



# 4 Financial Management

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## 4 Introduction

### 4.1 Financial Management

Financial management is the process of using funds effectively, efficiently, and transparently. It is the path to establish, implement, and follow policies, procedures, and rules of conduct to meet the federal financial management requirements and cost principles, and then, second, through methods and standards, ensure that all integral functions stay on track.

Adequate and effective financial systems must be implemented and followed to ensure that the management of federal funds meets the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) found in [2 CFR Part 200](#). This includes the following:

- Record all financial transactions.
- Relate expenditures to the activity.
- Ensure compliance with laws and regulations.

### 4.2 Establish CDBG-DR Financial Management

#### 4.2.1 Ensure that effective financial management system is in place

Subrecipients should be able to meet these financial management requirements with existing financial systems; however, it may be necessary to augment existing systems by developing special procedures that bring the systems in compliance with the requirements for post federal award, including the cost principles, outlined in the Uniform Guidance. OHCS encourages its subrecipients to work with their own financial staff, accountants, and auditors to develop the systems and expertise needed to ensure control of the subrecipient's financial affairs to meet the federal requirements. Financial management training is provided by OHCS, with technical assistance offered upon the subrecipient's request or otherwise determined beneficial by OHCS or HUD.

The requirements for financial management systems are found in the Uniform Guidance at 2 CFR Part 200.302 (b)(1-7). Additionally, the subrecipient should refer to the subrecipient agreement executed with OHCS for contractual expectations of adequate financial management systems and the scope and frequency of financial reporting.

Additional information on requirements of a CDBG-DR financial system can be found later in this chapter in the [Required Elements of a Financial System section](#).

## 4.2.2 Execute required forms

The subrecipient is responsible for executing the required forms required by OHCS. This includes:

Automated Clearing House (ACH):

- The completed ACH form must be returned to HCS.ACHWIRES@hcs.oregon.gov. To avoid processing delays, please make sure to include a voided check or letter from the bank confirming the account information. The ACH form is password protected. The OHCS contract administrator will communicate the protected password by phone or separate email.
- Payments made to the subrecipients will be paid electronically.

W-9:

- A 1099 will be issued to appropriate entities each year as required by the Internal Revenue Service to report the award(s) payments that are received from OHCS.
- The subrecipient must return the completed W-9 to the OHCS contract administrator in order to begin the setup process.

## 4.2.3 Submit subrecipient budget form

Subrecipients will be required to complete a subrecipient budget form that details how budget categories (e.g., personnel, contracts, travel, project delivery costs, facilities, and administration costs) are calculated. If a subrecipient is managing multiple projects or activities, then a separate budget form is needed per each project/activity. Subrecipients will provide justifications for why certain costs are needed or provide supporting documentation with the budget form to substantiate the budget amount requested.

OHCS will review budget forms and may respond with questions that need to be addressed before the budget and subrecipient agreement is approved. Once approved, the budget form will be updated on a quarterly basis to capture any changes in the budget. If there are no changes, subrecipients can report a “no change” to OHCS. OHCS is tracking two main budget categories: Program Delivery (Direct) Costs and Facilities & Admin (Indirect) Costs. Any budget changes within either budget category can be reported to OHCS without having to amend the subrecipient agreement. The subrecipient agreement budget will need to be updated if there is a budget change between the two budget categories, a need to increase/decrease the overall budget, or if there is a need for time extension.

## 4.3 Required Elements of Financial Systems

The requirements in [2 CFR Part 200.302\(b\)\(1-7\)](#) specify standards to ensure that a non-federal entity receiving federal funds has an adequate financial management system that conforms with the Uniform Guidance in Part 200 and:

1. Provides effective internal control over and accountability for all CDBG-DR funds, property, and other assets
2. Adequately safeguards these assets and confirms the assets are used for authorized purposes
3. Follows established policies and procedures
4. Follows the terms and conditions of the subrecipient agreement with OHCS
5. Identifies the source and application of the CDBG-DR funds
6. Verifies allowable costs in consideration of cost reasonableness, cost allocability, and the composition of costs as either direct or indirect
7. Documents through effective recordkeeping the accurate, complete, and timely disclosure of financial results using generally accepted accounting principles (GAAP) in accordance with the reporting requirements of OHCS or HUD
8. Reduces the time elapsed between the transfer of funds from the U.S. Treasury and proper disbursement

### 4.3.1 Relevant Federal and State Regulations and State Policies

The CDBG-DR regulations include but are not limited to:

- [CDBG-DR Consolidated Notice and Allocation Announcement Notice](#), 87 FR 6364 published Thursday, February 3, 2022
- CDBG-DR Program, [24 CFR Part 570 \(Subpart I, 570.480-407\)](#), State CDBG Program
- Per the Consolidated Notice waiver and alternative requirement that a state may carry out activities directly, including through assistance provided under agreement with subrecipients: 24 CFR 570.503 (b)(4) contains the applicability of the uniform administrative requirements (24 CFR 570.502) for subrecipients
- [2 CFR Part 200](#), Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Cost Principles and Audit Requirements)
  - This regulation, which applies to government agencies, sets forth uniform requirements for financial management systems, fiscal controls, cost principles, allowable costs, audit requirements, reports and records, grant close-outs for recipients of federal grant funding, etc.

### 4.3.2 Financial Management Requirements

The following sections are provided to assist in understanding the minimum federal requirements for financial management and identify specific areas in need of upgrades and improvement. The federal regulations contain requirements to guide adequate financial management systems in eight specific areas:

1. Internal controls, [200.303](#)
2. Accounting records, [200.302\(b\)\(3\)](#)
3. Allowable costs, [200.402-406](#)
4. Source documentation, [200.302\(b\)\(3\)](#)
5. Budget controls
6. Cash management, [200.305](#)
7. Financial reporting, [200.329](#); Consolidated Notice
8. Audits, [2 CFR Part 200, Subpart F – Audit Requirements](#) (See Chapter 15 Project Reports and Closeout.)

### 4.3.3 Internal Controls ( 200.303)

The Uniform Guidance in 2 CFR 200.303 requires non-federal entities to maintain a system of internal controls that provide for reasonable assurance that the entity is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the award. Internal controls are a combination of procedures, specified job responsibilities, qualified personnel, and records that create accountability within an entity's financial management system, safeguard all grant property (whether cash or other assets), and assure that it is used solely for authorized purposes. All grant recipients must establish and maintain internal controls to protect the integrity of the grant funds. The internal control framework should be in place before grant expenditures are incurred; however, entities must perform ongoing evaluations to determine if internal controls are operating as intended. Per the requirements of 2 CFR 200.332, OHCS conducts a risk assessment of the subrecipient's capacity to comply with the minimum federal regulations internal control environment in order to determine the appropriate level of subrecipient monitoring; however, OHCS may inquire of processes or specific documents prior to the subrecipient agreement being executed. OHCS conducts monitoring of subrecipients to ensure that each of the CDBG-DR funds are used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subrecipient agreement, and that performance goals are achieved. See the OHCS monitoring chapter for more information.

Each entity is responsible for reviewing its practices and processes to determine where risk exists and where and how controls can be established to mitigate them.

Note: The single audit objectives include the auditor making the determination that the grant recipient established an accounting system with adequate internal controls that provide full accountability for revenues, expenditures, assets, and liabilities.

Control is enhanced when the duties of personnel (entity/organization members) are divided so that no one person handles all aspects of a transaction from beginning to end. One person should not have control of more than one of the following:

- Authorization to execute a transaction
- Recording the transaction
- Custody of the assets involved in the transaction

Many of the most effective techniques for providing internal controls are very simple. Some examples are:

- Current organizational chart that clearly indicates the individuals involved in approving or recording financial transactions and their responsibility
- Written description of the functions of key staff
- Establishing and following written conflict of interest policies
- Recording cash receipts immediately
- Ensuring that someone other than the person who signs the checks will reconcile bank accounts monthly
- Ensuring that checks to vendors are only issued in payment of approved invoices, and the supporting documents are marked as paid
- Assigning a separation of duties for the personnel responsible for the physical custody of an asset and the personnel keeping the records related to that asset

The Uniform Guidance in 200.303 provides guidance to establish and maintain internal controls with two options for compliance:

- [Standards for Internal Control in the Federal Government](#), known as the Green Book, issued by the Comptroller General of the United States
- [Internal Integrated Framework](#), issued by the Committee of Sponsoring Organizations of the Treadway Commission

There are a few basic internal controls that all grant recipients should prioritize. The following table includes recommended actions that subrecipients can employ to reduce the risk of both grant mismanagement and fraud.

Internal Control	Actions
<p><b>Formal written policies and procedures to establish control components</b></p>	<ul style="list-style-type: none"> <li>□ Designate authority for who can request and approve grant spending.</li> <li>□ Evaluate the procedures for procuring goods and services.</li> <li>□ Establish a process to minimize the time between requesting grant funds and paying suppliers and contractors.</li> </ul>
<p><b>Segregation of duties to mitigate against fraud, waste, and abuse</b></p>	<ul style="list-style-type: none"> <li>□ Determine the proper level of authorization for purchases.</li> <li>□ Limit access to inventory, equipment, and banking accounts to personnel authorized to use the assets.</li> </ul>
<p><b>Adequate internal monitoring to ensure that the entity is following the internal control components in place</b></p>	<ul style="list-style-type: none"> <li>□ Ensure that existing policies and procedures are understood and followed.</li> <li>□ Conduct, at minimum, an annual review and update to policies and procedures.</li> <li>□ Review performance of allowable cost review checklists to ensure that charges to the CDBG-DR award are reasonable, allocable, and not otherwise limited or excluded by the subrecipient agreement, OHCS Subrecipient Financial Management Policy, or excluded by the federal cost principles regulations.</li> </ul>
<p><b>Reconciliation of grant expenditures to the budget</b></p>	<ul style="list-style-type: none"> <li>□ Schedule account reconciliations to ensure that financial information is current and updated in a timely manner.</li> </ul>
<p><b>Appropriate controls to secure and safeguard assets and ensure that controls are only used for authorized purpose by the award</b></p>	<ul style="list-style-type: none"> <li>□ Protect property from loss, damage, or theft.                             <ul style="list-style-type: none"> <li>○ Establish a control system that will detect/investigate when assets go missing.</li> <li>○ Match property record to financial records and supporting documentation.</li> <li>○ Conduct unscheduled periodic physical inventory of assets.</li> </ul> </li> <li>□ Utilize written job description to illustrate personnel roles and job responsibilities to mitigate the misuse of assets, including bank accounts.</li> </ul>



**Formal system of authorization and supervision to provide accounting control over assets, liabilities, receipts, and expenditures**

- Follow updated policy manual that identifies approval authority for financial transactions and detailed guidelines for controlling expenditures.
- Follow written accounting procedures for recording deposits and expenditures.  
Best Practice: Create a step-by-step guide for each of your financial and program management procedures, specifying the steps in the procedure, the position responsible, the action to be taken, and the standard of prompt action for each step.
- Engage effective supervisory review and approval prior to spending to provide checks and balance for proper authorization.

**Adequate source documentation produced and retained**

- Review documentation policies to ensure that there is enough detail:
  - What was the purchase, what is the basis for the (cost)expenditure?
  - Who spent the funds and who authorized the spending?
  - When was the expenditure authorized and when did it occur?
  - Where should the cost be allocated? Provide pathway to separate costs between the CDBG-DR award and non-federal activities.
- Be prepared to defend the cost months and even years from the time of purchase.
- Provide adequate project documentation. Include a detailed narrative explaining the objectives of the project and how the project activities and costs are supporting those objectives.
- Ensure appropriate manager review for related documentation review.
  - A purchase request/requisition is signed by the manager with direct (relevant) budgetary responsibility.

### 4.3.4 Accounting Records

Accounting records must adequately identify the source and application of the CDBG-DR funds.

Subrecipients may manage multiple federal, state, and local grants, as well as other sources of cash. Each grant and source of income is unique — it has its own fund, own chart of accounts, and own specific list of eligible activities. The costs incurred for a specific grant award must be properly allocated to each fund/grant source. Incurred costs are only eligible for federal reimbursement when those costs are allocated to the specific fund source, based on proper supporting documentation.

Additionally, you should have effective control over, and accountability for all CDBG-DR funds, property, and other assets in your possession (acquired/assisted by CDBG-DR funds). In order to meet these requirements, your financial management system must provide for the following:

**Chart of Accounts.** This is a list of names, classifications, and the numbering system for your individual accounts containing basic information about specific financial transactions for the organization.

Identify the CDBG-DR project award information:

- Federal program and Assistance Listing Number: HUD CDBG-DR, 14.228.
- Federal Award Identification Number for the OHCS CDBG-DR award:
  - B-21-DZ-41-001
  - OHCS as the pass-through entity/awarding entity
  - Project number assigned by OHCS to the subrecipient agreement

**Accounting Records.** Records must contain information for the CDBG-DR award: authorizations, financial obligations, unobligated balances, assets, expenditures, and be supported by source documentation.

- Identify and provide reliable, up-to-date information on the sources and uses of the CDBG-DR funds.
- Provide accurate, current, and complete disclosure of the financial results of the CDBG-DR award. Report on actual expenditures against the budget. 2 CFR 200.328 (See Chapter 15 Project Reports and Closeout for quarterly reporting requirements.)
- Keep project spending separate from other types of spending.
- Tie actual spending to the financial records and source documentation. Provide explanations for cost overruns and underruns.

- Correct errors as soon as possible. Use adjusting journal entries and correction memos to explain the adjustments.<sup>1</sup>
- Keep financial records and statements up to date.
- Keep written procedures for requesting the funds from OHCS.
- Keep written procedures for accounts payable.
- Track the flow. Report the source and application of the CDBG-DR funds.
  - Copies of all requests for payment to OHCS
  - Payment to all suppliers, vendors, and contractors
  - Reimbursement for personnel time and effort

**Reconciliation.** Provide documentation of comparison of CDBG-DR expenditures with CDBG-DR budget amounts.

**Documentation.** Ensure that the CDBG-DR funds have been used according to the terms and conditions of the subrecipient agreement, OHCS Subrecipient Implementation Policy, and all relevant federal statutes and regulations.

#### 4.3.5 Allowable Costs

Most CDBG-DR appropriations acts require funds to be used for “. . . necessary expenses for activities . . . related to disaster relief, long-term recovery, restoration of infrastructure and housing, economic revitalization and mitigation in the most impacted and distressed areas.”

The costs of carrying out project activities include not only goods and services provided by third parties, such as construction contractors, but also include the costs incurred by subrecipients in connection with the use of their own staff and other resources to carry out the activity(s).

The activities budgeted under the subrecipient agreement are deemed eligible to comply with the [OHCS CDBG-DR Action Plan](#). Costs incurred by the subrecipient to carry out these activities occur within the period of performance for the award and comply with all federal requirements as explained in this section.

Note: The appropriate environmental review clearance must be completed before funds are obligated or expenses are incurred for any project activity cost, whether paid for with CDBG-DR or non-CDBG-DR funds.

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<sup>1</sup> [HUD OIG Integrity Bulletin: Key Components of Financial Management for CPD Grants, Winter 2017](#)

#### 4.3.5.1 CDBG-DR Eligible Activity

The Housing and Community Development Act of 1974 (HCDA) provides the basic framework for the CDBG-DR appropriation. Generally, if an activity is not specified in the HCDA, it is not considered eligible under the state CDBG program. However, if the entitlement (cities and counties that automatically qualify for the CDBG program) regulations provide for an interpretation that an activity is eligible under the HCDA, that eligibility interpretation is applicable to the state CDBG program and state CDBG-DR grantees. For CDBG-DR funds, the Consolidated Notices provide several waivers and alternative requirements for OHCS and its subrecipients to carry out activities in a similar manner to a CDBG entitlement grantee.

The CDBG-DR appropriations acts require an extra layer for eligibility; activities must be related to the disaster and long-term recovery, and tie-back to the disaster must be documented.

CDBG-DR assisted activities must meet standards for determining eligible costs per [24 CFR Part 570.200](#), or otherwise subject to a waiver or alternative requirement under the Consolidated Notice. With the exception of grant administration and planning activities, CDBG-DR assisted activities must meet at least one of these three national objectives:

1. Benefit low-and moderate-income (LMI) persons.
2. Aid in the prevention or elimination of slums or blight.
3. Meet a need having a particular urgency (referred to as urgent need).

Additionally, a CDBG-DR activity must:

- Be included in the approved ReOregon CDBG-DR action plan.
- Comply with other applicable federal requirements.

The CDBG-DR award may include terms and conditions to satisfy requirements for mitigation activities. (See Chapter 12 Mitigation.)

#### 4.3.5.2 Period of Performance

The period of performance for the subrecipient grant agreement is stated within the terms and conditions of the award. Subrecipients may only charge allowable costs to the CDBG-DR program within the period of performance stated in the agreement. All requests for payment must be for services rendered within the contract period of the subrecipient grant agreement.

### 4.3.5.3 Cost Principles

Cost principles are those common principles that help determine the costs for specific activities and the costs that are chargeable to grants, awards, and other agreements. Although the cost principles for the CDBG-DR award may be similar to cost principles for local governments or for nonprofit organizations, the most stringent requirements apply. As a subrecipient, you must ensure that you are using the appropriate Office of Management and Budget (OMB) guidance and that you're also in compliance with all applicable state and local requirements (follow the stricter of these requirements).

The OMB has established cost principles for federal grant programs, detailed in 2 CFR Part 200.400 (Subpart E – Cost Principles). Your financial management system must provide for written procedures to determine the allowability of costs as provided in Subpart E. Writing internal procedures for applying cost principles requires understanding and defining four key terms:

- **Necessary** — [200.403\(a\)](#)  
The very first consideration is if the good or service is necessary to carry out the project scope and objectives relevant to the CDBG-DR award.
- **Reasonableness** — [200.404](#)  
The reasonable cost standard means assessing if the amount of expenditure exceeds the amount a prudent person would have spent under the same circumstances and at the time the decision was made to purchase the item. Note that the decision is considered under the circumstances in place at the time the decision was made.
- **Allocable** — [200.405](#)  
Allocable means that the costs can be allocated to a cost objective, in this case, in accordance with relative benefit received by the activity under the CDBG-DR award. It also means that costs are treated consistently with other costs incurred under like circumstances.
- **Allowable and Unallowable** — [200.403](#)  
If costs are reasonable and allocable, then an allowability assessment follows. Federal cost principles outline costs that are allowed under the terms and conditions of federal awards. Additionally, refer to the terms and conditions of the subrecipient agreement. For costs to be allowable, you must apply policies uniformly to all activities, not just the CDBG-DR award. Unallowable costs are costs that cannot pass the reasonable and allocable test, and likely include costs that are explicitly excluded from the list of permissible costs under the federal cost principles.

- **Documented** — [200.403\(g\)](#); [200.300-309](#)

Perhaps the most important element for understanding the application of cost principles is that every detail must be documented; no detail is too small or unimportant to document. **For costs to be allowable, they must also be adequately documented.** Documentation requirements apply to every aspect of grant management — the term “over-documentation” does not exist in the post-federal award environment.

#### 4.3.5.4 Determination for Allowable Costs

No accounting system can make cost allowability or reasonableness determinations. Staff must be trained in the requirements and have a go-to person who knows the program regulations. There is a simple aid in determining what is eligible for reimbursement and why it is eligible as well as how to document compliance with financial management standards.

##### 4.3.5.4.1 When costs are reasonable, allowable, documented and allocable (RADAR), then they are reimbursable

This so-called RADAR test is applied to ensure that when costs are charged, they are limited to those that are (only) allowable and reimbursable.

Refer to the project budget in the subrecipient agreement to identify the approved project activities on a line-item basis. Any questions about eligible costs during the implementation of the project should be discussed with OHCS before the expense is incurred or approved.

Examine the cost to be:

Requirement	Consideration
Authorized by OHCS	<ul style="list-style-type: none"> <li><input type="checkbox"/> Does the cost directly relate to an activity or line item in the project budget?</li> <li><input type="checkbox"/> Does the cost meet any stipulations in the subrecipient agreement relevant to the activity?</li> </ul>
Necessary ( <a href="#">200.403(a)</a> )	<ul style="list-style-type: none"> <li><input type="checkbox"/> Is the cost necessary to carry out the program/project activity?</li> </ul>
Reasonable ( <a href="#">200.404</a> )	<ul style="list-style-type: none"> <li><input type="checkbox"/> Have purchasing or procurement procedures been followed?</li> <li><input type="checkbox"/> Is the cost in line with fair market prices (at the time of procurement) for comparable goods or services?</li> <li><input type="checkbox"/> Would a “prudent person” agree that the item is reasonable?</li> </ul>

<p><b>Allowable — Conforming to limitations or exclusions (<u>200.403(b)</u>)</b></p>	<ul style="list-style-type: none"> <li>□ Is the cost permissible and NOT disallowed under the 55 specific items of cost found in the Uniform Guidance in 200.420-475?             <ul style="list-style-type: none"> <li>○ Specific costs always unallowable for federal funding are lobbying, fund-raising, bad debts, contingencies, fines and penalties, losses on other awards, unnecessary travel costs, contributions and donations, and certain depreciation or use allowances.</li> </ul> </li> <li>□ Is the cost permissible under the program statute and regulations?</li> <li>□ Is the cost permissible under the terms and conditions of the subaward, the subrecipient grant agreement?</li> <li>□ Is the cost permissible under state statute, if applicable?</li> <li>□ Is the cost permissible under local policies?</li> </ul>
<p><b>Consistent with policies and procedures</b></p>	<ul style="list-style-type: none"> <li>□ Do the entity’s policies and procedures apply the same rules for federal programs as they do for state (applicable to state agency partners) and local programs (applicable to local units of general local government)?</li> <li>□ Would the cost be the same amount if it were funded by a state or local program?</li> </ul>
<p><b>Allocable (<u>200.405(a)</u>)</b></p>	<ul style="list-style-type: none"> <li>□ Is the cost incurred specifically for the CDBG-DR award?</li> <li>□ If the cost benefits the federal program and other work of the entity, was the cost distributed in proportions that may be calculated using reasonable methods?</li> <li>□ Was the cost NOT incurred because another grant ran out of funds?</li> </ul>
<p><b>Determined in accordance with GAAP (<u>200.403(e)</u>)</b></p>	<ul style="list-style-type: none"> <li>□ Is the cost determined in accordance with GAAP or as otherwise provided for in the Uniform Guidance (applicable to the CDBG-DR award)?</li> </ul>
<p><b>Be net of applicable credits (<u>200.406</u>)</b></p>	<ul style="list-style-type: none"> <li>□ Have any credits such as purchase discounts or price adjustments been deducted from the total costs charged?</li> </ul>
<p><b>Adequately documented (<u>200.403(g)</u> and <u>200.302(b)(3)</u>)</b></p>	<ul style="list-style-type: none"> <li>□ Do you have the documentation demonstrating the need, the purchase, and use of the item?</li> <li>□ Do you have records that identify the source and application of funds and contain information regarding authorizations, obligations, unobligated balances, assets, and expenditures that are supported by source documentation?</li> </ul>

#### 4.3.5.5 CDBG-DR Cost Types

The costs directly linked to a specific project include the costs associated with undertaking a specific type of project and the costs incurred by the grant recipient to deliver the specific project or service to a beneficiary. These activities will need to be properly categorized when you submit the **reimbursement request** for CDBG-DR funds to OHCS.

Note: Subrecipients may be awarded subrecipient agreements that contain a budget for both project costs and activity delivery costs, which means the subrecipient is the responsible organization to carry out the project and to report project accomplishments and performance measures. For other program activities, OHCS will be the responsible organization and directly administer activities with the assistance of subrecipients. For the latter, these subrecipient agreements will only contain a subrecipient budget for program delivery costs. Consult specific program guidelines for additional guidance in regard to cost reasonableness for project costs and project delivery costs.

**Project costs** are the direct costs of undertaking a project and can be tied to a final cost objective and eligible activity that meets a national objective. Some examples of projects costs are:

- Acquisition costs
- Construction hard costs
- Demolition and site clearance costs
- Developer fees, contractor overhead, and profit
- Costs to deliver public services, including staff time and other direct costs
- Payments to homeowners for reconstruction activities
- Loans to businesses to assist with repairs or provide working capital

**Activity delivery costs** (ADCs) are like administrative costs but are used specifically to meet the requirements to complete a particular project, especially as it applies to meeting CDBG-DR requirements. These are costs incurred that are directly related to the delivery of a specific CDBG-DR project or service to a beneficiary. Some examples of eligible ADCs when paid directly by subrecipients or conducted by staff include:

- Activity-specific construction oversight
- Project-specific accounting and payments
- Activity-specific monitoring, oversight, and management
- Activity-specific legal services (drafting contracts)
- Activity-specific staff and contracted services



- Project-specific environmental review, design, and engineering (completed by the subrecipient or subrecipient’s contractor)
- Developing activity specific policies and procedures
- Marketing and outreach to applicants and contractors for a specific activity
- Applicant intake
- Processing applications for assistance

Note that specific projects may include one or more DRGR activities, and you must be able to appropriately allocate staff and contractor costs to the activities.

#### 4.3.5.6 Direct vs. Indirect Costs

**Direct costs** are those that can be identified specifically with a particular final cost objective, such as construction-related costs for an infrastructure project under the CDBG-DR award, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with the CDBG-DR award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs for the purpose of cost allocation to the award. Typical direct costs chargeable to the CDBG-DR award are:

- Cost of materials or services, such as professional services or construction services, especially for the purpose of the award
- Compensation of employees for time that can be identified specifically for the performance of the award

Under the cost principles, the rules of necessary, reasonable, allocable, and allowable still apply to direct and indirect costs.

**Indirect costs** (facilities and administration) are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted. Indirect costs include costs that are frequently referred to as overhead expenses such as rent and utilities as well as general and administrative costs.

There are three methods or options for charging indirect costs under [2 CFR 200.332](#). The first is the 10% de minimis rate option, the second is the negotiated indirect cost rate agreement, and the third is through the use of a cost allocation plan.

If subrecipients encounter the need to charge indirect costs to the CDBG-DR award, the entity should contact OHCS for more information and guidance.

### 4.3.6 Source Documentation — Allowable Costs

The general standard is that all accounting records must be supported by source documentation ([2 CFR 200.302.\(b\)\(3\)](#)). Adequate documentation should provide the means to verify that all project costs are properly segregated to the correct cost objective, in consideration of the CDBG-DR funds and non-federal sources of funds. If documentation cannot establish whether a cost was an allowable cost or an unallowable cost, then it is not adequate source documentation. Be mindful of the independent auditor’s perspective: “If a cost is not documented, it didn’t happen!”

Source documentation must accompany each reimbursement request. (See Subrecipient Reimbursement Request section in this chapter). For all non-payroll costs, as applicable prior to contract execution, source documentation must include a check of the federal SAM database to determine if a proposed contractor is debarred. (See Chapter 5 on Procurement for more information on the federal SAM database.)

**Supporting Document Checklist.** OHCS provides this checklist for subrecipients to detail the supporting documentation that should be provided in the *Reimbursement Request* package. The checklist can be found in the [appendix](#) of this chapter.

#### 4.3.6.1 Non-Payroll (Non-Personnel) Source Documentation

All costs must be appropriately approved and supported by source documentation (refer to the definition of [improper payments](#) and [questioned costs](#) in 2 CFR 200, [2 CFR § 200.302\(b\)\(3\)](#), [2 CFR § 200.400\(d\)](#), and [2 CFR § 200.403\(g\)](#)). Documentation must demonstrate that costs charged against CDBG-DR funds were:

- Incurred during the contract period dates of the subrecipient grant agreement with OHCS
- Incurred during relevant contract periods with contractors
- Verifiably paid out, or adequately accrued
- Expended on eligible costs and within approved budgets
- Approved by the appropriate official(s) within the organization

All invoices should include all necessary supporting documentation and clearly and accurately detail all the following required information at a minimum:

- Vendor/subrecipient payee information
- Contract number of the grant agreement with OHCS
- Contract period with OHCS
- Invoice/reference number (assigned by the subrecipient)

- Invoice date and service period (applicable to the reimbursement request)
- Itemization of the reimbursement request detailing, at minimum, all the following:
  - The total amount of the contract or purchase requisition
  - The amount billed to date
  - The amount currently requested by budget line-item
  - The remaining balance of the contract
  - A description of the cost and what is being paid for
- Signature by authorized point of contact

Source documentation must also explain the basis of the costs incurred and the actual dates and amount of the expenditure. Source documentation for supplies includes purchase orders, requisition forms initiated by an authorized representative of the subrecipient, invoices from vendors, and evidence of incurred costs and payment, such as a copy of the canceled check.

Subrecipients must ensure that their accounting records and supporting documentation include reliable, up-to-date information on the sources and uses of CDBG-DR funds, including:

- Amount of federal grant awards received
- Current authorizations and obligations of funds
- Unobligated balances
- Assets and liabilities
- Program Income
- Actual expenditures

For a guide on how to provide supporting documentation for various costs, please find the Supporting Document Checklist located in the [appendix](#) of this chapter.

#### 4.3.6.2 Payroll (Personnel) Source Documentation

One of the most important aspects of allocating direct project costs that benefit more than one grant or program area is the documentation of the cost, regardless of whether it is a personnel or non-personnel cost. Correct allocation of personnel costs, however, often requires more extensive protocols than non-personnel costs. Staff time supporting CDBG-DR funded activities and non-CDBG-DR funded activities must be prorated according to the degree to which the activities benefit the CDBG-DR grant award.

Some best practice examples follow:

- Cost reasonableness as it applies to personnel costs is typically established in an organization's human resource records that establish pay ranges and job descriptions.
- These documents need to demonstrate that the pay scales and benefits for each position are within the range of similar positions in the labor market area and therefore are reasonable.
- For nonprofit organizations, assistance in establishing and evaluating pay ranges can be obtained from other local nonprofit organizations that exist in many areas of the country.
- Personnel costs (i.e., staff salaries and benefits) are reimbursable under a CDBG-DR grant when staff time is spent conducting the CDBG-DR funded and approved activities and providing services to grant-eligible clients.
- Labor allocations require an effective time recording system that not only supports the personnel costs charged to the CDBG-DR grant but also divides the time among other program areas for the organization. If an employee's time is split between CDBG-DR and another funding source, there must be time distribution records supporting the allocation of charges among the sources. Timesheets should reflect the activity for which the employee is being compensated and not exceed 100% of total compensated activities.

#### 4.3.6.2.1 Subrecipients Fringe Benefits

Fringe benefits are defined as "...allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages."<sup>2</sup> Fringe benefits include, but are not limited to, cost of leave (sick leave, vacations, military leave, administrative leave, family leave, and others), employee insurances (e.g., medical insurance, retirement, worker's compensation, social security, Medicare), and unemployment benefits (e.g., state unemployment and disability insurance). Costs of fringe benefits for employees of subrecipient agencies are allowable expenditures provided that the benefits are reasonable and required by law, established employee agreements, or established policy.

On the subrecipient budget form, subrecipients can enter both salary and fringe information per staff. In addition, the second tab of the spreadsheet allows subrecipients to also track how salary raises and changes to the fringe rate affect the expected costs charged over the life of the grant.

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<sup>2</sup> 2 C.F.R. § 200.431 Compensations — Fringe Benefits: [https://ecfr.io/Title-02/se2.1.200\\_1431](https://ecfr.io/Title-02/se2.1.200_1431)

#### 4.3.6.2.2 Requirements for Reimbursement

Subrecipients may include reimbursement for their employee's compensation,<sup>3</sup> including allowable fringe benefits, for implementing and carrying out specific eligible CDBG-DR activities. To support the allowability of fringe benefits included in agreements, subrecipients must submit applicable fringe benefit policies or employee agreements. The [2 C.F.R § 200.431](#) Compensation — Fringe Benefits outlines federal regulations related to the allowability of some specific types of fringe benefits. Benefits outlined in subrecipient policies or employee agreements that are not explicitly addressed in 2 C.F.R § 200.431 are subject to the approval of OHCS.

To be reimbursed for fringe benefits, subrecipients must have a budget line item in their agreement with OHCS for staffing reimbursement (and fringe benefits) and must request employee compensation for their CDBG-DR program. All requests for reimbursement of employee compensation, including fringe benefits, by the subrecipient must have been allocated to the specific time and percentage dedicated to the CDBG-DR program and adequately supported by documentation. Fringe benefits may be presented in various reports; the most common are payroll distributions reports, payroll stubs, or any custom form that includes the breakdown of hours worked, hourly rates, and/or salaries.

Invoices submitted that contain fringe benefits must include the following supporting documents:

- Timesheets of employees with specific work performed on a daily basis, allocated time per day, employee name, position, and a total of hours worked for the period. All activities must fall within an allowable cost category (administration, planning, and/or activity delivery) included in the contract.
- Evidence of fringe benefits invoiced for the employees or a certification that indicates benefits have been paid or are scheduled for payment.

As a subrecipient, you are responsible for maintaining evidence of payments (e.g., canceled checks, bank statements) to staff within the organization's accounting records. Evidence shall be made available to OHCS upon request for monitoring and/or auditing.

Additional information on payroll support can be found in [2 CFR § 200.430\(i\)](#). OHCS guidance on timekeeping can be found in the [appendix](#) for this chapter.

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<sup>3</sup> CPD Notice 23-06 — <https://www.hudexchange.info/news/notice-cpd-23-06-on-allocating-costs-between-program-administration-activity-delivery-and-planning-for-cdbg-dr-cdbg-mit-and-cdbg-ndr-grantees/>

### 4.3.7 Budget Controls

The project budget, approved by OHCS, becomes your guide for all expenditures. Your CDBG-DR assisted project budget outlines anticipated funding from all sources and establishes boundaries for all expenditures. Subrecipients must have a budget control system that makes it possible to compare actual expenditures with the budgeted amounts for each supported activity. This includes being able to identify and understand variances and proactively plan for necessary revisions. Attention to budget control is an ongoing process throughout the project lifecycle and is performed every time invoices are reviewed for payment. Sufficient funds remain in the line-item budget to cover current and projected requests for CDBG-DR funds from OHCS. Additionally, the financial management system must make it possible to relate financial information to performance or productivity.

To compare and control expenditures to approved budgets, you must:

- Maintain in your accounting records the amounts budgeted for eligible activities; these records must sufficiently identify the source and use of funds.
- Include unexpended/unobligated balances for budgeted categories and obligations and expenditures.
- Periodically compare actual obligations and expenditures to date against planned obligations and expenditures and against projected accomplishments from such outlays.
- Report deviations from budget and project plans and request approval for budget and project plan revisions.

Note: For every purchase/procurement over the simplified acquisition threshold, you must perform an independent cost or price analysis. See Chapter 5 on Procurement.

### 4.3.8 Cash Management

Subrecipients must monitor cash management to ensure that systems comply with post federal award requirements. See Internal Controls section in this chapter for recommended actions to achieve the internal control environment.

#### 4.3.8.1 Methods of Payment

The Uniform Guidance states that subrecipients must have procedures in place to minimize the time between receipt of funds from OHCS and disbursement to vendors. The Internal Controls section in this chapter makes consideration for how to comply with this requirement.

There are three general methods available to OHCS to transfer CDBG-DR grant funds to its subrecipients:

The **reimbursement method** (see [2 CFR 200.305\(b\)\(3\)](#)). The reimbursement method is a transfer of grant funds to your organization based on actual expenditures and supported by adequate source documentation. All subrecipients must submit a reimbursement request through the Neighborly system and provide evidence that all invoices and costs incurred were paid by the subrecipient and the work was inspected by the subrecipient, as applicable to the project. If a payment request is complete with supporting documentation, OHCS reimburses the subrecipient for eligible incurred costs. If the payment request does not accurately correspond to the source documentation or the source documentation is found to be inadequate, OHCS will return the reimbursement request to the subrecipient.

The **working capital advance method** (see [2 CFR § 200.305\(b\)\(4\)](#)). The working capital method involves the advance of cash to a subrecipient to meet its estimated disbursements for an initial period. After the initial period, the subrecipient will receive cash on a reimbursement basis. This method is used when subrecipients lack sufficient working capital in the early stage of project launch. The working capital method involves the advance of cash to subrecipients to meet their estimated disbursements for an initial period. After the initial period, the subrecipient will receive cash on a reimbursement basis.

Working capital advance may be used for initial payroll costs (e.g., a subrecipient needs to bill for payroll in advance of the month to ensure that checks go out on time but doesn't have actual costs or cash on hand to pay for those costs). OHCS would front the funds to the subrecipient, then reimburse the actual invoice when provided by the subrecipient, which replenishes the original advance. This advance acts like a “float” for the subrecipient to address cash needs until the end of the grant or when reconciled.

If subrecipients are aware of any initial funding needs that exceed their working capital, they should contact their OHCS contract administrator.

The **cash advance method** (see [2 CFR 200.305\(b\)\(3\)](#)). The cash advance method is the transfer of CDBG-DR funds from OHCS based upon your organization's request (and information on obligations — incurred costs) before the actual cash disbursements have been made. In other words, services are rendered, costs are incurred, but the invoice received has not been paid yet.

OHCS does not anticipate issuance of cash advances to any subrecipients. If a cash advance is issued by OHCS to a subrecipient, these funds are considered expended by HUD and do not require an interest-bearing account. These funds must be substantiated with supporting documentation that clearly identifies the costs incurred. After the subrecipient receives the funds and makes payment of the invoice, the project file must be documented

with the payment information. Payment of invoices must take place within three (3) business days of the CDBG-DR funds deposit.

#### 4.3.8.2 Cash Management Requirements

Requirements concerning cash management include the following:

- Subrecipients must include accurate information for the reimbursement request to OHCS.
- Funds erroneously requested and received must be returned to OHCS in a timely fashion; an erroneous reimbursement request exists when it is determined that the funds transfer from OHCS resulted in more funds being drawn down than what was required by your organization's immediate disbursement needs. Subrecipients must contact their grant manager for the appropriate process to return funds to OHCS.
- Disbursement of funds must occur in a timely manner; the general rule is that payment (applies to cash advance method) must take place within three (3) business days of the CDBG-DR funds deposit. If payment takes longer than three (3) business days, written justification should be maintained in the project file.
- If the subrecipient places CDBG-DR grant advances in an interest-bearing account, the subrecipient must return the interest income to OHCS for OHCS to return to the U.S. Treasury per 24 CFR 570.502(b)(3)(i), as applicable, and 24 CFR 570.500(a)(2)). The interest earned on deposit of the amount of the working capital advance is not considered program income.
- For revolving loan fund accounts under the CDBG-DR funds, subrecipients must deposit funds in an interest-bearing account, and all interest earned on funds on deposit must be returned to the U.S. Treasury via OHCS no less frequently than annually (24 CFR 570.500(b)).

#### 4.3.8.3 Improper Payment

An improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. These situations may include but are not limited to a payment to an ineligible party; a duplicate payment; a payment unsupported or inadequately supported by invoices, contracts, or purchase orders to discern if the payment was proper; payments for an ineligible good or service; advances without prior approval; or payments for services not received. If a reimbursement request is submitted to OHCS and is determined to be an ineligible expense, OHCS will notify the subrecipient and revise (decrease) the reimbursement request to exclude the ineligible expense.



As a result of monitoring or audit review, if OHCS discovers that CDBG-DR dollars have reimbursed ineligible costs or activities, the total amount of the CDBG-DR reimbursement determined ineligible must be repaid in full (includes project costs and activity delivery costs).

Take prompt and corrective action If an improper payment is identified through your reconciliation process.

### 4.3.9 Program Income

Program income is gross income generated from the use of CDBG-DR funds received by a state, a unit of general local government, or a subrecipient of the state or a unit of general local government.

OHCS does not anticipate any program income from its programs; however, the use of CDBG-DR funding may generate program income. ReOregon programs that could generate program income include, but are not limited to, the Homeowner Assistance and Reconstruction Program (**HARP**); Homeownership Opportunities Program (**HOP**); Planning, Infrastructure, & Economic Revitalization (**PIER**), and Intermediate Housing Assistance (**IHA**); Housing Recovery Services; and Legal Services. Programs likely to generate program income will be managed at the subrecipient level by municipalities and any other subrecipient.

Any program income received must be reinvested into eligible activities at the local level. Guidelines for the CDBG-DR programs mentioned above will specify if program income may be retained by the local government. Please refer to the OHCS website for specific program guidelines for program income tracking and reporting requirements.

#### 4.3.9.1.1 CDBG-DR Program Income Rules

The following Federal Register Notice provides grant-specific definitions on program income: [87 FR 6364 III.E](#). For OHCS and its unit of general local governments, HUD has waived all applicable program income rules at [42 U.S.C. 5304\(j\)](#), [24 CFR 570.489\(e\)](#), [24 CFR 570.500](#), and [24 CFR 570.504](#) provided new alternative requirements that are detailed below.

Note: If annual program CDBG (state formula) funds are used with CDBG-DR funds on an activity, any income earned on the CDBG portion would not be subject to the waiver and alternative requirement in the Consolidated Notice.

Program income can include:

1. Proceeds from the sale or long-term lease of real property purchased or improved with CDBG-DR funds
2. Proceeds from the disposition of equipment purchased with CDBG-DR funds
3. Gross income from the use or rental of property acquired by the grantee or subrecipient with CDBG-DR funds, less the costs incidental to the generation of such income
4. Gross income from the use or rental of property owned by the grantee or subrecipient that was constructed or improved with CDBG-DR funds, less any costs incidental to the generation of such income
5. Payments of principal and interest on loans made using CDBG-DR funds
6. Proceeds from the sale of loans made with CDBG-DR funds
7. Proceeds from the sale of obligations secured by loans made with CDBG-DR funds
8. Interest earned on program income, pending the disposition of such program income, including interest earned on funds held in revolving fund account
9. Funds collected through special assessments made against properties owned and occupied by households not of low- and moderate-income, where such assessments are used to recover part or the entire CDBG portion of a public improvement
10. Gross income paid to a state, local government, or subrecipient thereof, from the ownership interest in a for-profit entity in which the income is in return for the provision of CDBG-DR assistance

Program income does NOT include:

1. Income received in a single program year by the recipient and all its subrecipients if the total amount does not exceed the \$35,000 threshold. Once the threshold is exceeded, all of the money is considered program income, including the first \$35,000.
2. Amounts generated by activities eligible under section 105(a)(15) of the HCDA and carried out by an entity under the authority of section 105(a)(15) of the HCDA.

#### 4.3.9.1.2 Revolving Loan Funds

Revolving loan funds (RLFs) are pools of capital that are continuously replenished as loans are repaid by borrowers. RLFs are designed to support a range of activities, including community development, economic revitalization, housing rehabilitation, and disaster recovery. RLFs are typically established to support self-sustaining programs or initiatives that generate revenue or cost recoveries. These funds can be used for a wide range of purposes, such as infrastructure projects, loans, grants, or services that benefit a specific sector or community. RLFs allow the government or organization to maintain a consistent

source of funding for ongoing operations without relying solely on traditional appropriations.

While OHCS does not plan on establishing any RLFs as grantee, it may allow subrecipients to establish RLFs on a case-by-case basis.

## 4.4 Subrecipient Reimbursement Requests

### 4.4.1 Reimbursement Requests

The subrecipient should coordinate with OHCS and complete all necessary forms and training prior to submitting the first reimbursement request. Necessary documentation includes:

- Submitting subrecipient budget form
- All reimbursement requests to include:
  - Subrecipient invoice
  - OHCS invoice coversheet
  - Supporting document checklist ([see appendix](#))
- Reimbursement request submitted to OHCS
  - **Reimbursement Requests — Neighborly:** If subrecipients have access to Neighborly and have been instructed to submit reimbursement requests in the system, subrecipients will log into the [participant portal](#) to view their awarded projects. Subrecipients will create a draw request, enter a description (include any info pertinent to this draw), and submit. If the draw is returned, subrecipients will address issues and make corrections. If you have any questions, contact your OHCS contract administrator. OHCS provides initial and ongoing training to all vendors on how to properly complete CDBG-DR invoice forms and use Neighborly.
  - **Reimbursement Requests — Reimbursement Request Form:** If subrecipients don't have access to Neighborly, they will be instructed to use the [subrecipient reimbursement request form](#). Subrecipients will enter relevant information, upload the reimbursement request, and submit.

Additional OHCS guidance on invoicing can be found in the [appendix](#) for this chapter.

Effective source documentation supports all CDBG-DR grant expenditures (e.g., purchase orders, invoices from professionals, time sheets, construction pay applications). Reimbursement requests submitted to OHCS must include copies of all source

documentation that supports the full expenditure amount. Payments for incurred costs should never be made prior to an invoice review and approval process to document allowable costs. This process includes review of adequate documentation that can tell the story that:

- Explains the basis of the costs incurred (properly accrued), how the funds are used:
  - Identifies why the specific task/activity/item being billed
  - Identifies who performed the service or provided materials
  - Identifies why specific project management activities were performed and when they were performed (reporting number of hours and when they were worked is relevant to contract time)
  - Easily defends the expenditure to HUD, the Office of Inspector General, or an independent auditor
- Demonstrates eligible expenditures for an eligible activity; reasonable and necessary
- Provides the actual dates of the expenditure; incurred during effective period of agreement
- Properly determines the cost allocation to the federal award
  - Identifies why and how costs are eligible
- Provides the financial system has effective controls to safeguard cash, property and other assets

**Supporting Document Checklist.** OHCS provides this checklist for subrecipients to detail the supporting documentation that should be provided in the *Reimbursement Request* package:

- Invoices and documentation that do not meet the minimum requirements established in this chapter will be declined.
- Make sure that the costs were incurred during the period of performance for the subrecipient agreement.
- Adequate documentation should exist for all costs making up the reimbursement request.
- Source documentation establishes the “basis of cost.”

## 4.5 Recordkeeping

Accurate recordkeeping for reporting compliance is crucial for the successful management of your CDBG-DR funded project activities. Failure to document costs and other compliance requirements leads to monitoring findings that are much more difficult to resolve when records are missing, inaccurate, or otherwise deficient.

As discussed in this chapter, you must have internal controls to produce and retain adequate source documentation, and accounting records must adequately identify the source and application of the CDBG-DR funds. Additionally, your subrecipient grant agreement states the recordkeeping requirements relevant to your award. The universal CDBG recordkeeping standard is that all records must be *accurate, complete, and orderly*.

### 4.5.1 Financial Source Documentation

Financial source documentation is required with every reimbursement request and will be monitored by OHCS according to the Monitoring Policy (Chapter 13 Monitoring and Audit); therefore, you need to maintain records sufficient to adequately and accurately report on the financial status of your operations, include the following:

- Funds budgeted
- Funds already received to date
- Funds obligated in the current period and to date
- Funds expended in the current period and to date, with backup source documentation for any reimbursement request
- Cash on hand (if applicable to agreement with OHCS)
- Previous reimbursement request requested of OHCS but not yet received

#### Financial Documents to Be Maintained:

- Current approved application
- Subrecipient agreement (most current amendment/budget), including special conditions if applicable
- Resolve of special conditions/dates — if applicable to subrecipient agreement
- Current approved budget
- Current authorization letter/signatures
- Financial management systems (accounting books, software, reporting systems)
- Chart of accounts
- List of source documents to be maintained
- Policies and procedures for procurement (all purchasing/procurement policies and procedures that are applicable to the subrecipient agreement)
- Evidence of cost and price analysis, if applicable
- Verification that the vendor is not on the SAM.gov debarred list
- Financial status report (total budget, amount expended, unliquidated obligations, obligations, unobligated balance)

- Reimbursement request reports — requested of OHCS
- Board minutes for approval of contracts or bids
- Copy of most recent audit report
- Certification of insurance coverage/bonding
- CDBG-DR payroll records
- Certified construction payroll records (Davis-Bacon applicable) for construction-related costs
- Approved cost allocation plan or approved indirect cost rate plan — approved by cognizant agency
- Relevant financial correspondence
- Property inventory, if applicable
- Record of equipment purchases, if applicable
- Disposition/sales procedures for equipment purchased with CDBG-DR funds

#### 4.5.2 Record Retention Requirement

The subrecipient agreement is the contractual document that details the financial and recordkeeping requirements and standards for entities granted funds to carry out specific, eligible activities for the CDBG-DR project (activities). The agreement includes the reporting and recordkeeping requirements, defining the specific reports and the reporting dates, along with the particular records and the timeline for maintaining them in order to assist OHCS in meeting HUD's recordkeeping and reporting requirements.

The State of Oregon's requirements for record retention are more stringent than the requirements in the Uniform Guidance (2 CFR Part 200.334) and the CDBG requirements (24 CFR Part 570.490 (d)).

The State of Oregon requires the subrecipient agreement and all grant records to be retained for six (6) years after the final expenditure report is accepted. For CDBG-DR, this means from the date that the closeout report for the subrecipient award is executed by OHCS.

OHCS has the right to access all subrecipient financial records pertinent to the CDBG-DR award for monitoring and audit purposes.

## 4.6 Appendix/Attachments

### 4.6.1 Supporting Document Checklist

OHCS provides this checklist for subrecipients to detail the supporting documentation that should be provided in the *Reimbursement Request* package. This checklist is organized by type of cost: personnel and non-personnel.

#### 4.6.1.1 Definitions of Types of Costs

Category	Description
Supplies and Materials \$200.453	Assets acquired with CDBG-DR funds with a per-unit cost of less than \$5,000.00
Equipment \$200.439	Assets acquired with CDBG-DR funds that have a useful life of at least one year and a per-unit cost of \$5,000.00 or more
Operating Expenses \$200.465	Rent, utility, and insurance costs for facilities being used to carry out eligible CDBG-DR program activities
Professional Services \$200.459	Services rendered by a consultant or contractor that specializes in a trade necessary to implement the CDBG-DR activity
Capital \$200.439	Expenditures to acquire, renovate, convert, rehabilitate, lease existing Real property to carry out eligible CDBG-DR activities

## 4.6.2 Personnel Costs | Supporting Document Checklist

### 4.6.2.1 Personnel Costs

Documentation submission frequency: every reimbursement request. Timesheets must be submitted for each employee who worked on the CDBG-DR project or activity.

<input checked="" type="checkbox"/> Required Contents	Purpose
<input type="checkbox"/> Specify the period (date range) of the pay period and must correspond with the employee's paycheck for that pay period.	To establish the pay period date range that corresponds with the employee's total costs for that period
<input type="checkbox"/> Reflect all hours worked during the pay period, regardless of funding source.	To account for all hours the employee worked during the pay period
<input type="checkbox"/> Identify the number of hours and percentage of total hours worked for each project/activity by funding source.	To account for each hour, or fraction thereof, attributable to the individual projects or activities by funding source
<input type="checkbox"/> Be signed and dated by the employee and supervisor or otherwise authorized electronically.	To demonstrate the employee and immediate supervisor certified that the timesheets are accurate and complete

### 4.6.2.2 Proof of Personnel Cost Incurred or Paid

Submission frequency: every reimbursement request. Payroll reporting documentation must be submitted for each employee who worked on CDBG-DR project or activity.

<input checked="" type="checkbox"/> Required Contents	Purpose
<input type="checkbox"/> Payroll report form itemizing the wages and benefits for the employee for each pay period, multiplied by the proportion of hours worked on the CDBG-DR project or activity	To demonstrate the allocability of direct personnel costs to the CDBG-DR project or activity

Category	Description
<b>Personnel</b> §200.430 and §200.431	Personnel costs (salary including fringe benefits) of employees implementing and administering CDBG-DR program



### 4.6.3 Non-personnel Costs | Supporting Document Checklist

Non-personnel costs include project hard and soft costs, consultants, supplies, materials, equipment, and other operating costs such as rent and utilities.

#### 4.6.3.1 Invoice or Receipt

Submission frequency: Every reimbursement request includes invoices and/or receipts that must clearly show the costs incurred for the CDBG-DR project.

☑ Required Contents	Purpose
☐ Identify the date of purchase or period of performance of services.	To establish if the goods or services were purchased within the period of the subrecipient agreement with OHCS; and if applicable the contract period between the subrecipient and the vendor
☐ Itemize the goods or services purchased (quantity and amount). Time and Materials contracts must include the name/position, rate, and hours worked per day along with a description of the task(s) performed for each time entry being invoiced.	To identify the cost per unit (e.g., goods purchased, hours worked)
☐ Reflect the total cost net applicable credits or discounts.	To identify how the sum of costs per unit equals the amount requested for payment, less any deductions, discounts, or credits

#### 4.6.3.2 Proof of Non-personnel cost incurred or paid

Submission frequency: With every reimbursement request, submit copies of each internally processed invoice package for each cost.

☑ Required Contents	Purpose
☐ Invoice package processed at subrecipient level marked with required approvals (e.g., signatures) compliant with local payment processing requirements whether the entity is a unit of local government or a nonprofit organization.	To demonstrate that the requested payment was first processed and approved for payment locally

#### 4.6.4 QA/QC Checklist

Submission frequency: every reimbursement request (for use by subrecipient)

##### Checklist Item

- Acceptable and legible supporting documentation for each type of cost incurred, with clear indications that costs were approved for payment in accordance with local payment procedures
- Acceptable and legible supporting documentation for each type of cost incurred by sub-tier subrecipients, with clear indications that costs were approved for payment in accordance with local subrecipient and sub-tier subrecipient payment procedures
- The amounts on the supporting documentation sum to the amount requested for reimbursement on the required invoice coversheet
- Costs are eligible, do not exceed budgets by type of cost, have not already been reimbursed by CDBG-DR or another funding source, and were incurred during the period of performance
- Costs otherwise treated as indirect costs are not being treated as direct costs
- The indirect cost rate (if applicable) was properly applied to modified total direct costs

## 4.6.5 Subrecipient Timekeeping Guidance

### 4.6.5.1 Purpose

This document provides OHCS subrecipients with guidance on how to track time spent supporting CDBG-DR activities so that labor costs can be properly and adequately documented. In addition, this guidance describes requirements and best practices for timesheets in order to support the eligibility and allocability of costs.

#### **General Requirements**

Subrecipient payroll records used in support of federal projects should:

- A. Accurately reflect an after the fact accounting of all hours, activity, and work performed, inclusive of paid leave
- B. Be supported by a system of internal controls that provides reasonable assurances that charges to both federal and non-federal sources are recorded accurately and allocated properly
  - a. E.g., a documented process for weekly timesheet approvals by a supervisor
- C. Comply with internal accounting policies and practices
- D. Be incorporated into official payroll records and reconciled accordingly

Subrecipient payroll records used in support of federal projects should not:

- E. Be based on a pre-determined estimate or allocation between cost objectives.<sup>4</sup>
- F. Include uncompensated time

### 4.6.5.2 Timekeeping Procedures

Subrecipients with staff working on multiple federal cost objectives, working on a federal and non-federal cost objective, or working on a direct and an indirect cost objective should maintain detailed timesheets on either a weekly, biweekly, or monthly basis. Detailed timesheets should accurately record an after the fact accounting of all employee hours, activity, and work performed, inclusive of paid leave. Hours recorded should reflect actual hours worked, even if work exceeds 40 hours in a given calendar week.

If staff are working across multiple cost objectives, the subrecipient needs to use the number of hours worked on a particular federal grant's cost objective to calculate the *pro*

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<sup>4</sup> Cost objective: a function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc. In this example, the CDBG-DR grant or a CDBG-DR program would be a cost objective.

*rata* share and determine how much of a salary is charged to that grant. See below for an illustrative example of this calculation using 1 week's payroll.

	Total	CDBG-DR	Program 1	Program 2	Program 3	Program 4
Employee Wkly Timesheet	40 Hours	20	5	1	2	12
% Distribution of Hours	100%	50%	13%	3%	5%	30%
Allocation of Wkly Salary	\$2,000	\$1,000	\$250	\$50	\$100	\$600

In this example, an employee worked 50% (20 hours of the total 40 hours worked) of his/her time on a CDBG-DR program. The result is that \$1,000, or 50% of his/her \$2,000 weekly salary, is charged to the CDBG-DR program.<sup>5</sup>

#### 4.6.5.3 Timekeeping Codes

To ensure the calculation is accurate, subrecipients need to have an adequate personnel compensation process that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Employees and their supervisors will review the timesheet for accuracy and sign the timesheet to certify that the hours are correct.<sup>6</sup> In addition, to the extent possible, it is a best practice that timesheets submitted as backup contain comments and descriptions with sufficient detail regarding the tasks the individual has performed that day for the hours reported.

Staff should use discretion when apportioning time to multiple cost objectives but should not select just one cost objective for a block of time unless the vast majority of the topic or activity relates to that cost objectives. OHCS relies on subrecipients to use their best judgment when allocating hours.

#### 4.6.5.4 Special Considerations

One-time payments not accrued for during the pay period in question (e.g., severance pay or year-end bonuses) should only be charged to a federal cost objective to the extent allocable. For example, an employee worked 2,160 hours in the calendar year and receives a year-end bonus of \$1,200. Of the total worked, 180 hours (or 1/12) were charged to the particular federal cost objective. The *pro rata* share of the year-end bonus that can be charged would therefore be \$100.

<sup>5</sup> If a subrecipient works on multiple CDBG-DR programs (e.g., HARP, HOP, IHA), the subrecipient would need to track hours to each program separately in order for OHCS to know how to charge costs to the grant correctly.

<sup>6</sup> Digital signatures are also allowable.

#### 4.6.5.5 Best Practices

The following best practices may help your organization maintain compliance and meet your performance goals and objectives.

- Supervision — Personnel designated to supervise time and effort reporting should certify that time and effort recorded is accurate, allowable, and submitted in a timely fashion and confirming proper alignment with cost objectives.
- Internal Control — Incorporate policies and procedures for measuring, documenting, and reporting time and effort expended on federal awards.
- Communication — Have organizational charts delineating responsible personnel and process flows to communicate the processes effectively.

#### 4.6.5.6 Monitoring by OHCS

As a reminder, OHCS staff will monitor subrecipients to ensure that they have good internal controls. Regarding timekeeping, OHCS will review policies and payroll files to verify that subrecipients are documenting activities and how costs are being charged to the grant. During review, OHCS may review files such as the organizational chart, staffing and hiring plan, job descriptions, timesheets, general ledger, and subrecipient policies.

## 4.6.6 Subrecipient Invoicing Guidance

### 4.6.6.1 Summary

For OHCS and subrecipients to be reimbursed for CDBG-DR activities, HUD requires that all costs are assigned by OHCS in HUD's Disaster Recovery Grant Reporting system (DRGR) to the appropriate Action Plan Program, HUD eligible activity, National Objective, and Most Impacted and Distressed category.

To ensure that costs are allocated to the correct DRGR activity, subrecipients will complete an invoice coversheet that allocates invoiced costs by DRGR "activity." The instructions below provide guidance on how to complete and appropriately categorize costs when completing the invoice coversheet.

### 4.6.6.2 Procedure: Completing the Coversheet

For every reimbursement request, subrecipients will fill out the invoice coversheet.

- The first section will identify the subrecipient's name and address and specify the applicable contract number, contract period, invoice number, invoice date, and invoice service period.
- The second section will confirm the contract budget, prior billings, current billings, and remaining balance.
- The third section will require subrecipients to allocate invoice costs to DRGR activities (see below for more details).
- Subrecipients will print and sign their name, provide a phone number, and date.

In addition, the second tab of the invoice coversheet includes a log of all past and current invoices for the contract. This log provides transparency to both the subrecipient and OHCS on invoice history and any remaining submitted, but unpaid invoices.

In addition to the invoice coversheet, subrecipients will provide their invoice and any other documentation to support the invoiced costs. Subrecipients can refer to the Supporting Document Checklist above for guidance on requirements.

### 4.6.6.3 Procedure: Allocating to DRGR Activities

DRGR Activities designate which HUD eligible activity and national objective is being invoiced by the subrecipient. Within each program, the subrecipients must identify the appropriate DRGR Activity(ies) on their invoice. For outreach, each subrecipient will be benefiting two national objectives: Low- and Moderate-Income (LMI) populations and Urgent Need populations.

For outreach contracts, subrecipients are paid for their time spent on the contract plus allocable portions of additional costs for supplies, travel, services, and other items necessary to perform the work. These costs are not tracked by specific beneficiaries (e.g., supplies are purchased or travel costs are incurred in support of all beneficiaries in some undefined proportion, not just for those that are LMI, for example). For this reason, the invoice amount must be allocated to DRGR Activities using some percentage. **OHCS will provide this percentage to the subrecipient on a quarterly basis in order to know what dollar amount to include for LMI DRGR Activity and Urgent Need DRGR Activity.**

As OHCS develops and updates DRGR Activities, subrecipients will be provided with updates to ensure that they are using the latest information at the time of invoicing.

All determinations and proration should be adequately documented in the invoice along with the invoice coversheet for OHCS to be able to assess the process each subrecipient used for allocating costs and its appropriateness and accuracy.