

Chapter 8

Financial Management

Introduction

Effective financial management is the heart of successful Community Development Block Grant (CDBG) administration. Grantees, or the Unit of General Local Government (UGLG), are held accountable for all funds, property, and assets of the CDBG program. The UGLG must maintain a financial accounting system for the grant that meets federal and state requirements.

This chapter provides guidance on financial management requirements, including applicable regulations, financial accountability records, authorized signatures for payments and checks, requests for payments, bank accounts, chart of accounts, escrow accounts, administrative costs, property management, and audit requirements.

Section 1 – Applicable Regulations and Requirements

The Michigan Economic Development Corporation (MEDC) is responsible for monitoring the UGLG's compliance with applicable financial management standards, for processing CDBG Payment Requests (PRs) for CDBG funds, and for audit review. There are two types of federal financial standards; HUD CDBG specific guidelines and general federal grant guidelines.

HUD Guidelines

The following is a list of the key federal regulations governing financial management.

- 24 CFR Part 570, Community Development Block Grant Program.
- Subpart I governs the State CDBG program.
- Section 570.489 details program administration requirements.

24 CFR Part 570.511 refers to the administration of escrow accounts. (The CDBG Entitlement Program regulations on this topic are considered a safe harbor for use in the State CDBG Program.)

24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments (also called the Common Rule). This regulation, which applies to government agencies, sets forth uniform requirements for financial management systems, reports and records, and grant close-outs for UGLGs receiving federal grant funding. Listed below is the location of specific applicable rules by category in the Common Rule.

- Section 85.20 Standards for financial management systems.
- Section 85.21 Payment.
- Section 85.22 Allowable Costs.
- Section 85.23 Period of availability of funds.
- Section 85.24 Matching or cost sharing.
- Section 85.25 Program income.

- Section 85.26 Non-federal audit.
- Section 85.34 Copyrights.
- Section 85.35 Sub awards to debarred and suspended parties.
- Section 85.36 Procurement.
- Section 85.37 Sub grants.
- Section 85.40 Monitoring and reporting program performance
- Section 85.41 financial reporting.
- Section 85.42 Retention and access requirement for records.
- Section 85.43 Enforcement.

Federal Guidelines (general)

In December 2013 new uniform federal grant guidance, 2 CFR Chapter I, and Chapter II, Parts 200, 2015, 220, 225 and 230 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” came into effect. This guidance is commonly called the Omni Circular, Super Circular or Uniform Guidance. This new guidance replaces A-87 Cost Principals – State and Local Governments, A-122 Cost Principals - Nonprofit organizations, A-89 Catalog of Domestic Assistance, A-102 Administrative Rules State and Local Governments, A-133 & A-50 Audit Rules. It is important to note that for grant recipients the change from the previous federal standards (like A-87 & A-133) to the OMNI circular did not all occur in December 2013 but instead will apply based on the funding year of the grant award. Unless otherwise noted in the grant agreement any grant funds awarded prior to 7/1/2015 will fall under the previous guidance. After that date details regarding which federal guidance should be followed will be spelled out in the grant agreements.

Key federal guidance for awards funded prior to 7/1/15 (or later as spelled out in the grant agreement):

- OMB Circular A-87 “Cost Principles for State, Local and Indian Tribal Governments” – This applies to governmental entities and establishes principles and standards for determining allowable costs under federal grants.
- OMB Circular A-110 “Cost Principles for Non-Profit Organizations.” - This establishes principles for determining allowable costs for nonprofit organizations.
- OMB Circular A-133 (Revised June 1997) “Audits of Institutions of States, Local Governments and Nonprofit Institutions.” These regulations refer to audit procedures and requirements for States, Local Units of Government and Non-Profit Organizations

Key sections of the Omni Circular¹:

- 200.305 – Payment
- 200.317 Procurement

¹ All references to the “Omni Circular” refer to the “Office of Management and Budget 2 CFR Chapter 1 & 2 Part 200, 215, 220, 225 and 230 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” dated 12/26/13, <http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf>

- 200.321 Contracting with small and minority businesses, women’s business enterprises, etc.
- Subpart E – Cost Principles
- 200.403 Allowability of costs
- 200.404 Reasonable costs
- 200.405 Allocable costs
- 200.430 Compensation – personal services
- Subpart F – Audit requirements (200.500-200.521)
- Appendix II to Part 200 – Contracts

Section 2- Cost Reasonableness

The UGLG must ensure that CDBG funds are spent only on reasonable and necessary costs associated with approved grant or loan activities. Some questions to help guide decisions on cost reasonableness and necessity are:

1. Where the costs incurred using the established practices of the UGLG (procurement policy)?
2. Are the goods or services provided at a fair market cost?
3. How would you defend this costs to an auditor or a community member?
4. Are the costs determined in accordance with Generally Accepted Accounting Principles (GAAP)?
5. Where the costs incurred in a transparent and consistent manner?
6. Is this cost permitted under the term of the grant award and under federal, state and local laws and regulations?
7. Did this transaction avoid any conflict of interest or the appearance of conflict of interest?

Cost Allocation Plan

In addition to being reasonable and necessary all costs charged to a federal grant must be allocable, meaning that any expenses which are incurred that benefit but the CDBG grant and any other project/activity/funding source the costs can only be charged to the CDBG grant if a proper Cost Allocation Plan exists and is used. Allocated costs are not commonly included in the project budget for CDBG grant awards, however if they are a cost allocation plan is required. Regional Loan Fund Administrators will be required to have a cost allocation plan that at a minimum covers the method they will use to allocate general administrative costs across the funds they manage. *A detailed sample cost allocation plan can be found in the attachments to this chapter (Form 8-E).*

Section 3 – Financial Accountability and Records

Internal Controls

Internal controls are policies and procedures in place that ensure effectiveness and efficiency of operations and compliance with applicable laws and regulations. Some of the main goals of internal controls are to:

- Safeguard assets – from theft, accidental loss, fraud, etc.
- Ensure that accounting information is accurate and reliable
- Ensure compliance – with GAAP, laws, regulations and the terms of agreements
- Assist the organization in accomplishing its goals

There are many elements the good internal controls but they should always include:

- Defined roles and clear segregation of duties – including appropriate managerial oversight
- Documented processes, policies and procedures
- Restricting access to systems and records – passwords, locked files
- Proper record retention
- Record reconciliations
- Audits/Internal reviews/Monitoring

Financial Management Systems Requirements and Certifications

UGLGs must:

- Provide financial status of each CDBG grant separated from other funding sources and other grants
- All records needed for a state monitoring or Single Audit should be maintained and made available to independent auditors and state CDBG staff as necessary for them to complete the monitoring or audit.
- Have financial records that are accurate, current and complete
- Show both receipt and expenditure of CDBG funds
- Have sound internal control procedures and
- Have cash management procedures and be able to provide documentation in the form of a cash transaction ledger.
 - This should include the date of each receipt of federal funds from the state and the date of each expenditure on the grant, separating funds to be reimbursed from federal grant dollars, required matching funds and other funds.
- Document both CDBG and CDBG matching financial transactions in line with the approved grant budget
- Have a budget control system to compare actual costs with budgeted costs throughout the life of the grant project
- Keep segregated accounting records for CDBG funds (this could be done through the use of fund accounting, the creation of separate chart of account for CDBG activities)
- **Required Certifications**

- Financial Management System
- Authorized signatures for payments and checks
- Conflict of Interest Policy

Record Retention

The required period for retaining all required documentation at the local level for CDBG grants is at least 3 years after the close of the grant award between HUD and the State of Michigan from which the project was funded. It is important to note that this period can be much more than 3 years from the date the project is completed. The MEDC will notify grant recipients when the 3 year period begins, and UGLGs are encouraged to contact the MEDC before disposing of any records to confirm that the 3 year retention period has lapsed. It is also important to note the many records required for CDBG grant projects should be retained indefinitely or for longer than required by the terms of the CDBG grant in order to meet other record retention requirements, like those of the IRS.

Section 4 – Payment Requests

Receiving Payments from the State of Michigan

Before a payment request is submitted the UGLG must be registered as a vendor for the state of Michigan.

Directions for registering:

- Go to the Vendor/Payee webpage, www.michigan.gov/cpexpress
- Click on the green C&PE arrow
 - Register as a state vendor
 - Register to receive payments via EFT (per State of Michigan Public Act 533 of 2004)

PLEASE NOTE: Do not log out of the registration system until you enter all three of the following:

- Complete address, contact person and telephone information
- W9 information
- Financial institution and account information (For required EFT payments)

The same website can be used to edit or add vendor information like changing the address or setting up a new bank accounts. If your community has more than one vendor mail code, or if you wish to have CDBG funds deposited to a specific account please inform your program specialist which mail code to use on payments.

Payment Request Process

There are two methods the UGLG is allowed to use to request payment of CDBG funds from the MEDC;

1. Cash Advance
2. Cost Reimbursement

The cost reimbursement method of payment consists of the payment of CDBG funds to the UGLG based on actual expenditures that the UGLG has paid. Most payment requests will fall into this category.

The cash advance method allows the MEDC to pay the UGLG CDBG funds in advance of the UGLG incurring the expenditure. Note, this method is only allowed if the UGLG provides the MEDC with the necessary assurances listed below, and maintains procedures to minimize the time elapsing between the transfer of funds and their disbursement. CDBG funds should be expended within 3 days of receipt by the UGLG.

Requirements for Submittal of a Payment Request (PR)

The UGLG requesting CDBG funds from the MEDC must use the CDBG Payment Request (PR) form. The blank form and instructions may be found as Form 8-A1 to this chapter.

The UGLG should determine their cash requirements prior to requesting CDBG funds. The funds requested should be for amounts necessary to meet current disbursement needs. Current disbursement needs are funds that will be expended as soon as administratively feasible, since it is required that funds in excess of \$5,000 be expended within three days of receipt.

The following requirements must be met before the MEDC can process the first PR:

- The Grant Agreement must have been signed and returned to the MEDC.
- All required documentation in the Pre-Disbursement List must be submitted to the MEDC.
- Funds must be drawn on a pro rata basis and documentation of the match must accompany the PR. Depending on the type of match being provided, supporting documentation may include invoices, copies of checks, time sheets, etc.

The following requirements are necessary for the submittal of any PR:

- The UGLG must request funds by activity or budget line item. The only exception is that up to \$5,000 may be requested on the initial PR without specifying a budget item. Also, any time the UGLG is required to return cash, the UGLG must submit a PR specifying which activity or budget line item to credit. Additionally, if funds are being drawn down at the same time as the refund is being submitted, the refund and draw down must be done on separate PR forms.
- Total funds requested cannot exceed the approved total budget for any activity without prior approval from the MEDC. An analysis of the budget should be conducted whenever there are potential line item budget revisions to ensure that the total costs are within the total project budget.
- When using the cash advance method, the UGLG must project future expenses and determine their cash requirements prior to requesting CDBG funds. Cash advances shall be limited to the minimum amount required for three days.
- The approved grant application, along with the most recently approved budget, should be used as the basis for the development of the PR. The amount requested for each activity must conform to the activities and costs approved in the grant application budget.
- When using the cost reimbursement method, the UGLG simply requests reimbursement for expenses incurred and paid in connection with the grant.

PR Submittal and Processing

Once the above listed requirements have been met, the UGLG may draw down CDBG funds. There are 2 mechanisms for submitting a payment request one is to complete the form attached at the end of this chapter and the other is through the use of the Salesforces Portal.

Salesforce Portal

The Salesforce Portal is a new tool that the CDBG program has that allows UGLGs to log in and fill out the required information and upload the necessary supporting documentation right into our payment request system. The benefits to use of the portal include faster processing time for the payment. If you are interested in using the Portal please contact your grant specialist to get more information.

Use of the Payment Request Form

The second option for how to submit a payment request is to complete the PR and Invoice Summary (Form 8-A2) and submit it to your project specialist via mail, email or fax.

PRs must be submitted at least quarterly. The UGLG should allow 10 to 15 working days after required corresponding documentation has been submitted. Any PR that is not completed properly may be returned to the UGLG without being processed. Some of the reasons a PR may be returned include:

- Contract not approved by the MEDC (if applicable).
- Adjustments to amounts previously drawn not reported correctly or in a timely fashion.
- Administrative funds not requested proportionately to progress.
- Budget amounts, amounts previously drawn, and/or total expenditures to date do not agree with the MEDC's records.
- Required match not documented prior to draw down of final CDBG funds, or a pro rata draw is not requested, if required.
- Unauthorized signature on PR.
- There is a reason to stop payment on the grant (see below).

The MEDC will stop payment of CDBG funds for the following reasons:

- Semiannual and/or annual reports are not received.
- Audit reports not received.
- Response to monitoring or other requests not received.
- Noncompliance with other grant agreement terms.

The grantee must submit a Final Closeout PR. This Final PR will reflect any final adjustments and/or refunds draw down. The Final PR must be indicated as such on the item #8 on the PR to begin the grant close-out process. Refer to Chapter 13: Grant Close-out Process for detailed information on the close-out process.

Section 5 – Detailed Information in Specific Types of Costs

Acquisition Costs

Estimated costs of real property must be budgeted under the Acquisition line item. Appraisal and review appraisal fees, legal, and title search costs should also be listed under the Acquisition budget item.

Water/Sewer Tap and Connection Costs

Generally, the costs associated with connecting a residential unit to a water or sewer line are considered housing rehabilitation, which is a program administered by MSHDA. However, the MEDC may, in some situations, enable the UGLG to assist privately owned businesses to connect a business to a water or sewer line as part of an approved economic development initiative. These are activities that occur on private property and are generally contracted separately from the main water/sewer line construction. These costs may include service lines and appurtenances on private property.

CDBG funds may only be used for hard construction and installation costs for hook-ups/connections to public water and sewer, and not to pay for any water or sewer connection, impact, or capacity fees. Any associated fees that directly impact Low and Moderate Income households must be waived or paid with non-CDBG funds, and may be considered part of the local match requirement.

Administrative Costs

Community Development Block Grant (CDBG) funds may be available to assist the Unit of General Local Government (UGLG) with the management of its CDBG Grant Agreement. The CDBG program includes federal and state statutes, regulations, and policies. UGLGs must use a Certified Grant Administrator (CGA) to utilize MEDC funding. Typically, there are two types of CGAs:

CGA on the UGLG's Staff

Administrative dollars are not available for employees of the UGLG. Federal regulations do not allow CDBG funds to be used to supplant available local funds. Typically, when a CGA on the UGLG's staff administers its' own grant, the administration is provided as in-kind leveraging (above the required local match) and is not included in the budget.

However under specific circumstances, an UGLG can charge time for a CGA on its own staff, if the UGLG first submits and the MEDC approves, a certification that the CDBG funds used to pay the employee's salary will not supplant available local funds. A contract must be executed between the UGLG and the employee outlining the employee's specific duties.

CGA Consultant

The UGLG must follow appropriate procurement requirements when selecting a CGA consultant. Please refer to Chapter 14, Form 14-A for information on the procurement process.

Additional Guidance and Pre-disbursement requirements for both a CGA Consultant and a CGA on the UGLG's Staff

Payment to the CGA is based on negotiated terms between the UGLG and the selected CGA. Payment could be based on:

1. Reimbursement from the UGLG; or
2. The UGLG's drawdowns from the Michigan Economic Development Corporation (MEDC).

Typically, administrative draws should be proportionate to project completion. For example, a project which is only 60% drawn down should only have 60% of its' administrative costs drawn down. This ensures that the State Program as a whole does not exceed HUD limits on administration costs.

CDBG Disbursement for CGA administrative expenses will not happen until:

1. The environmental review has been completed;
2. The grant agreement has been executed;
3. The pre-disbursement requirements in the Grant Agreement and any items requested by the MEDC have been submitted and approved by the MEDC;
4. The executed administrative contract has been forwarded to the MEDC.

Reimbursement for both a CGA Consultant and a CGA on the UGLG's Staff

Regardless of whether the CGA is a consultant or on the UGLG's staff, the process for requesting reimbursement for administrative costs is the same. The UGLG is required to submit the following documents:

1. Form 8-A (CDBG Grant Payment Request and Instructions);
2. Form 8-D (Administrative Activity Report) which identifies the CGA's daily activities/hours; and
3. The appropriate documentation (i.e. invoices, travel costs, etc.) for any other costs charged.

NOTE: Federal regulations do not allow CDBG funds to be used to complete CDBG applications or to be used to administer other federal or state grant programs that may be conducted in conjunction with a CDBG project.

In addition to the above documentation, the UGLG's files should include time sheets supporting the Administrative Activity Report. The documentation must be kept on file and will be reviewed at financial monitoring.

If the UGLG separately procures for both a CGA and an engineering or architectural contract and the UGLG determines it is most advantageous to select the same firm, this would be considered a general conflict. In this case, the UGLG may select the same firm but the CGA may not oversee and approve its firm's own work.

For guidance related to Administrative Costs associated with the CDBG Loan Program, refer to Chapter 3 of this manual.

Personnel Costs

Federal regulations do not allow CDBG funds to be used to supplant available local funds. However under specific circumstances, local governments that wish to charge costs or an employee's time for administration of the CDBG project to the CDBG budget must first submit a certification that the use of federal grant funds for a portion of the employee's salary will not supplant available local funds. Any costs and time charged must be documented through the appropriate means (i.e., invoices from local newspapers for advertisements placed for hearings, travel costs, time sheets indicating work performed for the particular project, etc.). The documentation must be kept on file, and will be reviewed at financial monitoring.

All local government employees and non-profit administrators, who charge administrative time to a CDBG grant for which reimbursements will be requested, are required to fully document how the time was spent. (This requirement does not apply to private consultants who contract on a fixed fee basis for

CDBG administrative services. These arrangements are subject to procurement requirements outlined in Chapter 4.)

Funds budgeted for staff contributing to development of a plan under a Local Planning grant must be budgeted as Salaries and Fringe under Planning. The staff must keep time sheets and be prepared to show that the grant is not supplanting local funds budgeted for the salary of the employee involved. These are activity delivery costs and do not include costs for general administration of the grant, but are documented the same as administrative local personnel costs.

Time and attendance records must be kept to document actual hours worked and costs charged to the administrative budgets of CDBG projects. Reimbursements will be allowed based only on actual costs.

Required documentation, an Administrative Activity Report (Form 8-D), is essentially a time sheet that should be maintained daily, tracking actual hours worked and provides hours that are billable to the CDBG account (Billable Hours).

An Administration Activity Report may be completed for each grant, or you may include more than one grant on each sheet. For each grant, you must show a grant total and a billable total. This form was designed for a biweekly payroll period, but may be modified for a weekly or monthly pay period.

Documentation of CDBG administrative costs is mandatory. At a minimum, the Administrative Activity Report must contain the following information:

- Employee name.
- Pay period.
- Hours worked by day.
- Actual hours charged to the grant.
- Employee signature.
- Supervisor signature.
- Hours billable to the payroll account.

The Administration Activity Report will be subject to review during regular monitoring visits of CDBG projects.

Section 6 – Property Management

Each item of non-expendable property to be acquired with CDBG funds at a cost of \$5,000 or more must be approved by the MEDC prior to purchase. If the item has a useful life of one or more years, the Grantee must maintain adequate property inventory controls and comply with the property management, use, and disposition requirements outlined in 24 CFR Part 85. In addition, a Personal Property Management Report, Form 8-B1 and/or Real Property Management Report, Form 8-B2, must be completed showing pertinent information regarding the equipment, including the description of item, serial number, location, disposition, etc. This form, which is provided as an attachment to this chapter, must be completed and returned with the grant close-out package. A copy must also be maintained by the UGLG and updated as necessary until disposition.

Disposition

When original or replacement equipment acquired with CDBG funds is no longer needed for the original project or program or for other activities currently or previously assisted with federal funds, the following rules of disposition will apply to governmental grantees.

- Equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of by the grantee *after notice to the MEDC*, subject to the conditions in 3 below.
- Equipment with a current per-unit fair market value of \$5,000 or more may *after notice to the MEDC* be retained or sold by the grantee with the MEDC having the right to compensation in an amount equal to multiplying the current fair market value *or* the proceeds from sale by the federal share (percentage) in the original acquisition price of the equipment. For example, if the equipment was purchased for \$100,000, utilizing \$50,000 in CDBG (50 percent) and \$50,000 (50 percent) in private funds and the company sold the equipment for \$60,000 (depreciated value is \$50,000). The MSF would be repaid \$30,000 (the greater of 50 percent of \$60,000 or 50 percent of \$50,000).
- The MEDC may reserve the right to transfer title of the equipment to the federal government or a third party (24 CFR 85.32(g)).

In addition, per 24 CFR 570.502(a) (8), in all cases when equipment purchased with CDBG funds is sold, the net proceeds are considered program income.

The use of real property is governed by 24 CFR 570.505. For real property acquired or improved in whole or in part with CDBG funds in excess of \$25,000, the grantee cannot change the use or planned use of the property (including the beneficiaries of such use) without first providing affected citizens notice and opportunity to comment, and determining that either:

- The contemplated new use meets one of the National Objectives and is not a building for the general conduct of government.
- The contemplated new use is deemed appropriate (after consultation with affected citizens) but will not meet a National Objective. In this latter case, the grantee must reimburse the MEDC CDBG program in the amount of the current fair market value of the property, less the value attributable to the non- CDBG portion of the acquisition or improvements.

At monitoring, MEDC staff will ensure that proper inventory controls and records are being maintained. Contact the MEDC for disposition instructions prior to transfer, trade, or sale of equipment.

Section 7 – Audit Requirements

One of the primary financial management requirements implicit with the use of federal funds pertains to audits. OMB Circular A-133 provides requirements for audits of governmental entities and nonprofit organizations. As an agency administering federal funds, the State is responsible for ensuring the UGLGs comply with OMB Circular A-133 requirements.

Determination of Single Audit Applicability

As a result of the new Omni Circular guidance there are two sets of audit thresholds, one for awards funded from 2014 and earlier and another from 2015 and later.

If your grant award was funded from 2014 or earlier and the UGLG expends more than \$500,000 during its fiscal year, then an A-133, or single audit is required.

If your grant award was funded from 2015 or later and the UGLG expends more than \$750,000 during its fiscal year than a single audit under the Omni Circular guidelines is required.

To document the applicability of a single audit under either set of federal guidance, every UGLG must complete and submit an Audit Requirements Certification Form (Attachment 8-C) to the MEDC within 60 days of the end of the UGLG's fiscal year. This form is attached at the end of the chapter. The MEDC does not permit program audits (a more limited type of federal funds audit) for any grantee over the applicable threshold (\$500,000 or \$750,000).

Type of Audit Required

All audits conducted in accordance with OMB A-133 or the Omni Circular must be performed in accordance with Generally Accepted Government Auditing Standards, described in GAO's Government Auditing Standards, commonly referred to as the Yellow Book. According to these standards, a financial audit should determine whether:

- Financial information is presented in accordance with established or stated criteria.
- The entity has adhered to specific financial compliance requirements.
- The entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve control objectives.

Even though an audit is required because of the use and receipt of specific federal program funds, the audit will also serve as the local government's agency-wide audit. Therefore, local funds should be used to pay for audit costs.

Auditor Procurement and Selection

There are guidelines specific to the selection of an auditor to conduct the single audit. The following guidelines apply to auditor selection under A-133 or the Omni Circular¹ guidance (citation: A-133 Subpart C – Auditees .305; Omni 200.509):

- Procurement – Auditors must be procured under the general applicable procurement standards that apply to their award
- Factors to consider is selection include responsiveness to RFP, experience, staff availability and capacity, peer reviews/quality reviews by third parties and price.
- Positive efforts should be taken to utilize small businesses, minority-owned firms, and women's business enterprises
- Prior to issuing a RFP for an auditor the grantee should carefully review either the A-133 or the Omni Circular 200.501-521 whichever is applicable.

Requirements for the Audit Report

OMB Circular A-133 requires that audit reports issued upon completion of an audit include the following components:

- An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects and in conformity with generally accepted accounting principles.

An opinion (or disclaimer of opinion) as to whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.

- A report on internal control related to the financial statements and major programs describing the scope of testing of internal controls and the results of the tests and, where applicable, refer to the separate schedule of findings and questioned costs described below.
- A report on compliance with laws, regulations, and the provisions of contracts or grant agreements; noncompliance with which could have a material effect on the financial statements.
- An opinion (or disclaimer of opinion) as to whether the auditee organization has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program and where applicable, refer to the separate schedule of findings and questioned costs described next.
- A schedule of findings and questioned costs that includes a summary of the auditor's results as described below, and all audit findings. The summary of audit results must include:
 - The type of report the auditor issued on the financial statements.
 - Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
 - A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee.
 - Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit, and whether any such conditions were material weaknesses.
 - The type of report the auditor issued on compliance for major programs.
 - A statement as to whether the audit disclosed any audit findings.
 - An identification of major programs.
 - A statement as to whether the auditee qualified as a low-risk organization.

The auditor's report(s) may be in the form of either combined or separate reports, and may be organized differently from the manner presented in this section.

Audit Submission

Generally, the due date for submission of the audit report is the lesser of 30 days of the completion of the audit or 9 months from the end of the UGLG's fiscal year end date.

Please note that if the UGLG indicates on their Audit Requirements Certification Form (form 8-C) that an Single Audit is not required, exempt, for a particular fiscal year, a copy of the annual audit or other financial report review must be maintained to document the assertion of exemption.

If a Single Audit is required, it is requested for all UGLGs and required for those receiving funds from grant year 2015 and later that the Audit Reports be submitted to the Federal Audit Clearinghouse (FAC). If submission to the FAC is not required and the UGLG prefers not to submit to the FAC a copy of the audit report must be submitted to:

Michigan Economic Development Corporation
Attn: CDBG, 300 N. Washington Square, Lansing, MI 48913

In all cases, the grantee must maintain appropriate records and make them available for review or audit by appropriate federal, or state personnel as necessary to verify information provided on the form.

Audit Review and Resolution

The UGLG must establish a system to ensure a timely and appropriate resolution to audit findings and recommendations. A first step in the resolution of an audit is the preparation of Management's Response to the findings and recommendations contained in the audit report. In its response, the UGLG should provide:

- For findings/recommendations with which the UGLG agrees, information on the actions it has taken (or plans to take) to correct the specified noncompliance or financial system deficiencies.
- For findings/recommendations with which the UGLG does not agree, the basis (including relevant documentation) for the subrecipient's belief that an audit finding or recommendation is inaccurate or inappropriate.
- If in its formal audit response the UGLG has disagreed with any of the audit findings or recommendations, the entities issuing and reviewing the audit report will re-examine the points in question to determine whether any revisions to the report's findings/recommendations are warranted. For those audit findings and recommendations with which the UGLG agrees, and for any disputed findings or recommendations in which the challenge is not upheld, the next step in the resolution process is the implementation of procedures to prevent the deficient conditions from re-occurring. In general, corrective action to correct findings or to implement recommendations must be completed within one year of the issuance of the audit report.

A repeat finding (a deficiency or area of noncompliance that appears in more than one successive audit) will be viewed very seriously, and can often result in special conditions being attached to future federal funding, or other sanctions. Occasionally, the findings from an audit will result in questioned costs. Costs associated with federal funding may be questioned for the following reasons:

There is inadequate documentation to support the expenditure or the amount of cost charged to the grant.

- The expenditure does not appear to be related to the grant project.
- The cost was incurred outside the effective period of the grant agreement, or was a program expense incurred before environmental review clearance was achieved.
- The expense is unallowable under the program regulations and applicable cost principles.
- The cost required the prior approval of the UGLG, and no prior approval was obtained.

To resolve a questioned cost, the UGLG must:

- Provide the missing documentation to support the expenditure and amount

- Offer detailed explanations of how the cost relates to the grant program and/or
- Seek retroactive approval (which the State may or may not grant) for an expense that required prior approval.

If the UGLG is not able to resolve a questioned cost to the satisfaction of the auditor and/or the MEDC, the expense will be disallowed. A disallowed expense for which federal funds were originally used must be reimbursed from non-federal funds. On occasion, such reimbursements can be repaid on a payment schedule negotiated with the MEDC.

Criteria to Qualify as a Low Risk Auditee

Any UGLG that qualifies as a low risk auditee is eligible under the OMNI circular guidance to have reduced audit coverage. The full details of what qualifies a grantee for low risk status can be found in the OMNI circular Subpart F 200.520. Some of the criteria for determining status as a low-risk auditee are as follows:

- Unmodified Auditor opinion on the proper use of GAAP for financial statements
- Unmodified Auditor opinion on the SEFA
- No deficiencies in internal controls
- No modified opinions on any major programs for preceding two audit periods

If an UGLG believes that they may qualify as a low-risk auditee after carefully reviewing the OMNI criteria they should contact their project manager.

Chapter 8 Form(s)

- 8-A1 Payment Request and Instructions
- 8-A2 Invoice Summary
- 8-B1 Personal Property Management Report
- 8-B2 Real Property Management Report
- 8-C Audit Requirements Certification
- 8-D Administrative Activity Report
- 8-E Cost Allocation Plan SAMPLE
- 8-F Program Income Policy for CDBG Grantees
- 8-G UGLG Program Income Decision Tree
- 8-H Program Income Certification
- 8-I Time and Effort Tracking Log – simple
- 8-J CDBG Local Program Income Quarterly Report