

## **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.

### **SECTION 1 - FINANCIAL MANAGEMENT**

The Grantee's financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Grant, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Grant.

The financial management system of the Grantee must provide for the following (see also Recordkeeping Requirements):

1. Identification, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
2. Accurate, current, and complete disclosure of the financial results of each Federal award or program that are sufficient to facilitate reviews and audits of the Grantee under Audit Requirements.
3. Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
4. Effective control over, and accountability for, all funds, property, and other assets. The Grantee must adequately safeguard all assets and assure that they are used solely for authorized purposes. (See also Internal controls).
5. Comparison of expenditures with budget amounts for each Grant.
6. Written procedures to implement the requirements the Grant Disbursement Requirements.
7. Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles and the terms and conditions of the Grant Agreement.

*§ 200.302 financial management*

### **INTERNAL CONTROL**

The Grantee must:

1. Establish and maintain effective internal control over the Grant Funds and provide reasonable assurance that the Grantee is managing the Grant in compliance with Federal statutes, regulations, and the terms and conditions of the Grant Agreement. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2. Comply with Federal statutes, regulations, and the terms and conditions of the Grant Agreement.
3. Evaluate and monitor the Grantee's compliance with statutes, regulations and the terms and conditions of Federal awards.
4. Take prompt action when instances of noncompliance are identified by the State and noncompliance identified in audit findings.
5. Take reasonable measures to safeguard protected personally identifiable information and other information the State designates as sensitive or the Grantee considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

*§ 200.303 internal controls*

## **SECTION 2 - RISK ASSESSMENT**

The State, when evaluating an Applicant must review the risk that is associated to the Applicant and the proposed project. A Risk Assessment is performed to ensure that potential failures to carry out the project, achieve the objectives of the program, and safeguard federal funds, are identified. With the risks identified, the terms of the Grant Agreement may then be tailored to mitigate said risk to help ensure success of the project.

### **STATE REVIEW OF APPLICANT RISK**

When determining the conditions of a Grant Agreement with a potential Grantee, the State must evaluate each applicant's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the Grant for purposes of determining the appropriate monitoring to take place throughout the term of the Grant.

The State considers the following factors when assessing risk:

1. The Applicant's prior experience with CDBG Grants; and
2. The results of previous audits, including whether the Applicant receives a Single Audit in accordance with the Audit Requirements, and the extent to which the same or similar Grant has been audited as a major program.

The State may consider the following factors when assessing risk:

1. Whether the Applicant has new personnel or new or substantially changed systems;
2. The extent and results of prior monitoring or audits performed by HUD, DOL, or other federal agencies related to CDBG;
3. The Applicant's Financial stability; and
4. The quality of Financial Management systems and ability to meet the Financial Management standards as prescribed in this chapter.

When the above factors have been considered the State may consider imposing specific conditions in the Grant Agreement if appropriate as described under Specific Conditions.

Pending the determination of the level of risk posed by the Applicant as defined in the risk assessment, the State may implement additional monitoring tools to ensure proper accountability and compliance with program requirements and achievement of performance goals:

1. Providing Applicants with training and technical assistance on program-related matters;
2. Performing on-site reviews of the Applicant's grant operations, including construction, financial and personnel; and
3. Arrange for additional procedures when conducting a Single Audit.

*§ 200.331 Requirements for pass-through entities.*

*§ 200.205 Federal awarding agency review of risk posed by applicants.*

### **SPECIFIC CONDITIONS**

The State may impose additional specific Grant Agreement conditions as needed, in accordance with the result of the Risk Assessment and other conditions, under the following circumstances:

1. Based on the criteria of the Risk Assessment of the Applicant.
2. When an applicant or Applicant has a history of failure to comply with the general or specific terms and conditions of State CDBG Grant Agreements;
3. When an applicant or Applicant fails to meet expected performance goals as described in the current Grant Agreement; or
4. When an applicant or Applicant is not otherwise responsible as determined by the State.

These additional Grant Agreement conditions may include items such as the following:

1. Requiring payments as reimbursements rather than advance payments;
2. Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
3. Requiring additional, more detailed financial reports;
4. Requiring additional project monitoring;
5. Requiring the Applicant entity to obtain technical or management assistance;
6. Establishing additional prior approvals;
7. Additional items as identified in the State's Risk Mitigation Strategies Guidance; or
8. Other items as deemed necessary by the State.

If specific conditions are imposed, the State must notify the applicant or Applicant as to:

1. The nature of the additional requirements;
2. The reason why the additional requirements are being imposed;
3. The nature of the action needed to remove the additional requirement, if applicable;
4. The time allowed for completing the actions if applicable, and
5. The method for requesting reconsideration of the additional requirements imposed.

Any specific conditions must be promptly removed once the conditions that prompted them have been corrected.

*§ 200.207 Specific conditions*

### **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 - COST PRINCIPLES**

The Costs principles, as defined in 2 CFR 200 Subpart E, are the fundamental Principles used to judge and qualify all costs incurred covered by the State CDBG program. All costs that are intended to be charged to any CDBG Grant must be Allowable,

Reasonable, and Allocable to be considered in compliance. Note other regulations, namely 24 CFR Part 58 – Environmental Review, 24 CFR Part 570 Subpart I – State CDBG Program, and others as identified by this chapter, by Sate CDBG program, and the Grant Agreement will impose additional considerations for the eligibility of each cost.

### **FACTORS AFFECTING ALLOWABILITY OF COSTS**

Except where otherwise authorized, costs must meet the following general criteria to be allowable under a Grant Agreement:

1. Be necessary and reasonable for the performance of the Grant Agreement and be allocable to the Grant (see Allocable Costs).
2. Conform to any limitations or exclusions in the Cost Principles or in the Grant Agreement as to types or amount of costs.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the Grantee.
4. Be accorded consistent treatment. A cost may not be assigned to a Grant as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Grant as an indirect cost.
5. Costs incurred by state and local governments and Indian tribes must be determined in accordance with generally accepted accounting principles (GAAP).
6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented. See the Disbursements section of this chapter and the Pre-Disbursement Checklist.

#### *§ 200.403 Factors affecting allowability of costs*

### **REASONABLE COSTS**

A cost is reasonable if, in its nature and amount, it does not exceed what would be incurred by a prudent person under the circumstances at the time the decision was made to incur the cost.

In determining reasonableness of a given cost, consideration must be given to:

1. Whether the cost is generally recognized as ordinary and necessary for the operation of the Grantee for proper and efficient performance of the grant.
2. The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Grant.
3. Market prices for comparable goods or services for the geographic area.
4. Whether the individual (contractor, administrator, consultant, local official or employee) acted with prudence in the circumstances considering their responsibilities to the UGLG, its employees, the public at large, and the Federal Government.
5. Whether the Grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.
6. Some questions to help guide decisions on cost reasonableness and necessity are:
  - a. Where the costs incurred using the established practices of the UGLG (procurement policy)?
  - b. Are the goods or services provided at a fair market cost?

- c. How would you defend this cost to an auditor or a community member?
- d. Are the costs determined in accordance with Generally Accepted Accounting Principles (GAAP)?
- e. Where the costs incurred in a transparent and consistent manner?
- f. Is this cost permitted under the term of the grant award and under federal, state and local laws and regulations?
- g. Did this transaction avoid any conflict of interest or the appearance of conflict of interest?

§ 200.404 Reasonable costs.

#### **ALLOCABLE COSTS**

A cost is allocable to the Grant if the goods or services are chargeable or assignable to the Grant, based on the relative benefits received. This standard is met if the cost:

1. is incurred specifically for the Grant;
2. benefits both the Grant and the Grantee the cost can be distributed proportionally using reasonable methods; and
3. is necessary to the overall operation of the Grantee and is assignable in part to the Grant in accordance with the other costs principles and other Part 200 regulations.

Any cost allocable to a Grant under the principles provided may not be charged to other Federal Awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the Grantee from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

#### **DIRECT COST ALLOCATION PRINCIPLES**

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Where the purchase of equipment or other capital asset is specifically authorized under the Grant, the costs are assignable to the Grant, regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. (See also Property Standards).

Any expenses which are incurred that benefit both 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).

If a contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions provided in the Costs Principles.

§ 200.405 Allocable costs

## **SECTION 4 - SELECTED ITEMS OF COST**

**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.

**ADMINISTRATIVE COSTS**

Grantees must procure a Certified Grant Administrator (CGA) to assist in administering the conditions and terms of the Grant Agreement.

To be reimbursed for such costs the following must occur:

1. The pre-disbursement requirements in the Grant Agreement and any items requested by the State have been submitted and approved.
2. The executed administrative contract has been approved.
3. The required supporting documentation has been submitted and approved. These requirements are further outlined in the Grant Disbursements section of this chapter.
4. CGAs must provide an administrative activity report when requesting payment for their services which must contain the following information: employee name, pay period, hours worked each day, employee signature, supervisor signature, description of CDBG activities worked on.
5. Specific instructions and other requirements are can be found in Form 8-D Administrative Activity Report.
6. For guidance related to Administrative Costs associated with the CDBG Loan Program, refer to Chapter 3 of this manual.

**CONTINGENCY PROVISIONS**

Contingency is that part of a budget estimate of future costs (typically of large construction projects) which is associated with possible events or conditions arising from causes the precise outcome of which is indeterminable at the time of estimate, and that experience shows will likely result, in aggregate, in additional costs for the approved activity or project. Amounts for major project scope changes, unforeseen risks, or extraordinary events may not be included.

It is permissible for contingency amounts other than those excluded, to be explicitly included in budget estimates, to the extent they are necessary to improve the precision of those estimates. Amounts must be estimated using broadly accepted cost estimating methodologies, specified in the budget documentation of the Federal award, and accepted by the Federal awarding agency. As such, contingency amounts are to be included in the Federal award. For actual costs incurred to be allowable, they must comply with the cost principles and other requirements and national policy requirements; be necessary and reasonable for proper and efficient accomplishment of project or program objectives and be verifiable from the Grantee's records.

Payments made by the State the Grantee's "contingency reserve" or any similar payment made for events the occurrence of which cannot be foretold with certainty as to the time or intensity, or with an assurance of their happening, are unallowable.

*§ 200.433 Contingency provisions***FINES, PENALTIES, DAMAGES AND OTHER SETTLEMENTS**

Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable.

*§ 200.441 Fines, penalties, damages and other settlements***MATERIALS AND SUPPLIES COSTS**

Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable. Purchased materials and supplies must be charged at their actual prices, net of applicable credits. Incoming transportation charges are a proper part of materials and supplies costs.

*§ 200.453 Materials and supplies costs*

**PROFESSIONAL SERVICE COSTS**

Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable, when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

1. The nature and scope of the service rendered in relation to the service required.
2. The necessity of contracting for the service, considering the non-Federal entity's capability in the particular area.
3. The past pattern of such costs, particularly in the years prior to Federal awards.
4. The impact of Federal awards on the non-Federal entity's business (i.e., what new problems have arisen).
5. Whether the proportion of Federal work to the non-Federal entity's total business is such as to influence the non-Federal entity in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards.
6. Whether the service can be performed more economically by direct employment rather than contracting.
7. The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
8. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

Retainer fees must be supported by evidence of bona fide services available or rendered.

*§ 200.459 Professional service costs*

**PRE-AGREEMENT COSTS**

The State may permit a unit of general local government to incur costs for CDBG activities, after the execution of a Letter of Intent but before the execution of a grant agreement between the State and the unit of general local government.

Costs that are considered eligible Pre-Agreement Costs are:

- Certified Grant Administration
- Architectural & Engineering
- Carrying out the Environmental Review
- Lead and Asbestos Assessments

Before these costs can be incurred, the Certifying Officer must request from the State for authorization to incur the costs in writing. This request must explain how the costs are necessary for efficient and timely performance of the scope of work and be approved by the State CDBG Program before costs can be incurred.

Once incurred, these costs will then be eligible for reimbursement, provided that the activities are eligible and meet the following requirements:

- Costs are incurred in compliance with Federal Environmental Review rules in 24 CFR Part 58
- The costs are incurred specifically for the CDBG Grant
- Costs are attributable to a budget line item in the unit of local government's application.

Any public or private expenses incurred, or any work done on the project, before execution of the Letter of Interest and before the approval of the request to incur pre-agreement costs are at the risk of the unit of general local government. Additionally, approval of the pre-agreement costs does not imply approval of the project, which will be reviewed according to the published program requirements.

*§ 200.458 Pre-award costs*

## **SECTION 5 - GRANT DISBURSEMENT**

### **STATE OF MICHIGAN VENDOR**

All CDBG Grantees must be able to receive payment via EFT and to do so must be registered with the State as a Vendor. This registration or update of existing account must be made by the time the Grant Agreement is signed to ensure prompt reimbursement.

The State of Michigan uses SIGMA which handles all payments to vendors and Grantees of the State.

SIGMA uses a Vendor Self Service (VSS) to allow payees/vendors/grantees to manage their information, view financial transactions, and monitor their account.

To register or to update your current account go to: [Michigan.gov/VSSLogin](https://Michigan.gov/VSSLogin). When registering or updating one's account, the following must be completed:

- Complete address, contact, and telephone information
- W9 information
- Financial institution and account information for EFT

Once registered, each Grantee must submit a SIGMA Vendor Confirmation Form. This form includes information used to create the Vendor Account such as the Vendor Customer # and Contact Names but also the Address ID. An Address ID contains both the physical and mailing address but also the bank account information associated to that address. The Address ID provided to the CDBG Program will dictate what bank account all payments for the grant will be sent to.

For additional assistance with Vendor Registration please contact the State of Michigan VSS Support Center Office at [SIGMA-Vendor@michigan.gov](mailto:SIGMA-Vendor@michigan.gov) or 1-888-734-9749.

### **DISBURSEMENT METHOD**

To ensure that costs incurred under the Federal Award are allowable, reasonable and allocable, the CDBG program operates on a cost reimbursement basis. The cost reimbursement method of payment consists of the payment of CDBG funds to the Grantee based on actual expenditures that the UGLG has paid.

If the State identifies that the grantee has insufficient cashflows to cover the costs of the expenses incurred, the State may pay for costs that have been incurred but not paid.

Under limited circumstances payments may be made on an advance basis. The advance method allows the State to pay the Grantee CDBG funds in advance of the Grantee incurring a cost. This method is only allowed if the Grantee provides the State with necessary assurances of need and maintains procedures to minimize the time elapsing between the transfer of funds and their disbursement. The method may be used in cases of issues in cash flow or qualifying circumstances related to purchasing. Under this method CDBG funds must be expended within 3 days of receipt by the Grantee.

### **PRE-DISBURSEMENT REQUIREMENTS**

In order to ensure that federal funds are expended in line with the Cost Principles (see Section 2 Cost Principles), Procurement, Davis Bacon, and other Federal and State requirements the Grantee must submit the following documents to the State to minimize the Grantees risk of expending federal funds outside of what is allowed by the State CDBG Program prior to Disbursement of funds:

1. All requirements as identified in the Grant Agreement.
2. Procurement (Chapter 4)
 

Procurement documents for all Professional and Construction Contracts:

  - a. Architectural/Engineering Contract Procurement Documents:
    - Request for Qualification (RFQ)
    - All Responses to RFQ
    - Evaluation and Selection Materials
  - b. Construction Contract Procurement Documents:
    - Bid Advertisement
    - Bid Tabulation
    - Evaluation/Selection
  - c. SAM/HUD Limited Denial of participation for all Contracts including Subcontractors
3. Contracts (Chapter 4)
  - a. Signed Architectural/Engineering Contract
  - b. Signed Construction Contracts including Subcontractors, each contract includes:
    - HUD 4010 (see Form 4-R)
    - Executive Order 11246 (see Form 4-R)
    - Section 3 Clause (see Form 4-R)
    - Wage Decision
  - c. Contractor and Subcontractor Activity Report, HUD 2515 (Form 4-P)
4. Insurance Bonding (Chapter 4)
  - a. Insurance for Prime Contractor and Independent Contractors/Sole Proprietors
    - Insurance is in contractor's NAME
  - b. Bonding for Prime Contractor and Independent Contractors/Sole Proprietors
    - For construction contracts or subcontracts under \$150,000 the bonding policy and requirements of the Grantee may be accepted.
  - c. The following bonds may be accepted as applicable:
    - Bid Bond
    - Performance Bond (Form 4-N)
    - Payment Bond (Form 4-0)
5. Labor Standards (Chapter 10)
  - a. Payroll Review Worksheet (Form 10-L) for each contractor's payroll.
  - b. Certified Payrolls (For 10-K or similar) for each contractor/subcontractor.
  - c. Employee Interviews (Form 10-O)

#### **SUPPORTING DOCUMENTATION**

Supporting documents provide necessary information to determine expenditures eligibility with the Grant Agreement, Costs Principles, and the Standards for Financial Management. There are three categories of Supporting documentation, Proof of Service, Proof of Payment, and Proof of Match.

#### **PROOF OF SERVICE**

Proof of service can be supported by the following documents, as applicable:

- Detailed Invoice,
- Purchase Order,
- Receipt,
- Voucher,
- AIA Form, or
- Payroll/Timesheet

**PROOF OF PAYMENT**

Proof of payment can be supported by the following documents:

- Proof of Service and Cancelled Check
- Sworn Statement, or
- Lien Waiver

**PROOF OF MATCH**

Proof of match can be supported by one of the following:

- Proof of Service and Cancelled Check
- Paid Itemized Receipt
- Lien Waiver

**SUPPORTING DOCUMENTS MUST INCLUDE:**

- Vendor Name, Address, and Phone Number
- Document Number
- Date
- Amount Due
- Service Performed
- Dates of Services

**DISBURSEMENT REQUEST REQUIREMENTS**

1. All required documentation outlined in the Pre-Disbursement Checklist must be submitted to the State.
2. Funds must be drawn on a pro rata basis and documentation of the match must accompany the Disbursement Request.
3. Total funds requested cannot exceed the approved total budget for any activity without prior approval from the State. A review of the budget should be conducted whenever there are potential budget line item revisions to ensure that the total costs are within the total project budget.
4. The amount requested for each activity must conform to the activities and costs approved in the grant application budget.
5. A separate Disbursement Request must be made for each Project Budget and Administration Budget as identified in the Grant Agreement Budget.

**DISBURSEMENT REQUEST PROCESS**

Disbursement Requests (DRs) must be submitted at least quarterly and no more than monthly. After required corresponding documentation has been submitted and approved by the Program Specialist, the Disbursement Request will be processed within 10 Business Days. Any DR that is not completed properly may be returned to the UGLG without being processed. Some of the reasons a DR may be returned include:

1. Contract not approved by the State (if applicable).
2. Adjustments to amounts previously drawn not reported correctly or in a timely fashion.
3. Administrative funds not requested proportionately to progress.
4. Budget amounts, amounts previously drawn, and/or total expenditures to date do not agree with the State's records.
5. Required match is not documented prior to draw down of final CDBG funds, or a pro rata draw is not requested, if required.
6. Unauthorized signature on DR.
7. There is a reason to stop payment on the grant (see below).
8. The State will stop payment of CDBG funds for the following reasons:
9. Semiannual and/or annual reports are not received.
10. Audit reports not received.
11. Response to monitoring or other requests not received.
12. Noncompliance with other grant agreement terms.

**PAYABLES**

For each State Fiscal Year (10/1-9/30), all active Grantees must submit to the State any amount of CDBG eligible expenditures that have been incurred in the State Fiscal Year but will not be requested for reimbursement through the above process until the next State Fiscal Year. The State will then setup an accounts payable for the Grantee to request reimbursement from in the coming fiscal year. The Grantee must use the Accounts Payable Information Sheet to report the anticipated dollar amount, if the amount is zero dollars, the Grantee is certifying that all CDBG Eligible expenses have been reimbursed for that State Fiscal Year.

#### **FINAL DISBURSEMENT REQUEST**

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

### **SECTION 6 - PROPERTY MANAGEMENT**

#### **CHANGE OF USE OF REAL PROPERTY**

The change of use policy applies to UGLG owned, real property, acquired or improved in whole or in part using CDBG funds more than the threshold for Simplified acquisition threshold, currently \$150,000. The policy applies from the date CDBG funds are first expended for the property until five years after closeout date of the grant between the State and the UGLG as found in the Final Closeout letter.

An UGLG may not change the use, or planned use of any such property, including changing to Public or Private use, from which the acquisition or improvement was originally made, unless the UGLG provides affected citizens with reasonable notice of and opportunity to comment on any proposed change.

Additionally, the UGLG must either:

1. Determine, with approval from the State, that the new use of the property meets a national objective and is not a building for the general conduct of government; or
2. Determine, after consultation with affected citizens, that it is appropriate to change the use of the property to a use, which does not qualify under a CDBG Program National Objective, it may retain or dispose of the property for the changed use and reimburse the State.

If required, the reimbursement shall be 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 of, and improvements to, the property.

Following the reimbursement of the CDBG program, the property no longer will be subject to any CDBG requirements. The State CDBG Program may waive the requirement of reimbursement.

*24 CFR 570.489(j) Change of use of real property*  
*2 CFR 200.88 Simplified acquisition threshold*

### **SECTION 7 - RECORD RETENTION**

Records of the Grantee's, including supporting documentation, must be retained for at least 3 years after the closeout the HUD grant with that State from which the Federal award was made. The MEDC will notify the Grantee 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.

Financial records, supporting documents, statistical records, and all other Grantee records pertinent to a Federal award must be retained for a period of three years from the date of closeout letter from the MEDC. The following exceptions apply:

1. If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
2. When the Grantee is notified in writing by HUD, cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or the State, to extend the retention period.
3. Records for real property and equipment acquired with Federal funds must be retained for 3 years after final disposition. (See Property Management)
4. Records for individual activities for which there are outstanding loan balances, other receivables, or contingent liabilities must be retained until such receivables or liabilities have been satisfied.
5. When records are transferred to or maintained by HUD or the State, the 3-year retention requirement is not applicable to the Grantee.
6. Records for program income transactions after the period of performance. In some cases Grantees must report program income after the period of performance. Where there is such a requirement, the 3 year retention period for the records pertaining to the earning of the program income starts from the end of the Grantee's fiscal year in which the program income is earned.

#### **ACCESS TO RECORDS**

Representatives of HUD, the Inspector General, and the General Accounting Office shall have access to all books, accounts, records, reports, files, and other papers, or property pertaining to the administration, receipt and use of CDBG funds and necessary to facilitate reviews and audits. The right of access is not limited to the required retention period but lasts as long as the records are retained.

The Grantee must provide citizens with reasonable access to records regarding the past use of CDBG funds consistent with State or local requirements concerning the privacy of personal records.

*24 CFR 570.490 - Recordkeeping requirements*

#### **SECTION 8 - AUDIT REQUIREMENTS**

A Grantee that expends \$750,000 or more during their fiscal year in Federal awards must have a Single Audit conducted for that year. When a Grantee's Federal awards expended are less than \$750,000. The Grantee is exempt from Federal audit requirements for that year.

*2 CFR 200.501 - Audit requirements*

#### **BASIS FOR DETERMINING FEDERAL AWARDS EXPENDED**

The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

#### **LOAN AND LOAN GUARANTEES**

The following guidelines must be used to calculate the value of Federal awards expended under loan programs:

1. Value of new loans made or received during the audit period; plus
2. Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus
3. Any interest subsidy, cash, or administrative cost allowance received.
4. The proceeds from loans which were received and expended in prior years, are not considered Federal awards expended unless the national objective, was not successful.

*2 CFR 200.502 - Basis for determining Federal awards expended***SINGLE AUDIT CERTIFICATION (FORM 8-C)**

The Grantee is responsible for tracking Federal expenditures and are required to submit an Audit Certification, stating the amount of CDBG and Total Federal expenditures for each of the Grantee's fiscal years covered, in whole or in part, by the Grant Term. The Audit Certification must be completed and returned to the State within 60 days after the Grantee's fiscal year end.

Grantees must complete the Audit Certification completely and provide information related to the following:

- The grantee's fiscal year end date;
- All grants (and grant numbers) received from the MEDC;
- Information on whether or not the grantee must complete a single audit;
- Contact information of the primary person responsible for arranging the audit; and
- Ensuring the form has been certified by a grantee official.

**GRANTEE RESPONSIBILITIES**

Audits of Federal expenditures the Grantee must:

- Arrange for Audits to be performed as required by 2 CFR Part 200, Subpart F;
- Procure or otherwise arrange for the audit and ensure it is properly performed and submitted when due;
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA);
- Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan;
- Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit required by this part.

*2 CFR 200.508 - Auditee responsibilities***AUDITOR SELECTION**

In procuring audit services, the Grantee must follow the procurement standards prescribed by the Procurement Standards in Chapter 4 Procurement of the GAM. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the objectives, and scope of the audit must be made clear and the Grantee must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS.

Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price.

Whenever possible, the Grantee must make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises, in procuring audit services.

*2 CFR 200.509 - Auditor selection***REQUIREMENTS FOR THE AUDIT REPORT**

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 but must include:

1. 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.
2. 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.
3. 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.

4. 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.
5. 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.
6. 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:
  - a. The type of report the auditor issued on the financial statements.
  - b. 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.
  - c. A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee.
  - d. 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.
  - e. The type of report the auditor issued on compliance for major programs.
  - f. A statement as to whether the audit disclosed any audit findings.
  - g. An identification of major programs.
  - h. A statement as to whether the auditee qualified as a low-risk organization.

*2 CFR 200.515 - Audit reporting*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For CDBG grants received, the MEDC's name and Grant Number assigned by MEDC must be included.

*2 CFR 200.510 - Financial statements*

**AUDIT FINDINGS FOLLOW-UP**

The Grantee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the Grantee must prepare a summary schedule of prior audit findings. The Grantee must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings. Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected, or no longer valid or not warranting further action.

When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the State's management decision, the summary schedule must provide an explanation.

When the Grantee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

1. Two years have passed since the audit report in which the finding occurred was submitted to the FAC;
2. HUD or the State is not currently following up with the Grantee on the audit finding; and
3. A management decision was not issued by the State.

**CORRECTIVE ACTION PLAN**

At the completion of the audit, the Grantee must prepare, in a document separate from the auditor's findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the Grantee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

*2 CFR 200.511 - Audit findings follow-up***REPORT SUBMISSION**

The audit must be completed and the data collection form described in the next section and reporting package described must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Unless restricted by Federal statutes or regulations, the Grantee must make copies available for public inspection. Grantees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

**DATA COLLECTION**

The Grantee must submit audit information to the Federal Audit Clearinghouse (FAC), using the FAC Data Collection Form SF-SAC, is available on the FAC Web site. This form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

The submission will state whether the audit was completed in accordance 2 CFR 200 Subpart F and provides information about the Grantee, its Federal programs, and the results of the audit. The data must include information available from the audit required by this part that is necessary for Federal agencies to use the audit to ensure integrity for Federal programs. A senior level representative of the Grantee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to be included as part of the data collection that says that the Grantee complied with the requirements of this part, the data were prepared in accordance with this part (and the instructions accompanying the form), the reporting package does not include protected personally identifiable information, the information included in its entirety is accurate and complete, and that the FAC is authorized to make the reporting package and the form publicly available on a website.

Using the information included in the reporting package, the auditor must complete the data collection form. The auditor must sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package, and that the content of the form is limited to the collection of information prescribed by OMB.

The reporting package must include the:

- Financial statements and schedule of expenditures of Federal awards
- Summary schedule of prior audit findings
- Auditor's report(s)
- Corrective action plan

The Grantee must electronically submit to the FAC the data collection form and the reporting package.

In response to requests by a Federal agency or the State, the Grantee must submit a copy of any management letters issued by the auditor.

*2 CFR 200.512 - Report submission*

## **SECTION 10 - AUDIT DOCUMENTATION**

### **RETENTION**

The auditor must retain audit documentation and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or the State to extend the retention period. When the auditor is aware that HUD, the State, or Grantee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and reports.

### **ACCESS**

Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, cognizant agency for indirect cost, a Federal agency, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this part. Access to audit documentation includes the right of Federal agencies to obtain copies of audit documentation, as is reasonable and necessary.

*2 CFR 200.517 - Audit documentation*

### **CHAPTER 8 FORMS**

- 8-A Disbursement Request and Invoice Summary
- 8-B1 Personal Property Management Report
- 8-B2 Real Property Management Report
- 8-C Single Audit Certification
- 8-D Administrative Activity Report
- 8-E Cost Allocation Plan SAMPLE
- 8-I Time and Effort Tracking Log – simple