

CHAPTER 4 -- FINANCIAL MANAGEMENT

I. OVERVIEW	4-2
II. APPLICABLE FEDERAL AND STATE REQUIREMENTS	4-2
A. FEDERAL REQUIREMENTS	4-2
B. STATE REQUIREMENTS	4-3
III. PROGRAM REQUIREMENTS	4-3
A. PROJECT BUDGET	4-3
B. PROJECT ADMINISTRATION COSTS	4-4
C. LOCAL DEPOSITORY ACCOUNT	4-4
D. PROJECT DRAWDOWNS	4-4
E. REPORTING REQUIREMENTS	4-7
F. TWO PERCENT RETAINAGE	4-7
G. INTERIM FINANCING	4-8
H. PROPERTY MANAGEMENT AND DISPOSITION	4-8
I. RETENTION – DOCUMENTS/RECORDS/REPORTS	4-8
IV. PROGRAM INCOME AND REVOLVING LOANS	4-9
EXHIBITS	4-10

CHAPTER 4

FINANCIAL MANAGEMENT

I. OVERVIEW

This chapter provides guidance on the federal and state requirements that govern the financial management of all CDBG funds, so that each local government grantee can maintain an adequate financial system. The financial system maintained must be flexible enough to accommodate applicable laws and regulations and conform to generally accepted accounting principles as well.

The Montana Department of Commerce and the Department of Administration's Local Government Assistance Bureau area available to provide assistance to local governments concerning these accounting requirements and all related financial management practices that you will need to use in managing and accounting for CDBG grant funds that you have received.

II. APPLICABLE FEDERAL AND STATE REQUIREMENTS

A. FEDERAL REQUIREMENTS

The key federal requirements that the grantee must comply with are embodied in the following Office of Management and Budget (OMB) circulars and Federal Housing and Urban Development (HUD) regulations.

1. **OMB Circular A-87, Cost Principles for State and Local Governments**

This circular establishes the principles for classifying administration costs as direct or indirect and for determining which costs are allowable and unallowable.

2. **HUD Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments, 24 CFR, Part 85**

These HUD administrative requirements are the basis for a number of financial management requirements on grantees. They are divided into four major subparts and include:

- Subpart A - General
- Subpart B - Pre-award Requirements
- Subpart C - Post-award Requirements:
Financial Administration
 - Changes, Property and Sub-awards
 - Reports, Records, Retention and Enforcement
 - Subpart D - After-the-Grant Requirements

3. **HUD (Part II) CDBG State Final Rule, 24 CFR, Part 570**

This rule includes HUD's regulations governing the state administration of CDBG funds.

4. **HUD (Part III) CDBG Final Rule Regulations, 24 CFR, Part 570, Subpart C - Eligible and Ineligible Activities**

These HUD regulations deal specifically with eligibility issues and are, therefore, the controlling regulations in this regard. Subpart C includes the following sections:

- 570.201 Basic eligible activities
- 570.202 Eligible rehabilitation and preservation activities
- 570.203 Special economic development activities
- 570.204 Special activities by certain subrecipients
- 570.205 Eligible planning, urban environmental design and policy-planning-management-capacity building activities
- 570.206 Program administration costs
- 570.207 Ineligible activities

B. STATE REQUIREMENTS

1. **Budgetary, Accounting and Reporting Systems (BARS) for Cities, Towns and Counties**

The BARS system fulfills all HUD project accounting and reporting requirements (Section 2-7-504).

2. **Budgetary Authority**

Under Montana law, local governments are required to appropriate, by resolution, all CDBG funds received, regardless of the time the funds are received. The resolution should state the source of the funds, the program in which they will be expended and the effective date of the appropriation (Section 7-6-4006).

3. **Surety Bonds**

Montana law requires surety bonds for local government officers and employees who are involved in the administration of public funds. The amount of a bond should be based on the amount of money handled and the opportunity for misuse of funds (Sections 2-9-701, 2-9-702 and 2-9-802).

III. PROGRAM REQUIREMENTS

A. PROJECT BUDGET

The budget for the CDBG project is a part of the project Management Plan and of the CDBG contract. Once the Management Plan is approved and the contract is signed by the Grantee and by MDOC, specific requirements are placed on the grantee.

1. **The grantee, in accordance with Section 7-6-4006, must appropriate, by resolution, the CDBG money received from the MDOC.** The resolution must state the source of the money, the program in which money will be expended, and the effective date of the resolution. **(See Exhibit 4-A.)**
2. **The grantee must expend the grant money in accordance with the provisions of the CDBG project budget.** However, the budget may be amended so long as it is not increased

or does not violate the conditions under which the grant was awarded. If the amount of the amendment will not exceed \$5,000, the grantee need not request MDOC approval. **If the amount will exceed \$5,000, the grantee must request written approval from MDOC.**

The preparation, content and approval of the project budget is dealt with in Chapter I, Project Start-Up. Please consult Chapter 1 for related information.

B. PROJECT ADMINISTRATION COSTS

1. **To avoid early depletion of administrative expenses for a housing and public facilities project, draw requests for administrative costs must be reasonable and appropriate.** The grant recipient's draw request must have appropriate documentation, reasonable depletion in comparison to the activity costs, and support the activities outlined in Section 5, Scope of Work, in the CDBG contract.
2. Please see **Exhibit 4-B** for a detailed description of allowable and unallowable administration costs for CDBG projects.

C. LOCAL DEPOSITORY ACCOUNT

The grantee is required to establish and maintain a depository account in a local financial institution. The account will be used exclusively for the receipt and disbursement of CDBG funds.

There are, however, certain conditions the grantee must meet in the management of the account, including:

1. The grantee must follow the appropriate HUD accounting and financial management procedures required by 24 CFR 85.20.
2. **The account must be non-interest bearing. If, however, any interest is earned, it must be returned to MDOC.**
3. **The time elapse between grantee drawdown and disbursement must be minimized.**
 - a. Treasury Circular 1075 requires that state disbursements to a recipient organization must be limited to the minimum amounts needed and must be timed to be in accord with actual, immediate cost requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances must be as close as administratively feasible to the actual disbursements by the recipient organization for direct program cost and the proportionate share of any allowable indirect costs.
 - b. **HUD has interpreted this provision to mean that no more than \$5,000 may be retained in a grantee's federal depository account for a period longer than three business days.**

D. PROJECT DRAWDOWNS

All projects are subject to State and Federal environmental review requirements. **Requests for "drawdowns" -- requests for transfer of CDBG grant funds to your account, by submitting a Request For Funds -- cannot be made until a "Request for Release of Funds" (part of CDBG**

Environmental Review process) has been submitted and approved by MDOC. See Chapter 2, Environmental Review , for more information about how this official "release of funds" is accomplished and how and why it is related to your completion of the CDBG environmental review requirements.

CDBG "Program Income" is defined as "income directly generated from the use of CDBG funds used in a previous CDBG project." If a grantee has generated and retained any "CDBG Program Income" from a past CDBG project (see Section IV, . Program Income and Revolving Loans, of this chapter) -- all such Program Income must be expended before drawing down funds from a current grant award.

To establish the mechanisms for requesting CDBG funds and for receiving them, the grantee must complete the following forms:

1. Signature Certification Form (**Exhibit 1-D**);
2. Designation of Depository Card (**Exhibit 1-E**);
3. Designation of Depository for Direct Deposit, if opted for (**Exhibit 1-E**).

Grantee drawdowns include preparation and submission of:

- **The Request For Funds (Exhibit 4-C)**
- **Uniform Status of Funds Spreadsheet (Exhibit 4-D)**
- **The Uniform Invoice Tracking Spreadsheet (Exhibit 4-E).** Completion instructions are included for these reports -- see Exhibits 4-C, 4-D and 4-E at the end of this chapter. **Drawdown and tracking spreadsheet forms (along with the entirety of this manual) are available on CD or diskette at your request.** The CDBG recipient is required to use the Invoice Tracking Spreadsheet to record all invoices, which will make the spreadsheet reconcilable to the Status Of Funds Spreadsheet and other accounting records.
- **Copies of invoices, purchase orders, lease agreements, acquisition agreements, etc., are required.** All expenditures that have been paid in part or totally from CDBG funds, regardless of the amount, must be documented with copies of eligible costs incurred, and itemized in the Project Progress Report.
- **Contractors providing professional services for the Grantee (such as engineering, architectural, project administration) must submit itemized invoices to the Grantee describing: (a) services furnished, (b) total hours worked to accomplish each item, (c) amount being billed for each item, (d) a description of any other eligible reimbursable expenses incurred during the billing period, and (e) total amount being billed. In addition, (f) a narrative description in sufficient detail must be submitted to the Grantee to justify the amount claimed on invoice. Documentation of "a" through "f" must accompany a Grantee's drawdown request related to such contracted professional services.**
- **If your project's CDBG liaison has any questions concerning the propriety or amount of an expenditure, copies of more detailed supporting documentation may be required before a drawdown request can be approved.**

- **Copies of timesheets or other summary payroll information for work performed by city or county employees.** Summary information must include at a minimum the name, title, time period, activities performed, and total amount.
- **During periods of construction, all draws must be accompanied by Exhibit 6-K (Record of Employee Interviews) and Exhibit 6-P (Certification of Labor Compliance).**
 - See Chapter 6 (Labor Standards) for a detailed explanation of **what information 6-K and 6-P require and why this information is crucial for demonstrating that federal and state labor standards and protections are being met.**
 - **CDBG also requires that copies of the reviewed weekly payrolls (initialed, annotated as necessary and dated) be submitted with drawdown requests.** (See Chapter 6, page 6-18, and Chapter 9, pages 9-21 and 9-22.
- **Each drawdown request must also be accompanied by a Project Progress Report (Exhibit 4-F).** The Progress Report should provide the CDBG Program Specialist with information on the expected use of the funds requested, the status of the project, completed milestones and project progress as it relates to the current implementation schedule. If key dates identified in the current implementation schedule should change, a revised implementation schedule would need to be forwarded to CDBG.
- **The Request For Funds form (4-C), Uniform Status of Funds Spreadsheet (4-D), Uniform Invoice Tracking Spreadsheet (4-E), necessary documentation, and accompanying Progress Report should be mailed** to your CDBG Program Specialist at Department of Commerce, Community Development Division, 301 S. Park, P.O. Box 200523, Helena, MT 59620 or faxed to MDOC at 841-2771. If the draw is faxed, original copies should be mailed as soon as possible.

► **Minimum amounts for requests for funding:** Processing a drawdown request for funds involves staff from several state agencies. In order to reduce the expense for processing requests for funds and to provide the most efficient service to grant recipients, we ask that grant recipients avoid submitting requests for funds that total less than \$1,200, to the extent possible.

► **Proportional administrative draw requests:** When processing a drawdown request for administrative funds, it is necessary for CDBG and grantees to consider the amount of funds spent for both administrative and activity costs. **To avoid early depletion of administrative dollars, the drawdown amount of administrative expenses must be in reasonable proportion to the activity costs.**

Upon receipt by CDBG, **the Request For Funds form (4-C), Uniform Status of Funds Spreadsheet (4-D), Uniform Invoice Tracking Spreadsheet (4-E), Progress Report** (and all accompanying documentation in support of the request) will be reviewed by CDBG staff.

1. The CDBG staff review the Request for Funds form and all the required material submitted and will check:
 - a. The contract number, addresses and bank account number for accuracy.
 - b. The reasonableness of the amount requested. Expenditures must be appropriate, based upon the description offered for both administration and project activity costs. The amount requested must be consistent with the approved contract budget and the project progress report.

- c. The eligibility of all costs and their consistency with the contract scope of services.
 - d. The financial numbers for accuracy.
 - e. The expended to date balances for consistency with the preceding request for payment.
 - f. The percentage of the administration and activity budgets expended, the total amount drawn to date against the amount budgeted and the amount of CDBG funds on hand; and
 - g. The correctness of signatures against the authorized signature form.
2. If the information is satisfactory, the CDBG staff signs the Request for Funds form and forwards it to the MDOC Management Services Division. The Management Services staff collects the Request for Funds submitted and usually prepare claims for payments twice per week. If the claims process correctly, warrants are prepared and mailed the following business day.
 3. If the information is unsatisfactory, the grantee will be notified as to why by the CDBG liaison.
 4. Once the request for payment is approved, the grantee has the option of getting the funds by return mail or direct deposit. The drawdown request should stipulate the preferred option.

The turn-around time for receipt of funds by the CDBG recipient is expected to be 7 to 10 business days. Overall, the grantee should expect at least 30 days from the date the contractor submits an invoice to the grantee until receipt of funds from the CDBG program.

5. To expedite routine drawdowns, the grantee should consider using a "master form" to prepare the Request For Funds Report. The "master" is headed up with only that information that is fixed or must appear on every drawdown. Then, it's just a matter of making a copy of the "master" each time and entering the information that is relative to the current drawdown. Unchanged information is not repeated for each drawdown. A new "master" would only have to be prepared in the case of budget amendments or changes in line item amounts.

E. REPORTING REQUIREMENTS

The CDBG Housing and Public Facility grant recipient is required to submit a Quarterly Update Report (Exhibit 4-K) each calendar year quarter (March, June, September and December). This Quarterly Update Report must describe the status of the project with respect to each implementation objective, as applicable, including the percentage of the project which has been completed, costs incurred, funds remaining and anticipated completion date. The report must also describe any significant issues or problems encountered and any necessary modifications of the project scope or implementation schedule that are being requested.

The Quarterly Update Report must be submitted no later than fifteen (15) days prior to the close of each quarter. (Refer to Exhibit 4-K for the Quarterly Update Report).

When the CDBG recipient is submitting a draw request a **Project Progress Report** will be need to be submitted with each drawdown request The Project Progress Report should include the amount requested and an explanation of the expenses, as explained above. (Please see Exhibit 4-F, Project Progress Report, for more instructions).

F. TWO PERCENT RETAINAGE

The Department will retain two percent (2%) of the total authorized grant amount until:

- the project has been completed (a Certificate of Substantial Completion has been issued), and
- a conditional closeout report has been submitted by the CDBG recipient and approved by the Department.

This 2% retainage amount will be withheld from a drawdown request at the end of the project (not from each request for funds). Once a conditional closeout report has been submitted and approved by the Department, the two percent retainage will be released to the CDBG recipient. (For more information on the release of the retained funds at the time of project closeout, refer to Chapter 13, Project Closeout.)

G. INTERIM FINANCING

The environmental review process or unforeseen circumstances could, occasionally, delay the grantee's receipt of CDBG funds. In either event, the grantee may need or want to secure other interim financing. **Please consult MDOC for approval prior to incurring any financing costs.**

The local government grantee has the following interim financing options:

1. Under Attorney General opinion number 14, volume 38, it may borrow money directly from a financial institution;
2. Under Section 7-7-109, it may sell notes in anticipation of receiving a grant or loan from federal or state sources;
3. Counties and municipalities may make interfund loans in lieu of registering warrants under Generally Accepted Accounting Principles.
4. Under Sections 7-13-2221 (county water and sewer districts) and 7-13-236 (solid waste districts), they may borrow money, in addition to the issuance of bonds, for construction purposes and the purchase of equipment.

H. PROPERTY MANAGEMENT AND DISPOSITION

Please see **Exhibit 4-G** – Federal Regulations for Real Property.

I. RETENTION – DOCUMENTS / RECORDS / REPORTS

Under HUD regulations, the documents, records and reports described below must be retained for four (4) years after project closeout. However, in the event of litigation, claim, negotiation audit or other action, such documents, records and reports must be retained until completion of the action or regular time period, whichever is later.

1. Documents:
 - Receipt
 - Purchase order
 - Expenditure review
 - Invoice/statement
 - Claim
 - Check
 - Warrant
2. Records:
 - Accounting

- Budgetary
 - Payroll
 - Time
 - Bank statement
3. Reports:
- Financial statement/monthly and annual
 - Budgetary/monthly and annual
 - Payroll
 - Request For Payment And Status Report
 - Progress Report
 - Payment Certification
4. Other:
- Budgetary Resolution
 - Signature Certification
 - Designation of Depository

These documents, records and reports are subject to applicable federal, state, and local laws relating to public access, privacy and confidentiality.

IV. CDBG PROGRAM INCOME AND REVOLVING LOANS

Because of HUD's emphasis on its policies dealing with program income and the related amendments to the Housing and Community Development Act, MDOC established guidelines for local government grantees that retain and use program income in the ***CDBG Program Income and Revolving Loan Fund Manual*** (Montana Department of Commerce, January 1996).

These guidelines also address the other side of the CDBG Program Income equation -- the area of revolving loans. The guidelines focus on state oversight and local government management of and accountability for program income and revolving loans. (Please see **Exhibit 4-H**, Program Income.)

CHAPTER 4

EXHIBITS

- 4-A Budgetary Authority Resolution**
- 4-B Allowable and Unallowable CDBG Administration Costs**
- 4-C Request for Funds Form Instructions and Form**
- 4-D Directions for Using the Uniform Status of Funds Spreadsheet and Spreadsheets**
- 4-E Directions for Using the Uniform Invoice Tracking Spreadsheet and Spreadsheets**
- 4-F Project Progress Reports**
- 4-G Federal Regulations for Real Property**
- 4-H Program Income**
- 4-I Expenditure Review**
- 4-J Program Income - Title I Certification**
- 4-K Quarterly Update Report**