

Chapter Three: Financial Management

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Introduction

Chapter 3: Financial Management presents the financial and administrative guidelines designed to establish consistency and uniformity among local governments in record keeping and administration of a Community Development Block Grant (CDBG) funded project. In establishing a financial management system, Grantees must follow 2 CFR 200.302 Financial Management, which requires the Grantee's financial management system to provide the following:

- Accurate, current and complete disclosure of financial results.
- Records adequately identifying the source and application of grant funds.
- Effective control over, and accountability for, all funds, property and other assets.
- Comparison of actual disbursements with the amounts budgeted for the grants related to performance or productivity data.
- Procedures to minimize the amount of time that elapses between the transfer of funds from the U.S. Treasury and the disbursement by the Grantee; (3-Day Rule).
- Procedures for determining reasonableness, allowability and allocability of costs.
- Accounting records supported by source documentation, such as cancelled checks, paid bills, payrolls, time and attendance records, contracts.
- A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

Supporting Materials

Attachment 3-1	Individual Monthly Time and Attendance Form
Attachment 3-2	Individual Daily Time Distribution Report
Attachment 3-3	Three Day Rule Compliance Policy
Attachment 3-4	Request for Payment Form
Attachment 3-5	Letter of Transmittal Sample

Designate a Responsible Individual/Finance Officer

The Grantee must appoint an individual who will be responsible for the financial management of the project. This individual should be familiar with the Grantee's present accounting system and involved with all aspects of the financial administration of grant funds, in accordance with the regulations found at: www.access.gpo.gov/nara/cfr/waisidx_02/31cfr205_02.html.

Bank Accounts

Each Grantee will establish a depository account for the receipt of all CDBG payments made from the CDBG program. Consistent with the national goal of expanding the opportunities for minority business enterprises, Grantees are encouraged to use minority banks (a bank that is owned at least 50 percent by minority group members). A list of minority-owned banks can be found here: www.fdic.gov/regulations/resources/minority/mdi.html

CDBG funds must be maintained in a separate, non-interest-bearing checking account in a bank with Federal Deposit Insurance Corporation (FDIC) insurance coverage. Any balance exceeding

the FDIC coverage amount must be collaterally secured.

Check signature cards must be maintained within the project bank statement file. All CDBG checks should have dual signature requirements. One of the signatures must be the Chief Elected Official.

The checks should be pre-numbered and state the name of the Grantee, the name of the project and the project number. Counter checks (checks that are not pre-numbered and do not provide project identification) must not be utilized.

Bank statements and canceled checks or check images must be maintained with the appropriate accounting records. The bank statements must be reconciled monthly and appropriate documentation supporting the reconciliation must be included with the bank statements.

Accounting Records

The Grantee must have a financial management system that provides accurate, current and complete disclosure of the financial status of each activity supported by CDBG funds. This means that reports indicate the dollar amount allocated for each activity (including any budget revisions), the amount obligated (i.e., for which contracts exist), and the amount expended for each activity.

The system must permit the comparison of actual expenditures and revenues against budgeted amounts. If the project budget includes sources of funding in addition to those provided by the CDBG program, including program income, these funds must appear in the financial management system just as they were shown in the proposal. **The Grantee's financial management system must be able to isolate and trace CDBG funds received and document their disbursement and use of applicable statutes.**

Financial records should be kept on a program year basis to facilitate audit and closeout. Receipts and expenses should be posted monthly within all financial records.

Separate accounting records for CDBG funds must be maintained. Not only will separate records serve all of the above recordkeeping requirements, they will also eliminate potential conflicts with the Grantee's usual recordkeeping systems, which may reflect a different local fiscal year, accounting-by-function or department, rather than activity.

Grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

At a minimum, three accounting documents must be established for recording CDBG transactions:

- » **Cash Receipts Journal:** This journal must be maintained to record the receipt of all funds (local, state and federal) used for program activities. The record must include the date funds were received, the amount of funds received, the source of the funds, and the accounts into which funds were assigned.

- » **Cash Disbursement Journal:** This journal must be maintained to record all checks

issued for the payment of program costs. The record must include the payment date, the payee, the check number, the amount and the account from which the disbursement was made.

- » **General Ledger:** This ledger must be maintained to summarize cash receipts and disbursements on a sub-account basis. All entries to the General Ledger must be made from the Cash Receipts and Cash Disbursements Journal.

In all financial recordkeeping, the Grantee is required to treat administration as a separate activity and account for administrative costs in the same manner.

Accounting records should also be maintained on an activity-level basis to make it easier to monitor the financial status of separate activities.

The WVDO also strongly urges the Grantee to maintain a Federal Cash Control Register if funds should be commingled. The Register will greatly facilitate the preparation of Request for Payment. It is simple to maintain and its use is highly recommended.

Accounting records must be supported by source documentation. Invoices, bills of lading, purchase vouchers, payrolls and other fiscal support must be secure and retained for three years from the issuance date of the final audit report to provide support for what purpose funds were spent. Payment must never be made without invoices and vouchers physically in hand. All vouchers/invoices must be on vendor's letterhead and include project identification, such as project name and number.

Internal Control

Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Budget Control

Actual expenditures or outlays must be compared with budgeted amounts for each activity.

Time Sheets/Time Distribution Records

All employees paid in whole or in part from CDBG funds must prepare a monthly and daily time sheet indicating the hours worked on CDBG projects for each pay period (**Attachments 3-1 and 3-2**). Based on these time sheets and the hourly payroll costs for each employee, a voucher statement indicating the distribution of payroll charges should be prepared and placed in the appropriate files. Invoices presented to Grantees from contracts or agreements set up on a "cost reimbursement basis" shall be supported by similar records.

Review System

The Grantee must adopt a written procedure for determining the reasonableness, allowability and allocability of costs. Since a Grantee's finance officer may not be familiar with the CDBG program, CDBG administrators should review and approve vouchers and invoices. This process will ensure that all costs are reasonable and eligible under CDBG regulations. The project administrator will indicate review and approval by initialing all invoices submitted for reimbursement from CDBG funds.

Three-Day Rule

Written mechanisms must be developed and adopted to ensure compliance with the "Three-Day Rule." **The "Three-Day Rule" means that funds requested in excess of \$5,000 must be deposited and expended within three working days after they are received.** (Add PSD 3 day rule)

The time period begins upon receipt of the check, not the deposit. Thus, if a state-issued CDBG check is received on a Friday, it must be immediately deposited, and checks should be written for the full amount of the deposit by the close of business the following Wednesday. If there is money remaining in the program account at the time an additional request is being prepared, the amount drawn should be the amount needed, less than the amount remaining in the account. In this way, all funds will be expended within the three-day limit.

Funds on hand after three days of receipt should be the minimum amount needed to carry on the program and should never exceed \$5,000. If the Grantee finds that funds on hand after three days from receipt exceed \$5,000 and will not be disbursed within two weeks, the entire amount not being disbursed within the two-week period should be returned to the WVDO.

The easiest way to meet the "Three-Day Rule" requirements is to use Grantee funds to pay CDBG invoices and then submit a Request for Payment to the WVDO to reimburse the Grantee for these payments.

If the Grantee's cash flow will not permit this, a Request for Payment should, in most cases, be submitted only upon receipt of invoices or progress payment requests to ensure that funds are expended within three days of receipt. If payment is requested in anticipation of receiving major invoices or other methods of billing, delays in the contractor submitting a payment request can cause funds to be held longer than three days.

If the Grantee proceeds on the basis that requests for payment are made only upon receipt of major invoices or bills, it is necessary that contractors be informed that there will be approximately 30 days between receipt of invoice by the WVDO and payment. When progress payments will be made, it is essential that the contract specifies the approximate schedule of payments and ties them to identifiable project milestones (i.e., completion of community center foundation). If not specified, it may be viewed as a payment in advance, a practice not approved by the WVDO.

Certain situations encountered by a Grantee might necessitate a drawdown based on an estimation of needed funds. One such situation is in the case of real estate transactions where the expenditure must be anticipated and the drawdown scheduled as close to the closing date as practicable. Therefore, in certain cases, the WVDO will permit drawdown based on estimates that are imminent and reasonably firm. Such requests will be closely scrutinized and any Grantee abusing this procedure will have more stringent guidelines placed on their ability to draw in advance.

Request for Payment

After a Grantee has submitted a grant agreement and all required documents to the WVDO for processing, the WVDO will issue an executed grant agreement.

Prior to any payment of funds, the Grantee must submit all required Evidentiary Materials as referenced in Chapter 1: Project Administration. Following the submittal of Evidentiary Materials, the Grantee may request 1) Approval of Evidentiary Materials, and 2) Notice to Proceed with Exempt Activities.

Pursuant to 24 CFR Part 58, "Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities," the Grantee must conduct the appropriate environmental review prior to the expenditure or obligation of funds. Upon approval, the WVDO will issue written authorization for Exempt activities. This authorization will apply exclusively to the Exempt activities associated with the project, to include administration, engineering and design.

Completion of the environmental review process is **mandatory** before taking a physical action on a site or making a commitment or expenditure of HUD or non-HUD funds for property acquisition, rehabilitation, conversion, lease, repair, or construction activities.

A complete Environmental Review Record (ERR) and Request for Release of Funds (ROF), in accordance with 24 CFR Part 58.36, will be required for non-exempt activities, to include construction.

In order to obtain funds obligated for an approved project, a Grantee must submit the following to the WVDO:

Request for Payment – Financial Report:

This Request for Payment-Financial Report will show the correspondence of cost(s) claimed to the approved budget. This report must be complete or it will not be processed.

Expenditure Schedule:

The expenditure schedule must document all project funding. The expenditure schedule must also illustrate any invoices partially attributed to other funding sources.

Letter of Transmittal – Progress Report:

A Request for Payment must be accompanied by a Letter of Transmittal that includes a narrative description of the accomplishments and a factual and complete explanation of the need for funds as represented by the Request for Payment. A Request for Payment will not be processed without a Progress Report.

A Request for Payment will not be processed without an adequate report on the progress of the project. Failure to provide an adequate Letter of Transmittal may result in the withholding of funds. The WVDO staff will review the Request for Payment and Letter of Transmittal, and upon approval, the request will be processed.

In order for payment to be made, the WVDO must request a transfer of funds from the U.S. Treasury to the state's CDBG account. Upon notification of deposit, a state transmittal must be prepared and processed before a check can be issued. When a check is issued, it will be forwarded directly from the State Treasurer's Office to the Grantee for deposit into the Grantee's CDBG project account. The check must be deposited immediately. Receipt of the U.S. Treasury check triggers the count of the three-day rule.

It is anticipated that the payment process outlined above will take approximately 30 days.

Grantees are advised that they will have to use their own resources to accommodate probable cash flow problems.

Funds are to be requested in amounts of \$5,000 or more (unless there is less than \$5,000 remaining) and may be requested as often as needed. As explained earlier, funds must be expended in accordance with the "Three-Day Rule."

Audit Requirements

2 CFR 200 Subpart F establishes the audit requirements for state and local governments that receive federal aid and define federal responsibilities for implementing and monitoring those requirements.

Contracted Audit

The audit of a CDBG project must be included in audits performed by auditors contracted for through the Office of the Chief Inspector of the State Auditor's Office per provisions of the West Virginia Code 6-9-1.

The audit of the CDBG program must be included within the scope of a comprehensive, agency-wide audit for any Grantee expending \$750,000 or more in federal funds per fiscal year in accordance with the 2 CFR 200 §200.501: Audit requirements. A pro rata share of the cost may be charged against the CDBG project. All Grantees expending less than \$750,000, starting December 2014, of federal funds in any given fiscal year will receive an audit review.

Costs for an audit review will not be eligible. This audit goes beyond a simple financial audit to include an assessment of compliance with other major program provisions, including labor standards, acquisition and relocation procedures, environmental review procedures, etc.

Grantees and auditors must use the following guidelines:

Guidelines for Financial and Compliance Audits of Federally-Assisted Programs

www.gao.gov/products/108390

Standards for Audit of Governmental Organizations, Programs, Activities, and Functions

www.gao.gov/products/136670

Copies of the final audit shall be provided to the Development Office within 30 days of receipt by the Grantee.

The state retains the right to review audit working papers during the audit for a period of three years after issuance of the final audit report. A statement to this effect must be included in any contract or memorandum letter of agreement between the Grantee and its auditors.

Internal Audits

In addition to the contract audits, the CDBG internal audit staff will perform financial management audits. These audits will be performed upon schedules determined by CDBG management and grant administrative staff. The same audit standards utilized for the State Auditor's Office audits will apply.

Retention of Records

Files should be maintained in a central location. The Grantee is responsible for all files, whether maintained at the Grantee's office or at the office of the administrator.

Following final closeout, the Grantee must retain all project records for three years after the date of the final audit report, according to 2 CFR 200.333, and must be available for review at any time. Records must include all working documents established during the audit. A complete listing of required records is provided in Chapter 1: Project Administration. Strict adherence to record keeping procedures should begin immediately following the grant award.

If any litigation, claim, negotiation, audit, monitoring, inspection or other action has been started before the expiration of the required record retention period, records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the required period.

In addition, WVDO or HUD representatives, the U.S. Inspector General, the General Accounting Office, and the Comptroller General of the United States must have access to any pertinent financial files, books, records, accounts, documents, papers, and other property belonging to the community that pertains to the grant.