

Financial Management

Cost Principles

CDBG Entitlement

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Internal
Controls

Accounting
& Records

Audits

Budgeting

Reporting

Procurement



Agenda

Financial Management

Cost Principles

Budgeting

Procurement

Internal Controls

Grant Based Accounting

Audit

Financial Management

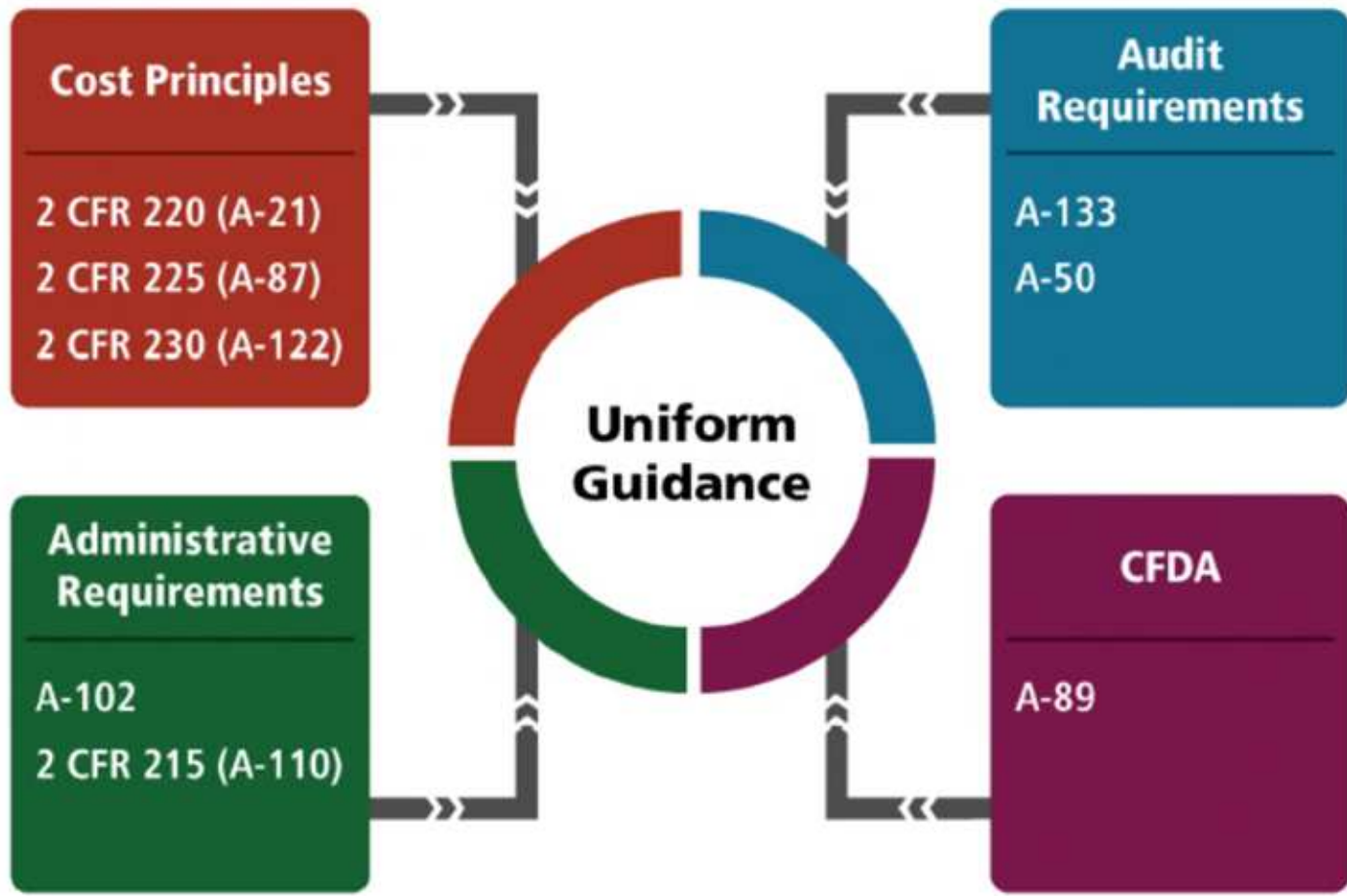
- **24 CFR Part 570.502** – Applicability of Uniform Administrative Requirements
- **2 CFR Part 200** – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

2CFR 200

Office of Management and Budget (OMB)

- OMB's authority flows from their mandate to manage all Federal funds on behalf of the White House as the chief executive of the entire Federal government.
- OMB enforces financial management through **2CFR Part 200**, which lays out cost principles, administrative standards, and audit requirements for the Federal government. "CFR" stands for the Code of Federal Regulations.

Financial
Management
2 CFR 200



Prior OMB Circulars Combined into the Uniform Guidance at 2 CFR 200

Financial Management 2 CFR Part 200

- State recipients must have financial controls and accounting procedures for expending and accounting for CDBG funds. A state may satisfy this requirement by using fiscal and administrative requirements applicable to the use of its own funds or it may apply 2 CFR Part 200.
- All other CDBG grantees and subrecipients must have financial management systems in place that comply with standards specified in 2 CFR Part 200.302.

Financial Management

For financial management system to meet Federal standards, it must:

- Provide effective control over and accountability for all cash, real and personal property and other assets.
- Identify the source and application of funds for Federally-sponsored activities
- Permit the accurate, complete and timely disclosure of financial results in accordance with HUD reporting requirements or, for subrecipients, grantee reporting requirements
- Minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the grantee or subrecipient.



Cost Principles

Cost Principles

2 CFR 200 Subpart E

- To determine cost eligibility, as yourself:
 - Is the cost allowed by the funding source?
 - Is the cost reasonable?
 - Can the cost be allocated to a specific funding source?

Determining Eligibility

24 CFR Part 570

- In order to be reimbursable, costs must be incurred for activities that are eligible under the applicable program. For example, costs for CDBG-funded projects must conform to CDBG program regulations.
- If the activity is not eligible, then all costs associated with the activity including programmatic, program delivery, and match costs, if applicable, would not be eligible for reimbursement.

Cost Allowability

To be allowable under Federal awards, costs must be:

- Necessary and reasonable to carry out the award.
- Allocable to the award-funded activities
- Authorized (or not prohibited) under state or local laws or rules.
- In conformance with OMB guidance
- Consistent with state and local government activities
- Treated consistently.
- Consistent with Generally Accepted Accounting Principles (GAAP)
- Not used for cost sharing or matching requirements of any other Federal award (unless specifically allowed by OMB)
- Adequately documented.

Cost Reasonableness

Costs must be reasonable on the basis of the "prudent person" test and must be:

- Ordinary and necessary for the performance of the activity
- Consistent with market prices for comparable goods and services
- Based on prudent action by those incurring the cost
- Consistent with the organization's established practices and the terms and conditions of the Federal award.

Other Considerations on Reasonableness

In addition to the "prudent person" test, one should consider the following:

- Sound business practices
- Arm's length bargaining laws
- Regulations and conditions of the award
- Responsibility to the grantee, the public, and the Federal Government
- Deviation from established practices that may result in increased costs

Documenting Reasonable Costs

Grantees should be able to document that costs incurred were reasonable through:

- Price comparisons and analyses for comparable goods and services procurement
- Detailed receipts
- Invoices for comparable services provided by consultants or vendors.

Allocating Costs

In order to be reimbursable under Federal awards, a cost must be: *Eligible, Allowable, and Reasonable.*

- It must also be possible to allocate the cost to the funded activities.
- Cost must be incurred for an eligible activity and charged against an authorized budget line item.
- Guidance on allocability is provided in 2 CFR Part 200.405

Direct and Indirect Costs

All costs must be classified as direct or indirect so they can be distributed appropriately across a Federal grant budget.

- An expense that can be traced directly to (or identified with) a specific cost center or cost object such as a grant, process, product, or project is a direct cost.
- Indirect costs are costs that are not directly accountable to a cost object (such as a particular project, grant, function, or product).

They include administration, personnel, and security costs. Indirect costs are often attributable by departmental functions such as transportation, human resources, and similar organization-or government-wide functions.

Allocating Direct and Indirect Costs

- There is no universal rule for classifying certain costs as either direct or indirect under every accounting system.
- It is essential that you treat each cost consistently in like circumstances, either as direct or indirect cost.

Staff Salaries: Direct or Indirect Costs

Salaries of administrative and clerical staff should be normally treated as indirect costs. However, these costs may be classified as direct only if the following conditions are met:

- Administrative or clerical services are integral to a project or activity;
- Staff can be specifically identified with the project or activity;
- These costs are explicitly included in the budget or have prior written approval; and
- The costs are not recovered as indirect costs
- More on the topic can be found at **2 CFR Part 200.423(c)**

The background of the slide features a pattern of interlocking gears. The gears are rendered in a light blue-grey color with a subtle gradient and are set against a solid yellow background. The gears vary in size and are arranged in a way that suggests a complex mechanical system. The word "Budgeting" is centered over the largest gear in the middle of the image.

Budgeting

Budgeting

- Is a federal requirement
- Includes planning for revenues and expenditures
- Provides an ongoing check for reasonableness
- Assures funds will be available when needed
- Promotes accountability

Budgeting

- When budgeting involves HUD programs, it must conform to HUD concerns for systemic planning and reporting
 - Five-year Consolidated Plan presents strategic goals for most grantees.
 - Annual Action Plan is each year's operational plan.
- Program year budgets must include only projects and activities that are eligible for HUD funding
- Each budgeted item must be documented to show that it meets eligibility guidelines

Five Essential Steps of Budgeting

- **Plan:** Define planning content, organizational goals and timelines
- **Forecast:** Forecast revenues or income
- **Estimate:** Estimate program, administrative, and capital improvement costs
- **Balance:** Balance the budget within estimated revenues with strong consideration for contingencies and reserves
- Approve and plan the budget

Management and Controls

- Budget management requires use of controls, such as policies and procedures.
- Regular monitoring of both performance and compliance includes:
 - Comparing actual against planned expenditures
 - Reporting deviations from budget and program plans
 - Requesting approval for budget/program revisions
 - Planning for new sources of funds
- Annual performance reports, such as CAPER, ensure program results and account for grant funds, thus completing the budget cycle.

The background features a dark red color with several interlocking gears of various sizes. The gears are rendered in a dark grey or charcoal color with a slight gradient, giving them a three-dimensional appearance. They are scattered across the frame, with some overlapping others, creating a sense of mechanical complexity and interconnectedness.

Procurement

Procurement

- 2 CFR 200 Subpart D (200.317-317)
- Must be fair, open and well documented
- May require RFQs, proposals, or sealed bids
- Assure market price or better

Key Elements

- General principles
- Specific policies to develop and methods to follow
- Affirmative steps to ensure participation by minority and women business enterprises
- Limitations on geographic preferences
- Bonding requirements
- The highest practical percentage of recovered content for more than \$10,000 of a material purchased in one year

Basic Principles/Fundamental Objectives

The following is essential to the effective application of the rules:

- Document procedures, policies, and all actions
- Promote open and fair competition
- Ensure maximum advantage to the procuring entity
- Ensure reasonable cost

Methods of Procurement

Five permissible methods of procurement:

- Micro-purchases for purchases costing less than \$3,500
- Small purchases, except most construction, that are less than the Simplified Acquisition Threshold (SAT)
- Competitive sealed bids with formal sealed bids with formal advertisement; required for most construction and all others above the SAT
- Competitive proposals: required above the SAT
- Noncompetitive proposals or sole source required above the SAT
- **The current SAT is \$250,000 (Circular 2021-01)**

Fairness and Opportunity Elements

Procurement using Federal funds triggers several requirements related to fairness and opportunity for previously disadvantaged persons and businesses, including the following:

- Small Woman Minority Business Enterprise (SWMBE)
- Equal opportunity and nondiscrimination
- Section 3 job training, employment, and contracting

Principle of Financial Protection

A fundamental principle of procurement is financial protection for the Federal investment. In this regard, states may follow their own guidelines, but other units of government and subrecipients are required to do one of the following:

- Establish local protections formally approved by HUD
- Apply the formal bonding requirements listed in 200.325.
- In addition: Perform a debarment check prior to award of a contract.



Internal Controls

Internal Controls

Basic elements of accountability that illustrate compliant internal controls include:

- An organizational chart setting forth the actual lines of responsibility of personnel involved in financial transactions.
- Written definition and delineation of duties among key personnel involved in financial transactions.
- Accounting policy and procedures manual that includes specific approval authority, procedures for recording of transactions, chart of accounts, and adequate separation of duties.

Financial Controls

Financial controls ensure:

- Effectiveness and efficiency of operations
- Accuracy and reliability of financial reporting
- Compliance with all applicable laws and regulations

Purpose of Internal Controls

Internal controls can help:

- Maximize resources and protect assets
- Meet Federal financial management standards
- Prevent errors and deceptive practices (e.g., avoid fraud, waste, and mismanagement)
- Verify accuracy of accounting
- Produce reliable and timely financial data
- Provide accurate information for management's oversight of programs and operations
- Ensure adherence to an organizations own policies and plans

Internal Controls Federal Guidance

Office of Management and Budget (OMB)

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Government Accountability Office (GAO)

- GAO's authority flows from their mandate to manage all Federal funds authorized and appropriated by Congress.
- GAO enforces financial management through the "Green Book" which lays out principles and practices for financial management, especially internal controls.

The background of the slide features a pattern of interlocking gears. The gears are rendered in shades of blue and grey, creating a mechanical and industrial aesthetic. The largest gear is a light grey with a blue center, positioned on the right side of the frame. Other gears in various sizes and colors are scattered across the background, some partially visible at the edges.

Audit Requirements

2 CFR 200 Subpart F

Audits - 2 CFR 200 Subpart F

- ***Audit required.*** A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit Exemption when Federal awards expended are less than \$750,000.
- Exemption when Federal awards expended are less than \$750,000
- Auditor Selection - 2 CFR 200.509
- Audit Submission -

Resources

CDBG: Community Development Block Grant Programs - HUD Exchange

Grant Based Accounting - HUD Exchange

Financial Management 201: A Closer Look - HUD Exchange

2 CFR Part 200 -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

24 CFR Part 570 - Community Development Block Grants

Questions?

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