, authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- 3) **Internal control.** Effective control and accountability must be maintained for cash, real and personal property, and other assets. Awardees and subrecipients 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 award. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the 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 agreement 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 awardees and subrecipients must be followed whenever advance payment procedures are used. Awardees must establish reasonable procedures to ensure the receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency. When advances are made by letter-of-

credit or electronic transfer of funds methods, the awardee must make drawdowns as close as possible to the time of making disbursements. Awardees must monitor cash drawdowns by their subrecipients to assure that they conform substantially to the same standards of timing and amount as apply to advances to the awardees.

### **3.1.1 Actions to Prepare for Financial Management**

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

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

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

## **3.2 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.

This section outlines Department requirements.

### **3.2.1 Accounting Records**

Each awardee 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 awardee'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 accounting system must:

1. Clearly identify all receipt and expenditure transactions of the award.
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 awardee'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 awardee's accounting records.

Awardees 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.

### **3.2.2 Source Documents**

Source documents provide information to be transferred to the accounting records. A source document may be a check, invoice, time sheet, or contract. All source documents that pertain to the HOME project should be identified through a code or by using the HOME award 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.

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. 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.

### **3.2.3 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 Awardee 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 awardee for payments already made for HOME-eligible expenses.

The Department will consider the awardee 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.

### **3.2.4 Electronic Funds Transfer**

All HOME payments to awardees are by Electronic Funds Transfer (EFT) to a designated local bank account. These payments are made through the Nebraska Information System (NIS); the state accounting system-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 awardee except to transfer HOME funds when received to a non-interest-bearing account in accordance with HOME program requirements.

If a non-profit awardee needs to establish a bank account for receipt of state funds or if a local government awardee wishes to have HOME funds deposited directly into a designated local non-interest bearing bank account, the awardee should complete and submit the State Treasurer ACH Enrollment Form.

This form may be downloaded from the State Treasurer website at [http://das.nebraska.gov/accounting/forms/ACH\\_W9\\_Fillable.pdf](http://das.nebraska.gov/accounting/forms/ACH_W9_Fillable.pdf) 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 awardee has not ever established an account with the State Treasurer. If no action is taken by the awardee, 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 awardee 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).

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. Awardees should confirm with the Department that action has been completed before submitting an applicable request for HOME funds.

### **3.2.5 Bank Accounts**

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

Since interest may not be earned on the deposit of HOME funds, awardees 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 awardee 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. For more information, see Chapter 4 – Program Income, CHDO Proceeds & Recaptured Funds.

### **3.2.6 Payment Procedures**

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

The awardee 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 awardees 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 awardee.

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.

### **3.2.7 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 awardee.

Awardees should understand the budget in the HOME Contract, including the line item to be used for administrative costs.

Awardees should confirm with their program representative as to the budget line item authorized for 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.

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.

### **3.2.8 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. Awardees 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 awardees 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 being demonstrated.

### **3.2.9 Indirect Costs**

Awardees are not allowed to charge indirect costs to a HOME funded project unless they have written approval of the indirect cost allocation plan from the department prior to the Notice of Release of Funds.

## **3.3 Requesting HOME Funds**

The request by the awardee for HOME funds is made using the Request for HOME Funds form. This form can be downloaded from the Department's website. If an awardee 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, an awardee must:

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

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 awardee.

### **3.3.1 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 awardee for a particular address (activity). After the Department "sets up" the HOME funds for the address, the Department will provide the awardee 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 new construction homebuyer and HOME funds from the 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.

Awardees 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.

Awardees 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 – Awardees must receive a notice of release of funds prior to submitting any HOME Activity Set-up Reports.
2. HOME Activity Set-Up Report – Awardees 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 awardees a unique number for each address “set-up”. The activity number is needed by the awardee to request HOME funds.
4. Request for Receipt of HOME Funds – Awardees 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 item that does not need to be “set-up” and tied to an address is organizational operating. Awardees may draw organizational operating funds using the Request for HOME Funds form following release of funds and incurring eligible costs.

### **3.3.2 Drawing Funds**

#### **Drawdown Requests**

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 awardee has received a Notice of Release of Funds and activity numbers (activity numbers are not needed for 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 \$1500 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.
- Awardees 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 awardee 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.
- For all 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. Awardees must send in a new Authorization to Request HOME Funds form whenever the individuals authorized to sign Requests for HOME Funds change.

Awardees 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 awardee in requesting changes to the contract.

### **Drawdown Documentation**

Each awardee requesting HOME resources are required to submit source documentation with drawdown requests that meet the below threshold criteria:

- The Drawdown is greater than 25% of the total HOME award, or
- The Drawdown is greater than \$100,000, or
- The Drawdown is for Rental Housing (RH), or
- The Drawdown is for Organizational Operating.

The source documentation does not need to be provided unless one of the above threshold criteria is met or if a drawdown is selected for Annual Testing as described below. Except for Annual Testing, DED reviews source documentation to verify financial management compliance in two stages, at the submission of the drawdown and at the end of a reporting period.

Drawdown submissions that meet the above identified threshold criteria must submit the associated invoice(s) demonstrating eligible expenses incurred and being requested.

### **Processing and Disbursement**

If the source documentation is not sufficient, processing of the drawdown(s) will be delayed until the requested source documentation is received and accepted. Only if there are follow up questions or requests, would the awardee be further notified. No follow up correspondence is provided to the awardees in general unless additional information is needed.

The Department reserves the right to request source documentation on any project prior to processing a draw.

All HOME payments to awardees 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.

### **Annual Testing**

If the above source documentation thresholds are not met during the fiscal year, one drawdown is selected for each grant that requested funds during the fiscal year. Selection priority is given to the drawdown with the highest dollar amount. The Department will request the required source documentation for the identified drawdown. The awardee is required to submit source documentation within 30 days of the date of the request. Once source documentation is received, the source documentation is reviewed and evaluated by the Department. If there are deficiencies with the source documentation information, a follow up request is made by the Department.

## **3.4 Contract Records**

Awardees 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.