

Chapter 3: Financial Management

Introduction

With KCDBG funding comes certain administrative and financial management requirements. Financial management is the constant process of tracking progress towards financial objectives and safeguarding the financial assets of an organization. The key principles of financial management are common to all types of organizations and include sound accounting systems, allowability of costs, audits and use and tracking of program income. These requirements differ to some extent depending upon grant type.

This chapter details the financial management regulations and requirements that apply to the use of KCDBG funds.

Section 3-A. Applicable Requirements

The CDBG regulations require grantees that are governmental entities or public agencies to adhere to certain administrative and financial management requirements.

These requirements include:

- ✓ **24 CFR Part 570, Community Development Block Grant Program.** Subpart I of 24 CFR Part 570 governs the state CDBG program. Section 570.489 details program administrative requirements.
- ✓ **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 A-133 “Audits of Institutions of States, Local Governments and Nonprofit Institutions.”** States, local governments, and nonprofit organizations are required to comply with OMB Circular A-133. 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 Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments (the Common Rule).** These regulations set forth uniform requirements for financial management systems, reports, records, and grant close-outs for recipients of Federal grant funding. Subjects covered in Part 85 include financial management standards, internal controls, budget controls, accounting controls, cash management, procurement, and contracting. 24 CFR Part 84 covers the same subjects for nonprofit organizations.

24 CFR 570.489
OMB Circular A-87
OMB Circular A-133
24 CFR Part 85

Section 3-B. Establishing a Financial Management System

Overview

Financial management is important to grantees administering KCDBG funding. A fundamental purpose of financial management is to ensure the appropriate, effective, timely and honest use of funds.

Specifically, grantees must ensure that:

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

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).

24 CFR Part 85.20(b)(1-6)

Both the Common Rule and 24 CFR Part 570 govern CDBG grantee financial management systems. In addition, the use and accounting for KCDBG funds are governed by DLG requirements, OMB Circular A-87, HUD Notice CPD-04-11, and Treasury Circular 1075. KRS 91A.020 requires grantees to follow generally accepted accounting principles (GAAP). Failure to account for and manage KCDBG funds accordingly may result in sanctions imposed by DLG and/or HUD.

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

- ✓ Accurate, current and complete disclosure of financial results;
- ✓ Records that identify adequately the source and application of grant funds;
- ✓ Comparison of actual outlays with amounts budgeted for the grant;
- ✓ Procedures to minimize the amount of time elapsed between the transfer of funds from the US Treasury and the disbursements by the grantee;
- ✓ Procedures for determining reasonableness and allowable costs;
- ✓ Accounting records that are supported by appropriate source documentation; and
- ✓ 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 grant agreement approved by DLG.
- 3. All expenditures of KCDBG funds must be in compliance with applicable laws, rules, and regulations.

Tip: Use the Sample Financial Management Checklist (see Attachment 3-1) as a tool to help your organization set up and maintain your financial management system.



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:

- ✓ Effectiveness and efficiency of operations;
- ✓ Reliability of financial reporting; and
- ✓ Compliance with applicable laws and regulations.

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

- ✓ Resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies;
- ✓ Resources are protected against waste, mismanagement or loss; and
- ✓ 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 the primary person at the grantee organization responsible for the financial management of a KCDBG project. This person should be familiar with their organization’s present accounting system. The accounting of KCDBG funds can be integrated into the grantee’s existing system.

Basic Elements of an Internal Control System for Financial Management

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.

Accounting Records

Each grantee should determine the accounting procedures that will assist in providing accurate and complete financial information. Grantees are required to maintain accounting records that sufficiently identify the source and use of the KCDBG funds provided to them. All records must be supported by source documentation (see the next section).

The grantee may have KCDBG accounting records fully integrated into an existing accounting system. Grantees may also have partially integrated records into an existing system; however, ledgers should be developed to provide the required accounting information for the KCDBG grant. Separate records eliminate potential conflicts with the grantee's usual record keeping systems.

At a minimum, a grantee's accounting system, must:

- ✓ Clearly identify all receipt and expenditure transactions of the grant; and
- ✓ Provide for budgetary control by tracking expenditures and accrued obligations by approved activity.

DLG staff or the grantee's auditors should be able to readily trace all transactions through the accounting system at any time during the grant period of performance or after grant close out.

Budget Controls

The grantee must be able to report expenditures for each approved activity. A record of the account balances must be maintained for each approved activity that accounts for expenses accrued as well as obligations that have been incurred but not yet been paid out.

Source Documentation

Accounting records must be supported by source documentation per 24 CFR Part 85. Source documentation includes many items such as cancelled checks, paid bills, payrolls, time and attendance records, contract documents and other paperwork.

Tip: It is important that a grantee establish a system in which all source documents pertaining to the project are clearly marked by an identifier on each source document. This will help assure that transactions are properly classified and segregated in the accounting records.

24 CFR 85.20(b)(6)

Source documentation should tell the story of 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. DLG encourages the use of purchase orders or payment vouchers 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.

Additionally, contracts should be kept in a file separate from accounting files. The signed contract represents an obligation of funds. When payments are made on the contract, they should be recorded in the contract file.

Receipt of Funds Procedures

In addition to CDBG funds received from DLG, receipt of other project funds may also include program income and project funds received from other sources.

The grantee must be certain that project funds are adequately safeguarded. This includes providing proper bonding of those individuals that handle program funds, in accordance with state and local law.

All project funds should be promptly deposited to the proper bank account and recorded as a receipt in the accounting system. KCDBG funds are to be drawn from DLG only as required to pay immediate obligations.

Payment Procedures

Before the grantee can expend any funds, the grantee's budget must include appropriations for the grant. Additionally, the budget must be approved and enacted by the appropriate legislative body.

A Request for Payment (Attachment 3-2) may not be submitted until the grantee has received a Notice of Release of Funds. Grantees may request only the amount of funds needed to pay immediate obligations. Grantees must submit Requests for Payment to DLG by the 3rd and the 18th of the month. More information on Requests for Payment is provided in Section 3 of this chapter.

Attachment 3-2:
Request for Payment Form

In order to safeguard the grant funds and ensure an effective system of internal controls, an individual apart from the person authorized to request funds should approve expenditures. Additionally, all invoices should be reviewed to determine that the costs are accurate, reasonable, and allowable. DLG is required to ensure that program income is expended before additional funds are drawn down. To allow DLG to track available program income, grantees are required to report all program income that has been received since the last draw of CDBG funds on the Request for Payment Form. Refer to Section 3-C for additional information on tracking and reporting program income.

Invoices and Vouchers

To assist in the planning for the Request for Payment, grantees should establish an internal deadline for submission of all invoices and vouchers.

Before providing full payment for a contractor's invoice, grantees should verify that the work has been completed. This is a good time to ensure that all payments for expenditures are supported by source documentation (i.e., invoices or vouchers and kept on file). A list of disbursements to be made should be prepared and the cash requirements submitted to DLG on the Request for Payment form. Refer to Section 4 of this chapter for more information on requests for payment.

Bank Accounts

In dealing with CDBG funds, the grantee is required to maintain a **non-interest bearing** bank account for the deposit of CDBG funds. The account must be FDIC insured or secured by bank-pledged collateral for the full amount of KCDBG funds held in the account. The bank must provide collateral to secure those funds that are in excess of \$100,000.

It is important that the grantee be able to reconcile all balances in the account. Grantees should reconcile bank statements as soon as bank statements are received.

Grantees may not earn interest on the deposit of Federal funds pending disbursement. All Federal funds on hand must be disbursed before requesting additional funds. If excessive amounts of cash (over \$5,000) are or will be on hand for an extended period of time (over five days), the grantee must return the excess to DLG.

Forms

After establishing the accounting system and bank account to be used, the grantee needs to complete two forms:

- ✓ **The Authorized Signature Form.** This form designates to DLG who has the authority to sign grant documents and reports. Only a person listed on this form may sign Request for Payment forms. The grantee's CEO must sign the form and submit it to DLG. A copy of the form is provided as an attachment to this chapter.
- ✓ **Direct Electronic Transfer of Funds Form.** This form is used to designate the bank and the account number into which DLG will deposit the grantee's KCDBG funds. The grantee should complete the community and project information section. With the assistance of the designated bank, the grantee must complete the depository information. The grantee's CEO should then sign the form, attach a deposit slip or voided check to the form, and submit it to DLG. A copy of the form is provided as Attachment 3-4 to this chapter.

Attachment 3-3: Authorized Signature Form
Attachment 3-4: Direct Electronic Transfer of Funds Form

Common Mistakes to Avoid

- ✓ Failure to maintain records that track KCDBG expenditures by activity.
- ✓ Lack of source documentation for KCDBG expenditures.
- ✓ KCDBG funds drawn down being held in an interest bearing account.
- ✓ Bank statements not reconciled.
- ✓ Program income not reported.
- ✓ Inadequate documentation of local administrative costs.
- ✓ Lack of tracking of real or personal property purchased with CDBG funds.

Allowable Costs

Any 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 CDBG funds are spent only on reasonable and necessary costs associated with grant activities.

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

Administrative Costs

Administrative costs are the costs associated with implementation of the grant. These costs may include salaries for personnel who devote full or part time to the grant, supplies used for grant activities, and the cost of administrative services provided by other agencies. General administration costs are those costs **directly** related to the administration of grant requirements.

In charging administrative costs, grantees should note:

- ✓ All administrative costs charged to the project must be documented through timesheets, purchase orders, and invoices.
- ✓ For those projects directly administered by the grantee, employees paid in whole or in part from KCDBG funds should prepare timesheets indicating the hours worked for each pay period.
 - Timesheets must show the exact hours each individual worked on the project, the hours worked on non-KCDBG projects, the date on which the work was performed and a description of the work performed.
 - The employee and the employee’s supervisor must sign the timesheet.

Matching Funds

Grant records should account for all matching funds committed to the project. The receipt and expenditure of the matching funds should be carefully documented. If matching funds are derived from a source outside the local government, project records should identify the source and amount. Guidelines for appropriate matching contributions are contained in the Common Rule and the amount of match required is shown in the grant agreement.

Asset Management

Grantees who maintain real or personal property paid in whole or in part with KCDBG funds are required to properly manage these assets and ensure that the assets continue to be used for their intended purposes.

Grantees must maintain appropriate records of their assets, whether in their possession or in the possession of a subrecipient organization. Specifically:

- ✓ In the case of real property, meaning land and any improvements to structures on the land, grantees must maintain a current real property inventory, updated at least biannually. In cases where the grantee is maintaining land, grantees should also describe the intended reuse of the land and the timeframe for improving the land so that it meets a CDBG national objective.
- ✓ For personal property, grantees should maintain a fixed assets ledger that includes: a description of the property; any identifying information such as a serial number; the funding source (grant number); the acquisition date and cost; the Federal share of the cost; and the location, use, and condition of the property; and disposition data. Grantees are required to conduct a physical inventory of personal property biannually to ensure that the property is being maintained in good condition and that there are procedures in place to prevent loss, damage, or theft of the property.

24 CFR 570.489(j) and (k)
24 CFR Part 85

Grantees must maintain records that properly document the disposition of any CDBG-funded property. It should be noted that real property purchased with KCDBG funds in excess of \$100,000 must continue to meet the CDBG national objective approved for the project for at least five years after close out of the grant that funded the property purchase or improvement. Should the recipient choose to change the use of property they must contact DLG to ensure that proper procedures are followed. Failure to do so can result in payback of the grant award.

Section 3-C. Program Income

Overview

Under the KCDBG Program, funds received back to the community as a result of a KCDBG-funded activity are generally referred to as program income. Program income funds are subject to all CDBG and other Federal requirements. Program income is defined in detail below. Funds not considered program income (also referred to as miscellaneous revenue) are not.

It is important to note that accounting for program income is conducted on a jurisdictional basis rather than a project basis because a grantee has the ability to generate income from more than a single project or over more than one grant year.

TIP: The regulations and requirements discussed in this chapter apply to all types of income-generating activities, not just economic development.

What is Program Income

Program income is defined as gross income received by a unit of general local government or a subrecipient of a unit of general local government that was generated from the repayment of KCDBG funds regardless of when the funds were appropriated and whether the activity has been closed out. Program income includes, but is not limited to, the following:

- ✓ Proceeds from the disposition by sale or long-term lease of real property purchased or improved with KCDBG funds;
- ✓ Proceeds from the disposition of equipment purchased with KCDBG funds; 24 CFR Part 570.489(e)(1)
- ✓ Gross income from the use or rental of real or personal property acquired by the unit of general local government or a subrecipient of a unit of general local government with KCDBG funds, less the costs incidental to the generation of the income;
- ✓ Gross income from the use or rental of real property owned by the unit of general local government or a subrecipient of a unit of general local government, that was constructed or improved with KCDBG funds, less the costs incidental to the generation of the income;
- ✓ Payments of principal and interest on loans made using KCDBG funds;
- ✓ Proceeds from the sale of loans made with KCDBG funds;
- ✓ Proceeds from the sale of obligations secured by loans made with KCDBG funds;
- ✓ Interest earned on funds held in a revolving fund (RF) account;
- ✓ Interest earned on program income pending disposition of the income;

- ✓ Funds collected through special assessments made against nonresidential properties and properties owned and occupied by households that are not low and moderate income if the special assessments are used to recover all or part of the KCDBG portion of public improvements; and
- ✓ Gross income paid to a unit of general local government or subrecipient from the ownership interest in a for-profit entity acquired in return for the provision of KCDBG assistance.

Program income does not include the following:

- ✓ The total amount of funds which does not exceed \$35,000 received in a single year from activities other than revolving funds that is retained by the unit of local government and its subrecipients;
- ✓ Amounts generated by activities eligible under Section 105(a)(15) of the Act and carried out by an entity under the authority of Section 105(a)(15) of the Act (Section 105(a)(15) (non-profit organizations and local development organizations when undertaking community economic development, neighborhood revitalization, or energy conservation projects);
- ✓ Payments of principal and interest made by a subrecipient carrying out an activity on behalf of the unit of local government towards a loan from the local government to the subrecipient to the extent that program income is used for the repayment;
- ✓ Certain types of interest income as outlined in 24 CFR 570.489(e)(2)(iv);
- ✓ Proceeds from the sale of real property purchased or improved with CDBG funds if the proceeds are received more than five years after expiration of the grant agreement between the state and the unit of local government.

If funds are not considered program income, they are identified as miscellaneous revenue. In summary, these funds do not retain their Federal identity and the CDBG and other Federal requirements such as environmental review, procurement, and labor standards do not apply to the reuse of these funds. However, DLG does require that grantees or subrecipients generating miscellaneous revenue adopt guidelines related to the reuse of and reporting on those funds.

Pro-Rating Program Income

When income is generated by an activity that is only partially assisted by KCDBG funds, the income shall be pro-rated to reflect the percentage of KCDBG funds used. For example, if a parcel of land were purchased with 50 percent KCDBG funds and 50 percent other funds, 50 percent of any program income from the sale or long-term lease of that property would be considered KCDBG program income subject to CDBG rules and requirements.

24 CFR Part 570.489(e)(1)(ix)

Program Income Funds and Close-Out

The State CDBG regulations as revised in April 2012 stipulate that program income received by the grantee or a subrecipient both before and after close-out of the grant that generated such income is treated as additional CDBG funds and is subject to all applicable Title I and other Federal regulations and state policies governing the state CDBG program. Any program income received before full programmatic close-out must be substantially expended, to the extent practical, before drawing additional CDBG funds from the state for any activity in any CDBG

project that the grantee has open. The only exception is when program income is placed in a Revolving Fund (RF) in accordance with the requirements outlined later in this chapter, in which case it is not required to be expended for non-revolving fund activities.

If the grant that generated the program income is closed, program income permitted to be retained will be considered to be a part of the unit of local government's most recently awarded open grant. If the unit of local government has no open grants, the program income will be counted as part of the State's program income.

Use of Program Income

The accounting provisions and use of funds as described later in this chapter are applicable as long as funds are received or distributed. Appropriate documentation regarding the use of funds must be maintained along with the appropriate accounting documents (see "Accounting and Documenting Program Income and Miscellaneous Revenue" later in this chapter for more information).

Program income must be used for eligible CDBG activities as listed in Title I, Section 5305(a). Program income is subject to all of the rules and regulations governing KCDBG funds including, but not limited to, compliance with: national objective, procurement, equal opportunity, environmental, labor standards, lead-based paint hazard treatment, etc. As stated previously, miscellaneous revenue funds are not subject to these rules.

The grantee can expend up to 20 percent of the total program income received for administration with approval from DLG. The 20 percent limitation is established by Federal regulation and cannot be exceeded under any circumstances.

Approval for Use Request for Program Income and Miscellaneous Revenue

In order to expend program income, a grantee must request approval from the state. An Approval for Use Request (Attachment 3-5) and related certifications must be submitted prior to local approval of the project. DLG staff will review the request to determine conformance with eligibility and national objective requirements, if applicable. In most cases a grantee must use program income on a new proposed project.

Attachment 3-5: Approval for Use Request

Grantees looking to expend their miscellaneous revenue funds must submit a written request to DLG identifying the expected use of funds, the amount of funds they plan to use, and an assurance that the planned use of miscellaneous funds is allowable under the grantee's RF guidelines.

As a condition to grants currently being funded, DLG requires program income or miscellaneous revenue be used before requesting additional KCDBG dollars. If approved, the transaction is reported on the subsequent PI/MR Report.

Transfer of Program Income and Miscellaneous Revenue

Due to a statutory provision mandating that KCDBG funds benefit the eligible grantee that received the original funds, a grantee cannot transfer program income to another agency for use in other cities or counties.

Accounting Systems for Program Income and Miscellaneous Revenue

A program income/miscellaneous revenue accounting system should:

- ✓ Record program income /miscellaneous revenue appropriately in the grantee's accounting records;
- ✓ Ensure that all program income/miscellaneous revenue is collected and properly classified; and
- ✓ Ensure that the handling of program income /miscellaneous revenue complies with applicable Federal and state requirements.

The method of accounting to be used for tracking program income/miscellaneous revenue shall meet Generally Accepted Accounting Principles (GAAP). Any accounting system used must be detailed enough to provide the necessary information for completing DLG's semi-annual Repayment Report—Program Income / Miscellaneous Revenue Report (Attachment 3-6) and comply with the requirements of 24 CFR Part 85. A separate interest-bearing account must be maintained for a revolving fund.

Attachment 3-6: Repayment
Report—Program Income/
Miscellaneous Revenue Report

The grantee must maintain files that accurately account for all funds received and disbursed. This documentation must include bank statements and canceled checks (copies are acceptable if both sides of canceled checks are copied).

The grantee must also maintain documentation that shows program income funds were spent in compliance with Title I requirements. This includes documentation that the funds were spent on eligible activities, that a national objective was met, and that all other requirements such as environmental review, fair housing, relocation and citizen participation were complied with. See also *Chapter 1: Administration* for more information on the records that must be kept to demonstrate compliance.

Revolving Funds

A revolving fund (RF) is a separate fund (with a separate set of accounts that are independent of other program accounts) established to carry out specific activities that, in turn, generate payments that fund future activities.

DLG may approve the use of KCDBG program income for the purpose of capitalizing a RF for specifically identified activities.

- ✓ RFs are typically established to continue housing or economic development activities.
- ✓ The establishment of a RF must be in the evidentiary materials and approved by DLG.

24 CFR Part 570.489(f)

Payments to the RF are considered program income and must be substantially disbursed from the revolving fund before additional grant funds are drawn from DLG. The grantee does not have to expend program income for non-revolving fund activities.

If the RF is established to continue the activities of the grant that generated the program income, the RF is subject to all the requirements of program income (i.e., Title I, state policies, etc.), if the grant is open at the time the funds are received.

Development of Revolving Fund Guidelines

DLG requires that written guidelines be developed for the administration of the revolving fund. These guidelines must be prepared and submitted to DLG for approval prior to any program income being expended and prior to release of funds of the grant. Revolving funds may not be expended until the project national objective has been met.

The local governing body must approve the written RF guidelines. In addition, any substantive changes to local RF guidelines must be submitted to DLG prior to implementation. Failure to submit local RF guidelines in a timely manner could result in the recapture of program income by DLG.

Administration of a RF involves three primary areas of responsibility:

- ✓ Loan/project review, selection and approval;
- ✓ Maintaining a financial management system; and
- ✓ Loan servicing and monitoring.

At a minimum, the written RF guidelines should include the following elements that address these primary areas of responsibility:

- ✓ RF Goals and Objectives
- ✓ Eligibility Requirements
 - Eligible and Ineligible Activities
 - Eligible Applicants
 - Eligible Types of Loans
- ✓ Loan Review, Selection and Approval
 - Loan Review Committee
 - Members and Terms
 - Procedures and By-Laws
 - Application Requirements
 - Justification of Need
 - Beneficiaries
 - Necessary and Appropriate Documentation
 - Certifications
 - Loan Approval Procedures
- ✓ RF Operations and Management
- ✓ Accounting System
- ✓ Reporting and Record keeping
- ✓ Loan Documentation, Disbursement and Servicing
- ✓ Title I Compliance and Monitoring

- ✓ Administrative Staffing, Costs and Fees
- ✓ Audits
- ✓ Conflict of Interest

Sample Housing and Economic Development RF Guidelines are provided at the end of this Chapter as Attachments 3-7 and 3-8.

Attachment 3-7: Sample Housing Revolving Fund Guidelines
Attachment 3-8: Sample ED Revolving Fund Guidelines

Subrecipients and Revolving Funds

If program income/miscellaneous revenue will be retained by a subrecipient, the RF guidelines must identify and describe the role of the subrecipient, as appropriate. The subrecipient's governing board must approve the RF and the subrecipient's participation prior to release of funds. Such approval must legally bind the subrecipient to perform in accordance with the provisions of the revolving fund guidelines and be submitted in writing to DLG. It is a Federal requirement that a subrecipient be governed by the KCDBG regulations in the same manner and to the same extent as the grantee. In any case, the grantee remains responsible for ensuring compliance with the RF and is liable for any misuse of program income/miscellaneous revenue funds.

Waiver of Requirements

DLG may waive or modify the requirements of this chapter when it determines that, in so doing, it will promote the more efficient administration of the program and/or further the accomplishment of objectives. However, DLG cannot waive HUD or other Federal regulatory requirements concerning the use of program income.

Monitoring of Revolving Funds

Revolving funds will be monitored periodically by DLG to insure compliance with all Federal and state requirements. A grantee must agree to return all unexpended funds and collectable accounts to DLG in the event of fraud, waste, or mismanagement and/or substantial non-compliance with the local RF guidelines.

Reporting of Revolving Funds

HUD requires vigorous oversight of program income/miscellaneous revenue retained at the local level. Therefore, DLG must ensure the proper use of these funds is in a manner consistent with CDBG requirements. For this reason, a semi-annual Repayment Report - Program Income/Miscellaneous Revenue Report is required (see Attachment 3-6).

Attachment 3-6: Repayment Report—Program Income/Miscellaneous Revenue Report

A grantee with the potential of generating program income must submit a report for the six-month period ending June 30th and December 31st of each year.

Subrecipients and Reporting

Since the grantee has ultimate responsibility for grant compliance, that entity is responsible for completion and submission of the report. If the grantee utilizes a subrecipient organization to

manage a RF, the subrecipient is responsible for providing the necessary program and financial information required and report to the grantee. The grantee should then send the report to DLG.

Monitoring

Review of the Program Income Miscellaneous Revenue Report may be included as part of a normal project monitoring. Any deficiency that is noted and appears as a finding in the monitoring letter must be resolved as would any other finding. Refer to Chapter 12 for more information on monitoring.

Section 3-D. Requests for Payment

Funds for approved KCDBG activities should be requested as close to the time of disbursement as is possible. To ensure continued public awareness and fiscal oversight of the project, the project administrator should report project information to the city council/fiscal court monthly. This report should include project progress, anticipated completion date, and the use and availability of funding.

Procedures

Submit all requests for payment of KCDBG funds to DLG on the form provided. If possible, please hold the draw request until there is a fair amount of money to request (i.e., \$2,000). The request should outline the:

- ✓ Amount of Federal funds previously requested;
- ✓ Amount of Federal funds disbursed;
- ✓ Amount of program income/miscellaneous revenue; and
- ✓ Balance of Federal funds on hand.

If a grantee has received more than one grant, a separate request should be completed for each grant. The number of requests for CDBG funds should be consolidated to the extent possible and timed to be in accord with the actual, immediate cash requirements of the grantee in carrying out the approved activities.

Faxed and emailed draws must be followed up with an original draw request.

Program income will be disbursed by the grantee before additional funds are requested. Cash on hand will be subtracted from the amount of funds requested.

Request for Payment Form Completion

The following outlines the method for submitting the Request for Payment Form (see Attachment 3-2). Grantees may submit this form to DLG twice monthly, by the 3rd and the 18th of the month. A copy of the form is provided as an attachment to this chapter.

Attachment 3-2: Request
for Payment Form

General

The top portion of the Request for Payment form should be completed with the appropriate identifying information:

- ✓ KCDBG Grant Number – The number assigned to each grant as noted on the Grant Agreement.
- ✓ Request Number – Each Request for Payment will be consecutively numbered by the grantee. If a grantee has received more than one grant, a Request for Payment will be made separately and numbered consecutively for each grant.

On all forms, the grantee should round all dollar amounts to the nearest dollar.

Part I—Status of Funds

Part I of the Request for Payment provides the status of funds. Fill in the fields with the following information:

- ✓ Line 1 – List all KCDBG funds received to date.
- ✓ Line 2 – List the program income received from KCDBG activities since the last draw.
- ✓ Line 3 – Add lines 1 and 2.
- ✓ Line 4 – List the total of all disbursements of KCDBG funds to date.
- ✓ Line 5 – Subtract line 4 from line 3. This gives the Federal funds on hand that have not been disbursed, a.k.a. the organization’s “cash on hand.”

Part II—Cash Requirements

Part II of the Request for Payment provides information on the funds the grantee is requesting. Part II is to be completed for all approved activities even if funds are not currently being requested for a particular activity.

- ✓ The first three lines give an overview of a grantee’s activities. Identify the activities by entering the activity code and a brief description above each column. The current approved budget amount for each activity should be included as well. Totals should be calculated at the far right as well as at the bottom.
- ✓ Line 1 – Enter the total of all KCDBG cash requirements to date for each approved activity. This amount should be equal to all KCDBG expenditures paid to date plus cash needed to meet immediate needs.
- ✓ Line 2 – Show the total amount of KCDBG funds requested on previous draw requests.
- ✓ Line 3 – Subtract line 2 from line 1. This will result in the amount of KCDBG funds needed on this request for each activity.

If there are more than nine activities, use a second request form to include all activities. The second page should contain the total for both pages and the authorized signature.

Part III—Project Status

Part III describes in brief the status of the project. This section should include accomplishments achieved since the last request and if necessary discussion of any project delays.

After the narrative, indicate the amount of other funds drawn and expended on this project. Break these funds down using the classifications shown in the grant agreement.

Certification

After reviewing the form and verifying that all of the conditions listed in the certification have been complied with, the CEO or person authorized on the Authorized Signature Form should sign and date the form in the space provided.

Once the form is completed, the grantee should mail the **original** form to DLG.

Common Mistakes to Avoid

- ✓ Unsigned or improperly signed Requests for Payment are submitted.
- ✓ All approved activities not shown on each Request for Payment.
- ✓ Disbursements to date are not correct.
- ✓ Amounts not rounded to nearest dollar.
- ✓ Mathematical errors.
- ✓ Budget Amendments have not been approved.
- ✓ Status of project not included.

Section 3-E. Audits

One of the primary financial management requirements implicit with the use of Federal funds is the annual audit. OMB Circular A-133 provides requirements for audits of governmental entities and nonprofit organizations.

Audits are a critical component of any financial management system and the Kentucky Revised Statutes (KRS) emphasize the significance of audits. Regardless of the type or size of the entity, an effective audit can improve management operations and yield significant dollar savings.

Audit Requirements

An audit is an official examination and verification of accounts and records. Audits are an important part of effective financial systems, as they produce useful financial reports and verify the reliability of a grantee's financial management systems. Only an independent CPA, with a current license to practice in Kentucky, or the Kentucky Auditor of Public Accounts can perform an audit.

There are both Federal and state requirements for audits. OMB Circular A-133 provides Federal requirements for audits of governmental entities and nonprofit organizations. The KRS detail the state audit requirements for both cities and counties. As noted below, there are differences between both the KRS and Federal requirements; however, cities and counties are required to follow both laws.

Failure to comply with the audit requirements can jeopardize the grantee's ability to draw grant funds and receive future grants.

Federal Requirements

The type and level of audit required by OMB Circular A-133 is based on the amount of Federal funds expended by an organization in a given fiscal year. Federal awards include financial assistance provided by the Federal government to the entire organization in the form of grants, loans, property, contracts, loans guarantees, etc.

- ✓ Organizations that have expended more than \$500,000 in Federal funds within a fiscal year are required to have an A-133 audit conducted.
 - A **single audit** is an audit that includes both an entity's financial statements and its Federal awards (from all applicable Federal programs).
- ✓ If an organization expends less than \$500,000 a year in Federal funds, it is exempt from the Federal audit requirements for that year, however, financial records must be made available if requested.

State Requirements

KRS 91A.040 and KRS 64.80 require an independent Certified Public Accountant (CPA) or the Auditor of Public Accounts conduct all audits in accordance with generally accepted governmental auditing standards. The specific requirements for cities and counties are outlined below.

KRS 91A.040 outlines Kentucky Audit Requirements for funding received by cities through the Commonwealth of Kentucky. City officials are responsible for obtaining audit services, negotiating the contracts for the annual audit, and submitting audit reports to DLG.

KRS 91A.040

- ✓ All **first through fifth class cities** must audit their funds at the end of each fiscal year. All audits must be completed by February 1st immediately following the fiscal year being audited.
- ✓ **Sixth class cities** that receive and expend more than \$75,000 or have long-term debt are required to have audits in odd years and comply with the provisions for other cities. In even years, these cities prepare the KRS 424.220 financial statement and send one copy to the DLG Cities Branch. Sixth class cities that receive and expend less than \$75,000 in a particular year and have no long-term debt, are not required to have an audit for that year. These cities must prepare a financial statement only.

All counties must audit their funds at the end of each fiscal year. The Office of the State Auditor of Public Accounts or a CPA must conduct an annual audit of the funds in each county's budget.

The Audit Process

In procuring audit services, grantees should follow the applicable procurement standards. The grantee should ensure that the auditor is knowledgeable about specific accounting requirements that apply to local government.

All audits conducted in accordance with OMB A-133 must be performed in accordance with Generally Accepted Government Accounting Principles (GAAP) issued by Government Accounting Office (GAO). According to the GAO standards, a financial audit should determine whether:

- ✓ Financial information is presented in accordance with established or stated criteria;
- ✓ The entity has adhered to specific financial compliance requirements; or
- ✓ The entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve control objectives.

In conducting an audit, the grantee **must** supply the following information to the auditor at the beginning of each audit:

- ✓ A copy of the Grant Information Sheet received with the Grant Agreement;
- ✓ A copy of the Grant Agreement;
- ✓ A copy of all draw sheets processed during the fiscal year;
- ✓ A copy of the monitoring letter, if one was issued during or affecting the fiscal year being audited;
- ✓ A copy of the community's most recent budget that includes the CDBG funds for the fiscal year; and
- ✓ The location of the records for the CDBG project and the person to contact along with their telephone number.

Tip: It is the responsibility of both the grantee and the grant administrator to ensure compliance with all audit requirements.

The Audit Report

OMB Circular A-133 requires that audit reports issued upon completion of an audit include:

- ✓ An opinion as to whether financial statements are presented fairly in all material respects in accordance with GAAP.
- ✓ An opinion as to whether the schedule of expenditures is presented fairly in all material respects in relation to the financial statements taken as a whole.
- ✓ A report on internal controls related to financial statements and major programs.
- ✓ A report on compliance with laws, regulations, and the provisions of contracts or grant agreements.
- ✓ An opinion as to whether the auditee organization has complied with laws, regulations, and the provisions of contracts or grant agreements.
- ✓ A schedule of findings and questioned costs, which include a summary of the auditor's results and all "audit findings."
- ✓ The summary of audit results must include:
 - Type of report the auditor issued on financial statements;
 - A statement that reportable conditions in internal controls were disclosed by the audit (where applicable);
 - Statement on whether the audit disclosed any noncompliance which is material to the auditee financial statements;

- Type of report the auditor issued on compliance for major programs;
- Statement as to whether the audit disclosed any “audit findings”;
- Identification of major programs;
- Dollar threshold used to distinguish between type A and type B programs; and
- Statement as to whether the auditee qualifies as a low-risk organization.

Submission

The submission of all audit information is the responsibility of the grantee. It is the administrator’s responsibility to inform the grantee of all audit requirements and to ensure that completed audit reports are submitted to DLG and the appropriate offices on a timely basis.

Federal Submission Requirements

Under OMB Circular A-133, audits must be completed within nine months from the end of the fiscal year.

Grantees have no later than 30 days after receipt of the auditor’s report or March 31st (whichever is earlier) to submit the final copies to the Federal Audit Clearinghouse (FAC). The grantee should also forward one copy to DLG, Office of Federal Grants.

All A-133 Audits must be Submitted to:
Federal Audit Clearinghouse
1201 E 10th Street
Jeffersonville, IN 47132
<http://harvester.census.gov/sac>

State Submission Requirements

All city audits and county audits done by a CPA must be completed by the February 1 immediately following the end of the fiscal year. County audits completed by the State Auditor’s office are due by August 1.

State statute requires cities to submit three copies of the audit to the Financial Services Branch of DLG. KCDBG grantees must also send an additional copy to the Office of Federal Grants in order to meet the CDBG-related requirements.

DLG Audit Submission
Office of Federal Grants
1024 Capital Center Drive,
Suite 340
Frankfort, KY 40601-8204

For counties, the fiscal court or county official should submit the accountant’s written report to the Governor, the General Assembly, the Attorney General, the State Librarian, and the county attorney. A copy must also be provided to DLG to comply with CDBG requirements.

Additionally, the fiscal court or county official must send the report to the newspaper having the largest paid circulation in the county. The letter of transmittal accompanying the report should be published in the newspaper in accordance with the provisions of KRS Chapter 424.

Attachments

- ✓ Attachment 3-1: Sample Financial Management Checklist
 - ✓ Attachment 3-2: Sample Request for Payment Form
 - ✓ Attachment 3-3: Sample Authorized Signature Form
 - ✓ Attachment 3-4: Sample Direct Electronic Transfer of Funds Form
 - ✓ Attachment 3-5: Approval for Use Request
 - ✓ Attachment 3-6: Repayment Report- Program Income/ Miscellaneous Revenue Report
 - ✓ Attachment 3-7: Sample Housing Revolving Fund Guidelines
 - ✓ Attachment 3-8: Sample Economic Development Revolving Fund Guidelines
-

**Attachment 3-1:
Sample Financial Management Checklist**

Sample Financial Management Checklist

Internal Controls

- ✓ Is there a chart showing the titles and lines of authority for all individuals involved in approving or recording financial transactions?
- ✓ Are there written position descriptions that describe the responsibilities of all key employees?
- ✓ Is there a written policy manual specifying approval authority for financial transactions and guidelines for controlling expenditures?
- ✓ Are there written procedures for the recording of transactions, as well as an accounting manual and a chart of accounts?
- ✓ Is there an adequate separation of duties to assure that no one individual has authority over an entire financial transaction?
- ✓ Do hiring policies ensure that staff qualifications are equal to job responsibilities and that individuals hired are competent to do the job?
- ✓ Is control over access to accounting records, assets, blank forms, and confidential records adequate, such that only authorized persons can get access to them?
- ✓ Did the most recent audit report indicate any deficiencies or material weaknesses in the system of internal controls?
- ✓ Have there been any changes in the system of internal control, or have there been any changes in the fiscal staff, since completion of the audit?

Accounting Records and Source Documentation.

- ✓ Do the accounting records identify the source and use of all funds, including information on:
 - All grant awards received;
 - Authorizations or obligations of funds;
 - Unobligated balances;
 - Assets and liabilities;
 - Program income, miscellaneous revenue and revolving funds; and
 - Total actual outlays or expenditures to date?
- ✓ Are the accounting records supported by adequate source documentation? [Note: the combination of source documentation and accounting records should provide a complete “audit trail,” documenting when a purchase was requested and by whom, how it was formally approved, what funds were used to pay for it, when it was paid and for how much.]

Sample Financial Management Checklist

- ✓ Is there a clearly defined set of standards and procedures for determining the reasonableness, allowability, and allocability of costs incurred that is consistent with the rules in OMB Circular A-87 or A-122?
- ✓ If the organization charges indirect costs, does it have an approved indirect cost rate?

Budget Controls

- ✓ Is there a regular, on-going comparison of actual expenditures with the amounts budgeted?
- ✓ Is financial information related to performance or unit cost data, as appropriate?

Cash Management.

- ✓ Is the CDBG account a non-interest bearing account?
- ✓ Do payments for project costs occur within five days from the date of deposit of the grant funds? If not, were excessive amounts of cash (over \$5,000) returned GOLD?
- ✓ Is information on line of credit withdrawal vouchers accurate?

Procurement Rules

- ✓ Is a *written* "standard of conduct" maintained governing the performance of employees engaged in purchasing and/or the award or administration of contracts, in order to avoid real or apparent conflicts of interest?
- ✓ Are all purchases or procurements (no matter how small) conducted in a manner to provide, to the extent practical, free and open competition?
- ✓ Are *written* procedures for procurement transactions maintained that specify the steps taken to:
 - Avoid the purchase of unnecessary items;
 - Examine lease versus purchase alternatives; and
 - Ensure that solicitations for goods and services contain clear and accurate descriptions of the technical requirements being sought?
- ✓ Are small, women-owned, and minority-owned businesses used to the fullest extent possible?
- ✓ Is some form of cost or price analysis performed for each procurement, and documented in the procurement files?
- ✓ Is a system of contract administration maintained to ensure contractor conformance with terms and conditions of contracts that are awarded?

Sample Financial Management Checklist

Property Controls

- ✓ Is a system maintained for tracking property and other assets bought or leased with grant funds?
- ✓ As part of this system, does the organization conduct a periodic (at least annual) physical inventory or inspection of property bought or leased with grant funds?
- ✓ Are procedures in place to keep the property safe (such as adequate locks, engraving of portable equipment, and/or storage of such equipment in locations that are reasonably secure)?
- ✓ Are systems in place to ensure that the equipment leased or purchased with grant funds is used solely for authorized purposes (e.g., leased vehicles for transporting persons with disabilities are not employed for personal use)?

Financial Reporting

- ✓ Is necessary data available from the accounting system for the preparation of reports?
- ✓ Do financial reports and statements present a clear picture of financial results and conditions?
- ✓ Are required reports submitted on time?
- ✓ Did the organization expend more than \$500,000 in federal funds within its accounting year, regardless of whether such funds were received directly from federal agencies or indirectly through another agency? [If “no” skip to the last question under Audits below. If yes, proceed to audits.]

Audits

- ✓ Was the annual audit conducted consistent with the standards of OMB Circular A-133? Specifically, did the audit provide the following:
 - A financial statement and schedule of federal assistance?
 - An assessment about whether the records of the organization accurately reflected the actual revenues, assets, expenditures, and liabilities of the organization?
 - A report on internal controls?
 - A report on program compliance?
- ✓ Did the organization submit the audit package to the Federal Audit Clearinghouse and other required entities?
- ✓ Did the organization submit the audit package to the appropriate state and local entities?

Sample Financial Management Checklist

- ✓ Did the organization submit the appropriate financial statement or public financial statement according to state requirements?
- ✓ Did the organization follow all state requirements for their city or county?
- ✓ Did the audit report contain any findings regarding deficiencies or material weaknesses, compliance findings, questioned costs, or recommendations for improvements in the organization's financial systems?
- ✓ Has the organization taken steps to ensure timely resolution of any audit findings, questioned costs, and/or recommendations?
- ✓ If the organization was not required to have an audit per the standards of OMB Circular A-133 or state requirements, did it nonetheless have an independent audit by a CPA that included an examination of grant funds within the audit's scope?

**Attachment 3-2:
Sample Request for Payment Form**

**Kentucky Department for Local Government
 HUD Disaster Recovery Initiative
 Request for Payment**

Name	Date	October 17, 2012
Address	Grant Number	#
	Request Number	#

Draw Request

	Description	Public Assistance	Hazard Mitigation*	Special Projects							TOTAL
	Current Budget										
1.	CDBG funds required to date										
2.	CDBG funds previously requested										
3.	CDBG funds requested										

* Housing Buyout

Project Status

Briefly describe the project's status

I certify that this request for federal funds has been prepared in accordance with the terms and conditions of the Grant Agreement, and that the amount requested is for eligible expenditures as per the federal regulations cited in the Statement of Assurances of the grant application. I also certify that all the data reported above is correct and that the amount of the request for federal funds is not in excess of current needs.

Authorized Signature	Title	Date
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For DLG Use Only

Authorized Signature	Title	Date
----------------------	-------	------

**Attachment 3-3:
Sample Authorized Signature Form**

KENTUCKY COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

AUTHORIZED SIGNATURE FORM (Sample)

Name/Address of Recipient	Grant Agreement Number
---------------------------	------------------------

AUTHORIZED SIGNATURES FOR REQUEST FOR PAYMENT

Typed Name and Signature	Typed Name and Signature
Date and Signature of Chief Executive Officer	<u>For State Use Only</u> APPROVED: Date and Signature Department for Local Government

AUTHORIZED SIGNATURE FORM

Instructions

1. Insert name of community and complete mailing address of recipient; include zip code.
2. Enter Grant Agreement Number assigned by the Department for Local Government (DLG).
3. Enter the typed name and signature of the individuals who are authorized to sign the community's Request for Payment. Two signatures are required on this form.
4. Provide signature and date of the Chief Executive Officer to certify that signatories are authorized to request payment of CDBG funds.

**Attachment 3-4:
Sample Direct Electronic Transfer of Funds Form**

Department for Local Government

Direct Electronic Transfer of Funds (Sample)

The _____ hereby authorizes the State Treasurer to transfer funds from the Kentucky Department for Local Government by electronic transfer. Such transfers shall only be made to the depository and account (as noted below) designated for the receipt of Community Development Block Grant funds for the project listed below.

Community and Project Information

City or County Name _____

Federal Tax ID Number _____

Project Title _____

CDBG Pass-through Number B- DC-21-0001 ()

Depository Information

Name of Bank _____

Address _____

Phone Number () - _____

Contact Person at Depository Bank _____

ACH Routing and Transmit
Number of Depository Bank _____

Account Number in which CDBG
funds are to be deposited _____

Signed _____

Printed Name _____

Title _____

Date _____

Note: ALL fields must be completed.

**Attachment 3-5:
Approval for Use Request**

APPROVAL FOR USE REQUEST
I. Program Income Project Summary

1.	Jurisdiction		
2.	Project Type	<input type="checkbox"/> H <input type="checkbox"/> PF <input type="checkbox"/> ED	
3.	Project Title		
4.	Local Project Number		
5.	Applicant	Applicant Name	
		Street/P.O. Box	
		City, Zip Code	
		County	
6.	Joint Applicant (if applicable)	Joint Applicant Name	
		Street/P.O. Box	
		City, Zip Code	
		County	
7.	RLF Administering Agent (i.e. LDC, Industrial Authority, etc)	Name	
		Street/P.O. Box	
		City, Zip Code	
		Telephone	
8.	Application Preparer	Name	
		Street/P.O. Box	
		City, Zip Code	
		County	

9. Financing

Source(s)	Amount	Project %	Type Loan/Grant/Other	Rate %	Term (Months)	Security Position	Collateral
Program Income	\$	%		%			
	\$	%		%			
	\$	%		%			
	\$	%		%			
	\$	%		%			
Misc. Revenue	\$	%		%			
	\$	%		%			
	\$	%		%			
	\$	%		%			
	\$	%		%			
Total	\$	100%		%			

APPROVAL FOR USE REQUEST
I. Program Income Project Summary

10. Project Description

Provide a thorough description including dimensions of any construction to be financed and jobs to be created/retained. Continue on attachments if necessary.

APPROVAL FOR USE REQUEST

III. Certifications

1. Project meets one of the following national objectives:
 - a. Benefit to low and moderate income persons.
 - b. Prevention or elimination of slums of blight, and/or
 - c. Meeting community development needs having a particular urgency.
(Attach evidence to indicate how the national objective will be met)

2. Verification of 51% benefit to low and moderate income persons as required by Title I of the Housing and Community Development Act (HCDA) shall be obtained by:
 - a. Job Survey
 - b. Residential Survey
 - c. Census Data
 - d. Other

3. Project meets eligibility requirements under Title I, HCDA Section 105(a) paragraph.
(This eligibility criteria is found in Appendix A of the CDBG Program Guidelines)

4. Penalties for failure to achieve 51% LMI benefit shall be assessed in accordance with Title I, HCDA and State CDBG Program Guidelines as applicable to the funding year.

5. Citizen participation requirements as mandated by Title I, HCDA, Section 104(a) have been met.

6. State Clearinghouse comments as required by Executive Order 12372 shall be considered.

7. Environmental review requirements as mandated by 24 CFR Part 58 and State CDBG Program Guidelines have been met and the project determined to be environmentally eligible.

8. Special action has been or shall be taken by the applicant and community to meet all civil rights requirements as described by the State CDBG Handbook for the applicable funding year and as mandated by federal laws and Executive Orders, including but not limited to:
 - Civil Rights Act of 1964, Title VI
 - Civil Rights Act of 1968, Title VIII
 - Housing and Community Development Act of 1968, Section 3
 - Housing and Community Development Act of 1974, Section 109
 - Rehabilitation Act of 1973, Section 504
 - Age Discrimination Act of 1975
 - Executive Order 11063: Equal Opportunity in Housing
 - Executive Order 11246: Equal Employment Opportunity

9. Financial records for the community, local RLF and this project shall be maintained in compliance with 24 CFR Part 570 and Part 85.

10. Federal and State Labor provisions will be enforced for the project as applicable.
 - Check if Federal wages apply.
 - Check if State wages apply.

APPROVAL FOR USE REQUEST

III. Certifications

11. Procurement procedures for securing contractor services, professional services, materials and supplies shall conform to requirements of 24 CFR 85.36 and the CDBG Handbook for the applicable funding year.
12. Project Loan Administration Applicable Not Applicable
- Loan Agreement between the community and applicant shall be executed on the day of the first disbursement of loan funds.
 - Security documents shall be executed on the first day secured property can be firmly identified by deed, serial number, or any other means and lodged for the record in the _____ County Clerk's office.
13. All necessary and required steps shall be taken to assure compliance with all federal and state laws, regulations and guidelines applicable to CDBG projects and records of same shall be maintained and readily accessible at all times to state and federal officials.
14. Project eligible under:
Section _____ of local Revolving Loan Fund
Adopted by _____ on (date) _____.

To the best of my knowledge and belief, data in this Request are true and accurate. Certifications are offered in good faith and the Request and accompanying certifications are duly authorized by the governing body of the community.

Signature of Chief Executive Officer

Name (type or print)

Title

Date

Approved: _____

Date: _____

**Attachment 3-6:
Repayment Report—Program Income/
Miscellaneous Revenue Report**

EXAMPLE
Kentucky Community Development Block Grant
REPAYMENT REPORT
PROGRAM INCOME/MISCELLANEOUS REVENUE REPORT

Period Ending
Submission date

09/25/12
12/10/12

Grantee Name		Address	
Non-Profit		Address	
Name of person preparing report		Phone Number	Fax Number
		()	()
Address:			
Email Address:			
<p>The Grantee's Chief Executive Officer certifies that:</p> <p style="margin-left: 40px;">a) To the best of his/her knowledge and belief, the information in this report was true and correct as of the date of the report.</p> <p style="margin-left: 40px;">b) The records as required by the Commonwealth are being maintained and will be made available upon request</p>			
Typed Name of CEO		Title	
Signature of CEO		Date	

For State Use Only		
Reviewed By	Approved By	Date

**Attachment 3-7:
Sample Housing Revolving Fund Guidelines**

SAMPLE
(Community/Organization)

Housing Revolving Fund Guidelines

I. Goals and Objectives

Goals of the Community/Organization are to: 1) increase affordable housing opportunities for residents in the Community; 2) eliminate blighting conditions within the Community; and 3) improve the (city's/county's) infrastructure which benefits LMI families. The Community Housing Revolving Fund represents one effort to achieve these goals.

Objectives of the Community/Organization are to: 1) promote the provision of decent, safe, sanitary and affordable housing to Community residents; 2) acquire and clear blighted housing structures and encourage rehabilitation of substandard housing in the (city/county); and 3) improve the water/sewer needs of LMI households and make sidewalk, street and drainage repairs/improvements in neighborhood areas.

Since all or a portion of the funds in this program were made available through the Kentucky Community Development Block Grant Program (KCDBG), close adherence to requirements of that program and specific grant agreement(s) with the Commonwealth of Kentucky as required. Special attention must be given when funds to be used were received by the Community/Organization prior to closeout. Such federal requirements as Davis-Bacon, Uniform Relocation Act (URA), LMI provisions including one-for-one LMI replacement housing, may apply.

The following policies and procedures are adopted to ensure a consistent and thorough review of all proposals in order to achieve the above objectives.

II. Organization

A. Establishment of Revolving Fund Board

The Community will establish a Revolving Fund Board composed of (____) members. The Revolving Fund Board will be selected to include area leaders and community representatives. Members will be appointed by the Mayor/County Judge Executive with the approval of the Council/Fiscal Court. One member of the Board is to consist of a Council/Fiscal Court member.

The Revolving Fund Board will establish, evaluate and carry out policy, establish conditions and recommend disposition of funds under the Revolving Fund. The Revolving Fund Board shall meet on an as needed basis. At least (____) member(s) and the Mayor/County Judge Executive or the Council/Fiscal Court member must be present to make funding decisions or recommendations regarding requests.

The Mayor/County Judge Executive shall serve as "Fund Manager" and will act as liaison between potential borrowers and the Revolving Fund Board. The Mayor/County Judge Executive may delegate (his/her) authority or request assistance as is needed.

- B. Technical and Managerial Assistance
Due to their involvement with and knowledge of CDBG procedures, the Area Development District/Consultant may provide technical and managerial assistance and administrative support to the Revolving Fund Board and potential applicants. Technical assistance shall consist of working with applicants and other participants to develop a feasible project, seeking additional revenue sources that may be available, and reviewing proposals and advising the Revolving Fund Board and Manager.
- C. Monitoring of Projects
The Revolving Fund/Manager and/or a member of the Revolving Fund Board will conduct monitoring visits of each project to determine if there are any problems that jeopardize the project. The Revolving Fund Manager will inform the Revolving Fund Board about project status and to ensure that proper monitoring visits were conducted and documented.

III Eligibility Requirement

- A. Eligible Applicant
The applicant must live within the Community and have housing needs that are consistent with the goals and objectives of the Housing Revolving Fund.
- B. Eligible Activities/Projects
Activities that promote decent, safe, sanitary and affordable housing for the Community.
 - a. Acquisition and/or clearance of deteriorated housing stock
 - b. Disposition of acquired properties
 - c. Property acquisition for the development of new housing
 - d. Reconstruction of replacement housing
 - e. Rehabilitation of sub-standard housing
 - f. Energy efficiency improvements
 - g. Handicapped accessibility improvements
 - h. Water and sewer service lines
 - i. Septic system and well upgrades/installments
 - j. Sidewalk, street and drainage repairs/improvements
- C. Ineligible Project Activities
 - a. Non-housing activities
 - b. Activities outside of the (city/county) limits
 - c. Activities that are not in conformance with the Conflict of Interest requirements of the Community
- D. Eligible Costs
Loans and grants made under the Housing Revolving Fund can be used to finance all costs associated with the provision of Eligible Project Activities.

- E. Ineligible Costs
General Government expenses not related to the Housing Revolving Fund

III. Selection and Approval of Projects

- A. Application Review and Evaluation
Upon completion of the Revolving Fund full application, a member of the Revolving Fund Board will conduct an on-site inspection of the project area to determine if the needs are consistent with the goals and objectives of the Community Housing Revolving Fund. The Board member will submit his/her recommendation for approval or disapproval and the basis for such recommendation to the full Board. The Revolving Fund Board shall then make its written recommendations to the City Council/Fiscal Court to approve or deny the project.

- B. Fund Board Approval
The Revolving Fund Board Manager shall submit a copy of the Approval for Use Request to the Kentucky Department of Local Government for all projects in which “program income” funds are being utilized. DLG will assure project eligibility and national objective criteria and will respond within fifteen (15) days of receipt.

Upon final approval, the Revolving Fund Board Manager can request to draw down funds from the Revolving Fund’s bank to assist the applicant.

- C. Other
Statement of Assurances
All assurances as specified in Community Development Block Grant regulations shall be agreed to, by the user, in order to receive funds. No application shall be approved unless the Statement of Assurances is properly signed.

National Objective Criteria

Since the funds that help fund this Housing Revolving Fund come from repayment of loans made from grants received from the Community Development Block Grant (CDBG) program, each project activity funded under the Revolving Fund program may be required to meet at least one of the three National Objectives identified in Title 42, Chapter 69 of the Housing and Community Development Act, hereafter referred to as the Act (Section 5305(a)(2)).

The three objectives are:

1. Benefit to low- and moderate-income persons.
2. Prevent or eliminate slums or blight.
3. Meet community development needs having a particular urgency.

Administrative Fees

Up to 20% of the repayment may be used for administrative purposes related to administration of the Revolving Fund.

This Document being formally adopted this _____ day of _____, 20____.

(Community/Organization)

(Title)

Commonwealth of Kentucky

County of _____

Subscribed; sworn to and acknowledged before me by _____

(Title) by and through its resolution on this the ____ day of _____, 20____.

My Commission expires: _____

Notary Public

..... Attachment 3-, :
Sample 9 Wbca JW8 Yj Ycda Ybh Revolving Fund Guidelines

Sample Economic Development Revolving Fund Guidelines

(COMMUNITY/ORGANIZATION) REVOLVING FUND

I. Goals and Objectives

A goal of the (Community/Organization) is job creation and retention. The (Community) Revolving Fund represents one effort to achieve this goal.

Objectives of the (Community/Organization) are to (1) approve projects that are sound and capable of repaying their loan, and (2) to maximize earnings through investment. These objectives will help maintain and ensure the growth of the fund for use by future prospective businesses.

Since all or a portion of the funds in this program were made available through the Kentucky Community Development Block Grant, close adherence to requirements of that program and specific grant agreement(s) with the Commonwealth is required. Special attention must be given when funds to be used were received by the (Community/Organization) prior to closeout. Such federal requirements as Davis-Bacon and LMI provisions may apply.

The following policies and procedures are adopted to ensure a consistent and thorough review of all proposals in order to achieve the above objectives.

II. Organization

A. **Establishment of Revolving Fund Board**

The (Community/Organization) will establish a revolving Fund Board composed of (____) members. The RF Board will be selected to include members representative of a cross section of area leaders with experience and expertise in business finance and economic development. Members will be appointed by the (Chairman/CEO) with approval by the Council/Fiscal Court. One member of the Board is to consist of a member of the Council/Fiscal Court.

The RF Board will establish, evaluate and carry out policy, establish conditions and recommend disposition of loans under the RF.

The (Chairman/CEO) shall serve as Fund Manager and will act as liaison between potential borrowers and the RF Board of Directors. The (Chairman/CEO) may delegate his authority or request assistance as is needed.

In addition, three members of the Board will serve as a Review Committee. This Review Committee will, with the assistance of the RF Manager, review all requests and make recommendations to the full Board regarding the various requests.

Sample Economic Development Revolving Fund Guidelines

B. Processing Fees

A fee of \$250 shall be charged to cover the costs of processing a loan application. This fee shall be levied only on those applicants desiring to submit an application for consideration. No charge shall be made for initial contact or preliminary discussions required for the development of a possible application; nor for non-loan related projects.

C. Technical and Managerial Assistance

Due to their involvement with and knowledge of CDBG procedures, the (Area Development District/Consultant) may provide technical and managerial assistance and secretarial support to the RF Board and potential applicants. Technical assistance shall consist of: working with applicants and other participants to develop a feasible project, seeking additional revenue sources which may be available, and reviewing proposals and advising the RF Board and Manager on merits of the loan.

D. Servicing of Loans

The (Community) Revolving Fund will not directly engage in the servicing of its portfolio. The Board will negotiate with _____, which possess the necessary skills to service the loans.

E. Monitoring of Projects

The RF Manager will conduct a monitoring visit of each project at least twice a year to determine if there are any problems that jeopardize the project. The RF and servicing agency will keep each other informed about problems they encounter. If they so desire, the Board may request periodic financial reports from the company as a condition of project approval.

F. Solicitation of Projects

The (Community) Revolving Fund will recruit potential borrowers through several methods. The RF Manager will actively solicit participation through private lenders, referrals from the Kentucky Development Finance Authority, Community Development Block Grant Program, _____ Development Council, and other sources as appropriate. These development agencies will be in the position of making RF program information available to various enterprises with which they have contact.

Sample Economic Development Revolving Fund Guidelines

Eligibility Requirements

A. Eligible Applicants

- a. The applicant must be a registered sole proprietorship, partnership, or corporation (profit or non-profit) established for the purpose of doing business in (Community).
- b. The applicant must possess good character and reputation. Character references will be required. References may include creditors, past employers or others who possess knowledge of the applicant.

B. Eligible Projects

- a. Loans/grants for acquisition and assembly of land for industrial or commercial use
- b. Loans/grants for acquisition of properties with redevelopment potential for industrial or commercial use
- c. Loans for the start-up and/or expansion of industries
- d. Loans for the rehabilitation and renovation of usable vacant buildings for specific industrial or commercial use
- e. Microenterprise loan pool and technical assistance
- f. Grants for off-site development to assist industries or commercial businesses
- g. Speculative development including building acquisition and construction
- h. Collateral for other eligible activities
- i. Eligible activities not directly related to job creation

C. Ineligible Projects

- a. Businesses serving alcoholic beverages
- b. Rolling stock, i.e., trucks, forklifts, automobiles
- c. Loans to retire existing debt
- d. Working capital
- e. Business activity located outside the boundaries of (Community)
- f. Any other projects determined not to be in the best interests of the citizens of (Community)

D. Eligible Costs

Loans and grants made under the RF can be used to finance:

- a. Land costs – all costs related to the acquisition and development of land for industrial or commercial use.

Sample Economic Development Revolving Fund Guidelines

- b. Building costs – all costs associated with acquisition, construction and/or rehabilitation of buildings for industrial or commercial use, including leasehold improvements.
- c. Machinery and equipment costs – all related costs associated with the acquisition and installation of machinery and equipment.
- d. Facility development costs – costs for facility development, necessary for project completion (i.e., water lines, sewer lines, access roads).
- e. Microenterprise

III. Loan Review Factors

The following factors will be considered in the loan review process for all RF loan applications:

- A. Highest priority will be given to projects creating at least one job per every \$_____ of RF monies. Except under exceptional circumstances, the RF will not consider projects where the ratio exceeds \$20,000 per new long-term job created. Jobs used for purposes of this ratio are those existing at the end of two years after start-up. Construction jobs in the building of a facility are not included.
- B. Highest priority will be given to projects in which RF funds do not exceed thirty-three percent (33%) of total project cost. Except under exceptional circumstances, the RF will not consider projects which exceed fifty percent (50%) of total project cost.
- C. No RF loans shall be made if funding is otherwise available from private lenders on terms that would allow for the successful completion of the project.

IV. Terms and Conditions

The RF shall exercise flexibility in negotiating terms with the participating financial institutions. The following conditions, however, are set as minimum guidelines.

- A. All rates and terms for the RF funds will be based upon a financial analysis conducted under the Community Development Block Grant appropriate criteria.
- B. The RF reserves the right to sell their interest in a loan package where the Board deems advisable.
- C. The RF would accept convertible subordinated debt, with or without deferral provisions for either principle and/or interest.

Sample Economic Development Revolving Fund Guidelines

- D. Liens will be taken covering all assets. A subordinated position will not be accepted where an inordinate amount of risk is evident.
- E. Personal guarantees may be required of owners who control at least 20% of the company.
- F. The RF will impose the following maximum term requirements and restrictions on loans:

Maximum length of terms:

- 1. Real Estate – 20 years.
 - 2. Machinery and equipment – 10 years or the usable life of the equipment.
 - 3. Inventory/Other – 5 years.
- G. Rates will be negotiated by the RF Board, but in no case shall it be less than ____%.
 - H. In negotiating terms for potential borrowers, terms will not be made that cannot feasibly be met. A thorough credit analysis will be undertaken prior to negotiating loan terms.

V. Application Procedures

NOTE: Application not required for Public Infrastructure and Non-Profit Development.

A. **Initial Meeting**

The initial meeting that the RF Manager will conduct with a potential borrower will be to determine eligibility, generally discuss the project, and explain the application process and needed information. At this point, projects which are ineligible or which do not look strong should be referred to proper funding sources or discouraged from applying. The Loan Manager will indicate that the following items will be required from the applicant prior to the next meeting:

- a. A brief description of the request, including total project cost, amount of loan requested, purpose of loan and terms requested.
- b. Three-year historic financial statements, if applicable.
- c. Financial data – five year pro forma projections.
- d. An economic impact statement, including the number and type of jobs to be retained and/or created at the end of two years.

Sample Economic Development Revolving Fund Guidelines

- e. A market/business plan delineating past performance and assumptions used as the basis for sales projections.
- f. Personal financial statements of principals in a privately held company.
- g. Any other items requested of applicant by the RF Manager of Board.

B. Loan Application Process

The Loan Manager and the potential borrower will structure the loan package. The borrower will be issued full information on the loan selection criteria and full information regarding standard conditions and federally required assistance and conditions.

Upon determination of applicant eligibility, the borrower will complete the Application form. In conjunction with these cited standard forms, the RF Board of Directors shall request the following information, much of which will be included as part of the applicant's business plan. Note: The standard DLG Approval For Use Request, Exhibit _____ (excluding certifications) can be used in this procedure.

- a. Financial information, which shall include:
 - 1. Current financial statement, including balance sheets, income statements with footnotes, and supporting statement for the applicant's three most recent fiscal years, where applicable, and consolidated financial and income statements, with footnotes, of any parent company for the three most recent fiscal years, where applicable.
 - 2. Most recent interim financial statements of the applicant, and, if applicable, of its parent company, certified by officers of the respective companies and maintained current during the loan application process.
 - 3. Project pro forma balance sheets, income statements, cash flow, and supporting statements of the applicant. Such statements and balance sheets should reflect the applicant's ability to repay debt from earnings.
- b. Such non-financial information as the RF Board of Directors deems is necessary to substantiate the pro forma projections. These may include, but not be limited to:
 - 1. Estimates, quotations, receipts, contracts, orders, invoices, leases or equivalent documentation from architects, engineers, contractors, subcontractors, material suppliers, lessor, or others involved in the sale, lease, or construction

Sample Economic Development Revolving Fund Guidelines

of fixed assets, if any, for applicant's project, including schedules or implementation.

2. Any backup information regarding the applicant's operating costs, including projected employment by job category and applicable wage rate, cost and availability of raw materials and energy.
- c. General information about company management capabilities, including resumes of top management and detailed marketing strategies.
- d. Such additional information as the RF Board of Directors may require regarding collateral, appraisals, valuations of assets and guarantees.
- e. Completed applications.

VI. Selection and Approval of Projects

A. Application Review and Evaluation

Upon completion of the RF full application, the RF Loan Review Committee will carry out a review and submit its recommendation for approval or disapproval and the basis for such recommendation to the full Board. The RF will then consider the recommendation made by the RF Review Committee. The Board may solicit or allow additional comment or advisement if it so desires. The Board shall then make its recommendations to the City Council/Fiscal Court to approve or deny the project. The RF Board of Directors will utilize and fully consider all loan selection criteria to ascertain whether the proposed project is consistent with the economic development strategy for (Community). The RF Board will determine whether all project requirements can be met and shall apply their financial experience and judgement to the project having considered all available information.

B. Fund Board Approval

The RF Loan Review Committee shall submit a copy of the Approval for Use Request to DLG (Including certifications) for all projects in which program income funds are being utilized. DLG will assure project eligibility and national objective criteria and will respond within fifteen (15) days of receipt.

Upon final approval, the RF Board Chairman will forward the entire package to the RF's bank, with a request to draw down funds to the borrower.

VII. Loan Closing Procedure

Sample Economic Development Revolving Fund Guidelines

The RF will closely coordinate all loan closing activity with the first participation lender to avoid duplication and to hold closing costs to a minimum. The RF, working with the participating lender, will make all necessary preparations for the closing. After scheduling the date of closing, the RF or participating lender will prepare the information and documentation for closing, including:

- a. RF Agreement
- b. Participation Agreement between RF and the first position lender
- c. Promissory, Mortgage Notes of other loan agreement
- d. Security Documents to be executed and recorded
- e. Check from the RF

All closing costs incurred will be paid by the borrower at the time of closing.

VIII. **Other**

A. **RF Loan Application Form**

The RF full Loan Application form is attached as Appendix 1.

B. **Evaluation Mechanism**

Every six months the RF Manager will monitor the projects in the RF portfolio, evaluate the loans made, and determine progress made in obtaining goals and objectives cited in the RF Administration Plan. Factors such as jobs created, types of jobs created, minority and/or women's businesses assisted, and the ratio of RF dollars to jobs retained/created will be considered in this evaluation process. Results of all project evaluations will be presented to the RF Board and the City Council/Fiscal Court in a semiannual report of RF activity.

All assurances as specified in Community Development Block Grant regulations shall be agreed to by the user in order to receive funds. No application shall be approved unless the Statement of Assurances is properly signed.

Investment of idle funds shall be in conformance with Kentucky Revised Statutes as they relate to investment practices of local governments.

- C. Since the funds that help fund this revolving fund come from repayment of loans/leases made from grants received from the Community Development Block Grant Program, each activity funded under the RF program may be required to meet at least one of the three National Objectives identified in Title 1 of the Housing and Community

Sample Economic Development Revolving Fund Guidelines

Development Act of 1974 as amended in 1983, hereinafter referred to as the Act (Section 104(b)(3)). The three objectives are:

- 1. Benefit to low and moderate income persons
- 2. Prevention of elimination of slums or blight
- 3. Meeting community development needs which have a particular urgency

D. Up to 20% of the repayment may be used for administrative purposes related to administration of the RF. An administrative plan is attached by reference.

This Document being formally adopted this _____ day of _____, 20__.

(Community/Organization)

(Title)

State of Kentucky
County of _____

Subscribed, sworn to and acknowledged before me by _____,
(Title) by and through its resolution, on this _____ day of _____, 20__

My Commission expires:

_____ _____
Notary Public

(Community)

(Mayor/County Judge)

State of Kentucky
County of _____

Subscribed, sworn to and acknowledged before me by _____,
(Title) by and through its resolution, on this _____ day of _____, 20__.

Sample Economic Development Revolving Fund Guidelines

My Commission Expires:

Notary Public