CITY OF ST. LOUIS

Community Development Administration

Non-Profit Capacity Building Workshop
CDBG Financial Management
June 30, 2015

AGENDA

Topic	Presenter
Welcome & Agenda Review	Brian Yochum
Overview & Objective	Brian Yochum
Financial Systems & Internal Controls	Brian Yochum
Accounting Records & Source Documentation	Jennifer Rice
Allowable Costs	Sharon Worth
Budget Controls, Cash Management & Reporting	Brian Yochum
Participant Exercises	Nancy Fesarillo-Weigand
Break	
CDA Grant Funds Disbursement Process	Lorna Alexander

Introduction to Financial Management Systems

Financial Management Systems

Financial Management for non-profit Subrecipients:

Required by HUD 2 CFR 200 - Subpart D

Financial Management Systems

Purpose

Ensure that a subrecipient receiving Federal funds has a financial management system sufficient to:

- Provide effective control over and accountability for all funds, property, and other assets.
- Identify the source and application of funds for Federally-sponsored activities.
- Permit the accurate, complete, and timely disclosure of financial results in accordance with the reporting requirements of the grantee or HUD.

Financial Management Systems

Purpose

Federal regulations provide specific requirements in connection with eight areas:

- Internal Controls
- Accounting Records
- Allowable Costs
- Source Documentation
- Budget Controls
- Cash Management
- Financial Reporting
- Audits

Internal Controls

Internal Controls

Internal Controls are:

A combination of procedures, specified job responsibilities, qualified personnel, and records that together create accountability in an organization's financial system and safeguard its cash, property, and other assets.

Internal Controls

Internal controls ensure:

- Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies.
- These resources are protected against waste, mismanagement, or loss.
- Reliable information on the source, amount, and the use of resources are secured, up-to-date, and recorded.

Internal Controls

Basic Elements to consider:

- Organizational Chart
- Written definition of the duties of key employees or positions
- A formal system of authorization and supervision, including a policy manual and written procedures for recording of transactions (an accounting manual and a chart of accounts).
- Separation of Duties – No one individual has authority over an entire financial transaction.
- Control over access to assets, blank forms, and confidential documents should be limited to authorized personnel only.
- Comparisons of financial records to actual assets and liabilities – reconciliations and periodic inventory

Accounting Records & Source Documentation

Recordkeeping Requirements

Recipients and subrecipients of CDBG funds are required to have accounting records that sufficiently identify the source and application of CDBG funds provided to them.

Organization's accounting system should include at least the following elements:

- Chart of accounts
- Cash receipts journal
- Cash disbursements journal
- Payroll journal
- General ledger

Source Documentation

Actual costs charged against CDBG were properly approved and supported by source documentation:

- Incurred during the contract period;
- Actually paid out;
- Eligible costs; and
- Approved by authorized signatories.

Source Documentation

Source documentation must explain:

- the basis of the costs incurred; and
- the actual dates the expenditures were incurred.

Source Documentation

Source documentation support for Activity:

When a fixed price for a unit of service (performance basis) is used as method of payment, HUD requires Pass-Through Entities such as CDA to ensure that agencies have adequate records to support eligible CDBG costs.

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

1. Personnel Costs

   Support documentations:

   - Personnel Schedule (submitted with your cost allocation plan)
   - Time Sheets that show the following information: name of employee; daily time in and out; daily total number of hours worked for CDBG; signature of employees; immediate supervisor's approval
   - Payroll registers
   - Proof of payment of payroll taxes, etc.
   - Invoices for fringe benefits (health insurance, vision, dental, life, pension,etc.)

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

2. Local Travel

   Support documentations:

   - Mileage report with the following information: beginning and ending odometer reading at a rate provided by the City of St. Louis; signature of employee; approved by agency's authorized signatory

3. Contract/Professional Services

   Support documentations:

   - Approval from CDA if a $1000 or more - procurement
   - Invoices/Billings

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

4. Supplies

Support documentations:

- Invoices/Billings
- Approval from CDA if a $1,000 or more (includes accumulated total per vendor) – procurement
- Purchase orders/requisitions

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

5. Equipment

   Support documentations:

   - ❖Approval from CDA if a $1,000 or more (includes accumulated total per vendor per year) – procurement
   - ❖Invoices
   - ❖Purchase orders/requisitions
   - ❖Must be included in the Inventory Report

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

6. Printing

   Support documentations:

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

7. Insurance

   Support documentations:

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

Source Documentation

Examples of CDBG Eligible Costs & required support documentations:

8. Telephone/Communications

   Support documentations:

   - ❖Billings (all pages)
   - ❖Long distance calls marked as "business or personal"
   - ❖ Cellphone – phone allowance rate per user authorization/approval from CDA (high end or low end user)

9. Facilities

   Support documentations:

   - ❖Lease agreement
   - ❖Invoices/billings

Source Documentation

Accurate, reliable & up-to-date accounting records are the keys to successful CDBG Financial management. Information such as:

- Amount of federal funds received
- Current Authorization of funds
- Obligations of funds
- Unobligated balances
- Assets and liabilities
- Program Income
- Actual expenditures

Allowable
& Unallowable Costs

Allowable & Unallowable Costs

Determining Allowable Costs:

- Recipients must ensure that costs charged to the CDBG grant are allowable
- Recipients should use 2 CFR Part 200 Subpart E to guide their determination of allowable costs
- Standards for determining allowability apply equally to all cost items and apply whether a cost is direct or indirect

Allowable & Unallowable Costs

Allowable Costs under CDBG, must:

- Be necessary and reasonable
- Be in accordance with Generally accepted Government Auditing Standards (GAGAS)
- Be consistent with policies, regulations and procedures
- Be net of all applicable credits
- Be treated consistently (with non-CDBG costs)
- Be allocable according to CDBG Contract
- Conform to limitations or exclusions (laws, terms, conditions of award, etc.)
- Be authorized or not prohibited under state/local laws and regulations
- Be adequately documented

Allowable & Unallowable Costs

In order to be allowable,
costs must be **necessary** and **reasonable**
to carry out the objectives of the grant.

Reasonable and Necessary
"The Prudent Person Rule"

Reasonable Costs – *A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.*

Allowable & Unallowable Costs

Subfactors Used to Determine Reasonableness

The determination of whether a cost is reasonable requires the application of the following sub-criteria:

- The cost generally would be recognized as ordinary and necessary for the performance of the federal award.
- The cost conforms to:
  - Sound business practices,
  - Arm's length bargaining,
  - Laws and regulations, and
  - Terms and conditions of the federal award.
- The cost was incurred using the organization's established practices.

Allowable & Unallowable Costs

~~~Important~~~

The policies and regulations do not expect recipients to suffer the use of poor quality equipment or beg for supplies on the street corner. These simply require the wise use of federal funds. The delivery of grant services should always be paramount but within the constraints of the cost principles.

Allowable & Unallowable Costs

Examples Allowable and Unallowable Costs

Allowable Costs:

- Advertising (i.e. recruitment of personnel, procurement of goods and services)
- Bonding Costs
- Communications (i.e. costs of telephone, mail)
- Employee morale, health and welfare costs
- Equipment and capital expenditures
- Publication and printing costs
- Cost to establish and maintain accounting and other information
- Compensation of employees
- Legal expenses required to administer federal program
- Disbursing service
- Taxes which are user fees for benefits to federal government (i.e. gasoline taxes, motor vehicles fees)
- Rental costs

Allowable & Unallowable Costs

Examples Allowable and Unallowable Costs
Unallowable Costs:

- Alcoholic Beverages
- Contributions and donations
- Entertainment Costs
- Goods and services for personal use
- Fundraising
- Losses on other awards
- Bad Debts
- Contribution to contingency reserve for events which cannot be predicted
- Legal Expenses for prosecution of claims against the Federal Government
- Fines and penalties
- Lobbying
- Sales Taxes

Budget Controls

- Subrecipients must have procedures in place to monitor obligations and expenditures against their approved budget for CDBG-funded activities.

- Since the budget reflects the subrecipient's best estimate of the resources necessary to accomplish the CDBG project scope of services, any pattern of line item overruns should prompt a careful re-assessment of whether the available resources will still be sufficient to achieve the agreed-upon objectives.

Cash Management

Two general methods available to transfer CDBG funds to subrecipients:

The reimbursement method and the per unit method.

- The reimbursement method entails a transfer of CDBG funds to the subrecipient based on actual expenditures.
- A fixed price for a unit of service is a performance-based payment method.
- Subrecipients must include accurate information in its drawdown requests. (The reimbursement method must submit actual invoices. The per unit method must submit activity information from the programmatic reports).

Financial Reporting

- Financial reports prepared by a subrecipient must be accurate, timely, current, and represent a complete disclosure of the financial activity and status in each Federal grant program under which assistance is received.
- The "Monthly Financial Report" is due the 10th calendar day of the month following the reporting period. Failure by the Operating Agency to comply with these reporting requirements in a timely manner shall result in sanctions being imposed upon the Operating Agency.

Participant Exercises

Question #1

Which of the following are components of an organization's system of *internal controls* for financial management?

a) Written procedures and policies.
b) Specified job responsibilities.
c) Job qualifications.
d) Accounting records.
e) All of the above.

Answer

(e) All of the above

Question #2

The sole purpose of *accounting records* is to provide reliable and up-to-date information on the cash controlled by an organization or agency.

TRUE or FALSE

Answer

FALSE

The purpose of accounting records is to provide information *not only on cash* but also on *all the assets and liabilities* of an organization, including property, receivables, payables, and other obligations.

Question #3

An expenditure by a subrecipient will be considered an *allowable* CDBG expense if it is necessary to carry out an approved activity and is not explicitly prohibited by Federal, state, or local regulations.

TRUE or FALSE

Answer

FALSE

The fact that an expenditure is both necessary and not explicitly prohibited by law and program regulations *is only part of the criteria* that must be met for it *to be considered an allowable CDBG expense.* In addition, the expenditure must:

- **Have been authorized by the grantee (through an approved budget or other mechanism).**
- **Be reasonable.**
- **Have been treated by the subrecipient in a manner consistent with its normal procedures for computing costs.**
- **Be allocable to an approved-CDBG cost objective.**
- **Be net of all applicable credits.**

Question #4

An effective system of *budget controls* requires a periodic comparison of actual obligations and expenditures to planned obligations and expenditures, and to projected accomplishments for such outlays.

TRUE or FALSE

Answer

TRUE

Question #5

Taxes which are in effect user fees that benefit Federal Government Programs are allowable charges against Federal Awards.

TRUE or FALSE

Answer

TRUE

Question #6

The costs associated with e-mail and telephone is unallowable.

TRUE or FALSE

Answer

FALSE

Reasonableness, necessity and tracking business use are key.

CDA GRANT FUNDS DISBURSEMENT PROCESS

CDA GRANT FUNDS DISBURSEMENT PROCESS

ACTIVITY TYPES

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

CDA GRANT FUNDS DISBURSEMENT PROCESS

ADMINISTRATION AND PLANNING ACTIVITIES – DIRECT BILLING FROM INVOICES

- AGENCIES WILL BE REQUIRED TO SUBMIT COPIES OF INVOICES TO CDA, INCLUDING PAYROLL REGISTERS AND TIMESHEETS IF PERSONNEL COSTS ARE TO BE CHARGED
- ANY PAYMENT REQUESTS TO ONE VENDOR OR SERVICE PROVIDER OVER $1,000 MUST HAVE CDA'S PRIOR APPROVAL

CDA GRANT FUNDS DISBURSEMENT PROCESS

CONSTRUCTION ACTIVITIES -

BASED ON PERCENT COMPLETE WITH REQUIRED COMPLIANCE DOCUMENTATION IN REGARDS TO -

- LABOR STANDARDS
- SECTION 3
- PROGRAMMATIC REPORTS
- MBE/WBE PARTICIPATION

CDA GRANT FUNDS DISBURSEMENT PROCESS

CITYWIDE HOME REPAIR ACTIVITIES –

- ADMINISTRATION – DIRECT BILLING, INCLUDING PAYROLL REGISTERS AND TIMESHEETS

- HOUSING UNIT COMPLETION DOCUMENTATION
  - SCOPE OF WORK
  - SIGNED CONTRACT BETWEEN HOMEOWNER AND CONTRACTOR
  - DEED OF TRUST (IF APPLICABLE)
  - PROMISSORY NOTE
  - RIGHT OF RESCISSION
  - PAYOUT ORDER
  - INVOICE FROM CONTRACTOR
  - CERTIFICATE OF FINAL INSPECTION

CDA GRANT FUNDS DISBURSEMENT PROCESS

MINOR HOME REPAIR ACTIVITIES

- HOUSING UNIT COMPLETION DOCUMENTATION
  - PROOF OF OWNERSHIP
  - PROOF OF AGE (62 AND OLDER) OR DISABILITY
  - REPAIRS COMPLETED

- PRE-DETERMINED, NEGOTIATED AMOUNT – (CURRENTLY $200 PER UNIT OF SERVICE)
  - CLEANING GUTTERS
  - MINOR PLUMBING (LEAKING FAUCETS)
  - MINOR ELECTRICAL (REPLACING OUTLETS)
  - MINOR CARPENTRY (STAIR BOARDS/RAILINGS)

CDA GRANT FUNDS DISBURSEMENT PROCESS

ECONOMIC DEVELOPMENT ACTIVITIES –

VARIES, DEPENDENT UPON APPROVED PROGRAM ACTIVITY

- BUSINESS DEVELOPMENT LOANS – PRIOR CDA APPROVAL, LOAN CLOSING DOCUMENTATION REQUIRED
- COMMERCIAL DISTRICT IMPROVEMENTS – PRIOR CDA APPROVAL, CONSTRUCTION COMPLETION
- TECHNICAL ASSISTANCE – PERFORMANCE BASED PAYMENTS

CDA GRANT FUNDS DISBURSEMENT PROCESS

PUBLIC SERVICES –

PERFORMANCE BASED PAYMENTS

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

CDA GRANT FUNDS DISBURSEMENT PROCESS

UNITS OF SERVICE EXAMPLES

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

CDA GRANT FUNDS DISBURSEMENT PROCESS

PER UNIT FACTORS ("PU FACTORS")

CONSIDERED WHEN ARRIVING AT A PER UNIT COST

- Measure of Outcome - Persons/Household/Units of Housing
- Service Units – Meals/Days of Attendance/Days Receiving Transport/Events
- Life Span of Contract
- Frequency of Reimbursements
- Amount of Request/Award
- Cost Allocation Support

CDA GRANT FUNDS DISBURSEMENT PROCESS

THE PER UNIT FORMULA

REQUEST/AWARD ÷ PU FACTOR = PER UNIT COST

REQUEST/AWARD ÷ (PUF1 x PUF2) = PER UNIT COST

REQUEST/AWARD PUF1 x PUF2) x PUF3 = PER UNIT COST

MULTIPLY ALL APPLICABLE "PU FACTORS" TO GET A PUF TOTAL

DIVIDE THE AMOUNT OF THE REQUEST/GRANT BY THE TOTAL.

CDA GRANT FUNDS DISBURSEMENT PROCESS

EXAMPLE

- Senior Services requesting funding to expand their “Meals on Wheels” Program
- With increased funding they can serve an additional **100** clients
- Clients receive **two** meals per week for **50** weeks
- Amount of Request/Award - **$25,000**

100 x (2 x 50) = 10,000 Meals

25,000 ÷ 10,000 = $2.50 Per Meal or Per Unit Cost

CDA GRANT FUNDS DISBURSEMENT PROCESS

EXAMPLE:

- **Capital Hill Community Services is requesting $75,000 to implement a neighborhood beautification program.**
- **Capital Hill will create an outreach plan to include neighborhood residents and community organizations.**
- **The program will target vacant lots and complete 3 distinct beautification projects.**

$75,000 ÷ 3 = $25,000 Per Unit Cost for Each Completed Beautification Project

OR

$60,000 ÷ 3 = $20,000 Per Unit Cost for Each Completed Beautification Project

$15,000 ÷ 12 = $1,250 Per Unit Cost For Each Month of Community Outreach

CDA GRANT FUNDS DISBURSEMENT PROCESS

- PAYMENT REQUESTS FOR UNITS OF SERVICE MUST BE SUPPORTED BY INFORMATION PROVIDED ON YOUR MONTHLY PROGRAMMATIC REPORTS

- IF YOUR PROGRAMMATIC REPORT INDICATES YOU SERVED 50 MEALS AND YOU REQUEST REIMBURSEMENT FOR 100 MEALS, YOUR PROGRAM MONITOR WILL ONLY APPROVE PAYMENT FOR 50 MEALS

CDA GRANT FUNDS DISBURSEMENT PROCESS

CDA GRANTEES WILL BE REQUIRED TO DOCUMENT THEIR PROPOSED ELIGIBLE CDBG EXPENSES AND COSTS ON A COST ALLOCATION PLAN

CDA GRANT FUNDS DISBURSEMENT PROCESS

COST ALLOCATION PLAN

- WHAT IS IT?
- WHAT IS ITS RELEVANCE TO MY CDA GRANT?
- SAMPLE COST ALLOCATION PLANS
- WHERE YOU CAN FIND ELECTRONIC VERSION

CDA GRANT FUNDS DISBURSEMENT PROCESS

A COST ALLOCATION PLAN IS

- The **TOTAL COST OF AN AWARD** OR the sum of the allowable direct and allocable indirect costs, less any applicable credits.

- **DIRECT COSTS** are those that can be identified specifically with a particular final cost objective.

- **INDIRECT COSTS** are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

CDA GRANT FUNDS DISBURSEMENT PROCESS

COST ALLOCATION PLAN RELEVANCE TO YOUR CDA GRANT

- Grantees must complete and submit a cost allocation plan to CDA for each CDBG activity award.
- CDA must approve the cost allocation plan prior to the disbursement of any grant funds.

CDA GRANT FUNDS DISBURSEMENT PROCESS

GROUP EXERCISE –

REVIEW TWO SAMPLE COST ALLOCATION PLANS

CDA GRANT FUNDS DISBURSEMENT PROCESS

COST ALLOCATION PLAN

- An electronic copy of the cost allocation plan narrative, including personnel schedules and budget pages with formulas to assist in your calculations, may be found on the City of St. Louis website by following the path below:

  - CITY OF ST. LOUIS
  - DEPARTMENTS AND AGENCIES
  - COMMUNITY DEVELOPMENT ADMINISTRATION
  - INFORMATION AND RESOURCES FOR SUBRECIPIENTS
  - FISCAL SECTION FORMS
  - COST ALLOCATION PLAN PROGRAM YEAR 2015