Section 5

Financial Management

Section 5 – Financial Management

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Section 5 - Financial Management

1.0 Introduction

A fundamental purpose of financial management is to ensure the appropriate, effective, timely and honest use of funds.

Specifically, grantees must ensure that:

1. Internal controls are in place and adequate;
2. Documentation is available to support accounting record entries;
3. Financial reports and statements are complete, current, reviewed periodically; and,
4. Audits are conducted in a timely manner and in accordance with applicable standards.

2.0 Requirements

In establishing a financial management system, grantees are to follow 24 CFR Part 85 "Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments" (also known as the Common Rule) and 24 CFR Part 84 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations".

The Disaster Recovery CDBG Regulations include but are not limited to:

Regulation	Description
24 CFR Part 570 "Community Development Block Grant Program"	Subpart I governs the State CDBG Program. Section 570.489 details program administrative requirements (Note applicable HUD waivers).
OMB Circular A-21 "Cost Principles for Educational Institutions"	This circular establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.
OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments"	This circular establishes principles and standards for determining allowable costs under federal grants. OMB Circular A-110 establishes principles for determining allowable costs to nonprofit organizations.
OMB Circular 122 "Cost Principles for Non-Profit Organizations"	This circular establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations.
OMB Circular A-133 "Audits of Institutions of States, Local Governments and Nonprofit Institutions"	This circular provides guidance to be directly followed regarding audits. These requirements include the type and level of audit required, reports issued by auditors, and audit review and resolution.
Specific provisions of 24 CFR Part 84 "Uniform Administrative Requirements for Grants and	These regulations set forth uniform requirements for financial management systems, reports and records, and grant close-outs for recipients of federal grant funding.

Regulation	Description
Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations"	Subjects covered in Part 84 include financial management standards, budget controls, accounting controls, cash management, and procurement and contracting.
Specific provisions of 24 CFR Part 85 "Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments"	Commonly referred to as the "Common Rule" These regulations set forth uniform requirements for financial management systems, reports and records, and grant close-outs for recipients of federal grant funding. Subjects covered in Part 85 include financial management standards, budget controls, accounting controls, cash management, and procurement and contracting.
Louisiana Travel Guide, Policy and Procedure Memorandum 49	Louisiana travel regulations that provide guidelines and establishes procedures for individuals incurring business travel and other expenses. See www.doa.louisiana.gov/osp/travel/travelpolicy.htm

Both the Common Rule and 24 CFR Part 570 govern CDBG grantee financial management systems. In addition, the use and accounting for Disaster Recovery CDBG funds are governed by the OCD-DRU requirements, OMB Circular A-87, and Treasury Circular 1075. Failure to account for and manage Disaster Recovery CDBG funds accordingly may result in sanctions imposed by the OCD-DRU and/or HUD.

The Common Rule requires that the grantee's financial management system provide the following:

1. Accurate, current, and complete disclosure of financial results;
2. Records that identify adequately the source and application of grant funds;
3. Comparison of actual outlays with amounts budgeted for the grant;
4. Procedures to minimize the amount of time elapsed between the transfer of funds from the US Treasury and the disbursements by the grantee;
5. Procedures for determining reasonableness and allowable costs;
6. Accounting records that are supported by appropriate source documentation; and,
7. A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

The three basic functions, which must be served by the financial management system, are:

1. The financial management system must have an identified procedure for recording all financial transactions;
2. All expenditures should be related to allowable activities in the CEA approved by the OCD-DRU; and,
3. All expenditures of Disaster Recovery CDBG funds must be in compliance with applicable laws, rules, and regulations.

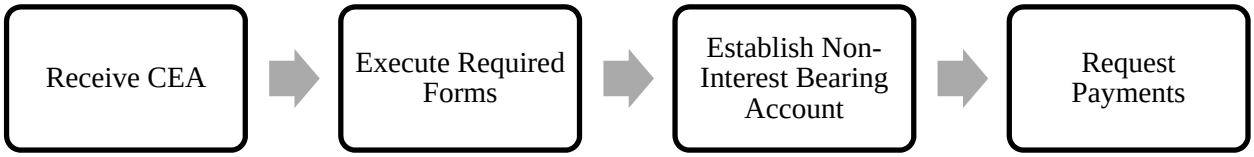
3.0 Definitions, Acronyms or Terminology

Please reference these terms for explanation of commonly used names, acronyms, and phrases used within this section.

1. **Administrative Cost -** Cost activities that are required to meet federal regulations that include things like grants management, monitoring, financials, reporting, etc. General rule of thumb is that if it crosses multiple projects, it is probably an administrative cost. Contact the OCD-DRU for additional guidance and specific examples of activities and under which categories by program area these activities should be budgeted and/or invoiced.
2. **Allowable Cost** – Costs that are in line with 24 CFR Part 85 and OMB Circular A-87
3. **Project Cost** – Total of Disaster Recovery CDBG funds, local or other matching funds, and total business investment in the project.
4. **Project Delivery Cost** – Costs similar to administrative costs, but are used specifically to meet the requirements to complete a particular project, especially as it applies to meeting CDBG requirements.
5. **FDIC** – Federal Deposit Insurance Corporation
6. **Direct Cost** – Any project cost/project delivery cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.
7. **Indirect Cost** – Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.
8. **Real Property** – Land, including all the natural resources and permanent buildings on it.
9. **Program Income** – Gross income received by the grantee directly generated from the use of Disaster Recover CDBG funds or matching contributions
10. **Taxpayer Identification Number** (TIN) -The number required by the IRS to be used by the offeror in reporting income tax and other returns. The TIN may be either a Social Security Number or an Employer Identification Number.

4.0 Establishing the Disaster Recovery CDBG Funds Account

The process for establishing a Disaster Recovery CDBG Funds Account is illustrated in the diagram below:



4.1 Receive CEA

Three copies of the Disaster Recovery CDBG CEA will be provided that identifies the following:

1. Activities funded;
2. CEA amount; and,
3. General terms and conditions.

Grantee should read the CEA carefully before signing it. One copy will be returned to the grantee for its records when the CEA has been signed by the appropriate OCD-DRU officials. The CEA is fully executed only after all OCD-DRU signatures have been obtained.

4.2 Execute Necessary Forms

The following forms are necessary before the OCD-DRU will proceed to establish the grantee's Disaster Recovery CDBG account in the OCD-DRU accounting system. No funds can be drawn until this account is established. The OCD-DRU requires the following financial documents to be completed and returned by the grant recipient:

1. Request for Vendor Information (Exhibit 5-1)
2. IRS Form W-9 (if applicable) (Exhibit 5-2)
3. OCD-DRU Authorized Signature Form (Exhibit 5-3)
4. Electronic Funds Transfer Enrollment Form (Exhibit 5-4)
5. Financial Management Questionnaire

The HUD Form 2880 (Exhibit 5-5) and Statement of Assurances (Exhibit 5-6 should be submitted during the application period.

4.2.1 Authorized Signature Form

To establish a Disaster Recovery CDBG account with the OCD-DRU, an Authorized Signature Form (Exhibit 5-3) must be completed. This Form must be completed carefully with no erasures or corrections. Signatures must match the typed or printed names. The certifying officer must apply a date to the Form by his or her signature. The Form designates who is authorized to sign the community's Requests for Payment. One Form with original signatures must be submitted to the State. Detailed line by line instructions are included on the back of the Form. If a change is needed to the names of the persons authorized to sign Requests for Payment at any time during the project, a new Authorized Signature Form must be submitted to the OCD-DRU.

4.2.2 Electronic Funds Transfer Enrollment Form

An Electronic Funds Transfer (EFT) Enrollment Form is attached as Exhibit 5-4 and located at www.doa.louisiana.gov/osrap/EFTforWebSite.pdf. This form tells the OCD-DRU where the Disaster Recovery CDBG funds should be deposited. **This form is sent to the Office of Statewide Reporting and Accounting Policy (OSRAP).**

4.2.3 Process to Change Forms

If any of these forms need to be changed at any time during the project, the information can be changed by providing the OCD-DRU revised Electronic Funds Transfer Enrollment Form. It will take approximately fourteen days to process a change. Please allow at least fourteen days for processing before submitting a Request for Payment.

4.3 Establish Account

4.3.1 Non-Interest Bearing Account

Funds are to be deposited into a separate non-interest bearing account which is to be balanced on a monthly basis. Use pre-printed, pre-numbered checks, not counter checks. After the project is closed, the same account can be used for subsequent grants by voiding three to four checks. If the grantee uses computer generated checks, appropriate safeguards must be in place.

4.3.2 Central Bank Account or Clearing Account

If the grantee is interested in using its general bank account, it must obtain prior written approval from the OCD-DRU. If a general bank account is used, separate financial statements for the Disaster Recovery CDBG grants must be produced. If utilizing this procedure, all invoices for which payment is requested must be paid in advance, and the checks must be cleared before reimbursement by the OCD-DRU. If interest is accrued on Disaster Recovery CDBG funds, the OCD-DRU must collect it from the grantee.

4.3.3 Insured Account

Funds for the project must be deposited into an account that is FDIC insured. The bank must provide collateral to secure those funds that are in excess of $250,000. Bank accounts must be secured by FDIC insurance or bank pledged collateral for the full amount of Disaster Recovery CDBG funds held in the account.

5.0 When Funds Can Be Drawn

Funds can be drawn once the CEA is executed by all appropriate local and state entities, all required forms are submitted and an account is set up.

6.0 Requesting Payment

The process for requesting payment is specific to a particular disaster. Separate processes may be assigned to requests for funds to cover Administrative, Project Delivery and Direct Project costs. It is anticipated that the OCD-DRU will employ an electronic payment request and disbursement system. The OCD-DRU will provide instruction and technical assistance to grantees regarding the process for requesting payment, making fund disbursements, and the associated record keeping requirements related to each specific disaster.

Please remember: Grantees may not earn interest on the deposit of federal funds pending disbursement. Federal funds on hand must be disbursed before requesting additional funds.

Requests for payments must be authorized according to the grantee's internal control process and signed by the person designated on the Authorized Signature Form. For additional guidelines on establishing appropriate internal controls, see Subsection 8.0 below.

7.0 Procedures for Financial Administration

This task presents an overview of the accounting procedures that must be followed in order to comply with state and federal requirements under the Disaster Recovery CDBG program.

7.1 Documenting Use of Funds

All funds must be documented appropriately to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes (24 CFR 85.20 (a)). The grantee must certify to this on each Request for Payment submitted to the OCD-DRU.

7.2 Financial Management System Adequacy

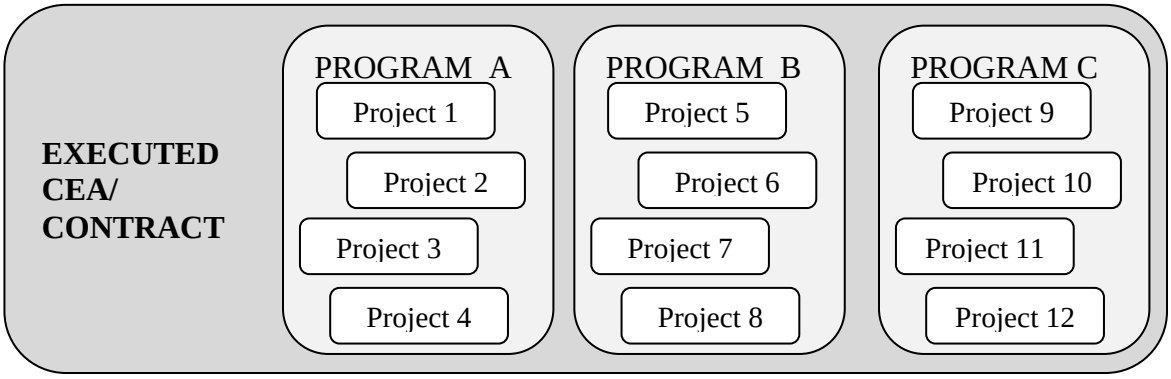
The grantee will receive a Financial Management Questionnaire, which must be completed and returned to the OCD-DRU Finance Department. The OCD-DRU will review this and other information to determine the adequacy of the grantee's financial management system prior to the award of the grant (24 CFR 85.20)). A copy of the grantee's bonding certificate or fidelity policy, and proof of payment or renewal will be required. This should accompany the grantee's audit.

7.3 Accounting Records

Accounting records must be maintained that adequately identify the source and application of funds provided for grant-assisted activities. The accounting for the Disaster Recovery CDBG program has to be on a modified accrual basis. The accounting system must provide the functionality to track receipts and expenditures and generate financial statements on an as-requested basis. Examples of these general purpose financial statements are shown in Exhibit 5-7. If assistance is needed in complying with this requirement, please contact the OCD-DRU staff.

The grantee must track and report on each project within each program of the grant separately. When reported in the grantee's audit, the Disaster Recovery CDBG funds utilized for each project should be separately identified.

In the example below, the grantee has implemented twelve different projects within their one CEA. The projects are within three different programs. The grantee must be able to report on each of the twelve projects separately.



7.4 Support Documents

Accounting records must be supported by such source documentation as cancelled checks, paid bills, invoices, purchase vouchers, payrolls, deposit slips, time and attendance records, CEA and sub-grant award documents, etc. (24 CFR 85.20 (b)(6)). Do not make a payment without invoices and vouchers physically in hand. All vouchers/invoices should be on vendors' letterhead.

Source documentation should explain the basis of the costs incurred and the actual dates of the expenditure. For example, source documentation on payments to contractors would include a request for payment, proof of inspection to verify work and materials, and cancelled checks.

DRU encourages the use of purchase orders when preparing expenditures for payment of any cost associated with the project. These documents are prepared in accordance with local policies and procedures as well as those required by federal regulations.

7.5 Record Keeping

Financial records are to be retained for a period of five years after closeout of the State's Disaster Recovery grant by HUD, with access guaranteed to State officials, their represenatives, or HUD represenatives. Audit requirements are discussed later in this Section.

See Section 4 – Records Management for additional record keeping requirements and a comprehensive list of all financial documents required to be maintained.

8.0 System of Internal Controls

Internal controls refer to the combination of policies, procedures, defined job responsibilities, personnel, and records that allow an organization (or an agency) to maintain adequate oversight and control of its cash, property, and other assets. The soundness of any grantee's financial management structure is determined by its system of internal controls.

Specifically, internal controls refer to:

1. Effectiveness and efficiency of operations;
2. Reliability of financial reporting; and,
3. Compliance with applicable laws and regulations.

With a sound internal control system, a grantee can ensure:

1. Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies;
2. Resources are protected against waste, mismanagement or loss; and,
3. Information on the source, amount, and use of funds is reliable, secured, and up-to-date and that this information is disclosed in appropriate reports and records.

As part of an effective internal control system, one person should be designated as responsible for financial management of a Disaster Recovery CDBG project. This person should be familiar with the grantee's present accounting system. The accounting of Disaster Recovery CDBG funds can be integrated into the grantee's existing system.

8.1 Basic Elements

The basic elements of an Internal Control System for Financial Management include:

1. Organizational chart showing lines of authority for all individuals involved in approving or recording financial transactions.
2. Written position descriptions describing responsibilities of all employees with a relationship to financial and accounting issues.
3. Written policy manual specifying approval authority for financial transactions and guidelines for controlling expenditures.
4. Written procedures for recording of financial transactions, as well as an accounting manual and a chart of accounts.
5. Adequate separation of duties to assure that no one individual has authority over an entire fiscal transaction.
6. Hiring policies that ensure financial staff qualifications are equal to job responsibilities and that individuals hired are competent to do the job.
7. Access to accounting records, assets, blank forms, and confidential records are adequately controlled, such that only authorized persons can get access to them.
8. Procedures for regular reconciliation of financial records, comparing a grantee's records with actual assets and liabilities of the organization.

8.2 State Requirements

The OCD-DRU requires that each grantee establish a system of internal controls that meet the following six minimum requirements:

1. No individual shall have complete control over all phases of any significant transaction. This means, for example, that the same person cannot authorize payment, record transactions, and sign checks.
2. Record keeping must be separate from operations and the handling and custody of assets.
3. Monthly reconciliation and verifications of cash balances with bank statements shall be made by employees who do not handle or record cash, or sign checks.
4. Actual lines of responsibility shall be clearly established and then adhered to as closely as possible.
5. The person who prepares payroll should not handle the related paychecks.
6. All persons who handle financial transactions shall be bonded in accordance with State law. All persons who handle financial transactions for Disaster Recovery CDBG shall have a current bond or fidelity policy.

9.0 Rules of Expenditure (Other Program-Related Expenditures)

9.1 Office Equipment

Office equipment is considered a capital expenditure and is not allowed as direct charges except where approved in advance by the OCD-DRU. When purchasing or leasing equipment, grantees must take care to act in compliance with 24 CFR 85.36. See Section 6 - Procurement Methods and Contractual Requirements of this Manual for guidelines for meeting procurement requirements.

In addition, any Disaster Recovery CDBG funds expended to lease or purchase equipment will result in disallowed costs unless the grantee can establish - and has fully documented in the project files - that the expenditure(s) was reasonable, necessary, and allowable for the grant, and was not a general expense required to carry out the overall responsibilities of local government as required by OMB Circular A-87. Prior to the lease or purchase of any equipment with Disaster Recovery CDBG funds, grantees should carry out an analysis of lease versus purchase alternatives and any other appropriate analysis to determine which approach would be the most economical. This analysis must be fully documented in the project files.

9.2 Items in Excess of $1,000.00

If the expected total cost of any single leased or purchased item exceeds one thousand dollars ($1,000.00) during the course of the grant, prior approval from the OCD-DRU is required.

9.3 Employees Paid From Disaster Recovery CDBG Funds

All employees paid in whole or in part from Disaster Recovery CDBG funds should prepare timesheets indicating the hours worked and detailed duties performed on Disaster Recovery CDBG projects for each pay period. The grantee should account for the total of the employees' activities in accordance with A-87. A contemporaneous journal entry in the grant recipient's General (or appropriate) Fund should be made indicating "Due from Disaster Recovery CDBG" for the amount allocated of the employee's payroll to be reimbursed from Disaster Recovery CDBG. Each time the grant recipient submits a Request for Payment, all of the "Due from Disaster Recovery CDBG" amounts accumulated to that point should be added to that Request for Payment. The appropriate journal entry for the Disaster Recovery CDBG Capital Projects Fund will be a debit to Administration expenditure and a credit to Due to General (or appropriate) fund. A sample timesheet is shown in Exhibit 5-8. The grant recipient may use their own timesheet providing it contains the equivalent information including the distribution of payroll costs and is signed by a knowledgeable supervisor and the employee.

See Section 7 - Labor Regulations for additional payroll requirements.

9.4 Real Property vs. Rent

Real property or trailers cannot be purchased with Disaster Recovery CDBG funds to accommodate administrative staff. Office space may be leased or rented if necessary. Rent paid shall not exceed average office rental costs in the community. Further, rental of administrative space for three years is substantially less expensive than purchase of property. It is more cost

effective and insures that the maximum amount of Disaster Recovery CDBG funds is spent for activities that benefit low-to-moderate income residents.

See Section 11 - Property Management for guidelines on managing property purchased with Disaster Recovery CDBG funds.

9.5 Allowable Costs

Cost incurred must be in line with 24 CFR Part 85 and OMB Circular A-87. It is a grantee's responsibility to ensure that Disaster Recovery CDBG funds are spent only on reasonable and necessary costs associated with project activities.

The grantee must establish policies and procedures for determining cost reasonableness, allowability, and allocability of costs.

9.6 Indirect Costs

In order for indirect costs to be charged to the grant, the Indirect Cost Plan must be approved by the Cognizant Agency. The approved Indirect Cost Proposal must be submitted to OCD-DRU for review. Grantees should review 24 CFR Part 85 and OMB Circular A-87 for additional guidelines regarding indirect costs.

9.7 Direct Costs

Costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a degree of accuracy. Examples of direct costs: Program staff salaries, space occupied by direct staff, supplies used by direct staff, and communications used by direct staff.

9.8 Project Costs/Project Delivery Costs

Those costs directly linked to a project can fall into two categories: Project Delivery and Project Costs. These activities will need to be properly categorized when Parishes submit Request for Payment forms for reimbursement from the Disaster Recovery CDBG program. Note that there is no requirement to designate a specific budget for project delivery; however, project delivery will be monitored for reasonableness and generally falls within 15% of total project cost.

Project Delivery Costs are similar to administrative costs, but are used specifically to meet the requirements to complete a particular project, especially as it applies to meeting CDBG requirements. This would include things such as eligibility verification, environmental clearance, project monitoring, application development, etc.

Project Costs are the direct costs of the project, such as the amount of the actual loan or grant provided, construction costs, etc.

9.9 Local Government Costs

A grantee may be reimbursed with grant funds to cover general expenses such as attendance to project-related workshops, travel, staff time, legal fees, advertising fees, audit fees, and costs associated with Section 504 compliance.

9.10 Administrative Costs

Cost activities that are required to meet federal regulations include things like grants management, monitoring, financials, reporting, etc. General rule of thumb is that if it crosses multiple projects, it is probably an administrative cost. The table below provides guidance and specific examples of activities and under which categories by program area these activities should be budgeted and/or invoiced. Contact the OCD-DRU for additional clarification.

Program Type(s)	Administrative Cost Examples
General	Cost activities that are required to meet federal regulations that include things like management, monitoring, financials, reporting, etc. General rule of thumb is that if it crosses multiple projects, it is probably an admin cost.
1. Homeowner Rehab 2. Rental Rehab 3. Homeownership financing 4. Homeowner Compensation 5. Housing Relocation 6. Homeless Prevention 7. Neighborhood Redevelopment 8. Infrastructure 9. Economic Development Grant and Loan 10. Economic Development Workforce 11. Community Resiliency 12. Public Services Program	Management, financial, reporting, compliance and monitoring requirements that span multiple projects.

9.11 Program Income

Program income means gross income received by a state, a unit of general local government or a subrecipient of a unit of general local government that was generated from the use of CDBG funds (24 CFR 570.500(a)), except that program income does not include the total amount of funds which is less than $35,000 received in a single year that is retained by a unit of general local government and its recipients.

Examples of Program Income include:

1. Proceeds from the sale or long-term lease of real property purchased or improved with CDBG funds.

2. Proceeds from the disposition of equipment purchased with CDBG funds.
3. Gross income from the use or rental of property acquired by the grantee or subrecipient with CDBG funds, less the costs incidental to the generation of such income.
4. Gross income from the use or rental of property owned by the grantee or subrecipient that was constructed or improved with CDBG funds, less any costs incidental to the generation of such income.
5. Payments of principal and interest on loans made using CDBG funds.
6. Proceeds from the sale of loans made with CDBG funds.
7. Proceeds from the sale of obligations secured by loans made with CDBG funds.
8. Interest earned on program income, pending the disposition of such program income.
9. Funds collected through special assessments made against properties owned and occupied by households not of low- and moderate-income, where such assessments are used to recover part or the entire CDBG portion of a public improvement.

Generally, any program income received by a grantee must be returned to the OCD-DRU; however the OCD-DRU may make exceptions on a case-by-case basis.

Program income does NOT include any income received in a single program year by the recipient and all its subrecipients if the total amount does not exceed $35,000; and amounts generated by activities that are financed by a loan guaranteed under section 108 of the Act and meet one or more of the public benefit criteria specified at 24 CFR 570.209(b)(2)(v) or are carried out in conjunction with a grant under section 108(q) in an area determined by HUD to meet the eligibility requirements for designation as an Urban Empowerment Zone pursuant to 24 CFR part 597, subpart B. Additionally, program income does NOT include any funds generated from activities carried out by 105(a)(15) Non Profit entities.

10.0 Changes in the Grant

The OCD-DRU approved the application based upon the specific purpose of and items included in the project description and cost estimate. Deviations from those items require written approval from the OCD-DRU; failure to receive that approval could result in disallowed costs. This approval must be obtained prior to putting the project out for bid. See Section 2 – Administration for additional guidance on requesting amendments or changes to the grant.

10.1 Left-over Money

If all of the approved activities and items in the approved cost estimate have been completed and there are funds remaining due to cost under-runs, the use of those funds is subject to prior approval from the OCD-DRU procedure for requesting a program amendment as described in Section 2 – Administration. Amendments to the approved program can neither be requested nor approved through the submittal of engineering change orders.

The OCD-DRU will review all requests for an amendment very carefully to determine how the proposed change relates to the approved project. In making that determination, the OCD-DRU will ascertain as to whether or not the proposed change is an integral part of the originally approved project and is necessary to complete the project as originally approved. The OCD-DRU will also review the site location of the proposed change in relation to the originally

approved target area. If there is a budget under-run and an expansion of the target area is requested, expansions will have to be contiguous to the original target area. The overall project will still have to primarily benefit low-to-moderate income persons. After making any adjustments to the scope of the original application, the revised application will still have to remain above the funding line. The scope and intent of expansion will have to be kept within the scope and intent of the originally funded application.

11.0 Audit Process

One of the primary financial management requirements implicit with the use of federal funds pertains to audits. Audits are a critical component of any financial management system. Regardless of the type or size of the entity, an effective audit can improve management operations and yield significant dollar savings.

An audit is a series of selective tests that give the auditor a basis for judging whether financial records can be relied upon. Audits are an important part of effective financial systems, as they produce useful financial reports and verify the reliance of those reports. There are both federal and state requirements for audits. OMB Circular A-133 provides federal requirements for audits of governmental entities and nonprofit organizations. Failure to comply with the audit requirements can jeopardize the grantee's ability to draw grant funds and to receive future grants.

11.1 State Requirements

An audit or financial report is required from each grantee annually within six months (180 days) after the grantee's fiscal year end. Audits that are not received within this six month time period will be placed by the Legislative Auditor on a "Delinquent Audit List." Once placed on this list, the entity will be barred from receiving funds from any source including Disaster Recovery CDBG. This list is posted on the Legislative Auditor website (www.lla.state.la.us/) and is updated daily as audits are sent in.

11.2 Federal Requirements

For fiscal years starting December 26, 2014, non-Federal entities that have expended more than $750,000 in federal funds within a fiscal year are required to have an A-133 audit conducted (See Subection 11.2.1).

Note: On December 26, 2013, the Office of Management and Budget (OMB) published 2 CFR part 200. As a result, the threshold for non-Federeal entities to perform an A-133 audit (Single Audit) was increased from $500,000 of federal funds to $750,000. To ensure the uniform application of the requirements of Subpart F (Audit Requirements) for all Federal programs, the requirements are not applicable to fiscal years beginning before that date.

If an organization expends less than $750,000 a year in federal funds, it is exemt from the federal audit requirements for that year, but financial records must be made available if needed (see Subsection 11.2.2).

Under OMB Circular A-133, audits must be completed within nine months of the end of the fiscal year. However, state law required the A-133 audit be completed and submitted within six months after the end of the fiscal year (See RS 24:513). All auditees must submit to the Federal Audit Clearinghouse (FAC) the data collection form and reporting package upon completion of the annual audit in accordance with OMB Circular A-133.

Grantees have no later than 30 days after receipt of the auditor's report to submit the final copies to the FAC. The grantee should also forward one copy to the OCD-DRU.

11.2.1 Single Audit

Under the provisions of the Single Audit Act Amendments of 1996, an audit under OMB Circular A-133 is required whenever the amount of federal expenditures (Disaster Recovery CDBG program funds plus all other federal expenditures) in a year exceeds $750,000. This type of audit, which includes a full set of financial statements and other detailed information, is often referred to as a "single audit." The single audit will meet federal accountability requirements and will also be sufficient to meet state accountability requirements.

11.2.2 Other Types of Financial Reports

If less than $750,000 in total federal funds is **expended** in an entity's fiscal year, a single audit is not required, but other requirements called for by state law and Disaster Recovery CDBG policies must be met.

If a grantee determines that a single audit is not required, state law (RS 24:513) and the Disaster Recovery CDBG CEA require the submission of one of the following types of reports, based on revenues received from all sources during a fiscal year:

1. An annual sworn financial statement if revenue received was $50,000 or less,
2. An annual compilation of its financial statements, with or without footnotes, if revenue received was more than $50,000 but less than $200,000,
3. An annual review of its financial statements to be accompanied by an attestation report, if revenue received was $200,000 but less than $500,000,
4. An annual audit, if revenue received was $500,000 or more.

The above guidelines are a summary of the State's audit requirements; refer to RS 24:513 for the complete requirements.

When a grantee engages an independent CPA to prepare an audit or compilation, a copy of the written engagement agreement must be furnished to the Legislative Auditor of the State of Louisiana for approval of the engagement terms and conditions. The Legislative Auditor will forward to the independent CPA a copy of the approved engagement agreement. Approval is now available via fax or e-mail.

Upon completion of the financial report, in addition to the copies filed with the Legislative Auditor, a copy of the audit or financial statement, together with all written communications between the CPA and the grantee, must be furnished to the OCD-DRU.

Grantee management is expected to respond in writing to the OCD-DRU regarding any findings of noncompliance, control structure comments or recommendations cited by the independent CPA in his or her reports or in a report issued by the Legislative Auditor. Such response should identify each finding or comment and the action(s) that has been taken or is planned to be taken.

If an action has not been taken, provide the approximate date the action will be completed, or explain why no action is believed to be required.

11.3 Audit Costs

The only costs allowable under the Disaster Recovery CDBG Program for financial report preparation are single audit costs. If single audit costs are to be charged to the Disaster Recovery CDBG program, the grantee must follow the "Procurement" guidelines established under the Common Rule. A written procurement policy must be prepared and adopted by the governing body. Such policy should clearly prohibit elected officials, staff, or their agents from obtaining any benefit from procurement contracts. Specific guidance is presented in Section 6 – Procurement Methods and Contractual Requirements. However, due to the importance of the audit process, grantees are reminded that not all CPAs are qualified to perform audits of governmental entities and in particular, under the Single Audit Act. Care should be exercised to select an experienced, qualified firm, rather than simply selecting the firm offering to perform the audit at the lowest price.

The portion of the total single audit cost which can be charged to the Disaster Recovery CDBG program may be determined by multiplying the total single audit cost times a fraction, the numerator of which is the Disaster Recovery CDBG program expenditures for the period, and the denominator of which is the government entity's total expenditures for the period, including the Disaster Recovery CDBG program expenditures. A calculation of the allowable portion of the single audit cost should be included in the supporting documentation presented with the request for payment.

Under the latest revisions to OMB Circular A-87, if appropriate documentation of the single audit costs provides a higher amount than the formula, the higher single audit costs may be charged to the program. Supporting documentation should be available for review by Disaster Recovery CDBG staff.

12.0 Resources

Exhibit	Description
Exhibit 5-1	Request for Vendor Information
Exhibit 5-2	IRS Form W-9: Request for Taxpayer Identification Number and Certification
Exhibit 5-3	OCD-DRU Authorized Signature Form
Exhibit 5-4	Electonic Funds Transfer Enrollment Form
Exhibit 5-5	HUD Form 2880: Applicant/Recipient Disclosure/Update Report
Exhibit 5-6	Grantee Statement of Assurances
Exhibit 5-7	Sample Financial Statements
Exhibit 5-8	Sample Time Sheet