

Chapter 4 - Financial Management, Cash Management, Program Income, and Audits

FINANCIAL MANAGEMENT

Basic Federal Requirement

The state must have fiscal and administrative requirements for expending and accounting for all Community Development Block Grant Funds as required by 24 CFR part 570.489(d). The requirements must ensure that funds:

- Are used in compliance with all applicable statutory and regulatory provisions;
- Are only spent for reasonable and necessary costs; and
- Are not used for general expenses required to carry out other responsibilities of state and local governments.
- All costs must be eligible, allowable, allocable and authorized (in accordance with the 2 CFR Part 200 Subpart E (previously known under OMB Circular A 87, "Cost Principles for State, Local, and Indian Tribal Governments")

IMPORTANT - The appropriate environmental review and clearance must be completed before funds are obligated or expenses are incurred for any project activity cost, whether paid for with CDBG or non-CDBG funds.

Fiscal and Administrative Requirements

Grant funds are revenues that the recipient must budget and account for in its financial management system. Recipients must comply with state Local Budget Law contained in Oregon Revised Statutes (ORS) Chapter 294 and other applicable state laws for county and municipal administration.

Community Development Block Grant recipients must have a financial management system that provides accurate, current and complete records that comply with state and federal program requirements.

2 CFR part 200

Effective December 26, 2014, the Office of Management and Budget (OMB) published (at <https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards>) final guidance on the above subject, which is codified at 2 CFR part 200. OMB and the Federal award making agencies published a joint interim final rule implementing the final guidance as requirements for recipients of

Federal financial assistance on December 19, 2014 (at <https://www.federalregister.gov/articles/2014/12/19/2014-28697/federal-awarding-agency-regulatory-implementation-of-office-of-management-and-budgets-uniform>). OMB also made technical corrections to part 200.

The purpose of 2 CFR part 200 is to streamline the Federal government's guidance on administrative requirements, cost principles, and audit requirements to more effectively focus Federal resources on improving performance and outcomes, while ensuring the financial integrity of taxpayer dollars in partnership with non-Federal stakeholders. The uniform guidance supersedes, consolidates, and streamlines requirements from eight OMB

Circulars:

- A-21 - Cost Principles for Educational Institution.
- A-87 - Cost Principles for State, Local and Indian Tribal Government.
- A-89 - Catalog of Federal Domestic Assistance
- A-102 - Grants and Cooperative Agreements With State and Local Governments
- A-110 - Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
- A-122 - Cost Principles for Non-Profit Organizations
- A-133 - Audits of States, Local Governments, and Non-Profit Organization, and
- The guidance in OMB Circular A-50, Audit Follow up, on Single Audit Act follow-up.

HUD adopted this guidance at a new part, 2 CFR part 2400. The uniform guidance also removed: 2 CFR parts 215, 220, 225, and 230. HUD amended 24 CFR parts 84 and 85, which had codified OMB Circulars superseded by 2 CFR part 200, by removing all substantive provisions and including a saving provision that provides that Federal awards made prior

to December 26, 2014, will continue to be governed by parts 84 or 85 as codified in the 2013 edition of the Code of Federal Regulations (CFR) or as provided under the terms of the Federal award.

Subpart E – Cost Principles

Other applicable requirements are found in 2 CFR 200 Subpart E, This establishes principles and standards for such subjects as cost allowability, reasonableness, and direct and indirect costs.

To be *allowable* under Federal awards, costs must:

- a. Be necessary and reasonable to carry out the federally funded project.
- b. Be allocable to the Federal program, thereto under these principles.
- c. Be authorized (or not prohibited) under state or local laws or rules.
- d. Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items
- e. Be treated consistent with policies and rules applicable to Federal awards and other activities of state and local government.
- f. Be treated consistently (for example, not assigned as a direct cost under this grant but identified as an indirect costs under normal situations.)
- g. Be determined in accordance with generally accepted accounting principles (GAAP).
- h. Be net of applicable credits
- i. Be adequately documented.

The following examples are a few of the *ineligible* costs:

- a. Alcoholic beverages.

- b. Bad debts.
- c. Using Federal funds to create contingency provisions/reserves.
- d. Defense of civil or criminal fraud charges.
- e. Entertainment, which includes associated travel, meals, lodging, rentals, gratuities, and even providing coffee at meetings.
- f. Fund raising to obtain capital or contributions.
- g. Goods or services for personal use.
- h. Lobbying.
- i. Selling or marketing products or services (for economic development projects funded with CDBG, the marketing of the product must be funded by the business or organization, not by CDBG).

Grant recipients may sub-grant funds to an eligible non-profit sub recipient to carryout microenterprise, economic development revolving loan fund, housing rehabilitation and housing resource center projects. These non-profits are subject to the requirements of 2 CFR 200 subpart E

Subpart F – Single Audit requirements

All CDBG recipients and subrecipients that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with § 200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section.

<https://www.gpo.gov/fdsys/granule/CFR-2014-title2-voll/CFR-2014-title2-voll-sec200-501>

Pass Through Funds

Recipients cannot pass Community Development Block Grant funds to other entities to carry out any project activities such as property acquisition or construction. Recipients may contract with another entity for administration services but the grant funds must still be handled by the recipient.

Accounting Records

It is very important that the recipient's financial system accounts separately for grant funds, program income, and local contributions on a line item basis. The system should conform to Generally Accepted Accounting Principals (GAAP) for state and municipal corporations established by the National Committee on Governmental Accounting in a publication entitled *Governmental Accounting, Auditing and Financial Reporting* (GAAFR). More information is available from the Government Finance Officers Association at www.gfoa.org or the Governmental Accounting Standards Board at www.gasb.org.

Budget Controls

The approved grant budget, contained in the grant contract, identifies the activities determined to be eligible for reimbursement by grant funds. In general, grant funds cannot be used for pre-agreement costs that are incurred before the grant contract is signed. The recipient's financial system must have procedures in place to monitor obligations and expenditures against the approved budget in the grant contract. The system must:

- Maintain the amounts budgeted for eligible activities in its accounting records;
- Include both obligations/expenditures and unexpected/unobligated balances for each line item; and
- Periodically compare actual obligations and expenditures-to-date against planned obligations and expenditures and against projected accomplishments for the grant project.

Grant Contract Amendments

Recipients must obtain an amendment to the approved grant contract if: (1) the scope of work/project changes; (2) the amount of any line item in the budget must be revised; or (3) the project cannot be completed by the contract termination date contained in the contract. If an amendment is necessary, contact your Regional Coordinator.

In rare cases, the project costs may exceed the available amount of grant funds and other resources for a project. Notify your Regional Coordinator immediately of any potential budget shortfalls. The state will not increase the amount but may extend the project termination date to allow more time to secure additional funds or may allow the project to be withdrawn so a new application can be submitted.

Financial Reporting

The recipient's financial system must generate regular reports that permit an observer to compare actual expenditures against the state's approved budget.

Internal Controls

Internal controls are a combination of procedures, specified job responsibilities, qualified personnel, and records which create accountability in the Recipient's financial management system and safeguard its cash, property, and assets. The internal controls must protect the integrity of the grant funds. At a minimum, the system should provide for adequate separation of duties so that no one person has authority over an entire financial transaction. One person should not have control of more than one of the following:

- Authorization to execute a transaction
- Recording the transaction
- Custody of the assets involved in the transaction

Recipients should consult with their auditor/accountant to be sure that adequate internal control procedures are in place for the grant project. Very small cities with only one employee can provide internal control by requiring approval of project expenditures by City Councilors or other designated elected officials.

Allowable Costs

A cost is allowable under the Community Development Block Grant program only if it is:

- Necessary, reasonable, and directly related to a line item in the state approved project budget;
- Authorized by the recipient;
- Not a prohibited use or otherwise ineligible, under federal, state, or local laws or regulations;
- Consistently treated with other expenditures;

- The cost is net of all applicable credits; and
- The cost is adequately documented.

Generally, issues about eligible costs are resolved before a grant is awarded. The project budget in the grant contract identifies approved activities on a line item basis. Any questions about eligible costs during the project should be discussed with a Regional Coordinator from OBDD before the expense is incurred or approved by the recipient.

The state uses the federal 2 CFR Part 225 (OMB Circular A 87), “Cost Principals for State, Local, and Indian Tribal Governments” as its guide for determining eligible and ineligible costs for the Community Development Block Grant program. See https://www.whitehouse.gov/omb/circulars/a087_2004 for detailed information.

NOTE: Indirect costs are not allowed, even with a federally approved cost allocation plan.

Basic Eligible and Ineligible Cost Summary

This section identifies the most common activities on CDBG funded projects. Contact the Department’s Regional Coordinator if the project includes activities not identified below for a determination of eligibility under the CDBG program, before costs are incurred for that activity.

Activity Delivery Costs - Activity delivery costs are expenses directly related to carrying out eligible activities such as property acquisition. These costs are not considered to be CDBG grant/project administration expenses. Professional appraiser’s fees and attorney charges

necessary to complete the acquisition of property are eligible as part of the acquisition activity cost. **Exhibit 4A** contains a table showing most activity delivery costs.

Audit Cost - Community Development Block Grant (CDBG) funds can pay for Subpart F (A-133) audit costs in proportion to the federal CDBG funds received by the city or county. The eligible share of the A-133 audit cost cannot exceed the ratio of these federal grant funds received to the recipient’s total annual expenditures and incurred obligations – times – the cost of the audit. For example:

| | |
|---|-------------|
| CDBG receipts | \$100,000 |
| Total Expenditures & Incurred Obligations | \$1,000,000 |

Ratio:

(CDBG Receipts)/(Total Expenditures & Incurred Obligations)

| | |
|-----------------------------|---------|
| (\$100,000)/(\$1,000,000) = | 0.1 |
| Total Cost of A-133 Audit | \$5,000 |

Eligible CDBG reimbursable portion of the audit cost

| | |
|------------------------------|-------|
| (Total Audit Cost) x (Ratio) | |
| (\$5,000) x (0.1) = | \$500 |

Equipment - Grant funds may be used to buy equipment for grant/project administration purposes. Examples include computers, file cabinets and other office equipment. These expenses are included in the maximum amount allowed for grant/project administration.

Entertainment/Refreshments – The cost of food, beverages, snacks and any related

expenses for utensils etc, are not eligible for reimbursement under the program.

**Grant (Project) Administration/
Environmental Review/ Labor Standard
Compliance/Program Management Services**

- For all categories that allow grant administration as an eligible activity, up to *10 percent of the grant award*, but not more than \$25,000, may be used to pay for grant/project administration costs, including overall project management, coordination, monitoring, and evaluation. Recipients may use some of the grant/project administration allowance to conduct activities to further Fair Housing in their communities. Grant administration is not an eligible activity under the Microenterprise Assistance category.

In addition to the grant administration allowance the following limitations apply:

- **Federal Labor Standards Compliance** - Up to a maximum of \$15,000 per project is allowed if needed. Any amount of funds in excess of the \$15,000 must be paid for with local or non-CDBG funds. The cost associated with Bureau of Labor and Industry labor standards compliance must be paid for with local or non-CDBG funds.
- **Environmental Review** – Up to a maximum of \$15,000 per project is allowed to prepare and complete a full environmental review record including any associated wetlands delineations, 8-step floodplain/wetlands processes, biological assessments, pedestrian survey's, SHPO/THPO communication etc. to meet all the requirements of the most current Grant Management Handbook and approved by

OBDD-IFA, if needed. The complete record must be ready for public comment. Any amount of funds in excess of the \$15,000 must be paid for with local or non-CDBG funds.

- **Legal Fees** - There is no maximum limit on costs associated with attorney fees.
- **Audit** – See Page 4-1 for details.
- **Property Appraisal Fees** – There is no maximum limit on costs associated with property appraisal fees related to property acquisition.
- **Limited English Proficiency (LEP) Translation Services** – Up to a maximum of \$3,000 per project is allowed to translate documents into other language(s), to meet the LEP requirements. The documents which are translated must be directly needed for the successful completion of the CDBG funded project, such as procurement notices, CDBG public meeting notices, etc.
- **Cultural Resource Monitoring** – Cultural resource monitoring required by Tribes in the completion of the environmental review record and during construction is an allowable expense. There is no maximum limit on the cost associated with cultural resource monitoring to satisfy Tribal compliance.
- **Funding Application Preparation** – Up to a maximum of \$7,500 per project is allowed under the Public Works Type 1, Public Water and Sewer System category to prepare funding applications to the department or other state and federal agency(s) for the next phase of the project. This does not

apply to Type 2 Downtown Revitalization or Type 3 Publicly Owned Off-Site Infrastructure.

- **Program Management Services** (Only applies to housing rehabilitation projects.) – Up to 20 percent of the grant award may be used for the combined costs associated with grant administration and program management. Of this amount no more than \$15,000 may be used for grant administration costs. Program management costs are expenses directly related to carrying out eligible program activities such as working with low and moderate income eligible clients. These costs are not considered to be grant/project administration costs because they provide

a direct service to clients eligible under the low and moderate income national objective.

In 2013 recipients that are subject to the 20 percent cap on grant administration and program management, will be allowed an additional \$10,000 on top of the 20 percent cap for grant administration and program management, allowing a maximum of \$25,000 for grant administration expenses.

The table below summarizes the eligible grant administration, environmental review, labor standards compliance review, attorney fees, appraisal costs, program management costs and other costs.

| ACTIVITY | ALLOWANCE |
|---|---|
| Grant Administration (does not apply to microenterprise assistance projects) | 10% up to a maximum of \$25,000 |
| Federal Labor Standards Compliance | Up to a maximum of \$15,000 per project |
| Environmental Review | Up to a maximum of \$15,000 per project |
| Legal Fees | There is no maximum limit |
| Audit Costs | Refer to Page 5-1 for details |
| Limited English Proficiency Translation Services | Up to a maximum of \$3,000 per project |
| Cultural Resource Monitoring | There is no maximum limit |
| Funding Application Preparation (Public Works Water and Sewer only) | Up to a maximum of \$7,500 per project |
| Property Appraisal Fees | There is no maximum limit |
| Construction Contingency | Capped at 10% of the estimated construction cost |
| Architectural | 12 percent of project construction and construction contingency costs combined |
| Engineering | 20 percent of project construction and construction contingency costs combined |
| Program Management (Only applies to housing rehabilitation projects) | Up to 20% of the requested grant, plus \$10,000. This includes the \$25,000 allowance for grant administration. |
| <p>Under rare circumstances, for projects involving biological assessments, archeological surveys or other required environmental studies, the department may allow the recipient to use a portion of the grant administration allowance to complete these activities. The costs must be required and reasonable, approved by OBDD-IFA and are limited by the amount of funds available in the recipient's grant award.</p> | |

Indirect Costs - Indirect costs are not allowed under the state program.

Ineligible Activities - CDBG funds cannot be used for any debt financing or takeout, fines, fees or penalties. System development charges, hook-up fees, and connection charges are also not eligible for reimbursement under the federal regulations for the CDBG program. Bureau of Labor and Industry (BOLI) fees are ineligible under the program.

Limitations on Architectural and Engineering Costs - The department will not approve without explanation grant awards that include budgets that contain more than the following percentages for architectural and engineering work regardless of whether the item is paid for with grant funds or other funding resources:

- **Architectural** – 12 percent of project construction and construction contingency costs; and
- **Engineering** – 20 percent of project construction and construction contingency costs.

Proposed amounts in excess of the above percentages are generally not allowed and must be fully explained in the application. Approval to exceed the percentages can be granted on a case by case basis by OBDD-IFA. The work included in these percentages generally includes: project design, surveying, preparation of bid and contract documents, review of bids, project/ construction oversight, preparation of as-built drawings and operation and maintenance plans. Professional services contracted out by the engineering/ architectural firm for

geotechnical evaluation, surveying, core samples, exploratory well drilling or other extra services are not generally included in the above stated limit for engineering and architectural costs. For further assistance contact the department's staff.

Preliminary engineering/planning documents, final design engineering documents and construction oversight in projects funded in full or in part with CDBG funds must be prepared and stamped or conducted by a registered professional engineer or architect licensed to do work within the State of Oregon.

Limits on Construction Contingencies - Construction contingencies are limited to a maximum of 10 percent of the projected construction line item cost.

Encumbrance - It is Oregon's policy to not allow any encumbrance on a CDBG program assisted property during the project period and the five year continued use period.

Grant / Project Administration and Activity Delivery Costs

The costs of activities that are common to the administration of all Community Development Block Grant projects are paid from grant/project administration funds and identified in the grant administration line item of the budget. Expenses that are directly related to carrying out eligible activities such as property acquisition are considered "activity delivery" costs. The chart in **Exhibit 4A** shows the typical administration and activity delivery costs.

Required Source Documentation

All accounting records must be supported by source documentation (e.g., invoices, time sheets, billings from consulting professionals, construction pay estimates, etc.). Cash requests submitted to the department for payment must include copies of all source documentation that supports the amount of grant funds being requested. The same kind of documentation must be included with cash requests to document expenditure of any matching funds. Recipients should never make a payment without approved invoices or other documentation physically in hand.

Note: *No cash requests will be approved without appropriate documentation.*

At a minimum, invoices need to include the following:

- Invoice numbers;
- Dates of service for activity/item being billed for under the invoice;
- Identification of the date(s) and hour(s) spent providing each service being billed for under the invoice;
- Identification of the specific task/activity/item being billed for; and,
- Identification of the specific grant administration/program management activities performed (if applicable).

Continued Use Requirement

Any change in use of a facility or disposition of property acquired or improved in whole or in part with CDBG funds from five-years after closeout of the grant project must be made in accordance with the standards provided in 24 CFR 570.489(j). If the facility or real property cannot meet a national objective during the

five-year continued use period the grant must be re-paid to the state. More specifically:

- All projects which have improved or acquired real property within the grant recipients direct control (including activities undertaken by sub recipients) which was improved or acquired in whole or in part with CDBG funds in excess of \$100,000 must comply with the continued use requirements of 24 CFR subpart I, Section 570.489(j).
- The grant recipient may not change the use or planned use of any such property (including the beneficiaries of such use) from that which the acquisition or improvement was made, unless they follow the requirements listed in Section 570.489(j).
- **Direct Control** - Projects under the direct control of the grant recipient (publicly owned improvements) or eligible sub recipient (nonprofit) must ensure the CDBG funded improvements remain in compliance with the federal national objective for which they originally qualified for funding.
- **Trust Deed** - In cases where the recipient is not and will not be the owner of the real property or facility being improved with CDBG funds, the recipient shall cause the owner of such real property or facility to duly execute and record a trust deed against the real property in favor of the recipient. Said trust deed shall be in form and substance satisfactory to the State.
- **Not Under the Direct Control** - Projects not under the direct control of the grant recipient or eligible sub recipient (loans/grants made to private for profit entities or private property owners for housing rehabilitation) do not have to comply with the continued use

requirement. However, these projects must still meet the national objective requirements until the grant is closed out with the state.

The State has prescribed language that must be included in any contract which transfers the property from the recipient to another party. Please contact your Regional Coordinator for this language.

Local Financial Management Rules

Local records must include: a property description; acquisition date and cost; title holder; location; use and condition of the property; and disposition information, if applicable. State staff will use the **Management of Real Property** section of the checklist in this handbook (**Exhibit 10A**) to monitor the recipient for compliance with the requirements for continued use of real property.

The top nine financial management rules to apply are:

- 1) Provide adequate, current and complete disclosure of the financial result (regular financial reporting) of all financially assisted activities.
- 2) Document that funds have been only used for eligible/allowed purposes.
- 3) Maintain accounting records that show sources and uses of funds, displaying funds authorized, obligated and un-obligated balances, assets, liabilities, outlays or expenditures and income.
- 4) Establish effective internal controls over all transactions.

- 5) Track actual project costs against project budget in a manner that relates to project productivity and accomplishments.
- 6) Use the federal 2 CFR Part 225 (OMB Circular A-87).
- 7) Maintain source documentation for accounting records.
- 8) Implement procedures that permit timely disbursement of funds and complete and accurate reporting.
- 9) Comply with 2 CFR Part 200 Subpart F (OMB Circular A-133) on audits.

CASH MANAGEMENT

Basic Federal Requirement

Units of general local government shall use procedures to minimize the time elapsing between the transfer of grant funds by the state and disbursement by the local government. Interest earned by unit of general local government on grant funds before disbursement of the funds for activities, is not program income and must be returned to the United States Treasury if the amount is greater than \$100 per year. Amounts of \$100 per year or less can be retained for administrative expenses as allowed by 24 CFR Part 570.489(c).

Cash Requests and Progress Report

Cash request forms are provided by the department. The form consists of two pages: (1) the cash request showing the project budget, current fund status, matching funds expended and amount of request for CDBG funds, and (2) the Progress on Activities

showing accomplishments to date and progress toward goals and requirements. They are to be completed using the activities and budget figures provided in the Grant Award Contract. The Progress on Activities page must be signed by two authorized persons (see “Authorized Signature Cards” below).

Cash requests must generally be limited to reimbursement of incurred expenses. The Regional Coordinator reviews the cash request for the following items:

- a. Reviews to ensure that all costs obligated or expenses incurred were in compliance with the environmental review requirements contained in Chapter 3.
- b. All cash requests must be accompanied by proper documentation, such as; invoices; progress payments signed by the contractor, engineer/architect and grant recipient; and/or receipts that add up to the amount being requested or any partial amount on the receipt (identified by the recipient) that is applicable to the CDBG project.
- c. At a minimum, invoices need to include the following:
 - Invoice numbers;
 - Dates of service for activity/item being billed for under the invoice;
 - Identification of the date(s) and hour(s) spent providing each service being billed for under the invoice;
 - Identification of the specific task/activity/item being billed for; and,
 - Identification of the specific grant administration/program management activities performed (if applicable).

- d. If any of the requested costs appear to be unreasonable or unexplainable the Regional Coordinator will request additional source documentation from the recipient to justify the amount being requested.
- e. All costs must be for approved eligible expenses.
- f. All costs were incurred during the cash draw reporting period. If not, an explanation was provided by the recipient to explain any costs on the cash request that were incurred in previous reporting periods.
- g. The cash request is signed by two local officials, as authorized on the approved signature card.
- h. Reviews the project budget to ensure that all local match in each requested line item has been expended in accordance with the grant contract requirements.

Note: *The Department prefers that cash requests be submitted for amounts in excess of \$5,000.*

Cash requests will not be accepted unless they are in even dollar amounts. All requests must be accompanied by source documentation (invoices, engineers pay estimates etc.) that supports the amount of funds being requested. The department will make every effort to assure that cash requests are processed in a timely manner. By the final cash request, if \$1,000 or less of the grant is unused contact a Regional Coordinator about what to do.

The time between receipt and disbursement of funds by the recipient should be kept as brief as possible, 3- days or less. It is preferred, if possible, for recipients to use

local budgeted funds to pay for project costs and then reimburse the local budget with Community Development Block Grant funds when they are received. Be sure that an appropriate resolution or ordinance is in place before making inter-fund loans or transfers. Some recipients cannot or will not choose to use local funds in advance of reimbursement with grant funds. In those cases, the recipient can write checks with the distribution of the checks pending receipt of the grant funds.

Authorized Signature Cards

A signature card that authorizes specific individuals to request funds is signed at the time the grant contract documents are executed. Two authorized signatures are required on each cash request. The signature card has space for four signatures. It is recommended that the recipient provide signatures of three or four individuals so that funds may be requested even if one or two persons are not available. Signatories on the cash requests may not include the recipient's highest elected official. The highest elected official signs the signature card to verify/certify the signatures listed are authorized to sign future cash requests and are valid signatures. **Exhibit 1B** contains a copy of a sample form that has been completed.

Electronic Funds Transfer

The state will transfer grant funds electronically to either a bank account or the Local Government Investment Pool (LGIP). A form for authorizing the transfer is completed by the recipient at the time the grant contract documents are signed. **Exhibit 1C** contains a

copy of this form. The recipient is responsible for making arrangements with the bank or LGIP for notification of when the funds are deposited.

Monitoring

State staff will use the **Financial Management** section of the *Eligibility and National Objective Checklist* in this handbook (**Exhibit 12A**) to monitor the recipient for compliance with the requirements described in this section.

RECIPIENT PROGRAM INCOME

Basic Federal Requirement

Program income is defined as gross income received by a unit of general local government that was generated from the use of Community Development Block Grant funds. Refer to 24 CFR Part 570.489(e) for additional information.

When income is generated by an activity that is only partially assisted with Community Development Block Grant funds, the income shall be prorated to reflect the percentage of Community Development Block Grant funds used.

Program income includes, but is not limited to the following:

- i. Proceeds from the disposition by sale or long term lease of real property purchased or improved with grant funds;*

- ii. *Proceeds from the disposition of equipment purchased with grant funds;*
- iii. *Gross income from the use or rental of real or personal property acquired by the unit of general local government with grant funds, less costs incidental to the generation of the income;*
- iv. *Gross income from the use or rental of real property owned by the unit of general local government that was constructed or improved with grant funds, less the costs incidental to the generation of the income;*
- v. *Payments of principal and interest on loans made using grant funds;*
- vi. *Proceeds from sale of loans made with grant funds;*
- vii. *Proceeds from sale of obligations secured by loans made with grant funds;*
- viii. *Interest earned on funds held in revolving fund account;*
- ix. *Interest earned on program income pending disposition of the income;*
- x. *Funds collected through special assessments made against properties owned and occupied by households not of low and moderate income, where special assessments are used to recover all or part of the grant portion of a public improvement; and*
- xi. *Gross income paid to a unit of general local government to retain program income if the program income will be*

used to continue the activity from which the program income was derived. The state will determine when the activity will be considered to be continued.

Funds derived from CDBG funded activities are considered Program Income except when:

- The total amount of funds, which does not exceed \$35,000 received in a single year from activities, other than revolving loan funds that is retained by a unit of general local government and its sub-grantees (All funds received from revolving loan funds are considered program income, regardless of amount);

Note: Oregon defines a single year as (July 1 to June 30).

Note: On May 23, 2012 revisions to 24 CFR Part 570, the State Community Development Block Grant (CDBG) program administration rules become effective. These revisions include numerous changes to the program income requirements. One significant change to the requirements affects all the older housing rehabilitation grants the state continues to track program income on an annual basis. The change is:

24 CFR 570.489(e)(2)(i) The total amount of funds, which does not exceed \$35,000 received in a single year from activities, other than revolving loan funds retained by a unit of general local government and its sub-grantees (All funds received from revolving loan funds are considered program income, regardless of amount);

What this means is that **all income** received from any closed housing rehabilitation

grant that is not utilizing the authority of 105(a)(15) of the HCDA and is still being tracked for program income by OBDD-IFA is considered program income. The miscellaneous income rule does not apply to these prior housing rehabilitation grants, effective May 23, 2012.

- The funds are generated by housing rehabilitation and economic development revolving loan fund activities eligible under Section 105(a)(15) of the Housing and Community Development Act and carried out by an entity under the authority of section 105(a)(15) of the Act. Such entities are limited to public nonprofit organizations which (1) meet the Internal Revenue Service requirements for nonprofit status; (2) are serving the development needs of non-entitlement areas; and (3) carry out community economic development, neighborhood revitalization and/or energy conservation projects. Such projects can include management of revolving funds for the purpose of housing rehabilitation and economic development.

The full definition of program income and federal rules governing its use are found in 24 CFR 570.489(e) and the preamble to the final rule and guidelines published by the U.S. Department of Housing and Urban Development in the Federal Register on May 23, 2012.

All requirements of 24 CFR 570 Subpart I apply to the use of program income retained by a unit of general local government. Failure to use program income as required may result in sanctions against the recipient.

Recipients shall not expend any income anticipated to be less than \$35,000 until after the end of the applicable annual period unless it is spent in compliance with CDBG rules. A report shall be submitted each year, in a form to be specified by the state, on the amount of program income and other funds received as a result of CDBG assistance to a unit of general local government.

Program income shall be paid to the state except where the income is to be used by the recipient to continue the activity from which such income is derived. For example, an older housing rehabilitation grant where the grant funds are loaned by the grantee to private property owners, the loans repaid to the grantee can be used to conduct more housing rehabilitation work.

Housing rehabilitation grants awarded under the authority of 105(a)(15) of the HCDA exemplify the exception to program income rules if all the following conditions exist: 1) the state's grant to the city or county must be subgranted to an eligible nonprofit, 2) the nonprofit must loan funds directly to income-eligible homeowners, and 3) loan repayments made by those homeowners must be dedicated to subsequent eligible homeowners for housing rehabilitation, by the original eligible non-profit sub-grantee.

Applicants desiring to retain program income must describe in the grant application how the program income will be used. The department will determine whether the proposed use is for an activity that is the same as the approved activity from which the program income is derived and will deny or approve the applicant's request when the grant award is made.

Program income that is received and retained by a unit of general local government is treated as additional Community Development Block Grant funds and is subject to federal requirements. The state shall require units of general local government, to the maximum extent feasible, to disburse program income before requesting additional funds from the state for activities, except where the state has allowed a revolving fund to be established. These requirements can be found in 24 CFR Part 570.489(e).

State Program Income Policies and Requirements

- Program income must be used to meet immediate cash needs for grant activities. Recipients of housing rehabilitation revolving loan funds must use program income cash on hand for immediate cash needs of any housing rehabilitation project required to repay the fund.
- For all program categories except housing rehabilitation, “same activity” shall mean the same initial use at the same original location. For housing rehabilitation projects, “same activity” shall mean continuation of a housing rehabilitation program for the benefit of low and moderate-income persons.
- Recipients that receive approval to use program income locally must develop and follow written procedures which assure the state that all federal and state requirements will be met, particularly those relating to eligibility and national objectives.
- Closeout agreements governing the use of program income will be entered into by

the state and recipients that have, or expect to receive, program income.

- Recipients of housing rehabilitation grants may have special conditions in their grant contracts with the state that describe how program income will be managed.
- OBDD is responsible for ensuring that program income is accounted for and spent in accordance with federal and state requirements. This is accomplished by: provision of technical assistance, review of information provided by recipients, and on-site monitoring of activities and local records.
- All income generated by grant funded activities after the grant is closed is subject to Title 1 federal requirements except when the total amount received in a single year (July 1 – June 30) is less than \$35,000, or *amounts generated by activities eligible under section 105(a)(15) of the Housing and Community Development Act and carried out by an entity under the authority of Section 105(a)(15) of the Act*. For the purpose of tracking program income and “miscellaneous income” the annual reporting period shall begin on July 1 and end on June 30 of each year.
- Recipients shall not expend any income anticipated to be less than \$35,000 until after the end of the applicable annual period unless it is spent in compliance with Community Development Block Grant rules. The state will mail an annual report to recipients with expected program income to complete and report on the amount of income received. The recipients will return the report to the state.

- Recipients should be aware that jurisdictions which choose to use program income realized under the \$35,000 exemption rule (miscellaneous income) for non-Community Development Block Grant eligible activities will be encouraged to apply this income to carry out the same activity that generated the income or another eligible CDBG activity.

Recipient Accounting System

Recipients must establish a process to identify and account for program income. It is not necessary to establish a separate bank account, although it could be helpful. A recipient may include program income cash in its bank account with other cash, provided its accounting records adequately disclose the program income portion of each cash balance.

Eligibility, National Objective, and Title 1 Requirements

Recipients must maintain documentation that shows that each activity funded with program income is an activity that is eligible for Community Development Block Grant funding and meets a national objective. Each loan from a revolving fund is an “activity.”

Title 1 Requirements

Title 1 requirements include, but are not limited to, the following:

- Citizen participation;
- Environmental regulations;
- Labor standards;
- Fair housing and equal opportunity;

- Acquisition and relocation; and
- Appropriate determination for loans to for-profit businesses.

In general, the rules and procedures described in this handbook also apply to the use of program income. The state will provide recipients with information about any new requirements that affect the use of program income.

Reports

Reports must include information about the recipient and use of program income on Cash Request/Progress Report forms for active open projects which are generating program income or which are for the same activity as an existing revolving loan fund. All recipients with program income subject to Title 1 requirements must also complete an annual Program Income Status/Information report on a form provided by the state.

Monitoring

The state must monitor the use of program income subject to Title 1 requirements both before and after the grant is closed. The primary document used to monitor the use of this program income will be the annual program income status/information request. On-site monitoring of program income records will be performed if the department finds that it is advisable based upon information from the recipient’s reports or other sources.

FINANCIAL AUDITS

Basic Federal Requirement

Audits of the state and units of general local government shall be conducted in accordance with 24 CFR part 44 which implements the Single Audit Act [31 U.S.C. 7501 07]. States shall develop and administer an audits management system to ensure that audits of units of general local government are conducted in accordance with 24 CFR part 44, as required by 24 CFR part 570.489(m).

Rules

Audit rules are set out in 2 CFR Part 200 Subpart F (OMB Circular A 133) *Audits of States, Local Governments, and Non Profit Organizations*.

Annual Audits

State law requires every city and county to have an independent annual audit. The type of audit depends upon how much federal money the city or county receives.

Federal Audit Exemption

Local governments that expend less than \$750,000 in aggregate of federal money from state and federal agencies are not subject to state review under 2 CFR Part 200 Subpart F (OMB Circular A 133)

2 CFR Part 200 Subpart F (OMB Circular A 133) Audits

Local governments and non-profit organizations that expend more than \$750,000 per year of federal funds in a fiscal year must obtain an audit for that year that conforms to the requirements of OMB

Circular A 133. Audits done under these standards are referred to as "A-133 Audits". Community Development Block Grant funds should be listed in the "Schedule of Federal Financial Assistance" that is part of an A-133 Audit. Identify these funds as U.S. Department of Housing and Urban Development funds passed through the Oregon Business Development Department.

Note: *The Catalog of Federal Domestic Assistance (CFDA) number for the program is 14.228.*

You can access the CDBG program information by searching by the program number at the following site:

<https://www.cfda.gov/index?mode=list>

2 CFR Part 200 Subpart F (A-133 Audit Review)

Cities and counties submit their A-133 audit reports to an agency assigned by the Oregon Department of Administrative Services. Other state agencies may review Community Development Block Grant recipients; however the department will review audits as assigned by the Oregon Department of Administrative Services.

Due Dates

A-133 Audit reports must be sent to the audit agency assigned by the state no later than nine (9) months after the end of the audit period.

Resolution of Audit Findings

A recipient must work with the audit agency assigned by the state and/or the department

to develop a resolution for the following types of Findings:

- Questioned costs for Community Development Block Grant funds;
- Internal controls and financial systems of the recipient; and
- Missing or inaccurate Catalog of Federal Domestic Assistance (CFDA) information.

The state will give the city or county forty-five (45) days to resolve the problems or revise the audit report

Payment of Audit Costs

Community Development Block Grant funds may be used to pay for 2 CFR Part 200 Subpart

F (OMB Circular A 133) Audit costs in proportion to the federal Community Development Block Grant funds received. The eligible share of the A-133 Audit cost cannot exceed the ratio of these federal grant funds received to the recipient's total annual expenditures and incurred obligations - times - the cost of the audit. (see example as illustrated on page 5 of this chapter

Quick Checklist for Financial and Cash Management, Program Income and Audits

| | |
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| | 1. Amend local budget as necessary. |
| | 2. Obtain firm commitment of other funds |
| | 3. Internal control system is established. |
| | 4. Cash requests are only submitted for allowable costs. (Preferred minimum \$5,000) |
| | 5. Cash requests contain all supporting documentation. |
| | 6. Cash requests signed by at least two authorized individuals as listed on signature card. |
| | 7. The time between receipt and disbursement of funds by the recipient is kept as brief as possible, 3-days or less is preferred. |
| | 8. Interest earned by the recipient in excess of \$100 per year is returned to the State. |
| | 9. If needed, an accounting system to identify and track all program income has been established. |
| | 10. Program income is not expended until reported to the State and it has been determined that it exceeds \$35,000 (Program Income) or less than \$35,000 (Miscellaneous Income) |
| | 11. A-133 audit review is completed for each year in which an aggregate of \$750,000 or more in federal funds, from all federal resources, is received. |
| | 12. The A-133 audit report was sent to the State nine (9) months after the end of the audit period. |