

Chapter 3: Financial Management

Introduction

Accurate financial record-keeping, including the timely deposit, disbursement and accounting of Community Development Block Grant (CDBG) funds is crucial to the successful management of a CDBG funded project. Grantees must take the following steps to prepare a financial management system to receive and utilize CDBG grant funds:

1. Appoint a person to be responsible for Financial Management,
2. Establish accounting records,
3. Set up bank accounts or separate ledger accounts, and establish receipting procedures, and
4. Establish procedures for approving invoices, submitting claims, and issuing payment to vendors.

Financial record-keeping is the primary responsibility of the Grantee's Chief Financial Officer, i.e. the Clerk-Treasurer or Auditor, or any other authorized individual. It is the responsibility of the Grant Administrator to advise, assist and counsel the Chief Financial Officer on administrative requirements in regard to the receipt, disbursement and accounting of federal funds and the records to be maintained. Failure to comply with financial management standards may result in monitoring and audit findings. Depending on the infraction, the Grantee may be required to payback federal dollars. This chapter will focus on the records that must be maintained in order to receive and utilize CDBG funds.

Specific topics include the following:

- Applicable Requirements
- Establishing a Financial Management System
- Line of Credit Establishment
- Required Financial Records
- Drawdown of Funds
- Grant Administration Costs

Section 3.1 Applicable Requirements

The CDBG regulations require grantees that are governmental entities and other public agencies to adhere to certain administrative and financial management requirements. Following is a list of the key Federal regulations governing financial management.

- 24 CFR Part 570, Subpart I – State Community Development Block Grant Program (CDBG)

[24 CFR 570.489](#)

[24 CFR 570.511](#)

[2 CFR Part 200](#)

- Section 570.489 details program administration requirements.
- 24 CFR Part 570.511 refers to the administration of escrow accounts. (The CDBG Entitlement Program regulations on this topic are considered a "safe harbor" for use in the State CDBG Program.)
- 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, (Cost Principles and Audit Requirements).
 - This regulation, which applies to government agencies, sets forth uniform requirements for financial management systems, fiscal controls, cost principles, allowable costs, audit requirements, reports and records, grant close-outs for recipients of Federal grant funding, etc.

Section 3.2 Establishing a Financial Management System

Overview

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

Specifically, grantees 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

In establishing a financial management system, grantees are to follow 2 CFR Part 200 "Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments" (also known as the Common Rule). Both 24 CFR Part 570 and 2 CFR Part 200 govern CDBG grantee financial management systems. Failure to account for and manage CDBG funds accordingly may result in sanctions imposed by DOH and/or HUD.

[2 CFR 200.302](#)

A grantee'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 grantee;
- 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 DOH.
3. All expenditures of CDBG 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.

[Attachment 3-1:
Sample Financial Management
Checklist](#)

2 CFR Part 200 also requires that grantees 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 grantee'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 grantee 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 grantee organization responsible for the financial management of a CDBG project. This person should be familiar with their organization's present accounting system. The accounting of CDBG funds can be integrated into the grantee's existing system. Refer to 2CFR 200.303 for more information.

[2 CFR 200.303](#)

Accounting Records

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

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

At a minimum, a grantee'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.

DOH staff and the grantee'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 grantee 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 grantee 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. DOH 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.

Allowable Costs

Any cost incurred must be allowed as per 2 CFR 200.402 - 202.475. It is a grantee's responsibility to ensure that CDBG funds are spent only on those costs which are approved in the Finance and Budget Plan in the Assistance Agreement.

[2 CFR 200.402 - .475](#)

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

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.

[CPD Notice 13-07](#)

[Attachment 3-2:
Cost Categories for GACs
and PACs](#)

In charging administrative costs, grantees 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 grantee, employees paid in whole or in part from CDBG funds should 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 projects, the date on which the work was performed and a description of the work performed.
 - The employee and the employee's supervisor must sign the timesheet.

Matching 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.

Asset Management

Grantees who maintain real or personal property paid in whole or in part with CDBG 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 regulations and 2 CFR 200.310-.316.

[24 CFR 570.489\(j\) and \(k\)](#)
and
[2 CFR 200.310-316](#)

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

- In the case of real property, meaning land and any improvements to structures on the land, grantees must maintain a current real property inventory, updated at least biannually. In cases where the grantee is maintaining land, grantees should also describe the intended reuse of the land and the timeframe for improving the land so that it meets a CDBG national objective.
- For personal property, grantees should maintain a fixed assets ledger that includes the following: 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. Grantees 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.

Grantees must maintain records that properly document the disposition of any CDBG-funded property. It should be noted that real property purchased with CDBG funds in excess of \$35,000 must continue to meet the CDBG national objective approved for the project for at least five 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 DOH to ensure that proper procedures are followed. Failure to do so can result in payback of the grant award.

Section 3.3 Requests for Payment Procedures

Funds for approved CDBG 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 grant administrator should report project information to the local elected officials monthly. This report should include project progress, anticipated completion date, and the use and availability of funding.

[Attachment 3-3:
Payment Requisition Form](#)

Submit all requests for payment of CDBG funds to DOH on the Request for Payment Form. Grantees may submit one (1) Request for Payment per grant per month.

The request should outline the:

- Amount of federal funds previously requested;
- Amount of federal funds disbursed;
- Amount of program income;

- Activities associated with this payment request; and
- Balance of federal funds on hand.

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

Program income will be disbursed by the grantee before additional funds are requested. See more about Program Income later in this chapter.

Funds drawn down will be deposited directly into the ACH Account. Grantees must transfer funds to the PEA Account and all funds must be expended within 15 days of receipt.

Section 3.4 Housing Rehab Requests for Payment Procedures

In addition to the requirements of this Chapter, DOH has implemented special payment procedures for Housing Rehabilitation projects.

A municipality running a housing rehabilitation program can handle CDBG funds in one of three ways:

1. They can draw down funds on an "as-needed" basis,
2. Establish an escrow account, or
3. Utilize a Lump Sum Account.

NOTE: Draw Down as Reimbursement is the DOH preferred method. Any other method will need prior authorization by DOH.

Draw Down as Reimbursement

If the grantee chooses to drawdown funds on a reimbursement basis, the town/city will have to keep abreast of contract activity in order to estimate date of completion to coordinate payment requisition. The Grantee may ONLY request payment on work that has been completed.

Escrow Accounts: Prior DOH authorization is required.

DOH may allow the use of Escrow Accounts when regulations 24 CFR 570.511 are strictly followed as detailed below: (DOH has a "zero tolerance" policy on the use of these accounts and findings will be made during monitoring).

[24 CFR 570.511](#)

1. Escrow accounts may only be used for the rehabilitation of primarily residential properties containing no more than four (4) housing units.
2. In addition, housing rehabilitation funds may only be drawn and deposited into an escrow account if the construction contract between the property owner and the rehabilitation contractor specifically

provides that payment to the contractor shall be made through an escrow account. No deposits to the escrow account shall be made until after the contract between the two parties has been executed.

3. A single, interest-bearing account with a financial institution must be used.
4. Funds deposited into the escrow account must be disbursed within 10 working days from the date of deposit.
5. Only costs incurred by the contractor for the required rehabilitation work can be paid from the escrow account. Other allowable costs such as administrative or program costs are not permissible uses of escrowed funds.
6. Interest earned on Escrow Accounts must be returned to HUD.

Upon completion of all rehabilitation activities, any unspent funds must be returned to the Project Expenditures Account (PE) as these funds are **not** to be treated as program income.

NOTE: If the Town maintains an escrow account that does not meet the requirements as specified above, it must immediately discontinue its use and transfer all funds back to its Project Expenditures (PE) Account.

Lump Sum Accounts: Prior DOH authorization is required.

Communities may draw down funds in one lump sum to establish a rehabilitation fund for housing rehabilitation (24 CFR 570.513). The Lump Sum Account may only be used to finance the rehabilitation of privately owned properties. The fund may be used in conjunction with various rehabilitation financing techniques including loans, interest subsidies, loan guarantees and loan reserves. The Lump Sum Account may not be used to fund administration or program cost; only rehabilitation costs.

[24 CFR 570.513](#)

Standards for Lump Sum Accounts follow:

1. The community must execute a written agreement with a bank outlining obligations/responsibilities, terms/conditions, and rate of interest and other benefits to be provided by the financial institution the agreement must be approved by DOH;
2. The lump sum account may only be used for rehabilitation for a period of two years;
3. The first disbursement from the account must occur within 45 days of the deposit and substantial disbursements (25%) from the accounts must occur within 180 days.
4. The deposit of CDBG funds into a lump sum account must result in benefits to the community. Minimum benefits require:
 - Interest to be earned on the lump sum account; and
 - Commitment of private funds by the financial institution for rehabilitation loans at or below market interest rates, at higher than normal risk or with longer repayment periods; or

- Provision of administrative services at no cost; or
- Commitment of private funds for rehabilitation in excess of the amount of the Lump Sum Account.

5. All Lump Sum Agreements must be reviewed and approved by DOH.

Section 3.5 Timely Expenditure

Grantees must minimize the time lapsing between the receipt of CDBG dollars and their disbursement per 2 CFR 200.305(b), which states that grantees must adhere to Treasury Regulations at 31 CFR Part 205.

[2 CFR 200.305\(b\)](#)
and
[31 CFR Part 205](#)

NOTE: Funds must be disbursed within 15 days of receipt in the ACH account.

It will take approximately 3 weeks from the time the DOH receives the request, to the time the municipality receives the funds. CEOs are required to certify that the funds requested are necessary to meet current project obligations and will be expended within a maximum of 15 days after receipt.

Keep a copy of each payment request in chronological order. The amounts entered in each column should be capable of being verified against your financial and project records. All budget revisions and related correspondence should be maintained with these records.

Common Mistakes that Delay Payment:

- Unsigned, undated, or improperly signed Requests for Payment
- All approved activities not shown on each Request for Payment.
- All invoices and supporting documents missing from request package.
- Disbursements to date are not correct.
- Mathematical errors.
- Budget Amendments have not been approved.

Section 3.6 Budget Revisions

From time to time, grantees may need to revise budget line items to meet actual costs. These revisions must be accomplished prior to submitting a payment request from DOH. Information regarding the Budget Revision process can be found in [Chapter 10: Contracts and Modifications](#).

[Attachment 10-2:
Financing Plan and
Budget](#)

Section 3.7 Program Income

Overview

Any repayment of funds or proceeds generated from a CDBG activity will fall into one of two categories; 1) [program income](#), or 2) [miscellaneous revenue](#). Different rules apply for each of these categories. The following section defines each of these types of funds and the rules that will apply.

Under the CDBG Program, funds received back to the community as a result of a CDBG-funded activity are generally referred to as program income. Program income funds retain their federal identity and are subject to all CDBG and other federal requirements. Program income is defined in detail below. Funds not considered program income will be covered in the next section.

It is important to note that accounting for program income is conducted on a jurisdictional basis rather than a project basis because a grantee has the ability to generate income from more than a single project or over more than one grant year.

TIP: The regulations and requirements discussed in this chapter apply to all types of income generating activities, not just economic development.

What Is Program Income?

Program income is defined as gross income received by a unit of general local government or a subrecipient of a unit of general local government that was generated from the use of CDBG funds regardless of when the funds were appropriated and whether the activity has been closed out. Program income includes, but is not limited to, the following:

[24 CFR Part 570.489\(e\)\(1\)](#)

- Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds;
- Proceeds from the disposition of equipment purchased with CDBG funds;
- Gross income from the use or rental of real or personal property acquired by the unit of general local government or a subrecipient of a unit of general local government with CDBG funds, less the 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 or a subrecipient of a unit of general local government, that was constructed or improved with CDBG funds, less the costs incidental to the generation of the income;
- Payments of principal and interest on loans made using CDBG funds;
- Proceeds from the sale of loans made with CDBG funds;
- Proceeds from the sale of obligations secured by loans made with CDBG funds;
- Interest earned on funds held in a [Revolving Loan Fund \(RLF\)](#) account (including all Housing Rehab Programs);
- Interest earned on program income pending disposition of the income;
- Funds collected through special assessments made against nonresidential properties and properties owned and occupied by households that are not low and moderate income if the special assessments are used to recover all or part of the CDBG portion of public improvements; and
- Gross income paid to a unit of general local government or subrecipient from the ownership interest in a for-profit entity acquired in return for the provision of CDBG assistance.

Program income **does not** include the following:

- The total amount of funds which does not exceed \$35,000 received in a single year from activities other than Revolving Loan Funds that is retained by the unit of local government and its subrecipients; these funds are considered miscellaneous revenue;
- Amounts generated by activities eligible under Section 105(a)(15) of the Act and carried out by an entity under the authority of Section 105(a)(15) of the Act (non-profit organizations and local development organizations, when undertaking community economic development, neighborhood revitalization, or energy conservation projects); Payments of principal and interest made by a subrecipient carrying out an activity on behalf of the unit of local government towards a loan from the local government to the subrecipient to the extent that program income is used for the repayment;
- Certain types of interest income as outlined in 24 CFR 570.489(e)(2)(iv); [24 CFR Part 570.489\(e\)\(2\)\(iv\)](#)
- Proceeds from the sale of real property purchased or improved with CDBG funds if the proceeds are received more than five years after expiration of the grant agreement between the state and the unit of local government.

Funds not considered program income will be identified as miscellaneous revenue. These funds do not retain their federal identity and the CDBG and other federal requirements such as environmental review, procurement, and labor standards do not apply to the reuse of these funds. However, DOH does require that grantees or subrecipients generating miscellaneous revenue adopt guidelines related to the reuse of and reporting on those funds.

Pro-Rating Program Income

When income is generated by an activity that is only partially assisted by CDBG funds, the income shall be pro-rated to reflect the percentage of CDBG funds used. For example, if a parcel of land were purchased with 50 percent CDBG funds and 50 percent other funds, 50 percent of any program income from the sale or long-term lease of that property would be considered CDBG program income subject to CDBG rules and requirements. [24 CFR Part 570.489\(e\)\(1\)\(ix\)](#)

Program Income Funds and Close-Out

The State CDBG regulations as revised in April 2012 stipulate that program income received by the grantee or a subrecipient both before *and* after close-out of the grant that generated such income is treated as additional CDBG funds and is subject to all applicable Title I and other federal regulations and state policies governing the state CDBG program. Any program income received before full programmatic close-out must be substantially expended, to the extent practical, before drawing additional CDBG funds from the state for *any* activity in *any* CDBG project that the grantee has open. The only exception is when program income is placed in a Revolving Loan Fund (RLF) in accordance with the requirements outlined later in this chapter, in which case it is not required to be expended for non-Revolving Loan Fund activities.

If the grant that generated the program income is closed, any program income permitted to be retained, will be considered part of the unit of local government's most recently awarded open grant.

Use of Program Income

The accounting provisions and use of funds as described later in this chapter are applicable as long as funds are received or distributed. Appropriate documentation regarding the use of funds must be maintained along with the appropriate accounting documents (see "Accounting and Documenting Program Income and Miscellaneous Revenue" later in this chapter for more information).

Program income must be used for eligible CDBG activities as listed in Title I, Section 5305(a). Program income is subject to all of the rules and regulations governing CDBG funds including, but not limited to, compliance with: national objective, procurement, equal opportunity, environmental, labor standards, lead-based paint hazard treatment, etc.

Program Income Reuse Plan

A PI Reuse Plan governs the jurisdiction's ongoing use of PI. The PI Reuse Plan identifies all proposed uses of the PI and commits the jurisdiction to comply with all CDBG program requirements. The PI Reuse Plan substitutes for an ongoing contract with the Department.

[Attachment 3-5:
Sample PI Reuse Plan](#)

The Department closes out its grants to local governments upon satisfactory completion of the terms and conditions of the grant agreement. However, Federal statute requires the Department to track PI beyond the closeout of the grant that generated the PI. To that end, the PI Reuse Plan satisfies the Federal requirement that local governments obtain advance State approval of a local plan governing PI.

The proposed reuses of the PI are disclosed in the PI Reuse Plan and a public hearing is held to allow for meaningful local citizen comments about the plan, prior to its adoption by the local governing body.

For each identified RLF the PI Reuse Plan must specify all revolving and non-revolving uses of funds, e.g., general administration, any grants, or any activity delivery costs. Only such costs that are associated with the specific activity of the RLF may be charged to the RLF.

If you choose to retain Program Income (PI) locally (instead of sending it to the State), then you must prepare and submit with your application for a CDBG grant a PI Reuse Plan for local and Department approval. The PI Reuse Plan may be amended at any time.

The Components of a PI Reuse Plan

Please refer to the Sample PI Reuse Plan in this section above for the PI Reuse Plan components.

Approval for Use of Program Income and Miscellaneous Revenue

Program Income (PI) retained by the jurisdiction must be substantially expended by the end of the Program Year (PY). A jurisdiction cannot accumulate excessive amounts of PI, accordingly, this department will consider a PI balance of \$35,000 or less at the end of the PY to be substantially expended. The jurisdiction has the option of retaining the PI and expending it in any of the following four ways or returning the PI to

this department.

1. PI Expended on Activities Approved in the PI Reuse Plan

If you have an open CDBG grant, you may spend Program Income (PI) on the activity or activities specified in the open grant. DOH's approval of the expenditure of CDBG funds would not be required, if the activity or activities were specified in the Program Income Reuse Plan. Program Income expended on an open grant activity or activities must be spent first (i.e. substantially disbursed- the balance must be **reduced to zero (\$0.00)**, before drawing down the open grant funds. Prior approval is required from this department for expending PI on activities, which were not approved or specified in the Program Income Reuse Plan.

Spending Program Income on an Open Grant Activity

In order to spend PI on an open grant activity, the PI Reuse Plan should specify this option in addition to spending PI on an activity that is different than the activity which generated the PI. The PI Reuse Plan must be submitted and approved as part of your application for funding. Consequently, the jurisdiction is required to allow for meaningful local citizen comments about the plan, prior to submitting it with the application to the Department for approval. The minutes of the public hearing must disclose the intended use of any potential PI, which may be earned on the grant activity or activities.

Once the PI Reuse Plan has been approved as part of the grant application and the grantee has obtained DOH approval (required if different from the activity which generated the PI) of any post-application PI commitment, it may proceed to spend PI on the grant activity.

2. PI Expended on activities NOT approved in the PI Reuse Plan

The second method of expending program income is on an activity, which has not been identified in the Program Income Reuse Plan. The municipality would be required to identify the specific project, provide DOH with documentation that the project has been approved by the Chief Elected Official and the appropriate public notice procedures as identified below has been followed. In addition, the use of program income for an activity that is different than the original activity that generated it constitutes the addition of that activity to the unit of general local government's (i.e., the grantee's) application to the state for the original activity. The grantee may spend PI on the activity without requesting DOH's approval, if the activity was specified in the Program Income Reuse Plan for the grant, which generated the PI. However, for activities that have not been specified in the PI Reuse Plan, the grantee must provide its citizens with reasonable advance notice of, and opportunity to comment on, the proposed addition of that activity to the application.

The public notice that is used to comply with these requirements must meet the following guidelines:

- The notice must be published in at least one (1) newspaper of daily general circulation in the grantee's jurisdiction.
- The notice must specify that the grantee is providing its citizens with the opportunity to comment on its proposed use of PI for the additional activity.
- The notice must specify that citizens may submit questions and/or verbal/written comments to the grantee about its proposed use PI for the additional activity.

- The notice must specify that the questions and/or verbal/written comments must be submitted within fifteen (15) days of the date that the notice is published.
- The notice must specify the name, mailing address, telephone/fax numbers, and e-mail address of the municipal official who will accept the questions and/or verbal/written comments.

A sample public notice that meets these guidelines is attached.

A grantee must take the following actions if it plans to request DOH's approval to use program income for an activity that is different than the one that generated it and has not been specified in the PI Reuse Plan:

- The grantee must adopt the attached "Resolution for the Use of Program Income" before it submits the request.
- The grantee must comply with the environmental review requirements at 24 CFR Part 58 before it submits the request.
- A written request must be addressed to DOH as follows:

Housing and Community Development Director
CDBG Small Cities Unit
Connecticut Department of Housing
505 Hudson Street
Hartford, CT 06106

[Attachment 1-7:
Sample Public
Hearing Notice](#)

[Attachment 3-6:
Sample Resolution
for the Use of PI](#)

[24 CFR Part 58](#)

The written request must include all of the following items:

- A program income application for the activity unless it is also being funded by an open CDBG grant.
- A certified copy of the "Resolution for the Use of Program Income."
- A copy of the public notice and the affidavit of publication for it.
- A "Request for [Release of Funds](#)" (with a copy of the public notice that is required for it) unless the activity is an "exempt activity" as defined at 24 CFR 58.34. A "Statement of Exemption" must be submitted if the activity is an "exempt activity." A RROF/Statement of Exemption does not need to be submitted if it has already been submitted, or will be submitted, to DOH because the activity is also being funded by an open CDBG grant.
- A short cover letter that explains why the grantee is requesting DOH approval to use program income for a different activity than the one that generated the program income. The letter and all supporting documents must reference the Town, Grant Number, Year and Project Name.

[Attachment 3-7:
Program Income Application](#)

[Attachment 3-8:
PI Reuse Application
Guidelines](#)

[Attachment 3-8a
Sample Public Notice for
Program Reuse](#)

[24 CFR 58.34](#)

In addition, activities that are funded from program income must meet all applicable federal overlay requirements. These requirements include, but are not limited to, procurement, labor standards, civil rights, acquisition, relocation, and change-of-use requirements. The PI earned must be substantially expended by the end of program year. An exception may be granted for Grantees that earn a substantial amount of PI within three (3) months of the end of the program year. A request for exception must be submitted to DOH along with supporting documentation. That PI must be substantially expended by the end of the next program year.

The grantee can expend up to 8% of the total program income received for administration with approval from DOH. Program delivery costs are capped at 12% of total program income received.

3. Expending Program Income on a Future Grant

The third method of complying with the requirement of substantially disbursing program income by the end of the Program Year is to apply the program income to a future grant request. The Municipality may obtain the approval of DOH to combine the program income with a future grant request. For example, the municipality receives \$100,000 in program income during the program year (July 1 – June 30) and the municipality has identified a project, which it intends to submit an application for funding in the amount of \$500,000. The municipality may obtain the approval of DOH to apply \$100,000 of program income to the future grant request. Accordingly, the municipality would request \$400,000 in new funding from DOH and not the \$500,000 in future funding. Program Income expended on the future grant activity or activities must be spent before drawing down the open grant funds.

4. Return the funds to DOH

The final option is to return the program income to DOH. The municipality may choose this option if it cannot comply with the requirement to substantially disburse program income by the end of the program year.

Administrative Expenses and Program Soft Costs

Up to 8 percent of the total PI expended during a Program Year (PY) may be used for CDBG general administration (GA) expenses. Total administration and program soft costs cannot exceed 20 percent.

Reporting

The grantee is required to report on the Program Income (PI) activities in the Semi-Annual Grantee Progress Report (GPR). The GPR contains semi-annual and annual PI forms. Both forms must be completed and submitted by all grantees even if the amount of Program Revenue (PR) received during the Program Year (July 1 – June 30) was zero or less than \$35,000. In addition, the grantee is required to submit the Semi-Annual Grantee Progress Report (GPR) whether or not the grantee has an existing open grant from DOH.

At the end of each period, you will report on your CDBG Program Revenue (PR), PI actual expenditures, and PI account balances, regardless of whether or not your total PR exceeds the \$35,000 annual threshold.

If your jurisdiction has either: 1) made any loans that, when repaid, would be PR, or; 2) is receiving income that has been directly generated from the use of State CDBG funds, then it must submit Grantee Progress Reports.

More information can be found in the [Chapter 11: Recordkeeping and Reporting](#) of this manual.

Transfer of Program Income and Miscellaneous Revenue

Due to a statutory provision mandating that CDBG funds benefit the eligible grantee that received the original funds, a grantee cannot transfer program income to another agency for use in other cities or counties.

Section 3.9 Revolving Loan Funds

Revolving Loan Funds are a special category of program income that allows the funds to be set aside for a designated use. A Revolving Loan Fund (RLF) 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.

[24 CFR Part 570.489\(f\)](#)

DOH may approve the use of CDBG program income for the purpose of capitalizing a RLF for specifically identified activities.

- RLFs are typically established to continue housing or economic development activities.
- The establishment of a RLF must be in the evidentiary materials and approved by DOH.

Payments to the RLF are considered program income and as such, must be disbursed from the RLF before additional grant funds are drawn from DOH. For example, if the grantee receives a loan payment on an RLF economic development activity, the loan payment back to the RLF is considered program income. The next draw request by the grantee for an economic development activity must disburse the available economic development RLF before grant funds can be drawn from DOH. If the grantee's next draw request is for a public service activity this would not require the use of the RLF funds since the drawn request does not match the specified purpose of the RLF. The grantee does not have to expend program income for non-Revolving Loan Fund activities.

If the RLF is established to continue the activities of the grant that generated the program income, the RLF is subject to all the requirements of program income (i.e., Title I, state policies, etc.), if the grant is open at the time the funds are received.

Revolving Loan Fund (“RLF”) as described in a Program Income Reuse Plan

A Revolving Loan Fund (RLF) is an account established to make loans, if the municipality will not be making any loans, then the account is simply called a program income account. A municipality will typically establish a RLF for program income earned on CDBG grant funds used to make loans. An RLF is established for carrying out only one specific activity (e.g., loans for housing rehabilitation, homeownership assistance, or business loans), which, in turn generates repayments to the fund for use in continuing to

carry out that same activity. A jurisdiction may establish several RLFs, but each must be for a single, CDBG-eligible, lending-type activity that meets a CDBG national objective. The name of the RLF should reflect this single activity name in order to avoid confusion on CDBG reports. Each RLF must also be "substantially revolving" (see next paragraph).

The most common use of PI is placement in an RLF

Each RLF must be "substantially revolving," meaning that at least 51 percent of the RLF expenditures must be for loans. Amounts up to the remaining 49 percent may be spent on non-revolving activities, such as general administration, activity delivery, and grants for the same activity as the RLF. Repayments to the RLF on loans made from the RLF is program income and cannot be recorded as Miscellaneous Revenue. For example a municipality makes a \$20,000 residential rehabilitation loan from the RLF and receives \$5,000 in principal and interest payments for the program year. The entire \$5,000 is considered program income and is not subjected to the \$35,000 exemption as miscellaneous revenue.

If the Revolving Loan Fund (RLF) funds are expended on the same type of activity as an existing open grant (e.g., both the RLF and the open grant are funding residential rehabilitation loans in the entire jurisdiction), then the RLF funds must be disbursed before drawing down additional funds from the open grant. This situation may be avoided by defining the activity of an RLF to be different than activities funded by the existing open grants, such as for a target area which is different from the open grant or the RLF may be for emergency repairs and the open grant for code enforcement and general repairs.

RLF Program Guidelines

Each RLF must have an approved set of program guidelines. A single set of guidelines may be used to administer the RLF and a grant-funded activity of the same type. However, if the RLF activity is different than an open grant activity then the program guidelines need to clearly reflect the differences between them.

What is the process for spending PI in this Way?

Your PI Reuse Plan must specify that you will spend the PI in the revolving loan fund in this manner. The PI Reuse Plan must be submitted and approved as part of your application for the revolving loan fund activity that generated the PI. Consequently, you must allow for meaningful local citizen comments about the proposed use of program income under the Plan during the public hearing that is held for the activity prior to submitting the Plan with the application to DOH for approval. The minutes of the public hearing must indicate that the proposed use of program income was discussed during the hearing. You must also demonstrate compliance with all applicable federal overlay requirements, e.g. NEPA environmental review.

Development of Revolving Loan Fund Guidelines

DOH requires that written guidelines be developed for the administration of the Revolving Loan Fund. These guidelines must be prepared and submitted to DOH for approval prior to any program income being expended and prior to release of funds of the grant. Revolving Loan Funds may not be expended until the project national objective has been met.

The local governing body must approve the written RLF guidelines. In addition, any substantive changes to local RLF guidelines must be submitted to DOH prior to implementation. Failure to submit local RLF

guidelines in a timely manner could result in the recapture of program income by DOH.

Administration of a RLF involves three primary areas of responsibility:

- Loan/project review, selection and approval;
- Maintaining a financial management system; and
- Loan servicing and monitoring.

At a minimum, the written RLF guidelines should include the following elements that address these primary areas of responsibility:

- RLF Goals and Objectives
- Eligibility Requirements
 - Eligible and Ineligible Activities
 - Eligible Applicants
 - Eligible Types of Loans
- Loan Review, Selection and Approval
 - Loan Review Committee
 - Members and Terms
 - Procedures and By-Laws
- Application Requirements
 - Justification of Need
 - Beneficiaries
 - Necessary and Appropriate Documentation and Certifications
 - Loan Approval Procedures
- RLF Operations and Management
- Accounting System
- Reporting and Record keeping
- Loan Documentation, Disbursement and Servicing
- Title I Compliance and Monitoring
- Administrative Staffing, Costs and Fees
- Audits
- Conflict of Interest

Subrecipients and Revolving Loan Funds

If program income/miscellaneous revenue will be retained by a subrecipient, the RLF guidelines must identify and describe the role of the subrecipient, as appropriate. The subrecipient's governing board must approve the RLF and the subrecipient's participation prior to release of funds. Such approval must legally bind the subrecipient to perform in accordance with the provisions of the Revolving Loan Fund guidelines and be submitted in writing to DOH. It is a federal requirement that a subrecipient be governed by the CDBG regulations in the same manner and to the same extent as the grantee. In any case, the grantee remains responsible for ensuring compliance with the RLF and is liable for any misuse of program income/miscellaneous revenue funds.

Section 3.10 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.

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 grantee's financial management systems. Only an independent CPA, with a current license to practice in Connecticut, or the Connecticut 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 [Connecticut General Statutes at Sec 7-392](#) detail the state audit requirements for both cities and counties. As noted below, there are differences between both the CGS and Federal requirements; however, cities and counties are required to follow both laws.

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

Federal Requirements

The type and level of audit required by [2 CFR Part 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 Federal funds within a fiscal year are required to have a [Single Annual Audit](#) conducted. (For fiscal years prior to 2015, the threshold is \$500,000 per fiscal year). 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 a year in federal funds are exempt from the audit requirement; however, financial records must be made available if requested.

The Audit Process

The Single Annual Audit must be performed by an independent public accountant in compliance with the Single Audit Act of 1997. The grantee is required to permit the independent auditor access to the records and financial statements of the jurisdiction as necessary.

In procuring audit services, grantees should follow the applicable procurement standards found in Chap 4: Procurement of this manual. The grantee should ensure that the auditor is knowledgeable about specific accounting requirements that apply to local government.

All audits conducted in accordance with OMB A-133 (FYs prior to 2016) and 2 CFR Part 200 (FY 2016 forward) 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:

- 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 grantee must supply the following information to the auditor at the beginning of each audit:

- A copy of the Assistance Agreement;
- A copy of all claims/draws 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 grantee and the grant administrator to ensure compliance with all audit requirements.

The Audit Report

OMB Circular A-133, applied for fiscal years prior to FY16, and [2 CFR Part 200](#), applied for fiscal years FY16 forward, 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 grantee. It is the administrator's responsibility to inform the grantee of all audit requirements and to ensure that completed audit reports are submitted to DOH and the appropriate offices 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. Grantees 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).

All A-133/2 CFR Part 200 Audits
must be submitted to:

[Federal Audit Clearinghouse](#)

and

[CT Electronic Audit Reporting
Systems \(EARS\)](#)

According to [2 CFR Part 200 Subpart F](#), grantees 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 Submission Requirements

Grantees must also forward one copy to the State Office of Policy and Management website within six (6) months after the end of the audit period. In addition, audit reports must be filed electronically on OPM's audit reporting system by the auditor. Grantees are required to make the audit report available to the public no later than thirty days (30) after completion of the audit.

State Statutes allow the Secretary of OPM to grant an extension for filing the audit report past the statutory due date. In order for an extension to be considered, the attached Extension Request Form must be submitted to OPM no later than 30 days prior to the required filing date.

[Attachment 3-9:
Audit Extension Request Form](#)

OPM will review the audit for compliance with the Single Audit Act of 1997 as required by [2 CFR 200.501](#). When the audit is accepted, the grantee will be notified. Should the audit not be acceptable, the grantee will be notified to correct and resolve the problems within six months (6) of receipt of the report by OPM.

[Attachment 3-10:
OPM Guidance on Deadlines
and Extensions](#)

OPM will refer any contested audit findings to the Auditor of Public Accounts.