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OCD Financial Management Rules and Regulations (Nov. 2008)

SUBJECT: Grant Operations and Financial Management Policy and Procedures

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GRANT OPERATIONS & FINANCIAL MANAGEMENT

OVERVIEW

Introduction

The purpose of this policy is to present the grant operations and financial management requirements for Office of Community Development (OCD) Awarded Programs.

Applicability

The requirements outlined in this policy apply to any grantee which receives an OCD-awarded grant, as well as any administering agency for such a grantee.

Grantees receiving federal funds must comply with the following:

2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Grantees receiving state funds must comply with the following:

2 CFR Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and State Audit Guidelines as outlined in Attachment E of the Grant agreement.

A. Financial Management and Recordkeeping Systems

Introduction

OCD awarded grant recipients must establish financial records and financial management and recordkeeping systems that are in accordance with state and federal guidelines. Records must be maintained by activity as awarded on Attachment A of the Grant Agreement or as later amended.

1. Accounting of Grant Funds

Grant Funds shall be deposited and maintained in a separate fund account upon the books and records of Grantee.

Grantee shall keep all records of the account in a manner that is consistent with generally accepted accounting principles.

All disbursements from the account shall be for obligations incurred in the performance of the OCD Grant Agreement and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the necessity of such expenditure.

Grantor may withhold payment requests if Grantee fails to comply with the above requirements until such compliance is demonstrated.

2. Required Tasks and Procedures

a. Accrual Basis Reporting

Reporting on an accrual basis is required. If the grantee's accounting records are kept on a cash basis, accrual data must be developed from the documentation on hand so that accrual reporting can be accomplished. Accrual accounting means revenue is recognized when it is realized and measurable and expenses are recognized when they are incurred and measurable. An expense is incurred when an invoice is received.

b. Use of Ink

The use of ink to keep manual financial records is a requirement and correction fluid should not be used to correct errors. Errors should have a single line drawn through them and the correction written above or below the error.

c. Maintaining Source Documentation

Accounting records must be supported by source documentation. Invoices, purchase orders, vouchers, payroll/timesheets (with the basis of why time is being charged to the OCD-awarded grant), etc. must be kept on file for review. This documentation must be on hand at the time disbursements are made and must be kept in one central location.

d. Program Administration or Implementation by Administrative Agencies for a Grantee

The following financial records, at a minimum, must be kept by the grantee:

1. Grant Agreement.
2. Closing Binder (if an economic development grant).
3. Procurement Documents.
4. General Ledger.
5. Invoices and supporting documentation. Copies of status and final performance reports.
6. Audits complying with the applicable audit guidelines.
7. Certificate of oversight which could include progress reports from the administering agency, site visits to projects, agency audits for non-profits, etc.

e. Determining Allowability of Costs

The grantee must establish, use, and keep on file a procedure for determining the reasonableness, allowability, and allocability of costs. Vouchers and invoices should be reviewed and signed to ensure costs being charged to the grant are eligible and charged against the correct activity for the correct grant. Prior to costs being incurred, the grant agreement must be signed and special conditions of the grant agreement must be cleared. The exceptions to this are:

- Administrative costs for the Environmental Review;
- Costs associated with the preparation of the grant application;
- Preliminary engineering and design costs associated with cost estimates for an eligible activity;
- Costs of complying with procedural requirements for acquisition subject to the Uniform Act but not for the cost of the real property itself.
- When a “Pre-Agreement” letter is issued the grantee may proceed with the activities specified in the letter. Proceeding with the activities outlined in the letter will be done “at risk” by the grantee, pending the execution of the grant agreement.

After the effective date of the Grant Agreement, the grantee may be reimbursed with funds from its grant to cover the above costs, provided such locally funded activities were undertaken in compliance with OCD requirements.

f. Cash Management

Grantees Receiving Federal Funds – the grantee must develop a cash management system to ensure compliance with the 15-day rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump sum drawdowns are not permitted.

Grantees Receiving State Funds - the grantee must develop management system to minimize the amount of time funds are kept on hand.

g. Reimbursement of Allowable Costs

OCD permits the reimbursement of allowable costs when the timely distribution of funds requires an award recipient or its administering agency to generate a payment for that cost from non-OCD-awarded funds. In those limited cases, the payer may request a reimbursement from the OCD-awarded grant program funds if the following source documentation is obtained and a clear audit trail is maintained by the grantee:

1. Clear, complete, detailed documentation/evidence that the goods/services being purchased are allowable expenditures according to rules and regulations of the program being charged;
2. A voucher/invoice, which includes a clear, complete and detailed description of the goods or services purchased;
3. A clear, complete and detailed cost breakdown of the goods/services being purchased and the source of the funds to pay for each of the costs listed in the breakdown; and
4. Evidence (a copy of a canceled check or other proof of payment) that the reimbursable cost was paid from another source.

h. Rounding Grant Funds

The amount of funds requested for each activity in the grant application should be rounded to the **nearest one hundred dollars**.

Each activity in a draw request, amendment, or performance report should be rounded to the **nearest dollar**.

i. Returning Unspent Funds

When nearing the completion of a grant, if the grantee has a balance of funds on hand which is less than one hundred dollars, the funds should be expended on any activity which was eligible under that grant. If the balance of funds is greater than one hundred dollars, the funds must be returned to OCD. For all funds returned, the grant number for which the funds are being returned must be referenced on the check. In no cases may be grantee expend funds on an activity which would be in excess of the OCD maximum for that activity, where applicable.

j. Administrative Expenditure Caps

Expenditures of administrative funds awarded to the grantee can never exceed the caps set in the State of Ohio Annual Action Plan. In all cases, consult the Annual Action Plan from the program year of the grant award to determine the allowable administrative expenditures. Administrative expenditures in excess of the cap will be deemed ineligible and must be returned to OCD.

k. Maintaining Proper Internal Controls

The grantee must establish and maintain proper internal controls to safeguard assets (cash, inventory, and equipment), to ensure that financial duties are properly segregated, to ensure transactions are properly recorded and reported, and to prohibit one individual from having sole control over any transaction or disbursement.

l. Withdrawing Cash

The timing and amount of cash withdrawals from the state of Ohio by the grantee for activities which are free from special conditions specified in the Grant Agreement will be as close as administratively feasible to the actual disbursement needs of the grantee.

The grantee must execute a Draw Request each time funds are required to meet disbursement needs. The grantee must have submitted an Authorized Signature Card for Request for Payment and Status of Funds Report (DS2) and a Grant Distribution Information Card (DS3), prior to requesting grant funds.

m. Minimum Draw Request

All draw requests must be for an amount of no less than \$5,000. Exceptions to this policy will be made for the final draw request on a grant in which the available grant funds are less than \$5,000 or when granted prior approval by OCD.

n. Interest Earnings

The grantee must maintain advance payments of Federal awards in interest-bearing accounts, unless the grantee receives less than \$120,000 in Federal awards per year or as otherwise exempted in 2 CFR §200.305.

Interest earned amounts up to \$500 per year may be retained by the grantee for administrative expense. Any additional interest earned on Federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System per the methodology detailed in 2 CFR §200.305.

o. Documentation of Approved Indirect Cost Rate Proposal

In order to receive indirect cost reimbursements, an Indirect Cost Rate Proposal must be approved by the designated cognizant agency as outlined in 2 CFR §200.414 and the applicable appendix. The approved Indirect Cost Rate Proposal must be submitted annually to OCD and expenditures made under the approved Indirect Cost Rate Proposal are subject to audit.

p. Program Income

Program income is defined as gross income received by a grantee directly generated from the use of OCD-administered funds distributed by the state. Please refer to OCD Program Policy 15-03 for the specific requirements governing program income.

q. Program Amendments

Amendment policies for OCD-administered programs are included in the Ohio Consolidated Plan and Annual Action Plan.

Situations Requiring an Amendment:

1. An amendment to an executed grant agreement is required if the amount most recently approved by OCD for any previously approved activity is being increased by more than \$5,000 or 10%, whichever is greater. Increases less than the amendment threshold will be reconciled during the closeout process. The administration cap may not be exceeded.
2. An amendment to an executed grant agreement is required if the grantee is proposing a new activity or project, or changing the national objective of a project or activity.

3. An amendment to an executed grant agreement is required if there is a substantial change in an approved project or activity scope, location or design.
4. An amendment to an executed grant agreement is required if a revised environmental review is necessary due to a change in the scope of a project or activity.

r. Program Extensions

Although program extensions are discouraged, OCD will allow extended grant time periods under certain circumstances. OCD must receive a formal written extension request signed by the CEO of the grantee outlining the reasons for the delay and the proposed time frame. OCD may approve, deny, or request additional information regarding the extension request. If the request is approved, extension forms will be sent to the grantee for execution by the grantee. The extension forms must be signed by the grantee's authorized official and approved by its governing body. Upon receipt of the signed extension forms, OCD will complete the execution process and return one copy for the local files.

s. Administrative Contracts

For all administrative contracts, the grantee shall refer to OCD Program Policy 15-01: Responsibility for Grant Administration and OCD Program Policy 15-02: Procurement of Grant Administration Services.

B. Capital Equipment Purchases for Administrative Purposes

Recipients of OCD-awarded grants must establish a system to control the utilization and disposition of capital equipment purchased for administrative use with OCD-awarded funds.

1. Required Financial Records

a. Purchase of Equipment

Equipment is defined as tangible, nonexpendable property having a useful life of more than one year and an acquisition cost of \$1,000 or more per "unit." Unit is defined as an individual item, except in the case of computer systems. For computer systems, each work station (CPU/monitor/software) will count as one unit.

If the purchase cost is less than \$5,000 per unit, the grant recipient may purchase the equipment without OCD approval. However, complete inventory records must be maintained.

If the purchase price is \$5,000 or more per unit, a written request must be submitted to and approved by OCD prior to the acquisition. The request must include the following information: how the equipment will be used; why it is needed; and if it will be used for non-OCD administered program activities. If the request is approved, complete inventory records must be maintained.

b. Disposition of Equipment

If a grantee continues to have an active OCD-awarded grant and will be disposing of equipment purchased with OCD-administered funds, the grantee must either: use the equipment disposition proceeds to purchase replacement equipment; or designate the funds as program income and follow the OCD program income guidelines.

If a grantee no longer has an active OCD-awarded grant, but owns equipment with a fair market value of \$2,000 or more that was purchased with OCD-administered funds, the grantee may, **with OCD approval** continue to use the equipment for purposes consistent with those for which it was originally purchased. If the grantee will not continue to use the equipment for purposes consistent with those for which it was originally purchased, the grantee must return the fair market value of the equipment to OCD, in the same proportion OCD funds paid for the equipment; or designate the funds as program income and follow the OCD program income guidelines.

If the grantee no longer has an active OCD-awarded grant, but owns equipment with a fair market value of less than \$2,000 that was purchased with OCD-administered funds, the equipment may be disposed of at the discretion of the grantee.

c. Inventory Record Requirements

As soon as any equipment is purchased with OCD-awarded funds, grantees must update the inventory records. In addition, a full inventory must be completed every two years. Inventory records must include: a description of the equipment; the serial number or other identification number assigned to the equipment; the source(s) of funding used to purchase the equipment and the percentage of participation; the acquisition date; the acquisition cost; the location of the property; and disposition data, including date of disposal and sales price.

d. Control System Requirements

A control system must be developed to ensure that adequate safeguards exist to prevent loss, damage or theft of the property. Any loss, damage or theft must be investigated. The grantee must implement adequate maintenance procedures to keep the property in good condition. If the grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Procurement Policies for Non-Administrative Purchases

Procurement other than capital equipment purchases for administrative purposes should follow 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Ohio Revised Code, and local procurement statute and regulations.

C. Location and Retention of Records

1. Location of Records

The grantee must retain grant programmatic and financial files in one central location. The grantee must permit the grantor, HUD personnel (federally funded grants only), state auditors and the Comptroller General (federally funded grants only) access to inspect, during normal business hours, any records necessary to ensure compliance with the terms and conditions of the grant agreement. The grantee must further permit OCD staff to perform monitoring, evaluation and audit activities as determined to be necessary at the sole discretion of OCD.

2. Retention of Records

The grantee is required to maintain on file for review all records for a period of three years from the date the grant is closed and no longer subject to the review of any audits by OCD.

D. Preparation for Monitoring Visit

1. OCD will notify the grantee in writing of the intent to conduct a monitoring. The letter will include the person doing the monitoring, the date and time, as well as which grants will be monitored.
2. The grantee must make sure that the files are complete and appropriate, as well as insuring that the appropriate people in the grantee's organization and in the administrative agency organization are available for the monitoring. When appropriate, site visits will be requested by OCD and accommodations should be made by the grantee.
3. OCD staff will follow-up the monitoring visit with a letter outlining any findings, concerns, corrective actions, and recommendations as a result of the monitoring visit.
4. The grantee must respond to any findings and/or advisory concerns in the monitoring letter within the time period indicated in the letter.

E. Grant Closeout Procedures

The state will proceed with the closeout procedures when it determines that there are no impediments to closeout and that the following criteria have been met:

1. Completing Financial Transactions

- a. All costs to be paid with grant funds have been incurred, with the exception of:
 1. Closeout costs, such as payment for the final audit. OCD recommends the grantee pay for the audit out of its own funds and use the funds which it would otherwise use for audit on additional eligible administrative expenses.
 2. Any unsettled third-party claims against the recipient.
- b. Costs are incurred when goods and services are received and/or contract work is performed.

2. Final Performance Report Submission

- a. The required final performance report will be generated by OCD and distributed to the grantee. The grantee must complete the required report and submit it to OCD. The failure of a recipient to submit a report as required will not preclude the state from affecting a grant closeout when such action is determined to be in the best interest of the state. The failure or refusal of a recipient to comply with this requirement will be taken into account in the performance determination by the state in reviewing any further grant applications from the recipient.

Any excess grant amount which is otherwise authorized to be retained by the recipient will be refunded to the state in the event of a recipient's failure to furnish the report as required under this section.

- b. A final review of the recipient's compliance with the grant agreement and applicable laws and regulations will be made during the final audit.

3. Audit Submission Requirements for Federally Funded Grants

Grantees expending **federal funds** in a fiscal year equal to or exceeding the threshold amount set forth in 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, must have a single audit performed.

The single audit or a "no finding" letter should be submitted to the Ohio Development Services Agency, Audit Office, P.O. Box 1001, Columbus, Ohio 43215-1001 within 30 days from the date of release, but no later than 13 months after the end of the fiscal year.

The grantee should contact the Auditor of State to determine when the single audit will be performed.

Full audit reports must be submitted to the Ohio Development Services Agency's Audit Office only if the audit report meets one of the following conditions:

- a. The opinion on the financial statements is other than unqualified.
b. The report identifies a material instance of noncompliance.
c. The report identifies a reportable condition or material weakness in internal controls.
d. The report contains a schedule of findings and questioned costs applicable to an OCD-awarded program.
e. The report identifies an instance or indicator of an illegal act which could result in criminal prosecution.
f. The report contains an uncorrected significant finding from a prior related audit.

A "no finding" audit report should not be submitted to the ODSA Audit Office. The existence of one or more of the above conditions is to be determined from the language and content of the report and is not a matter of grantee interpretation.

The policy does not change 2 CFR 200 audit requirements or any existing requirements to submit audit reports to any other agencies.

Instead of submitting "no finding" audit reports to the ODSA Audit Office, a grantee must notify the ODSA Audit Office that an audit was performed, but none of the six conditions noted above were present in the report. Reported information should include the report date, fiscal year audited, a copy of the Schedule of Federal Financial Assistance and identifying information on the independent auditor.

A “no finding” letter or a complete audit report must be submitted within 13 months after the end of the audit period to the ODSA Audit Office, P.O. Box 1001, Columbus, Ohio 43216-1001.

Following the receipt of a “no finding” letter, the ODSA Audit Office may request a copy of the grantee’s audit report or management letter.

4. Audit Submission Requirements for State-Funded Grants

Grantees receiving a state-funded grant in the amount of:

\$0 – 99,999 No audit required

\$100,000+ A grant specific audit or single audit is required to be completed

The audit should be submitted to the Ohio Development Services Agency’s Audit Division, P.O. Box 1001, Columbus, Ohio 43216-1001 within 30 days of the date of the release, but no later than nine months after the end of the audit period.

ODSA may, at its option, choose to audit any OCD grantee. OCD recommends that audit costs be paid with local funds.

5. Audit Costs

Only in situations where the grantee does not have excess administrative expenses exceeding the allowable percentage of the grant may OCD-awarded funds be used to pay for an audit. In these situations, funds must be drawn by the date required in the grant agreement. These funds may be held as part of the \$5,000 balance of OCD-awarded funds on hand until the audit is completed.

The expenses for administration and audit may not exceed the administrative ceiling set in the grant agreement.

The percentage of costs charged to the OCD-funded program for a single audit may not exceed the percent the OCD-awarded funds represent of the total federal funds audited for the fiscal year.

Cost charged for the audit must be reasonable. If the audit is prepared by the state auditor’s office and the grantee believes the costs are not reasonable, they should contact the District Audit Chief. If still not satisfied with the explanation of the cost charged, the grantee should contact the Auditor of State at 1-800-282-0370.

6. Other Steps to Closeout

Closeout Steps:

- a. Except as provided under the terms of the grant agreement, program income received subsequent to the grant closeout should be accounted for in accordance with OCD Program Policy Notice 15-03: Program Income Policy.
- b. The recipient must account for any tangible personal property acquired with grant funds in accordance with 2 CFR 200.
- c. Proceeds derived after closeout, from the disposition of real property which was acquired with grant funds should be accounted for in accordance with OCD Program Policy Notice 15-03: Program Income Policy.

- d. If any grant funds are expended after the submission of the final performance report, the recipient must prepare and submit a Certificate of Completion to the Ohio Development Services Agency's Office of Community Development, P.O. Box 1001, Columbus, Ohio 43216-1001.
- e. The recipient must refund to the state any cash advanced in excess of the final amount expended as shown on the certificate of completion.
- f. The grant may be terminated, in whole or part, by the state of Ohio prior to the completion of the approved OCD program. Conditions for such a termination are included in the grant agreement.

Financial Management Glossary

1. ACCRUAL BASIS – Reporting receipts when they are earned and reporting expenses when they are incurred.
2. ACTIVITY – Function on which the funds are expended. The activities are listed in each grant application and grant agreement. Budgets, drawdowns, outcomes and beneficiaries are based on the activities.
3. ADMINISTRATIVE AGENCY – A person, firm, or agency other than the grantee, that has a contract with the grantee to handle the administrative responsibilities of an OCD-awarded grant.
4. CASH BASIS – Reporting receipts only when cash is received, and reporting expenses only when they are disbursed.
5. CENTRAL LOCATION – Records for any particular grant must be kept within the same building.
6. DISBURSED – When payment is made for work which is completed, funds are considered disbursed.
7. ELIGIBLE – Any costs that are allowable and allocable according to 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and are part of the approved budget (Attachment A of the Grant Agreement).
8. ENCUMBER – To reserve a specific amount of funds, for the specific use of a particular signed contract or purchase order.
9. INCUR – The point at which contracted work is completed or the product is received by the locality. This is the point at which the community becomes liable for the payment of services.
10. INDIRECT COSTS – Cost which cannot be directly traced to an OCD-awarded grant.
11. INTERNAL CONTROLS – The segregation of duties, which would include the proper controls over the processing of invoices, vouchers, checks, receipt of funds, and the posting of all ledgers. The controls must be implemented by the grantee and/or its administering agency to safeguard all assets.
12. OBLIGATE – Services that are under contract, to be completed at a later date, costs will become incurred once the work is completed (see Incur).
13. PRE-AGREEMENT LETTER - A letter issued at OCD's discretion to allow a project to move forward at risk prior to grant agreement issuance. The letter allows expenditures, beneficiaries, and outcomes occurring prior to the grant agreement start date to be considered as eligible program leverage. A pre-agreement letter will not be considered until after application approval and an environmental review Release of Funds.
14. PROCUREMENT – The obtaining or securing of goods or services, through one of the methods described in 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
15. PROJECT – Is an activity or group of activities associated to one defined target area or location.
16. SOURCE DOCUMENTATION – Documentation associated with the procurement, receipt, and disbursement of funds. i.e. vouchers, invoices, purchase orders, deposit slips, signed contracts, payroll time sheets, etc.