

CITY OF ST. LOUIS

Community Development Administration

Non-Profit Capacity Building Workshop CDBG Financial Management June 13, 2018



AGENDA

Topic	Presenter
Welcome & Agenda	Lorna Alexander
Financial Management Systems	Lorna Alexander
Cash Management & Allowable Costs	Sharon Worth
Accounting Records & Source Documentation	Marcie Caballero
Break	
CDA Grant Funds Disbursement Process & Activity Budget	Lorna Alexander
CDA Grant Funds Financial Reporting Requirements	Tiffany Lewis

Introduction to Financial Management Systems

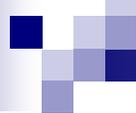




Financial Management Systems

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

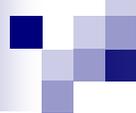
Internal Controls are designed to minimize misuse of funds and poor recordkeeping, and to maximize the likelihood of detecting problems if they occur. Ultimately, internal controls are a combination of tools designed to ensure that multiple people check any expenditure, so that no one person can defraud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

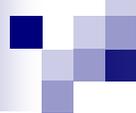
Reporting

- ❖ 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

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 with the drawdown requests. (The reimbursement method requires actual invoices. The per unit method requires 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.
- ❖ Conform 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

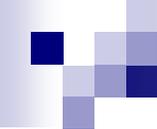
Allowable & Unallowable Costs

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.”¹

¹HUD-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



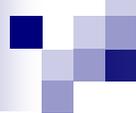
Allowable & Unallowable Costs

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 costs 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

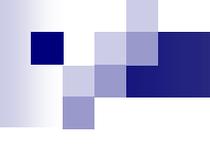
Elements of Organization's accounting system:

- ❖ 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 documentation:

1. Personnel Costs

Support documentation:

- ❖ Personnel Schedule (submitted with your application)
- ❖ 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 documentation:

2. Local Travel

Support documentation:

❖ 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 \$2,000 or more - procurement

❖ Invoices/Billings

Accounting Records & Source Documentation

Most Common Examples of CDBG Eligible Costs & required support documentation:

4. Supplies

Support documentation:

- ❖ Invoices/Billings
- ❖ Approval from CDA if \$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 documentation:

5. Equipment

Support documentation:

- ❖ Approval from CDA if \$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 documentation:

6. Printing

Support documentation:

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

7. Insurance

Support documentation:

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

Accounting Records & Source Documentation

Most Common Examples of CDBG Eligible Costs & required support documentation:

8. Telephone/Communications

Support documentation:

- ❖ 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 documentation:

- ❖ Lease agreement and/or invoices/billings for rent
- ❖ Invoices/billings for utilities



Accounting Records & Source Documentation

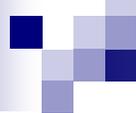
**The keys to successful CDBG Financial
Management:**

- ❖ 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!!!

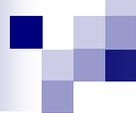
- ❖ Does our agency maintain an adequate financial accounting system?
- ❖ Does your accounting system provide reliable, complete, and up-to-date information about sources and uses of all funds?
- ❖ Are “trial balances” performed on a regular basis (at least quarterly)?
- ❖ Does your agency maintain up-to-date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

Participant Exercises





CDA GRANT FUNDS DISBURSEMENT PROCESS



CDA GRANT FUNDS DISBURSEMENT PROCESS

CDA REIMBURSEMENT ACTIVITY TYPES

- ADMINISTRATION AND PLANNING
- CONSTRUCTION
- CITYWIDE HOME REPAIR
- MINOR HOME REPAIR
- ECONOMIC DEVELOPMENT
- 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

CDA GRANT FUNDS DISBURSEMENT PROCESS

CONSTRUCTION ACTIVITIES -

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

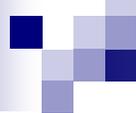
CITYWIDE HOME REPAIR ACTIVITIES –

- **ADMINISTRATION** – Costs will be reimbursed through direct billings; payroll registers and timesheets must be provided for salary reimbursement.
- **HOUSING UNITS** – Upon completion, 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
 - CBI Clearance

CDA GRANT FUNDS DISBURSEMENT PROCESS

MINOR HOME REPAIR ACTIVITIES

- Reimbursements will be processed upon completion of the scope of work for each property at a predetermined, negotiated amount – (currently \$200 per unit of service)
- 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

MINOR HOME REPAIR ACTIVITIES

- Required Housing Unit Documentation To Be Maintained in Files
 - Proof of Ownership
 - Proof of Income
 - Proof of age (62 and older) or disability
 - Repairs completed

CDA GRANT FUNDS DISBURSEMENT PROCESS

ECONOMIC DEVELOPMENT ACTIVITIES -

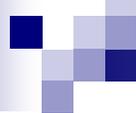
Required reimbursement documentation varies, dependent upon program activity

- BUSINESS DEVELOPMENT LOANS – Prior CDA approval, loan closing documentation
- COMMERCIAL DISTRICT IMPROVEMENTS – Prior CDA approval, completion of construction work
- TECHNICAL ASSISTANCE – Performance based payments i.e. number served, service provided (as reported on programmatic report)

CDA GRANT FUNDS DISBURSEMENT PROCESS

PUBLIC SERVICES – PERFORMANCE BASED PAYMENTS USING

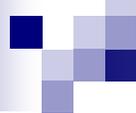
- A FIXED PRICE FOR A UNIT OF SERVICE COMPLETED OR A PER UNIT COST
- A FIXED PRICE FOR EACH UNIT OF SERVICE WILL BE INCLUDED IN YOUR CDA CONTRACT



CDA GRANT FUNDS DISBURSEMENT PROCESS

UNITS OF SERVICE EXAMPLES

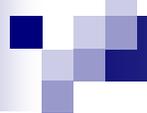
- NUMBER OF MEALS DELIVERED TO SENIORS
- NUMBER OF COMPLETED WORKSHOPS FOR FIRST TIME HOMEBUYERS
- NUMBER OF COMPLETED JOB RESOURCE FAIRS
- NUMBER OF DAYS CHILDREN ATTENDED AFTERSCHOOL PROGRAM
- NUMBER OF GARDENS PLANTED



CDA GRANT FUNDS DISBURSEMENT PROCESS

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.



REIMBURSEMENT PAYMENTS VS. ELIGIBLE COST

GRANT REIMBURSEMENT PAYMENT VS. ELIGIBLE COSTS

- CDA applicants will be required to complete a proposed activity
 - budget detailing eligible CDBG expenses by line item in EGrAMS.



REIMBURSEMENT PAYMENTS VS. ELIGIBLE COST

ACTIVITY BUDGET

- What is it?
- What is its relevance to my CDA grant if I am paid on a per unit basis?

REIMBURSEMENT PAYMENTS VS. ELIGIBLE COST

ACTIVITY BUDGET

- 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.
- All grantees without an approved indirect cost rate from the federal government are eligible to use a 10% de minimis rate (calculation on application)

REIMBURSEMENT PAYMENTS VS. ELIGIBLE COST

ACTIVITY BUDGET RELEVANCE

- All CDBG payments must be supported with eligible CDBG expenses
- Any unsupported payments must be returned to the City of St. Louis.
- Completion of program activities alone does not satisfy eligibility of payment.



CDA GRANT FUNDS DISBURSEMENT PROCESS

GROUP EXERCISE

CDA Grant Funds Financial Reporting Requirements



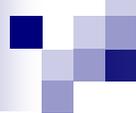


CDA Grant Funds Financial Reporting Requirements

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;
- ❖ Grant reimbursements received;
- ❖ Actual costs incurred; and
- ❖ Available balances;



CDA Grant Funds Financial Reporting Requirements

Performance Based Payments Financial Report

- ❖ Payments on Performance based contracts cannot exceed 125% of reported actual eligible costs at any point in time



CDA Grant Funds Financial Reporting Requirements

- ❖ **Financial Reports are due on the 15th of the month following the reporting period**
- ❖ **Financial Reports are submitted through the agency's EGrAMS account. The report must be uploaded each month for review and approval by the Fiscal staff.**

CITY OF ST. LOUIS

Community Development Administration

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