

## FINANCIAL MANAGEMENT

*This chapter outlines proper financial management requirements of the CDBG-Housing program.*

**T**he key to efficient and acceptable financial management of the CDBG-Housing program is outlined in 24 CFR 570.497 of the Federal Register. This requires the State of Wisconsin to establish record-keeping requirements sufficient in detail to determine whether program funds are being spent in accordance with federal and state laws.

### Note

All CDBG-Housing program financial documentation is designed to substantiate proper use of federal funds.

### Disbursing Housing Program Funds

Because the State of Wisconsin must diligently track all disbursements made for the CDBG-Housing program, grantees are required to establish unique documentation and/or accounts dedicated specifically to this program.

Two disbursement options are offered to grantees:

1. A grantee may periodically request grant funds, under the assumption sufficient invoices have been/will be received to quickly disburse those funds. Under this arrangement, the grantee will establish TWO checking accounts to properly document program expenditures.

The first checking account is the Grant Account, the account which receives grant funds from the state. This must be a non-interest bearing account from which all non-rehabilitation expenses are paid directly. Funds used to pay

contractors for rehabilitation activity are transferred to the second account, called the Working Account. This account **MUST** be an interest-bearing account.

Both accounts require activity documentation – financial logs named, respectively, the Grant Account Transactions Journal and the Working Account Transactions Journal.

2. If a grantee is in a financial position to pay all program invoices upon receipt, it may choose to operate under a reimbursement arrangement. Payments for CDBG-Housing Program activity will be repaid to the grantee as requested, and this option is managed by a Reimbursement Account Transactions Journal.

Under the first disbursement option, the grantee must establish a separate checking account into which program funds will be delivered, via check, from the state. Grantees will create the new account, and complete a Depository Certification to provide pertinent routing information from the participating financial institution. These details allow CDBG-Housing program management to create the disbursement process through the state fiscal system, and must be complete and accurate before any payments can be made.

Under the second option, a grantee is also required to complete a Depository Certification, identifying the municipal account into which CDBG funds should be directed.

#### Note

Through the Depository Certification, the participating financial institution agrees to notify the grantee whenever grant funds are received from the state.

To complete the set-up process for CDBG-Housing funds disbursement by the grantee, its *Chief Elected Official* must authorize those eligible to request grant funds.

This is done by completing the **Signature Certification** form. First, all individuals to be authorized must complete, sign and date the form. When completed, the CEO must sign the Certification to authorize those signatures. The date of the CEO's certification may not precede the date of those being authorized to request disbursements from the CDBG-Housing program, and the CEO may not authorize him/herself to request funds.

If either the participating financial institution, or those individuals authorized to request disbursements, change during the life of the grant, the grantee must request, complete

and submit new Depository Certification or Signature Certification forms prior to initiating any new disbursement activity.

The last step in establishing the CDBG-Housing grant disbursement process is creation of the **Request for Disbursement** form by the Division of Housing (DOH). This form will include routing information from the Depository Certification and specific spending category indicators derived from the federal reporting system.

Finally, requests for disbursement of CDBG-Housing grant funds may be initiated upon the completion of the following:

1. A signed Depository Certification form has been received;
2. A signed (*and dated!*) Signature Certification has been received;
3. A fully executed CDBG-Housing grant agreement is in force;
4. An Environmental Review has been completed and an Environmental Certification has been issued;
5. If applicable, a proposed or approved consultant administrative contract is in place;
6. If applicable, Labor Standards Process is under way (for budget categories subject to Davis-Bacon wage rates, the Request for Wage Rates and the Labor Standards Contractor forms must be submitted prior to disbursement).
7. The Request for Disbursement form has been received from DOH.

CDBG funds may not be requested for payment of work initiated prior to receipt of the grant award letter. After receiving the grant award letter – but prior to completion of the Environmental Review process – administrative and engineering costs incurred may be reimbursed.

No individual project rehabilitation funds may be requested for mortgages signed prior to the execution of the grant agreement with DOH, or after the expiration date of that contract.

## Requesting CDBG-Housing Grant Funds

Grantees operating under the reimbursement system may submit a Request for Disbursement at any time reimbursement activity eclipses the \$10,000 plateau (\$10,000 is the minimum disbursement amount, with the exception of the program's final draw). Invoices, which have been paid and total the disbursement request (rounded to the nearest whole dollar), must accompany each request.

If the Grantee advances funds to the CDBG program, the Grantee cannot use CDBG funds to pay interest on those funds.

Grantees operating under the dual checking-account system are allowed to request funds in anticipation of pending invoices, as well as those invoices on hand. This privilege of receiving CDBG funds is contingent on the grantee's ability to carefully plan for the quick (within 10 working days) expenditure of funds.

CDBG funds must be expended, or transferred from, the Grant Account within three (3) business days. Funds moved to the Working Account for rehabilitation payments must be expended with seven (7) working days.

**The total balance on hand in the Grant and Working accounts may never exceed more than \$10,000 for more than 10 working days.**

#### Note

CDBG grant funds are paid by check, mailed directly to the financial institution designated on the Depository Certification. Disbursement requests are processed as soon as practical upon receipt, and grantees are notified via email. For planning purposes, grantees should allow two weeks (*10 working days*) from the date of processing for the funds to arrive at the depository institution.

REMINDER: Payments made directly from the Grant Account include administrative expenses, downpayment/closing costs, public facility project costs and acquisition/demolition/relocation expenses. All payments to contractors for rehabilitation activity must be paid from the Working Account after funds are transferred from the Grant Account.

A grantee may request up to 75% of its administrative budget for CDBG-related activities (expenses must be incurred prior to request and supported by invoice). Once 75% of administrative funds have been requested, DOH will only release administrative funds in proportion to requests from project budget lines.

DOH will retain the final 10% of the administrative budget until the final request for disbursement has been received.

## Final Request for CDBG Funds

A grantee will designate its final request for funds in a CDBG-Housing grant program by checking the box provided in the upper right-hand corner of the Request for Disbursement form (Section I). The final request is the only disbursement request which may be less than \$10,000.

Grant money received from the final request remains subject to the guideline of expending funds from the Grant Account within three (3) working days of receipt.

Eligible costs must be incurred (invoice submitted to grantee by contractor) by the end of the contract period, and all project funds must be disbursed within 30 days of the end of the contract. Disbursement requests submitted 10 days or more after the end of the contract period must provide documentation that the costs were incurred before the expiration date of the contract.

No funds may be requested after 60 days past the end of the contract.

#### Note

CDBG grant program closeout guidelines, as well as program reporting requirements, are provided in a separate chapter.

## TREATMENT OF PROGRAM INCOME AND REVOLVING LOAN FUNDS

Another source of revenue, in addition to disbursement of CDBG contract funds, is revenue that results from the operation of CDBG projects.

**PROGRAM INCOME** is revenue received which does not have a reuse designated in the CDBG contract. Examples of possible program income are service fees, usage or rental fees.

Other situations where funds are treated as miscellaneous or program income, for recordkeeping purposes, are:

- ✓ municipality provides funds to open the Grant Account,
- ✓ funds are transferred to Working Account (in error) and then transferred back to Grant Account; or
- ✓ a check is written from Grant Account and then cancelled

**REVOLVING LOAN FUNDS** (RLF) are the repaid dollars which have a reuse designated in the CDBG contract. The common examples of RLF are the repayment of housing rehab loans and interest earned on the Working Account. Interest earned on federal advances to a community is NOT program income. Any such earnings must be immediately returned to DOH for forwarding to the U.S. Treasury. To prevent such earnings, DOH encourages grantees to use non-interest bearing checking accounts for their CDBG Grant Account.

The following paragraphs detail the mechanics of how DOH intends the general CDBG contract provisions to be implemented. Grantees must record program

income on the Grant Account Transactions Journal. The grantee must report all disbursements of revolving loan funds in its Working Account Transactions Journal.

### **Program Income**

Program income earnings must be deposited into the Grant Account, and must be used first to accomplish the objectives of the program as outlined in the PERFORMANCE OBJECTIVES of your contract. This means the grantee must reduce the amount of federal funds requested on the next request for funds by the amount of the program income.

Program income earnings are reported on line 2 of the Request for Disbursement of Community Development Block Grant Funds form and recorded in Misc. Deposit column on the Grant Account Transactions Journal. If such earnings occur after the final Request for Disbursement of Community Development Block Grant Funds is submitted, and there is no active state-administered CDBG contract, the community may use the income on any eligible CDBG housing activity that it wishes to undertake unless its contract with Commerce makes some other stipulation.

Program income earned from any prior state-funded CDBG housing grant must be applied to the active CDBG housing grant.

### **Revolving Loan Fund**

The following guidelines apply when a grantee receives repaid funds from a CDBG housing rehabilitation program:

All rehabilitation funds repaid from a current or previous state-funded CDBG housing program must be deposited into the Working Account (usually, 85% project and 15% admin). Through the Working Account, the grantee must be able to track RLF funds to and from recipients, identify and record interest earned on the funds, and document that RLF rehab funds are used prior to requesting new rehab funds from DOH.

#### Note

DOH will not reimburse a grantee with a RLF project balance – there are no exceptions to this rule.

RLF administrative funds are intended to be used for the administration of the RLF project funds. Consequently, grantees should strive to keep not more than 15% of the RLF project balance on hand for RLF administration at any given time.

Up to 15 percent of loan repayments deposited into a revolving loan fund may be used to administer loans made from the revolving loan fund. However, 15

percent MAY NOT be taken from funds deposited in the RLF if the deposited funds are from a loan reduction.

A municipality with an excessive RLF Administration balance may, with the local housing committee and DOH approval, transfer RLF funds from Admin to Rehab. RLF Rehab funds spent should be accompanied by a corresponding RLF Admin amount to maintain a reasonable RLF Admin balance (i.e. New grant funds for Admin should not be used to administer existing RLF Rehab expenditures).

The RLF is reserved for rehab projects and related administration only. If a grantee plans to request funds for a non-rehab activity (administration, public facility project, homeownership assistance or acquisition/demolition/relocation), the municipality should request an amount it anticipates will be needed. A non-rehab activity fund request SHOULD NEVER be reduced by the amount in the revolving loan fund.

RLF funds deposited in the Working Account are NOT reported on the Grant Account Transaction Journal, or on line 2 of the Request for Disbursement form. Instead, these earnings are recorded only on the Working Account Transactions Journal.

If RLF dollars are received after a disbursement request is submitted or received, the grantee must spend the grant dollars first, and then spend the RLF dollars.

For any individual rehab project, where there is a balance of less than or equal to \$500, the amount should be deposited into the RLF. However, if no contract was signed with the contractor, the contracted work never earnestly began, or the unpaid balance exceeds \$500, the balance must be returned to DOH. Funds transferred to the RLF account in this manner MAY NOT have 15% set aside for administration

Grantees must comply with Davis-Bacon requirements when using revolving loan funds.

The use of revolving loan funds is always subject to environmental review requirements, including historic preservation requirements. Although public participation is encouraged, it is not necessary to comply with publication requirements (Finding of No Significant Impact (FONSI) and Notice of Intent to Request Release of Funds (NOIRROF)) if a CDBG contract is not in force.

## **Program Budget Accounts**

A grantee may spend more than the amount budgeted for a housing rehabilitation activity if it can show that related program earnings (not CDBG funds) financed the overspending. If, for example, \$6,000 is repaid from a housing rehabilitation loan, and an original rehab budget was \$100,000, the grantee may now spend up to \$106,000 on housing rehab.

Program earnings from non-rehabilitation activities (acquisition/resale, etc.) may be used to fund more of the same activity. A grantee may NOT increase the amount spent on public facilities projects by revenues received from housing projects, and vice versa.

## Financial Records

### Basic Requirements

Federal regulations governing the CDBG program require grantees to establish adequate recordkeeping. A key provision requires records "pertaining to...authorizations, obligations, unobligated balances, assets, liabilities, outlays and income" to be maintained.

To meet such standards, the grantee must maintain the following financial records:

- ◆ Drawdown Register
- ◆ Grant Account Transactions Journal (*if applicable*)
- ◆ CDBG Reimbursement Request Form
- ◆ Rehabilitation Obligations Tracking Journal
- ◆ Working Account Transactions Journal (*or Reimbursement Account Transactions Journal*)
- ◆ Individual Obligation Journal
- ◆ Program Beneficiaries Data Sheet

### Disbursement Summary Register

The Disbursement Summary Register keeps a running balance of disbursements allocated to each budget category of a grant. Its purpose is to help the grantee keep track of which budget category funds have been drawn from, and the balance of each budget category. DOH also maintains such a register for each grantee.

### Grant Account Transactions Journal

The Grant Account Transactions Journal collects information required for all federal grants, maintaining a detailed record of daily activity in the Grant Account. It also provides documentation that CDBG funds have been disbursed in a timely manner.

The Grant Account Transactions Journal will record grant award deposits, program income, and disbursements. For all deposits, the date, description of activity and amount are recorded in the appropriate columns. When checks are written - or funds are transferred from the Grant Account - the date, description of activity (payee), check number, amount and budget category are recorded.

### Note

Each deposit or disbursement in the Grant Account Transactions Journal must be recorded on a new line – NEVER show a deposit and disbursement on the same line.

Every entry in the Grant Account Transactions Journal **must** be supported by proper documentation, including bank statements, vouchers and invoices. DO NOT enter any payments made by the municipality which will be reimbursed later by CDBG funds (see CDBG Reimbursement Request Form).

The Grant Account Transactions Journal provides disbursement data needed to complete a Request for Disbursement of Community Development Block Grant Funds form. Grantees with concurrent contracts must maintain a separate Grant Account Transactions Journal for each contract.

Some financial institutions require a minimum deposit to open a checking account. If so, a grantee may use municipal funds to open the account and repay the municipality once funds are deposited in the Grant Account. Here's how:

1. Deposit minimum amount required to open account
2. Enter amount as "Miscellaneous Deposit" in the Grant Account Transactions Journal
3. Increase "Federal Cash on Hand" by the amount
4. Show the amount as *Program Income & Other Receipts* on Disbursement Request Form
5. Reimburse municipality when initial disbursement is received
6. Enter reimbursement on Grant Account Transaction Journal as payment to municipality (admin expense)

### CDBG Reimbursement Request Form

Some grantees will find it necessary to advance funds to the CDBG program and be reimbursed at a later time. When this happens, use the CDBG Reimbursement Request Form to track the payments as they are made. This form records:

- ◆ when the municipality made each payment
- ◆ to whom each payment was made
- ◆ the number of the supporting invoices
- ◆ the check numbers
- ◆ the amount of each payment

To use the CDBG Reimbursement Request Form:

Fill in the required information as payments are made by the grantee, and attach a copy of each paid invoice.

Sign the form to request reimbursement from the CDBG Grant Account, entering the full reimbursement amount and date on which the CDBG Grant Account check was written on the Grant Account Transactions Journal.

File the CDBG Reimbursement Request Form - and supporting documents - with the financial records for the CDBG program.

#### Note

The Grant Account Transactions Journal will **never** show a check paid by the municipality. All checks issued by the municipality, to be reimbursed by the CDBG-Housing program, will be listed on the CDBG Reimbursement Request Form.

### **Working Account Transactions Journal**

Just as your Drawdown Register, Grant Account Transactions Journal, and Reimbursement Request form reflect the activity of your Grant Account, the Working Account Transactions Journal will reflect your rehabilitation and RLF activities.

***The Working Account must earn interest, and must be separate from your Grant Account which is non-interest bearing.***

### Rehabilitation Obligations Tracking Journal

Grantees must maintain a system for tracking obligated and unobligated balances. The purpose of such a system is to help a grantee avoid accidentally over committing available funds. The Rehabilitation Obligations Tracking Journal must include date of loan approval, loan number, loan amount (how much is obligated), and balance available. This journal will keep the grantee aware of unobligated balances of funds, including the deposit of RLF repayment funds.

### Working Account Transactions Journal

This journal tracks the grant funds that have been drawn down and disbursed for housing rehabilitation projects, records repaid housing rehabilitation loans, and interest earned on the Working Account.

Whenever money is returned to the community as the result of a housing rehabilitation project--whether it is a monthly loan payment or the return of deferred loan funds--it is deposited into the Working Account and recorded in both the Rehabilitation Obligations Tracking Journal and the Working Account Transactions Journal. All interest earned on the Working Account must also be recorded in the Rehabilitation Obligations Tracking Journal and the Working Account Transactions Journal.

The Working Account Transactions Journal documents that grant funds are disbursed for housing rehabilitation projects within 10 working days. It also documents that RLF project funds are disbursed *prior* to the request for CDBG grant funds.

**ALL** RLF dollars (including interest earned) should be recorded in the Working Account Transactions Journal when they are received.

Donations should be recorded as a RLF Project Deposit, with a notation in the description column that it is a “donation” to the program or for a specific purpose. Donations received for a specific purpose (e.g., a donation to be used for paint or a specific homeowner project) need not be disbursed until the appropriate project payment is ready to be made.

Funds from the Grant Account should be deposited into the Working Account AFTER contracts have been signed, mortgages recorded, and in anticipation of the disbursement needs of the next 10 working days. The Working Account Transactions Journal should show payments as they are made for ALL rehabilitation activities.

Funds for the rehabilitation of dwelling units consisting of 4 or fewer units may be deposited into the Working Account. Larger and non-rehab projects **MUST** be managed through the Grant Account.

### **Individual Obligation Journal**

A separate record must be kept for each loan recipient. This will enable administrators to have an accounting of how much has been paid out for each loan recipient. A copy of the Individual Obligation Journal should be kept in each rehab project file.

The Individual Obligation Journal is a tool to assist program administrators in anticipating rehab spending needs. “Obligated” funds are not “Committed” funds as required for documentation on the Quarterly Reports. “Committed” funds are reported *only* after the mortgage and rehab contracts have been signed.

### **Other Funds**

If other public/private funds will be used, the grantee must maintain records to document the amount, date and purpose of these funds.

For **homebuyer projects**, a copy of all bank mortgages (between the homeowner and the bank) must be on file.

When funds are used for **downpayment assistance** for a **homebuyer project**, a copy of the letter to the homeowner, detailing what the homeowner contribution is, must be on file.

**Cash donations** to the rehab program must be deposited in the Working Account and recorded on the Rehabilitation Obligations Tracking Journal and the Working Account Transactions Journal (under RLF project deposit). A copy of the check must be on file for documentation of Other Funds brought into the program.

Cash contributions from a homeowner for his/her individual project must be recorded on the Working Account Transactions Journal (under RLF project deposit). A copy of the check must be on file for documentation of Other Funds brought into the program.

Cash contributions for any non-rehab purpose (e.g., downpayment, site acquisition) must be paid directly to the individual project and documented with a copy of the check.

### **ADMINISTRATIVE EXPENSES**

A grantee may elect to pay "office rent" to itself ONLY if all other departments pay office rent to the grantee; or the CDBG office must be located in a non-municipal building.

A grantee may elect to pay a "per diem" or "salary" to members of the CDBG committee ONLY if all other such committees (e.g., public works committee, zoning committee, council) receive a similar payment.

A grantee may not purchase equipment or computer software valued in excess of \$2,000.00 without prior written approval from DOH.

A grantee may use CDBG funds to pay the salaries of municipal employees under the following conditions:

- a. For all hired or appointed employees, CDBG funds may be used to pay for documented time spent on the CDBG program. Time sheets **MUST** be maintained to document hours worked. Wages paid to hired or appointed employees for work on the CDBG program must be comparable to wages paid for comparable work in the area.
- b. Elected officials may only be paid for time spent on the CDBG program if they request and receive a waiver of conflict of interest from the DOH **prior** to performing the work for which they will be paid.

CDBG may not be used to pay for administrative expenses incurred after the expiration date of your contract with DOH.

Refreshments (for meetings) and meals are **NOT** an eligible CDBG expense (except when traveling on CDBG-related business).

## REIMBURSEMENT FOR LEAD-BASED PAINT TRAINING/CERTIFICATION

Funds have been appropriated to assist CDBG communities in reimbursing local contractors for the cost of completing Lead-Based Paint (LBP) Training/Certification. Funds are available to reimburse one employee per company within a grant program area.

In return, those contractors agree to maintain their certification and provide inspection and rehab services to the grantee for a period of one year. A list of certified lead-based paint trainers can be found at: <http://dhfs.wisconsin.gov/lead/Training/index.htm>

To request reimbursement for LBP Training/Certification, the grantee/administrator should **first** contact DOH regarding availability of funds, and must provide:

- 1) A "Reimbursement Request" printed on the **grantee municipal** letterhead that:
  - Lists all individuals that attended (and are seeking reimbursement for) training and certification.
  - Clearly indicates/lists the TOTAL amount of funding being requested.
  - Is signed and dated by the chief elected official.
- 2) Photocopies of all Licenses and/or Certificates of Completion obtained by participants listed on the "Reimbursement Request".
- 3) An individually signed and dated "Commitment to Work" form for each participant listed on the "Reimbursement Request" form.
- 4) Copies of all applicable invoices, cancelled checks, and/or receipts (*proof of payment*) from the Trainer to verify that the requested reimbursement amount matches the amount of money actually spent on LBP Training/Certification.

Mail/email documentation to:

Rick Radig, CDBG Program Grants Specialist  
 101 E. Wilson St., 5<sup>th</sup> Floor  
 Division of Housing  
 P.O. Box 7970  
 Madison, WI 53707-7970  
[Richard.radig@wisconsin.gov](mailto:Richard.radig@wisconsin.gov)

Or sent via fax (Attn: Rick Radig) to 608/266-5381