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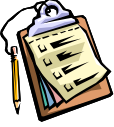
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## This Session Covers

- Internal Controls
- Accounting System
- Cash Management



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## First the Context

- All recipients of NSP2 grants must follow “Uniform Administrative Requirements”
- They set common rules or standards for running programs
  - Grant administration
  - Financial management
- Issued in OMB Circulars and HUD regulations

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## Applicability

Area of Program Management	State and Local Governments	Not-for-Profits
Uniform Administrative Requirements	OMB Circular A-102 24 CFR Part 85	OMB Circular A-110 24 CFR Part 84
Cost Principles	OMB Circular A-87 (2 CFR Part 225)	OMB Circular A-122 (2 CFR Part 230)
Audits	OMB Circular A-133	OMB Circular A-133

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## Guidance on Financial Management

- Establish minimum standards for managing grants
  - Control and account for funds, property, other assets (internal controls)
  - Identify source and use of all Federal funds (accounting system)
  - Minimize time in transfer of funds between Federal government and grantee (cash management)

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## Internal Controls

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## Internal Controls

- Combination of polices, procedures, job responsibilities, personnel and records that create accountability
- Ensures funds are used and managed properly



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### Example: Organization Chart

- Supervision of employees
- Lines of authority
- Communication
- Delineates responsibility, functions and duties

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graph TD
    A[Board of Directors] --> B[Administrator]
    B --> C[Program Manager]
    B --> D[Accountant]
    B --> E[Procurement]
  
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## Accounting System

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### Accounting System

- System of tracking sources and uses of funds or “fund accounting” -- method that groups resources into funds
- Ensures that program costs are
  - Incurred for proper period
  - Actually paid
  - Expended on eligible items
  - Expended from appropriate grant
  - Approved by appropriate officials

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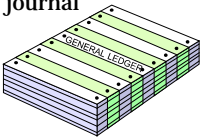
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## Accounting System (cont'd)

- Accounting system should include
  - Chart of accounts
  - Cash receipts journal
  - Cash disbursements journal
  - Payroll journal
  - General ledger



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## Example: Fund Accounting

	CDBG	HOME	ESG	General Fund	Fees	Total
Revenue						
–Grants						
–Appropriations						
–Collections						
<b>Total Revenue</b>						
Expenses						
–Projects/Activities						
–Administration						
<b>Total Expenses</b>						
Excess Revenue						

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## Cash Management

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## Cash Management

- Procedures to minimize the time between receipt and disbursement of funds required
- Ensure that grantee holds grant dollars for least time period necessary
- Disaster Recovery Grant Reporting (DRGR) System critical!



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## What is DRGR?

- DRGR is an online computer system for HUD staff and grantees. Grantees can use DRGR to:
  - Submit information on activities funded under Action Plans (APs) and Amendments
  - Group and track activities by Projects
  - Create and approve vouchers to draw down funding for activities as needed
  - Submit Quarterly Performance Reports (QPRs)
- HUD staff can review and comment on DRGR APs and QPRs



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## How Does Information Flow in DRGR?



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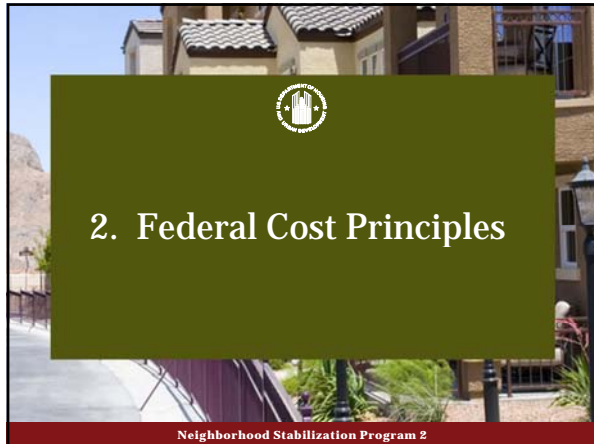
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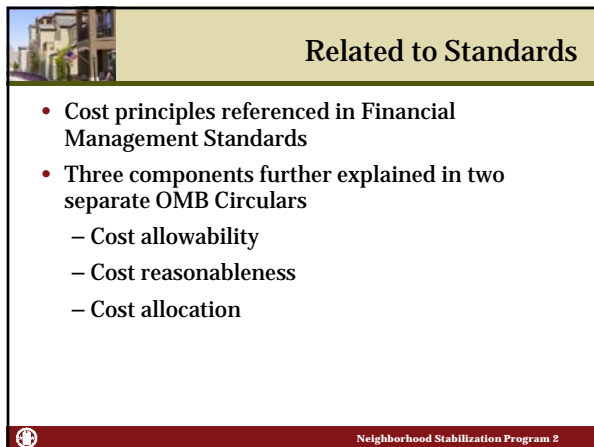
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Applicability		
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Uniform Administrative Requirements	OMB Circular A-102 24 CFR Part 85	OMB Circular A-110 24 CFR Part 84
Cost Principles	OMB Circular A-87 (2 CFR Part 225)	OMB Circular A-122 (2 CFR Part 230)
Audits	OMB Circular A-133	OMB Circular A-133

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- ### Determining Costs
- Costs are only eligible if they
    - Are associated with an eligible client
    - Pay for eligible activities
    - Are delineated in grantee application
    - Have adequate source documentation
    - Meet OMB standards for being
      - Allowable
      - Reasonable
      - Allocable
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## Cost Allowability

- In general, cost must be
  - Necessary and reasonable
  - Allocable to program
  - Authorized or not prohibited
  - Conform to rules and requirements
  - Not charged to any other program



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## Cost Allowability (cont'd)

- Refer to list of allowed costs in applicable OMB Circular on Cost Principles (A-87 or A-122)
  - Discusses what's allowed and what's not allowed
  - Specifies circumstances
  - Offers examples
- For grantees, 43 selected items of cost



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## Example: Travel Costs

### 43. Travel costs.

a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities. Notwithstanding the provisions of Attachment B, section 19, General government expenses, travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards.



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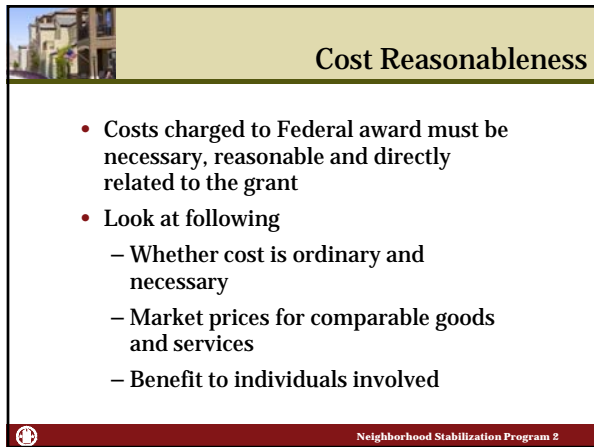
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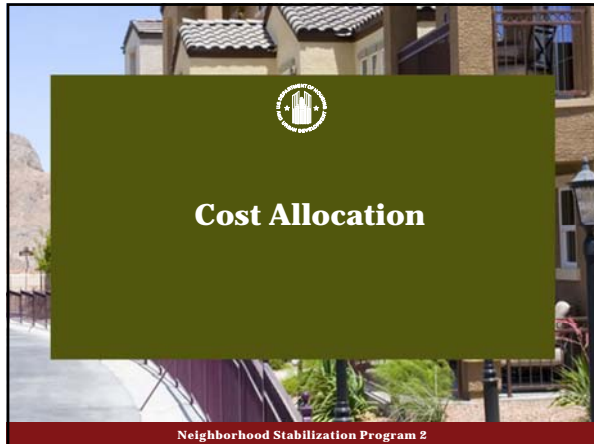
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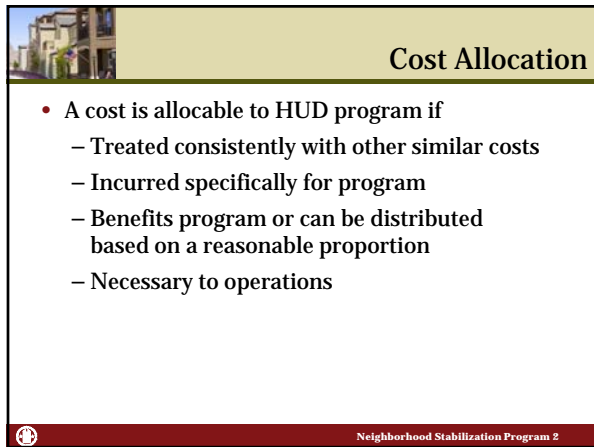
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- A cost is allocable to HUD program if
  - Treated consistently with other similar costs
  - Incurred specifically for program
  - Benefits program or can be distributed based on a reasonable proportion
  - Necessary to operations

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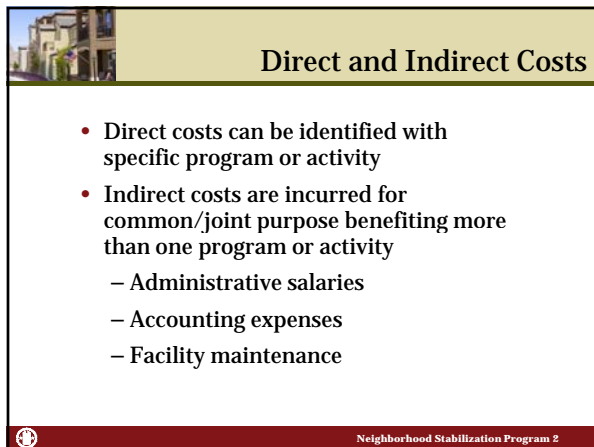
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- Direct costs can be identified with specific program or activity
- Indirect costs are incurred for common/joint purpose benefiting more than one program or activity
  - Administrative salaries
  - Accounting expenses
  - Facility maintenance

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### Pro-Rating Costs

- Required by HUD where full cost is not the actual cost for HUD's piece
- Must always have source documentation

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## 3. Audit Standards



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### Why Do We Need An Audit?

- Establishes proper stewardship
  - Verifies internal controls
  - Shows oversight
  - Provides independent review and reporting
- Demonstrates accountability
- Universally accepted analytical tool



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## Requirements

- Federal programs are subject to review or audit
- When spending \$500,000 or more in Federal awards per year, specific rules apply
- Grantees and subrecipients both must adhere to same OMB Circular



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## Applicability

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Audits	OMB Circular A-133	OMB Circular A-133



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## Federal Awards

- Federal awards include
  - Grants, loans and loan guarantees
  - Direct assistance or appropriations
  - Property insurance or interest subsidies
  - Property, food commodities
  - Cooperative agreements or contracts
  - Other assistance
- But only counts if “expended”



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### Single-Audit

- Most common type of audit
  - Required if grantee or subrecipient receives Federal funds from more than one source
  - Involves looking at all programs and financial statements



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### Program-Specific Audit

- Another type of audit
  - Permitted if recipient or subrecipient receives Federal funds from only one source
  - Involves only looking at that program

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### Specific Standards

- Federal audits use Generally Accepted Government Auditing Standards (GAGAS)
  - Financial information correctly presented
  - Internal controls exercised regarding cash management, payroll processing, fixed assets and reporting
  - Activities in compliance with program requirements

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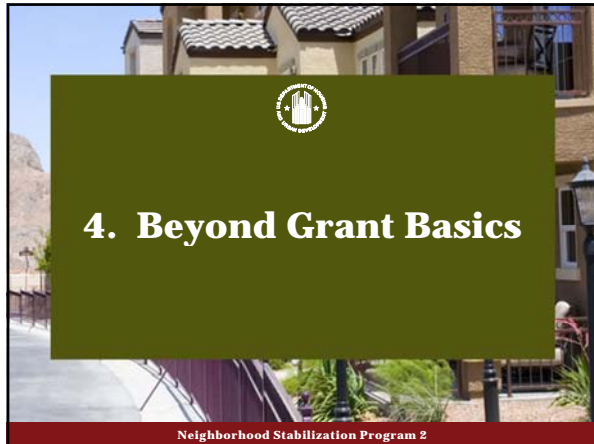
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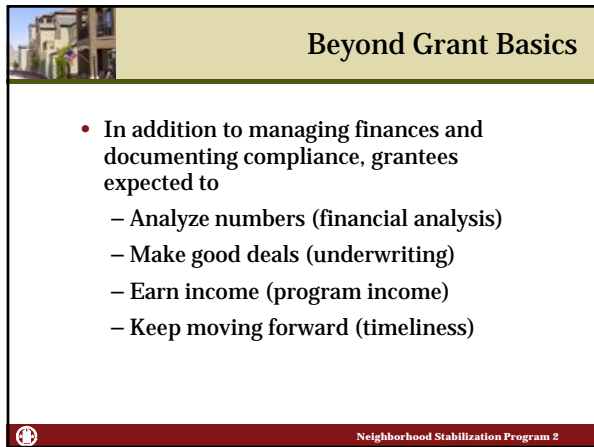
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### Program Income

- Applicability of CDBG Requirements
- CDBG Definitions and Requirements
- How Program Income Applies to NSP Home Buyer Projects
- Calculating Program Income on Rental Project
  - Owned by Grantee or Subrecipient
  - Owned by Private Developer

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### CDBG Definitions and Requirements

- CDBG Rules Imposed by Recovery Act 570.500(a)
- Program Income is Revenue Received by a Grantee or Subrecipient from:
  - Sale of Property
  - Loan Repayments
  - Rental Income

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### Program Income Rules

- Spend Cash On Hand First
- NSP Income Only for NSP Uses
- Income Not Counted Toward Obligation

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### Program Income—Homebuyer

- Sales Revenue Received by Grantee or Subrecipient
- Debt Service Payments Made to Grantee or Subrecipient
- Recaptured Funds



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### Program Income—Rental Properties

- When Owned by Grantee or Subrecipient:
  - Gross rental income **minus** costs incidental to its generation. Such costs include:
    - Management expenses
    - Property maintenance and repairs
    - Contributions to replacement reserves
    - Taxes and insurance



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### Program Income—Rental Properties (cont'd)

- Program Income Does Not Include Revenue from Privately Owned Rental Projects
- Make Loans, not Grants, Wherever Possible
- Grantee Should Underwrite to Avoid Undue Enrichment



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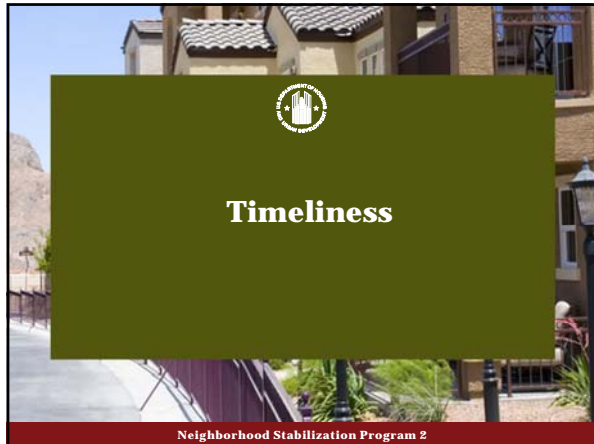
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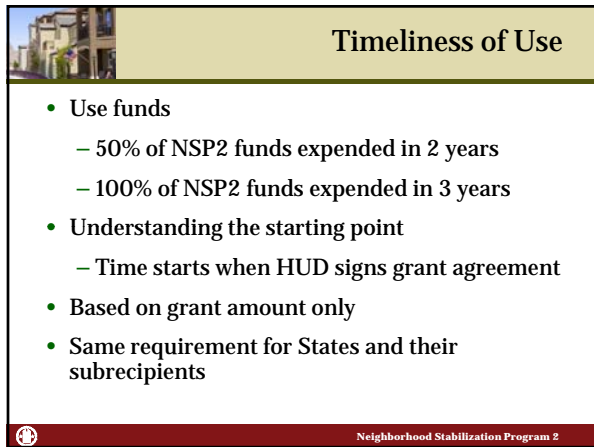
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