

**CITY OF ST. LOUIS**  
Community Development Administration

**Non-Profit Capacity Building Workshop  
CDBG Financial Management  
June 29, 2016**



**AGENDA**

<b>Topic</b>	<b>Presenter</b>
Welcome & Agenda	Brian Yochum
Financial Management Systems	Brian Yochum
Cash Management	Brian Yochum
Allowable Costs	Sharon Worth
Accounting Records & Source Documentation	Nancy Fesarillo-Wiegand
Participant Exercises	Nancy Fesarillo-Wiegand
Break	
CDA Grant Funds Disbursement Process & Cost Allocation Plan	Lorna Alexander
CDA Grant Funds Financial Reporting Requirements	Nancy Fesarillo-Wiegand

# Introduction to Financial Management Systems



## Financial Management Systems

Financial Management  
for non-profit Subrecipients:

*Required by the Federal Government's  
Uniform Administrative Requirements  
2 CFR, Part 200*

## Financial Management Systems

### Objectives – To help you:

- ❖ Identify strong financial management practices for Federal Programs
- ❖ Define the key components of financial management
- ❖ Describe how the key components fit together for efficient and effective financial management

## Financial Management Systems

### **Definition of Financial Management:**

The process of protecting and using Federal funds effectively, efficiently, and transparently. It is achieved through systematic application of procedures, forms, rules of conduct, and standards. It is important because Federal and local laws require it, it ensures accountability, and it helps to make sure that money is used as intended.

## Financial Management Systems

Financial Management systems adhere to core guiding principles:

- ❖ Promote integrity by protecting funds from being wasted or misused, and by ensuring that all financial transactions are clearly documented using systems that are easy for HUD and their federal grantees to understand
- ❖ All spending is planned through the budgeting process, and then actual expenditures are checked against the plan. Good financial management systems always operate in a planned and deliberate way.
- ❖ Comply with all applicable regulations, including federal cost principles, program-specific requirements and local rules.
- ❖ Strengthen programs by increasing efficiency and providing valuable information for program managers and others.

## Financial Management Systems

### **Key components:**

- ❖ Cost principles
- ❖ Budgeting
- ❖ Procurement
- ❖ Internal Controls
- ❖ Accounting and records
- ❖ Reporting
- ❖ Audits

## Financial Management Systems

**Cost Principles** define what is an “allowable, Reasonable and allocable” expense

There are three critical questions that must be asked about ALL costs.

- ❖ Is the cost allowed by our funding sources?
- ❖ Is the cost reasonable, meaning, is the cost what a prudent person would pay in this situation; and is it necessary?
- ❖ Can the cost be allocated to a specific funding source based on what we know about the cost and what it is paying for?

## Financial Management Systems

**Budgeting** – Every activity must be guided by a budget.

The budget is the plan for how much we will spend overall within a given timeframe.

- ❖ Budgeting is a Federal requirement as part of cost principles
- ❖ Provides an ongoing check for reasonableness through comparing actual expenditure requests against the budget
- ❖ Assures that funds will be available when needed

## Financial Management Systems

**Procurement** or purchasing procedures, are Important not only to promote cost reasonableness, but also to ensure that goods and services are purchased in a way that is fair and transparent.

- ❖ Approval from CDA for purchases of \$2,000 or more (includes accumulated total per vendor)
- ❖ At their most basic, procurement procedures must be fair, open, and **well documented**

## Financial Management Systems

**Internal Controls** are designed to minimize misuse of funds and poor recordkeeping, and to maximize the likelihood of detecting problems if they occur. Ultimately, internal controls are a combination of tools designed to ensure that multiple people check any expenditure, so that no one person can defraud the organization.

## Financial Management Systems

### **Accounting and Records**

- ❖ Fund accounting , the type of accounting used by HUD grantees, is a method of recording data based on sources and uses of funds. In addition to promoting compliance with HUD regulations, fund accounting provides useful information regarding program performance

## Financial Management Systems

### **Reporting**

- ❖ Reporting is the mechanism that program staff and finance staff use to verify and document that funds have been used in accordance with the established budget and other requirements.

## Financial Management Systems

### **Reporting**

- ❖ Records from both program and finance staff are cross-checked for accuracy, providing another level of oversight
- ❖ Because some programs have very specific deadlines for expenditures, program and finance staff must work closely with one another to ensure that dollars are spent for eligible expenses and documented appropriately and in a timely fashion

## Financial Management Systems

### **Auditing**

- ❖ Audits are reviews of an organization's financial accounts and financial accounting systems by independent third party experts like accountants. Annual audits follow both Federal rules and Generally Accepted Accounting Principles

## Financial Management Systems

### **Auditing**

- ❖ A single audit is an important component of your financial management system, but it is not adequate by itself to assure proper use of Federal funds
- ❖ Some nonprofits have difficulty with capacity. The ones that have learned good financial management are able to stretch those critical dollars where others cannot, and are more effective, better administrators

## Cash Management

### **Two general methods available to transfer CDBG funds to subrecipients:**

#### **The reimbursement method and the per unit method.**

- ❖ The reimbursement method entails a transfer of CDBG funds to the subrecipient based on actual expenditures.
- ❖ A fixed price for a unit of service is a performance-based payment method.
- ❖ Subrecipients must include accurate information in its drawdown requests. (The reimbursement methods must submit actual invoices. The per unit must submit activity information from the programmatic reports).

# Allowable & Unallowable Costs



## Allowable & Unallowable Costs

### **Determining Allowable Costs:**

- ❖ Recipients must ensure that costs charged to the CDBG grant are allowable
- ❖ Recipients should use 2 CFR Part 200, Subpart E – Cost Principles to guide their determination of allowable costs
- ❖ Standards for determining allowability apply equally to all cost items and apply whether a cost is direct or indirect

## Allowable & Unallowable Costs

### Allowable Costs under CDBG, must:

- ❖ Be necessary and reasonable
- ❖ Be allocable according to the CDBG contract
- ❖ Be authorized or not prohibited under state/local laws and regulations.
- ❖ Conforms to limitations or exclusions (laws, terms, conditions of award, etc.)
- ❖ Be consistent with policies, regulations and procedures.
- ❖ Be in accordance with Generally Accepted Government Auditing Standards (GAGAS).
- ❖ Be adequately documented
- ❖ Be treated consistently (with non-CDBG costs)
- ❖ Be net of all applicable credits

## Allowable & Unallowable Costs

In order to be allowable, costs must be **necessary** and **reasonable** to carry out the objectives of the grant.

### Reasonable and Necessary

“The Prudent Person Rule”

***Reasonable Costs*** – A cost is reasonable if, in its nature and amount, it 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.

## Allowable & Unallowable Costs

### **Subfactors Used to Determine Reasonableness**

The determination of whether a cost is reasonable requires the application of the following sub-criteria:

- ❖ The cost generally would be recognized as ordinary and necessary for the performance of the federal award.
- ❖ The cost conforms to:
  - ❖ Sound business practices,
  - ❖ Arm's length bargaining,
  - ❖ Laws and regulations, and
  - ❖ Terms and conditions of the federal award.
- ❖ The cost was incurred using the organization's established practices.

## Allowable & Unallowable Costs

### **~~~Important~~~**

“The policies and regulations do not expect recipients to suffer the use of poor quality equipment or beg for supplies on the street corner. These simply require the wise use of federal funds. The delivery of grant services should always be paramount but within the constraints of the cost principles.” <sup>1</sup>

<sup>1</sup>HUD-2005-05-CPD  
<http://www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm>

## Allowable & Unallowable Costs

### Most Common Examples Allowable and Unallowable Costs

#### Allowable Costs

- ❖ Cost to establish and maintain accounting and other information
- ❖ Advertising (i.e. recruitment of personnel, procurement of goods and services)
- ❖ Bonding Costs
- ❖ Communications (i.e. costs of telephone, mail)
- ❖ Compensation of employees
- ❖ Legal expenses required to administer federal program
- ❖ Disbursing service
- ❖ Employee morale, health and welfare costs
- ❖ Taxes which are user fees for benefits to federal government (i.e. gasoline taxes, motor vehicles fees)
- ❖ Equipment and capital expenditures
- ❖ Publication and printing costs
- ❖ Rental costs

## Allowable & Unallowable Costs

### Most Common Examples Allowable and Unallowable Costs

#### Unallowable Costs

- ❖ Alcoholic Beverages
- ❖ Bad Debts
- ❖ Contribution to contingency reserve for events which cannot be predicted.
- ❖ Contributions and donations
- ❖ Legal Expenses for prosecution of claims against the Federal Government
- ❖ Entertainment Costs
- ❖ Fines and penalties
- ❖ Goods and services for personal use
- ❖ Fundraising
- ❖ Lobbying
- ❖ Losses on other awards
- ❖ Sales Taxes

## Allowable & Unallowable Costs

### **HERE ARE IMPORTANT QUESTIONS YOU SHOULD ASK YOURSELF ABOUT ALLOWABLE COSTS!!!**

- ❖ Does your agency have a clearly defined set of standards and procedures for determining the reasonableness, allowability and allocability of cost incurred that is consistent with the basic Federal Rules?
- ❖ Does your agency know which specific types of expenditures are prohibited under the CDBG program?

## Accounting Records & Source Documentation



## Accounting Records & Source Documentation

### **Required Accounting Records for Subrecipients of CDBG funds:**

- ❖ Adequately identifies the source
- ❖ Adequately identifies the application

## Accounting Records & Source Documentation

### **Elements of Organization's accounting system:**

- ❖ Chart of accounts
- ❖ Cash receipts journal
- ❖ Cash disbursements journal
- ❖ Payroll journal
- ❖ General ledger

## Accounting Records & Source Documentation

### **Costs charged against CDBG funds must be:**

- ❖ Properly approved;
- ❖ Supported by source documentation;
- ❖ Incurred during the contract period;
- ❖ Actually paid out; and
- ❖ Eligible costs

## Accounting Records & Source Documentation

### **Source documentation must explain the following:**

- ❖ the basis of the costs incurred; and
- ❖ the actual dates the expenditures were incurred.

## Accounting Records & Source Documentation

### **Source documentation support for Activity:**

When a fixed price for a unit of service (performance basis) is used as method of payment, HUD requires Pass-Through Entities such as CDA to ensure that agencies have adequate records to support eligible CDBG costs.

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & the required support documentations:**

#### 1. Personnel Costs

Support documentations:

- ❖ Personnel Schedule (submitted with your cost allocation plan)
- ❖ Time Sheets that show the following information: name of employee; dates; daily time in and out; daily total number of hours worked for CDBG; signature of employees; immediate supervisor's approval
- ❖ Payroll registers
- ❖ Proof of payment of payroll taxes, etc.
- ❖ Invoices for fringe benefits (health insurance, vision, dental, life, pension, etc.)

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & required support documentations:**

2. Local Travel  
Support documentations:
  - ❖ Mileage report with the following information: beginning and ending odometer reading at a rate provided by the City of St. Louis; signature of employee; approved by agency's authorized signatory
3. Contract/Professional Services  
Support documentations:
  - ❖ Approval from CDA if a \$2,000 or more - procurement
  - ❖ Invoices/Billings

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & required support documentations:**

4. Supplies  
Support documentations:
  - ❖ Invoices/Billings
  - ❖ Approval from CDA if a \$2,000 or more (includes accumulated total per vendor) – procurement
  - ❖ Purchase orders/requisitions

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & required support documentations:**

#### 5. Equipment

Support documentations:

- ❖ Approval from CDA if a \$2,000 or more (includes accumulated total per vendor) – procurement
- ❖ Invoices
- ❖ Purchase orders/requisitions, if applicable
- ❖ Must be included in the Inventory Report

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & required support documentations:**

#### 6. Printing

Support documentations:

- ❖ Invoices
- ❖ Copy of printed material
- ❖ Fliers must include a phrase of the funding sources

#### 7. Insurance

Support documentations:

- ❖ Invoices for coverage (whether: monthly, quarterly, or annually)

## Accounting Records & Source Documentation

### **Most Common Examples of CDBG Eligible Costs & required support documentations:**

8. Telephone/Communications  
Support documentations:
  - ❖ Billings (all pages)
  - ❖ Long distance calls marked as “business or personal”
  - ❖ Cell phone – phone allowance rate per user authorization/approval from CDA (whether: high end or low end user)
9. Facilities  
Support documentations:
  - ❖ Lease agreement and/or invoices/billings for rent
  - ❖ Invoices/billings for utilities

## Accounting Records & Source Documentation

### **The keys to successful CDBG Financial Management:**

- ❖ Accurate
- ❖ Reliable; and
- ❖ Up-to-date accounting records

## Accounting Records & Source Documentation

### **Accounting Records should contain at least the following information:**

- ❖ Amount of federal funds received
- ❖ Current Authorization of funds
- ❖ Obligations of funds
- ❖ Unobligated balances
- ❖ Assets and liabilities
- ❖ Program Income
- ❖ Actual expenditures

## Accounting Records & Source Documentation

### **HERE ARE IMPORTANT QUESTIONS YOU SHOULD ASK YOURSELF ABOUT ACCOUNTING RECORDS AND SOURCE DOCUMENTATION!!!**

- ❖ Does our agency maintain an adequate financial accounting system?
- ❖ Does your accounting system provide reliable, complete, and up-to-date information about sources and uses of all funds?
- ❖ Are “trial balances” performed on a regular basis (at least quarterly)?
- ❖ Does your agency maintain up-to-date files of original source documentation?

## Participant Exercises



### Example #1

The City of Angels agency is proposing to expand their Choice Food Pantry Program which currently provides clients a selection of food based on their needs to promote dignity and independence. Currently they are only open 3 days a week from 8 a.m. – 12 noon. With the increase in funding, City of Angels can now stay open during weekdays from 8:00 am – 4 pm to serve more clients.

**Give examples of Eligible and/or Allowable costs.**

## Example #2

Westgate Neighborhood Association is proposing to expand its Neighborhood Leadership program. The program provides an equitable opportunity to all members of the community to participate in academic, economic, civic, and other neighborhood activities, enabling them to support each other to make their communities better places to live. With the increase in funding, Westgate will be able to serve 25% more community members and improve the courses currently being offered.

**Give examples of Eligible and /or Allowable costs.**

## Example #3

Using Example #2, Westgate also provides day care services for the children of participants who are unable to pay for such services.

**Question:**

Is the cost of providing day care services Eligible and/or Allowable under this work program?



# CDA GRANT FUNDS DISBURSEMENT PROCESS



## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **CDA REIMBURSEMENT ACTIVITY TYPES**

- ADMINISTRATION AND PLANNING
- CONSTRUCTION
- CITYWIDE HOME REPAIR
- MINOR HOME REPAIR
- PUBLIC SERVICE

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **ADMINISTRATION AND PLANNING ACTIVITIES – REIMBURSEMENT BY DIRECT BILLING FROM INVOICES**

- Agencies will be required to submit copies of invoices to CDA, including payroll registers and timesheets if personnel costs are to be charged
- Costs for services and supplies from one vendor or service provider that will equal \$2,000 or more during the life of the contract, must be procured in accordance with CDA's procurement standards to be considered an eligible CDBG/HOME expense. Approval of the procurement process from your program monitor is required before invoices can be processed for payment by the CDA Fiscal staff.

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **CONSTRUCTION ACTIVITIES -**

Once all legal documents are executed, including disbursing agreement for projects over \$100,000, payouts and draw downs are based on the percent of the project completion, and/or CDA's portion of project completion. A project inspection to verify percent complete is required. Prior to payment processing, documentation must be submitted and approved to support compliance in the following areas -

- LABOR STANDARDS
- SECTION 3
- PROGRAMMATIC REPORTING
- MBE/WBE PARTICIPATION

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **CITYWIDE HOME REPAIR MANAGEMENT ACTIVITIES –**

- **ADMINISTRATION COSTS** will be reimbursed through direct billing, payroll requests must include payroll registers and timesheets
- **COMPLETED HOUSING UNITS** – The following documentation must be included with each payment request
  - Scope of work
  - Signed contract between homeowner and contractor
  - Deed of trust (if applicable)
  - Promissory note
  - Right of rescission
  - Payout order
  - Invoice from contractor
  - Certificate of final inspection

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **MINOR HOME REPAIR ACTIVITIES**

#### **Reimbursements will be processed upon repair completion**

- Repairs have a pre-determined, negotiated amount – (2017 per unit amount is \$200 each repair)
- Eligible minor home repair services include, but are not limited to:
  - Cleaning gutters
  - Minor plumbing (leaking faucets)
  - Minor electrical (replacing outlets)
  - Minor carpentry (stair boards/railings)

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **PUBLIC SERVICES –**

PERFORMANCE BASED PAYMENTS USING

- A FIXED PRICE FOR A UNIT OF SERVICE COMPLETED OR A PER UNIT COST
- A FIXED PRICE FOR EACH UNIT OF SERVICE WILL BE INCLUDED IN YOUR CDA CONTRACT

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **UNITS OF SERVICE EXAMPLES**

- NUMBER OF MEALS DELIVERED TO SENIORS
- NUMBER OF COMPLETED WORKSHOPS FOR FIRST TIME HOMEBUYERS
- NUMBER OF COMPLETED JOB RESOURCE FAIRS
- NUMBER OF DAYS CHILDREN ATTENDED AFTERSCHOOL PROGRAM
- NUMBER OF GARDENS PLANTED

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **PER UNIT FACTORS (“PU FACTORS”)**

TO BE CONSIDERED WHEN ARRIVING AT A PER UNIT COST

- Measure of Outcome - Persons/Household/Units of Housing
- Service Units – Meals, Days of Attendance, Days Receiving Transportation, Events
- Life Span of Contract
- Financial Capacity, Frequency of Reimbursements
- Amount of Request/Award
- Actual Costs to Provide Service -  
Agency financial records must provide support of eligible expenses equal to or more than the amount of CDBG/HOME funds reimbursed.

## CDA GRANT FUNDS DISBURSEMENT PROCESS

- Per Unit Calculation Examples were presented at the Best Practices Workshop held June 28, 2016. Copies of the examples are included with your handouts.

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **CDA CONTROLS - PERFORMANCE BASED REIMBURSEMENTS**

- CDA Fiscal Staff and Program staff work in conjunction to ensure program activities are completed prior to the reimbursement of grant funds
- Payment requests for units of service must be supported by information provided on your monthly programmatic reports
- Program Monitors must approve performance based reimbursements. If you report you served 50 meals in January on your programmatic report and request reimbursement for 100 meals served in January, your program monitor will only approve payment for 50 meals.

## CDA GRANT FUNDS DISBURSEMENT PROCESS

### **Performance Based Reimbursement Payments VS Eligible Costs**

- **CDA grantees will be required to submit their proposed eligible CDBG expenses and costs on a Cost Allocation Plan Prior to Reimbursement Processing**
- **NEW - The Cost Allocation Plan budget forms will be included with the online grant application for Program Year 2017**

# COST ALLOCATION PLAN

## COST ALLOCATION PLAN

- What is it?
- What is its relevance to my CDA grant?
- Cost Allocation Line Items
- Cost Considerations

# COST ALLOCATION

## A COST ALLOCATION PLAN IS

- The **TOTAL COST OF AN AWARD** OR the sum of the allowable direct and allocable indirect costs, less any applicable credits.
- **DIRECT COSTS** are those that can be identified specifically with a particular final cost objective.
- **INDIRECT COSTS** are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.
- **NEW IN 2017** – only agencies with a Federally approved indirect cost rate will be allowed to charge indirect costs

# COST ALLOCATION

## COST ALLOCATION PLAN RELEVANCE

- Grantees financial records must provide support for eligible CDBG expenses that are more than or equal to amount reimbursed by the grant
- All costs must be reasonable and allocable
- All costs must be solely and directly related to grant activities, unless you have a Federally approved indirect cost rate
- Any and all reimbursed amounts not supported by eligible CDBG expenses **MUST** be returned to the City of St. Louis

# COST ALLOCATION

## Cost Allocation Line Items

### Cost Considerations:

**Personnel Costs** - must be supported by timesheets and payroll register; FICA must be included, all other benefits are eligible equal to percent of salary charged

**Local Travel Costs** – must track mileage; mileage reimbursement amount cannot be more than that of the City of St. Louis

**Contractual / Prof. Services** - Services over \$2,000 must be procured and approved by CDA, must be solely and directly related to grant activities

# COST ALLOCATION

## Cost Allocation Line Items

### Cost Considerations:

**Supplies** — Supplies costing \$2,000 or more from one vendor must be procured and approved by CDA; supplies must be solely and directly related to grant activities

**Equipment** — office equipment and other equipment purchases over \$500 must be tracked on inventory sheet annually or returned to CDA at closeout of grant

# COST ALLOCATION

## Cost Allocation Line Items

### Cost Considerations:

**Printing** - Services over \$2,000 must be procured and approved by CDA, must be solely and directly related to grant activities

**Insurance** — must be solely and directly related to grant activities

**Telephone/Communications** - must be solely and directly related to grant activities

**Facilities Expenses**- must be solely and directly related to grant activities

# COST ALLOCATION

## REASONABLE AND ALLOCABLE COSTS

### GROUP EXERCISE

#### Per Unit Example #1:

After School Program for Low-Income Youth

Output: 150 Persons

- 150 total youth projected
- Average daily attendance of **120** (80%)
- **180 days** in session (90 in Spring, 90 in Fall)
- CDBG Request/Award - **\$100,000**
- $\$100,000 \div 120 \div 180 = \$4.63$
- **\$4.63 for 21,598 Units (Attendance)**

### Per Unit Example #2:

#### Senior Meals on Wheels Program

Output: 100 Persons

- 100 seniors projected
- Each receives 2 meals per day for 50 weeks
- CDBG Request/Award - \$25,000
- $\$25,000 \div 100 \div 2 \div 50 = \$2.50$
- \$2.50 for 10,000 Units (Meals)

67

### Per Unit Example #3:

#### Beautification Program in a L/M Neighborhood

Output: Total # of L/M Persons in Neighborhood

- 10 beautification projects projected
- CDBG Request/Award - \$25,000
- $\$25,000 \div 10 = \$2,500$
- \$2,500 for 10 Units (Beautification Projects)
- *Tip: When using the area benefit national objective, the number of beneficiaries will be the number of LMI individuals residing in the area.*

68

# CDA Grant Funds Financial Reporting Requirements



## CDA Grant Funds Financial Reporting Requirements

**If funded, CDA requires Subrecipients to submit Monthly Financial Report.**

**Financial reports must be:**

- ❖ Accurate;
- ❖ Timely
- ❖ Current; and
- ❖ Represents a complete disclosure of the financial activity and status of each grant

## CDA Grant Funds Financial Reporting Requirements

### **Financial reports must reflect:**

- ❖ Approved budget;
- ❖ Request for payment submitted;
- ❖ Actual costs incurred as outlined in the Cost Allocation Plan;
- ❖ Available balances; and
- ❖ New in 2017 – difference between request for payments and actual costs to date

## CDA Grant Funds Financial Reporting Requirements

### **Performance Based Payments VS Direct Pays Financial Report**

- ❖ Payment to Performance based subrecipients cannot exceed 125% of reported actual eligible cost at a time
- ❖ New in 2017 – Performance based subrecipients will submit support for the reported eligible costs

## CDA Grant Funds Financial Reporting Requirements

- ❖ **Financial Reports are due on the 10<sup>th</sup> of the month following the reporting period**
- ❖ **New in 2017 – submit reports online via Grants Management system**

## CITY OF ST. LOUIS

Community Development Administration

**Non-Profit Capacity Building Workshop  
CDBG Financial Management  
June 29, 2016**

