

**CHAPTER 3
FINANCIAL MANAGEMENT**

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CHAPTER 3 FINANCIAL MANAGEMENT

This chapter provides guidance regarding financial management of the NYS CDBG program. Recipients must maintain financial records that demonstrate NYS CDBG funds have been administered in accordance with all applicable federal, state and local laws, rules, regulations and requirements, and generally accepted accounting principles and the policies and procedures of the OCR.

Recipients are responsible for the management and control of NYS CDBG funds and must implement procedures that will allow for the tracking of all NYS CDBG funding to document how grant funds were spent as well as how the intended objectives and outcomes were accomplished.

All financial records and activities are subject monitoring by the OCR to ensure compliance with all applicable CDBG regulations and requirements.

I. Financial Management Basics

A. General Guidelines

Recipients must adhere to all local, state and federal financial requirements and must maintain an accounting or financial management system that demonstrates compliance with all applicable federal, state and local laws and rules, regulations and requirements. A Recipient's financial management system must ensure the following:

1. Accurate, current and complete disclosure of the current status and financial results of the NYS CDBG program in accordance with specified requirements;
2. Records that adequately identify, by activity, the source and use of funds for each NYS CDBG supported project;
3. Effective control over and accountability for all funds, property, and other assets;
4. Procedures to comply with the requirement for timely distribution of funds as required by U.S. Treasury Circular 1075 and 24 CFR Section 570.511;
5. Procedures for determining that costs are reasonable, allowable and accountable in accordance with 2 CFR Part 200 Subpart E;
6. Provision for a comparison of actual outlays with budgeted amounts for each line item, including grant funds and matching funds;
7. Accounting records supported by source documentation; and
8. Internal controls and segregation of duties designed to eliminate fraud and abuse.

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To ensure compliance with New York State's requirements, Recipients should reference the New York State Office of the State Comptroller's (OSC) "Accounting and Reporting Manual" which provides a comprehensive accounting/reporting guide for local governments. The Manual is available on the OSC's website at <http://www.osc.state.ny.us/localgov/pubs/listacctg.htm>.

B. Accounting Procedures and Documentation

1. Accounting Procedures

Recipients should use a fiscal organization and management system that ensures proper and efficient administration of the grant. The following basic principles should guide the development of your system:

- a. Procedures should be formalized so they can be applied consistently.
- b. Procedures should be designed to ensure internal control of funds.
- c. Financial transactions should be documented to create an audit trail.

Internal Controls

The Recipient is responsible for establishing and maintaining a system of internal controls to protect the integrity of grant funds. To the greatest extent possible, the system should provide for adequate separation of duties so that no one individual has authority over all fiscal functions. Where separation of duties is not possible due to staff limitations, management should assume an oversight role for the overall functions to be performed.

At a minimum, Recipients should use the following as a guide regarding segregation of duties:

- **No individual shall have complete control over all phases of any significant transaction.** In other words, the same person cannot authorize payment, record transactions, and sign checks.
- **Record keeping must be separate from operations and the handling and custody of assets.**
- **Monthly reconciliations and verifications of cash balances with bank statements shall be made by employees who do not handle or record cash, or sign checks.**
- **Actual lines of responsibility shall be clearly established and adhered to as closely as possible.**
- **Persons preparing payrolls should not handle the related paychecks.**

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- **All persons who handle financial transactions shall be bonded in accordance with State law.**

If Recipients find there are too few employees to meet the above requirements, OCR can provide guidance in establishing appropriate control policies and procedures. In many cases, it is possible to use elected officials (such as the mayor, town supervisor, etc.) to meet these requirements.

Internal controls are particularly important, where the individual responsible for the program activities is also responsible for maintaining NYS CDBG records. Internal control and its processes are recognized as fundamental and indispensable when there are specific program and financial management responsibilities.

Budgetary Controls

The budget is an operating plan and guide. It is a statement of the Recipient's best estimate of the resources necessary to accomplish the NYS CDBG project in a given time span. Recipients must have procedures in place to monitor obligations and expenditures against their approved budget(s) for NYS CDBG funded activities. An on-going system for monitoring receipts, encumbrances and expenditures will allow for the time necessary to initiate a formal budget modification, should one be warranted. In addition, any pattern of overruns should prompt a careful re-assessment of whether the resources available will be sufficient to achieve the agreed upon objectives.

2. Accounting Documentation

Separate accounting records must be maintained for each NYS CDBG project so that NYS CDBG revenues and expenditures can be readily identified. Federal regulation 2 CFR 85.20(b)(2) requires records and source documentation that identify the source and application of funds, including authorizations, obligations, unobligated balances, assets, expenditures, income, and interest.

Accountability for NYS CDBG funds, as described in the above HUD regulation, requires adequate assurance that these funds are used solely for authorized purposes. This requirement is best met through fund accounting. Fund accounting is a control device to segregate resources and ensure that the segregated resources are only used for their intended purposes. Pursuant to Section 36 of the General Municipal Law, New York State's Uniform System of Accounts for Cities, Villages, and Counties, maintains:

“A fund is a fiscal and accounting entity with self-balancing accounts recording resources, liabilities and equity. Funds are created for the purpose of carrying out specific activities or attaining certain

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objectives in accordance with law or dictated by generally accepted accounting principles.”

A good financial system is more than information on a monthly report. It has a solid foundation of accounting records, budget controls, source documentation, allowable costs, cash management, financial reporting and internal controls that generate a complete and accurate picture of how the Recipient is spending the grant funds.

The System should include the following accounting documents or their equivalent:

- a. **Cash Receipt Journal:** This journal should record the receipt of all funds applied to the NYS CDBG program. It should include the date of receipt, the amount received, the source of funds, and the accounts into which funds were transferred.
- b. **Cash Disbursement Journal:** This will record all checks or disbursements issued for payment of program costs, including date of payment, payee, check number, amount, and the account from which a disbursement was made.
- c. **General Ledger:** Summarizes the monthly receipts and disbursements for each activity included in the project.
- d. **Journal Voucher:** Records explanations and amounts of adjustments to general ledger accounts.
- e. **Fixed Asset or Property Management Ledger:** A listing of all fixed assets acquired with NYS CDBG funds.
- f. **NYS CDBG Cash Register:** A record of requests for payment, checks received and balance of NYS CDBG funds.
- g. **Detailed Activity Ledger:** A record to maintain accounting control. A detailed activity ledger must be established for each project. All financial transactions relating to a particular project are recorded on this ledger.

In the simplest terms, NYS CDBG financial transactions involve receiving funds (such as grant funds, program income, etc.) and spending funds on eligible activities. Every NYS CDBG financial transaction must be recorded in the accounting records as soon as possible. To do this, there must be source documents, files and accounting records.

Source documents should provide all details of the transaction. The Recipient must be able to document how grant monies are being utilized as well as how

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their objectives, in accordance with the grant agreement, are being met. The information contained in a source document is necessary for accounting purposes and is recorded in one of the books of original entry before being filed. There are various types of source documents and records needed to properly account for a NYS CDBG transaction. These documents include but are not limited to (in original form, not photocopy):

- Purchase Orders
- Contract Agreements
- Invoices and Payment Requests
- Time Distribution Sheets

At a minimum, Recipients should follow these general guidelines and operating policies:

- **All administrative costs must be charged to “administration” and not to the activity or program delivery line items.**
- **Accounting records must reflect each individual transaction.** Every invoice should be recorded as an expenditure.
- **Accounting records must be supported by adequate source documentation.** Invoices, purchase orders, vouchers, payrolls, deposit slips, cancelled checks, bank statements, etc. must be secured in order to demonstrate how program funds were spent. Payment should never be made without original invoices or vouchers in hand.
- **Payroll charges to the program must be supported by a timesheet for each employee indicating the hours worked on the program for each pay period.**
- **Indirect costs charged to the program must be supported by a written cost allocation plan and the plan must be maintained on file in the Recipient’s office.**
- **Financial records related to the NYS CDBG program must be retained for three years after closeout of the program.** In addition, access to those records must be assured to U.S. Department of Housing and Urban Development (HUD), state officials, and their representatives.

II. Eligible Costs

2 CFR Part 200 Subpart E establishes the cost principles and standards for determining whether specific costs are allowable under federal programs, including the NYS CDBG program. The uniform approach for determining costs promotes effective program delivery and efficiency.

It is crucial that Recipients be able to prove that all of their NYS CDBG funds were used for ***eligible activities*** and met one or more of the ***National Objectives***.

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Basic Guidelines:

A. Allowable Costs

To be allowable, costs must meet the following general criteria:

1. Be necessary and reasonable for proper and efficient performance and administration of federal awards;
2. Be allocated to the grant;
3. Be authorized under State or local law or regulations;
4. Conform to any limitations or exclusions set forth in 2 CFR Part 200 and other applicable laws and regulations;
5. Be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the Recipient;
6. Costs must not be allowable to, or included as a cost of, any other federally financed program.

B. Reasonable Costs

A cost is reasonable if, in its nature and amount, it:

1. Does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost;
2. Is consistent with sound business practices; and
3. Is consistent with market prices for similar goods and services.

C. Administrative Costs

Generally, these are administrative costs associated with salaries, wages, and related costs of the grant recipient's staff, the staff of local public agencies, or other staff, including consultants and subrecipients engaged in program administration for the awarded NYS CDBG grant award,

Costs for general operating costs of a municipality or a non-profit organization are ineligible CDBG administrative costs.

Examples of eligible CDBG program administrative costs can include:

1. Providing local officials and citizens with information about the CDBG funded project;
2. Internal meetings for general program administration and review that is not related to program delivery activities;
3. Preparing program budgets and schedules, and amendments thereto;
4. Developing systems for assuring compliance with CDBG program requirements;

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5. Costs associated with the Environmental Review Record for the overall program, including the release of funds;
6. Preparing for Requests for Proposals (RFP) with consultants for grant administration or other related work and Requests for Qualifications (RFQ)
7. Developing interagency agreements and agreements with subrecipients and contractors to carry out program activities;
8. Monitoring program activities for progress and compliance with the program requirements;
9. Preparing reports and other documents related to the program for submission to OCR regarding the grant;
10. Coordinating the resolution of audit and monitoring findings;
11. Evaluating program results against state objectives;
12. Managing or supervising persons whose primary responsibilities with regard to the program include such assignments as those described above;
13. Costs incurred for official business travel in carrying out the program and administrative services performed under a third-party contract;
14. Purchase of capital equipment, such as file cabinets, and used exclusively for CDBG grant administration; and
15. Training on CDBG grant administration requirements.

For more information concerning eligible administrative costs, Recipients should contact the Community Developer of Economic Developer or refer to 24 CFR Subpart C 570.206.

D. Program Delivery Costs

These are generally costs that can be attributed directly to the delivery of the specific proposed activities and are considered program delivery expenditures such as:

1. For **Housing Rehabilitation** and **Homeownership Assistance**, these activities can include:
 - a. Marketing grant activities;
 - b. Services verifying client eligibility, applicant in-take and processing;
 - c. Providing education or counseling to beneficiaries;
 - d. Preparation of site-specific environmental review and environmental assessment such as SHPO determinations, well testing or phase 1 archaeology;
 - e. Development of construction specifications bid preparation and contracting;
 - f. Compiling cost data on individual housing units receiving CDBG assistance;
 - g. Construction monitoring and on-site monitoring;
 - h. Payment processing;
 - i. Filing fees and related legal expenses;
 - j. Engineering and/or architectural fees monitoring;
 - k. Client/contractor troubleshooting
 - l. Any other professional services required to deliver the program

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For more information concerning eligible Program Delivery for Housing Activities, Recipients should contact their Community Developer.

2. **Public Infrastructure**, such as public water and sewer and public facility projects such as senior centers and daycare facilities, these activities can include:
 - a. Marketing grant activities;
 - b. Services verifying client eligibility;
 - c. Providing education or counseling to beneficiaries;
 - d. Preparation of site-specific environmental review and environmental assessment such as well testing or phase 1 archaeology;
 - e. Legal expenses related to construction such as temporary or permanent easements and filing fees;
 - f. Any required building or regulatory permit or fees associated with regulatory compliance;
 - g. Labor standards compliance work including completion of required on-site employee interviews, verifying and reviewing certified payrolls;
 - h. Development of construction specifications bid preparation and contracting;
 - i. Professional service fees including engineering and architectural fees required to deliver the program;
 - j. Client/contractor troubleshooting; and
 - k. Any other professional services required to deliver the program.

For more information concerning eligible Program Delivery for Public Infrastructure and Public Facility Activities, Recipients should contact their Community Developer.

3. **Economic Development, Microenterprise and Small Business Assistance**, these activities can include:
 - a. Marketing grant activities;
 - b. Services verifying client eligibility;
 - c. Providing education or counseling to beneficiaries;
 - d. Preparation of site-specific environmental review and environmental assessment such as well testing or phase 1 archaeology;
 - e. Preparation of loan closing documents, all costs associated with perfecting security, repayment processing, loan disbursement;
 - f. Professional service fees including engineering and architectural fees required to deliver the program and review of project documentation, etc.
 - g. Legal expenses related to construction such as temporary or permanent easements and filing fees;
 - h. Any required building or regulatory permit or fees associated with regulatory compliance;
 - i. Development of construction specifications bid preparation and contracting;
 - j. Labor standards compliance work including completion of required on-site employee interviews, verifying and reviewing certified payrolls;

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- k. Client/contractor troubleshooting;
- l. Any other professional services required to deliver the program;

For more information concerning eligible Program Delivery for Economic Development, Microenterprise or Small Business Assistance, Recipients should contact their Economic Developer.

E. Direct Costs

Direct costs are those costs that identify specifically with the NYS CDBG funded project and are required for the implementation of the NYS CDBG program. Direct costs can be identified with a particular final cost objective. Typical direct costs chargeable to Federal awards are:

1. Cost of materials acquired, consumed and expended specifically for the NYS CDBG award;
2. Equipment or other approved capital expenditure;
3. Travel expenses incurred to carry out the project; and
4. Salaries of staff devoted specifically to the implementation of the CDBG funded project.

F. Indirect Costs

Indirect costs are those costs that cannot be specifically identified with the NYS CDBG funded project. These costs are incurred for a common or joint purpose benefiting more than one cost objective and are not readily assignable to that cost objective.

Indirect costs must be recovered through an approved cost allocation plan that must be kept on file and a copy must be provided to the OCR. A cost allocation plan provides the methods and procedures that will be used to allocate costs to various programs, Information on establishing an allocation plan can be found in 2 CFR 200.414 and 200.416.

Indirect costs include support costs associated with implementation such as, but not limited to:

1. Accounting salaries and benefits;
2. Auditing expenses;
3. Office related fees such as payroll services, office machines and equipment, repairs of equipment, and fees for telecommunication services.
4. Generally, these costs should not include costs that are considered general operating expenses.

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III. Program Income

A. Definition of Program Income

Program income is defined by the CDBG Rule (24 CFR 570.489(e)(1)) to include any “gross income received by a State, a unit of general local government, or a subrecipient of the unit of general local government that was generated from the use of CDBG funds, regardless of when the CDBG funds were appropriated and whether the activity has been closed out.”

Typical sources of program income include:

- Proceeds from the disposition by sale or long-term lease of real property purchased or improved with grant funds;
- Proceeds from the disposition of equipment purchased with grant funds;
- Gross income from the use or rental of real or personal property acquired by the unit of general local government with grant funds, less costs incidental to the generation of the income;
- Gross income from the use or rental of real property owned by the unit of general local government that was constructed or improved with grant funds, less the costs incidental to the generation of the income;
- Payments of principal and interest on loans made using grant funds;
- Proceeds from sale of loans or obligations secured by loans made with grant funds;
- Interest earned on funds held in revolving fund account or earned on program income pending disposition of the income; and
- Funds collected through special assessments made against properties owned and occupied by households not of low and moderate income, where special assessments are used to recover all or part of the grant portion of a public improvement.

The following proceeds are not considered program income under CDBG rules:

- Proceeds from the sale of real property purchased or improved with CDBG funds if the proceeds are received more than 5 years after expiration of the grant agreement with the State are not considered program income.
- Proceeds from community economic development, neighborhood revitalization and/or energy conservation projects activities by nonprofit organizations qualified under Section 105(a)(15) of the Housing and Community Development Act are not considered program income.
- Amounts generated by activities that are financed by a loan guaranteed under Section 108 of the Act and meet one or more of the public benefit criteria specified at 24 CFR 570.482(f)(3)(v) or are carried out in conjunction with a grant under Section 108(q) of the Act in an area determined by HUD to meet the eligibility requirements for designation as an Urban Empowerment Zone

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pursuant to 24 CFR Part 597, Subpart B. Such exclusions shall not apply if NYS CDBG funds are used to repay the guaranteed loan. The determination whether such amounts shall constitute program income shall be governed by the provisions of the contract required at 24 CFR 570.705(b)(1).

- If the total amount of funds received (excluding revolving loan funds) does not exceed \$35,000 received during the state fiscal year (April 1 – March 31), the funds are considered miscellaneous revenue and may be retained by the local recipients (subject to the reporting process below.)

The rule provides for an annual threshold of \$35,000 before receipts by local recipients must be counted as program income. If the total amount of receipts by the local recipient exceeds \$35,000 during the year (for the New York State Program, the state fiscal year of April 1 – March 31), all funds received, including the initial \$35,000, are considered program income.

However, if the total receipts by a local recipient in the State's fiscal year do not exceed \$35,000, then those funds are considered miscellaneous revenue and may be retained by the local recipients and moved to its general account. This transfer may occur only at the end of a fiscal year when total annual receipts are determined and approved by OCR.

All revolving loan fund receipts are considered program income, regardless of the amount received annually.

B. OCR Program Income Policy

All program income received on or after April 1, 2019, by local recipients must be returned to HTFC as follows:

- For all receipts legally designated for a local Revolving Loan Fund (RLF), the funds should be returned immediately upon receipt to HTFC.
- For all other receipts from CDBG activities, the funds may be accumulated in a separate local account and returned to HTFC at the end of the state fiscal year, along with a Program Income Report.
 - If the total amount of receipts by the local recipient exceeds \$35,000 during the year (for the New York State Program, the state fiscal year of April 1 – March 31), all funds received, including the initial \$35,000, are considered program income and must be returned annually with the Program Income Report.
 - If the total receipts by a local recipient during the State's fiscal year do not exceed \$35,000, then those funds are considered miscellaneous revenue and may be retained by the local recipients and moved to its general account only at the end of a fiscal year after the total annual receipts are determined and approved in writing by OCR. Miscellaneous revenue is not subject to CDBG requirements.

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- Note that revolving loan fund income is not included in the total gross income calculation when determining the annual amount of program income.

No proceeds received may be directly disbursed to activities by the local recipient without prior HTFC written consent.

Recipients must file a CDBG Program Income Report annually at the end of each state fiscal year. The Report must identify all receipts, including funds received that are not program income (i.e., less than \$35,000 during the state fiscal year.) The Report is due April 30, along with the remittance of program income to be returned.

Funds may only be returned to HTFC by the local recipient, and not by any subrecipient or beneficiary.

Note that program income may be received by the local recipient after the grant has been closed out. If it exceeds \$35,000 during the State's fiscal year, it must be returned to HTFC.

Also, the proceeds of real property sold within five (5) years from the date of closeout by HTFC, must be included in gross income for the purposes of determining Program Income. However, after 5 years from the date of closeout by HTFC, any proceeds from the sale of real property purchased or improved with CDBG funds are not considered Program Income and may be retained by the Recipient.

Program income earned on grants from Federal Fiscal Year 1999 or earlier is the responsibility of HUD, is not to be reported to the OCR, and must be maintained separate from any receipts received from post-1999 activities.

IV. Non-Compliance

A. Sanctions

If OCR determines that a Recipient has failed to comply with the federal and state requirements of the NYS CDBG Program and/or the policies or procedures of OCR, sanctions including, but not limited to those described under 24 CFR 570.492 and listed below may be imposed.

- Suspending grant funds in whole or in part.
- Prohibiting the Recipient from incurring additional obligations/commitment of funds.
- Imposing special conditions on the grant and future grant awards.

B. Recapture of Funds

Recaptured funds are those funds that have not been expended in accordance with the regulations and policies governing the NYS CDBG Program and OCR has

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requested reimbursement of the expenditures. Any recaptured funds will be redistributed according to New York State's Action Plan.