

# Chapter 11 Financial Management

## Table of Contents

CHAPTER 11 FINANCIAL MANAGEMENT .....	1
<i>Background</i> .....	1
<i>Requirement</i> .....	2
Mass. CDBG Standards for Grantees .....	3
<i>Procedures:</i> .....	3
Accessing Funds.....	3
Accounts Other Than The "Designated Account" .....	3
Drawdown of Funds .....	4
Mass. CDBG Policy Regarding Federal Treasury Regulations .....	3
Timetable for Receipt of Funds by Grantees .....	5
<i>Flow of Massachusetts CDBG Funds</i> .....	5
Cash Forecasting .....	5
Budget Control.....	6
<i>Internal Control</i> .....	6
Segregation of Employee Duties .....	7
Separation of responsibility for assets from responsibility for the accounting function.....	7
Separation of responsibilities within the accounting function.....	7
Cash Control.....	7
<i>Fiscal Management</i> .....	8
Revolving Funds .....	11
Escrow Accounts.....	11
Program Income .....	13
Program income does not include.....	14
Procedures for the Use of Program Income: .....	15
Procedures for the Reporting of Program Income:.....	17
<i>Property Management</i> .....	18
Exempt Property.....	18
Expendable Personal Property.....	18
Non-expendable Real and Personal Property Register .....	19
Ongoing Use of the Property .....	19
Non-expendable Personal Property With Unit Acquisition Cost of \$5,000 or Less .....	19
Non-expendable Personal Property With Unit Acquisition Cost in Excess of \$5,000.....	20
Common Problems found during monitoring:.....	20
<i>Audit Requirements</i> .....	20
The Audit Requirement for Grantees and Subgrantees .....	20
Cost of Audit Services.....	21
Audit Procedures .....	21
Procurement of an Auditor .....	22
Staff Availability During the Audit .....	22
Distribution of the Audit Report.....	22
Procedures for Resolving Findings.....	22
Reporting Package.....	23

## Background

Massachusetts CDBG grantees are required to establish a Financial Management System which identifies and tracks grant activities. Minimum requirements are described in this chapter. In the past Mass. CDBG monitored its grantees for compliance with OMB Super Circular: 2 CFR Part 200. You can access a full version of 2 CFR Part 200 via the U.S. Government Publishing Office's website: [www.ecfr.gov](http://www.ecfr.gov).

### **Requirement**

*A state shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must:*

- *Be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions:*
- *Ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and*
- *Ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.*

*A state may satisfy this requirement by:*

- *Using fiscal and administrative requirements applicable to the use of its own funds;*
- *Adopting new fiscal and administrative requirements; or*
- *Applying the provisions in OMB Super Circular: 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."<sup>1</sup>*

Massachusetts CDBG Program has chosen to require its grantees to utilize the CDBG-INTELLIGRANTS computer software for accounting, reporting and for tracking beneficiary and performance measure information. In addition the following procedures and standards have been adopted by the program.

#### *Mass. CDBG Standards for Grantees*

- Accounting records must track grant activities. It must be possible to track accounting records for each program and for each program year's activities. This standard does require completely separate files for each program year. See Chapter 4 Record Keeping.
- Records must include comparison of budget to actual expenditures for each grant activity to facilitate grantee reporting requirements and MA CDBG staff monitoring of each program.

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<sup>1</sup> 24 CFR 570.489 (d)

- All transactions must be supported by source documentation.
- Cash management procedures should provide that draw down requests are limited to actual expenditures incurred and/or the minimum amount needed by the community to pay for immediate expenses. The drawdown shall not ordinarily be in amounts less than \$5,000.

### **Procedures:**

#### *Accessing Funds*

Once a grant has been awarded, the community must establish a separate "designated bank account" for the receipt of Massachusetts CDBG funds. This account must be set up and maintained by the local City/Town Treasurer. The "Authorized Official" (AO) as designated in the CDBG/INTELLIGRANTS is the person authorized to request funds via the CDBG/INTELLIGRANTS.

#### *Designation of Depository for Direct Deposit of Loan and/or Grant Funds*

All CDBG funds are deposited first into a "designated depository account". This depository account must be identified and set up in the CDBG/INTELLIGRANTS.

- The account must be separate from any other City/Town account
- The account should be an interest bearing account. Interest earned by units of general local government on grant funds before disbursement of the funds for activities is not program income and must be returned to the Treasury, except that the unit of general local government may keep interest amounts of up \$100 per year for administrative expenses.<sup>2</sup> Exhibit III in Appendix 2, Chapter 11 is a sample letter that may be used to return the interest to HUD.

#### *Accounts Other Than The "Designated Account"*

Any program account established with Massachusetts CDBG funds, other than the "designated account," e.g., revolving loan, rehabilitation escrow, program income, etc. **must** be a separate bank account. Accounts may combine funds from different grant years, however, grantees must have separate accounting records for each program year. CDBG/INTELLIGRANTS, covers this requirement. The specific requirements related to each type of account will be covered later in the chapter.

#### *Drawdown of Funds*

#### *MA CDBG Policy Regarding Federal Treasury Regulations*

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<sup>2</sup> 24 CFR 570.489 (c)(2)

As indicated in the grant agreement, grantees and their sub-grantees must comply with several specific requirements contained in Treasury Regulations and “2 CFR 200.305 Payment.” The following information provides the MA CDBG interpretation of Federal Treasury Regulations which govern the drawdown procedures of grantees. The regulation states in part “Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.”<sup>3</sup>

- Drawdowns must be limited to the minimum amount needed for actual expenditures incurred or immediate cash needs.
- The timing and amount of cash payments shall be as close as is administratively feasible to actual disbursement or program costs.
- To the maximum extent feasible, the grantee shall disburse any program income it received prior to making or permitting additional draws from Mass. CDBG.

MA CDBG will enforce compliance with these provisions. Drawdowns to cover “the schedule of bills payable” should be timed to coincide with the municipality’s warrant for such bills, so that the immediate disbursal of funds is ensured. The objectives of these provisions are to eliminate the possibility of excessive cash balances on hand by grantees or subgrantees and to minimize the time elapsing between receipt and disbursement of Federal funds.

The financial management systems of the grantee must provide for effective control over the accountability for all federal funds so that the state meets the requirement in 24 CFR 570.489(d) which says: “A state shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart.” A clause in the grant agreement commits the grantee to adhering to these regulations and also to the timely reporting on the use of these funds.

A sub-grantee is subject to the same cash management requirements as the grantee, and it is the responsibility of the grantee to ensure the compliance of all sub-grantees with this statute. Whenever applicable, grantees shall develop procedures whereby sub-grantees can obtain funds from the grantee as needed for disbursement to meet its obligations.

Regardless of the particular method used to advance funds, the grantee shall be responsible for:

- (a) making such reviews of the financial practices of sub-grantees, both primary and secondary, as are necessary to ensure that the regulations are being complied with, and

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<sup>3</sup> 24 CFR 570.489 (c)(1)

- (b) instituting such remedial measures as may be necessary in the event that a sub-grantee has demonstrated its unwillingness or inability to comply with these provisions.

*Submission of a drawdown request (claim) & Payment Voucher (PRC) Forms*

To drawdown Massachusetts CDBG funds, grantees submit a CLAIM via the CDBG/INTELLIGRANTS. Also available on the system is the MMARS(PRC form). This form must be downloaded, filled in and signed by the authorized signatory, and then scanned and uploaded to the CLAIM. See the CDBG/INTELLIGRANTS User Manual or system help facility for specific instruction.

*Timetable for Receipt of Funds by Grantees*

The State MMARS rule for disbursement of funds is 45 days. However, we generally can get the drawdown processed and disbursement to the grantee within 1 to 2 weeks.

If funds have not been received by the expected date, the grantee should contact its bank to determine whether the funds were misplaced or not received. The grantee can also check vendorweb (<https://massfinance.state.ma.us/VendorWeb/vendor.asp>) which shows payment information (including scheduled pay dates) for all payments made by the Commonwealth of Massachusetts. If funds are not listed on that site, please contact your CDBG fiscal representative for more information.

**Flow of Massachusetts CDBG Funds**

- Under the Massachusetts Management Accounting and Reporting System (MMARS) all state payments are sent directly to the local receiving account for all state funds which has been designated by the City/Town Treasurer. The Treasurer is responsible for ensuring that Massachusetts CDBG funds are transferred into the designated depository account in a timely manner. Once funds have been deposited into the designated account, disbursement may occur directly from the designated account for payment of incurred expenses.

*Cash Forecasting*

To ensure adequate cash flow, grantees should develop cash flow planning procedures. A major component of the cash planning process is budget preparation and control. Since grantees have completed the budget preparation at the time of application, that information is not found in this manual. Refer to materials provided in the application.

*Budget Control*

The management and control of payables is a primary component in budget control. The following guidelines may be useful in managing disbursements.

Grantees should not hold onto funds for more than the time that is administratively feasible to expend them, which is generally within the City/Town's next warrant cycle, but not longer than 2 weeks.

- Grantee requests for payments are based on:
  - ◇ routine or base costs such as salaries
  - ◇ invoices on hand, and
  - ◇ actual expenditures incurred and/or paid.
- City/Town funds may be available to advance funds to the program depending on local practice. This option may be helpful to the community development office for items such as payroll and small contractor payments, to be used in the event that requested drawdowns are delayed, or if other unforeseen circumstances occur. However, cities and towns should still submit drawdown requests regularly to cover program related expenditures.

Procedures should be developed which allow sufficient time for the grantee to review and approve cash requests prior to the anticipated disbursement. Requests for cash should not be approved until the grantee is assured that the contractor has complied with all payment requirements.

### **Internal Control**

A well designed system of internal controls is important for efficient and effective grants management. The success of an internal management system is determined by the degree of checks and balances inherent to the system. As required by 2 CFR 200.61 and 200.62, grantees must have effective internal controls in place that are designed to provide reasonable assurance that the CDBG program is being administered in accordance with Federal guidelines.

Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must safeguard all such property and must assure that it is used solely for authorized purposes

Accounting controls assure the reliability of financial records, as well as protection of assets with the maintenance of an appropriate level of transaction review and authorization. Such controls include:

- Appropriate segregation of duties where no one person is able to authorize, execute, and approve financial transactions.
- A well defined system of authorization to ensure that goods and services procured are approved by the authorized employee

- The development of procedures which provide for the timely review of financial activity through internal monitoring and final audit.

### *Segregation of Employee Duties*

A basic principle of good management is the segregation of employee duties. There are two significant types of segregation that contribute most to an effective internal control environment.

#### *Separation of responsibility for assets from responsibility for the accounting function.*

When one person performs both functions, it could lead to a situation where an excessive use of assets could be diverted for personal gain and of records being adjusted to prevent misuses from becoming known. Any person performing an accounting function should be denied access to assets that can be converted for personal gain.

Persons who authorize transactions should not have control over related assets. This policy will reduce the possibility of the misuse of assets.

#### *Separation of responsibilities within the accounting function*

The least desirable accounting system is one in which an employee is responsible for recording transactions from its origin to its final posting. The delegation of authority for the complete process enhances the likelihood that intentional or unintentional errors will be undetected. Since it is often difficult for a small governmental unit to segregate accounting activities, alternative controls may be implemented to compensate for a lack of segregation.

As a rule, both the community development department and the town accountant's office maintain accounting records for the Massachusetts Community Development Block Grant. Although the records maintained by the town accountant's office need not be in as much detail as the records maintained by the unit managing the grant, the dual nature of the system provides the necessary checks and balances in lieu of the segregation of the accounting function.

### *Cash Control*

Grantees must ensure that proper internal cash control exists. Cash control can be facilitated by implementing the following procedures:

- All disbursements should be made by check. Checks prevent misuse of funds because they are easily traceable and can be associated with specific persons. Canceled checks provide a receipt of a transaction
- The signing of checks in advance should be prohibited. The length of time that a check is negotiable should be minimized.

- Checks should not be drawn to cash. Checks are used to create an audit trail, so that transactions can be isolated. It is difficult to associate a check drawn on cash to a specific voucher and invoice.
- Bank accounts should be reconciled independently. Bank statements should be reconciled by the government unit charged with managing the grant and by the town treasurer or accountant's office.
- Checks should be reconciled with the statement using pre-numbered checks. Numbered checks permits tighter control of checks and facilitates identifying omissions.
- Checks should be issued only on written authority. Checks should be traceable to invoices which can be done through use of a written record.
- Inventory control should exercised over blank and voided checks.
- Separate bank accounts must be maintained for funds from private sources or other government sources which are not Massachusetts CDBG related
- Checks should be matched with vouchers.
- Vouchers and supporting documents should be marked once a check has been issued. This prevents mistaken multiple use of the same justifying documents.
- Cash receipts and deposits should be recorded as they occur

### **Fiscal Management**

The Mass CDBG program places requirements on its grantees to ensure that both the program and its grantees administer programs as required and that both will *be able to pass audits of their programs*. Title I states: *The Secretary [of HUD] shall, at least on an annual basis, make such reviews and audits as may be necessary or appropriate to determine...*

*in the case of grants to States made under section 5306(d) of this title, whether the State has distributed funds to units of general local government in a timely manner and in conformance to the method of distribution described in its statement, whether the State has carried out its certifications in compliance with the requirements of this chapter and other applicable laws, and whether the State has made such reviews and audits of the units of general local government as may be necessary or appropriate to determine whether they have satisfied the applicable performance criteria described in paragraph (1) of this subsection.<sup>4</sup>*

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<sup>4</sup> Title I of the Housing and Community Development Act of 1974 section 104 (e)

Mass. CDBG requires its grantees and their subgrantees to comply with the following requirements:

- Accurate, current, and complete disclosure of financial results

Grantees must be able to reflect the financial status of their grant program. *Financial records must reflect the sum of grant receipts, disbursements, obligations, and available balances, on a current basis.*

*MA CDBG Program implemented an automated accounting and reporting computer software program known as CDBG/INTELLIGRANTS. The software provides an accounting and program tracking database, which provides monthly reports. It also produces the Quarterly Performance Report (QPR) which must be submitted to MA CDBG electronically via CDBG/INTELLIGRANTS. The system is fully self-contained with a detailed Help facility to guide users.*

- Accounting records must adequately identify the source and application of funds provided for financially assisted activities and must contain information pertaining to awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

*Grantees must ensure that all transactions are properly authorized and recorded. Each transaction must be supported by source documentation. Supporting documents may include, but are not limited to:*

- ◇ *Massachusetts Comptroller's Standard Terms and Conditions from the Grant Contract*
- ◇ *Massachusetts CDBG Request for Budget or Program Revision*
- ◇ *requests for release of funds (environmental review and clearance)*
- ◇ *purchase orders/receiving reports (note: on small purchases, the purchase order may serve in place of a contract)*
- ◇ *receipt vouchers*
- ◇ *deposit slips*
- ◇ *contracts or other agreements*
- ◇ *canceled checks*
- ◇ *invoices and vouchers*
- ◇ *paid bills*

- ◇ *payrolls*
- ◇ *time and attendance records*
- ◇ *personnel and hiring records*
- ◇ *contract and subgrant award documents, etc.*

*Some of the documents listed above provide the source of authority to receive or expend funds, others serve as accounting source documentation.*

- Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information wherever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Grantees have been awarded specific amounts of Massachusetts CDBG funds for designated purposes identified as budget category items. Neither the total grant amount nor the individual budget category amounts may exceed the allowed budgetary flexibility permitted to grantees without MA CDBG approval. Thus, grantees must continually compare Massachusetts CDBG expenditures (disbursements plus obligations) with their allowed budget amounts. Contracts should be monitored as a part of this process in order to avoid cost over-runs.

- Applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs.

The grantee is responsible for insuring that all expenditures within budgeted activities are allowable costs as prescribed by Federal Office Management and Budget Cost Principles.

- Relate Financial Information to Performance

Grantees must be able to relate MA CDBG expenditures to program performance. This will enable grantees to assess their own performance in terms of costs and benefits.

- Accounting records must segregate each program year's activity to provide an adequate audit trail as well accurate data on the quarterly reports.

### *Revolving Funds*

The state may permit units of general local government to establish revolving funds to carry out specific, identified activities. A revolving fund, for this purpose, is a separate fund (with a set of accounts that are independent of other program accounts) established to carry out specific activities which, in turn, generate payments to the fund for use in carrying out such activities. These payments to the revolving fund are program income and must be substantially disbursed from the revolving fund before additional grant funds are drawn from the Treasury for revolving fund activities. Such program income is not required to be disbursed for non-revolving fund activities.

A revolving fund established by either the State or unit of general local government shall not be directly funded or capitalized with grant funds.<sup>5</sup>

### *Escrow Accounts*

Escrow accounts serve the purpose of allowing participation in housing rehabilitation programs by small contractors, who often lack sufficient cash flow or credit to participate within the normal disbursement procedures. Use of escrow accounts must be authorized by DHCD. The requirements contained in 570.511 are intended to ensure that escrow accounts are established and used in accordance with both the spirit and letter of Treasury requirements governing cash withdrawals... 570.511 may be considered a safe harbor with respect to the establishment and use of escrow accounts by State CDBG recipients.... Generally HUD believes that the ...[grantee] ... should have the 10-day escrow authority, and a reasonable additional period should be permitted to receive funds from the State. The use of escrow accounts...is limited to loans and grants for the rehabilitation of primarily residential properties containing no more than 4 dwelling units (and accessory neighborhood-scale non-residential spaces within the same structure, e.g., a store front below a dwelling unit).<sup>6</sup>

Massachusetts CDBG authorized escrow accounts must meet the following requirements:

- No disbursement to escrow accounts may occur prior to the date when a homeowner or business owner has a signed contract with a vendor to perform rehabilitation. The contract must state that payments are to be made from an escrow account maintained by the Town.<sup>7</sup>
- Funds deposited into an escrow account shall be used only to pay the actual costs of rehabilitation incurred by the owner under the contract with a private contractor...<sup>8</sup>

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<sup>5</sup> 24 CFR 570.489 (f)

<sup>6</sup> 24 CFR 570.511 (a)(1)

<sup>7</sup> 24 CFR 570.511 (a)(2)

<sup>8</sup> 24 CFR 570.511 (a)(5)

- The federal regulation states, The amount of funds deposited into an escrow account shall be limited to the amount expected to be disbursed within 10 working days from the date of deposit. If the escrow account, for whatever reason, at any time contains funds exceeding 10 days cash needs, the grantee shall immediately transfer the excess funds to its program account. In the program account, the excess funds shall be treated as funds erroneously drawn in accordance with the requirements of U. S. Treasury Financial Manual, paragraph 6-2075.30<sup>9</sup> Massachusetts CDBG Program has an agreement with the local HUD office which allows the following operational requirement.

All payments for work performed under a rehabilitation contract must be made within 10 working days of the date of deposit to escrow. Grantees must develop cash management procedures to ensure compliance with this policy. Funds which are not expected to be paid to the contractor within 10 working days should not be drawn down and deposited into escrow.

- Escrow accounts must be kept in an interest-bearing account, separate from any private funds (homeowner/bank funds) also in escrow. All funds withdrawn ... [to create an escrow account] shall be deposited into one interest bearing account with a financial institution. Separate bank accounts shall not be established for individual loans and grants.<sup>10</sup> Interest earned on escrow accounts established in accordance with this section [through a drawdown of grant funds], less any service charges for the account must be returned to HUD at least quarterly, but not more often than monthly<sup>11</sup> (See Exhibit III for sample letter to HUD). If program income, as opposed to grant funds, is used to establish an escrow account, the grantee is allowed to retain the interest.<sup>12</sup>
- Adding memos and/or footnotes to drawdowns and escrow account cash control records relating to specific rehabilitation cases help provide a complete audit trail for transactions involving escrow accounts. Within CDBG/INTELLIGRANTS users should add notes to the comments box in the bank transaction screen or expense screen.

### *Program Income*

Grantees may, as a result of program activities and design, earn income that is defined as program income.

For the purposes of the subpart, "program income" is defined as gross income received by a state, a unit of general local government or a subrecipient of a unit of general local government that was generated from the use of CDBG funds, regardless of when the

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<sup>9</sup> 24 CFR 570.511 (a)(4)

<sup>10</sup> 24 CFR 570.511(a)(3)

<sup>11</sup> 24 CFR 570.511 (b)

<sup>12</sup> Ibid.

CDBG funds were appropriated and whether the activity has been closed out... (24 CFR 540.489(e)(1)) [*see “ program income does not include” below*].

The use of these funds is governed by CDBG regulations and may only be used for eligible CDBG activities. The activities which generate program income may include, but are not limited to the following (24 CFR 570.489 (e)):

- proceeds from the disposition by sale or long term lease of real property purchased or improved with CDBG funds
- proceeds from the disposition of equipment purchased with CDBG funds
- gross income from the use or rental of real property or personal property acquired by the unit of general local government or other entity carrying out a CDBG activity that was constructed or improved with CDBG funds; less the costs incidental to the generation of the income
- payments of principal or interest on loans made using CDBG funds
- proceeds from the sale of loans made with CDBG funds
- proceeds from the sale of obligations secured by loans made by CDBG funds
- interest earned on funds held in a revolving loan account
- interest earned on program income pending disposition of the income
- funds collected through special assessments made against non residential properties and properties owned and occupied by households not of low and moderate income, where the special assessments are used to recover all or part of the CDBG portion of a public improvement
- gross income paid to a unit of general local government or subrecipient from the ownership interest in a for-profit entity acquired in return for the provision of CDBG assistance

When income is generated by an activity that is only partially assisted with CDBG funds, the income shall be prorated to reflect the percentage of CDBG funds uses (e.g., a single loan supported by CDBG funds; a single parcel of land purchased with CDBG funds and other funds.

Grantees must have a separate program income account in order to facilitate tracking income on a program year basis, April 1 to March 31 of the next year. Interest earned on program income accounts is considered additional program income except as discussed in the section below.

Program income does not include

- Interest earned on the original source of funds drawn and deposited in a grant depository account or housing rehab escrow account.
- The total amount of funds which is less than \$35,000 received in a single year that is retained by a unit of general local government and its subrecipients, other than revolving loan funds retained by a unit of local government and its subgrantees (all funds received from revolving loan funds are considered program income regardless of the amount)

***If the total amount received in a single year is less than \$35,000, the entire amount is treated as miscellaneous income (not program income); its use can be determined by the municipality.***

Amounts generated by activities eligible under section 105(a)(15) of the Act [assistance to neighborhood based nonprofit organizations, local development corporations, nonprofit organizations serving the development needs of the communities on non-entitlement areas, or entities organized under section 301(d) of the Small Business Investment Act of 1958] and carried out under the authority of section 105(a)(15).

- “Amounts generated by activities that are financed by a loan guaranteed under Section 108 of the Act and meet one or more of the public benefit criteria....”
- Interest income from loans or other forms of assistance provided with CDBG funds that are used for activities determined by HUD (and the State) to be ineligible or doesn’t meet a national objective under Title I of the Act...
- Proceeds from the sale of real property purchased or improved with CDBG funds, if the proceeds are received more than 5 years after expiration of the grant agreement between the State and unit of general local government

*Procedures for the Use of Program Income*

- The state may permit the unit of general local government which receives or will receive program income to retain the program income, subject to the requirements of paragraph (e)(3)(ii) of this section, or the state may require the unit of general local government to pay the program income to the state.

The state, however, must permit the unit of general local government to retain the 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 an activity will be considered to be continued.

◇ Program income retained by a unit of general local government.

- (A) Program income that is received and retained by the unit of general local government is treated as additional CDBG funds and is subject to all applicable (CDBG) requirements ... regardless of whether the activity that generated the program income has been closed out
  - (B) Program income that is generated from an open grant will be applied to that grant and accounted for as a part of that grant. Program income generated from a closed grant is considered to be part of the most recently awarded open grant. DHCD will keep a grant open on the CDBG/GMS to accommodate the continued accounting and reporting of program income. If no grant is open when program income is received, DHCD will open a program income grant to allow municipalities to spend the program income.
  - (2) If program income is used to continue the activity that generated the program income, the requirements ... apply to the program income as long as the unit of general local government uses the program income to continue the activity or has received approval for an amendment to the program income plan.
- Recipients may use program income for CDBG eligible activities. The Massachusetts CDBG recipient is required to submit a program income plan together with the application or as part of the special conditions of the grant agreement. Amendments to a program income plan must be submitted for DHCD approval.
  - Use of Program Income for Administration:
    - a. Program income received may be allocated to general administrative costs to maintain the activity approved under the grantee's program income plan.
    - b. Program income should be applied towards administrative costs with the following points in mind:
      - The percent of program income allocated to administrative or program delivery costs should not exceed the grantee's existing administrative percentage to the grant where the program income is applied.
  - All CDBG and Massachusetts CDBG regulations apply to the use of program income. This includes income earned after close-out. The only exception is when less than \$35,000 in total program income is earned in a program year from all the MA CDBG programs in the community at the time, since such funds are not considered program income. However, if the grantee, after close-out, continues the activity which originally generated the program income, the regulations stay in effect as long as the grantee continues the same activity.
  - The state shall require units of general local government, to the maximum extent feasible, to disburse program income that is subject to the requirements ... before requesting additional funds from the state for activities. The grantee must use program income prior to the drawdown of additional funds from DHCD except when a grantee maintains a revolving fund for an activity. The program income (interest

and loan repayments) may be maintained in the revolving fund account if the grantee is submitting a drawdown for funds for an unrelated activity.

MA CDBG retains the right to recapture program income when:

- a. the grantee has not complied with the approved program income plan; or
  - b. the grantee has used program income for activities that didn't meet a national objective and/or ineligible activities; or
  - c. program income is earned from a Massachusetts CDBG EDF Loan project.
  - d. the amount of program income exceeds projected cash needs for the reasonable near future, some or all of the program income may be required to be returned to the state until such time as it is needed by the local government.
- Grantees earning program income will be required to return to the Massachusetts CDBG 2% of their gross program income, as an administrative fee, semi-annually beginning each October 1st. and April 1st in order to comply with the semi-annual requirement. Instructions for the return of these funds may be found later in this chapter under Procedures for the Reporting/Returning of Program Income below.
  - When all programs have been closed, the grantee must inform Mass. CDBG whether there will be a continuing capacity to administer program income funds in accordance with the regulations. If the municipality does not choose to administer the funds, they must be returned to Mass. CDBG. The method and frequency of payment shall be attached to the "MA CDBG Final Close-Out Agreement, Special Conditions" section.

*Procedures for the Reporting Program Income:*

- ◇ All receipts of returned funds to a municipality must be recorded in DHCD's Grant Management System (GMS)/Intelligrants in the municipality's program income account.
- ◇ Funds received should be recorded as they are received but must be recorded minimally on a quarterly basis based on the program year that begins April 1 and ends March 31 the following year. Deposits must be recorded by July 1, October 1, January 1 and April 1. In addition, the grantee will report receipts to the program income account in the quarterly report narrative for review by program and fiscal representatives for active grants.
- ◇ Funds that are determined not to be program income (see program income does not include, page 19) must be removed from the program income account. These are miscellaneous income that the municipality may use at its discretion though

DHCD encourages municipalities to use the funds for community development related activities.

- ◇ A municipality may declare miscellaneous income to be program income at which time it becomes program income and is subject to all CDBG requirements and program income procedures.
- ◇ All program income will be receipted into HUD's IDIS database and identified with each community. To the maximum extent feasible the PI funds will be disbursed prior to the disbursement of CDBG grant funds.
- ◇ During the annual CDBG application process, applicants will be required to provide a Program Income Plan that will describe how they will use the program income funds in the grant they are applying for.
- ◇ If funded with a balance in the program income account (determined as of April 1), the program income will be added to the grant as described in the application.
- ◇ Applicants that are not funded will be required to add the program income to an existing open grant if the municipality has one or DHCD will work with the municipality to establish a program income grant using DHCD's GMS in order to utilize the program income.
- ◇ Program income funds will be added to a grant using the grant amendment function in DHCD's GMS.
- ◇ If funds are determined to be program income prior to the end of the program year, DHCD will work with the municipality to add the program income to an existing grant or establish a program income grant using DHCD's Grant Management System (GMS).
- ◇ It is DHCD's intent, to the extent possible, to allow municipalities to utilize locally generated program income. However, there may be circumstances in which DHCD determines that a municipality must return program income to DHCD if the municipality is unable to demonstrate to DHCD that they have the capacity and/or ability to spend the program income funds.
- ◇ Grantees will follow established procedures using GMS/Intelligrants for the expenditure of program income funds including submitting standard claim forms to document the use of the funds.

## **Property Management**

The State shall establish and implement requirements, consistent with State law and the purposes and requirements of this subpart (including paragraph (j) of this section) governing the use, management, and disposition of real and personal property acquired with CDBG funds.<sup>13</sup>

When property is acquired, used and disposed of, the following property management standards must be followed. Recipients of Mass. CDBG funds may use a limited portion of their administrative funds to purchase supplies and equipment necessary to furnish and administer their program. Grantees are required to give a general breakdown of such costs in the grant application and must provide detailed documentation of the purchase,

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<sup>13</sup> 24 CFR 570.489 (k)

use, and disposition of this property in the file. The CDBG/INTELLIGRANTS computer software contains a property register.

*Exempt Property*

Tangible personal property valued at less than \$300 and with a useful life of less than one year. This includes office supplies such as paper, pens, small calculators, file folders, etc.

The grantee retains title to this property and is not required to keep the property management records described below. From the standpoint of maintaining a cost efficient purchase system, grantees should keep track of the items purchased, the cost, the supplier, and other relevant information.

*Expendable Personal Property*

For expendable personal property: If the aggregate exceeds \$5,000 and it is not needed for any State or grant funded activity it may be acquired by the grantee or sold at fair market value. The proceeds will be treated as program income.

*Non-expendable Real and Personal Property Register*

Tangible real and personal property having a useful life of more than one year and an acquisition cost of more than \$300. Mass. CDBG retains title to this property and requires that grantees keep an accurate up-to-date property management register which includes the following information:

- a description of the property
- an identification number (serial number, model number, stock number, etc.)
- source of funds used to purchase the property including grant or other agreement number
- whether title vests in the grantee or Mass. CDBG
- acquisition date
- percentage of Mass. CDBG funds used in the purchase of the property
- location, use, and condition of the property, and the date the information was reported
- unit acquisition cost
- disposition data, including date of disposal and sale price, or the method used to determine current fair market value when a grantee compensates Mass. CDBG for its share.

### *Ongoing Use of the Property*

The grantee may continue using the property for the program as long as it is needed whether or not the project is still funded by MA CDBG. The grantee shall retain title to the property provided they use it for the authorized purpose of the original grant. When the property is no longer needed for the original grant purpose, DHCD approval is needed for its continued use in other projects. Use of the property for other projects shall be limited to other federal grant programs or those with a purpose consistent with the original project.

### *Non-expendable Personal Property With Unit Acquisition Cost of \$5,000 or Less*

Grantees may retain the property for other uses without reimbursement to the State.

### *Non-expendable Personal Property With Unit Acquisition Cost in Excess of \$5,000*

Property may be reclaimed by Mass. CDBG or transferred to another grantee at the discretion of Mass. CDBG. When the property is no longer needed, the grantee shall request disposition instructions from Mass. CDBG. Disposition options may consist of the following:

- The grantee may retain title after buying back the amount equal to the percentage of participation in the original project (at fair market value) from Mass. CDBG; or
- Mass. CDBG may direct the grantee to sell the property and reimburse to Mass. CDBG the amount derived by applying the Mass. CDBG percentage of participation in the original project to the sale proceeds (after deducting actual upkeep and selling expenses); or
- Mass. CDBG may direct the grantee to transfer ownership of the property to Mass. CDBG upon reimbursement by Mass. CDBG. Reimbursement shall be based on the grantee's percentage of participation in the cost.

### *Common Problems Found During Monitoring:*

- Grantee did not maintain a property management register
- Grantee did not update the property management register as new items are purchased.

## **Audit Requirements**

OMB Super Circular: 2 CFR Part 200, Subpart F – Audit Requirements

### *The Audit Requirements for Grantees and Subgrantees*

The OMB Super Circular: 2 CFR Part 200, Subpart F – Audit Requirements requires that states, local governments, and non-profit entities expending more than \$750,000 in total federal financial assistance must have an annual entity-wide Single Audit. It further requires state and local governments which receive federal financial assistance and then “subgrant” assistance to subrecipients to monitor the subrecipients and review subrecipient audit reports to determine whether expenditures are in accordance with applicable laws and regulations and the Super Circular. A subrecipient is defined in 2 CFR 200.93 as an entity that receives a subaward from a pass-through agency (i.e., HUD, MA CDBG, etc.) to carry out part of a federal program and has decision making abilities with respect to the federal program activities. Subrecipients must allow access to their records by the independent auditors and pass-through agencies for the purposes of effective monitoring and compliance audits. State and local governments must also ensure that corrective action is taken in any instances of internal control deficiencies/material weaknesses and noncompliance with laws and regulations governing the federal financial assistance.

The local CFO (Town Accountant, City Auditor, Finance Director), is the person responsible for ensuring compliance with applicable Single Audit requirements. MA CDBG grantee community development office or other management entity must confer with the local CFO to determine whether the federal funds expended under this program plus all other federal funds expended would trigger a Single Audit. The audit must be completed by an independent public accounting firm.

### *Cost of Audit Services*

The grantee may proportionately charge the cost of the auditing services between each grant program covered during that year. Grantees should estimate the percentage share that may be charged to each individual grant program when preparing their budgets for that particular year. See OMB Super Circular: 2 CFR Part 200.425 for further guidance on audit services costs.

### *Audit Procedures*

An audit of a community's Massachusetts CDBG grant must be conducted in accordance with the General Accounting Office Standards for Audit of Governmental Organization Programs and Activities and Functions, and Guidelines for Financial and Compliance Audits of Federally Assisted Programs, which include generally accepted auditing standards established by the American Institute of Certified Public Accountants (AICPA).

In order for an audit to be in conformance with these requirements it must include an assessment of the grantee's compliance with program regulations such as environmental review procedures and grant agreement provisions. The grantee should make available for reference all major documents, regulations, policy memoranda, and handbooks

associated with the Mass. CDBG. The grantee should familiarize itself with the scope and procedures for the audit in order to answer any questions. Note that the Mass. CDBG staff is always available as a reference source.

If the grantee's scheduling of the audit results in CDBG Program funds advanced for a given year not being audited within that year, Mass. CDBG may require the documentation of unaudited expenditures or the deferral of official close-out until unaudited funds are audited as part of the next scheduled audit. Mass. CDBG will base its determination of the appropriate requirement upon such consideration as the amount of advanced, unaudited funds, the amount of time until the next scheduled audit and other factors. Grantees with unaudited Mass. CDBG funds at the time of termination may be conditionally closed out by Mass. CDBG pending receipt, review, and final resolution of findings resulting from the final audit.

#### *Procurement of an Auditor*

If the audit is paid for with federal funds, the audit firm must be procured in accordance with the requirements of state procurement regulations and as provided for in OMB Super Circular: 2 CFR Part 200, Subpart F – Audit Requirements.

#### *Staff Availability During the Audit*

The auditor should conduct an entrance conference with program staff to explain what documentation and records the grantee must make available in order for an audit to be performed.

The auditor must conduct an exit conference prior to preparation of the audit report in order to discuss any possible findings. If findings have resulted simply from the auditor's inability to locate, recognize, or understand existing documentation, the grantee may be able to clarify or provide such information as may be needed to resolve possible deficiencies at the exit conference. Thus, the grantee can help ensure the validity of audit findings.

#### *Distribution of the Audit Report*

The audit report must be submitted to Mass. CDBG, even if findings and/or questioned costs are not cited in regard to the City or Town's CDBG Programs. The due date for filing audit reports is within nine months after the period being audited (March 31 each year). An extension request must be filed by the local CEO prior to the March 31 date if the report will not be filed on time. The extension request must show a reasonable timeframe for completion and submission of the audit. Grant payments will be held if either of these documents are not on file by the March 31 deadline. Also the audit report is to be submitted electronically via CDBG/INTELLIGRANTS (see User Manual for specifics), along with the management letter (if one is issued). Please inform the audit firm not to send paper copies to DHCD.

### *Procedures for Resolving Findings*

Generally, findings noted during an audit are responded to by the community before the final audit report is issued and those comments are then included in the final report. If the grantee's response and corrective action plan to findings were not included in the audit report, the report will be rejected and will need to be updated and resubmitted. The grantee must identify the name(s) of the contact person(s) responsible for the corrective action and the expected implementation date of the actions. The response must describe each finding and explain how the grantee proposes to or has resolved each identified deficiency. The response should be concise and to the point, emphasizing actions taken or proposed remedy to identified deficiencies and providing the estimated time for correcting these deficiencies. If the grantee does not agree with the audit finding or believes a corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

The summary schedule of prior year audit findings shall report the current status of those findings. Were they corrected? If not, or if they were partially corrected, an updated corrective action plan must be included. If the corrective active plan is significantly different than previously reported, or of the MA CDBG management decision, the schedule must provide an explanation. If the grantee beleives the finding is no longer valid or does not require further action, the reasons for this position must be described and will have to meet the following criteria: (i) Two years have passed since the finding was cited and submitted to the central clearinghouse; (ii) The Federal agency or Mass. CDBG is not currently following up with the grantee on the audit finding; and (iii) A management decision was not issued.

Grantees should not assume that findings are cleared until they receive written confirmation of such from DHCD/DCS Audit Coordinator.

### *Reporting Package*

A Reporting Package must be provided to MA CDBG and must include the following information from the audits, and the required information must also be submitted to the Federal Audit Clearinghouse by the March 31<sup>st</sup> deadline each year.

- An audit certificate with concise, general statements about the audit results, signed by the auditee's chief executive office or cheif financial officer;
- The financial statements and schedule of expenditures for federal awards prepared by the auditee;
- The summary schedule of prior audit findings prepared by the auditee;
- The auditor's reports and schedule of findings and questioned costs; and
- A corrective action plan prepared by the auditee.