Chapter 04
Financial Management and Reporting

STATE OF MISSOURI CDBG
POLICY STATEMENT
IN EFFECT FOR ANNUAL GRANTS:

<table>
<thead>
<tr>
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IN EFFECT FOR DR/MIT GRANTS:

- DR-4317: B-18-DP-29-0001
- DR-MIT: B-18-DP-29-0002
- DR 4451: B-19-DF-29-0001

POLICY CHANGES OR UPDATES TABLE

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INTRODUCTION

Effective financial management is the heart of successful Community Development Block Grant (CDBG) DED administration. Subrecipients, are held accountable for all funds, property, and assets of the DED program. Subrecipients must maintain a financial accounting system and Internal Controls for the grant that meets federal and State requirements.

Unless specifically noted elsewhere this policy is authoritative for all CDBG annual awards, CDBG-DR awards, CDBG-CV awards, and CDBG-MIT Awards.

4.1 FINANCIAL MANAGEMENT

The Subrecipient’s financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Grant, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Grant.

The financial management system of the Subrecipient must provide for the following (see also Record Retention Section):

1. Identification, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

2. Accurate, current, and complete disclosure of the financial results of each Federal award or program that are sufficient to facilitate reviews and audits of the Subrecipient under Audit Requirements.

3. Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

4. Effective control over, and accountability for, all funds, property, and other assets. The Subrecipient must adequately safeguard all assets and assure that they are used solely for authorized purposes. (See also Section 4.2 Internal Controls).

5. Comparison of expenditures with budget amounts for each grant.

6. Written procedures to implement the requirements Section 4.2.3 Request for Federal Funds (RFF).

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1 https://www.law.cornell.edu/cfr/text/2/200.302
7. Written procedures for determining the allowability of costs in accordance with 2 CFR § 200 Subpart E - Cost Principles and the terms and conditions of the Grant Agreement.

4.2 INTERNAL CONTROLS

The Subrecipient must:

1. Establish and maintain effective internal control over the Grant Funds and provide reasonable assurance that the Subrecipient is managing the Grant in compliance with Federal statutes, regulations, and the terms and conditions of the Grant Agreement. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Controls include but are not limited to:

   - No person should have complete control over every phase of a financial transaction.
   - Where feasible, monthly bank reconciliation and/or direct deposit monthly statements should be reviewed by someone who is not responsible for handling cash or issuing checks; and
   - The person issuing checks for grant expenses should not also handle payroll preparation/issuance of paychecks,
   - Procedures to ensure the timely expenditure of funds.

2. Comply with Federal statutes, regulations, and the terms and conditions of the Grant Agreement.

3. Evaluate and monitor the Subrecipient’s compliance with statutes, regulations and the terms and conditions of Federal awards.

4. Take prompt action when instances of noncompliance are identified by DED and noncompliance identified in audit findings.

5. Take reasonable measures to safeguard protected personally identifiable information and other information DED designates as sensitive or the Subrecipient considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and obligations of confidentiality.

4.3 RISK ASSESSMENT

Under the Uniform Guidance found at 2 CFR §200.206, non-federal entities like DED that are making awards to other parties or also known as “Subrecipients” are required to do an initial risk assessment to determine the level of risk that the subrecipient poses to:

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2 https://www.law.cornell.edu/cfr/text/2/200.303
1. conduct the award successfully and
2. minimize the potential exposure to waste, fraud, and abuse.

**4.3.1 DED REVIEW OF SUBRECIPIENT RISK**

When determining the conditions of a Grant Agreement with a potential Subrecipient, the DED must evaluate each Subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the grant for purposes of determining the appropriate monitoring to take place throughout the term of the Grant. (See Monitoring Plan)

The rating for the risk assessment should be based on:

A. Financial stability: The Subrecipient’s day to day operations generates enough cash to cover its expenses and debt payments.

B. Management systems and standards: Quality of management systems and ability to meet the management standards as prescribed in 2 CFR 200;

C. History of performance: The Subrecipient’s record in managing Federal awards, if it is a prior recipient of Federal awards, including:
   1. timeliness of compliance with applicable reporting requirements,
   2. conformance with the terms and conditions of previous Federal awards, and if applicable,
   3. the extent to which any previously awarded amounts will be expended prior to future awards;

D. Audit reports, monitoring’s, other HUD monitoring, and findings: Reports, monitoring results and findings from procedures performed under 2 CFR 200 subpart F, 24 CFR 570 or the reports and findings of any other available audits and program reviews; and

E. Ability to effectively implement requirements: The Subrecipients ability to effectively implement statutory, regulatory, or other requirements imposed though award agreements.

F. Risk-based requirements adjustment: DED may adjust requirements when a risk-evaluation indicates that it may be merited either in pre-award or in post-award.

**4.4 SPECIFIC CONDITIONS**

The DED may impose additional specific Grant Agreement conditions as needed, in accordance with the result of the Risk Assessment and other conditions, under the following circumstances:

1. Based on the criteria of the Risk Assessment of the Subrecipient.
2. When the subrecipient has a history of failure to comply with the general or specific terms and conditions of DED Grant Agreements;
3. When the subrecipient fails to meet expected performance goals as described in the current Grant Agreement; or
4. When the subrecipient is not otherwise responsible as determined by the DED.
These additional Grant Agreement conditions may include items such as the following:

1. Requiring payments as reimbursements rather than advance payments;
2. Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
3. Requiring additional, more detailed financial reports;
4. Requiring additional project monitoring;
5. Requiring the Subrecipient entity to obtain technical or management assistance;
6. Establishing additional prior approvals;
7. Additional items as identified in the Initial Risk Assessment Checklist; or
8. Other items as deemed necessary by the DED.

If specific conditions are imposed, the DED must notify the subrecipient as to:

1. The nature of the additional requirements;
2. The reason why the additional requirements are being imposed;
3. The nature of the action needed to remove the additional requirement, if applicable;
4. The time allowed for completing the actions if applicable, and
5. The method for requesting reconsideration of the additional requirements imposed.

Any specific conditions must be promptly removed once the conditions that prompted them have been corrected.4

4.5 ADMINISTRATION/ COST ALLOCATION PLAN/INDIRECT COSTS

DED allows subrecipients to charge administrative costs (subject to caps that limit these costs) that are set out by program and sometimes by a federal register notice. DED does not pay indirect costs on awards or recovery from a cost allocation plan when administrative costs are reimbursed. Administrative costs are reimbursed based on actual and incurred costs, not a set percent of incurred costs, which is how DED measures the applicable cap. The type of costs that qualify as administrative in nature are set out by statute, program, and federal registers and is not subject to debate or interpretation. DED utilizes a Cost Allocation Plan and does not recover indirect costs.

4.6 COST PRINCIPLES/ALLOWABLE COSTS

The cost principles, as defined in 2 CFR 200 Subpart E, are the fundamental principles used to judge and qualify all costs incurred covered by the DED program. All costs that are intended to be charged to any DED Grant must be Allowable, Reasonable, and Allocable to be considered in compliance. Note that other regulations:

- 24 CFR Part 58 – Environmental Review,
- 24 CFR Part 570 Subpart I,
- DED Program, and Federal Registers,

may impose additional considerations for the eligibility of each cost.5

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4 https://www.law.cornell.edu/cfr/text/2/200.208
5 See Chapter 5 “Cost Reasonableness Policy”
4.6.1 FACTORS AFFECTING ALLOWABILITY OF COSTS

Except where otherwise authorized, costs must meet the following general criteria to be allowable under a Grant Agreement:

1. Be necessary and reasonable for the performance of the Grant Agreement and be allocable to the Grant (see Allocable Costs).

2. Conform to any limitations or exclusions in the Cost Principles or in the Grant Agreement as to types or amount of costs.

3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the Subrecipient.

4. Be accorded consistent treatment. A cost may not be assigned to a Grant as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Grant as an indirect cost.

5. Costs incurred by DED and local governments and Indian tribes must be determined in accordance with generally accepted accounting principles (GAAP).

6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.

7. Be adequately documented.

8. Be net of any Applicable Credits.

4.6.2 REASONABLE COSTS

A cost is reasonable if, in its nature and amount, it does not exceed what would be incurred by a prudent business person under like circumstances at the time the decision was made to incur the cost.6

In determining reasonableness of a given cost, consideration must be given to:

1. Whether the cost is generally recognized as ordinary and necessary for the operation of the Subrecipient for proper and efficient performance of the grant.

2. The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Conflict of Interest (COI); Federal, DED, local, tribal, and other laws and regulations; and terms and conditions of the Grant.

3. Market prices for comparable goods or services for the geographic area.

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6 https://www.law.cornell.edu/cfr/text/2/200.404
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4. Whether the individual (contractor, administrator, consultant, local official or employee) acted with prudence in the circumstances considering their responsibilities to the Subrecipient, its employees, DED, the public at large, and the Federal Government.

5. Whether the Subrecipient significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

6. Some questions to help guide decisions on cost reasonableness and necessity are:
   
a. Were the costs incurred using the established practices of the subrecipient (procurement policy?)
b. Are the goods or services provided at a fair market cost?
c. How would you defend this cost to an auditor or a community member?
d. Are the costs determined in accordance with Generally Accepted Accounting Principles (GAAP)?
e. Where the costs incurred in a transparent and consistent manner?
f. Is this cost permitted under the term of the grant award and under federal, DED, and local laws and regulations?
g. Did this transaction avoid any conflict of interest or the appearance of conflict of interest?

4.6.3 ALLOCABLE COSTS

A cost is allocable to the Grant if the goods or services are chargeable or assignable to the Grant, based on the relative benefits received.\(^7\) This standard is met if the cost:

1. Is incurred specifically for the Grant;
2. Benefits both the Grant and the Subrecipient and the cost can be distributed proportionally using reasonable methods; and
3. Is necessary to the overall operation of the Subrecipient and is assignable in part to the Grant in accordance with the other costs principles and other Part 200 regulations.

Any cost allocable to a Grant under the principles provided may not be charged to other Federal Awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

However, this prohibition would not preclude the Subrecipient from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

4.6.4 DIRECT COST ALLOCATION PRINCIPLES

If a cost benefits two or more projects or activities in proportions that can be determined without

\(^7\) https://www.law.cornell.edu/cfr/text/2/200.405
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undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Where the purchase of equipment or other capital asset is specifically authorized under the Grant, the costs are assignable to the Grant, regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. (See also Property Standards).

If a contract is subject to Cost Accounting Standards (CAS), found at 48 CFR 9904, costs must be allocated to the contract pursuant to the CAS. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions provided in the Costs Principles.

4.7 SELECTED ITEMS OF COST

4.7.1 ACQUISITION COSTS

Estimated costs of real property must be budgeted under the acquisition line item. Appraisal and review appraisal fees, legal, and title search costs should also be listed under the acquisition budget item.

4.7.2 CONTINGENCY PROVISIONS

Contingency is that part of a budget estimate of future costs (typically of large construction projects) which is associated with possible events or conditions arising from causes the precise outcome of which is indeterminable at the time of estimate, and that experience shows will likely result, in aggregate, in additional costs for the approved activity or project. Amounts for major project scope changes, unforeseen risks, or extraordinary events may not be included.  

It is permissible for contingency amounts other than those excluded, to be explicitly included in budget estimates, to the extent they are necessary to improve the precision of those estimates. Amounts must be estimated using broadly accepted cost estimating methodologies, specified in the budget documentation of the Federal award, and accepted by the Federal awarding agency. As such, contingency amounts are to be included in the Federal award. For actual costs incurred to be allowable, they must comply with the cost principles and other requirements and national policy requirements; be necessary and reasonable for proper and efficient accomplishment of project or program objectives and be verifiable from the Subrecipient’s records.

Contingency costs will always be rebudgeted and reclassed to the actual cost category once the actual cost has been incurred.

Payments made by the DED the Subrecipient’s “contingency reserve” or any similar payment made for events the occurrence of which cannot be foretold with certainty as to the time or

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8 https://www.law.cornell.edu/cfr/text/2/200.433
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intensity, or with an assurance of their happening, are unallowable.

4.7.3 FINES, PENALTIES, DAMAGES AND OTHER SETTLEMENTS

Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, DED, tribal, local or foreign laws and regulations are unallowable.

4.7.4 MATERIALS AND SUPPLIES COSTS

Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable. Purchased materials and supplies must be charged at their actual prices, net of applicable credits. Incoming transportation charges are a proper part of materials and supplies costs.9

4.7.5 PROFESSIONAL SERVICE COSTS

Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable, when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.10

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

1. The nature and scope of the service rendered in relation to the service required.
2. The necessity of contracting for the service, considering the non-Federal entity's capability in the particular area.
3. The past pattern of such costs, particularly in the years prior to Federal awards.
4. The impact of Federal awards on the non-Federal entity's business (i.e., what new problems have arisen).
5. Whether the proportion of Federal work to the non-Federal entity's total business is such as to influence the non-Federal entity in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards.
6. Whether the service can be performed more economically by direct employment rather than contracting.
7. The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
8. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

Retainer fees must be supported by evidence of bona fide services available or rendered.

9 https://www.law.cornell.edu/cfr/text/2/200.453
10 https://www.law.cornell.edu/cfr/text/2/200.459

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4.7.6 PRE-AGREEMENT COSTS

The DED may permit a subrecipient to incur costs for DED activities, after the notification of grant award by the DED Director but before the execution of a grant agreement between the DED and the subrecipient.\footnote{https://www.law.cornell.edu/cfr/text/2/200.458}

Costs that are considered eligible pre-agreement costs are:

- Outsourced Grant Administration
- Architectural & Engineering
- Carrying out the Environmental Review
- Lead and Asbestos Assessments

Before these costs can be incurred, the subrecipient must request authorization to incur the costs in writing. This request must explain how the costs are necessary for efficient and timely performance of the scope of work and be approved by the DED Program before costs can be incurred.

Once incurred, these costs will then be eligible for reimbursement, provided that the activities are eligible and meet the following requirements:

- Costs are incurred in compliance with Federal Environmental Review rules in 24 CFR Part 58
- The costs are incurred specifically for the DED grant
- Costs are attributable to a budget line item in the Subrecipient’s application.

Any public or private expenses incurred, or any work done on the project, before execution of the Letter of Interest and before the approval of the request to incur pre-agreement costs are at the risk of the subrecipient. Additionally, approval of the pre-agreement costs does not imply approval of the project, which will be reviewed according to the published program requirements.

4.7.7 Program Administration Costs (PACs) (DR/MIT)

Program Administration Costs are costs incurred for the general management, oversight, and coordination of the CDBG-DR/MIT grant. A full list of what costs are considered PACs is outlined at 24 CFR 570.206.

Examples of PACs include:
- Compliance and monitoring activities
- Leased office space for general CDBG-DR/MIT program specific operations
- Staff time and/or contracted services to manage the funds and CDBG-DR/MIT program overall
- Administrative, legal, accounting, internal auditing, IT, and human resources support
- Financial management and DRGR related activities
- Reporting including QPR

Costs for PACs are capped at 5% of total appropriation.
4.7.8 Planning Costs

Planning Costs are costs for creating a plan, including data gathering, studies, analysis, and preparation of plans. (Planning activities related to a specific project is a Project Cost.)

**Examples of Planning Costs are:**
- Comprehensive plans
- Community development plans
- Development of Action Plan and Action Plan amendments
- Functional plans for housing/land use/economic development
- Mitigation plan or disaster resiliency plan

Administration and planning cannot exceed 20% of appropriation so if 5% is allocated to administration, planning activities cannot exceed 15%. If the allocation is split with subrecipients, the total of all administration and planning costs may not exceed the cap.

4.7.9 Project Costs

Project Costs are direct costs of undertaking a project and which can be tied to a final cost objective and eligible activity.

**Project Costs include:**
- Environmental review (if completed by developer for review and approval by the Responsible Entity)
- Acquisition costs
- Construction hard costs
- Demolition and site clearance costs
- Project soft costs such as architecture, engineering, and permits if these costs are paid by the beneficiary
- Developer fees, contractor overhead, and profit
- Costs to deliver public services, including staff time and other direct costs (such as supplies)
- Payments to homeowners for reconstruction activities
- Loans to businesses to assist with repairs or provide working capital

4.7.10 Activity Delivery Costs (ADCs) (DR/MIT)

ACDs are costs incurred by a grantee or subrecipient directly related to delivery of a specific project or service to a beneficiary. Not required to be tied to a specific address but must be tied to delivering eligible project/units.

**Examples of ADCs include:**
- Environmental reviews (if completed by grantee or subrecipient)
- Development of program policies and procedures necessary to implement program
- Duplication of benefits review and analysis
- Completing work write-ups
- Conducting underwriting or applicant selection
- Leased office space for a single program operation
• Equipment and supplies necessary for carrying out eligible activity
• Applicant intake/eligibility screening for a specific program that does not result in eligible project or beneficiary

4.7.11 Applicable Credits

Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as activity delivery or administrative costs.

In some instances, the amounts received from federal sources to finance activities or service operations of the Subrecipient should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) must be recognized in determining the rates or amounts to be charged to the DED award.

Examples of applicable credits include:
• Credits on invoices
• Returns
• Purchase discounts
• Rebates
• Allowances
• Recoveries or indemnities on losses
• Adjustments for overpayments
• Erroneous charges
• Double payments

RFF payments are reduced by the amount of applicable credits when they are found, or repaid by the Subrecipient if all grant funds have been paid.

4.8 Public Service Activities

The CDBG regulations allow the use of grant funds for a wide range of public services activities, including, but not limited to:
• Child care,
• Health care,
• Job training,
• Recreation programs,
• Education programs.

In addition, the cost of operating and maintaining the portion of a facility in which the CDBG-funded public service is located and the lease of furnishings, equipment, or other personal property needed for an eligible public service may be paid for with CDBG funds.

Paying for the operation and maintenance of an entire public facility that is only partially used by a CDBG assisted activity is not permitted.
Public service activities are capped at 15% of appropriation.

4.9 GRANT DISBURSEMENT

No payments will be made prior to DED having a fully executed agreement in its files.

4.9.1 Executing the Grant Agreement

Execution of the grant agreement is complete only after the grant agreement has been signed by the grantee and by the director of the Department of Economic Development. Generally, the process of executing the grant agreement occurs in the following way:

1. After reviewing and approving the grant application, DED notifies the subrecipient that the proposed project has been selected for funding and that a contract agreement will be forthcoming.

DED then prepares a contract agreement and forwards copies to the subrecipient.

The subrecipient executes the agreement by signing, attesting, and stamping it with the official seal of the community.

The subrecipient returns all copies to DED.

The copies are then signed and approved by the Director of DED.

A copy of the fully executed grant agreement is returned to the Subrecipient.

In addition to acknowledging acceptance of the grant award, execution of the grant agreement serves at least two other purposes.

A. it acknowledges that the recipient accepts and will comply with all Federal and DED requirements governing administration of the grant; and

B. it sets out the terms and conditions of the award that must be satisfied before funds will be released for certain activities.

Costs for exempt project activities can be incurred only after the date of the grant agreement (unless the costs fall under the Pre-Award Costs section above.) Costs for project activities that are subject to specific contract conditions (e.g., environmental review) can be incurred only after execution of the agreement and removal of the conditions. (See Notice of Removal of Grant Conditions in the Environmental Review Chapter.)

4.9.2 Authorized Signatures for CDBG Request for Funds (SFMO1)

The Authorized Signatures for CDBG Request for Funds (SFMO1) is the form in which the subrecipient lists those who are authorized to sign and RFFs, this form is also certified by the highest ranking individual in the local government that is not listed on the form as a signor.

4.9.3 Vendor Input/ACH-EFT Application

All CDBG funds must be disbursed via Automatic Clearing House. Communities will not submit a voided check or deposit slip with the application; the ACH form must be completed and an original must be mailed to CDBG. The form must have the account number and the routing
number of the bank. The form should be signed by the mayor/presiding commissioner, as well as by the authorized person of the listed financial institution. The account label/name must designate that it is a CDBG account. For example “City of Anytown – CDBG” should be included in the field “Name on Account” under the part to be completed by the Financial Institution.

* Please verify with the subrecipient all current account information on file with the DED for current or past projects to reduce delays in processing due to conflicting accounts.

**4.9.4 Request for Funds (RFF)**

After DED receipt and approval of the afore-mentioned items, subrecipients are permitted to submit a Request for Funds Form (RFF). Please note the following items regarding an RFF:

- Requests for payments must be authorized according to the recipient’s internal control process and signed by the persons designated on the SFM01 Form.

- The recipient must establish cash management procedures and be able to provide documentation in the form of a cash transaction ledger. This should include the date of each receipt of federal funds from the DED and the date of each expenditure on the grant, separating funds to be reimbursed from federal grant dollars, required matching funds and other funds.

- Total funds requested cannot exceed the actual incurred expenses at the date of request and approved total budget for any activity without prior approval from DED. An analysis of the budget should be conducted whenever there are potential line item budget revision to ensure that the total costs are within the total project budget.

- The cost reimbursement method of payment consists of the payment of grant funds to the recipient based on actual expenditures that the recipient has paid and has supporting documentation. Supporting documentation may include invoices, paid bills, purchase vouchers, payrolls, copies of checks, contractor pay applications, etc. All vouchers/invoices should be on vendors’ letterhead. Source documentation should explain 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.

- Request for payment must be no later than 60 days after the date of the original transaction. Reimbursements older than 60 days after the transaction date fail the timeliness test and may not be paid.

- The recipient may also request funds for incurred costs that the recipient is unable to pay ahead of receiving funds from DED. Supporting documentation includes invoices or similar documentation. At time of project monitoring, recipient must provide supporting documentation including bank statements and cancelled checks.

- The recipient should allow seven (7) working days for payment to be processed, after required corresponding documentation has been submitted. Any payment request that is not completed properly may be returned to the recipient without being processed. Some of the reasons for return may include:
  1. Contracts not approved by DED (if applicable)
2. Adjustments to amounts previously drawn not reported correctly or in a timely fashion.

3. Administrative funds not requested proportionately to progress.

4. Budget amounts, amounts previously drawn, and/or total expenditures to date do not agree with the DED’s records.

5. Required match not documented prior to draw down of final grant funds, or a pro rata draw is not requested, if required.

6. Unauthorized signature on RFF.

7. Grantee has not provided monitoring requests such as copies of single audits, requests for federal expenditures, or cleared prior audit findings by the due date.

- The minimum amount that may be requested is $500. Recipients may not maintain a cash balance in excess of $1,000 for more than three days (“three day rule”). In order to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient, DED will inform grantees of draw dates for funds, in order for recipients to most accurately project cash needs, receive timely transfers from the DED and disburse funds. Contact DED with any questions concerning this process.

- Recipients should request funds to meet actual current cash requirements. Requests must be include accurate information. Disbursement of funds must occur in a timely manner. If payment takes longer than the three days (see “three day rule” above), written justification is to be maintained in the project files.

- In the case of requesting funds for a real estate closing, a preliminary draft of the Closing Disclosure form (formerly known as the HUD-1), prepared by the closing agent is to be submitted with the request for funds. The timing of the transfer of funds to the grantee is to be considered in relation to the date of the closing. The grantee is to expend funds within three days of the transfer. If the closing is postponed, please contact DED.

- Requisitions are limited to funds for exempt activities (e.g., planning, audit, administration, and engineering design) until the Environmental Review process is complete and a Notice of Removal of Grant Conditions has been issued. (See the Environmental Review Chapter.)

- All RFF forms should be numbered sequentially and maintained as part of the financial management file. Please initial any erasures or corrections made to the request.

- Two signatures are required on each RFF. Persons co-signing the RFF must be listed as authorized to sign on the Signature Form. Signatures must be signed exactly as they appeared in typed form on the Signature Form. Use of blue ink for signatures is very helpful for review of RFFs. We request that you use blue ink when possible to expedite verification of original signatures.

- Blank RFFs should not be pre-signed by city officials.

- Recipients should limit submissions to two RFFs per month. Internal procedures should be streamlined to ensure invoices and documentation are aggregated for the appropriate time period and submitted with the RFFs.

- Recipients are permitted to establish escrow accounts to facilitate payments to small contractors in a housing rehabilitation program only. Amounts held in the escrow account must not exceed the normal cash flow need of 10 days. The escrow account may be
interest bearing. The interest earned can be used to pay administrative costs; however, interest in excess of $100 earned in a calendar year must be returned to DED.

The DED may withhold payment of grant funds for one or more of the following reasons:

- Semiannual and/or annual reports are not received;
- Audit report or response to request to report other federal assistance are not received;
- Response to monitoring or other requests not received;
- Noncompliance with other grant agreement terms.

For public facility projects, the maximum allowable drawdown for administration funds is as follows:

- Actual incurred costs but no more than 25% of at time of removal of grant conditions.
- Actual incurred costs but Up to 50% upon approval of first contractor's payroll (for in-kind labor, this will be after first draw for materials)
- Actual incurred costs but Up to 75% upon 50% construction draw
- Actual incurred costs but no more than 90% prior to final paperwork – 10% of administration must remain until closeout
- Actual incurred costs up to 100% after completion of all final paperwork with possible exception of audit.

For neighborhood development projects, the maximum allowable drawdown for administration funds is as follows:

- Actual incurred costs but no more than 25% at time of removal of grant conditions.
- Actual incurred costs but up to 50% upon completion of three houses
- Actual incurred costs but no more than 90% prior to final paperwork – 10% of administration must remain until closeout

Actual incurred costs up to 100% after completion of all final paperwork with possible exception of audit.

4.9.5 Leverage Funds and Match (Non-Federal Share) for other Federal Awards

Leverage Funds are funds reflected in a Subrecipient’s application to DED and used to support the CDBG-DR/MIT Performance Statement scope of work. Funds can include subrecipient funding, FEMA, SBA, insurance, and/or charitable donations.

CDBG-DR Funding used as the non-federal share for federal grants that include a cost sharing requirement should be outlined. All projects funded in whole or in part through CDBG-DR/MIT funds must comply the federal, state, local, and program requirements which are most stringent of each applicable funding source requirements. Matching funds are generally subject to all CDBG-DR/MIT program requirements.

If CDBG-DR/MIT is to be used as the non-federal share for a FEMA grant, the subrecipient must document those federal funds in its application. When proposing to use as a non-federal share for
any other federal source, DED recommends contacting the CDBG-DR/MIT Grant Manager for additional requirements and limitations.

In general, the Subrecipients cash match obligation, including any loan money, should be expended proportionally to the amount committed for that line item of the grant agreement in order to ensure that their cash match will be met. Documentation showing the match expenditure must be submitted as backup documentation with the RFF when requesting the proportional amount of CDBG funding. At the same time or afterwards, other cash sources of funding can be used. In-kind match can be done concurrently throughout the life of a grant. Documentation of all funds used to pay for contracts and services included in the grant must be kept to comply with the grant agreement.

When a Subrecipient requests a project Grant Amendment, the cost-sharing ratio must remain the same as the original approved budget, as stated on the Funding Approval. DED may waive this requirement when an amendment is requesting an increase of CDBG funding.

4.9.6 Schedule of Projected Expenditures

Grant subrecipients are required to submit a Schedule of Projected Expenditures spreadsheet as part of the grant application process. This schedule outlines by quarter and by activity the estimated timeline for expenditures of the grant award, if selected for funding. If awarded funding, grantees are required to submit any updates to expenditure projections on a quarterly basis, or in any event where the original timeline for full expenditure will be revised to a future date.

4.9.7 Internal Audit

An Internal Audit function should be established to conduct audits as required to determine and report on the efficacy and effectiveness of the internal control systems related to the grants by activity, contract, contractor, and/or subrecipient as well as overall grant administration to provide reasonable assurance that the funds are being managed and deployed in compliance with all federal, DED, and local applicable laws and regulations. The internal audit function should also establish a systematic method to assure timely and appropriate resolution of audit findings and recommendations, if applicable.

4.9.8 Monitoring

Monitoring is the process that Awardees use to ensure that grant funds are used in accordance with Federal and DED regulations; Funds are protected from waste, fraud, and abuse; and program goals are achieved. All levels of the award must monitor the next downstream level. For example, Grantee monitors the Subrecipient, the Subrecipient monitors Contractors. Beneficiaries are not monitored unless they are conducting some or all of the work. If Beneficiaries are operating as a General Contractor for the project, then they must monitor the contractors they hire. Monitoring starts when the project agreement is signed and ends when the project is complete and closeout documentation has been submitted to DED. A risk assessment needs to be completed at the beginning of award to determine the level of monitoring that will be required. This is based on questions such as;
- Whether the entity being monitored has done federal awards before?
- Were they successful?
- Did they fully cooperate with previous monitoring?
- Do they have the proper level of staffing for the magnitude of the project?
- Have they implemented a new accounting system?
- Have they had turnover of management or key positions?

The risk assessment also includes a review of the financials and single audit (if applicable). Monitoring tasks include review of expenditures, phone and video check-in calls, and periodic site visits. A monitoring check list should be completed at each contact to document the monitoring process that has been conducted.

The completed monitoring checklists done by DED must be scanned and filed in the project file in the monitoring folder so they are available for review. Subrecipients and beneficiaries (if applicable) must keep their respective monitoring documentation with other project related files. Monitoring documentation follows the same record retention rules as other project related files. (See Monitoring Plan)

Contractors are monitored consistent with procurement standards to ensure DED Funds are protected from waste, fraud, and abuse; and program goals are achieved.

4.10 PROGRAM INCOME

For the purposes of administering grants, it is important to distinguish between two types of income: interest income and program income. **All bank accounts holding grant monies from the DED must be non-interest bearing.** However, if interest is earned on grant funds it is considered to be interest income, and must be returned to HUD. Contact DED if interest is earned. In general, program income is defined as those revenues received by the subrecipient that was generated from the use of CDBG-DR/MIT funds provided for grant-support activities, regardless of whether the activity has been closed out. For example, if a grant recipient has a housing rehabilitation or economic development loan program, the receipt of payment on the principal as well as any earned interest on the loan is considered to be program income. In addition to this form of program income, other specific forms of program income include:

- the proportional share of proceeds from the disposition of real property to the extent to which the property was purchased with grant monies (e.g., if DED monies were used to pay ninety percent of the acquisition cost of a parcel, ninety percent of the sale price of the property would be considered DED program income if the property was sold)
- the share of proceeds from special assessments levied to cover the cost of constructing a public work or facility proportional to the percent of grant monies used for construction
- the interest earned from the investment of program income
- the payments of principal and/or interest on loans made with grant monies.

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12 Found at 2 CFR 570.502, 2 CFR 570.610 and 2 CFR 85.36

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If the monies are considered program income, grantees must inform DED of the receipt of these funds and obtain DED approval concerning their use. **Program income must be identified clearly in the Subrecipient’s accounting system.** DED may, at its discretion, require subrecipients to return program income to the DED. When subrecipients do retain program income, they must disburse program income prior to requisitioning additional payments from DED to finance approved community development activities.

Two situations involving program income have special rules. For proceeds derived from the sale of real property acquired with DED grant funds, program income shall be used for community development activities within the general purposes of the Housing and Community Development Act of 1974. However, the subrecipient must obtain prior DED approval to use program income in this manner. For program income to be received after grant close-out, recipients must consult with DED. At its discretion, DED may require that such program income be returned to the DED, or allow it to be used by the subrecipient in other community development activities. A re-use plan for program income may be required to be submitted to DED prior to grant close-out. It may be necessary to undertake an environmental review for any new grant activities that are funded with program income.

**4.10.1 Steps**

1. Identify those activities that are likely to produce program income.
2. Review DED procedures regarding the use of program income.
3. Upon receipt of program income, record in the Subrecipient’s ledger indicating source, date and amount received.
4. Obtain DED approval for applying program income to any new or existing community development activity.
5. For program income derived from a revolving loan fund, request DED determination as to the disposition of program income at grant close-out.
6. After obtaining approval concerning allocation of program income to a DED-DR eligible activity, make the appropriate journal entry to your accounting records.

**4.11 RECORD RETENTION**

Subrecipients must retain records for extended periods, even though the activity may have been completed for some time. For all subrecipients, the provisions of 2 CFR 200.334 as modified by 24 CFR 570.502(a)(7)(ii) apply:

1. In general, you must retain records on CDBG-funded activities for the longest of the following:
   - Three years after the expiration or termination of the subrecipient agreement.
   - Three years after your grantee’s submission of the CAPER in which your specific activity is reported for the last time (24 CFR 570.502(a)(7)(ii)(A)).
2. You must retain records for individual activities subject to the reversion of assets provisions at 24 CFR 570.503(b)(7) for as long as this provision continues to apply to the activity (24 CFR 570.502(a)(7)(2)(B)).

3. You must retain records for individual activities for which there are outstanding loan balances, other receivables, or contingent liabilities until such receivables or liabilities have been satisfied (24 CFR 570.502(a)(7)(ii)(C)).

4. If any litigation, claim, audit, negotiation, or other action involving your records has started before the expiration of the 3-year period, your records must be retained until all findings involving your records have been resolved and final action is taken (2 CFR 200.334(a)).

The records retention requirement applies to "source documentation", which refers to any writing that activates a flow of funds. Source documentation comprises purchase orders, invoices, contracts, checks, budget transfer memoranda, and other transaction documentation. It also includes writings verifying compliance with nonfinancial aspects of program administration (i.e. inspection reports that confirm the fulfillment of applicable regulations). For example, for housing unit lead-based paint inspections, a findings report should be completed and filed. Original documents are preferred, but copies are acceptable as source documents.

These record retention requirements represent minimum standards and should not automatically become your maximums. It is often in best interest to build an extra margin into your systems, in recognition of the fact that there will always be some unexpected demand on the system or other problems that may arise.

### 4.11.1 ACCESS TO RECORDS

Representatives of HUD, the Inspector General, DED, and the General Accounting Office shall have access to all books, accounts, records, reports, files, and other papers, or property pertaining to the administration, receipt and use of DED funds and necessary to facilitate reviews and audits. The right of access is not limited to the required retention period but lasts as long as the records are retained.13

The Subrecipient must provide citizens with reasonable access to records regarding the past use of DED funds consistent with DED or local requirements concerning the privacy of personal records.

### 4.12 AUDIT REQUIREMENTS

A Subrecipient that expends $750,000 or more during their fiscal year in Federal awards must have a Single Audit conducted for that year. When a Subrecipient’s Federal awards expended are less than $750,000, the Subrecipient is exempt from Federal audit requirements for that year, but records must be available for review or audit by DED.14

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13 [https://www.law.cornell.edu/cfr/text/24/570.490](https://www.law.cornell.edu/cfr/text/24/570.490)
4.12.1 BASIS FOR DETERMINING FEDERAL AWARDS EXPENDED

The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. For accrual or modified accrual subrecipients, this will be when the expense has been incurred and recorded as an expense in the Subrecipient’s accounting system, not when the cash has been paid.

4.12.2 Report of Federal Expenditures (ROFA)

The Subrecipient is responsible for tracking Federal expenditures and are required to submit an Report of Federal Expenditures (or the ROFA form), stating the amount federal expenditures from all federal sources (not just DED awards), for each of the Subrecipient's fiscal years covered, in whole or in part, by the Grant Term. The ROFA must be completed and returned to the DED within 60 days after the Subrecipient’s fiscal year end. This requirement is due to the rule that makes it necessary for DED to determine if the subrecipient is required to conduct and submit a single audit.15

Subrecipients must complete the Report of Federal Expenditures completely and provide information related to the following:
- The Subrecipient’s fiscal year end date;
- Actual and estimated grant expenditures from all federal sources;
- Determination on whether or not the Subrecipient must complete a single audit;
- Contact information of the primary person responsible for arranging the audit; and
- Ensuring the form has been certified by a Subrecipient official.

4.12.3 SUBRECIPIENT RESPONSIBILITIES

Audits of Federal expenditures the Subrecipient must:
- Arrange for Audits to be performed as required by 2 CFR Part 200, Subpart F;
- Procure or otherwise arrange for the audit and ensure it is properly performed and submitted when due;
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA);
- Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan;
- Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit required by this part.16

4.12.4 AUDIT FINDINGS FOLLOW-UP

The Subrecipient is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the Subrecipient must prepare a summary schedule of prior audit findings. The Subrecipient must also prepare a corrective action plan for current year audit findings. The

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15 https://www.law.cornell.edu/cfr/text/2/200.513
16 https://www.law.cornell.edu/cfr/text/2/200.508
summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings. Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.17

4.12.5 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit’s schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected, or no longer valid or not warranting further action.

When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding’s recurrence and planned corrective action, and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the DED’s management decision, the summary schedule must provide an explanation.

When the Subrecipient believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

1. Two years have passed since the audit report in which the finding occurred was submitted to the FAC;
2. HUD or the DED is not currently following up with the Subrecipient on the audit finding; and
3. A management decision was not issued by the DED.

4.12.6 CORRECTIVE ACTION PLAN

At the completion of the audit, the Subrecipient must prepare, in a document separate from the auditor’s findings, a corrective action plan to address each audit finding included in the current year auditor’s reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.16

4.13 Personally Identifiable Information (PII)

PII is any information about an individual maintained by an agency, which can be used to distinguish, trace, or identify an individual’s identity, including personal information which is linked or linkable to an individual. Examples of PII include name, email, home address, and phone number.

17 https://www.law.cornell.edu/cfr/text/2/200.511
All PII will be property secured and / or redacted consistent with the CDBG PII Policy. (See Personally Identifiable Information Policy (PII))

4.14 Liquidated Damages

Liquidated damages are cash sanctions that DED may impose on a grantee for a failure to perform. Liquidated damages occur in two circumstances related to federal funding:

1. Failure to pay prevailing wages under Davis-Bacon regulations found at 40 USC 3141.
2. Failure to complete a project by the end of the period of performance in certain construction agreements.

4.14.1 Liquidated Damages-Davis Bacon

In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. If during a Davis-Bacon Review it is determined that an employee was underpaid, the subrecipient must pay liquidated damages to make them whole.

4.14.2 Liquidated Damages – Construction

In accordance with 48 CFR 211.503 in all construction contracts exceeding $750,000, except cost-plus-fixed-fee contracts or contracts where the contractor cannot control the pace of the work must include the following Liquidated Damages Clause:

"(a) If the Contractor fails to complete the work within the time specified in the contract, the Contractor shall pay liquidated damages to the Government in the amount of __________ [Contracting Officer insert amount] for each calendar day of delay until the work is completed or accepted.

(b) If the Government terminates the Contractor’s right to proceed, liquidated damages will continue to accrue until the work is completed. These liquidated damages are in addition to excess costs of repurchase under the Termination clause."

Use of the clause in contracts of $750,000 or less is optional.

4.15 Reporting

As part of the requirements for increased accountability and transparency in federally-funded programs, the US Department of Housing and Urban Development (HUD) requires grantees to identify and demonstrate the results of its programs. HUD’s movement to produce streamlined and measurable outcomes and objectives are one of the methods used to evaluate grant performance.
In this chapter we will address the three primary areas of reporting compliance for CDBG-DR programs. Examples of each report follow report descriptions.

- Quarterly reporting for all projects funded with supplemental CDBG-DR disaster appropriations (DI, DN, DT, DS, DP)
- Annual reporting for all CDBG-DR/MIT-funded Economic Development projects with proposed direct beneficiaries, such as job creation
- Close-out reporting for all CDBG-DR-funded projects with indirect beneficiaries
- Remediation Plans/Expenditure Projections – ensuring timely expenditure of funds and accomplishment reporting

### 4.15.1 CDBG-DR Disaster Supplemental Reporting

Quarterly reporting is mandated for all projects funded with CDBG-DR/MIT Disaster Supplemental funding (DI, DN, DT, DS, DP). Forms are generated with the appropriate performance measures information based on the project application and the final award of the project. This form is then emailed to grantees for update and submittal each quarter.

The performance measure assigned is based on the activity to be undertaken by the project. Most public facilities projects will use the # of persons benefiting from the activity as the unit of performance. Other projects may require a proposed and per-quarter accounting of the linear feet of public improvement, etc. The performance measure is assigned by HUD and DED, and tracked throughout the system by the “DRGR Activity #” listed on the CDBG-DR/MIT Grant Agreement/Funding Approval for the project. Quarterly Reports (QPRs) must address the following:

- Property addresses must be reported quarterly for all acquisitions and demolitions, and race/income data must be reported for all occupants or beneficiaries of direct housing activities
- A summary narrative must be submitted each quarter by each grantee, the content of which may be dictated by each individual field representative, in order to aid them in a thorough and timely review of all their area reports.
- Each QPR is a snapshot and should only contain data for the current quarter
- Information on beneficiaries is counted by household, not persons in the household

If the activity proposed will benefit persons directly (job creation, job training, housing), the race/ethnicity, income level and head of household information is required to be reported and tracked. Additionally, individual addresses must be submitted for all residential properties directly acquired or demolished with CDBG-DR/MIT disaster funds.

The final QPR done at closeout requires expanded reporting. (Please see Chapter 13 Closeouts.)