



*The GLO-CDR Implementation Manual provides guidance for CDBG-DR and CDBG-MIT subrecipients and should not be construed as exhaustive instructions.*

# CHAPTER 4–FINANCIAL MANAGEMENT

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## **CHAPTER 4—FINANCIAL MANAGEMENT**

### **4.1 Introduction**

Financial management touches on nearly all phases and aspects of CDBG-DR and CDBG-MIT programs. All costs charged by a subrecipient must be necessary, reasonable, allowable, and allocable to the CDBG-DR and/or CDBG-MIT grants, as further described in this chapter. This chapter provides many of the guiding principles for ensuring costs are appropriate and eligible, but it is supplemented by financial management guidance throughout other chapters in this Implementation Manual, most notably including:

- Administrative requirements (Chapter 2)—Including duplication of benefits requirements, provisions related to charging pre-award costs, conflict of interest, reporting fraud, and distinction between agencies/government components, subrecipients, contractors, developers, and beneficiaries;
- Recordkeeping and Reporting requirements (Chapter 3)—Including records retention and financial reporting requirements;
- Procurement requirements (Chapter 5)—Including requirements related to bonding, insurance, suspension, and debarment;
- Contract conditions (Chapter 7);
- Force Account (Chapter 10)—Including requirements for tracking, documenting, and charging personnel costs and applicable fringe benefits and classification, purchasing, tracking, insuring, and disposing of equipment, supplies, and federally purchased tangible and intangible property;
- Contract amendments (Chapter 12);
- Contract closeout (Chapter 13);
- Monitoring and Quality Assurance (Chapter 14)—Including requirements related to preventing fraud, waste, and abuse; and
- Audit (Chapter 15)—Including Single Audit or program-specific audit requirements.

The financial requirements for local governments receiving CDBG-DR and/or CDBG-MIT grants are governed by regulations issued by HUD, the Federal Office of Management and Budget (OMB), federal, state, and local policy.

The following is a non-inclusive list of key federal and state regulations governing financial management:

- 24 CFR 570 Subpart I—governs the state CDBG-DR program;
- 2 CFR 200, including all of Subpart E Cost Principles;



- Uniform Grant Management Standards (UGMS)–Texas Comptroller of Public Accounts and guidance under 2 CFR 200; and
- Texas Local Government Code Chapter 171.

It is a subrecipient’s responsibility to be knowledgeable and compliant with these requirements to ensure the appropriate, effective, timely, and eligible use of all funds related to CDBG-DR and/or CDBG-MIT-funded projects. Subrecipients are responsible for monitoring their vendors and projects, and the GLO is in turn is responsible for monitoring the subrecipient’s compliance with applicable financial management standards, for processing CDBG-DR and/or CDBG-MIT payment requests for funds, and for audit review.

As used throughout this chapter, a cost objective is a pool of related costs, which could be related based on subrecipient agency, department, function, eligible Subrecipient Agreement with the GLO, or any other basis. The term is used to capture a variety of scenarios in which costs may be categorized for purposes of cost allocation or eligibility determinations.

## **4.2 Subrecipient Duties and Controls Prior to Receipt of CDBG-DR AND CDBG-MIT Funds**

### **4.2.1 Establish Internal Controls (See 2 CFR 200.303)**

The subrecipient should establish and maintain written policies and procedures for internal controls and guidance documentation for responsible financial management of CDBG-DR and/or CDBG-MIT funds. These policies and procedures should meet the following criteria:

- The subrecipient should have an established internal control system and documented segregation of duties. Examples of appropriate segregation of duties include:
  - No person should have complete control over every phase of a financial transaction. For example, the person who authorizes payments to contractors should not draft and issue the payment check and the person who writes a payment check should not reconcile associated bank records;
  - Where feasible, monthly bank reconciliation and/or direct deposit monthly statements should be reviewed by someone who is not responsible for handling cash or issuing checks; and
  - The person issuing checks for grant expenses should not also handle payroll preparation/issuance of paychecks.
- The subrecipient should have procedures for taking prompt action when an instance of noncompliance is identified internally or through audit findings.
- The subrecipient should take reasonable measures to safeguard protected personally identifiable information (PII) and other information that HUD or the GLO designates as sensitive or that the local government considers sensitive consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality.



- The subrecipient should have policies and procedures governing their expenditures of CDBG-DR and/or CDBG-MIT funding, including procedures to ensure the timely expenditure of funds, subject to the Period of Performance within their Subrecipient Agreement. The GLO has procedures to ensure timely expenditures of funds and subrecipients will be subject to monitoring under those procedures.
- All federal, state, and local conflict of interest provisions apply, including the requirements of Texas Local Government Code Chapter 171.

#### **4.2.2 Establish budgets and accounting records (24 CFR 570.502)**

The subrecipient is responsible for ensuring all CDBG-DR and/or expenditures are authorized in an approved, documented budget and do not exceed the total budget amount and do not exceed the amount in the Subrecipient Agreement.

Subrecipients generally have two methods available with which to request a drawdown of CDBG-DR funds to pay for project and vendor costs: the reimbursement method and the cash advance method.

- The reimbursement method entails a transfer of CDBG-DR funds to the subrecipient based on actual expenditures already incurred by the subrecipient before it requests a draw.
- The cash advance method entails the transfer of CDBG-DR funds from the GLO based upon the subrecipient's received invoices before the actual cash disbursements have been made by the subrecipient.

The GLO strongly recommends (but does not require) that the subrecipient establish a separate account for grant and local funds. If the subrecipient receives funds on a cash advance basis, then the subrecipient should ensure that all received CDBG-DR funding is held in an insured, interest-bearing account (2 CFR 200.305(b)).

A subrecipient may elect to deposit CDBG-DR funding into a non-interest-bearing account if it meets the following conditions:

- A. Option 1:
- a. The subrecipient provides documentary evidence that it will only receive CDBG-DR funding on a reimbursement basis; AND
  - b. The subrecipient henceforth provides evidence of liquidated expenditures to accompany all future draw requests.



**B. Option 2:**

- a. The subrecipient provides documentary evidence that it only receives federal funding in amounts less than \$120,000 per year, inclusive of any anticipated future CDBG-DR awards; OR
- b. The subrecipient provides documentary evidence that it has evaluated all possible interest-bearing accounts available to it and it would not be expected to earn interest in excess of \$500 per year on federal.

Both options to not utilize an interest-bearing account require the approval of the GLO prior to receipt of CDBG-DR funding. In all cases, the subrecipient's accounting records must be managed in such a way that they clearly track CDBG-DR grant funds separately from the general municipal/county funds.

A subrecipient's accounting system should, at a minimum, include:

- Distinct accounting information for separate eligible activities and federal grants;
- Accurate records of encumbrances/obligations against these distinct line items when vendor contracts or purchase orders are issued; and
- Accurate records on grant awards, unobligated balances, assets, liabilities, expenditures, program income, and applicable interest.

All of this information must be adequately supported by sources documentation, including vendor contracts, invoices, and purchase orders.

Pursuant to 2 CFR 200.302(a), the subrecipient's financial management system, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required to demonstrate compliance with general and program-specific terms and conditions; and the tracing of funds to a level adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the Subrecipient Agreement and CDBG-DR grants.

Furthermore, subrecipients should maintain accounting systems or processes that provide for clear, real-time tracking of costs related to the CDBG-DR and/or CDBG-MIT grants, including by national objective, by most impacted and distressed geographies, and by targets outlined in the Subrecipient Agreement. Systems should be in place to ensure proficient management of programmatic and HUD cost caps, especially those set for planning, administration, public service activities, project delivery (if applicable), engineering (if applicable), and program-specific award caps (e.g., per beneficiary assistance caps).



Subrecipients should have effective control over, and accountability for, all funds, property, and other assets in its possession. Subrecipients should make efforts to adequately safeguard all assets and assure that they are used solely for their intended purpose.

Financial records must include, but are not limited, to the following:

- Transaction registry documenting:
  - All invoices associated with each Request for Payment; and
  - Source of funds for each invoice (grant funds by activity, matching funds, and/or other funds).
  
- Source documentation, including the following:
  - Copies of Requests for Payment;
  - Addendum record of direct deposit payments;
  - Verification of deposits;
  - Monthly bank statements with canceled checks;
  - Check register/transaction ledger;
  - Employee time sheets;
  - Equipment time record sheets;
  - Property inventory;
  - Purchase orders, invoices, and contractor requests for payments;
  - Electronic Transfer Form (EFT); and
  - All original source documents.

#### **4.2.3 Establish Responsible Persons—Authorized Signatory Designation**

The program must fill out the Depository/Authorized Signatories Form to identify the persons responsible for both contractual documents (executed Subrecipient Agreement, associated amendments, and various program certifications) and financial documents (requests for payment, issuance of check):

- Signatures of the persons (at least two) authorized by the local governing body to sign these documents for the subrecipient must be submitted to GLO-CDR;
- A copy of the resolution passed by the city council or county commissioner's court authorizing the signatories (by job title is recommended); and
- If an authorized signatory of the subrecipient changes (due to elections, illness, resignations, etc.), the form and/or resolution must be updated.



#### **4.2.4 Direct Deposit Authorization**

The subrecipient is strongly encouraged to authorize direct deposit to receive payments from a state agency posted directly to the local bank account. To do this, subrecipients should complete the Direct Deposit Authorization Form and submit it to their Grant Manager. After the form is submitted and subject to a 30-day processing period, grant payments will be deposited using this method.

#### **4.2.5 Subrecipient Capacity**

Subrecipients should ensure that it has staff and contractor capacity sufficient to manage all CDBG-DR grant funds under its control. Subrecipients may procure a grant administrator to assist with management of grant compliance, subject to federal and state procurement guidelines and requirements outlined in this Implementation Manual (see Chapter 2 of this Manual).

Subrecipients should consider a variety of factors when designing their systems for management of grant compliance and their staffing and contractor needs, including:

- Size and complexity of Subrecipient Agreement(s) and/or the management of multiple HUD grants;
- Grant management history and knowledge base;
- Results of past monitoring events and audits, including outstanding audit findings;
- Ability to comply with federal rules and regulations;
- Turnover rate;
- Technical capacity (accounting, invoice processing, etc.) and knowledge of CDBG/CDBG-DR and 2 CFR 200 requirements;
- Management of similar programs and activities;
- Volume and response to past citizen complaints; and
- Systems in place to manage funding, both from a process perspective and information technology perspective.

### **4.3 Classifying Federal and CDBG-DR Costs**

#### **4.3.1 Eligible/Allowable Costs**

All costs charged to the Subrecipient Agreement must be eligible as described in this chapter and throughout this manual. Eligible costs are those that conform to HUD CDBG-DR requirements, including limitations and waivers described in applicable Federal Register Notices, comply with federal cost principles, and align with all associated cross-cutting federal



requirements (Davis Bacons and Related Acts, environmental requirements, etc.), Subrecipient Agreement requirements, and state and local law.

Pursuant to 2 CFR 200.403, costs must meet the following general criteria in order to be allowable as a charge against any federal award:

- Costs must be necessary and reasonable for the performance of the federal award and be allocable to that award and not to a different award or cost objective;
- Costs must conform to any limitations or exclusions set forth in 2 CFR 200 or in the federal award as to types or amount of cost items;
- Costs must be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the subrecipient;
- Costs must be accorded consistent treatment;
  - A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost;
- Costs must be determined in accordance with generally accepted accounting principles (GAAP); and
- Costs must be adequately documented.

#### **4.3.2 Necessary Costs**

CDBG-DR must be necessary in order to meet program objectives. Unnecessary costs are those that are not required to achieve the objectives of the Subrecipient Agreement or not related to the CDBG-DR and/or CDBG-MIT programs being administered.

#### **4.3.3 Reasonable Costs (2 CFR 200.404)**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-federal entity or the proper and efficient performance of the federal award;
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; federal, state, local, and other laws and regulations; and terms and conditions of the federal award;
- Market prices for comparable goods or services for the geographic area;



- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the subrecipient, its employees, the public at large, the GLO, and the federal government; and
- Whether the subrecipient significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the cost.

#### **4.3.4 Allocable Costs (2 CFR 200.405 and 200.406)**

A cost is allocable to a particular grant, Subrecipient Agreement, vendor contract, program or other cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with relative benefits received. This standard is met if the cost:

- Is incurred specifically for that cost objective;
- Benefits both that cost objective and other work of the subrecipient and can be distributed in proportions that may be approximated using reasonable methods; and
- Is necessary to the overall operation of the subrecipient and is assignable in part to the specified cost objective in accordance with 2 CFR 200.

All cost objectives which benefit from the subrecipient's indirect (F&A) cost, including unallowable activities and donated services by the subrecipient or third parties, will receive an appropriate and proportionate allocation of indirect costs.

Any cost allocable to a particular cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of the federal awards, or for other reasons. However, this prohibition would not preclude the subrecipient from shifting costs that are allowable under two or more cost objectives in accordance with existing federal statutes, regulations, or the terms and conditions of the federal awards.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Costs should only be charged net of all applicable credits. Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the cost objective. Examples include:

- Purchase discounts;
- Rebates or allowances;



- Recoveries or indemnities on losses;
- Insurance refunds or rebates; and
- Adjustments of overpayments or erroneous charges.

To the extent that such credits accruing to or received by the subrecipient relate to allowable costs, they must be credited to the federal award either as a cost reduction or cash refund, as appropriate. These credits do not constitute program income.

#### **4.3.5 Classification of Costs: Direct and Indirect (2 CFR 200.412)**

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of federal awards.

#### **4.3.6 Direct Costs (2 CFR 200.413)**

Direct costs are those costs that can be identified specifically with a particular cost objective and directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

The salaries of administrative and clerical staff (e.g., human resources, information technology, facilities management, executive oversight, etc.) should normally be treated as indirect (F&A) costs. Direct charging of these costs may be allowable if permitted by a subrecipient's Grant Manager and not also charged as part of an indirect rate.

#### **4.3.7 Indirect Costs and Indirect Cost Rates**

Pursuant to 2 CFR 200.311(a)(4), the GLO will honor an indirect cost rate that has been negotiated between the subrecipient and the federal government, subject to program caps and budget constraints. Subrecipients have two additional options for recoupment of indirect (F&A) costs if such a rate has not been negotiated with the federal government:

- Subrecipients may elect to utilize a de minimis 10 percent indirect cost rate (subject to limitations described below); or
- Subrecipients may request to direct charge for certain indirect costs that can reasonably be allocated as direct based on a methodology approved by the GLO (contact your Grant Manager if pursuing this option).



Requirements for the development and approval of cost allocation plans and indirect cost proposals are complex. For additional information, contact your Grant Manager and reference:

- Appendix V to 2 CFR 200—State/Local Governmentwide Central Service Cost Allocation Plans;
- Appendix VII to 2 CFR 200—States and Local Government and Indian Tribe Indirect Cost Proposals.

A subrecipient that has never received a negotiated indirect cost rate (negotiated with the GLO, any other state entity, or the federal government) and does not receive more than \$35 million in direct federal funding in a fiscal year may elect to charge a de minimis rate of 10 percent of modified total direct costs (MTDC) which may then be used indefinitely.

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each Subrecipient Agreement executed by a subrecipient of the GLO (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If a de minimis rate is chosen, this methodology once elected must be used consistently for all federal awards until such time as the subrecipient chooses to negotiate for a rate.

#### **4.3.8 Classification of CDBG-DR Costs – Program Administrative Costs, Activity Delivery Costs, Project Costs, and Planning Costs**

Regardless of the determination of costs as either direct or indirect, all HUD CDBG-DR costs must also be allocated to the eligible activity and CDBG-DR and/or CDBG-MIT-funded program based on the type of cost and the particular function performed. Options include:

- Project Costs – direct costs of undertaking a project and providing a benefit to a beneficiary of CDBGDR funding;
- Activity Delivery Costs (ADCs) – costs of carrying out a specific CDBG-DR programs and providing a program benefit;
- Planning Costs – costs related to the development of Action Plans, functional plans, methods of distribution, or other activities as described more below; and



- Program Administrative Costs (PACs) – costs incurred for the general management, oversight and coordination of the CDBG-DR grant.

Each of these cost types have budget and caps described within each Subrecipient Agreement and Application Guide. Further description of each is below:

- Project costs include all assistance directly to developers, homeowners, businesses, and other beneficiaries. Examples of project costs:
  - Construction hard costs for building improvements or infrastructure projects;
  - Grants or loans to homeowners or businesses;
  - Developer fees and associated contractor overhead and profit related to provision of direct services when using a developer; and
  - All costs related to the provision of public services, including staff time and other direct costs (such as supplies) to deliver these services.
- Activity Delivery Costs (ADCs) include staff and consultant costs necessary to implement and carry out a specific CDBG-DR program or cost objective. Developers, homeowners, businesses, and other beneficiaries cannot incur ADCs. Examples of eligible ADCs when paid directly by subrecipients:
  - Staff time necessary to administer a specific program;
  - Site specific environmental costs;
  - Engineering/design/architecture services for a project;
  - Applicant intake/eligibility screening in a specific program; and
  - Project underwriting/selection.
- Planning costs (as defined in 24 CFR 570.205) are those costs that generally result in the development of “a plan” (although with some exceptions). Planning for a specific project is an ADC if undertaken by the subrecipient and a planning activity can be a CDBG-DR eligible activity and may convert to an ADC if planning progresses far enough to meet a CDBG-DR National Objective. Developers, homeowners, businesses, and other beneficiaries cannot incur planning costs.
- Subrecipient should refer to their Subrecipient Agreement to determine whether any planning funding has been allocated and for what purpose. Examples of eligible planning activities:
  - Development of Action Plan, amendments, needs determinations, and methods of distribution;
  - Watershed Management Plans; and
  - Functional plans for housing/land use/economic development.



- Program Administration Costs (PACs) must only be used for activities related to CDBG-DR program and cannot pay for general operational expenses unrelated to the grant. Developers, homeowners, businesses, and other beneficiaries cannot incur PACs. Examples of eligible administrative costs:
  - Monitoring overall program performance;
  - Leased office space and general operations;
  - Staff time and/or contracted services to manage the funds and CDBG-DR program overall;
  - Administrative support;
  - Legal/accounting/HR/audit;
  - Financial management;
  - Reporting/QPR; and
  - On-going compliance monitoring after project close-out.

A subrecipient managing a single program (e.g., owner-occupied housing rehabilitation) may not need to incur any PACs, since all of their costs may be directly related to that single activity. Subrecipients should review their Subrecipient Agreement carefully to understand whether PAC funding has been allocated and in what amount. Subrecipients may not use ADC funding to pay for costs that are only eligible as PACs.

#### **4.3.9 Program Income**

Program income for CDBG-DR is defined within the Federal Register Notice allocating such funding to the State of Texas. Generally, program income is the gross income in excess of \$35,000 received in a single calendar year by the subrecipient that was generated from activities funded in whole or in part by the Subrecipient Agreement. When program income is generated by an activity that is partially funded with CDBG-DR, then the income must be prorated to reflect the percentage of the total funding that the CDBG-DR funding comprised.

Subrecipients are required to submit monthly data on income generated by CDBG-DR-funded activities that would constitute program income once it exceeds \$35,000. At the end of each calendar year (or whenever requested by the GLO, in its sole discretion), subrecipients must remit all program income received in the calendar year to the GLO.

If the income does not exceed \$35,000, it is not program income and not subject to the requirements of the Subrecipient Agreement. In this case subrecipients are authorized to retain the income they received and utilize it for any non-CDBG-DR purpose. Subrecipients will generally not be required to submit additional documentation if program income does not exceed \$35,000 within a calendar year, but this will be subject to monitoring efforts by GLO.



Examples of program income include, but are not limited to, the following:

- Proceeds from the sale or long-term lease of real property purchased or improved with CDBG funds;
- Proceeds from the disposition of equipment purchased with CDBG funds;
- Gross income from the use or rental of property acquired by the subrecipient with CDBG funds, less the costs incidental to the generation of such income;
- Gross income from the use or rental of property owned by the subrecipient that was constructed or improved with CDBG funds, less any costs incidental to the generation of such income;
- Proceeds from the sale of obligations secured by loans made with CDBG funds; and
- Interest earned on program income, pending disposition of such program income.

Generally, any program income received must be returned to the GLO, subject to applicable terms and conditions within a Subrecipient Agreement. Subrecipients may be permitted to maintain program in certain circumstances—contact your GLO Grant Manager for more information.

Program income, when used to carry out a CDBG-DR and/or CDBG-MIT activity, is subject to all federal requirements. Subrecipients are not permitted to establish revolving loan funds with program income. If a subrecipient earns or anticipates generating or earning income from CDBG-DR assisted activities, contact your GLO Grant Manager. See 2 CFR 200.307 and 24 CFR 570.489 for additional regulations.

#### **4.3.10 Federal Requirements for Treatment of Special Types of Costs**

Federal requirements place limitations on specific items of costs, including prohibiting certain costs from being charged to a federal award (notable examples include expenditures for lobbying, alcohol, and payment on uncollectable debts). These requirements are specific and enumerated in 2 CFR 200.420–200.475. Subrecipients should reference these requirements and become familiar with them in order to carry out any federal program.

Pursuant to 24 CFR 570.489(p), all cost items described in 2 CFR 200.420–200.475 that specify the requirement for preapproval from HUD are allowable without prior approval of HUD or the GLO, to the extent that they otherwise comply with the requirements of 2 CFR 200 and are otherwise eligible, except for the following:

- Depreciation methods for fixed assets shall not be changed without the express approval of the cognizant federal agency (2 CFR 200.436);
- Fines, penalties, damages, and other settlements are unallowable costs to the CDBG-DR program (2 CFR 200.441);



- Housing cost (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses (goods or services for personal use) regardless of whether reported as taxable income to the employees (2 CFR 200.445); and
- Organization costs (2 CFR 200.455).

#### **4.3.11 Ineligible Costs and Improper Payments**

The following list includes common items that will not be approved for grant or match funding. This list is not intended to be comprehensive and includes, by reference, all other ineligible costs referenced within this chapter and throughout this manual, including costs determined to be unnecessary, unreasonable, or unallocable to the CDBG-DR grant:

- Individuals, homes, or projects not approved as beneficiaries or projects in the application;
- Billing software and related equipment not physically connected to the CDBG-DR-funded projects, including software that must be considered in relation to GLO's System of Record;
- Generators that are not permanently installed at the designated location (trailer mounted generators are not considered permanently installed);
- Cost of obtaining permits or other documentation that would be required regardless of the current projects, including CCN applications, renewal of TCEQ permits, etc.;
- Commercial advertising and public relations costs such as the replacement or addition of a logo, water system name, or other cosmetic painting on CDBG-DR-funded water tanks and other structures;
- Projects that have not received environmental clearance Authority to Use Grant Funds (AUGF);
- Funds to benefit political campaigns;
- Funds for costs associated with conduct of government (e.g., city hall, courthouses, EOC); and
- Other similar costs.

Refer to 2 CFR 200 Subpart E—Cost Principles for the basic guidelines of eligible costs. If the subrecipient will be incurring any special or unusual costs, the subrecipient should seek prior written approval from the GLO (see 2 CFR 200.407).

#### **4.3.12 Collection of Unallowable Costs (2 CFR 200.410)**

Payments made for costs determined to be unallowable by HUD, the GLO, auditors, the subrecipient's cognizant agency for indirect costs, or any other oversight entity, either as



direct or indirect costs, must be refunded (including applicable interest) to the GLO in accordance with instructions from the entity that determined the costs are unallowable.

As described further in Chapter 14 of this Manual, subrecipients should have adequate internal and quality controls to appropriately prevent the issuance of improper payments to contractors or beneficiaries. Subrecipients should also implement quality assurance procedures to check for such improper payments and take appropriate corrective actions upon identifying such payments.

## **4.4 Release of Funds**

### **4.4.1 Initial “Start Up” Documentation**

As part of the beginning “Start Up” the subrecipient must submit, at a minimum, the following documentation:

- Executed Subrecipient Agreement;
- Depository/Authorized Signatories Form and supporting resolution (see [Resources](#)—Resource 4.1 at the end of this chapter);
- The Environmental Compliance Exemption Form for exemption of environmental studies, administrative and engineering services (see Chapter 6 of this Manual);
- Applicable Financial Interest Report(s) (see Chapter 5 of this Manual);
- Documentation of compliance with civil rights and fair housing (see Chapter 11 of this Manual);
- Labor Standards Officer Appointment (see Chapter 9 of this Manual);
- Direct Deposit Authorization Form (see [Resources](#)—Resource 4.2 of this chapter);
- Audit Certification Form (see Chapter 15 of this Manual);
- Other documents requested by the GLO Grant Manager, as required; and
- Texas Identification Number System (TINS) Form.

The GLO requires certain environmental documents to be submitted and approved prior to releasing funds, but not with “Start Up” documents. Additional special condition documentation may be required based on the specific funding or project description and will be listed in the Subrecipient Agreement.

### **4.4.2 Draw Procedures in GLO’s System of Record**

Subrecipients will submit all draws in GLO’s System of Record. While the System of Record is under development, subrecipients will follow the instructions below. Once the System of Record is up and running, the subrecipient will receive instruction from the applicable Grant Manager.



#### **4.4.3 Draw Procedures Outside of GLO's System of Record**

In the event that GLO's System of Record is not available for submitting draws, the GLO may direct subrecipients to submit draws to the GLO over email. Such direction will be relayed in each Subrecipient Agreement and/or via email communication. The GLO will provide specific instructions to subrecipients regarding the process and approval requirements for such draws in such communication.

Regardless of the instructions provided, every draw request submitted outside of GLO's System of Record must include backup documentation justifying payment for each budget line item from which CDBG-DR funds are requested. All costs must, at a minimum, be:

- Supported by invoices or similar documentation, which includes price, quantity, materials stored, and service delivery dates;
- Detailed in a completed Request for Payment Form with enough information to confirm all items are eligible under the Subrecipient Agreement; and
- Accompanied by approvals or signatures to confirm the work billed has been completed and reviewed.

GLO staff, at their sole discretion, may request additional information regarding requests for payment even if support documentation has been provided. Refer to your Subrecipient Agreement for additional information.

#### **4.4.4 Minimizing the Time Between Draw and Disbursement**

Subrecipients may submit a draw request for eligible costs as often as is actually needed, subject to limitations in their Subrecipient Agreement and at least quarterly throughout the life of their Subrecipient Agreement. Subrecipients should submit costs to the GLO for draw within 60 days of receipt of invoices to minimize the volume of individual draws that the GLO must review and approve.

Subrecipients must submit final reimbursement requests to the GLO no later than 60 days after the Subrecipient Agreement expires or is terminated. The GLO, in its sole discretion, may deny payment and de-obligate remaining funds from the Subrecipient Agreement 60 days after expiration or termination.

Pursuant to 24 CFR 570.489(c), 2 CFR 200.305(b), and 31 CFR 205, subrecipients utilizing the cash advance method must minimize the time elapsing between the transfer of funds from the GLO and the disbursement by the subrecipient for eligible costs. This period must not exceed 3 business days from the date of receipt/deposit of funds, without specific, documented



reasons for such a delay in very infrequent circumstances. Subrecipients must maintain written procedures for minimizing this time period.

Draw requests must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the subrecipient in carrying out the approved CDBG-DR activity.

All invoices submitted to the GLO on a reimbursement basis must be paid within 30 days of receipt and should be time stamped upon receipt in order to verify that timely payment was made. The GLO has up to 21 days to withdraw and/or reject any subrecipient draw requests for incomplete or inadequate documentation.

In all cases, subrecipients are responsible for ensuring that funding is drawn against their Subrecipient Agreement amount at a pace that ensures completion within their period of performance.

#### **4.4.5 Delays, Ineligible Costs, and Denial of Payment**

GLO staff will review all requests for payment for completeness, accuracy, and eligibility. Subrecipients must ensure that all CDBG-DR funding is spent only on eligible, necessary, reasonable, and allocable costs associated with project activities within their Subrecipient Agreement.

### **4.5 Subrecipient Provided Leverage Funds**

Leverage funds are funds reflected in a subrecipient's application to GLO-CDR and used to support the CDBG-DR Performance Statement scope of work. Leverage funds can include subrecipient funding, FEMA, SBA, insurance, and/or charitable donations.

Leverage funds will only count when they are used for:

- Activities described in the CDBG-DR Performance Statement; or
- Activities that are directly related to support the activities proposed for CDBG-DR funding.

Leverage funds may be considered only if the subrecipient has used an acceptable and reasonable method to document the value of the leverage. Except for cash leverage funding, the subrecipient must submit an attachment/schedule which shows how the value of each type of leverage was determined. Please note that leverage can only be counted for expenditures that would not occur if the CDBG-DR Subrecipient Agreement were not funded. Leverage funds will only be considered for expenses that meet requirements of GLO-CDR. Expenditures of leverage funds must be reflected in the financial transaction register.



Each subrecipient is required to expend the amount of leverage funds as submitted in the application and memorialized in the Subrecipient Agreement.

#### **4.6 CDBG-DR Funding Used as Match (Non-Federal Share) for other Federal Awards**

CDBG-DR funding may be used as the non-federal share for federal grants that include a cost sharing requirement. CDBG-DR funding does not have a match or non-federal share requirement.

All projects funded in whole or in part through CDBG-DR and/or CDBG-MIT funds must comply with the federal, state, local, and program requirements which are most stringent of each applicable funding source requirements. Matching funds are generally subject to all CDBG-DR program requirements. Except as otherwise indicated, the procedures and requirements of the CDBG-DR program apply to all work described in the Subrecipient Agreement Performance Statement, including work performed by or funded in part through other funding sources.

If CDBG-DR and/or CDBG-MIT is to be used as the non-federal share for a FEMA grant, the subrecipient must document those federal funds in its application. When a subrecipient is proposing to utilize CDBG-DR as non-federal share for any other federal source, especially FTA, FHWA, or US Army Corps funding, contact your GLO Grant Manager for additional requirements and limitations.

Within a subrecipient's application, the subrecipient must submit documentation of the following to GLO-CDR:

- The amount of funds granted and/or received from each source; and
- The scope of the project funded through sources other than CDBG-DR (to confirm CDBG-DR may act as non-federal share for the project).

If additional funding is obtained after the submission of the application, the subrecipient should submit the funding award notification and/or other relevant documentation to GLO-CDR within thirty (30) days of any change in the expected sources. Other sources include all potential federal, state, local, private, non-profit, utility, and insurance funding that may be available to the project in any amount. These sources may constitute leverage funds but may also introduce a duplication of benefits into the project that might reduce the amount of CDBG-DR eligible to be received in certain circumstances.

See [Resources](#) at the end of the chapter for additional information and forms.



## 4.7 Resources

GLO-CDR has created a comprehensive website which contains necessary forms, checklists, detailed guidance documents, and additional resources to supplement this Implementation Manual. Please see [www.recovery.texas.gov](http://www.recovery.texas.gov) for more information. The following resources are referenced within this chapter and will be updated as new forms and documents are developed.

Resource Number	Topic
Resource 4.1	<a href="#">Depository/Authorized Signatories Form</a>
Resource 4.2	<a href="#">Direct Deposit Authorization Form</a>

*Note: Individuals have reported a better experience when using **Internet Explorer or Safari** to view files.*

Please direct all questions regarding your specific program or project to your assigned GLO Grant Manager. Send comments related to the GLO-CDR Implementation Manual to [ImplementationManual.glo@recovery.texas.gov](mailto:ImplementationManual.glo@recovery.texas.gov).