DIGITAL RESOURCE MANUAL: FINANCIAL MGMT. 101

2 CFR Part 200 and 24 CFR Part 570: Financial Management

To effectively and compliantly administer CDBG-DR awards, subrecipients must maintain an accurate, appropriate, effective, timely and transparent financial management system. The financial management system—which includes the people, accounting and reporting systems, and documentation processes—must be able to tell the complete story about: (1) how CDBG-DR funds were used; (2) how there are adequate controls to safeguard cash, property and other assets; (3) how all expenditures were necessary and reasonable; and (4) how and when an independent auditor reviewed the books.

Key Point

Additional Financial Management and Grant Compliance Certifications may be required for grantees and subrecipients in each federal appropriation. Details can be found in the applicable Federal Register Notices.

Analysis: 2 CFR Part 200

What it Means?

- Before spending any CDBG-DR funds, subrecipients should take stock of their financial management system to verify there are adequate personnel, capacity, procedures, internal controls, accounting systems, bank accounts, budgeting and cash management practices in place to successfully and compliantly spend federal funds.
- Capacity gaps should be addressed prior to incurring CDBG-DR costs. Failure to establish and maintain adequate financial management systems may result in a subrecipient having to return grant funds.
- Subrecipients must separately categorize and account for such cost items as: direct and indirect costs; HUD project, activity delivery, planning, and administration costs; costs by recipient; pre-award expenses; and program income.

Keep in Mind

- CDBG-DR subrecipients must develop written policies and procedures that include a detailed approach to financial management.
- CDBG-DR subrecipients should evaluate their staff, contractor capacity, and financial systems based on the size of complexity of their CDBG-DR award.
- CDBG-DR subrecipients should have adequate documentation, tracking and reporting systems in place to account for and tell the complete story of expenditures to a third party auditor, such as GLO, HUD or HUD's Office of Inspector General.
- All costs must be necessary and reasonable.
- Ensure sources of project financing are committed and available to a project and that the project is financially feasible.
- Ensure CDBG-DR funds are not substituted for non-Federal financial support.

Resource List

Below is a quick listing of resources that are accessible, relevant and valuable. Icon ( ) denotes the most relevant resources at the Financial Management 101 level.

CDBG-DR Resources	Links
GLO's Recovery Website	https://recovery.texas.gov/
HUD's Financial Management Curriculum	https://www.hudexchange.info/trainings/financial-management-curriculum/
HUD CDBG-DR Toolkit	https://www.hudexchange.info/programs/cdbg-dr/toolkits/
HUD's CDBG-DR Toolkit: Financial Management	https://files.hudexchange.info/resources/documents/CDBG-DR-Financial-Management.pdf
24 CFR 570	https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title24/24cfr570_main_02.tpl
OMB 2 CFR Part 200	https://www.govinfo.gov/content/pkg/CFR-2014-title2-vol1/pdf/CFR-2014-title2-vol1-part200.pdf
Federal Register Notices	https://www.hudexchange.info/programs/cdbg-dr/cdbg-dr-laws-regulations-and-federal-register-notices/
CDBG-DR Program Planning, Admin, & Activity Delivery Webinar	https://www.hudexchange.info/trainings/courses/2016-cdbg-dr-program-planning-administration--activity-delivery-webinar/994/-part-24/
Texas Integrated Grant Reporting (TIGR)	https://cdrportalprd.dynamics365portals.us/
Depository/Authorized Signatories Form	https://recovery.texas.gov/documents/grant-administration/grant-implementation/infrastructure-forms/s2-depository-authorized-signatories-designation-form.xlsx
Direct Deposit Authorization Form	https://recovery.texas.gov/documents/grant-administration/grant-implementation/infrastructure-forms/s2-direct-deposit-form.pdf
Request for Payment Form	https://recovery.texas.gov/documents/grant-administration/grant-implementation/infrastructure-forms/s2-request-for-payment.pdf
Form 16.08 APPD Draw Request Checklist	https://recovery.texas.gov/grant-administration/grant-implementation/housing/index.html
Draw Support Invoice – Admin, Planning, Project Delivery, Draws	https://recovery.texas.gov/grant-administration/grant-implementation/housing/index.html
Refund, Subrogation, and Program Income Policy	https://recovery.texas.gov/grant-administration/grant-implementation/housing/index.html
HUD Guidance: Allocating Staff Time between PACs	https://www.hudexchange.info/resource/3725/notice-cpd-13-07-allocating-staff-costs-program-administration-delivery-costs-

Pertinent Citations

- 24 CFR §570:
  - Appendix A- *Guidelines and objectives for evaluating project costs and financial requirements*
  - Subpart I *State CDBG-DR program*
  - Subpart J- *Grant Administration*
- 2 CFR § 200, including all of Subpart E Cost Principles
- Uniform Grant Management Standards – Texas Comptroller of Public Accounts and Guidance under 2 CFR § 200
- Texas Local Government Chapter 171
- HUD CPD Directives, particularly related to administration and activity delivery costs and grant closeout requirements
- Federal Register Notices

Key Point

Citations to the Code of Federal Regulations in the Federal Register are cited with the title number, the abbreviation CFR, the word "part" or the symbol "§" for section, and the number of the part or section.

As in "24 CFR part 570" or "24 CFR §570"

Glossary

HUD has many existing resources in place to help understand CDBG-DR laws, regulations and practices. Below is a quick listing of resources that are accessible, relevant, and valuable.

Accounting Records	Records should sufficiently identify source and application of funds through cash receipts, disbursement journals, and ledgers/charts of accounts. At a minimum, identify transactions and provide for budgetary control.
Activity Delivery Costs	Costs of carrying out a specific CDBG-DR program and providing a program benefit. A few examples include staff time necessary to administer a specific program, site specific environmental costs, project underwriting/selection, etc.
Allocable Costs	A cost is allocable to a particular grant, Subrecipient agreement, vendor contract, program, or other cost objective if the goods and services involved are chargeable and assignable to that cost objective in accordance with relative benefits received. This standard is met if cost: is incurred specifically for that cost objective; benefits both that cost objective and other work of the subrecipient and can be distributed in proportions that may be approximated using reasonable methods; and is necessary to the overall operation of the subrecipient and is assignable in part to the specified cost objective in accordance with 2 CFR § 200.
Allowable Costs	Pursuant to 2 CFR § 200, costs must meet the following general criteria to be allowable as a charge against a federal award: costs must be necessary and reasonable for the performance of the Federal award and be allocable to that award; costs must conform to any limitations or exclusions set forth in 2 CFR § 200 or in the Federal award as to types or amount of cost items; costs must be consistent with policies and procedures that apply uniformly to both federally-financed and other subrecipient activities; costs must be accorded consistent treatment; costs must be determined in accordance with generally accepted accounting principles; and costs must be adequately documented.

Budget	A written financial plan of an organization, department, or program for a specific period. Budgets are a method to plan for the use of resources, a mechanism to forecast and control revenues and expenses, and a vehicle to advance the strategic priorities of an organization.
Depository/Authorized Signatories Form	Identifies the persons responsible for both contractual documents (executed subrecipient agreements, associated amendments, program certifications) and financial documents (requests for payments, issuance of checks).
Direct Deposit Authorization Form	Subrecipients are highly encouraged to submit this form to their Grant Manager, allowing GLO to make grant payments via direct deposit.
Direct Costs	Those costs that can be identified specifically with a particular cost objective and directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.
Documentation	CDBG-DR subrecipients must adequately document that costs are allowable, reasonable, and allocable to the grant. A few examples include detailed receipts, cost comparisons, and staff timesheets.
Eligible Costs	Costs that conform to HUD's CDBG-DR requirements (including limitations and waivers described in applicable Federal Register Notices), comply with federal cost principles, and align with all associated cross-cutting federal requirements and State and Local law.
Federal Cost Principles	Regulations that help organizations determine eligible costs for specific activities identified in grant agreements and contracts. Subrecipients should ensure they are using the appropriate OMB Circular guidance and complying with State and Local laws.
Financial Management	The process of using funds effectively, efficiently, and transparently. It is accomplished through a combination of procedures, methods, rules of conduct, and standards.
Indirect Costs	A necessary cost for the overall operation of the CDBG-DR grantee or subrecipient. It may not be directly related to any particular program activity. A few examples include office rent and utilities and computer maintenance. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.
Indirect Cost Rate	The ratio between the total indirect expenses and some direct cost base. Indirect cost rates must be determined fairly within the boundaries of sound administrative principles. A subrecipient's indirect cost rate must be supported by an indirect cost proposal/cost allocation plan approved by the subrecipient's cognizant agency.

Ineligible Costs	Costs determined to be unnecessary, unreasonable, or unallocable to the CDBG-DR grant. A few examples include funding spent on individuals that are not approved as beneficiaries in the application, projects that have not received environmental clearance, and funds to benefit political campaigns.
Internal Controls	Required by Federal law and HUD regulations. People, procedures, and processes that provide oversight and safeguarding of cash, property, and other assets. Critical elements include procedures, formal job duties/responsibilities, and checks and balances within systems.
Necessary Costs	Costs must be necessary expenditures of Federal funding to meet program objectives. Unnecessary costs are those that are not required to achieve the objectives of the Subrecipient agreement or not related to the CDBG-DR program being administered.
Planning Costs	Costs related to the development of Action Plans, functional plans, methods of distribution, or other related activities.
Program Administrative Costs	Costs that CDBG-DR grantee or subrecipient must incur to administer or manage the overall CDBG-DR program (e.g. monitoring, financial management, reporting).
Program Income	Gross income received by the subrecipient that was generated from activities funded in whole or in part by the Subrecipient agreement. A few examples include proceeds from the sale or long-term lease of rental property, proceeds from the disposition of equipment purchased with CDBG-DR funds, etc.
Project Costs	Direct costs of undertaking a project and providing a beneficiary of CDBG-DR funding. Examples include construction hard costs, grants or loans to homeowners and businesses, etc.
Reasonable Costs	A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to: whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award; the restraints or requirements imposed by such factors as sound business practices, arm's-length bargaining, Federal, state, local, and other laws and regulations, and terms and conditions of the Federal award; market prices for comparable goods or services for the geographic area; whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the subrecipient, its employees, the public at large, GLO, and the Federal Government; whether the subrecipient significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the cost.

Segregation of Duties	No single person within an organization has sole authority over financial transactions. This separation must be documented with organizational charts and position descriptions.
Unallowable Costs	Prohibited uses for federal funds. If subrecipients use CDBG-DR funds on unallowable costs, they must be refunded with interest back to GLO. Some examples include programmatically or contractually ineligible costs, cost of general government and costs that would be required regardless of a CDBG-DR funded project, and funds for lobbying/political campaigns.