

6. Financial Management

6.1. Overview

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. 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.

6.3. Required Financial Records

CDBG funds must be maintained in a separate account or in a separate fund within an existing account. Detailed records of receipts and expenditures of grant funds must be maintained at all times. Records must be supported by source documents including but not limited to deposit receipts, invoices and payments, and contracts awarded.

The following forms are required by the federal funding agency and must be maintained by the Grantee and available for inspection throughout the project:

- 1. Federal Cash Control Register:** This form is used to track the receipt and expenditure of federal funds. (Expenditures of local funds are not reported on this document.) It is the State's policy under the guidance of the Code of Federal Regulations, that grant funds of \$5,000 or more must be disbursed within five business days from the date they are deposited in the Grantee's designated account. The Federal Cash Control Register also maintains a cumulative amount deposited and disbursed throughout the grant project for accurate record-keeping purposes. This form is available as Financial Management Form 1: Federal Cash Control Register.

2. Contract Obligation Control Ledger: This form provides a listing of all contractual obligations committed for the federally assisted project. All contracts must be listed including but not limited to those for professional services, legal fees, and acquisition and construction. Required information includes the contractor's name, contract date, and total contract amount. The amounts to be paid from CDBG funds are to be listed separately from amounts to be paid from local funds. This form is available as Financial Management Form 2: Contract Obligation Control Ledger.

3. Contractor Expenditure Ledger: This financial document is a supplement to the Contract Obligation Control Ledger and tracks the total contract amount, payments, change orders and remaining balance for each contract listed on the Contract Obligation Control Ledger. A separate expenditure ledger should be maintained for each contract awarded for the grant project. This ledger is useful to the Financial Officer in monitoring the progress of payments on each contract, which should be compared to the work actually performed to assure that work on the contract is completed according to schedule and budget. This ledger is also maintained to assure that the Grantee is not being invoiced for amounts more than the total of the contract including any change orders. This form is available as Financial Management Form 3: Contractor Expenditure Ledger.

4. Property Inventory Ledger: The Grantee is required to report any purchases made with CDBG funds including but not limited to tangible personal property having a useful life of more than one year and an acquisition cost of \$300 or more per unit, and any equipment or vehicles which have a serial number.

The Financial Officer must maintain an inventory of property purchased with CDBG funds throughout the life of the grant. While the Office of Community and Rural Affairs (OCRA) does not allow the use of CDBG funds to pay for personal property, this form is a mandatory piece of documentation. The form is available as Financial Management Form 4: Property Inventory Ledger.

Do not include equipment purchased by a contractor or administrator, unless it is determined in the bid process that the equipment belongs to the Grantee. Furthermore, do not include major capital infrastructure expenditures, such as water mains or sewer lines.

Contractor File Documentation

An additional aspect of proper Financial Management of a CDBG project is the maintenance of a separate file for each contractor and subcontractor on the project. Each file should contain:

1. The contractor's contract including federal language requirements
2. The contractor's Payment Bond and Performance Bond
3. The contractor's Certificate of Insurance
4. Copies of all change orders
5. The Contractor Expenditure Ledger
6. Copies of all invoices and all checks written to the contractor from both federal and local dollars.

Additional Information

The forms listed in this Financial Management section do not replace any State Board of Accounts standardized forms to be used by counties, cities, and towns. The financial forms listed herein are required by the federal funding source and are in addition to any forms required by other state agencies.

While not required by the federal funding agency, Grant Services must review disbursements from local funds at monitoring. For that purpose, a 'Local Match Ledger' is included as Financial Management Form 5: Local Match Ledger.

6.4. Release of Funds

No claims for grant funds will be considered by OCRA until the Grantee has obtained an official 'Release of Funds' from Grant Services. This is a several month process during which the Grantee follows federal guidelines to prepare for implementation of the project. Exhibit C of the Grant Agreement specifies the date deadline for fulfilling the requirements to obtain Release of Funds.

The Grantee should NEVER enter into any construction related contracts prior to obtaining the official Release of Funds letter. Requirements which must be fulfilled in order to obtain Release of Funds for the federally assisted project are listed on the Release of Funds Checklist. This form is available as Financial Management Form 6: ROF Checklist.

When all required documentation has been reviewed and approved by Grant Services, the Grantee will receive a 'Notification of Release of Funds' letter. Upon receipt of this correspondence, the Grantee may enter into the construction-related contracts beginning with the date of the Release of Funds letter or any subsequent date. As a reminder, Grantees cannot draw down funds until the OCRA Labor Standards Officer has received the Notice of Contract Award (Labor Standards Form 7), the Pre- Construction Conference Acknowledgement (Labor Standards Form 8), Wage/Fringe Benefit Certification (Labor Standards Form 9), and the Notice of Start of Construction (Labor Standards Form 12).

6.5. Draw-downs and Disbursements

Grantees should seek to provide timely payments of CDBG funds to all contractors. However, Grantees should not approve claims for payment until the project Engineer or Architect has approved the pay application and submitted it to the Grant Administrator. The

Grant Administrator must also determine that the contractor is current with submissions of federal documents and certified payroll reports before preparing the claim voucher for CDBG funds. The claim voucher must be submitted to the Lt. Governor's Business Office. This form is available on the State Auditor's Website, under 'Forms' titled 'SF # 11294 (R7 / 9-09)' and is Financial Management Form 7: Claim Voucher.

Step by step instructions for completing the Claim Voucher are included with Financial Management Form 7a: Claim Voucher Instructions. If not completed properly, the claim voucher may not be processed and will be returned to the Grantee for correction. Please use the Claim Voucher Sample as a guide throughout the completion process.

Generally, the period of time for processing the Claim Voucher is 15 to 30 days. It is important to note that the time period will be extended during the last two weeks of June as the State Auditor's Office must suspend payments in order to close out the fiscal year and prepare the state's year-end reports. Because of these possible delays, Grantees should be attentive to forecasting cash-flow needs and coordinate closely with contractors regarding the timing of their requests for payments.

After approval of the Claim Voucher by the Lt. Governor's business office, the claim is forwarded to the Auditor's Office for payment. Funds are electronically transferred to the Grantee's bank account of record. If the Grantee makes changes to their bank account of record, they must notify the Auditor's office of the updated account information.

Grantees must be alert to the receipt of federal funds and be prepared to issue payments to their contractors within five business days of the deposit.

Under no circumstances should a Grantee retain more than \$5,000 of federal money in their bank account for more than five business days. If for any reason the federal funds cannot be disbursed during the five day period, the Grantee will be required to return all interest earned on the federal funds over \$100 to OCRA by check made payable to the U.S. Treasury. Grantees are advised to keep federal funds in non-interest bearing accounts. CDBG funds and local match dollars must be spent proportionally to pay for the project. This means that if the project comes in under budget, a portion of the local dollars are not spent, and a portion of CDBG funds are not spent. For example, a community applies for a \$500,000 grant, and contributes a \$125,000 local match. In this instance, 80 percent of the funds are from OCRA and 20 percent of the funds are local. If the project ends up costing \$500,000, then the Grantee would use \$400,000 of CDBG grant funds and \$100,000 of local match funds. It is not unusual for projects to come in under budget and not need the full amount of the CDBG grant.

6.6. Grant Administration Services

OCRA requires the use of a certified Grant Administrator who is responsible for ensuring compliance with all applicable state and federal rules and regulations governing the grant and the project.

As part of its funding to the Grantee, OCRA designates a percentage of each grant that can be used to pay for Grant Administration services. If the Grantee opts to pay more than the OCRA designated percentage, the additional funds must come from local match dollars. If the Grantee pays less than the OCRA designated percentage, the remaining dollars may be used for some other aspect of the project.

Successful Financial Management and Grant Monitoring and Audit

Following the expenditure of all federal and local funds and completion of the project OCRA will monitor the project. The list below contains possible Financial Management related infractions:

1. Violation of the \$5,000 / Five Day Rule
2. Inadequate financial documentation
3. Expenses incurred that were not related to the project
4. Costs incurred outside of the effective period of the grant
5. Unallowable costs incurred under the CDBG regulations
6. Costs that required prior approval and none was obtained
7. Payments to Engineers, Architects or Grant Administrators with CDBG funds when these services were not procured following federal regulations.

Retainage Requirements

It is a requirement of Indiana Code that for public works projects a percentage of the total contract amount due to all construction contractors be set aside until the project is satisfactorily completed, all suppliers have been paid in full, and all contractors, subcontractors and suppliers have submitted lien waivers. The amount of retainage withheld may not exceed:

1. 10% of the dollar value of all work satisfactorily completed until 50% of the project is complete, or
2. 5% of the dollar value of all work satisfactorily completed until 100% of the project is complete.

A Retainage Agreement must be reached, in writing, between the Grantee and the prime contractor to establish a procedure for holding the retained funds until all parties agree that the retainage may be released to the contractor upon satisfactory completion of the project.

Retainage Account funds may be:

1. Deposited into a mutually agreed upon financial institution, in a separate account. If deposited to an interest bearing account, any accrued interest belongs to the contractor,
2. Held in a bank account belonging to the Grantee, with transactions recorded and maintained in a separate ledger account, or
3. Deducted from amounts of draw-downs for payments due contractor so that the State is holding the retainage funds until they become due and payable to the contractor.

The Retainage Funds may only be released by the signature of both the Grantee and prime contractor.

11. Closeout and Monitoring

11.2. Closeout Process

It is the responsibility of the Grantee, with the assistance of the Grant Administrator, to initiate the closeout process no later than 30 days after the project *Completion Date*, as stated in the Grant Agreement, or the last CDBG disbursement, whichever comes first. (If CDBG funds were simply used for the acquisition of property, the Grantee should wait to initiate the closeout process until the project is complete and all stated objectives have been met.) Regardless, the project must be completed by the *Completion Date* specified in the Grant Agreement.

To initiate the Closeout process, the following conditions must be met:

1. All costs must be incurred and paid.
2. All funds must be drawn from OCRA.
3. No contingent liabilities should be outstanding unless Grant Services provides their written consent.
4. All project activities must be completed and the new facility or improvement must be available for use by the grant beneficiaries.

When these stated conditions have been met, the Grantee should immediately proceed with the Closeout process. The Closeout process involves four distinct progressive steps: 1) Grantee Performance Reporting, 2) Grant Monitoring, 3) Administrative/Financial Closeout, and 4) Final Closeout.

11.3. Grantee Performance Reporting

Closeout Form 1: Grantee Performance Report must be submitted to Grant Services within 30 days after the project's *Completion Date* or 30 days after the last CDBG disbursement was made, whichever comes first.

Once approved, Grant Services personnel will contact the Grantee through their Grant Administrator to set up a date for the onsite monitoring to be conducted.

Planning Grant monitoring are typically conducted by desk-review instead of on-site. To facilitate that process, when submitting Closeout Form 1: Grantee Performance Report for a Planning Grant, you are asked to include that documentation identified on Closeout Form 1a: Planning Grant Monitoring Checklist. This applies only to Planning Grants.

11.4. Grant Monitoring

Grant Services will conduct an on-site monitoring to review all grant documentation, financial records, and the actual facility and/or improvements. The purpose of the monitoring is to verify that the project has met the stated goals and objectives and all of the federal CDBG regulations and that all contractors, subcontractors and suppliers have been paid in full and provided final lien waivers. Successful monitoring meetings largely depend upon the organization and accuracy of record keeping by the Grant Administrator. A Monitoring Manual as used by Grant Services to conduct the monitoring is available for review on OCRA's website in CDBG Resources.

If required materials are not available on the date of the monitoring, Grant Services will request the Grantee or Grant Administrator submit the required documentation within 15 days. If not submitted within 15 days, the issues will be listed on the official monitoring letter. The Grantee will be ineligible for CDBG funding on any project until such issues are resolved.

Within 30 days after the monitoring meeting or desk review, Grant Services will forward a letter to the Grantee informing them of their grant status. This letter will state one of the following results:

- 1. No Findings:** If the Grantee's performance was found to be in compliance with all CDBG and OCRA regulations, Grant Services will state that the project had no findings and inform the Grantee to proceed to the next step of the Closeout process.
- 2. Unresolved Findings:** If compliance issues were raised at the monitoring meeting, Grant Services will address these issues in writing. The Grantee will then have 30 days to resolve these issues. After Grant Services reviews the submitted documentation, the Grantee will be advised how to proceed with the Closeout process. Until the Grantee has resolved all findings, the Grantee will not be eligible to apply for or receive any other CDBG funding. This includes CDBG grants from the Indiana Housing and Community Development Authority (IHCDA).

11.5. Administrative Closeout

1. When it has been determined that the Grantee has no findings or all findings have been resolved, the Grantee will be advised to submit Closeout Form 2: Financial Settlement/Expenditure Report and Closeout Form 3: Administrative Closeout.
2. If it is determined that the goals/objectives have not been met, the Grantee will be advised to submit Closeout Form 2: Financial Settlement/Expenditure Report. The Grantee must continue to submit the Semi-Annual Reports (see the Reporting and Recordkeeping Chapter for more detail) until such time as the goals and objectives are met or modified by Grant Services. Once Grant Services has determined that the Grantee has met all obligations, the Grantee may proceed to Administrative Closeout by completing Closeout Form 3: Administrative Closeout.

When Grant Services has approved a Grantee's Administrative Closeout Form and placed it in the Administrative Closeout status, the Grantee does not need to submit any more Semi-Annual Reports. However, if the Grantee has a subrecipient, the Grantee is responsible for the submission of the subrecipient Semi-Annual reports for a period of five years after the date of Grant Services' approval of the Administrative Closeout (see Section 11.8).

11.6. Intended Use of Facility Must Be Maintained for Five Years after Closeout

After CDBG funded projects are completed and closed out, the facility must maintain its intended use for five years after closeout. No changes to the use of the facility or the type of beneficiaries of real property acquired or improved with CDBG funds may be made without the advanced written approval of OCRA.

Those projects with Subrecipients will be monitored annually by OCRA staff to insure that the use and purpose of the facility has been maintained during the five year period. Project facilities which are owned and operated by the Grantee, (unit of local government), must also maintain the intended use of the facility and continue the same type of benefit to local residents for five years after closeout. Those facilities will be monitored periodically by OCRA staff throughout the five year period.

11.7. Audits

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 Certified Public Accountant (CPA), with a current license to practice in Indiana can perform an audit.

One of the primary financial management requirements implicit in the use of federal funds is the annual audit. 2 CFR 200 provides requirements for audits of governmental entities and nonprofit organizations. Failure to comply with the audit requirements can jeopardize the grantee's ability to draw grant funds and receive future grants.

The type and level of audit required is based on the amount of federal funds expended by a Grantee in a given fiscal year. Federal awards include financial assistance provided by the federal government to the Grantee 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 audit conducted. A **single audit** is an audit that includes both an entity's financial statements and its federal awards (from all applicable federal programs). If an organization expends less than \$750,000 a year in federal funds, it is exempt from the federal audit requirements for that year; however, financial records must be made available if requested.

11.8. Final Closeout

The final stage of the closeout process is the issuance of a Certificate of Project Completion. This certificate is issued when OCRA has received the Grantee's single audit (if required) covering all years that CDBG funds were expended by the Grantee. If an audit is not required, the Grantee must complete a Closeout Form 4: Notification of Single Annual Audit for each year that CDBG funds were expended. This form must be signed by the Chief Financial Official of the Grantee.

For certain project types, particularly those where the Grantee has designated a Sub-Recipient, the Certificate of Completion will not be issued until 5 years from the date of Administrative Closeout. During that 5 year period, OCRA must receive the above mentioned Audit or the Closeout Form 4: Notification of Single Annual Audit and Closeout Form 5: Subrecipient Notification of Single Annual Audit, from both the grantee and the sub-recipient, covering all years that CDBG funds were expended. This form must be signed by the Chief Financial Officer for the Sub-Recipient and the Chief Elected Official for the Grantee.

If there are no discrepancies or findings by the State Board of Accounts, the Certificate of Completion is issued and a copy is forwarded to the Grantee. If there are findings issued by the State Board of Accounts for a CDBG grant the grantee is responsible for resolving the issue with the State Board of Accounts. Upon resolution, the certificate will be issued.

