

CHAPTER 12 – FINANCIAL

FINANCIAL MANAGEMENT SYSTEM

Subrecipients should take the following steps to prepare a financial management system for implementation of a CDBG funded project:

- Appoint person 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 the use and accounting for CDBG funds is governed by:

- 24 CFR Part 570 "Community Development Block Grants"
- 2 CFR 200 Subpart E, "Cost Principles for State, Local, and Indian Tribal Governments"
- 2 CFR 200 Subpart F, "Audits of State and Local Governments"
- 24 CFR Part 85 "Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments" (§ 85.1 Applicability of and cross reference to [2 CFR part 200](#))
- DED Requirements

The financial management system requirements identified in 2 CFR Part 200:

- 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.** Subrecipients must maintain records which adequately identify the source and use of funds provided for financially assisted activities. These records must contain information pertaining to the subrecipient agreement 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. 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 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 subrecipient 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 subrecipients must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the subrecipient must make drawdowns as close as possible to the time of making disbursements. **Cash management is the principle behind DED's rule that no more than \$1,000 CDBG funds can be kept on hand for more than 5 business days¹.**

DED 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 after award.

DED REQUIREMENTS

DED identifies three basic, required functions 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 relate to activities proposed in the grant application approved by DED.
- 3) All expenditures of CDBG funds should be in accordance with applicable laws, rules, and regulations.

ACCOUNTING RECORDS

Each subrecipient should determine the accounting records that will assist in providing accurate and complete financial information. The subrecipient may fully integrate the CDBG accounting records into their existing accounting system. Where subrecipient partially integrates CDBG accounting into the existing system, subsidiary ledgers shall provide the required grant accounting.

At a minimum, the grant accounting system must:

- 1) Clearly identify all receipt and expenditure transactions associated with the agreement.
- 2) Provide for budgetary control by tracking expenditures and accrued obligations by approved CDBG activity and by CDBG amount and local match amount.
- 3) DED staff or the subrecipient's auditors should be able to readily trace CDBG transactions through the accounting system such that, all amounts shown on CDBG reports reconcile to the subrecipient's accounting records.
- 4) Subrecipients must be able to report CDBG expenditures by approved activity. Maintain budget balances for each approved activity that accounts for CDBG expenses accrued or obligations incurred (e.g. contracted amounts) not yet paid.

SOURCE DOCUMENTATION

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 subrecipient agreement award number. This will assure that the charges against the project are properly recorded in the CDBG accounting records.

When requesting supplies and materials for the CDBG project, use purchase orders. The subrecipient shall use established local internal controls for preparation of purchase orders and include an explicit reference to CDBG.

¹ Business day means a day when Federal Reserve Banks are open as defined by the Department of the Treasury Fiscal Service, 2002

The subrecipient should keep contracts 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 to substantiate payment requests. The accuracy of the invoice should be verified against purchase orders or associated contracts.

Time sheets are another important source document. If a subrecipient charges staff time to the CDBG project, time sheets must support the number of hours worked².

Cancelled checks, bank deposit slips, receipts, payroll stubs and other miscellaneous documents represent important source documents used in accounting for program expenditures (proof of payment) or program income. These source documents must be maintained in the subrecipient's files and must be submitted within DED's grant management system. In addition, the subrecipient must provide source documentation where specific instructions from the program representative to subrecipient indicate such a requirement.

RECEIPT PROCEDURES

In addition to CDBG payments from DED, cash receipts may also include program income and project funds received from other outside sources. Program income includes funds earned through the repayment of housing rehabilitation loans, sale of property, and other miscellaneous receipts. Refer to Chapter 8 for more information.

Subrecipients 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.

Subrecipients should promptly deposit all CDBG project receipts to the proper bank account and record as a receipt in the accounting system. Submit CDBG drawdowns only as required to pay immediate obligations. ***DED will consider the subrecipient in violation of the requirement if excessive amounts of cash (over \$1,000) are on hand for over five business days. The subrecipient must return the excess to DED.***

Holidays may cause delays in procedures. Subrecipient should review internal controls for consideration of holiday-related delays in processing, efforts avoiding such delays represent due diligence of the subrecipient. This may involve timing drawdown requests in consideration of holidays or paying invoices with 100% local funds when working around holidays and using CDBG funds as reimbursement for the appropriate amount.

² Subrecipients are advised to keep records of the wages of staff members charging time associated with the implementation of the CDBG project. Records demonstrating wages before and during the implementation of the project to ensure that the wages are consistent regardless of the use of federal funds. If there is a pay increase, document the reason why.

ELECTRONIC FUNDS TRANSFER

All CDBG payments to subrecipients are by Electronic Funds Transfer (EFT) to a designated local bank account. For all federal and state grant payments to subrecipients and other organizations, DED makes payments through the Nebraska State Accounting System.

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 subrecipient. However, if the designated local bank account is an interest-bearing account, the subrecipient must take further action to transfer CDBG funds to a non-interest bearing account in accordance with CDBG regulations.

If a subrecipient wishes to have CDBG funds deposited directly into a different designated local non-interest-bearing bank account, the subrecipient should complete and submit the State Treasurer ACH Enrollment Form. This form may be downloaded from the State Accounting website at http://das.nebraska.gov/accounting/forms/ACH_W9_Fillable.pdf and mailed to DED or submitted within the grant management system upon completion. DED 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.

Per the Nebraska Accounting Policy AM-005, the ACH enrollment form must be completed to receive CDBG funds. CDBG subrecipients will complete and submit the ACH Form within the grant management system³ within 90 days of receipt of the Notice of Approval. If the subrecipient determines that a change in bank account (financial institution or account number) is necessary after the original submission, an updated form must be submitted to DED.

ACH ENROLLMENT FORM INSTRUCTIONS

If the subrecipient wishes to direct CDBG funds to a different designated local non-interest bearing account or update the designated email payment recipient, a completed ACH Enrollment Form must be submitted to DED through the grant management system, AmpliFund.

Obtain the State of Nebraska Substitute form W-9 and ACH Enrollment Form at http://das.nebraska.gov/accounting/forms/ACH_W9_Fillable.pdf

BANK ACCOUNTS

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

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

³ This applies to all subrecipients who receive a Notice of Approval on or after July 1, 2021. Prior to July 1, 2021, DED uses the documentation on record if available.

that would accrue interest earnings. Issuing payment to the firm after a drawdown request has been submitted is not considered reimbursement; all invoices must be paid in full to the contracting firms prior to the request for CDBG funds.

Program income and revolving loan fund accounts should be kept in separate interest-bearing accounts. See Chapter 8 – Program Income for information.

Bank accounts must be secured by FDIC 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 subrecipient must establish a system to review and approve all billings presented for payment under the grant. All invoices need to be reviewed to determine that the costs are accurate, reasonable, and allowable under CDBG regulations. The subrecipient needs to review and approve all payments.

The subrecipient 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 of the subrecipients request for funds. This timeline must be communicated to contractors and vendors. It takes about 14 days from the time a drawdown request is approved by DED until the subrecipient receives the CDBG funds.

Contractors' invoices can only be paid after verification has been made of work completed. A list of disbursements to be made will need to be prepared and the total federal cash requirements must be submitted to DED. All payments for expenditures are to be supported by source documentation including proof of payment, i.e., invoices or vouchers and kept on file.

ADMINISTRATIVE COSTS

Administrative Costs are the costs associated with administering the grant, such as submitting reports to DED, providing contractor oversight, and ensuring compliance with federal, state, and local laws and regulations. These costs most often include salaries for personnel assigned full or part-time to the grant, cost of equipment, supplies used for grant activities, and the cost of administrative services provided by other agencies. If uncertain about the allowability of administrative costs, such as equipment, supplies, and other contract services, contact DED to determine if these costs are eligible within the CDBG Program and allowed as indicated within the subrecipient agreement.

Costs that are administrative in nature but are in direct support of a project activity should be charged to the project activity and ***not to General Administration***.

All administrative costs charged to the project must be documented, i.e., through timesheets, purchase orders, and invoices. 2 CFR 200 Subpart E provides guidelines for determining allowable costs.

Employees paid in whole or in part from CDBG funds need to prepare timesheets indicating the hours worked for each pay period. Timesheets and the hourly payroll costs for each employee will need to be reconciled, and the data generated will be transferred to a voucher statement that indicates the distribution of payroll charges and then placed in the appropriate CDBG grant file.

MATCHING FUNDS

Matching funds committed to the project as a part of the approved CDBG Agreement must be accounted for in grant records, and compliant with all CDBG and federal regulations. The receipt and expenditure of matching funds must be documented. If matching funds are derived from a source outside the local government, the project records should identify the source and amount provided. Matching funds are incorporated proportionately as identified in the Sources and Uses section of the CDBG Agreement.

INDIRECT COSTS

Subrecipients must receive prior DED approval to charge indirect costs to the grant. A request to claim and charge indirect costs must be submitted as an indirect cost allocation plan to DED. Indirect cost allocation plan procedures and requirements can be found in 2 CFR 200 Subpart E.

REQUESTING CDBG FUNDS

The request by the subrecipient for CDBG funds is made by the subrecipient completing the “Request for CDBG Funds” form (also known as a drawdown request form or payment request) and submitting the form and attaching the associated source documentation within DED’s grant management system, AmpliFund. Subrecipients will retain the original signed “Request for CDBG Funds” form within their records⁴. Signatures on the completed “Request for Funds” form, must correspond to those signatures submitted on the Special Condition item called “Authorization to Request CDBG Grant Funds” form. A new “Authorization to Request CDBG Grant Funds” form must be completed when a change occurs with the original authorized signatories⁵. Refer to the AmpliFund user guides on how to request CDBG funds. DED will reject the request if incorrect or insufficient information is submitted.

Subrecipients will normally receive payment of requested CDBG funds within two weeks from the time DED approves the request; provided there are no errors in the request or other reasons for delay.

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 subrecipient has received a Notice of Release of Funds/Environmental Clearance.
- Verify the completed Request for CDBG Funds form before uploading, as errors will cause delay in payment. This includes omission of, or inaccurate information.
- Request only the amount of funds needed to pay immediate obligations. Costs must be directly related to verifiable invoices or billings.
- Source Documentation must be submitted with each Request for CDBG funds form. The source documentation at a minimum must substantiate the amount being requested.

⁴ For grants awarded prior to the 2020 program year, DED required the original signed “Request for Funds” form to be submitted to DED. Beginning with 2020 program year grants, all “Request for Funds” forms were submitted electronically within the grant management system, AmpliFund. In August 2021, all CDBG Subrecipients were directed to submit electronically the “Request for Funds” forms and source documentation within the grant management system.

⁵ Previously the “Authorization to Request CDBG Grant Funds” form was required to be submitted to DED with wet signatures by the subrecipient authorized individuals. With the implementation of the grant management system, AmpliFund, subrecipients are required to upload an electronic version and retain the original within their records.

- Funds may be requested at any time and in any frequency; however, the minimum request for CDBG funds are:
 - **\$1,500 Minimum:** Request Amount for general administration and project expenditures.
 - **\$1,500 Minimum:** Request Amount for project expenditures only.
 - **\$500 Minimum:** Request Amount for general administration expenditures only.

The exception is when the request is the final request on a grant. Failure to satisfy these standards will result in the rejection of the “Request for CDBG Funds” form. DED may waive these minimums on a case-by-case basis.

- After the subrecipient receives the *Notice of Release of Funds*, the subrecipient’s first drawdown for general administrative funds, may not exceed more than 50% of the allocated general administration.
- 100% of CDBG funds must be drawn prior to submitting the Final Financial Report.
- **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.
- Subrecipients may not earn interest on the deposit of federal funds pending disbursement.
- If excessive amounts of cash (over \$1,000) are on hand for **over five business days**, the subrecipient must return the excess to DED.
- 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 agreement.
- Subrecipients 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.

BUDGET AMENDMENT AND FUNDS REALLOCATION

Subrecipients must request approval from DED for **any** modification or amendment to the CDBG agreement. When submitting the amendment request, the subrecipient must complete and submit the CDBG Agreement Amendment Request Form within AmpliFund and upload all appropriate documentation. The required documentation depends upon the type of modification requested and is outlined on the CDBG Agreement Amendment Request Form. DED will determine and notify the subrecipient if the Amendment Request form is approved or denied. If modifications/changes are approved, DED will determine if an agreement amendment is necessary or if modifications can be approved via a written notification.

CONTRACT RECORDS

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

A proper system of management includes:

- A contract file for each signed contract.
- 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.
- A control card for each contract that tracks invoices and payments. This card is used to record all payments on the contract and the percent of the work that has been completed.

The file for each contract must contain the following:

- A signed contract and associated amendments, if applicable
- 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

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 570.201, 24 CFR 570.503, 24 CFR 570.505, and 24 CFR Part 85.

In regard to federal regulations applicable to CDBG Program, “property” is classified according to the following distinct categories:

- Real property: means land, including any improvements to and structures located on the land, but excluding any movable machinery or equipment
- Personal property: is basically any kind of property other than real property. Personal property can be tangible (such as supplies, furniture, and equipment), or intangible (such as copyrights, patents, and inventions)

All purchases of \$300 or more of personal property and all purchases of \$25,000 or more of real property which are made in full or in part with CDBG funds must be recorded in a property management record. Furthermore, any personal property of \$300 and all purchases of \$25,000 or more of real property 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 DED.

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 subrecipient 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.

The ownership of real property purchased with CDBG funds is governed by federal regulation. The title to real property acquired with CDBG funds vests with the subrecipient 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 subrecipient must contact DED to determine the options available for using the property for another purpose or for disposal instructions. Refer 24 CFR 570.503

DISPOSITION OF PROPERTY

Real Property

Disposition of real property is governed by 2 CFR 200.311. When real property is no longer needed for the authorized purpose, there are three alternatives available to the subrecipient.

1. The subrecipient may retain title after compensating DED. The amount to be paid to DED is calculated by applying the CDBG percentage of participation in the cost of the original purchase to the fair market value of the property.
2. The subrecipient may sell the property and compensate DED. The compensation to DED 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.
3. The subrecipient may transfer title to DED or to a third-party designated or approved by DED. In this case, the subrecipient would be compensated with an amount calculated by applying the subrecipient's percentage of participation in the purchase of the property to the current fair market value.

Equipment

Disposition of equipment is governed by 2 CFR 200.313. 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 DED;
- 2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and DED 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 subrecipient fails to take appropriate disposition actions, DED may direct the subrecipient to take excess and disposition actions.

Supplies

Disposition of supplies is governed by 2 CFR 200.314. 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 subrecipient shall compensate DED 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 subrecipient 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.
- 2) if the use does not meet a national objective, the subrecipient reimburses DED 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 CDBG requirements.

Cash Management- Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by subrecipients must be followed whenever advance payment procedures are used. Subrecipients must establish reasonable procedures to ensure the receipt of reports on contractor's cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to DED.

Funds requested must reflect actual eligible cost incurred. Claim exact amounts on each reimbursement or use rounding down to the nearest dollar on individual reimbursements and then claim exact amounts due down to the penny on the final reimbursement request.

WORK CITED

Department of the Treasury Fiscal Service. (2002). *31 CFR Part 205*. Final Rule: Federal Register.