**FINANCIAL MANAGEMENT**

Proper fiscal management of Arkansas Community and Economic Development Program (ACEDP) projects requires grantees to establish a financial management system that is consistent with Generally Accepted Governmental Accounting Standards (GAGAS) and provides sufficient documentation to enable preparation of A-133 Audits. (See the Audit Chapter of the ACEDP Administrative Procedures Manual for information regarding audit preparation.)

# FINANCIAL MANAGEMENT SYSTEM

Grantees should take the following steps to prepare a financial management system for implementation of a CDBG grant:

* Appoint person to be responsible for Financial Management.
* Establish accounting records.
* Set up bank accounts and establish receipting procedures.
* Establish payment schedules and approval procedures.

The financial management system required for grantees and the use and accounting for CDBG funds is governed by:

* 24 CFR Part 570 “Community Development Block Grants”
* 2 CFR 200 Subpart E, "Cost Principles for State, Local, and Indian Tribal Governments";
* 2 CFR 200 Subpart F, "Audits of State and Local Governments";
* 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements

to State and Local Governments" (only sections as Identified in 24 CFR Part 570)

AEDC and the Grants Division follow the State of Arkansas, Department of Finance and Administration, Office of Accounting, *Financial Management Guide*, which can be found at [www.dfa.arkansas.gov/offices/accounting/financialManagementGuide/Pages/default.aspx](http://www.dfa.arkansas.gov/offices/accounting/financialManagementGuide/Pages/default.aspx)

The financial management system requirements identified in 24 CFR Part 85.20 include:

1. **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
2. **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and use of funds provided for financially‐assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, un‐obligated balances, assets, liabilities, outlays or expenditures, and income.
3. **Internal control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
4. **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
5. **Allowable cost.** Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs.
6. **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
7. **Cash management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter‐of‐credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees. **Cash management is the principle behind AEDC’s rule that no more than $5,000 in CDBG funds can be kept on hand for more than 3 business days.**

**Definition:** Business day means a day when Federal Reserve Banks are open. (Department of the Treasury Fiscal Service, 2002)

AEDC may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre‐award review or at any time subsequent to award.

# STATE REQUIREMENTS

AEDC identifies three basic functions that must be served by the financial management system:

1. The financial management system must have an identified procedure for recording all financial transactions.
2. All expenditures must be related to activities proposed in the grant application approved by AEDC.
3. All expenditures of CDBG funds should be in accordance with applicable laws, rules, and regulations.

# ACCOUNTING RECORDS

Each grantee should determine the accounting records that will assist in providing accurate and complete financial information. The CDBG accounting records may be fully integrated into the grantee’s existing accounting system or may be partially integrated into the existing system with subsidiary ledgers developed as needed to provide the required grant accounting. At a minimum, the grant accounting system must:

1. Clearly identify all receipt and expenditure transactions of the grant; and
2. Provide for budgetary control by tracking expenditures and accrued obligations by approved CDBG activity and by CDBG amount and local match amount.
3. AEDC Grants Division staff or the grantee’s auditors should be able to readily trace CDBG transactions through the accounting system. Also, all amounts shown on CDBG reports should reconcile to the grantee’s accounting records.
4. Grantees must be able to report CDBG expenditures by approved activity. Budget balances must be maintained for each approved activity that accounts for CDBG expenses accrued or obligations incurred (e.g. contracted amounts) which have not yet been paid.

**Develop the Accounting System**

The grantee’s accounting system should be a double entry system which records receipt and disbursement of project funds as debits and credits in a general journal cash entry ledger page and separate disbursement accounts listed by expenditure type. The grantee’s own accounting system can be used; however, only the accounts specific to the grant project should be established.

Once all expenditures have been identified as eligible, a chart of accounts must be developed to classify each expenditure into a particular account, which should be posted to a separate ledger page for each line item expenditure.

**Chart of Accounts**

Below is a sample chart of accounts for a typical ACEDP project. *(Note: This is only a sample; grantees must develop accounts applicable to the specific sources and uses of all funds included in the account.)*

|  |  |
| --- | --- |
| **Examples of Asset and Equity Accounts** | |
| **Account Name** | **Account Description** |
| Cash | Cash held in the ACEDP project bank Account |
| Payroll (Equity) | Taxes and other withholdings payable |
| Escrow Cash | Cash set aside for specific future costs already incurred (e.g., condemnation or liquidated damages escrow accounts) |

|  |  |
| --- | --- |
| **Examples of Revenue Accounts** | |
| **Account Name** | **Account Description** |
| ACEDP Grant | Funds received through the Arkansas Economic Development Commission grant |
| Reimbursement | Repayment of funds expended from the ACEDP account or other refunds |
| Other Funding Source  Specify (\_\_\_\_\_\_\_\_\_\_\_\_\_) | Funds from other funding sources, matching funds, etc. A separate account for each source of funds must be established if the account will process such funds |
| Program Income | Income earned by the grantee from grant-supported activities |

|  |  |
| --- | --- |
| **Examples of Disbursement Accounts** | |
| **Name of Account** | **Sub-accounts (categorized by activity)** |
| Administration (Contract) | ACEDP Administrative Services Contract expenses. The administrator should retain such documentation as payrolls, time sheets, expenditure vouchers, etc. |
| Administration (General) | Supplies, materials, printing, publication, postage, etc. |
| Administration (Audit) | A-133 Audit preparation costs |
| Construction | Specify sub-accounts for each construction contract |
| Equipment | Specify each piece of equipment purchased as one disbursement account |
| Labor (Force Account) | Salaries, fringe benefits, etc. |
| Engineering/Architectural | ACEDP engineering or architectural contract expenses. Subaccounts may include soil testing, geotechnical services, etc. |
| Other/Miscellaneous | Permit fees, testing, review fees, written assessments, etc. |
| Hookups | Work write-ups, inspections, plumbing contracts, tap fees, etc. |
| Acquisition | Purchase costs, abstractor, survey, appraisal, filing fees, condemnation, title searches, relocation of displaced individuals or individuals, etc. |

The grantee should ensure that each activity in which expenditures will occur has been specified.

Basically, disbursement accounts will be those particular line items defined in the budget of the grant agreement while subaccounts will be particular subdivisions or components of line items.

Program income is any income generated as a result of grant-supported activities. Examples include: revenues derived from loan repayments from grant funds provided to localities; rental fees; retained bid bonds; certain assessment fees to recover capital costs of fees; etc. The grantee should contact the grants manager whenever program income is anticipated. Specific reporting and use of such funds will be determined on a project-by-project basis.

## The General Journal/Ledger

The general journal is the book of original entry for all transactions showing the debits and credits for all transactions. Journal columns should be established for each source of funds and each major expenditure account. The sample general journal shown is typical of ACEDP projects. All general journal/ledgers should be reconciled at least monthly.

## Ledger

A ledger is a book of final entry that summarizes each journal account (See chart of accounts). Usually, the ledger is posted monthly from the journal entries. As a matter of practice, most grantees prefer to establish multiple page ledgers with each expenditure account listed on a separate page. Posting the journal entries contained within the sample general journal would be as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Account: Cash | | | |
| Date | Debit | Credit | Balance |
| 10/31/17 | 35,000 | 34,900 | 100 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: ACEDP | | | |
| Date | Debit | Credit | Balance |
| 10/31/17 |  | 35,000 | 35,000 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: Engineering | | | |
| Date | Debit | Credit | Balance |
| 10/31/17 | 7,500 |  | 7,500 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: Construction | | | |
| Date | Debit | Credit | Balance |
| 10/31/17 | 25,000 |  | 25,000 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: Acquisition | | | |
| Date | Debit | Credit | Balance |
| 10/31/17 | 2,400 |  | 2,400 |
|  |  |  |  |

## Cash Control Ledger

To ensure that ACEDP funds are disbursed in a timely manner, grantees should monitor cash flow through use of a cash control register. Below is an example of a cash control register. If only ACEDP funds are deposited into the account, grantees can monitor cash flow by maintaining the check register provided by the bank with the preprinted checks. At no time should the ACEDP account balance exceed $5,000 for more than three business days.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash Control Register**  Project Name and Number: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |
| **Date** | **ACEDP Receipts** | **Other Contributions/**  **Deposits** | **Disbursements** | **Balance** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

## Contract Register

This register records financial transactions applicable to specific contracts and is recommended as a supplemental tracking system to the ledger entries, which record financial transactions for all expenditures within accounts. The advantage of using this tracking system is that remaining balances of particular contracts, as amended, can be determined at a glance. This is particularly useful when preparing requests for payment. The following example is a sample contract register for a construction linework contract.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Project: 790-08000-17 | | | | |
| Effective Date: 6/12/17 | | | | |
| Expiration Date: 12/30/17 | | | | |
| Contractor: More-Reliable Contracting | | | Contract Amount: $100,000 | |
| Payments | | | Change  Order(s) | Remaining  Balance |
| Date | Amount | Total to Date | Amount |  |
| 10/10/17 | $25,000 | $25,000 |  | $75,000 |
| 11/15/17 |  |  | +$10,000 | $85,000 |
|  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **General Journal** | | | | | | | | | |
| **Sources of Funds** | | | | | | **Expenditure Classifications** | | | |
| Date | Transaction | Cash  Debit Credit | | ACEDP Funds  Debit Credit | | Engineering | Construction | Acquisition |  |
| **10/1/17** | **RFP #1** | **10,000** |  |  | **10,000** |  |  |  | **List** |
| **10/2/17** | **“Reliable Engineering” Check 101** |  | **7,500** |  |  | **7,500** |  |  | **other expenditure** |
| **10/2/17** | **Parcel Purchase-Bob Jones Check 102** |  | **2,400** |  |  |  |  | **2,400** | **accounts**  **across** |
| **10/9/17** | **RFP #2** | **25,000** |  |  | **25,000** |  |  |  | **columns** |
| **10/10/17** | **“More-Reliable Contracting” Check 103** |  | **25,000** |  |  |  | **25,000** |  |  |

**RECORD RETENTION AND CUSTODY REQUIREMENTS**

Grantees must establish a system for record keeping that assists the Grants Division’s review of files for compliance. In other words, records should be kept in a manner that clearly tells the whole story of a CDBG project from beginning to end. See the Recordkeeping Chapter of the ACEDP Administration Procedures Manual for a suggested filing system, or use the monitoring checklist as a guide for the organization of grant files.

The State shall establish and maintain such records as may be necessary to facilitate review and audit by HUD of the State's administration of [CDBG funds](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d3bc5d2ee66d745a10b7523cd24888b3&term_occur=1&term_src=Title:24:Subtitle:B:Chapter:V:Subchapter:C:Part:570:Subpart:I:570.490) under § 570.493. The content of records maintained by the State shall be as jointly agreed upon by HUD and the States and sufficient to enable HUD to make the determinations described at § 570.493. For fair housing and equal opportunity purposes, and as applicable, such records shall include documentation related to the State's AFH, as described in [24 CFR part 5](https://www.law.cornell.edu/cfr/text/24/part-5), subpart A (§ 5.168). The records shall also permit audit of the States in accordance with [2 CFR 200](https://www.law.cornell.edu/cfr/text/2/200), subpart F.

The state shall keep records to document its funding decisions reached under the method of distribution described in [24 CFR 91.320(j)(1)](https://www.law.cornell.edu/cfr/text/24/91.320), including all the criteria used to select applications from local governments for funding and the relative importance of the criteria (if applicable), regardless of the organizational level at which final funding decisions are made, so that they can be reviewed by HUD, the Inspector General, the Government Accountability Office, and citizens pursuant to the requirements of § 570.490(c).

These recordkeeping requirements for grantees receiving [CDBG funds](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d3bc5d2ee66d745a10b7523cd24888b3&term_occur=2&term_src=Title:24:Subtitle:B:Chapter:V:Subchapter:C:Part:570:Subpart:I:570.490) are sufficient to facilitate reviews and audits of such units of general local government under §§ 570.492 and 570.493.

Grantee records, including supporting documentation, shall be retained for the greater of four years from closeout, or the period required by other applicable laws and regulations as described in § 570.487 and § 570.488.

Representatives of HUD, the Inspector General, the General Accounting Office, the Comptroller General of the United States, the State Auditor’s Office, and AEDC or any of their duly authorized representatives will have access to any pertinent books, records, accounts, documents, papers, and other property belonging to or in use by the grantee or sub‐grantee in order to make audits, examinations, excerpts, or transcripts.

# INTERNAL CONTROLS

# Internal controls are required to ensure that the grantee’s financial management system defines specific processes governing the receipt and disbursement of ACEDP funds that are consistent with state law and GAGAS. Examples of internal controls include:

# Maintaining blanket performance bonds for all officers and employees of the grantee as required by state law.

* Requiring counter signatures on checks and Requests for Payment.
* Ensuring that the same individuals who request funds are not responsible for fund disbursement or recording financial transactions.
* Avoiding conflicts of interest.
* Maintaining accrual accounts. The accrual basis of accounting is the preferred basis of accounting as specified by GAGAS; however, grantees may utilize a modified accrual basis of accounting as long as it is disclosed by audit.
* Defining allowable/eligible grant expenditures as specified by the grant agreement (See Section II.D. below).
* Familiarization with financial requirements of the Arkansas Economic Development Commission (i.e., the Financial Management Chapter of the ACEDP Administrative Procedures Manual).
* Requiring a double entry accounting system with a general journal in which all transactions are recorded in detail and are reconcilable with subordinate ledger accounts.
* Maintaining source documentation such as invoices, bills, vouchers, etc., that are approved (signed and dated) by the grantee.

Basically, internal controls require that more than one individual be involved in financial management to avoid the likelihood that intentional or unintentional errors will be undetected or that funds are improperly received and/or expended.

# CONFLICT OF INTEREST

# As a general rule no employee, officer or agent of the grantee will participate in selection, or in the award or administration of a contract supported by federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when: the employee, officer or agent; any member of their immediate family; their partner; or an organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award. The grantee’s officers, employees or agents will neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to sub‐ agreements, during office tenure or for one year after the closeout of the grant.

This stipulation must be included in all other contracts and subcontracts to this grant.

Upon the written request of the Grantee, AEDC may grant an exception to this rule on a case‐ by‐case basis when it determines that such an exception will serve the purposes of the Act and the effective and efficient administration of the grantee’s project. An exception will be considered only when the grantee has provided the following:

1. A disclosure of the nature of the possible conflict, accompanied by an assurance that there has been public disclosure of the conflict and a description of how the public disclosure was made,
2. An opinion from the Grantee’s attorney or the Accountability and Disclosure Commission that the interest for which the exception is sought would not violate applicable State laws.
3. Certification that the affected person has withdrawn from active involvement in any grant‐ related issues.

Grantees and all interested parties will receive written notification of AEDC’s decision to either allow or not to waive the conflict of interest requirement. In determining whether to grant an exception, AEDC will consider the cumulative effect of the following factors, where applicable:

1. Whether the exception would provide a significant cost benefit or essential expert knowledge to the program or project.
2. Whether an opportunity was provided for open competitive bidding.
3. Whether the affected person has withdrawn from his/her functions or responsibilities or from the decision‐making process.
4. Whether the interest or benefit was present before the affected person was in the position described in (3).
5. Whether undue hardship would result either to the Grantee or to the person affected when weighed against the public interest served by avoiding the prohibited conflict.

# SOURCE DOCUMENTATION

Source documents provide information to be transferred to the accounting records. A source document may be a check, invoice, purchase order, time sheet, or contract. All source documents that pertain to the CDBG project should be identified through a code or by using the ACEDP grant number. This will assure that the charges against the project are properly recorded in the CDBG accounting records.

Each grant transaction will usually generate its own source documents in the form of vouchers, checks, invoices, purchase orders, time sheets, payroll records, check stubs, receipts, cost allocation, plans, budgets, and similar materials. These documents serve as (1) the basis for making entries into the accounts, and (2) proof that the transaction occurred as reflected in the accounts. For these reasons, no entries are made in any account unless supported by a source document. The source document must be retained in the files. Every invoice should have an approval signature and date of approval on it as well as the check number and date payment was made, if reimbursed.

Ultimately, financial management practices should be consistent with state law and any local ordinances governing the appropriation, receipt and disbursement of funds.

Purchase orders should be used when requesting supplies and materials for the project. The purchase order is prepared in the same manner as all other purchase orders for the grantee and should include a reference to CDBG.

Contracts should be kept in a separate file. The signed contract represents an obligation of CDBG funds. When payments are made on the contract, these should be recorded in the contract file on a contract control card. If there are several contracts, a contract register should be used as a management tool.

An invoice or statement for services rendered is typically submitted by a contract seeking payment. The accuracy of the invoice should be verified against purchase orders or contracts.

Time sheets are another important source document. If staff time is charged to the project, time sheets must support the number of hours worked, although it is the policy of the Grants Division to not use ACEDP grant funds to reimburse for grantee staff time.

Cancelled checks, bank deposit slips, receipts, and other miscellaneous documents represent important source documents which are used in accounting for program expenditures or program income. These source documents must be maintained in the grantee’s files and when possible should be submitted to the Grants Division. The grantee may be required to submit these documents to the Grants Division if the contract specifies that this is a requirement or if you are specifically instructed to do so by the AEDC grants manager or if the grantee’s project activities meet the following describers for non‐project and project activities.

## Source Documentation Required by the State

The Grants Division will require source documentation on all expenditures for non‐project activity costs; which include professional services for grant administration, planning, engineering, architectural, and all other professional services contracts as requested by the Grants Manager. The grantee will submit a copy of the professional services contract(s) following its execution and prior to the first drawdown request for that activity. The drawdown will not be processed prior to receipt of the executed professional service contract(s). Source documentation will continue to be submitted by the grantee for all subsequent drawdown requests that include payments for services covered by the professional services contracts. The submitted drawdown requests will be validated against the source documentation and the professional services contracted scope of services. The Grants Manager may request a desk self‐certification checklist be submitted by the grantee that accounts for actions and dates related to the professional services contracts. The desk self‐certification checklist will also serve as a method for conducting CDBG grantee compliance review in regards to the professional services contracts.

The Grants Division of AEDC will review source documentation on all expenditures. No additional CDBG disbursements will be processed until sufficient source documentation is received and approved by the Grants Manager.

# RECEIPT PROCEDURES

In addition to CDBG payments from AEDC, cash receipts may also include program income and project funds received from other outside sources. Program income includes funds earned through the sale of property, and other miscellaneous receipts.

The Grantee must be certain that project receipts are adequately safeguarded. This includes providing for proper bonding in accordance with state law of those individuals that handle program funds.

All CDBG project receipts should be promptly deposited to the proper bank account and recorded as a receipt in the accounting system. CDBG funds are to be drawn down only as required to pay immediate obligations. AEDC will consider the grantee in violation of the requirement to minimize the elapse of time between receipt and expenditure of CDBG funds, if more than three (3) business days pass between receipt and expenditure.

# ELECTRONIC FUNDS TRANSFER

All CDBG payments to grantees are by Electronic Funds Transfer (EFT) to a designated local bank account. These payments are made through the Arkansas Administrative Statewide Information System (AASIS), the state accounting system for all federal and state grant payments to local governments and other organizations.

Each ACEDP project must have non-interest-bearing checking account opened prior to the initiation of financial transactions. Selected banks must be members of the Federal Deposit Insurance Corporation (FDIC) and be capable of receiving electronic direct deposit disbursements. Grantees are not prohibited from depositing and disbursing other sources of project funds through this account; however, this practice is discouraged because of the complexities that may arise from specific financial requirements of multiple agencies (e.g., eligibility determinations of costs, different individuals responsible for financial transactions and other ACEDP grant-specific requirements discussed below). Fees should not be charged by the bank for the project checking account.

Checks for this account must be pre-numbered and identify the name and/or number of the ACEDP project and the address of the grantee. **Use of unnumbered, “temporary” checks is not acceptable.**

Grantees will receive two copies of the Bank Designation and Check Signature Form (Form 2) and the Request for Payment Signature Card (Form 3) and one set of the Direct Deposit Information (Form 4) with three copies of the grant agreement. Grantees must complete each form and return two Bank Designation and Check Signature Forms, two Requests for Payment Signature Forms, and one Direct Deposit Form, each with original signatures, along with the completed W-9 form to the Arkansas Economic Development Commission prior to requesting grant funds.

The Bank Designation and Check Signature Form requires signatures of all persons designated to write checks on the project checking account and also provides information specific to the bank that will receive direct deposits of ACEDP funds. Grantees must designate at least two individuals as check signatory agents. Because one or more of these individuals may periodically be unavailable, grantees are urged to designate up to four individuals to sign checks so that payment delays may be avoided. **None of the designated individuals can have a pecuniary interest in the project or be designated on the Request for Payment Signature Card.** A sufficient internal control system requires that checks contain two signatures, one of which is an employee of the grantee bonded under the grantee’s public employee blanket performance bond.

The Request for Payment Signature Card requires at least one signature. However, up to four individuals may be authorized to sign Request for Payment forms. As stated above, grantees are urged to designate more than one individual to sign Requests for Payment to avoid processing delays. These individuals also must have no pecuniary interest in the project and cannot be designated to sign checks from the project account.

The Direct Deposit Form packet documents specific information regarding the grantee’s project bank account in order that the direct deposit system can be activated. **A copy of a voided check or deposit slip from this account must be submitted with this form.**

New forms must be submitted whenever an individual not previously designated signs checks or Request for Payment forms.

# BANK ACCOUNTS

Grantees are not required to maintain separate bank accounts for the deposit of CDBG funds **except** for

program income accounts. However, grantees must be able to reconcile CDBG balances in the depository account. The policy of AEDC is to require all program income generated as a result of a grant to be returned to the State.

Since interest may not be earned on the deposit of CDBG funds, grantees must make every effort to avoid earning interest on unexpended CDBG funds. To meet this requirement, grantees may put CDBG funds in a non‐interest bearing account or draw down CDBG funds on a reimbursement basis. Under the reimbursement system, the grantee pays all project costs (both the CDBG share and the local share) and reimburses the account for the CDBG share. Using the reimbursement method ensures there are never unexpended CDBG funds on deposit that would accrue interest earnings.

Bank accounts must be secured by FDIC insurance or bank pledged collateral for the full amount of CDBG funds held in the account. Reconciliation of bank statements should be performed promptly.

# PAYMENT PROCEDURES GENERALLY

The grantee must establish a system to review and approve all billings presented for payment under the grant. All invoices need to be reviewed to determine that the costs are accurate, reasonable, and allowable under CDBG regulations. The governing body of the grantee needs to review and approve all payments.

The grantee should determine when CDBG disbursements will be made‐‐weekly, bi‐weekly, monthly, quarterly. Identifying a cut‐off time when all invoices and vouchers must be submitted will assist in the planning of the grantees request for funds. This timeline must be communicated to contractors and vendors. All parties also need to know that generally it will take about 10 days from the time a drawdown request is approved by AEDC until the grantee receives the CDBG funds.

Contractors’ invoices can only be paid after verification has been made of work completed. A list of disbursements to be made will need to be prepared and the total federal cash requirements must be submitted to AEDC on the appropriate forms. All payments for expenditures are to be supported by source documentation, i.e., invoices or vouchers and kept on file.

**DRAWDOWN OF ACEDP FUNDS**

Once the ACEDP grant is executed and the accounting system is established, grant funds may be requested or drawn down. All drawdowns must be requested by submitting a Request for Payment (RFP). Specific instructions regarding preparation of the RFP are on the reverse side of each RFP.

Below are basic procedures for requesting and disbursing ACEDP funds.

A. The signature(s) on the RFP must match those on the Request for Payment Signature Card.

B. Requests must be specific to the project and be for incurred costs documented by attached source documentation such as receipts, vouchers, bills, invoices, etc. All invoices should be approved by the Mayor, County Judge, or Chief Operating Official.

C. All grant expenditures must be allowable; necessary and reasonable for the proper and efficient administration of the grant; allocable to the grant; be authorized or not prohibited under state or local laws; and, conform to the limits or exclusions in federal laws and regulations.

D. Although funds may be requested weekly, the Arkansas Economic Development Commission would prefer that drawdown requests not be submitted for amounts less than $5,000 in order to reduce paperwork.

E. The grants division processes RFP's on a daily basis. The grantee should allow approximately 10 days from the date of the RFP request until funds are directly deposited into project accounts.

F. One copy of the RFP should be maintained in the grantee’s files. Three additional copies should be mailed to the grants division.

G. If any program income is received, it must be spent before any additional grant funds are received. All new instances of program income must be reported to the grants division for use/disposition instructions.

H. ACEDP funds must be expended in a timely manner in order that the checking account balance never exceeds $5,000 for more than three business days.

I. Grantees may elect to submit an initial RFP for $1,000 without source documentation to pay for start-up expenses. Source documentation for such expenditures must be submitted on subsequent payments listing such paid expenses**.**

J. All other sources of project funding must be exhausted prior to requesting more than 85 percent of the total ACEDP grant funds.

Each RFP must be filled out completely, contain no significant errors, and signed by the authorized official(s). When numbering RFPs, number each RFP, including rejected ones, consecutively. RFPs may be rejected for the following reasons:

1. If any dollar figure given is incorrect or does not correspond with source documentation.
2. If the signature(s) does not match the signature(s) on the Request for Payment Signature Card.
3. If the grant agreement number or grant identification number is incomplete.
4. If the bank account number is not listed.
5. If information contained in Section II of the RFP does not correspond to previously submitted RFPs.
6. If the amount requested has been rounded up inappropriately.
7. If typographical or mathematical errors affect the amount of funds requested.
8. If corrections appear on the final amount requested.
9. If carbon sets are not readable.

All RFPs will be carefully reviewed by the Arkansas Economic Development Commission. If errors are discovered, the grantee will be advised and may be requested to submit a new RFP with requested corrections. Accuracy in preparation of all reports is very important because when completed, each report will supply cumulative figures for subsequent RFPs.

**ALLOWABLE COSTS**

To ensure that only eligible costs are reimbursed from ACEDP funds and to ensure that financial transactions are properly recorded in the accounting system, the grantee should review the grant agreement to determine the scope of eligible activities and classification of costs by specific budgetary line items of the grant agreement. To avoid confusion, the specific disbursement accounts established should be consistent with the grant budget line items. Below is a general description of eligible costs applicable to most ACEDP projects:

* **Construction Costs:** All costs must be specific to the scope of work defined in the grant agreement and consistent with the amount of work completed as confirmed by the contractor’s estimates. Confirmation shall be in the form of signature by the engineer or architect who observed and can confirm that the work is consistent with the amount of grant funds requested.
* **Equipment:** ACEDP funds for equipment should be expended only when such equipment has been installed. Partial payment for equipment that has not been installed is acceptable as long as the amount requested is for the material cost of the equipment and not any labor that is to be performed. Only equipment specified in the grant agreement may be purchased with ACEDP funds.
* **Design Services (Architectural/Engineering Fees):** If expenditures for these services are included in the grant agreement, payment must be made on a pro rata basis consistent with the fee payment schedules specified in the applicable professional service contract. Payment in excess of these amounts shall not be made with ACEDP funds. Additionally, payment for “additional services” shall not be made unless prior approval has been obtained from the Arkansas Economic Development Commission grants manager. No Design Service funds shall be approved without the engineer / architect being current in SAM.gov and without a contract on file with AEDC.
* **Acquisition:** Expenditures for all activities budgeted in the grant agreement specific to acquisition can be paid with ACEDP funds in the amount(s) specified in the acquisition line item(s) of the ACEDP grant budget.

Examples of these activities include appraisal, survey, property purchases, legal condemnation costs, abstractor, filing/recording fees, relocation assistance to displaced property owners or businesses, and associated costs such as postage and publication.

* **Permits/Fees/Testing/Other:** All permits, fees and testing required as a specific component of the project may be made from ACEDP funds. Examples include Arkansas Department of Health plans and specifications review fees; discharge, construction, storm water and other permit fees required by state and federal agencies; and, soil and geotechnical testing.

All “other” expenditures must be justified in writing and approved by the Arkansas Economic Development Commission grants manager prior to payment. Questions regarding specific costs should be discussed with the grants manager for eligibility determinations and grant agreement amendments (if necessary) prior to expending ACEDP funds.

* **Legal Fees:** Except for condemnation filing, all legal fees are ineligible ACEDP grant expenditures.
* **Hookup Fees:** Eligibility for these costs must be determined on a project-by-project basis, according to the scope of work defined in the grant agreement.
* **Administration (Contract):** Payment must be disbursed on a pro rata basis consistent with the fee payment schedule specified in the ACEDP Contract for Administrative Services. Payment in excess of these amounts shall not be made because overhead expenses (e.g., travel, postage, lodging, materials) are included in the ACEDP Administrative Services Contract. No funds shall be approved without AEDC having a contract on file. Any costs for general administrative expenditures shall be categorized below as administration (general) expenditures.

All administrative costs charged to the project must be documented, i.e., through contracts, purchase orders, and invoices. 2 CFR 200 Subpart E provides guidelines for determining allowable costs.

* **Administration (General):** These expenses must be reasonable and directly attributable to grant expenditures incurred by the grantee. Specific examples include check printing costs, advertisement fees, costs for files, postage, printing and other direct grant-related activities. Total costs cannot exceed the amount specified in the grant agreement budget. Specific documentation, including receipts and invoices, must be provided to document costs.

Grantee employees paid in whole or in part from CDBG funds need to prepare timesheets indicating the hours worked for each pay period. Timesheets and the hourly payroll costs for each employee will need to be reconciled, and the data generated will be transferred to a voucher statement that indicates the distribution of payroll charges and then placed in the appropriate CDBG grant file. It is AEDC policy that local government employees are not reimbursed for their time administering a grant, although grantee personnel must still be trained by AEDC in order to be approved to administer a grant on their own.

All administrative costs charged to the project must be documented, i.e., through contracts, purchase orders, and invoices. 2 CFR 200 Subpart E provides guidelines for determining allowable costs.

* **Administration (Audit):** Expenditures for the pro rata share of audit costs attributable to the audit of ACEDP funds can be paid only when audit approval has been obtained from the Arkansas Economic Development Commission. Although no ceiling for individual audit costs has been established by the grants division, the total amount of audit expenditures cannot exceed the amount specified in the audit line item grant budget.

All administrative costs charged to the project must be documented, i.e., through contracts, purchase orders, and invoices. 2 CFR 200 Subpart E provides guidelines for determining allowable costs.

* **Force Account Work:** Grantees must maintain documentation for all labor, materials and supply costs performed for the grants division-approved force account projects. Such work must be specified in the grant agreement and cannot exceed budgeted amounts. Force account labor is exempt from Davis-Bacon requirements; however, workers must be paid the local minimum wage and weekly payrolls must be kept, as well as any other required information, as defined in the Labor Standards Chapter of the ACEDP Administrative Procedures Manual. All supplies and materials must be specific to the project and must be invoiced.
* **Connection Fees:** All costs incurred for modifications to existing utility systems necessary to serve the grant are eligible and reimbursable in the amount specified in the grant agreement. Disbursement should be no sooner than the commencement of construction activities after a written agreement between the grantee and the entity charging the connection fee has been executed.

All other costs, unless specified by the grant agreement, are ineligible for ACEDP reimbursement, unless specific determination to the contrary has been made by the Arkansas Economic Development Commission grants manager. Occasionally, eligible unbudgeted costs may be incurred during the project. Reimbursement for such expenditures may be made only if the grants manager’s approval is received and proper budget adjustments to the grant agreement have been made.

Costs specific to other funding agency requirements, e.g., capitalized interest, preparation of non-ACEDP documents, etc., are ineligible for ACEDP grant reimbursement. Additionally, costs incurred prior to the execution of the grant agreement or issuance of an incur-cost letter by the grants division, are not eligible for reimbursement. Specific eligibility determinations by the grants manager should be requested as necessary.

# MATCHING FUNDS

Matching funds committed to the project as a part of the approved CDBG Contract must be accounted for in grant records. The receipt and expenditure of the matching funds must be carefully documented. If matching funds are derived from a source outside the local government the project records should identify the source and amount provided.

# INDIRECT COSTS

Grantees who will charge indirect costs to the grant must submit a cost allocation plan to AEDC and receive prior approval to claim such costs. Guidelines on cost allocation plans can be found in 2 CFR 200 Subpart E. AEDC policy is to not reimburse for indirect costs.

# *DE MINIMUS* RATES

An entity that has never received a negotiated indirect cost rate may elect to charge a *de minimus,* or flat rate of 10 percent of modified total direct costs (MTDC) which may be used indefinitely. Costs must be consistently charged as either indirect or direct costs, but may not be double-charged. Since AEDC policy is to not reimburse for indirect costs, AEDC does not intend to approve *de minimus* rates for grantees.

# BUDGET AMENDMENT AND FUNDS REALLOCATION

Grantees must request approval from the Grants Division for **any** modification or amendment to the CDBG contract. When submitting the request for approval, the grantee must complete and submit the CDBG Contract Amendment Request Form to AEDC and attach all appropriate documentation to the form. The required documentation depends upon the type of modification requested and is outlined on the Contract Amendment Request Form. The CDBG Contract Amendment Request Form is available on the Grants Division’s website. Grantees will receive official notice of approval or denial. If modifications/changes are approved, the Grants Division will determine if a contract amendment is necessary or if modifications can be approved via an approval letter.

# CONTRACT RECORDS

Grantees will enter into contracts that will require record keeping and reporting consistent with the CDBG financial management requirements.

A proper system of management includes:

* A contract file for each signed contract.
* A contracts register to enter each contract into.
* A control card for each contract that tracks invoices and payments.

The file for each contract must contain the following:

* A signed contract and amendments.
* A schedule of payments supported by copies of time sheets; copies of checks or transfer notifications; copies of approved authorization/payment forms; and copies of invoices.
* All project related correspondence.
* Property records (where appropriate).
* Any notice of cancellation, termination or suspension of the contract.
* Final inspection reports.

A contracts register should be used to record all contracts signed. This register will be the summary record for all contracts. The register also indicates which contracts require compliance with other federal requirements.

In conjunction with the contract register a contract card should be established for each contract. This card is used to record all payments on the contract and the percent of the work that has been completed.

# PROPERTY CONTROL RECORDS AND MANAGEMENT

The grantee must also establish and maintain a property control system, which inventories all property and equipment, acquired with ACEDP funds. Physical inventory should be verified annually for audit purposes, until the grant is closed out. A Sample Property Inventory Card is included as Form 6. Such record must include a description of the property, serial/model numbers, date of purchase, the original purchase cost and location. Fixed asset and equipment records constitute one part of the general financial records of entities and must be made available to auditors during audit preparation.

The following general considerations should be examined when establishing a property control system:

* The title to real property acquired in whole or in part with ACEDP funds is vested with grantees. Long-term leases from the grantee, as owner to other entities are permissible.
* The disposition of property produces program income, which must be tracked according to specific processes developed by the Arkansas Economic Development Commission. Any property disposition should be discussed with the grants division prior to disposition.
* Property must be used solely for authorized purposes.
* Property must be inventoried annually during the life of the grant.
* All property should be “tagged” with identification numbers, permanent labels, engravings, etc., with information cross-referenced to the Property Information Card or the inventory system.
* Purchased property must be efficiently maintained and safeguarded to ensure adequate service throughout its useful life.

During the operation of the CDBG project, there are several different types of real or personal property for which funds may be spent ranging from office supplies to real estate. Property purchased in whole or in part with CDBG funds is governed by 24 CFR Part 570.201, CFR Part 570.505, and 24 CFR Part 85.

All purchases of $300 or more of real or personal property which are made in full or in part with CDBG funds must be recorded in a property management record. Furthermore, any real or personal property of $300 or more purchased in whole or in part with CDBG funds must be authorized as a separate budgetary line item in the application or be approved by separate communication from AEDC.

The property management record will consist of a property register that summarizes all property acquisitions and dispositions. This record must be available at the time of the audit. In addition, an accounting of property acquired with grant funds must be made at the time of monitoring and closeout.

The property register will also include information on the date acquired, a description, identification numbers, purchase order and check numbers, costs, percent of CDBG funds used in the acquisition, where the property is located, the condition, and disposition of the property.

The grantee may also utilize a Property Inventory Card for each acquisition. Disposition of the property can be recorded on the back side of the card.

Records must be kept for real property including land, air rights, easements, water rights, right‐ of‐way, buildings and other real property improvement and any other interests in the real property. An interest in the real property is defined as purchase, long‐term lease (15 years or more), donation, or otherwise. Public improvements such as water systems or rehabilitation of facilities owned by others are not considered real property for purposes of record keeping.

Real property does not include moveable equipment, furnishings and other personal property, or machinery. These are not CDBG eligible activities in most circumstances.

The ownership of property purchased with CDBG funds is governed by federal regulation. The title to real property acquired with CDBG funds vests with the grantee subject to the continuing use of the real property for the authorized purpose. If the property is no longer needed for the authorized purpose, the grantee should contact AEDC to determine the options available for using the property for another purpose or for disposal instructions.

# DISPOSITION OF PROPERTY

## Real Property

Disposition of real property is governed by 24 CFR 85.31(c). When real property purchased with CDBG funds is no longer needed for the authorized purpose, there are three alternatives available to the grantee. First, the grantee may retain title after compensating AEDC. The amount to be paid to AEDC is calculated by applying the CDBG percentage of participation in the cost of the original purchase to the fair market value of the property. Second, the grantee may sell the property and compensate AEDC. The compensation to the AEDC in this instance is calculated by applying the CDBG percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and repair expenses. Third, the grantee may transfer title to AEDC or to a third‐party designated or approved by AEDC. In this case, the grantee would be compensated with an amount calculated by applying the grantee’s percentage of participation in the purchase of the property to the current fair market value.

## Equipment

Disposition of equipment is governed by 24 CFR Part 85.32(e). When original or replacement equipment acquired under a grant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment falls into one of two categories:

1. Items of equipment with a current per‐unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to AEDC;
2. Items of equipment with a current per unit fair market value in excess of $5,000 may be retained or sold and AEDC shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the CDBG percentage of the equipment.

If the grantee fails to take appropriate disposition actions, AEDC may direct the grantee to take excess and disposition actions.

## Supplies

Disposition of supplies is governed by 24 CFR Part 85.33(b). If there is a residual inventory of unused supplies exceeding $5,000 in total aggregate fair market value upon termination or completion of the grant and if the supplies are not needed for any other federally sponsored programs or projects, the grantee shall compensate AEDC for its share.

## Change in Use of Property

Real property that was acquired or improved in whole or in part using CDBG funds in excess of

$25,000 is subject to 24 CFR 570.505. These standards prohibit a change in use or planned use of a property from that for which the acquisition or improvement was made, unless the grantee provides affected citizens with reasonable notice of, and an opportunity to comment on, any proposed change. In addition, one of the following conditions must be met:

1. the new use of the property meets one of the CDBG national objectives and is not a building for the general conduct of government; or
2. if the use does not meet a national objective, the grantee reimburses the State in the amount of the current fair market value of the property, less any portion of the value attributable to expenditures of non‐CDBG funds for acquisition and/or improvements to the property.

These standards are applicable to the property until five years after closeout of the grant. Once reimbursement of CDBG funds has been made, the property will no longer be subject to any CDBG requirements.

**CASH MANAGEMENT**

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees’ cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Funds requested must reflect actual eligible cost incurred. Claim exact amounts on each reimbursement or use rounding down to the nearest dollar on individual reimbursements and then claim exact amounts due down to the penny on the final reimbursement request.

Cash management is the principle behind AEDC’s rule that no more than $5,000 in CDBG funds can be kept on hand for more than three business days. Definition: Business day means a day when Federal Reserve Banks are open.

**GLOSSARY**

**Account**

Any system/method for accumulating additions and subtractions relating to a single asset, equity item, receipt, expense, etc. Examples include cash, construction contract, engineering, etc.

**Accrual Accounting**

The accrual accounting basis assumes that revenue is realized at the time of the sale of goods or services, irrespective of when the cash is received; expenses are recognized at the time the services are received and utilized, irrespective of when payment for these services is made. For example, if an employee works three days at the end of June, and he is not paid for that work until the end of the pay period the following month, the expense for three days of salary would be accrued in June. Under cash basis accounting, the salary for that three days would be recorded in July when the employee was actually paid.

Accounting records need not be maintained on the accrual method on a day-to-day basis; however, it must be possible to accumulate the necessary accrual information for audit purposes.

**Adjusting Entry**

An entry made to the general journal at the end of an accounting period to record transactions or other accounting events which, for some reason, have not been recorded or have been improperly recorded during the accounting period.

**Audit**

A systematic inspection of an accounting system involving analysis, tests, and confirmations. Each project will be audited by an independent auditor to determine the financial integrity of the ACEDP grant and to ensure compliance with program guidelines.

**Balance**

The difference between the sum of the debit and the credit entries in an account.

**Book of Original Entry**

A journal in which the various transactions of the program are recorded for the first time.

**Budget**

A financial plan that is used to estimate the results of future operations and frequently used to help control future operations. The grant agreement budget will form the basis against which the program’s progress and performance will be monitored.

**Capital Expenditure**

An expenditure to acquire long-term assets such as the purchase of a building, land or similar items.

**Cash**

Currency and coins, negotiable checks and balances in bank accounts.

**Cash Accounting**

Cash-basis accounting assumes that revenue is realized when cash is received irrespective of the time of the sale of goods or services; expenses are recognized when payment is made irrespective of the time the services are received or utilized.

**Cash Disbursements Journal**

A specialized journal used to record disbursements by check.

**Cash Receipts Journal**

A special journal used to record all receipts of cash. Examples include cash receipts resulting from drawdown requests, any type of program income, and similar items.

**Cost Classification**

A budget line item breakout, such as acquisition, construction, and architecture/engineering fees.

**Credit**

An entry on the right hand side of an account. Records increase in equity and receipts; records decrease in assets and disbursements.

**Debit**

An entry on the left-hand side of an account. An entry to record increases in assets and disbursements; records decrease in equity receipts.

**Disbursement**

A payment of program funds.

**Drawdown**

Request for and the receipt of, grant money by the grantee.

**Equity**

An account type that normally carries a credit balance which may indicate net worth or net liability.

**Escrow**

Funds dedicated or set-aside for a specific purpose. Funds, set-aside for condemnation or liquidated damages, may be considered escrow funds.

**Financial Statements**

Reports, which present the financial performance of the grant program.

**Fixed Assets**

Building, machinery, or land.

**General Journal**

The formal record in which transactions, or summaries of similar transactions, are recorded in journal entry form as they occur.

**General Ledger**

The name for the formal ledger containing all of the accounts. It has equal debits and credits as evidenced by the trial balance.

**Internal Control**

The procedures used by program management in attempting to ensure that operations are carried out or recorded as planned.

**Invoice**

A document or bill from a vendor showing the details of a sale or purchase transaction. This is a source document.

**Journal**

The place where transactions are recorded as they occur. The book of original entry.

**Journal Entry**

A recording in a journal of equal debits and credits, with an explanation of the transaction, is necessary.

**Post**

To record entries in an account in a ledger; usually the entries are copied from a journal.

**Program Income**

Income earned by the grantee from grant-supported activities.

**Reconciliation**

A calculation that shows how one balance or figure is derived systematically from another.

**Source Documents**

The details of accounting transactions are recorded on source documents. Source documents may include purchase orders, contracts, vendor invoices, time distribution sheets, canceled check copies, grant receipts and journal vouchers. All employees paid in whole or in part from ACEDP funds or whose time is to be credited to the ACEDP program as local effort, are required to prepare time sheets allocating time to the specific activity for each pay period for which they have worked on ACEDP activities.

**Sub-Cost Classification**

Smallest budget line-item breakout such as property cost, appraiser, legal and abstractor under acquisition.

**Trial Balance**

A listing of accounting balances taken from the general ledger pages; all accounts where debit balances are totaled separately from the accounts with credit balances. The two totals should be equal.