

**CHAPTER A:
GRANT AWARD AND
FINANCIAL MANAGEMENT**

A.1 CONTRACT & FINANCIAL OVERVIEW

The contract between the community and the State is an essential document throughout the life of the project. It identifies the description of the activities funded, budgeted costs (total and CDBG), general terms and conditions, and any special conditions which must be met before the State will release funds.

CDBG funds will be spent as a percentage of total costs according to the line-item budget for all contracts with funding from other sources. The match rate that is required for all communities is determined by the community's ability to pay percentage. TNECD distributes the ability to pay information, and it is available on the CDBG website.

If CDBG funds are any part of a project, then CDBG rules and regulations apply to the entire project.

A.2 PREPARATION OF AUTHORIZED SIGNATURE FORM

Four forms must be completed before CDBG funds can be requested and should be completed when the contract is submitted. These forms are the Supplier Direct Deposit Form, the W-9 form, the Grant Payment Setup Form, and the Signature Authorization Form (Exhibit A-1). These forms must be completed carefully.

PLEASE NOTE: While the Signature Authorization Form (Exhibit A-1) can be found in the Chapter A exhibits, and thus completed, certified, and emailed back our staff. The Supplier Direct Deposit Form, the W-9 form, and the Grant Payment Setup Form can be found and completed using the TNECD portal: [Grants Administration](#).

The Grant Payment Setup Form and W-9 are submitted by the grantee to designate which account in Edison will be used for the disbursement of funds for the specified grant. The combination of these forms allows TNECD to verify that correct legal name and banking information is setup in Edison. In the event the grantee wishes to use a bank account that is not currently setup in Edison a Supplier Direct Deposit Form must be completed as instructed and mailed to Supplier Maintenance with the Tennessee Department of Finance and Administration.

CDBG deposits may not draw interest. If interest is accumulated, TNECD must be notified so the interest can be collected by the State for return to the U.S. Treasury. Cities have the option of establishing a separate bank account for CDBG funds, but counties must deposit funds into the Trustee's account.

The Signature Authorization Form (Exhibit A-1) designates who is permitted to sign the community's Request for Payment.

If these forms need to be changed (e.g., using a different financial institution or staff members change), simply provide the State with copies of revised forms with original signatures.

A.3 REQUESTS FOR PAYMENT

The "Final Notice of Removal of Contract Conditions" must be received before any CDBG funds may be drawn. After that time, TNECD expects grantees to submit a request for payment at least every 3 months but no more than once per month. Funds are requested by using the invoice template that will be sent to the grantee upon execution of the contract and after any subsequent revisions to the grant budget. Invoice

templates are sent from the ecd.tefmsadmin@tn.gov email address. This form must be completely and accurately filled in or it cannot be processed. Incomplete forms and documentation slow down the process for reimbursement and cause more work for all involved. Questions about the form should be directed to a staff person in the financial section of TNECD. Administrators who are responsible for submitting payment requests should submit them to TNECD as soon as possible once the requests are received.

If the request is in order and can be approved, the funds will be transferred to the designated bank account. If the request is not in order, TNECD will contact the community/administrator to correct the deficiencies.

Drawdowns should be made only in amounts necessary to meet current disbursement needs. When disbursements are issued the grantee will be notified of the remittance. Grantee should make every effort to expend these disbursements (pay vendors, contractors, consultants, etc.) within three days. While this "three day rule" is not a requirement, many auditors use it as a generally accepted practice. For example, if CDBG funds are deposited into the account of a grantee on Friday, checks totaling the entire amount must be written by close of business Wednesday.

In order to disburse funds promptly, grantees should arrange for their financial institution to notify them the day a CDBG deposit is received. Funds remaining in the account after three working days, should be returned to the State, or an additional "Request for Payment" must be submitted, the total requested amount of which is equal to the total billing for this request minus the amount of the remaining funds. The easiest way to meet this requirement is to use local government funds to pay CDBG invoices; then reimburse the community for these payments with CDBG funds. If the community's cash flow will not permit this, inform contractors of the time period between receipt of their invoice and payment.

The "Invoice Request for Payment" should be prepared and submitted to ecd.invoices@tn.gov. Retain a copy for the grantee records.

Section A of the request provides general information needed in processing the request. Section B provides information about the status of the funds on hand. Section C provides a detail of actual costs by line-item. Detailed support for each line-item (actual invoices) must be attached. Exhibit A-5 is an example of the Request for Payment template used to submit for reimbursement of funds.

Each invoice template received will contain instructions detailing how to complete the form and what documentation should be provided. Below is a brief summary of acceptable documentation to back up costs associated with specific line-items.

Construction

This line-item is documented with an invoice detailing description, quantity, unit price and total amount for each of the items as approved in the construction contract. The engineer must certify that the work has been completed. Five percent (5%) retainage must be deducted from the contractor's invoice. When the grantee is ready to submit the final invoice, the "Notice of Completion" for the project should be publicly advertised. This notice should request anyone having a claim against the project to notify the City or County. If no claims are made within ten days from the date of advertisement, a "Release of Liens" from the contractor may be accepted and submitted to the State with the contractor's final pay estimate so that final retainage may be released. A copy of the advertisement of the "Notice of Completion" should also accompany the final "Request for Payment."

Construction Inspection This line-item is documented with an invoice from the consulting architecture/engineering firm for costs incurred related to construction inspection services. These services will be performed frequently throughout the construction of a project. The amount that is invoiced should be consistent with the general progress of construction. These services cannot be billed for until construction is underway.

Engineering Design This line-item is documented with an invoice from the consulting architecture/engineering firm stating specific tasks completed, the date of these services, and a detail of their costs. The costs should only be related to the development of plans and specifications for bidding and as-built plans if required. These items should be billed on a cost-plus fixed fee or lump sum basis. Payment of engineering design costs cannot exceed seventy-five percent (75%) of the budgeted amount until plans and specifications have been approved by TNECD.

Other Engineering Services This line-item is documented with an invoice from the consulting architecture/engineering firm for costs incurred related to other engineering costs that do not fall under Construction Inspection or Engineering Design. Examples include geotechnical survey, construction administration, etc.

Legal Services This line-item is documented with an invoice stating specifically the service performed and the date of service. Typically Legal Services are related to grants that include acquisition of property.

Appraisals This line-item is documented with an invoice from the appraiser stating the date the appraisal was done and the address of and/or a description of the appraised property.

Acquisition of Property This line-item is documented with a written "Offer to Purchase" (Located in the "Acquisition Chapter") accepted by the property owner.

Relocation **Voluntary:** This line-item is documented with the applicable claim form(s) (Located in the Relocation Chapter).

All new housing is billed to the Relocation line-item.

Involuntary: This line-item is documented with the applicable claim form(s).

****NOTE:**** *Involuntary Relocation is not an eligible expense and activity under the State CDBG program unless TNECD has provided explicit written approval.*

Housing Rehabilitation

If an escrow account is to be used, this line-item is documented with the following (Periodic reports will be required to document disbursement of escrowed funds.):

- Bid tabulation summary
- Copy of housing rehabilitation contract
- Copy of City's estimate
- Certification of escrow by appropriate local official or administrator (one needed for each contract to be escrowed)
- If the rehabilitation funds are not escrowed (requires TNECD approval), this line-item is documented with the following.
- Bid tabulation summary
- Copy of housing rehabilitation contract
- Copy of City's estimate
- "Certificate of Completion and Final Inspection" (Located in the "Housing Chapter")

New construction is not billed to housing rehabilitation

****NOTE:****

Whether funds are escrowed or not, payment requests for change orders must include a copy of that change order that has been approved by the homeowner, contractor and a local official.

Housing Inspection

This line-item is documented with an invoice detailing the name of the homeowner and address of the property that was inspected. Costs should be billed on a per unit basis.

Clearance and Demolition

This line-item is documented with an invoice describing the work performed and the location of the property cleared.

Project Administration

This line-item is documented with an invoice for the cost incurred for project/grant administration. Detail of Administrative Costs (Exhibit A-2) must be included in "Section D." Salaries being charged to the grant must be listed with inclusive payroll dates, name of employee, percentage of time spent on CDBG and amount of each salary charged. Time and effort reports should be maintained at the locality to support these costs. In addition, any salaries or consultant billings must be further documented by task performed. Claims for time spent on administrative activities will not be paid without this documentation.

All travel and per diem costs to be charged to CDBG must conform to the Comprehensive Travel Regulations of the State of Tennessee. If a copy of the current travel regulations is needed, one may be obtained from TNECD.

Other Professional Fee This line-item is documented with an invoice for the costs incurred by other professional services firms procured under the grant exception for the grant administration and the engineer/architect of record stating specific tasks completed, the date of these services, and a detail of their costs.

Examples include consultants for Phase 1 or Phase 2 Environmental Site Assessments (ESA), consultants for archeological studies, utility system analysis not covered under the engineering agreement, etc.

LMI Tap Fees This line-item is documented with an invoice for the costs incurred associated with providing water or sewer service to LMI households. Documentation must be submitted to show what population is benefitting from the service. This can include target area surveys, household income verification forms, or utility sign up form.

Environmental Review This line-item is documented with an invoice for the costs incurred associated the development and submission of the environmental review record.

Capital Purchase This line-item is documented with an invoice for the purchase of equipment or supplies. Capital purchases are designated as any single item that equals at least \$5,000 in price.

Other Non-Personnel This line-item is documented with an invoice for costs incurred for items that are not a professional service and are less than \$5,000.

Examples included permitting fees, publication costs, etc.

Project Contingency This line-item cannot be invoiced against when submitting requests for payment. The purpose of this item is to hold a percentage of funding to address additional costs incurred under other line-items. Funds in the Project Contingency line-item must be transferred to the other line-items via budget revision prior to invoicing.

A.4 ESTABLISHING PROCEDURES FOR FINANCIAL MANAGEMENT OF CONTRACT FUNDS

A.4.a Overview

The following accounting procedures should be followed in order to comply with State and Federal requirements under the CDBG program. The accounting systems described provide a means for tracking and reporting CDBG funds that flow into and out of the community. The established accounting procedures should systematize the collection, processing, evaluation, and reporting of these funds.

CDBG project funds should be accounted for separately within a community's accounting system. This separate fund should be established similar to a street or water fund.

A.4.b Accounting Records

Management systems are required to provide the following.

- Accurate, current and complete disclosure of the financial results of each grant program.
- Records that adequately identify the source and application of funds for grant-supported activities.
- Effective control over and accountability for all funds, property, and other assets.
- Comparison of actual outlays with budget amounts for each grant.
- Accounting records that are supported by source documentation, such as invoices, bills of lading, purchase vouchers and payrolls.
- A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

The following accounting records are suggested to fulfill these requirements.

<i>Cash Receipts Journal</i>	All receipts of cash which are deposited into the CDBG fund are recorded initially in this journal.
<i>Cash Disbursements Journal</i>	All expenditures are recorded in this journal. In order to facilitate completion of the "Request for Payment," accounts for all line-item expenditures need to be established here (i.e., separate columns for recording of administration costs, construction costs, etc.)
<i>Journal Entry Voucher</i>	The accounts to be debited and credited, together with a description of the transaction are recorded in this journal. Accrual information may be recorded through the use of a journal entry voucher.
<i>General Ledger</i>	The status of all accounts is summarized in this book of final entry. All journal accounts should be posted monthly to the general ledger.
<i>Fixed Asset Ledger</i>	All fixed assets acquired using CDBG funds are recorded in this ledger. Include the date of purchase, cost of item, etc.

Additionally, the following general guidelines are presented to assist communities in establishing procedures for financial management:

- In all financial recordkeeping, grantees should account for administrative costs separately.
- Grantees should never make payment without invoices and vouchers physically in hand. All vouchers/invoices should be on vendor letterhead.
- All employees paid in whole or in part from CDBG funds should prepare a timesheet indicating the hours worked on CDBG projects for each pay period. Based on these time-sheets and the hourly payroll costs for each employee, a distribution of payroll charges should be prepared and placed in the appropriate files.
- All financial records are to be retained for a period of five years after closeout with access guaranteed to State, HUD or Treasury officials or their representatives.

Accounting requirements for local government are established by the Comptroller of the Treasury, State of Tennessee. Project Representatives can assist communities with any questions relating to their system, CDBG requirements and State accounting requirements by referring them to the proper source of information.

A.4.c Allowable Costs

2 C.F.R. § 200 addresses allowable costs for federal grants. Please reference the provisions “Subpart E-Cost Principles“ for allowable and unallowable costs. Generally, an allowable cost must be necessary and reasonable for proper and efficient administration of a grant program.

A.4.d Unallowable Costs

The following costs are specifically unallowable under the provisions of 2 C.F.R. § 200 Subpart E.

<i>Bad Debts</i>	Any losses arising from uncollectible accounts and other claims, and related costs.
<i>Contingencies</i>	Contributions to a contingency reserve or any similar provision for unforeseen events.
<i>Contributions and Donations</i>	Costs related to contributions and donations including (but not exhaustive) cash, property, services, are unallowable.
<i>Entertainment</i>	Costs of amusements, social activities, and incidental costs relating thereto (i.e., meals, beverages, lodgings, rentals, transportation, and gratuities).
<i>Fines and Penalties</i>	Costs resulting from violation of or failure to comply with Federal, State and local laws and regulations.
<i>Interest and Other Financial Costs</i>	Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, except when authorized by Federal legislation.
<i>Legislative Expenses</i>	Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction.
<i>Underrecovery of Costs Under Grant Agreements</i>	Any excess cost over the Federal contribution under the grant agreement, is unallowable under other grant agreements.

A.4.e Costs Allowable with the Approval of the Grantor Agency

The following costs are allowable only with TNECD approval:

- Automatic Data Processing
- Building Space and Related Facilities
- Capital Expenditures
- Insurance and Indemnification
- Management Studies
- Professional Services
- Proposal Costs
- Pre-agreement Costs

A.5 PROPERTY MANAGEMENT STANDARDS

Unless acquisition of property is an approved part of the State contract, prior approval must be obtained from the State for any real or personal property to be acquired using grant funds.

A.6 PROGRAM INCOME

Program income includes, but is not limited to, the following:

- Proportional shares of proceeds of the sale of real property to the extent to which the original purchase was funded with CDBG monies.
- Payments of principal and/or interest on loans made from CDBG funds.
- Interest earned from investment of program income.

Program income must be returned to the State unless approval is obtained to retain it at the local level.

Any program income which the State has approved to be retained at the local level must be accounted for and, to the maximum feasible extent, disbursed prior to requesting additional CDBG funds from the State. Any program income generated prior to closeout of the project must be used following all Federal requirements which apply to CDBG funds.

A.7 BUDGET REVISIONS

Any time funds need to be transferred from one line-item to another, or additional funding is added to the project that affects the match percentage associated with any line-item a budget revision must be submitted to TNECD. Budget revisions are the mechanism used to ensure the grant budget is staying consistent over the course of the grant and to ensure funds are being disbursed/reimbursed at the correct rate to reduce the need for cumulative adjustments at the end of the grant.

NOTE: *The contingency funds line-item must always match the grant rate. If some of the contingency funds are moved to a different line-item, the remaining contingency funds in the CDBG costs column and other columns should match the grant rate for the project.*

For all construction projects, once a bid has been accepted a budget revision should be submitted to adjust the construction budget to actual dollars required. A copy of the bid award package must be submitted along with the Budget Revision Form (Exhibit A-3). If the lowest bid exceeds the amount available in the budget for construction, a revised total cost budget must be submitted with a verification of the source of the additional funds.

Change orders must be approved by TNECD prior to work being done. If a change order is adjusting the project budget a budget revision must be submitted with change order to the TNECD project manager. Adjustments to professional service or equipment budget must follow the change order process.

NOTE: *Change orders that only adjust the amount the time (days) for a construction contract or equipment delivery do not require a budget revision.*

In the case of projects funded jointly with funds from the Department of Environment and Conservation, change orders should be submitted to them for their approval. Once their approval is received, a copy should be sent to TNECD. If the change order involves any change in scope, however, your TNECD project manager should be contacted prior to submitting it to Environment and Conservation.

NOTE: *Any change in the scope of the project requires prior written approval by the State. See the Introduction Chapter for a more detailed description of change orders and scope changes. You are strongly urged to contact your TNECD project manager if problems emerge which might lead to program modifications.*

NOTE: *Budget revisions that propose transferring funding to a line-item that does not include grant funding prior to the revision will result in a contract amendment. The revised contract amendment should be submitted to the TNECD project manager to initiate the amendment process.*

A.8 GRANT AWARD & FINANCIAL MANAGEMENT EXHIBIT LIST

- A-1 SIGNATURE AUTHORIZATION FORM
- A-2 DETAIL OF ADMINISTRATIVE COSTS
- A-3 BUDGET REVISION FORM