

# SECTION 4 – FINANCIAL MANAGEMENT

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### **OVERVIEW**

CDBG grantees and subrecipients must understand and implement financial management systems that comply with the state CDBG program requirements. These requirements are based on:

- 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
- 24 CFR Part 570.489(e) “Program Income”

A well-organized financial management system promotes:

- Administrative efficiencies and accurate reporting
- Integrity, transparency, and accountability in all financial transactions
- Compliance with federal cost principles, CDBG requirements, and local procedures
- Effective budgeting, project management and subrecipient oversight

### **FISCAL CONTROLS AND ACCOUNTING**

Grantees must maintain effective control and accountability for the CDBG funds by complying with financial management standards found in 2 CFR 200.303. Methods for maintaining internal controls include clearly defining grant management duties, requiring multiple check signatures and appropriate bonding.

#### **Designate Fiscal Coordinator**

It is advisable to designate one person as fiscal coordinator of the CDBG grant. The grantee may authorize more than one individual to sign the A19 voucher.

#### **Employee Bonding and Insurance**

Employees handling CDBG funds must be bonded. Although insuring employees beyond local requirements is not required, such insurance is one way of protecting a grantee from liability.

#### **Establish a CDBG Account and Accounting Codes**

Once the grantee has received its executed CDBG contract, a separate, non-interest bearing account must be established within the grantee’s accounting system or in an FDIC bank. If the grantee elects to establish an account at an FDIC bank, the account must be included as part of the grantee’s regular accounting system. Interest inadvertently earned on CDBG funds must be returned to Commerce, with limited exceptions.

Washington State’s Budgeting Accounting and Reporting Systems (BARS) for cities and counties meet the general requirements and standards for CDBG financial management and accounting. Within BARS, CDBG’s Catalog of Federal Domestic Assistance (CFDA) Program Number is **14.228**. CDBG funds are listed as federal indirect funds on the annual audit's Schedule of Expenditures of Federal Awards (SEFA). This schedule of awards will establish whether the \$750,000 threshold was exceeded, which would then require a Single Audit for that year. See Section 17, Audit Requirements, for more information.

#### **Minimize Time between Funds Receipt and Disbursement**

CDBG funds are to reimburse the grantee for CDBG project expenditures already paid. However, in cases where cash flow or local procedures cannot accommodate a straight reimbursement process, then Treasury regulations at 31 CFR Part 205 require that procedures be established by the grantee

to minimize the time between the advance receipt of CDBG funds after the cost is incurred and the funds disbursement. The general rule is that CDBG funds must be used within three business days. If disbursement takes longer, written justification should be maintained in the files.

Excess cash balances cannot earn interest and must be approved by Commerce to reimburse other incurred eligible CDBG costs, or be returned to Commerce for the US Treasury.

### **REQUEST REIMBURSEMENT**

Reimbursement requests will be processed after: (1) NEPA/SEPA environmental review is complete including the notification of Release of Funds (if applicable); and (2) all relevant special conditions to the CDBG contract have been met.

To receive funds, you must provide a statewide vendor (SWV) number to Commerce. To obtain an SWV number and also if you want to receive funds by electronic funds transfer (EFT), contact the state Office of Financial Management (OFM) at <https://ofm.wa.gov/it-systems/statewide-vendorpayee-services>.

### **A19 Voucher, Project Status Report, Reportable Expenses Report**

Grantees must request reimbursement using a Commerce A19 Voucher, Project Status Report, and Reportable Expenses Report.

- The A19 voucher requires an authorized signature, supporting source documentation and indication of the reporting period, (such as 3/1/XX-3/31/XX). Your CDBG project manager will provide an A19 voucher customized for your contract with specific coding to improve payment request timeliness. Blank A19 vouchers and instructions are included as Attachments 4-B (1), (2) & (3). Voucher requests submitted electronically are preferred.
- The Project Status Report **must** be submitted with each A19 voucher. (Attachment 4-B (4)).  
NOTE: This report is not required for CDBG Public Services Grants.
- The Reportable Expenses Report helps assess how Commerce supports diverse businesses with pass-through funds, including CDBG. Each A19 voucher request over \$1,000 must include this Reportable Expenses Report. This report provides important payment data on each contractor and subcontractor by their name, contract relationship, and Unified Business Identifier (UBI) number. Commerce provides a fillable spreadsheet and instructions on submitting this Reportable Expenses report at: <https://www.commerce.wa.gov/about-us/contract-management-system-portal>. The grantee can find a contractor's UBI number by contacting the contractor, requiring the contractor to list its UBI number on contracts or invoices, on the contractor's LNI Affidavit of Intent to Pay Prevailing Wages, or other documentation processes. A blank Reported Expenses Report is shown in Attachment 4-B (5). Contact your CDBG project manager for further guidance.

### **Public Service Contracts Payment Request Process**

Public Services Grant payment requests must include a Public Services Grant Expenditure Report (Attachment 4-F). See sample (Attachment 4-G) for guidance.

The Community Action Program (CAP) completes and signs this Expenditure Report, and submits it to the grantee with documentation of expenditures and staff payroll records to support the cost eligibility. The grantee reviews the request and supporting documentation, and resolves any issues before authorizing and submitting the Public Services Grant A19 Voucher and Expenditure Report to

Commerce for payment. The grantee maintains the backup documentation in their CDBG contract records to be available for the CDBG program review upon request.

The grantee is awarded up to \$3,500 for Public Services grant administration expenses. All reimbursement requests for administration costs must be accompanied by staff timesheets or similar documentation supporting administrative activities. If salaried staff are involved then provide an accounting of hours worked, the tasks involved, and the hourly rate for those services. The grantee must submit an A19 voucher for these charges.

Administrative costs can include establishing a subrecipient agreement, reviewing and processing payment requests, monitoring the subrecipient agency, maintaining project files, ensuring compliance with CDBG requirements, conducting the final public hearing and completing the Contract Closeout Report.

Public Services grantees must submit a Public Services Contract Quarterly Beneficiary Report (Attachment 4-H) within 30 days of the end of each calendar quarter. Failure to submit timely quarterly reports may result in reimbursements being delayed.

#### **Frequency of A19 Voucher Submittals**

Grantees should submit the first A19 voucher form soon after initial CDBG eligible costs are incurred and not more than 270 days after CDBG contract execution. Commerce asks that A19 requests be limited to no more than one request per 30-day period, per CDBG contract.

#### **Final A19 Voucher Submittal**

Up to 5 percent of the CDBG award will not be disbursed until all tasks, activities and conditions of the CDBG contract have been successfully completed by the grantee and fully accepted by Commerce. After that time, the grantee can request these final funds.

### **COST ELIGIBILITY**

Grantees must determine if costs are reasonable and allowable based on 2 CFR 200. If a situation arises, in which the eligibility of a certain cost is not clear, contact your CDBG project manager for guidance.

#### **Source Documentation**

Expenditures must be supported with source documentation. Examples of documentation include invoices, purchase orders and timesheets. Documentation supporting each payment is to be kept on file and retained six (6) years after closeout to verify all CDBG expenditures. Payments by the grantee to prime contractors, consultants and/or subrecipients should not be made without an invoice and supporting documentation.

#### **Indirect Costs**

The indirect rate authorized percentage is identified on the CDBG contract face sheet. The grantee must submit the indirect rate approval letter from the federal cognizant agency or the "Certification of Indirect Costs" (Attachment 4-E) rate proposal that was submitted for their review per 2 CFR 200. If no such rate exists, a de minimis indirect cost rate of 10% of modified total direct costs (MTDC) may be used.

“Modified Total Direct Costs (MTDC)” means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each sub-award (regardless of the period of performance of the sub-award under the award). MTDC excludes equipment, capital expenditures, and rental costs.

**Timesheets**

All grantee employees, paid in whole or in part with CDBG funds, must prepare a time sheet that indicates the hours worked on the CDBG project for each pay period. The amount to be distributed as CDBG payroll charges during a particular period will be based on the time and the hourly payroll cost of the employee. An example of a time sheet is shown in Attachment 4-C.

**PROGRAM INCOME**

Program income is any income generated from the use of CDBG program funds that totals at least \$35,000 in a calendar year, in accordance with 24 CFR 570.489(e). All program income is and remains subject to all requirements of the Housing and Community Development Act and CDBG regulations.

Under federal CDBG regulations, it is Commerce’s option to require that grantees return program income to the state or to allow the grantee to use the program income for current and future CDBG eligible activities. Commerce has decided to allow grantees to use their program income for CDBG eligible activities if the grantee has an approved Program Income Reuse Plan (Attachment 4-I).

Program income received during an open CDBG grant, whether from current activities or prior activities, **MUST** be used prior to drawing additional CDBG grant funds, and **MUST** be accounted for on A19 vouchers requested to Commerce.

Program income earned after project completion, but before administrative closeout, may be subject to the Recapture of Funds Policy.

Program income received by the grantee after project completion and administrative closeout, retains its federal identify and must be reported to Commerce annually.

Under 24 CFR 570.489(e)(2)(ii), which exempts program income for activities carried out by neighborhood-based non-profit organizations authorized under Section 105(a) of the Act, Commerce may, with prior approval, allow a grantee’s qualified subrecipient to retain program income for the continuance of eligible activities and to release its federal identity and reporting requirements.

Program income includes:

- 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 purchased with CDBG funds.
- Gross income from the use or rental of real or personal property acquired by a grantee or a subrecipient with CDBG funds, less the costs incidental to the generation of the income.
- Payments of principal and interest on loans made using CDBG funds.
- Proceeds from the sale of loans or obligations secured by loans made with CDBG funds.
- Interest earned on loans from a revolving loan fund account.
- Interest earned on program income pending disposition of the income.

- Funds collected through special assessments made against properties owned and occupied by households NOT of low-income, where the special assessments are used to recover all or part of the CDBG portion of a public improvement.
- Gross income paid to a grantee or subrecipient from the ownership interest in a for-profit entity acquired in return for the provision of CDBG assistance.

**Using Program Income and Record Keeping Requirements**

Grantees may retain program income during the project period provided it is accounted for and used before requesting additional CDBG funds. Program income that is received and retained by the grantee before closeout of the grant is treated as additional CDBG funds, must be used on the existing project, and is subject to all applicable requirements.

Grantees may retain and use program income after the project period and closeout. Income earned after closeout is considered “program income” with accompanying requirements and restrictions. With the exception of Revolving Loan Fund (RLF) projects, funds are considered program income if the total amount earned equals or exceeds \$35,000 in a single year (January – December). If the total amount of post-closeout income earned is less than \$35,000 in a single year, then the CDBG requirements do not apply. Any amount earned from an active RLF is considered program income and must be reported.

Less than \$35,000: If a jurisdiction expects to earn less than \$35,000 and use this income for non-CDBG eligible uses, the jurisdiction must wait until the end of the year to verify with the CDBG program that this \$35,000 threshold was not exceeded. Once this is determined, these funds can be used without CDBG restrictions. In general, it is recommended that any income earned (whether above or below \$35,000), be used to continue a CDBG-funded activity, such as housing rehabilitation.

\$35,000 or more: If the total amount of program income equals or exceeds \$35,000 in a single year, the jurisdiction must report the amount to Commerce and submit a Program Income Reuse Plan for Commerce’s approval. Program income may be used to continue the CDBG-funded activity, such as housing rehabilitation, or to fund another CDBG-eligible activity, upon approval of the grantee’s Program Income Reuse Plan.

**Program Income Reports**

Records of program income received and expended must be maintained. If the grantee has a current CDBG contract with Commerce, program income must be:

- Listed on each A19 voucher during the project period;
- Reported annually by February 15 for the previous year, and after closeout of the grant if the total amount of program income received in a single year equals or exceeds \$35,000 (Attachment 4-A and the instructions.)

**Program Income Reuse Plan**

The grantee must also develop a Program Income Reuse Plan for future program income use as part of the contract closeout process. (Attachment 4-I).

**RECORD KEEPING AND REPORTING**

Grantees are required to maintain adequate financial management and accounting records. These records must include program and project budgets, requests for funds and source documentation, timesheets, status of funds, bank records, and any financial management correspondence. A description of the documentation included in financial management files is included in Section 3 – Record Keeping and Reporting.

**COMPLIANCE MONITORING PROCESS**

The CDBG project manager will monitor for compliance with financial management requirements by reviewing the grantee's method for maintaining internal controls, accounting and record keeping systems, and eligibility of costs, timesheets, source documentation and payment process, timeliness in the distribution of funds, and method for managing program income.

**FINANCIAL MANAGEMENT CHECKLIST**

- Designated a fiscal coordinator.
- Established and maintained necessary financial management.
- Established CDBG non-interest bearing account.
- Received the Release of Funds from Commerce prior to initial request for funds (if applicable).
- Submitted Indirect Rate approval letter or Certificate of Indirect Costs (if applicable).
- Verified payment requests are for eligible costs backed by source documentation.
- Maintained timesheets for all employees paid with CDBG funds.
- Submitted completed A19 vouchers, Project Status Reports, and Reportable Expenses Reports.
- Disbursed CDBG funds within three working days upon receipt.
- Followed 2 CFR 200 Requirements for Federal Awards.
- Monitored subrecipient (if applicable) for financial management compliance.
- Established system for receiving, recording, using and reporting program income.

**LIST OF REFERENCE MATERIALS**

Attachment 4-A----- Program Income Form and Instructions

Attachment 4-B (1)-- A19 Voucher

(2) -- A19 Sample

(3) -- A19 Instructions

(4) -- Project Status Report

(5) -- Reportable Expenses Report

Attachment 4-C----- Employee Timesheet

Attachment 4-D----- Annual Beneficiary Report(s)

Attachment 4-E ----- Certificate of Indirect Cost Form

Attachment 4-F----- Public Services Expenditure Report

Attachment 4-G----- Public Services Expenditure Report (SAMPLE)

Attachment 4-H----- Public Services Quarterly Beneficiary Report

Attachment 4-I----- Program Income Reuse Plan