CH 3 FINANCIAL MANAGEMENT

Introduction

Effective financial management is the heart of CDBG administration. Funding recipients are held accountable for all funds, property and assets of the CDBG program. Recipients must maintain a financial accounting system for the grant that meets Federal and State requirements.

This chapter provides detailed guidance on financial management requirements including: applicable regulations and requirements, financial accountability and records, authorized signatures for payments and checks, requests for payments, bank accounts and checks, escrow accounts, administrative costs, property management, and audit requirements.

Section 1 - Applicable Regulations and Requirements

The Division of Administration (Finance) in the S. C. Department of Commerce is responsible for monitoring recipients for compliance with applicable financial management standards, for processing Requests for Payments (RFPs) of CDBG funds and audit review.

Following is a list of the key Federal regulations governing financial management. These documents can be found in the companion Reference Manual.

- 24 CFR Part 570, Community Development Block Grant Program.
  - Subpart I governs the State CDBG program.
  - Section 570.489 details program administration requirements.
  - 24 CFR Part 570.511 refers to the administration of escrow accounts. (The CDBG Entitlement Program regulations on this topic are considered a "safe harbor" for use in the State CDBG Program.)
- 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, (Cost Principles and Audit Requirements).
  - This regulation, which applies to government agencies, sets forth uniform requirements for financial management systems, fiscal controls, cost principles, allowable costs, audit requirements, reports and records, grant close-outs for recipients of Federal grant funding, etc.

This regulation superseded requirements in OMB Circulars A-87 (State and Local Government Cost Principles), A-122 (Non-Profit Organization Cost Principles), A-102 (State and Local Government Administrative Requirements), A-110 (Institutions of Higher Education, Hospitals and Other Non-Profit Organizations Administrative Requirements), and A-133 (Audits of State, Local Governments and Non-Profits).

Section 2 - Financial Accountability and Records

To comply with the regulations, the recipient must have a financial management system that provides accurate, current and complete disclosure of the financial status of each CDBG supported activity, according to the terms and conditions of the Grant Award Agreement. Recipient accounting records must show the source and application of grant-funded money. The Recipient records maintained must disclose accurate information about grant and subgrant award, obligations, unobligated balances, assets, liabilities, expenditures, and income.

> Recipients should be able to meet these financial management requirements with their existing systems; however, it may be necessary to augment existing systems by developing special procedures that bring the systems in compliance with Federal and State requirements.

Recipient financial management systems must have a budget control system that makes it possible to compare actual expenditures with budgeted amounts for each supported activity. The financial management system must make it possible to relate financial information to performance or productivity.

Recipients must have a cash management procedure in place that minimizes the elapsed time between receipt and disbursement of CDBG funds. Recipients must monitor the cash management to ensure that systems are in compliance.

Financial management systems must also have sound internal control procedures that cover cash, real and personal property, and other assets. The internal control system must safeguard all CDBG funded property and ensure that such property is used solely for grant authorized purposes.

Accounting Records

The recipient must maintain separate accounting records for CDBG funds. Not only will separate records serve all of the required recordkeeping requirements, but it will also eliminate potential conflicts with the recipient's usual recordkeeping systems, which may reflect a different local fiscal year or accounting functions by department rather than by activity.

It is the responsibility of the recipient as well as the administering agency to maintain all grant related records. Grant files should mirror each other at each location. Finance recommends using three ring-binders as an effective and efficient form of recordkeeping and financial best practice.

The recipient should establish three documents for recording CDBG-related transactions:

- Cash Receipts Journal: This journal must be maintained to record the receipt of all funds (local, State, and Federal) used for program activities. The record must include the date funds were received, the amount of funds received, the source of funds, and the accounts into which funds were assigned.
- Cash Disbursements Journal: This journal must be maintained to record all checks issued for payment of project costs. The record must include the date of payment, the payee, check number, amount and the account from which the disbursement was made.
- General Ledger: This ledger must be maintained to summarize cash receipts and disbursements on a sub-account basis. All entries to the General Ledger must be made from the Cash Receipts and Cash Disbursements Journal.

All records and correspondence pertaining to a CDBG grant must reflect the grant number. If any assistance is needed to complete forms or clarify requirements, contact Finance or the State CDBG staff.

At the time of a financial monitoring, the above ledger and journals must be available for review. The ledger and journals should be able to demonstrate that a budget and cost control system exists in the accounting records.

Costs should be regularly compared to the budget. Procedures for cost control typically include (1) analysis to detect variance of actual costs from budgeted costs, (2) procedures to determine the cause(s) of variance, and (3) corrective measures to ensure that actual and budgeted costs are consistent. Grantees, project administrators and construction managers (engineers and architects) must coordinate to ensure that project costs are consistent with the approved budget, and if costs exceed the budget, a source of funds is identified and secured in advance of costs being incurred.

Allowable Costs

Costs incurred, whether charged on a direct or indirect basis, must be in conformance with the current requirements of 2 CFR Part 200.

All items of cost listed in 2 CFR Part 200 are allowable with prior approval of the State to the extent they are otherwise eligible under current State CDBG regulations at 24 CFR Part 570, Subpart I.

Recipients should also ensure that CDBG funds are spent only on reasonable and necessary costs associated with approved grant activities. CDBG funds may not be used for general expenses required to carry out other responsibilities of the recipient. The recipient must have a procedure for determining the reasonableness, allowability and allocability of costs. The records maintained must disclose accurate information about grant and sub-grant awards, obligations and unobligated balance of funds.

CDBG administrators must review vouchers and invoices to ensure the costs are allowable under regulations, approved in the CDBG grant application, allocated to the correct program activity, and are reasonable. As stated previously, guidelines for allowable costs and how to determine the reasonableness of costs are provided in 2 CFR Part 200. The recipient is responsible for reviewing and certifying that its financial management system, as well as those of any subrecipients, meets the requirements of 2 CFR Part 200. Information on specific kinds of costs is provided below.

Pre-Agreement Costs

Prior to the effective date of the grant agreement and prior to the release of grant funds by the State, at its own risk, an applicant may obligate and spend local funds for the purpose of application preparation and development of an environmental assessment required by 24 CFR Part 58. Reimbursement from CDBG will **only** be allowed for expenditures identified as pre-agreement costs in the application and approved by the State. The applicant may obligate and spend local funds to undertake certain other activities related to planning and environmental review. Other activities, such as acquisition or engineering and design costs, may only be undertaken with the **prior written approval of the State** (unless otherwise specified for certain programs). This is encouraged so that project readiness can be improved.

After the effective date of the grant agreement, the applicant may be reimbursed with funds from its grant, provided that such activities were undertaken in compliance with all applicable CDBG requirements and detailed and approved in the application.

In order for such costs to be eligible for reimbursement under the CDBG program, applicants must follow State procurement and contracting procedures when services are to be provided by entities other than the local government (i.e., COGS, consultants, engineers). All contracts must be approved by the State prior to execution in accordance with the policies outlined in Chapter 7. Executed copies of contracts and agreements must be maintained in the grant file.

The application should separate the costs for application preparation and environmental assessment (if it is a pre-agreement cost) from general project administration. However, the total costs should be shown in the general administration budget line item and are subject to the 10 percent maximum on

general administration costs. Costs charged for application preparation will be reviewed for reasonableness. The average charge is approximately $3,000 and costs are generally expected not to exceed that amount. Costs which do exceed this amount must have substantial justification and require prior approval to be CDBG reimbursable. No reimbursement will be made to any locality that does not receive CDBG funds for the project for which costs were incurred.

Acquisition Costs

Estimated costs of easements for water lines, sewer lines, sidewalks, etc., must be budgeted under the "Acquisition" line item. Appraisal and review appraisal fees, legal and title search costs should also be listed under the Acquisition budget item.

Water/Sewer Tap and Connection Costs

Generally, the costs associated with connecting an LMI residential unit to a water or sewer line are considered housing rehabilitation. These are activities that occur on private property and may be contracted separately from the main water/sewer line construction. These costs may include service lines and appurtenances on private property. A recipient may execute one contract for water/sewer line construction and connections to housing units.

CDBG funds may only be used for hard construction and installation costs for low- and moderate-income hook-ups/connections to public water and sewer, and not to pay any water or sewer connection, impact or capacity fees. Any associated fees for low and moderate income hook up/connection to public water and sewer must be waived or paid with non-CDBG funds and may be considered part of the local match requirement.

For rental units occupied by LMI tenants, the investor should pay for any connection, tap or impact fees. However, CDBG funds may pay hard costs after the rental property owner enters into an agreement with the unit of local government to maintain affordable rents and rent to LMI households for a reasonable period of time.

In the event connection costs involve a mobile home park, an affordable rent agreement must be obtained from the mobile home park owner prior to the provision of the assistance.

Engineering Costs

CDBG funds may be used to pay for specific engineering costs including:

- Wetlands delineation or other environmental review related work (if procured in accordance with State guidelines),
- Preparing drawings and specifications,
- Providing information for use in acquiring easements or other real property,
- Providing information for use in filing applications for permits or design approvals,
- Revising drawings in response to directives from governmental authorities as needed,
- Preparing bidding documents and revising, as needed,
- Bidding the project and negotiating with contractors, as needed,
- Putting the contract together and participating in the pre-construction conference,
- Construction observation and inspection,
- Preparing pay requests,
- Conducting final inspection and providing a notice stating that the work is acceptable,
- Preparing final as-built drawings.

For projects funded prior to January 1, 2026**,** where CDBG funds are used to pay for engineering services, costs will be determined using the CDBG Engineering Fee Schedule (see Engineering Schedule Form).

For projects funded on or after January 1, 2026**,** engineering costs will be calculated as a flat fee of up to 15% of the construction cost. For smaller or more complex projects, the fee may increase to up to 20%, subject to a maximum engineering cost of $150,000**.**

Any other additional engineering services or costs which exceed the applicable CDBG engineering cost limits should be paid with local funds. Additionally, if the fee schedule for construction management is exceeded due to a reduction in the construction costs, then local funds must make up the difference.

Special Assessments

"Special assessment" means the recovery of the capital costs of a public

improvement, such as streets, water or sewer lines, curbs, and gutters, through:

- A fee or charge levied or filed as a lien against a parcel of property as a direct result of benefit derived from the installation of a public improvement, or
- A one-time charge made as a condition of access to the public improvement.

This term does not relate to taxes or periodic charges based on the use of public improvements, such as water or sewer user charges even if such charges include the recovery of all or some portion of the capital costs of the public improvement.

Where CDBG funds are used to pay all or part of the cost of a public improvement, special assessments may be used to recover capital costs as follows:

- **Special assessments to recover CDBG funds**: Special assessments to recover CDBG funds may only be made against properties not owned and occupied by LMI persons. Such assessments are program income.
- **Special assessments to recover non-CDBG funds**: Special assessments to recover the non-CDBG portion may be made provided that CDBG funds are used to pay the special assessment on behalf of all properties owned and occupied by LMI persons; except that CDBG funds need not be used to pay the special assessments in behalf of properties owned and occupied by moderate income persons if the grant recipient certifies that it does not have sufficient CDBG funds to pay the assessments in behalf of all of the LMI owner-occupants. Funds collected through such special assessments are not program income.
- **Public improvements not initially assisted with CDBG funds**: CDBG funds may be used to pay special assessments levied against property when this form of assessment is used to recover the capital cost of eligible public improvements initially financed solely from sources other than CDBG.

  The payment of special assessments with CDBG funds constitutes CDBG assistance to the public improvement. Therefore, CDBG funds may be used to pay special assessments only if:

  - Installation of the public improvement was carried out in compliance with requirements applicable to activities assisted with CDBG funds including environmental, citizen participation and Davis-Bacon requirements,
  - Installation of the public improvement meets a criterion for National Objectives (i.e., LMI Benefit, Slums or Blighted Area, or Urgent Needs), and
- Requirements described above for "Special assessment to recover non-CDBG funds" are met.

Contingency

Funds providing for contingencies **may not** be budgeted as a separate activity or budget line item. A contingency must be contained within the specific activity's budget line item for which it is intended and must be reasonable in amount.

Required Match and Leveraging Commitments

It is the goal of the CDBG program to ensure that CDBG funds are used as a catalyst for other investments. A minimum 10% match is required for all projects and written commitments must be provided for Required Match and any additional leveraging pledged to a CDBG project. Required Match generally refers to the minimum contributions to the grant (i.e. 10%). Leveraging refers to additional, other non-CDBG funds required to complete the project. Required Match and leveraging may include funds from other federal, state and local funding sources, private investment, or non-profit contributions. Matching and leveraging resources may include cash, in-kind, force account labor, volunteer labor or donations, as well as grants, loans or waiver of fees (except as otherwise noted).

Application Requirements

CDBG projects are expected to leverage other public and private investments and serve as a catalyst for future development. Projects that traditionally have the greatest long-term impact are those that have an investment by the community. Leveraging of CDBG funds is also considered a scoring factor in the selection of projects for funding.

Match and leveraging must be for activity costs directly related to the CDBG project. The state must approve in advance any proposed match/leveraging that has been spent (except application or environmental review costs) prior to application submission for all projects except Ready to Go. With prior written approval, the match may be used for acquisition, engineering design or permitting prior to the submission of the application. This is encouraged so that projects are construction ready.

Waiver of Match Requirement

The match/leveraging requirement may be modified or waived by the State upon written request and after consideration of the following minimum factors:

- The nature of the project - whether the project addresses an urgent health, safety, or community development need,
- The need being addressed - whether the project responds to a state priority that is identified as a highest-ranked priority in the application cycle,
- Local financial capacity - whether audited financial statements or equivalent documentation demonstrate that the applicant lacks the ability to provide the full match, and
- The availability of other resources - whether reasonable efforts to secure other public or private funding sources have been unsuccessful.

The Grantee must provide financial and other information as may be needed (i.e. audited financial statements) in order for the State/Finance to make a determination regarding a match waiver. It is unlikely that a 100% waiver will be approved since match can come from a variety of sources.

Localities unable to provide commitments for the full amount of Required Match at the application stage must submit a waiver request to the State prior to submitting the application request. The State reserves the right to modify the matching requirement for any grant where the State determines such modification to be necessary and appropriate based upon the nature of the project, the identified needs to be addressed, and the availability of community or other resources. The applicant must submit a written request to the State to waive or modify the matching requirements. In order to determine local financial capacity, the State may require the submission of the recently completed audits of the applicant and/or water and sewer authority as appropriate. It is unlikely that a 100% waiver will be approved since match can come from a variety of sources.

Required Match and additional leveraging can come from local or other sources, as described below.

Local Funds

The locality must submit with its application a resolution from its governing body that commits any Required Match or leveraging funds to be provided by the applicant. The resolution must also identify the type and source of funds and commit to sharing cost savings on a pro rata basis. **Matching funds must be immediately available for the project at the time of application.**

Locally approved sales tax can also be considered a source for the match. The required match may also come from any other source.

Any fees for low and moderate income hook up/connection to public water and sewer **must be waived or paid with non-CDBG funds**, and may be considered part of the local match requirement. Where matching funds or a waiver of fees are to be provided by a water and sewer entity, a letter of commitment must be submitted with the application. When tap or connection fees are waived, only the portion which is not being paid by the grant as an actual construction cost may be counted as a waiver.

Other Funding Commitments

Projects often will require funds other than CDBG and local funds to accomplish goals and objectives. When other funds are committed to the project, either to meet the minimum Required Match or as additional leveraging, a letter of commitment must be submitted with the application. To document a public/private commitment, the applicant must submit a letter of commitment from the public/private sector participant that specifies the amount of funds, conditions, and

the time frame in which such commitment will be carried out. Where other funds are required to carry out the CDBG activity, such funds must be available at the time of application.

For projects utilizing volunteer labor as a part of the required leveraging, a commitment from the organization (or individual if not part of an organization) estimating the approximate type of work, number of hours, and available time frame should be submitted with the application. Volunteer time should be valued using the current national Independent Sector volunteer rate (independentsector.org) for all volunteer time, regardless of the type of work being performed. If in-kind labor will be used as part of the required leveraging, timesheets must be kept, and the value should be based on the current hourly rate of the employee performing the work. For donated materials, fair market value must be documented. For equipment usage, the appropriate FEMA equipment rate must be used to determine value.

Local lending institutions intending to participate in projects must submit letters of commitment clearly stating that funds will be made available for use and any conditions or restrictions that may be placed upon the program or loan applicants.

Implementation Requirements

All Required Match and additional leveraging must be for activities which are to be expended or incurred after the date of the grant award unless prior written approval has been given by the State. The grantee must report the expenditure of all Required Match and additional leveraging and must provide supporting documentation for the Required Match. In no case may CDBG funds be used to supplant local funds.

Required Match and other leveraging should be spent on a pro rata basis to avoid supplanting local and other funds. Accordingly, CDBG drawdowns will be proportionate to the share of Required Match. Supporting documentation must be provided along with RFPs reporting expenditure of the Required Match. The grantee must also report the expenditure of all leveraging included in the project budget, but supporting documentation can be maintained in the grant file for review at the financial monitoring. Acceptable forms of supporting documentation are discussed in the following section.

Budget revisions are required to be submitted when additional Required Match or other leveraging funds are needed to cover contract overruns. Contracts may not be approved until the budget revision is approved.

If Required Match or leveraging includes volunteer labor and donations, CDBG funds for individual budget items may be drawn, if necessary, before all supporting documentation has been submitted and leveraging reported as expended.

The amount of the Required Match, as a percentage of total CDBG project costs,

may not change even if there are cost savings or a decrease in the project budget. The amount of additional leveraging and the overall percentage of match/leveraging may decrease, but generally, cost savings should accrue proportionally to all funding sources, unless a regulatory requirement by another Federal funding agency supersedes this requirement. However exceptions will be considered on a case-by-case basis under limited circumstances to reduce the burden to local governments or to make funding available for other community projects to serve LMI persons. Requests for exceptions should be made in writing to the State as soon as possible and prior to close-out.

If the amount of Required Match or other leveraging decreases from what was originally proposed, a budget revision to adjust the overall leveraging must be submitted and approved by the State prior to the grant being deobligated. Competitive projects with leveraging beyond the Required Match received a scoring advantage in the selection process and, therefore, are expected to maintain the same level of overall funding committed to the project. Reductions in total leveraging amount may result in performance and threshold concerns which could affect the ability of the locality to receive future CDBG funding.

Supporting Documentation

Financial records must be fully supported with source documentation. Examples of source documentation include: canceled checks, Contractor's Payment Application (construction "Pay Apps"), other invoices, payrolls, time and attendance records, as appropriate, request for payments, and bank statements, deposit slips or other original documents supporting receipts or expenditures.

Listed below is the minimum supporting documentation necessary for review during a financial monitoring.

- Evidence of local match and other leveraging (Pay Apps, invoices, checks, time sheets, donations, etc.)
- Invoices
  - There must be a Pay App or invoice for each disbursement
  - Pay Apps and invoices must be marked/stamped "Paid" with date and check number
  - Pay Apps and invoices must have proper approvals (i.e. grantee approval, engineer/architect certificate of inspection/completion, etc.)
- Purchase orders for small grant purchases
- Executed contracts and change orders
  - There must be an executed contract and change order (if applicable) for each payment to a contractor
  - Grants Administration approval/change order letters must be available

for review

- Subrecipient agreement (if applicable)
- Bank statements and copies of signed checks
- Deposit tickets and/or daily cash sheets or reconciliation reports
- Time and attendance records
  - Time and attendance records are required to be on file for review if the recipient is administering the grant or being paid for services with grant funds.
- Accounting records
  - Journals and general ledger (from inception of grant activity)
  - Budget and cost control spreadsheets

All required source documentation not available at the Financial Monitoring visit must be submitted to Finance within 5 business days of the visit in order to complete the monitoring report in a timely manner.

Section 3 - Authorized Signatures for Payments and Checks

As discussed in Chapter 1, the CDBG Authorized Signatures for Payments and Checks form is one of the CDBG Start-Up Checklist items that must be completed by the recipient and returned to Finance prior to the drawdown of CDBG funds. (See the attachments to this chapter for this form. Refer to Chapter 1 for more information on the CDBG Start-Up Checklist.) This form is used to give certain individuals authority to sign checks and to request payment from the State.

Two signatures are required for each check written for CDBG funds. Each person on the Authorized Signature Form should be bonded for at least the amount of the grant award.

The form allows designation of four persons to request funds for a project, but a minimum of two persons is required. This authorization should be documented in the minutes of council meetings and maintained on file for review.

- Note that the person in Block 4 of the form who authorizes individuals to sign requests for payment and checks must be a higher ranking official than anyone authorized in Block 3, but not lower than the City or County Administrator. This person may not sign checks or requests for payments.

- In addition, the individual signing in Block 4 cannot authorize himself/herself to sign requests for payment or checks.

Since local forms of government vary, please consider this as you review the examples of authorizations listed below.

- County Council Chairman could authorize:
  - County Administrator,
  - County Treasurer, or
  - Finance Director.
- County Administrator could authorize:
  - County Treasurer, or
  - Finance Director.
- Mayor could authorize:
  - Town Administrator,
  - Town Clerk, or
  - Finance Officer.
- City/Town Administrator could authorize:
  - Clerk, or
  - Finance Officer.

These examples give the recipient a guide to determine who is eligible to authorize other individuals' signatures on checks or requests for payments. This is to ensure that an individual does not authorize his own signature and does not authorize a higher-ranking official. However, in certain circumstances it may be necessary to request a waiver of this requirement. If so, the recipient may request a waiver of the policy by submitting a waiver request form to the State for approval. The waiver request form is provided by the State and must be returned on the recipient's letterhead.

Note that the person(s) responsible for administering the grant (Administrating Agent) is not acceptable as authorized signatures on this form. The Administering Agent acting as a paid contractor would give the appearance of and potential for conflict of interest if they were allowed to submit bills to the recipient and sign their own check. If there is difficulty in determining who is appropriate for signatures, contact Finance.

Block 5 of this form also provides the name of the bank or local personnel to which the checks are to be mailed for grant drawdowns. The recipient is encouraged to use minority banks whenever possible. The recipient also indicates on this form if a grant is advance or reimbursable.

Section 4 - Requests for Payment

There are two methods recipients are allowed to use to request payment of CDBG funds from the State -- cash advance and cost reimbursement. This selection is determined in Block 7 of the CDBG Authorized Signatures for Payments and Checks form.

- The cash advance method entails the State sending recipients CDBG funds in advance of the recipient actually paying the expenditure. This method is most often used because it helps local governments manage cash flow and avoids the need to front project costs with local funds. Note that this method is only allowed if the recipient maintains procedures to minimize the time elapsing between the transfer of funds and their disbursement.
  - When using the cash advance method, the recipient must project future expenses and determine their cash requirements prior to requesting CDBG funds. Cash advances shall be limited to the minimum amount needed for immediate disbursement needs.
- The cost reimbursement method of payment entails the payment of CDBG funds to the recipient based on actual expenditures that the recipient has already paid.
  - When using the cost reimbursement method, the recipient requests reimbursement for expenses incurred and paid in connection with the grant.
  - Normal monitoring procedures will be followed for cost reimbursement grants.
  - When using the cost reimbursement method, funds must be drawn in a timely manner, typically within 30 days of the recipient paying the expenditure. Failure to draw funds may result in a monitoring concern or finding.

Requirements for Submittal of a Request for Payment (RFP)

Recipients requesting CDBG funds from the State must use the CDBG Request for Payment form (referred to as the RFP). The blank form and instructions may be found as attachments to this chapter.

Recipients should determine their cash requirements prior to requesting CDBG funds. The funds requested should be for amounts necessary to meet current disbursement needs. "Current disbursement needs" are funds that will be expended as soon as administratively feasible.

The following requirements must be met before Finance and the State can process the first RFP:

- The Grant Award must be signed and returned to the State.

- All required documentation in the Start-Up Checklist must be submitted to the State and Finance. (NOTE: An approved copy of the Start-Up Checklist will be mailed to the recipient once all requirements have been met.)

The following requirements apply for the submittal of any RFP:

- Recipients must request funds by activity or budget line item. The only exception is that up to $5,000 may be requested on the initial RFP without specifying a budget item. Also, any time a recipient is required to return cash, the recipient must submit a RFP specifying which activity or budget line item to credit. Also, if funds are being drawn down at the same time as the refund is being submitted, the refund and drawdown must be done on separate RFP's.

- It may occasionally be necessary and allowable to spend funds received on a budget item different than the one specified on the RFP. An example would be a water and sewer project where the recipient anticipates an invoice for water only and requests funds accordingly; however, when the invoice comes in it is for both water and sewer. In this case, the recipient will need to adjust the amounts previously drawn down. This is done on the next RFP, in the adjustments column. One or more budget items will be debited, while one or more other budget items will be credited by an equal and offsetting amount, resulting in zero net change to total grant funds drawn. The only thing that will change is the amount drawn against the affected budget items.

- Draws for administrative and public services funds must each be submitted on **separate RFPs** to facilitate federal reporting of program compliance with administration and public services caps. Requests for administrative funds will also be reviewed to ensure that the amount drawn to date is proportionate to progress, and if not, the RFP may be returned.

- Prior to all RFPs for construction, a Construction Contract Draw Request Review (CCDRR) form should be completed by the project administrator and approved by the grantee to ensure costs are consistent with the approved budget and that work is consistent with the approved activities from the application and the construction contract. This form should be kept on file as back up source documentation and must be available for review during the monitoring visit. Finance may request copies of all forms during the financial monitoring visit or prior to close-out of the grant.

  In some cases, the State may require the CCDRR form and back up Pay Apps, invoices, or other supporting documentation be submitted with the Requests for Payment.

- If the required match/leveraging is not expended prior to the draw of CDBG funds, CDBG funds equal to the Required Match will be retained, and the recipient may not draw down these funds until all supporting documentation

is received. Supporting documentation for the Required Match must be attached to the Request for Payment (RFP) on which it is reported. Depending on the type of match being provided, supporting documentation may include invoices, copies of checks, time sheets, evidence of donated equipment or credits for impact or capacity fees, etc.

The drawdown restrictions for match may not apply to all economic development job creating projects.

The approved grant application, along with the most recently approved budget, should be used as the basis for the development of the RFP. The amount requested for each activity must conform to the activities and costs approved in the grant application budget.

Submittal and Processing of RFPs

Once the above listed requirements have been met, the recipient may draw down CDBG funds. An original with the appropriate signature(s) and two copies of the RFP should be mailed to the following address for review and processing:

Department of Commerce, Finance
1201 Main Street, Suite 1600
Columbia, SC 29201.

RFPs may be submitted no more frequently than weekly. **Monday is the cut-off day for processing RFPs.** Any RFP received after the cut-off day will be held until the next cut-off date. **Fax copies of RFPs are generally not accepted.**

The recipient should allow ten to fifteen working days from the cut-off date to receive the requested CDBG funds. The recipient Project Administrator will receive notification of the date the check is mailed from the Department of Commerce (or funds are disbursed via ACH payment). A follow-up procedure with the bank should be maintained by the recipient to ensure that the funds are disbursed soon after they are received.

Any RFP that is not completed properly will be returned to the recipient without being processed. Some of the reasons an RFP may be returned include:

- Contract not approved by the State (if applicable),
- Funds requested exceed approved budget,
- Adjustments to amounts previously drawn not reported correctly or in a timely fashion,
- Administrative funds not requested on a separate RFP or proportionately to progress,
- Public services funds not requested on a separate RFP,

- Budget amounts, amounts previously drawn, and/or total expenditures to date do not agree with Finance records,
- Required match not documented prior to draw down of final CDBG funds, or a pro rata draw is not requested, if required,
- Unauthorized signature on RFP,
- Grant period has expired, or
- There is a reason to stop payment on the grant (see below).

The State may stop payment of CDBG funds for the following reasons:

- Quarterly reports not received,
- Annual Audit Applicability Forms not received,
- Annual Single Audits, if required for any fiscal year, not received, or
- Response to monitoring findings, response to audit requirements, or other requests not received.

After all necessary funds have been drawn down the grantee must submit a Final Closeout RFP to indicate the grantee is ready to begin the closeout process. This Final RFP will show the actual CDBG and local expenditures and will also reflect any final adjustments and/or refunds; however, if the "Total Drawdown to Date" amounts (Column J) did not change from the final drawdown, the figures would remain the same on the Final RFP. The Final RFP must be coded "F" and, provided there are no outstanding financial or programmatic monitoring findings or other unresolved issues, this will trigger deobligation of the grant and begin the grant close-out process.

Finance may return incorrect Final RFPs to the recipient with a request for corrections and resubmission prior to processing.

Refer to Chapter 13 for detailed information on the close-out process.

Section 5 – CDBG Fund Management and Checks

In addition to the guidance of §200.305(7)(i), it is currently the state's policy that each recipient have a fund-based accounting system sufficient to prepare reports, trace all funds, and ensure control and accountability over all property, funds, and assets. This will alleviate the need for a separate bank account for CDBG funds. All recipients must provide the most recent Single Audit for review. In certain circumstances where the recipient may not have a fund-based accounting system the recipient will be required to establish a separate bank account.

If a recipient is required to establish a separate bank account, the following requirements apply:

The recipient must ensure that the selected bank permits a zero balance without closure or penalty.

The State recommends that a non-interest bearing account be established for this purpose. If CDBG funds are placed in an interest bearing account, the recipient may retain interest earned up to $500 per year for administrative expenses provided there are actual expenses to apply the funds to. **Any excess interest (above $500) must be returned to Finance by check payable to the SC Department of Commerce. Department of Commerce will return the interest to HUD**. This interest must be remitted promptly, but no less frequently than quarterly.

Other types of interest which must be returned to Finance by a check payable to HUD include:

- Interest income from loans or other forms of assistance provided with CDBG funds that are used for activities determined to be not eligible, fail to meet a national objective or fail to substantially meet other CDBG requirements.
- Interest income from deposits of amounts reimbursed to the state prior to the state's disbursement of the reimbursed funds for eligible purposes.

The recipient must have established procedures to minimize the time elapsing between the receipt of funds and their disbursement. A recipient may retain up to $5,000 at all times without being cited for excess cash on hand. Any excess funds over $5,000 that cannot be disbursed in a timely manner must be returned to Finance by check payable to the South Carolina Department of Commerce with the grant number noted on the check. For financial monitoring purposes, ten (10) working days or less is considered "a timely manner".

As stated previously, two signatures are required on each check written for CDBG funds. The persons signing checks must be the same as those submitted on the Authorized Signatures for Payments and Checks form

discussed previously.

However, in certain circumstances it may be necessary to request a waiver of the two-signature policy. If so, the recipient may request a waiver of the policy by submitting a waiver request form along with the recipient's current check writing procedures and most recent Single Audit to be reviewed by the State prior to approval. The waiver request form is provided by the State and must be returned on the recipient's letterhead.

All checks must have source documentation for each expenditure as outlined in Section 2 of this chapter. The required documentation must be maintained for review by the State, Finance and/or audit officials. Once the check is disbursed, the Pay Apps & invoices should include the following: stamped or marked paid, date paid, check number, initials of person authorizing payment, and any difference in the amount paid noted on the invoice.

As a financial best practice, the State recommends that recipients avoid using counter checks. If counter checks are the most reasonable payment option, the recipient should make certain that counter checks are pre-numbered and in sequential order.

Section 6 – Program Income

Definition and Treatment of Program Income

Program income is defined as gross income received by 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 CDBG funds were awarded and whether the activity has been closed out.

However, per HUD regulations**,** funds are only considered program income once the total amount received during a program year exceeds $35,000. Any amount below this threshold is not treated as program income.

Inclusions

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

- 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 or personal property acquired by the unit of general local government or a subrecipient of a unit of general local government with CDBG funds, less the costs incidental to the generation of the income.
- Gross income from the use or rental of real property owned by the unit of

general local government, or a subrecipient of a unit of general local government, that was constructed or improved with CDBG funds, less the costs incidental to the generation of the income.

- Payments of principal and interest on loans made using CDBG funds.
- Proceeds from the sale of loans made with CDBG funds, less reasonable legal and other costs incurred in the course of such sale.
- Proceeds from the sale of obligations secured by loans made with CDBG funds, less reasonable legal and other costs incurred in the course of such sale.
- Interest earned on funds held in a revolving fund (RF) account.
- Interest earned on program income pending disposition of the income.
- Funds collected through special assessments made against properties owned and occupied by households that are not low and moderate income, where the special assessments are used to recover all or part of the CDBG portion of public improvements.
- 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.

Exclusions

Program income does not include:

- Total funds of less than $35,000 received in a single year (January 1 to December 31), from activities other than revolving funds.

  Amounts generated by activities eligible under 105 (a) 15 of Title I. This refers to activities undertaken by a certified Community Based Development Organization (CBDO) in carrying out a neighborhood revitalization, community economic development, or energy conservation project.
- Proceeds from the sale of real property purchased or improved with CDBG funds, if the proceeds are received more than 5 years after final close out.
- Payments of principal and interest, made by a subrecipient carrying out a CDBG activity, toward a loan from the grantee to the extent that program income received by the subrecipient is used for such payments. NOTE: Some earned interest must be returned to HUD

Reporting of Program Income

All program income generated from the use of CDBG funds must be reported to the CDBG Data Program Manager. Units of general local government and subrecipients are permitted to retain program income for reuse for their next CDBG-funded project. Program income will be credited to the CDBG award but may not be used to satisfy the local match requirement.

Section 7 – CDBG Administrative Costs

CDBG funded administrative costs should not exceed 10 percent of the CDBG project activity costs, excluding administrative costs, with a $50,000 maximum. In the case of a complicated project or small project scope or other extenuating circumstances, the State will consider allowing up to 15 percent of the CDBG-funded project activity costs (excluding administrative costs). A written request must be submitted from the Grantee to the State.

Where an approved project cannot be implemented in its entirety and a reduction in the project activity costs results in the administrative cap being exceeded, the State will consider a request to exceed the cap.

Local or other funds must be used for additional administrative costs above the typically allowed 10 percent. CDBG funds may also not be used to administer other federal or state grant programs which may be conducted in conjunction with a CDBG project.

Administrative draws should be proportionate to progress, and administrative funds drawn should generally match the level of project completion. This is to prevent administrative costs from exceeding the 10 percent cap in the event of significant cost under-runs, and in turn, ensure that the State Program as whole does not exceed HUD limits on administration costs.

The objective is to tie administrative dollars to project performance and completion. Unless there is an administrative contract approved by the State that specifies a pay schedule based on tasks completed or milestones achieved, the recipient may request an initial administrative draw for application preparation (if included in applications as pre-agreement costs), environmental review and other start-up costs. Generally, draws of more than 30% of the total administration budget will not be approved prior to a project being under construction, unless significant acquisition activities have also been completed. After that administrative requests that are greater than the percentage of non-administrative draws will not be processed.

(Note: A general conflict exists where a local government awards a contract to a firm to administer its CDBG program, while the same firm is to provide engineering or architectural design service on the same project. In this case, an administrator may not oversee and approve its own work.)

Personnel Costs

The eligibility of administrative costs is determined according to the current requirements of 2 CFR Part 200. The major requirements pertaining to these costs are summarized in this section.

Federal regulations do not allow CDBG funds to be used to supplant available local funds. Typically, local governments that administer their own grants (i.e. - they do not contract with a consultant or COG) will provide the administration as in-kind leveraging (above the required local cash match) since CDBG funds cannot be used to pay local government staff. COG/non-profit administrators who charge administrative time to a CDBG grant for which reimbursements will be requested are required to fully document how the time was spent. (This requirement does not apply to private consultants who contract on a fixed fee basis for CDBG administrative services. These arrangements are subject to procurement requirements outlined in Chapter 7.)

Time and attendance records must be kept to document actual hours worked and costs charged to the administrative budgets of CDBG projects. Reimbursements will be allowed based on actual costs only.

Documentation may be kept using the CDBG Administration Activity Report (available as a download from cdbgSC.com) or a similar form. This report is essentially a time sheet that should be kept daily. The Administration Activity Report tracks actual hours worked and provides space for hours that are billable to the CDBG account (Billable Hours).

An Administration Activity Report may be completed for each grant, or you may include more than one grant on each sheet. For each grant, you must show a grant total and a billable total. This form was designed for a bi-weekly payroll period, but may be modified for a weekly or monthly pay period.

Documentation of CDBG administrative costs is mandatory. At a minimum, the form/report must contain the following information:

- Employee name,
- Pay period,
- Hours worked by day,
- Actual hours charged to the grant,
- Employee signature,
- Supervisor signature, and
- Hours billable to the payroll account.

The Administration Activity Report or similar form will be subject to review during regular monitoring visits of CDBG projects.

Training Costs

In addition to charges required to administer a CDBG project, costs for approved

training opportunities may be eligible expenses of a specific grant. Generally, only training that can be directly related to the administration of a specific CDBG project will be eligible for reimbursement.

Any CDBG-related workshop or training that is sponsored or required by the State may be charged as a direct administrative expense for a specific grant. Generally training sponsored by HUD or the SC Community Development Association is also eligible. However, there may be other training opportunities that provide necessary or appropriate training relating to the implementation of a CDBG project. Such training expenses may be eligible under general administration or planning and capacity building depending on the nature of the training. **If the training is not required by the State, prior written approval must be obtained from the State before such training may be incurred.** The request for approval must include the following:

- A copy of the agenda or a detailed description of the scope of the training,
- An explanation of how the training program directly relates to the administration of a CDBG project, and
- An estimate of the costs of such training (including travel expenses).

Section 8 – Property Management

Each item of non-expendable property to be acquired with CDBG funds at a cost of $5,000 or more must be approved by the State prior to purchase. If the item has a useful life of one or more years, the Grantee must maintain adequate property inventory controls and comply with the property management, use and disposition requirements outlined in 2 CFR in §200.313 and §200.439. In addition, an Equipment Control Record form must be completed showing pertinent information regarding the equipment including the description of item, serial number, location, disposition, etc. This form (available as a download from cdbgSC.com) must be completed and returned with the grant close-out package. A copy must also be maintained by the grantee and updated as necessary until disposition. At monitoring, Finance staff will ensure that proper inventory controls and records are being maintained. You should contact Finance for disposition instructions prior to transfer, trade or sale of equipment paid with CDBG funds.

Section 9 – Financial Monitoring

The Department of Commerce, Division of Administration (Finance) is required by Title I of the Housing and Community Development Act of 1974, as amended, to review the performance of units of local government which receive State CDBG funds. In particular, the review will determine if records are maintained in compliance with 24 CFR Part 570, 2 CFR Part 200, and other State requirements. Typically, requests for payments, general ledgers, invoices, construction Pay Apps, canceled checks, and bank statements are reviewed to confirm that the recipient

has an adequate system of financial management, but Finance and State staff may also make specific requests to review other information or documentation relating to financial management of a grant.

Scheduling the Visit

The monitoring visit to review the financial records for each project will generally be scheduled once the project's payment request have reached the threshold of 70% drawn.

Together, the recipient, Finance, and the Grant Administrator will decide on a suitable date, time, and location for the monitoring visit. The recipient will be notified, in writing, approximately thirty (30) days prior to the scheduled visit. The engagement letter will explicitly outline the documentation that will be reviewed during the financial monitoring:

- Expenditure Documentation: Copies of the invoices and/or & Construction Pay Apps (being stamped or marked as "PAID", showing the date, amount paid, check #, and authorizing personnel's initials).
- Revenue & Expenditure Postings: Copies of the General Ledger and/or Excel Spreadsheet showing the receipt & disbursement of the requested CDBG funds.
- Bank Statements: Copies of the bank statements for the timeframe of the project, along with copies of the canceled checks (showing the check number, date written, and amount paid). The Finance team requests that the recipient provides a separate working copy of the bank statement for our records.
- Executed – Contract(s)/Subrecipient Agreement(s) and Change Order(s)/ Amendment(s): A copy of each executed Contract/Subrecipient Agreement and Change Order(s)/Amendment(s).
- Approved State Documentation: Copies of the approved Grant Application, Grant Award, Budget Revisions, Project Period Extensions and Project Amendments (if applicable).

The information provided in the engagement letter will enable the recipient and the Grant Administrator to make a final review of project's fiscal files prior to the Finance team's scheduled visit.

Financial Areas Monitored

The Finance team conducts the monitoring using checklists as a guide to all of the applicable laws and pass through-entity requirements. A general description of each of the finance areas on the Monitoring Checklist follows are as follows:

- RFP Preparation: RFPs are reviewed to determine if authorizing signatures,

CDBG and Match/Leveraging activity budgets are correct. Also to determine that RFPs have been submitted in a sequential order and the cumulative CDBG and Match/Leveraging amounts balance to Commerce's most recent Grant Status Update report. RFP drawn amounts are traced to the recipient's general ledger and bank statements for accuracy.

- General Ledger: The general ledger is reviewed to determine the timely receipt and disbursement of CDBG funds by the recipient. This ledger must be maintained to record all CDBG deposits and disbursements issued for payment of project costs. The recipient should record the receipt of funds immediately in the general ledger. The record must include the date of the deposit for the funds drawn, the date of the payment, the payee, check number, and amount for the disbursed funds.

- Bank Statement Reconciliation: The bank statement is reviewed to determine that the recipient has established a separate bank account, unless approved otherwise. (See Section 5 - CDBG Bank Accounts and Checks.) The bank statement is also reviewed to determine the timely receipt and disbursement of CDBG funds by the recipient. The deposit date shown on the bank statement should be the same date as the receipt of funds in the general ledger. Funds should be disbursed in a timely manner. For financial monitoring purposes, ten (10) working days or less is considered "a timely manner". The recipient must have established procedures to minimize the time elapsing between the receipt of funds and their disbursement. The funds should or must clear the bank account within twenty (20) working days.

- Financial and Programmatic Documentation Review: The support documentation is reviewed to -

  - Assure that all the approved start-up documents have been maintained and copies are properly executed.
  - Verify executed contracts, change orders, and subrecipient agreements.
  - Authenticate required program progress changes such as budget revisions, project period extensions, project amendments, and other related changes.
  - Review invoices and Construction Pay Apps to ensure that drawn amounts have been disbursed as they should be and approval authorizations are correct.
  - Review invoices and Construction Pay Apps for cost distribution and to make certain CDBG funds are spent only on reasonable and necessary costs associated with approved grant activities.
  - Review Construction Contract Draw Request Review forms to certify costs are consistent with the approved budget and that work is consistent with the approved activities from the application and the

construction contract.

- Verify local match requirements and leveraging costs.

Exit Interview

After the financial monitoring has been completed, the Finance team representative will conduct an exit interview with the Grant Administrator and other officials such as the Mayor or City or County Administrator. Many times the Exit Interview will be to notify the recipient that there were no problems and that the program complies with CDBG requirements. However, any problems will be presented and discussed in the following context:

- A "finding or identified problem" is an action or lack of action(s) in direct violation of a statutory requirement or regulation. A finding/identified problem usually requires a corrective action or actions that are outlined by Finance.
- A concern is a non-statutory issue that involves program improvement or management. Actions or recommendations may be provided to address the identified concern. A recipient does not have to respond to recommendations, but it is strongly suggested that the recipient give the recommendations consideration.
- A recommendation is a financial best practice of common methods or standard operating procedures developed for carrying out accounting, financial reporting, budgeting, and other activities related to business finances assuring that the most effective and efficient manner is used.
- A note is a reminder of any standing approvals or future changes in the project.

Monitoring Letter

Within approximately thirty (30) days of the monitoring visit, the recipient's chief elected or administrative official will receive formal notification of the results of the monitoring visit.

The review letter will outline the recipient's financial accomplishments and any findings/identified problems, concerns, recommendations, or notes along with suggested corrective actions. A written response will be required from the recipient within (30) thirty days of receipt of the monitoring letter if there are any noted findings/identified problems.

Failure to respond within the thirty (30) day period will be considered non-compliance with the grant's terms and conditions. This situation may result in a stop payment being placed on the grant until a suitable response is received by Finance.

Also see Chapter 12: Reporting, Amendments and Monitoring – Section 5 (Sanctions) and Section 6 (Grant Termination) for additional information concerning the recipient's non-compliance with the provisions of the CDBG grant agreement, start-up documentation, and guidance as outlined in the implementation manual.

Financial Monitoring Most Common Findings

- Incorrect budget activity balances reflected on submitted RFPs.
- Unauthorized signers on RFPs.
- Unauthorized signers on checks.
- Allowing one signature check authorizations without having an approved Two-Signature Waiver on file.
- Comingling funds in general fund bank account without having an approved Separate Bank Account Waiver on file.
- Utilizing multiple bank accounts for receipt and disbursement of funds for individual projects.
- Depositing grants funds into the incorrect bank account when having multiple active grants.
- Timely receipt and disbursement of CDBG funds.
- Maintaining an excess of the allowable $5,000 cash on hand in the account.
- Invoices and Construction Pay Apps not properly stamped/marked/ approved.
- Improperly executed change orders.
- Missing Construction Contract Draw Request form(s).
- Non-submission of Notification of Audit Applicability form for current and deobligated projects.
- Non-submission of Single Audit for current and deobligated projects.

Section 10 – Audit Requirements

Audits are one of the primary financial management requirements implicit with the use of Federal funds by non-Federal governmental entities such as states, local governments and nonprofit organizations. The required audits are commonly referred to as "Single Audits" under the Single Audit Act of 1984, as amended in 1996. The Single Audit Act provides that recipients are subject to one audit of all of their Federal programs versus separate audits of each Federal program, hence the term "Single Audit."

Guidance related to Single Audits can be found in Subpart F, Audit Requirements ("Subpart F") of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

As an agency administering federal funds, the SC Department of Commerce is responsible for ensuring grantees comply with applicable guidance and requirements.

Audit Threshold

In accordance with 2 CFR 200.501**,** any non-Federal entity that expends $1,000,000 or more in Federal awards during its fiscal year must have a Single Audit conducted in accordance with Subpart F. This requirement applies to all non-Federal entities, including local governments.

"Federal financial assistance" is defined in Subpart F as assistance received by non-Federal entities via a Federal award, or in the form of grants, cooperative agreements, non-cash contributions or donations of property (including donated surplus property, direct appropriations, food commodities) and other assistance. For the purposes of Subpart F audit requirements, "Federal financial assistance" also includes loans, loan guarantees, interest subsidies and insurance.

Note, however, that the audit threshold is based on the annual **expenditure** of Federal financial assistance, as defined above, and not on the amount of the Federal award. Also note that the threshold is based on the expenditure of all Federal awards from all sources, by an entire organization (not just a department or division).

Notification of Audit Applicability

If a recipient expends more than the applicable threshold in Federal funds from any source during a single fiscal year, then a Single Annual Audit is required. Further, the recipient must annually notify Finance of this by completing and submitting a **Notification of Single Annual Audit Applicability Form to Finance within 60 days of the end of the recipient's fiscal year.**

This form provides information needed to determine whether a Single Audit is necessary, including the total amount of funds from all Federal sources expended during the fiscal year. It should be signed by the recipient's Chief Administrative Official, such as the Mayor, County Administrator or City Manager. However, in certain circumstances it may be necessary for the Finance Director, Treasurer, or Town Clerk to sign the form. .

If a recipient expends **less** than the applicable threshold amount during any fiscal year, it is exempt from the audit requirements for that fiscal year. However, the grantee must still submit the Notification of Single Annual Audit Applicability Form to Finance. It must also maintain documentation of expenditures and make this available for review or audit by appropriate officials of the Federal agency, state agency or pass-through entity administering the Federal funds, and the General Accounting Office.

Any recipients that have not submitted the required annual Notification of Single Annual Audit Applicability at the time of a monitoring visit will have that noted in the Monitoring Review Letter. This required action will carry forward in all future letters until the requirement is satisfied.

Audit Report and Data Submission Requirements

The audit package and the data collection form shall be electronically submitted to the Federal Audit Clearing House (FAC) 30 days after receipt of the auditor's report(s), or 9 months after the end of the fiscal year – whichever comes first, complying with requirements in §200.512 Report Submission.

Recipients will be notified by the State of outstanding FAC uploads/submissions 60 days after the 9-month due date deadline.

When selecting an auditor, recipients should include the audit requirements in the request for proposals and resulting audit contract. (Refer to Chapter 7: Procurement and Contracting for more information on procedures that must be followed when procuring services.)

Subpart F requires the electronic submission of a Data Collection Form (Form SF-SCA) and the audit Reporting Package to the Federal Audit Clearinghouse (FAC). Requirements for each are defined in Subpart F as follows:

- Appendix X to Part 200 – Data Collection Form:
  - States whether the audit was completed in accordance with Subpart F of 2 CFR Part 200
  - Provides information about the auditee, its Federal programs, and the results of the audit.
  - Data included on the form must include required information available from the audit and necessary to allow Federal agencies to use the audit

to ensure integrity for Federal programs.

- Must include data elements and be in the format approved by OMB and available from the FAC and must include collections of information from the reporting package described below.
- A senior level representative of the auditee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to be included as part of the data collection that says that the auditee complied with the requirements of Subpart F of 2 CFR Part 200, the data were prepared in accordance with Subpart F (and the instructions accompanying the form), the reporting package does not include protected personally identifiable information, the information included in its entirety is accurate and complete, and that the FAC is authorized to make the reporting package and the form publicly available on a Web site.

◆ Reporting package:

- Financial statements and schedule of expenditures of Federal awards, complying with requirements in §200.510 Financial Statements;
- Summary schedule of prior audit findings, complying with requirements in §200.511 Audit Findings Follow-Up;
- Auditor's report, complying with requirements in §200.515 Audit Reporting, and
- Corrective action plan complying with requirements in §200.511 Audit Findings Follow-up.

Subpart F also includes requirements for the audit reports that must be issued upon completion of an audit. Subpart F requires the following components:

◆ An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles.

◆ An opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.

◆ A report on internal control over financial reporting and compliance with Federal statutes, regulations and the terms and conditions of the Federal award, noncompliance with which could have a material effect on the financial statements. This report must describe the scope of testing of internal control and compliance and the results of the tests and, where applicable, refer to the separate schedule of findings and questioned costs described below.

◆ A report on compliance for each major program and report on internal

control over compliance. This report must describe the scope of testing of internal control over compliance, include an opinion or modified opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program and refer to the separate schedule of findings and questioned costs described below.

- A summary of the auditor's results, which must include:
  - Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;
  - The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
  - A statement as to whether the audit disclosed any "audit findings" that the auditor is required to report;
  - An identification of major programs by listing each individual major program; however in the case of a cluster of programs only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required;
  - The dollar threshold used to distinguish between Type A and Type B programs, and
  - A statement as to whether the auditee qualified as a low-risk organization.
- Findings relating to the financial statements which are required to be reported in accordance with GAGAS;
- Findings and questioned costs for Federal awards which must include:
- Audit findings that relate to the same issue (e.g., internal control findings, compliance findings, questioned costs, or fraud) presented as a single finding and organized by Federal agency or pass-through entity;
- Audit findings that relate to both the financial statements and Federal awards reported in both sections of the schedule.

The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section.

Audit Submission

Generally, the due date for submission of the audit report is established in the Audit Requirements Certification Form, which must be completed and returned with the grant award as part of the Start-Up Checklist. Refer to Chapter 1 for

more information. Audit Reports must be submitted to Finance no later than 9 months after the end of the fiscal year.

A copy of the audit report must be submitted to the:

Department of Commerce, Finance

Audits may be submitted via email to:

singleaudit@sccommerce.com

or mailed to:

1201 Main Street, Suite 1600

Columbia, SC 29201.

Please note that if the recipient indicates on their Notification of Single Annual Audit Applicability Form that they are exempt for a particular fiscal year, a copy of the annual audit or other financial report review must be maintained to document the assertion of exemption. In all cases, the grantee must maintain appropriate records and these records must be available for review or audit by appropriate federal, state, pass-through entity or General Accounting Office personnel, as necessary to verify information provided on the form.

Any recipients that were required to submit Single Audits but have not done so as of the time of a monitoring visit, will have that noted in the Monitoring Review Letter. This required action will carry forward in all future letters until the requirement is satisfied.

Audit Review and Resolution

Recipients and subrecipients must establish a system to ensure a timely and appropriate resolution to audit findings and recommendations. A first step in the resolution of an audit is the preparation of "Management's Response" to the findings and recommendations contained in the audit report. In its response, a recipient or subrecipient should provide:

- **For findings/recommendations with which the recipient/ subrecipient agrees**, information on the actions it has taken (or plans to take) to correct the specified non-compliance or financial system deficiencies; and
- **For findings/recommendations with which the recipient/ subrecipient does not agree**, the basis (including relevant documentation) for the subrecipient's belief that an audit finding or recommendation is inaccurate or inappropriate.

If in its Management's Response the recipient or subrecipient has disagreed with any of the audit findings or recommendations, the entities issuing and reviewing

the audit report will re-examine the points in question to determine whether any revisions to the report's findings/recommendations are warranted. For those audit findings and recommendations with which the recipient or subrecipient agrees, and for any disputed findings or recommendations in which the challenge is not upheld, the next step in the resolution process is the implementation of procedures to prevent the deficient conditions from re-occurring. In general, corrective action to correct findings or to implement recommendations must be completed within one year of the issuance of the audit report.

A "repeat finding" (a deficiency or area of non-compliance which appears in more than one successive audit) will be viewed very seriously and can often result in special conditions being attached to federal funding, or other sanctions.

Occasionally, the findings from an audit will result in "questioned costs". Costs associated with federal funding may be questioned for the following reasons:

- There is inadequate documentation to support the expenditure or the amount of cost charged to the grant.
- The expenditure does not appear to be related to the grant project.
- The cost was incurred outside the effective period of the grant agreement, or was a program expense incurred before environmental review clearance was achieved.
- The expense is unallowable under the program regulations and applicable cost principles.
- The cost required the prior approval of the recipient, and no prior approval was obtained.

To resolve a questioned cost, the recipient or subrecipient must:

- Provide the missing documentation to support the expenditure and amount,
- Offer detailed explanations of how the cost relates to the grant program, and/or
- For an expense that required prior approval, seek retroactive approval (which the recipient may or may not give).

If a recipient or subrecipient is not able to resolve a questioned cost to the satisfaction of the auditor and/or recipient, the expense will be disallowed.

- A disallowed expense for which federal funds were originally used must be reimbursed from non-Federal funds.
- On occasion, such reimbursements can be repaid on a payment schedule negotiated with the recipient or the other relevant officials (e.g., HUD/OIG representatives).

Chapter 3: Financial Management
Attachments

Audits

- Audit Requirements Certification Form
- Notification of Single Annual Audit Applicability

Authorized Signatures

Authorized Signature Form

Request for Payment Forms

- Request for Payment Smartform

Other Forms

- Administration Activity Report
- CDBG Engineering Fee Schedule