

Chapter 3: Financial Management

Introduction

The Subrecipient responsible for administering Kentucky’s Community Development Block Grant Disaster Recovery (CDBG-DR) grants requires a sound financial management system. This chapter provides Subrecipients with the required information related to the administration of CDBG-DR grants from the Department for Local Government (DLG).

With CDBG-DR funding comes certain administrative and financial management requirements. Financial management is the constant process of tracking progress towards financial objectives and safeguarding the financial assets of an organization. The key principles of financial management are common to all types of organizations and include sound financial management systems, internal controls, allowability of costs, use and tracking of program income, and audits.

This chapter details the financial management regulations and requirements that apply to the use of CDBG-DR funds, including:

1. Applicable Requirements
2. Establishing a Financial Management System
3. Program Income, Miscellaneous Revenue
4. Request for Payment
5. Audits

Section 3-A. Applicable Requirements

The CDBG regulations, that are also applicable to CDBG-DR funding require Subrecipients that are governmental entities or public agencies to adhere to certain administrative and financial management requirements. In addition to the CDBG regulations at 24 CFR 570.489, that contains the basic program administrative requirements, the Federal Register Notice 87-31636 (May 24,.2022) also contains the specific waivers and alternative requirements for the use of the disaster recovery funds.

✓ 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards” which was adopted by HUD at 2 CFR 2400 and clarified applicability at 24 CFR 570.502also applies. It is referred to as the Omni Circular because it consolidated and replaced numerous previously applicable circulars and regulations.

24 CFR 570.489
2 CFR Part 200
2 CFR Part 2400

✓ The requirements found at 2 CFR Part 200 establishes principles and standards for determining allowable costs under federal grants. It also includes requirements for audits such as the type and level of audit required, reports issued by auditors, and audit review and resolution. It includes requirements for financial management systems, reports, records, and grant close-outs for recipients of federal grant funding. Subjects covered include financial management standards, internal controls, budget controls, accounting controls, cash management, procurement, and contracting.

Section 3-B. Establishing a Financial Management System

Overview

Financial management is important to Subrecipients administering CDBG-DR funding. A fundamental purpose of financial management is to ensure the appropriate, effective, timely and honest use of funds.

Specifically, Subrecipients must ensure that:

- ✓ Internal controls are in place and adequate;
- ✓ Documentation is available to support accounting record entries;
- ✓ Financial reports and statements are complete, current, reviewed periodically; and
- ✓ Audits are conducted in a timely manner and in accordance with applicable standards.

Requirements

Subrecipient

Both 24 CFR Part 570 and 2 CFR Part 200 govern CDBG-DR Subrecipient financial management systems.

In addition, the use and accounting for CDBG-DR funds are governed by DLG requirements and KRS 91A.020 which requires Subrecipients to follow generally accepted accounting principles (GAAP). Failure to account for and manage CDBG-DR funds accordingly may result in sanctions imposed by DLG and/or HUD.

2 CFR 200.302

A Subrecipient's financial management system must provide for the following:

- ✓ Accurate, current, and complete disclosure of financial results;
- ✓ Records that identify adequately the source and application of grant funds;
- ✓ Comparison of actual outlays with amounts budgeted for the grant;
- ✓ Procedures to minimize the amount of time elapsed between the transfer of funds from the US Treasury and the disbursements by the Subrecipient;
- ✓ Procedures for determining reasonableness and allowable costs;
- ✓ Accounting records that are supported by appropriate source documentation; and
- ✓ A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

The three basic functions, which must be served by the financial management system, are:

1. The financial management system must have an identified procedure for recording all financial transactions.
2. All expenditures should be related to allowable activities in the grant agreement approved by DLG.
3. All expenditures of CDBG-DR funds must be in compliance with applicable laws, rules, and regulations.

Tip: Use the **Sample Financial Management Checklist (see Attachment 3-1)** as a tool to help your organization set up and maintain your financial management system.

2 CFR Part 200 also requires that Subrecipients take reasonable measures to safeguard personally identifiable information (e.g., social security or bank account numbers) and other information designated to be sensitive by HUD or the state, consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality.

Internal Controls

Internal controls refer to the combination of policies, procedures, defined job responsibilities, personnel, and records that allow an organization (or an agency) to maintain adequate oversight and control of its cash, property, and other assets.

The soundness of any Subrecipient's financial management structure is determined by its system of internal controls. Specifically, internal controls refer to:

- ✓ Effectiveness and efficiency of operations;
- ✓ Reliability of financial reporting; and
- ✓ Compliance with applicable laws and regulations.

With a sound internal control system, a Subrecipient can ensure:

- ✓ Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies;
- ✓ Resources are protected against waste, mismanagement or loss; and
- ✓ Information on the source, amount, and use of funds is reliable, secured, and up-to-date and that this information is disclosed in appropriate reports and records.

As part of an effective internal control system, one person should be designated as the primary person at the Subrecipient organization responsible for the financial management of a CDBG-DR project. This person should be familiar with their organization's present accounting system. The accounting of CDBG-DR funds can be integrated into the Subrecipient's existing system. Refer to 2 CFR 200.303 for more information.

Attachment 3-1:
Sample Financial Management
Checklist

Accounting Records

Each Subrecipient should determine the accounting procedures that will assist in providing accurate and complete financial information. Subrecipients are required to maintain accounting records that sufficiently identify the source and use of the CDBG-DR funds provided to them. All records must be supported by source documentation (see the next section).

The Subrecipient may have CDBG-DR accounting records fully integrated into an existing accounting system. Subrecipients may also have partially integrated records into an existing system; however, ledgers should be developed to provide the required accounting information for the CDBG-DR grant. Separate records eliminate potential conflicts with the Subrecipient's usual record keeping systems.

At a minimum, a Subrecipient's accounting system, must:

- ✓ Clearly identify all receipt and expenditure transactions of the grant; and
- ✓ Provide for budgetary control by tracking expenditures and accrued obligations by approved activity.

DLG staff and the Subrecipient's auditors should be able to readily trace all transactions through the accounting system at any time during the grant period of performance or after grant close-out.

Budget Controls

The Subrecipient must be able to report expenditures for each approved activity. A record of the account balances must be maintained for each approved activity that accounts for expenses accrued as well as obligations that have been incurred but not yet been paid out.

Source Documentation

Accounting records must be supported by source documentation. Source documentation includes many items such as cancelled checks, paid bills, payrolls, time and attendance records, contract documents and other paperwork.

Tip: It is important that a Subrecipient establishes a system in which all source documents pertaining to the project are clearly marked by an identifier on each source document. This will help assure that transactions are properly classified and segregated in the accounting records.

Source documentation should tell the story of the basis of the costs incurred and the actual dates of the expenditure. For example, source documentation on payments to contractors would include a request for payment, proof of inspection to verify work and materials, and cancelled checks. DLG encourages the use of purchase orders or payment vouchers when preparing expenditures for payment of any cost associated with the project. These documents are prepared in accordance with local policies and procedures as well as those required by federal regulations.

Additionally, contracts should be kept in a file separate from accounting files. The signed contract represents an obligation of funds. When payments are made on the contract, they should be recorded in the contract file.

Receipt of Funds Procedures

In addition to CDBG-DR funds received from DLG, receipt of other project funds may also include program income and project funds received from other sources.

The Subrecipient must be certain that project funds are adequately safeguarded. This includes providing proper bonding of those individuals that handle program funds, in accordance with state and local law.

All project funds should be promptly deposited to the proper bank account and recorded as a receipt in the accounting system. CDBG-DR funds are to be drawn from DLG only as required to pay immediate obligations.

Payment Procedures

Before the Subrecipient can expend any funds, the Subrecipient’s budget must include appropriations for the grant. Additionally, the budget must be approved and enacted by the appropriate legislative body.

A Request for Payment (Attachment 3-2) may not be submitted until the Subrecipient has received a Notice of Release of Funds or Authority to use grant funds. Subrecipients may request only the amount of funds needed to pay immediate obligations. Subrecipients must submit Requests for Payment to DLG once per month. More information on Requests for Payment is provided in Section 3-D of this chapter.

Attachment 3-2:
Request for Payment Form

In order to safeguard the grant funds and ensure an effective system of internal controls, an individual apart from the person authorized to request funds should approve expenditures. Additionally, all invoices should be reviewed to determine that the costs are accurate, reasonable, and allowable. DLG is required to ensure that program income is expended before additional funds are drawn down. To allow DLG to track available program income, Subrecipients are required to report all program income that has been received since the last draw of CDBG-DR funds on the Request for Payment Form. Refer to Section 3-C for additional information on tracking and reporting program income.

Invoices and Vouchers

To assist in the planning for the Request for Payment, Subrecipients should establish an internal deadline for submission of all invoices and vouchers.

Before providing full payment for a contractor’s invoice, Subrecipients should verify that the work has been completed. This is a good time to ensure that all payments for expenditures are supported by source documentation (i.e., invoices or vouchers and kept on file). A list of disbursements to be made should be prepared and the cash requirements submitted to DLG on the Request for Payment form. Refer to Section 3-D of this chapter for more information on Requests for Payment.

Bank Accounts

In dealing with CDBG-DR funds, the Subrecipient is required to maintain a ***non-interest bearing*** bank account for the deposit of CDBG-DR funds. The account must be FDIC insured or secured by bank-pledged collateral for the full amount of CDBG-DR funds held in the account. The bank must provide collateral to secure those funds that are in excess of \$100,000.

It is important that the Subrecipient be able to reconcile all balances in the account. Subrecipients should reconcile bank statements as soon as bank statements are received.

Subrecipients may not earn interest on the deposit of federal funds pending disbursement. All federal funds on hand must be disbursed before requesting additional funds. If excessive amounts of cash (over \$5,000) are or will be on hand for an extended period of time (over five days), the Subrecipient must return the excess to DLG.

Forms

After establishing the accounting system and bank account to be used, the Subrecipient needs to complete two forms:

- ✓ **The Authorized Signature Form.** This form (Attachment 3-3) designates to DLG who has the authority to sign grant documents and reports. Only a person listed on this form may sign Request for Payment forms. The Subrecipient’s CEO must sign the form and submit it to DLG. A copy of the form is provided as an attachment to this chapter.
- ✓ **Direct Electronic Transfer of Funds Form.** This form is used to designate the bank and the account number into which DLG will deposit the Subrecipient’s CDBG-DR funds. The Subrecipient should complete the community and project information section including providing the CDBG-DR pass through number and CDBG-DR project number. With the assistance of the designated bank, the Subrecipient must complete the depository information. The Subrecipient’s CEO should then sign the form. The Subrecipient must include a voided check containing the Subrecipient’s name, address, phone number and the name of the bank account. Attach the **voided check to the form** and submit it to DLG. A copy of the form is provided as Attachment 3-4 to this chapter.

Common Mistakes to Avoid

- ✓ Failure to maintain records that track CDBG-DR expenditures by activity.
- ✓ Lack of source documentation for CDBG-DR expenditures.
- ✓ CDBG-DR funds drawn down being held in an interest-bearing account.
- ✓ Bank statements not reconciled.
- ✓ Program income not reported.
- ✓ Inadequate documentation of local administrative costs.
- ✓ Lack of tracking of real or personal property purchased with CDBG-DR funds.

Allowable Costs

Any cost incurred must be allowed as per 2 CFR 200.402 – 202.475 Subpart E Cost Principles is made applicable by 24 CFR 570.489 (p) with exceptions. It is a Subrecipient’s responsibility to ensure that CDBG-DR funds are spent only on reasonable and necessary costs associated with grant activities.

The Subrecipient must establish policies and procedures for determining cost reasonableness, allowability, and allocability of costs.

Attachment 3-3:
Authorized Signature Form
Attachment 3-4:
Direct Electronic Transfer of Funds
Form

Administrative Costs

Administrative costs are the costs associated with implementation of the grant. These costs may include salaries for personnel who devote full or part time to the grant, supplies used for grant activities, and the cost of administrative services provided by other agencies. General administration costs are those costs **directly** related to the administration of grant requirements.

In charging administrative costs, Subrecipients should note:

- ✓ All administrative costs charged to the project must be documented through timesheets, purchase orders, and invoices.
- ✓ For those projects directly administered by the Subrecipient, employees paid in whole or in part from CDBG-DR funds are required to prepare timesheets indicating the hours worked for each pay period.
 - Timesheets must show the exact hours each individual worked on the project, the hours worked on non-CDBG-DR projects, the date on which the work was performed, and a description of the work performed.
 - The employee and the employee’s supervisor must both sign the timesheet.

Duplication of Benefits

The Stafford Act provides the framework for Federal disaster assistance and sets forth the process by which the President declares a major disaster. Specifically, Section 312 of the Stafford Act prohibits any person, business concern, or other entity from receiving financial assistance for any part of a loss resulting from a major disaster for which they have received financial assistance under any other program or from insurance or any other source. The duplication of benefits requirement in the Stafford Act applies to all Federal agencies administering a disaster recovery program providing financial assistance, including HUD and CDBG-DR. Although the statute is largely devoted to programs administered by FEMA, certain sections apply more generally to all disaster assistance. CDBG-DR Subrecipients.

To comply with this law, the Subrecipient must ensure that each activity that provides assistance to a person or entity only to the extent that the person or entity has a disaster recovery need that has not been fully met. In addition to the Stafford Act requirements, referenced within CDBG-DR appropriations statutes, the duplication of benefits analysis is also required under the “necessary and benefits requirement in reasonable” requirements in 24 CFR part 570 and in the cost principles at 2 CFR Part 200.

2 CFR 200.402 - .475

It would not be necessary nor reasonable to use to all CDBG-DR funds to pay for repairs that an applicant had already received payment from another disaster recovery source. In general, an applicant must have spent all (or have available to providing financial expend) funds received from government sources, private insurance, assistance, including HUD, the National Flood Insurance Program (NFIP), and any other sources for the intended purpose(s), and must still have an unmet need before he or she qualifies for CDBG-DR funds.

Chapter 10 – Duplication of Benefits

Because assistance to each applicant varies widely based on individual insurance coverage and eligibility for Federal funding, Subrecipients cannot comply with the Stafford Act without completing a duplication of benefit analysis specific to each application even if to report that no other benefits were received or are pending. A Subrecipient may not make a blanket determination that a duplication of benefits does not exist for all beneficiaries or recipients under a disaster recovery program.

Federal Emergency Management Administration (FEMA) and DOB

To meet DOB requirements, the Subrecipient must consider all funds an applicant receives from FEMA, the federal agency responsible for coordinating the response to disasters, or U.S. Army Corps of Engineers (USACE). This analysis should review the following:

- USACE assistance to federal public works and engineering-related support, as well as providing technical assistance, engineering expertise, and construction management to prevent, prepare for, respond to, and/or recover from domestic incidents.
- FEMA's Individual Assistance (IA) program can provide funds to households for home repair or replacement, as well as assist households with meeting other necessary expenses and serious needs caused by a disaster.
- FEMA's Public Assistance (PA) program provides grants to state, local, and federally recognized tribal governments and certain private non-profit entities to assist them with the response to and recovery from disasters.

To address the DOB requirements, the Subrecipient must:

- Include in their policies and procedures a description of how they will collaborate with FEMA to verify FEMA assistance received by applicants; and verify whether funding is still available to provide new assistance or reimburse previously incurred recovery costs for a particular disaster.
- Analyze applicants on a case-by-case basis.
- Ask applicants whether FEMA assistance was received: If yes - request a copy of the award determination letter; verify information with FEMA. If no - ask whether applicant applied for FEMA assistance.
- If the applicant applied and was denied, request a copy of the award determination letter, and verify this information with FEMA.
- If the applicant did not apply to FEMA, work with FEMA to determine whether assistance is still available for the applicable disaster. If FEMA assistance is available, Subrecipients may encourage applicants to apply for funds, but the applicant is not required to do so prior to receiving CDBG-DR funds.
- If FEMA assistance is no longer available, document this in the applicant's file. If FEMA assistance is no longer available, this determination can be used for all similarly situated applicants (i.e., a separate FEMA determination letter for each applicant is unnecessary).

Small Business Administration Loans and DOB

The U.S. Small Business Administration (SBA) provides low-interest disaster loans to businesses of all sizes, private non-profit organizations, homeowners, and renters. SBA disaster loans can be used to repair or replace real estate, personal property, machinery and equipment, and inventory and business assets damaged or destroyed in a declared disaster. In some cases, SBA can refinance all or part of a previous mortgage when the applicant does not have credit available elsewhere, has suffered substantial disaster damage not covered by insurance, and intends to repair the damage.

DLG does not require applicants to apply for SBA assistance as a prerequisite to receiving CDBG-DR assistance. Further, DLG does not require applicants who have applied for and been offered SBA assistance to accept the assistance as a prerequisite to receiving CDBG-DR assistance. However, the

Subrecipient is required to demonstrate that providing CDBG-DR assistance to an applicant that has declined an SBA loan is necessary and reasonable.

To demonstrate this, the Subrecipient must develop policies and procedures which describe what circumstances and/or facts, such as the reason for the applicant's decision to decline the SBA loan offer, that the Subrecipient will use. The Subrecipient will be required to assess each applicant's circumstance and prevent the duplication of benefits. The Subrecipient must adopt an approach that adequately establishes the basis for CDBG-DR assistance and base their approach upon this guidance. The Subrecipient is cautioned against providing 100 percent CDBG-DR grant assistance where an applicant has declined SBA assistance without fully documenting the basis for that level of subsidy.

Failure to institute an appropriate process to address these cases may open the Subrecipient to programmatic sanctions.

The Subrecipient will be required to establish policies and procedures that:

- Identify the circumstances under which the applicant declined the SBA assistance.
- Establish why CDBG-DR assistance is appropriate for the applicant; and
- Determine the amount of CDBG-DR assistance that is necessary and reasonable to assist the applicant in achieving recovery.

To collect uniform electronic data and streamline the application process, the Subrecipient may use standardized questions/forms to collect information from applicants. However, files must also document the Subrecipient's assessment of that information, and how the applicant does, or does not, qualify for CDBG-DR assistance.

Subrogation Agreement

If CDBG-DR assistance is provided, the Subrecipient's procedures must require that each applicant sign a Subrogation Agreement stating that any funds later received for the "same eligible purpose and same eligible cost" from any other source will be required to be returned the Subrecipient. The Subrecipient must identify a method to monitor compliance with the Subrogation Agreement for a reasonable period and should articulate this method in its written administrative procedures. Please note that if additional need is established, subsequent funds would not be considered a duplication.

Insurance and DOB

The amount of money an applicant receives from insurance must be considered when determining CDBG-DR eligibility and award amount. CDBG-DR funds cannot duplicate assistance provided under an insurance policy. If an applicant has insurance but at the time of application to the CDBG-DR program has not filed a claim with their insurance company, the Subrecipient should advise the applicant to file a claim immediately. The Subrecipient must not use CDBG-DR funds to duplicate other sources of assistance, including insurance, that are available for the same purpose. A benefit is available if an applicant or entity receives it by acting in a "commercially reasonable manner" or has received it and has legal control over it.

Commercially reasonable efforts refer to efforts that use a standard of reasonableness defined by what a similar person would do as judged by the standards of the applicable community. Commercially reasonable efforts should be consistent with good-faith business judgments. If the Subrecipient finds the applicant did not act in a commercially reasonable manner, the Subrecipient must count the full amount of insurance coverage as duplicative when determining whether the applicant may receive CDBG-DR assistance.

Forced Mortgage Payoffs and DOB

As a condition of granting a mortgage, lenders usually require that they be named in the homeowner's insurance policy and that the lender is a party to any payments received related to the structure. After a disaster, lenders may require an applicant to use some or all of their insurance proceeds to reduce or pay off the mortgage balance before releasing funds for rebuilding. Insurance payouts used for forced mortgage payoffs are not a DOB in rehabilitation or reconstruction scenarios because they are not available to the homeowner.

Insurance, Personal Property Replacement and DOB

Insurance proceeds issued for personal property replacement are generally not included in a DOB analysis for home repair or voluntary acquisition programs. However, Subrecipients must still ensure that all CDBG-DR awards meet the identified need in a necessary and reasonable manner. For example, if an applicant has used personal property funds to repair his/her roof, and then applies for a CDBG-DR rehabilitation grant, the CDBG-DR award should be based upon the need at the time of the application. This is the case except in instances where a Federal Register Notice authorizes reimbursement to homeowners. In these cases, repairs made by the homeowner prior to receiving a CDBG-DR award may be considered part of the need when determining CDBG-DR assistance.

If there is a time lag between submission of an application for assistance and payout of the award, the Subrecipient has the discretion to determine when (or if) a re-evaluation of the need must occur.

Matching Funds

CDBG-DR funds may be used to satisfy match requirements for any other Federal program when used to carry out an eligible CDBG-DR activity. However, if using CDBG-DR funds to match a U.S. Army Corps of Engineers (USACE) project, the match is capped at \$250,000 CDBG-DR funds. Grant records should account for all matching funds committed to the project. The receipt and expenditure of the matching funds should be carefully documented. If matching funds are derived from a source outside the local government, project records should identify the source and amount. Guidelines for appropriate matching contributions are contained in the Omni Circular (2 CFR 200) and the amount of match required is shown in the grant agreement.

Asset Management

The State is required per 24 CFR 570.489(k) to establish and implement requirements governing the use, management, and disposition of real and personal property acquired with CDBG funds. Subrecipients who maintain real or personal property paid in whole or in part with CDBG-DR funds are required to properly manage these assets and to ensure that the assets continue to be used for their intended purposes in accordance with the CDBG-DR regulations and 2 CFR 200.310-.316, property standards.

Subrecipients must maintain appropriate records of their assets, whether in their possession or in the possession of a subrecipient organization. Specifically:

24 CFR 570.489(j) and (k)
2 CFR 200.310-.316

- ✓ In the case of real property, meaning land and any improvements to structures on the land, Subrecipients must maintain a current real property inventory, updated at least biannually. In cases where the Subrecipient is maintaining land, Subrecipients should also describe the intended reuse of the land and the timeframe for improving the land so that it meets a CDBG-DR national objective.
- ✓ For personal property, Subrecipients should maintain a fixed assets ledger that includes: a description of the property; any identifying information such as a serial number; the funding source (grant number); the acquisition date and cost; the federal share of the cost; and the location, use, and condition of the property; and disposition data. Subrecipients are required to conduct a physical inventory of personal property biannually to ensure that the property is being maintained in good condition and that there are procedures in place to prevent loss, damage, or theft of the property.

24 CFR 570.489(j) applies standards to real property within the city or county subrecipient's control acquired or improved with CDBG-DR funding. Subrecipients must maintain records that properly document the disposition of any CDBG-DR-funded property. It should be noted that real property purchased with CDBG-DR funds in excess of \$150,000 must continue to meet the CDBG-DR national objective approved for the project for at least five (5) years after close-out of the grant that funded the property purchase or improvement. Should the recipient choose to change the use of property they must contact DLG to ensure that proper procedures are followed. Failure to do so can result in payback of the grant award.

Section 3-C. Program Income and Miscellaneous Revenue

Overview

Any repayment of funds or proceeds generated from a CDBG-DR activity may fall into one of two categories; 1) program income or 2) miscellaneous revenue. The following section defines each of these types of funds and the rules that will apply. Any program income received before full programmatic close-out must be expended before drawing additional CDBG-DR funds for the project. All program income received after the close-out will be remitted to the Commonwealth.

Under the CDBG-DR Program, funds received back to the community as a result of a CDBG-DR -funded activity are generally referred to as program income. Program income funds retain their federal identify and are subject to all CDBG-DR and other federal requirements. Program income is defined in detail

below. Subrecipients will not be permitted to use a local development authority (LDA) for the re-use of any proceeds.

What is Program Income

Program income is defined as gross income received by a subrecipient that was generated from the repayment of CDBG-DR funds regardless of when the funds were appropriated and whether the activity has been closed out. There are some types of gross income that is not considered program income and those exceptions are listed below. HUD has waived the applicable program income rules at 24 CFR 570.489(e)(1) and 24 CFR 570.500 and 24 CFR 570.504. Instead, the following alternative requirement applies:

- ✓ When income is generated by an activity that is only partially assisted with CDBG-DR funds, the income shall be prorated to reflect the percentage of CDBG-DR funds used (e.g., a single loan supported by CDBG-DR funds and other funds, or a single parcel of land purchased with CDBG-DR funds and other funds).
- ✓ If CDBG funds are used with CDBG-DR funds on an activity, any income earned on the CDBG portion would not be subject to the waiver and alternative requirement in the Consolidated Notice.
- ✓ Program income includes, but is not limited to, the following:
 - Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG-DR funds.
 - Proceeds from the disposition of equipment purchased with CDBG-DR funds.
 - Gross income from the use or rental of real or personal property acquired by a state, local government, or subrecipient thereof with CDBG-DR funds, less costs incidental to generation of the income.
 - Gross income from the use or rental of real property owned by a state, local government, or subrecipient thereof, that was constructed or improved with CDBG-DR funds, less costs incidental to generation of the income.
 - Payments of principal and interest on loans made using CDBG-DR funds. (vi) Proceeds from the sale of loans made with CDBG-DR funds.
 - Proceeds from the sale of obligations secured by loans made with CDBG-DR funds. (viii) Interest earned on program income pending disposition of the income, including interest earned on funds held in a revolving fund account.
 - Funds collected through special assessments made against nonresidential properties and properties owned and occupied by non-LMI households, where the special assessments are used to recover all or part of the CDBG-DR portion of a public improvement.
 - Gross income paid to a state, local government, or subrecipient thereof, from the ownership interest in a for-profit entity in which the income is in return for the provision of CDBG-DR assistance.
- ✓ Program income—does not include:
 - The total amount of funds that is less than \$35,000 received in a single year and retained by a state, local government, or a subrecipient thereof.
 - Amounts generated by activities eligible under section 105(a)(15) of the HCDA and carried out by an entity under the authority of section 105(a)(15) of the HCDA. III.E.1.c. Retention of program income. State grantees may permit a local government that

receives or will receive program income to retain the program income but are not required to do so.

CDBG-DR Program Income Funds and Close-Out

Program income received before or after closeout of the grant that generated the program income, and used to continue disaster recovery activities, is treated as additional CDBG-DR funds. Any program income received before full programmatic close-out must be CDBG-DR expended, before drawing additional CDBG-DR funds for the project. All program income received after the close-out will be remitted to DLG.

CDBG-DR Transfer of Program Income and Miscellaneous Revenue

Due to a statutory provision mandating that CDBG-DR funds benefit the eligible Subrecipient that received the original funds, a Subrecipient cannot transfer program income to another agency for use in other cities or counties. Accounting Systems for Program Income and Miscellaneous Revenue

A program income/miscellaneous revenue accounting system should:

- ✓ Record program income/miscellaneous revenue appropriately in the Subrecipient’s accounting records;
- ✓ Ensure that all program income/miscellaneous revenue is collected and properly classified; and
- ✓ Ensure that the handling of program income/miscellaneous revenue complies with applicable federal and state requirements.

The method of accounting to be used for tracking program income/miscellaneous revenue shall meet Generally Accepted Accounting Principles (GAAP).

The method of accounting to be used for tracking program income/miscellaneous revenue shall meet Generally Accepted Accounting Principles (GAAP). Any accounting system used must be detailed enough to provide the necessary information to accurately report program income and miscellaneous revenue on the request for payment form. All program income received, and miscellaneous revenue generated during the project must be used prior to requesting other funds for the CDBG-DR project.

The Subrecipient must maintain files that accurately account for all funds received and remitted to the CDBG-DR program.

Revolving Funds

Revolving funds (RFs) are a special category of program income that allows the funds to be set aside for a designated use. A RF is a separate fund (with a separate set of accounts that are independent of other program accounts) established to carry out specific activities that, in turn, generate payments that fund future activities. Due to the one-time appropriation of disaster recovery funds, no Revolving Funds (RF) will not be permitted under any programs or activities funded by the CDBG-DR program.

CDBG-DR Subrecipient Waiver of Requirements

DLG may waive or modify the requirements of this chapter when it determines that, in so doing, it will promote the more efficient administration of the program and/or further the accomplishment of objectives. However, DLG cannot waive HUD or other federal regulatory requirements concerning the use of program income.

Section 3-D. Subrecipient Requests for Payment

Funds for approved CDBG-DR activities should be requested as close to the time of disbursement as is possible. To ensure continued public awareness and fiscal oversight of the project, the project administrator should report project information to the city council/fiscal court monthly. This report should include project progress, anticipated completion date, and the use and availability of funding.

Procedures

Submit all requests for payment of CDBG-DR funds to DLG on the form provided. If possible, please hold the draw request until there is a fair amount of money to request (i.e., \$2,000). The request should outline the:

- ✓ Amount of federal funds previously requested;
- ✓ Amount of federal funds disbursed;
- ✓ Amount of program income; and
- ✓ Balance of federal funds on hand.

If a Subrecipient has received more than one grant, a separate request should be completed for each grant. The number of requests for CDBG-DR funds should be consolidated to the extent possible and timed to be in accord with the actual, immediate cash requirements of the Subrecipient in carrying out the approved activities.

Program income will be disbursed by the Subrecipient before additional funds are requested. Cash on hand will be subtracted from the amount of funds requested.

Request for Payment Form Completion

The following outlines the method for submitting the Request for Payment Form (see Attachment 3-2). Subrecipients may submit this form to DLG twice monthly, by the 3rd and the 18th of the month. A copy of the form is provided as an attachment to this chapter.

Attachment 3-2:
Request for Payment Form

General

The top portion of the Request for Payment form should be completed with the appropriate identifying information:

- ✓ **CDBG-DR Grant Number**—The number assigned to each grant as noted on the Grant Agreement.

- ✓ **Request Number**—Each Request for Payment will be consecutively numbered by the Subrecipient. If a Subrecipient has received more than one grant, a Request for Payment will be made separately and numbered consecutively for each grant.

On all forms, the Subrecipient should round all dollar amounts to the nearest dollar.

Part I—Status of Funds

Part I of the Request for Payment provides the status of funds. Fill in the fields with the following information:

- ✓ **Line 1**—List all CDBG-DR funds received to date.
- ✓ **Line 2**—Program Income received to date.
- ✓ **Line 3**—Add lines 1 and 2.
- ✓ **Line 4**—List the total of all disbursements of CDBG-DR funds to date.
- ✓ **Line 5**—List the total of all expended program income to date
- ✓ **Line 6**—Subtract line 4 from line 3. This should be zero, if not then an explanation should be provided.

Part II—Cash Requirements

Part II of the Request for Payment provides information on the funds the Subrecipient is requesting. Part II is to be completed for all approved activities even if funds are not currently being requested for a particular activity.

- ✓ The first three lines give an overview of a Subrecipient's activities. Identify the activities by entering the activity code and a brief description above each column. The current approved budget amount for each activity should be included as well. Totals should be calculated at the far right as well as at the bottom.
- ✓ **Line 1**—Enter the total of all CDBG-DR cash requirements to date for each approved activity. This amount should be equal to all CDBG-DR expenditures paid to date plus cash needed to meet immediate needs.
- ✓ **Line 2**—Show the total amount of CDBG-DR funds requested on previous draw requests.
- ✓ **Line 3** - Show the total amount of Program Income Expended
- ✓ **Line 4**—Subtract line 3, 2 from line 1. This will result in the amount of CDBG-DR funds needed on this request for each activity.

If there are more than nine activities, use a second request form to include all activities. The second page should contain the total for both pages and the authorized signature.

Part III—Project Status

Part III describes in brief the status of the project. This section should include accomplishments achieved since the last request and if necessary discussion of any project delays.

After the narrative, indicate the amount of other funds drawn and expended on this project. Break these funds down using the classifications shown in the grant agreement.

Each program policy will describe the metrics to be report on the request for payment form.

Certification

After reviewing the form and verifying that all of the conditions listed in the certification have been complied with, the CEO or person authorized on the Authorized Signature Form should sign and date the form in the space provided.

Once the form is completed, the Subrecipient must mail or email the signed form to DLG.

Common Mistakes to Avoid

- ✓ Unsigned or improperly signed Requests for Payment are submitted.
- ✓ All approved activities not shown on each Request for Payment.
- ✓ Disbursements to date are not correct.
- ✓ Amounts not rounded to nearest dollar.
- ✓ Mathematical errors.
- ✓ Budget Amendments have not been approved.
- ✓ **Status of project not included.**

Section 3-E. Audits

One of the primary financial management requirements implicit with the use of Federal funds is the annual audit. 2 CFR Part 200 Subpart F provides requirements for audits of governmental entities and nonprofit organizations.

Audits are a critical component of any financial management system and the Kentucky Revised Statutes (KRS) emphasize the significance of audits. Regardless of the type or size of the entity, an effective audit can improve management operations and yield significant dollar savings.

Audit Requirements

An audit is an official examination and verification of accounts and records. Audits are an important part of effective financial systems, as they produce useful financial reports and verify the reliability of a Subrecipient's financial management systems. Only an independent CPA, with a current license to practice in Kentucky, or the Kentucky Auditor of Public Accounts can perform an audit.

There are both Federal and state requirements for audits. 2 CFR Part 200 Subpart F provides Federal requirements for audits of governmental entities and nonprofit organizations. The KRS requirements detail the state audit requirements for both cities and counties. As noted below, there are differences between both the KRS and Federal requirements; however, cities and counties are required to follow both laws.

Failure to comply with the audit requirements can jeopardize the Subrecipient's ability to draw grant funds and receive future grants.

Federal Requirements

The type and level of audit required by 2 CFR 200 Subpart F is based on the amount of Federal funds expended by an organization in a given fiscal year. Federal awards include financial assistance provided by the Federal government to the entire organization in the form of grants, loans, property, contracts, loans guarantees, etc.

- ✓ Organizations that have expended more than \$750,000 in a fiscal year are required to have a single audit. A single audit is an audit that includes both an entity’s financial statements and its federal awards (from all applicable Federal programs).
- ✓ Organizations that have expended less than \$750,000 in federal funds in a fiscal year are exempt from the audit requirement; however, financial records must be made available if requested.

State Requirements for Cities

KRS 91A.040 outlines Kentucky Audit requirements for cities in the Commonwealth of Kentucky. Cities may be audited by the Auditor of Public Accounts or a certified public accountant (CPA). Generally, all cities must have an audit of their funds performed at the end of each fiscal year. All audits must be completed by March 1st immediately following the fiscal year being audited. There are exceptions:

KRS 91A.040

- ✓ A city with a population of less than 1,000 (according to the most recent decennial census) may elect to have an audit performed every other fiscal year. For odd-numbered fiscal years, the city shall have each fund audited by March 1. An electronic copy will be forwarded to DLG no later than April 1. For even numbered fiscal years, the city is not required to complete an audit, but shall forward an electronic copy of its financial statement prepared in accordance with KRS 424.220 by October 1.
- ✓ A city with a population of more than 1,000 but less than 2,000 (according to the most recent decennial census) may elect to have an audit performed every other fiscal year to cover the two (2) fiscal years occurring since the prior audit. For odd-numbered fiscal years, the city shall have each fund audited by March 1 and include both fiscal years since the prior audit. An electronic copy will be forwarded to DLG no later than April 1. For even numbered fiscal years, the city is not required to complete an audit, but shall forward an electronic copy of its financial statement prepared in accordance with KRS 424.220 by October 1.
- ✓ Any city that receives and expends less than \$150,000 and does not have long-term debt shall not be required to have an audit for that particular year but shall prepare the KRS 424.220 financial statement and send one electronic copy to the DLG Cities Branch by October 1 following the close of the fiscal year. If exempted for more than four (4) consecutive fiscal years after July 1, 2022, the city will prepare an attestation engagement covering the fourth fiscal year in which the city qualified for an exemption.

State Requirements for Counties

As per KRS 64.810, all counties must audit their funds at the end of each fiscal year. The Office of the State Auditor of Public Accounts or a CPA must conduct the annual audit of the funds in each

KRS 61.810

county's budget. Refer to KRS 64.810 for further information on county audits.

The Audit Process

In procuring audit services, Subrecipients should follow the applicable procurement standards and KRS 91A.040. The Subrecipient should ensure that the auditor is knowledgeable about specific accounting requirements that apply to local government.

All audits must be conducted in accordance with 2 CFR Part 200 and must be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) (refer to 2 CFR 200.514(a)). According to the GAGAS standards, a financial audit should determine whether:

2 CFR 200.514(a)

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

In conducting an audit, the Subrecipient **must** supply the following information to the auditor at the beginning of each audit:

- ✓ A copy of the Grant Information Sheet received with the Grant Agreement;
- ✓ A copy of the Grant Agreement;
- ✓ A copy of all draw sheets processed during the fiscal year;
- ✓ A copy of the monitoring letter, if one was issued during or affecting the fiscal year being audited;
- ✓ A copy of the community's most recent budget that includes the CDBG funds for the fiscal year; and
- ✓ The location of the records for the CDBG project and the person to contact along with their telephone number.

Tip: It is the responsibility of both the Subrecipient and the grant administrator to ensure compliance with all audit requirements.

The Audit Report

KRS 91A.040 and 2 CFR Part 200 require that audit reports issued upon completion of an audit include:

- ✓ An opinion as to whether financial statements are presented fairly in all material respects in accordance with GAGAS.
- ✓ An opinion as to whether the schedule of expenditures is presented fairly in all material respects in relation to the financial statements taken as a whole.
- ✓ A report on internal controls related to financial statements and major programs.
- ✓ A report on compliance with laws, regulations, and the provisions of contracts or grant agreements.
- ✓ An opinion as to whether the auditee organization has complied with laws, regulations, and the provisions of contracts or grant agreements.

- ✓ A schedule of findings and questioned costs, which include a summary of the auditor’s results and all “audit findings.”
- ✓ The summary of audit results must include:
 - Type of report the auditor issued on financial statements;
 - A statement that reportable conditions in internal controls were disclosed by the audit (where applicable);
 - Statement on whether the audit disclosed any noncompliance which is material to the auditee financial statements;
 - Type of report the auditor issued on compliance for major programs;
 - Statement as to whether the audit disclosed any “audit findings”;
 - Identification of major programs;
 - Dollar threshold used to distinguish between type A and type B programs; and
 - Statement as to whether the auditee qualifies as a low-risk organization.

Deadline and Submission

The submission of all audit information is the responsibility of the Subrecipient. It is the administrator’s responsibility to inform the Subrecipient of all audit requirements and to ensure that **completed audit reports are submitted to DLG** and the appropriate offices, including the Federal Audit Clearinghouse, on a timely basis.

Federal Submission Requirements

Under OMB Circular A-133 and 2 CFR Part 200, audits must be completed within nine months from the end of the fiscal year.

Subrecipients have no later than 30 days after receipt of the auditor’s report or March 31st (whichever is earlier) to submit the final copies to the Federal Audit Clearinghouse (FAC). The Subrecipient should also forward one copy to DLG, Office of Federal Grants.

According to 2 CFR 200 Subpart F, Subrecipients must make copies of their audit available for public inspection, ensuring that protecting personally identifiable information is not included. This requirement will apply for FY2016 forward.

State Publication and Submission Requirements

All city audits must be performed by a CPA and completed by March 10 immediately following the close of the fiscal year. County audits done by a CPA must be completed by February 1 immediately following the end of the fiscal year. County audits performed by the State Auditor’s office are to be completed in a reasonable time as determined by the APA. (KRS 43.070).

In accordance with KRS Chapter 424 and 91A.040, cities must publish an advertisement regarding the audit within 30 days of the presentation of the audit to the City’s legislative body.

2 CFR Part 200 Audits must be submitted to:
Federal Audit Clearinghouse
1201 E 10th Street
Jeffersonville, IN 47132
<http://harvester.census.gov/facweb>

In addition, KRS requires cities to submit one electronic copy of the audit to the Cities and Special Districts Branch of DLG. **CDBG-DR Subrecipients must also send an additional copy to the Office of Federal Grants in order to meet the CDBG-DR-related requirements.**

For counties, the fiscal court or county official should submit the accountant's written report to the Governor, the General Assembly, the Attorney General, the State Librarian, and the county attorney. A copy must also be provided to DLG to comply with CDBG-DR requirements.

[DLG Audit Submission](#)
Office of Federal Grants
100 Airport Road, 3rd Floor
Frankfort, KY 40601Frankfort, KY
40601-8204

Additionally, the fiscal court or county official must send the report to the newspaper having the largest paid circulation in the county. The letter of transmittal accompanying the report should be published in the newspaper in accordance with the provisions of KRS Chapter 424.