

Chapter 5 – Financial Management

Words to Know:

Certification of Labor Compliance – A Commerce form that must be completed and signed by the grantee’s Labor Standards Officer whenever reimbursement is sought for Construction. The form is available in the “Request for Reimbursement” toolkit.

Certified Payrolls – Payroll forms signed by the prime contractor certifying that the wages and fringe benefits were paid to the workers listed. If CDBG reimbursement is sought for construction, copies of the certified payrolls associated with the contractor’s application for payment (pay app) must be submitted with the CDBG Request for Reimbursement and must include notations demonstrating that the grantee checked them against the applicable Davis-Bacon wage determination.

Employee Interview Form – A HUD form used for recording information gathered during on-site interviews with individuals employed on projects subject to Federal prevailing wage requirements.

Section 3 Reporting Form – A HUD form reporting all new hires for the specific CDBG project and their Section 3 self-reported designation.

Uniform Invoice Tracking Spreadsheet – An Excel spreadsheet containing a cumulative list of all project invoices to date. The spreadsheet tracks invoice numbers, total invoice amounts, and the portion each funding source paid on each invoice. The invoice tracking sheet must be submitted with each CDBG Request for Reimbursement. A template is available in the “Request for Reimbursement” toolkit.

Uniform Status of Funds Tracking Spreadsheet – An Excel spreadsheet representing a real-time look at the project budget, funds expended, and balances remaining for each funding source. The USFTS must be submitted with each CDBG Request for Reimbursement. A template is available in the “Request for Reimbursement” toolkit.

Overview

This chapter provides guidance on the federal and state requirements that govern the financial management of all CDBG funds, so that each grantee can maintain an adequate

financial system. The financial system must be flexible enough to accommodate applicable laws and regulations and conform to generally accepted accounting principles.

Commerce and the Department of Administration's [Local Government Services Bureau](#) are available to provide assistance to local governments concerning these accounting requirements and all related financial management practices that you will need to use in managing and accounting for CDBG grant funds that you have received.

Applicable Federal and State Requirements

Federal Requirements

The key federal requirements that the grantee must comply with are embodied in the following Office of Management and Budget circulars and HUD regulations.

2 CFR Part 200; Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards

These HUD administrative requirements are the basis for several financial management requirements. They are divided into six major subparts and include:

1. Subpart A – Acronyms and Definitions
2. Subpart B – General Provisions
3. Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
4. Subpart D – Post Federal Award Requirements:
 - a. Standards for Financial and Program Management
 - b. Property Standards
 - c. Procurement Standards
 - d. Performance and Financial Monitoring Reporting
 - e. Subrecipient Monitoring and Management
 - f. Record Retention and Access
 - g. Remedies for Noncompliance
 - h. Closeout
 - i. Post Closeout Adjustments and Continuing Responsibilities

- j. Collection of Amounts Due
5. Subpart E – Cost Principles
6. Subpart F – Audit Requirements
- a. *2 CFR 200.501(a) – Audit required. A non-Federal entity that expends \$1,000,000 or more during the non-Federal entity’s fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.*
- b. *2 CFR 200.501(b) – Single audit. A non-Federal entity that expends \$1,000,000 or more in Federal awards during the non-Federal entity’s fiscal year must have a single audit conducted in accordance with §200.514 except when it elects to have a program-specific audit conducted in accordance with paragraph (c) and (d) of this section.*
- c. *2 CFR 200.501(e) – Exemption when Federal awards expended are less than \$1,000,000. A non-Federal entity that expends less than \$1,000,000 in Federal awards during its fiscal year is exempt from Federal audit requirements for that year, except as noted in §200.503. However, in all instances, the records of the non-Federal entity must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.*

HUD CDBG State Final Rule 24 CFR Part 570

This rule includes HUD’s regulations governing the state administration of CDBG funds.

HUD CDBG Final Rule Regulations – Eligible and Ineligible Activities

These HUD regulations deal specifically with eligibility issues and are, therefore, the controlling regulations in this regard. 24 CFR Part 570.200, Subpart C includes the following sections:

- 570.201 Basic eligible activities
- 570.202 Eligible rehabilitation and preservation activities
- 570.203 Special economic development activities
- 570.204 Special activities by certain subrecipients

- 570.205 Eligible planning, urban environmental design, and policy-planning-management-capacity building activities
- 570.206 Program administration costs
- 570.207 Ineligible activities

State Requirements

Budgetary, Accounting and Reporting Systems (BARS) for Cities, Towns, and Counties

The BARS system fulfills all HUD project accounting and reporting requirements (§ 2-7-504, MCA).

Audit Requirements

Grantees must comply with §2-7-500, MCA.

Budgetary Authority

Under Montana law, local governments are required to appropriate, by resolution, all CDBG funds received, regardless of the time the funds are received. It is suggested that the resolution include the source of the funds, program which they will be expended, and the effective date of the appropriation.

Surety Bonds

Montana law requires surety bonds for local government officers and employees who are involved in the administration of public funds. The amount of a bond should be based on the amount of money handled and the opportunity for misuse of funds (§§ 2-9-701, -702, and -802, MCA).

Program Requirements

Project Budget

The budget for the CDBG project is part of the project Management Plan and of the CDBG contract. Once the Management Plan is approved and the contract is signed by the grantee and by Commerce, specific requirements are placed on the grantee.

The grantee must expend the grant funds in accordance with the provisions of the CDBG project budget. However, the budget may be amended so long as it is not increased and does not violate the conditions under which the grant was awarded. If the amount of the amendment will not exceed \$5,000, the grantee need not request Commerce approval. If the amount exceeds \$5,000, the grantee must request written approval from Commerce.

Project Administration Costs

To avoid early depletion of administrative funds, requests for funds for administrative costs must be reasonable and appropriate. The grant recipient's request must have appropriate documentation, reasonable depletion in comparison to the activity costs, and support the activities outlined in Section 5, Scope of Work, in the CDBG contract.

Please see the "Requests for Reimbursement" toolkit for a detailed description of eligible and ineligible administration costs for CDBG projects as well as an example documentation required for the reimbursement of grant administration services.

Local Depository Account

The grantee is required to establish and maintain a depository account in a local financial institution. The account will be used exclusively for the receipt and disbursement of CDBG funds. Grantees which pay CDBG-eligible expenses associated with the CDBG-assisted project then request a reimbursement are not required to create a local deposit account exclusively for CDBG funds.

There are, however, certain conditions the grantee must meet in the management of the account, including:

- The grantee must follow the HUD accounting and financial management procedures required by 2 CFR Part 200.
- Federal requirements prohibit local governments from earning interest on CDBG funds deposited into the local government's account for the grant. Typically, this is not an

issue because most CDBG grantees request CDBG funds to reimburse themselves for invoices that have already been paid by the grantee. If the grant recipient is paying invoices with the grant funds directly deposited (and not reimbursing themselves), the funds must be deposited into a non-interest-bearing account.

- The time between receipt of CDBG funds and disbursement must be minimized to comply with Treasury Circular 1075. HUD has interpreted this provision to mean that no more than \$5,000 may be retained in a grantee's federal depository account for a period longer than three business days.

Request for Reimbursements

All projects are subject to State and Federal environmental review requirements. Request for Reimbursements cannot be processed until the environmental review process, as outlined in Chapter 2, has been completed and Commerce has issued an AUGF to the grantee.

To establish the mechanisms for requesting CDBG funds and for receiving them, the grantee must complete the following forms available in the "Request for Reimbursement" toolkit:

1. Signature Certification form authorizing at least two signers for Request for Reimbursement form
2. Electronic Funds Transfer Form 204

Each Request for Reimbursement must include the following items:

- Request for Reimbursement form
- Project Progress Report
- USFTS
- Invoice Tracking Spreadsheet
- Copies of marked-up certified payrolls (if project is in construction)
- Certification of Labor Compliance (if project is in construction)
- Copies of Labor Interviews (if project is in construction)

- Section 3 Reporting (only if there are new hires that meet the Section 3 definition to report)

For specific instructions on how to submit a CDBG Request for Reimbursement, and for the required Request for Reimbursement forms, please consult the “Requests for Reimbursement” toolkit.

Quarterly Project Progress Reports

Once a CDBG contract is executed with Commerce, grantees are required to begin submitting a quarterly Project Progress Report less than fifteen (15) days after the close of each quarter (March, June, September, and December) unless a progress report is submitted within that quarter with a Request for Reimbursement. The progress report must describe the status of the project with respect to each scope of work item and the implementation schedule. The report should describe any significant issues or problems encountered.

Two Percent Retainage

Commerce will retain two percent (2%) of the total authorized grant amount until:

1. The project has been completed (i.e., a Certificate of Substantial Completion has been issued)
2. A closeout report has been submitted by the CDBG recipient and approved by Commerce

Retention – Documents / Records / Reports

Under HUD regulations, all project-related documents, records, and reports must be retained for five (5) years after project closeout. However, in the event litigation, claim, negotiation audit, or other action, such documents, records, and reports must be retained until completion of the action or regular time-period, whichever is later.

Project documents, records, and reports are subject to applicable federal, state, and local laws relating to public access, privacy, and confidentiality.

Program Income and Revolving Loans

Typically, only CDBG Housing Stabilization and Economic Development projects have the potential to generate program income or revolving loan funds. Commerce has established guidelines for local government grantees that retain and use program income and revolving loan funds. The guidelines focus on state oversight and local government management of and accountability for program income and revolving loans.

Please consult a project specialist and our “Program Income Manual” on Commerce’s [website](#) for specific guidance related to program income and/or revolving loan funds. Disregard this requirement if it does not apply.