



# CA HCD ESG-CV Training Series: Financial Management

- Introduction
- Financial Management – General Requirements (2 C.F.R. §200)
- Federal Award Requirements (2 C.F.R. §200.300)
- Cost Principles (2 C.F.R. §200.400)
- Audits (2 C.F.R. §200.500)

# Learning Objectives

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- This training introduces the basic concepts of financial management, including:
  - General Requirements
  - Internal Controls, Cost Principles and Cost Allocation
  - Accounting Systems and Records
  - Budget, Cash Management and Invoicing
  - Real Property, Supplies and Equipment
  - Single Audit
  - Related Topics



# Applicability to ESG-CV

- As a condition of receiving ESG-CV funds, and as required by multiple federal laws and regulations, CA HCD is required to ensure that its grantees have adequate:
  - Fiscal controls applicable to ESG-CV awards in place
  - Capacity to implement ESG-CV funded activities and/or receive Training and Technical Assistance (TTA), as necessary
  - Policies and procedures for financial management developed and implemented

These requirements also apply to grantees utilizing Subrecipients



# Financial Management General Requirements

- Overview of Financial Management
- Uniform Administrative Requirements at 2 C.F.R. § 200
- ESG-CV Administrative Requirements at 24 C.F.R. §576
- Generally Accepted Accounting Principles (GAAP)

# Overview of Financial Management

- Financial management is the process of using funds effectively, efficiently, and transparently
- CA HCD's grantees and their subrecipients must adopt Policies and Procedures describing '*what is to be done*' and '*how it is to be completed*'



# Effective Financial Management Systems

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- Effective financial management systems contain the following key characteristics:
  - Policies and Procedures state the roles and responsibilities of staff at all levels of operation, and everyone is held accountable for proper implementation
  - Records are complete, accurate, and demonstrate that costs are necessary, reasonable, allowable, and appropriately allocated to the correct funding source
  - Reports are timely and provide useful information for grant administrators
  - Funds do not sit idle and are protected from misuse
  - Self assessment and ongoing improvement



# Uniform Administrative Requirements

- Maintain adequate control and accountability over all funds, property, and other assets to ensure ESG-CV funds are used solely for the authorized purposes

Requirements	Key Components
Administrative Requirements 2 C.F.R. § 200 – Subpart D	<ul style="list-style-type: none"><li>Budgeting</li><li>Accounting system &amp; records</li><li>Internal controls</li></ul>
Cost Principles 2 C.F.R. § 200 – Subpart E	<ul style="list-style-type: none"><li>Allowable and unallowable costs</li><li>Indirect costs</li></ul>
Audit Requirements 2 C.F.R. § 200 – Subpart F	<ul style="list-style-type: none"><li>Single audit requirements</li></ul>



# ESG Administrative Requirements

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- The ESG regulations codified at 24 C.F.R. §576.407 set forth the other applicable federal requirements that must be adhered to in the administration and implementation of the ESG-CV program
- Where conflicts occur between the definitions in 2 C.F.R. §200 and 24 C.F.R. §576, the definitions at 24 C.F.R. §576 shall govern (2 C.F.R. §200.101)

# Generally Accepted Accounting Principles

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- 2 C.F.R. § 200 requires adherence with the Generally Accepted Accounting Principles (GAAP):
  - Refers to a common set of accounting principles, standards, and procedures adopted by the U.S. Securities and Exchange Commission (SEC) and published by the Financial Accounting Standards Boards (FASB)
  - Provides the commonly accepted ways of recording and reporting accounting information
  - Aims to improve the clarity, consistency, and comparability of financial information

# General Requirements Take Away

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- Does my organization (and my subrecipients, if applicable) have **written Policies and Procedures** that govern financial management processes and systems?
  
- Are the Policies and Procedures current and compliant with 2 C.F.R. § 200?



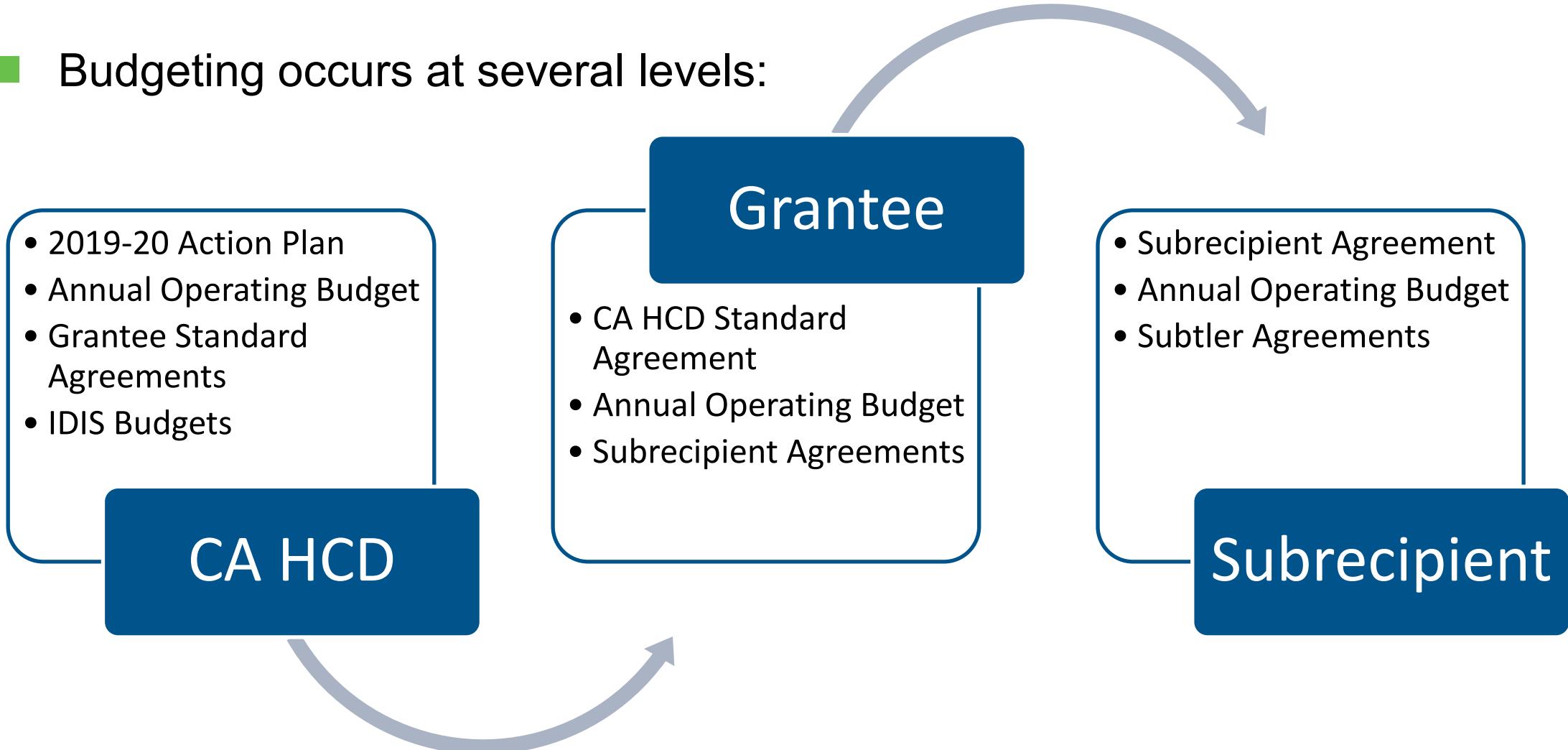


# Federal Award Requirements

- Budgeting
- Accounting Systems and Records
- Internal Controls
- Real Property, Equipment and Supplies
- Procurement

# Overview of Budgeting

- Budgeting occurs at several levels:



# Standard Agreement Budget

## Standard Agreement



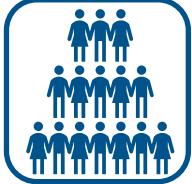
Project description



Period of performance



Sources and uses budget



Performance measures

The Standard Agreement contains:

- Total overall budget
- Budget by eligible activity (rapid rehousing, admin, etc.)
- Budget caps (indirect costs, admin cap, etc.)

Subrecipient Agreements must contain the same

# Operating Budget

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- The grantee and its subrecipients are responsible for incorporating the ESG-CV award into their operating budget
- An operating budget includes, but is not limited to, the following budget categories:
  - Salaries and wages, and other personnel costs
  - Professional fees and services
  - Consumable supplies
  - Utilities
  - Travel
  - Rent
  - Other operating expenses
  - Capital expenditures

- Grantee and subrecipient Accounting Systems must:
  - Identify and separately maintain accounts for the ESG-CV award by unique identifiers (e.g., subrecipient agreement number and year)
  - Distinguish costs by budget category and differentiate between direct and indirect costs
  - Provide accurate, current, and complete disclosure of the financial transactions for the ESG-CV award at both the summary or detailed levels
  - Allow for comparison of expenditures with budget amounts for the ESG-CV award

# Accounting Systems

**State ESG-CV Grant**



**Entitlement ESG-CV  
Grant**



**State ESG-CV &  
Entitlement ESG-CV  
Grants**



Compliant  
Accounting System

Non-Compliant  
Accounting System

# Accounting Records

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- Grantees and its subrecipients must maintain records that identify the source and use of ESG-CV funds
- Records must include information regarding the ESG-CV awards, authorizations, obligations (encumbrances), unobligated balances, assets, expenditures, income and accrued interest
- All costs allocated to the ESG-CV award must be supported by contracts, procurement actions, invoices, payroll records

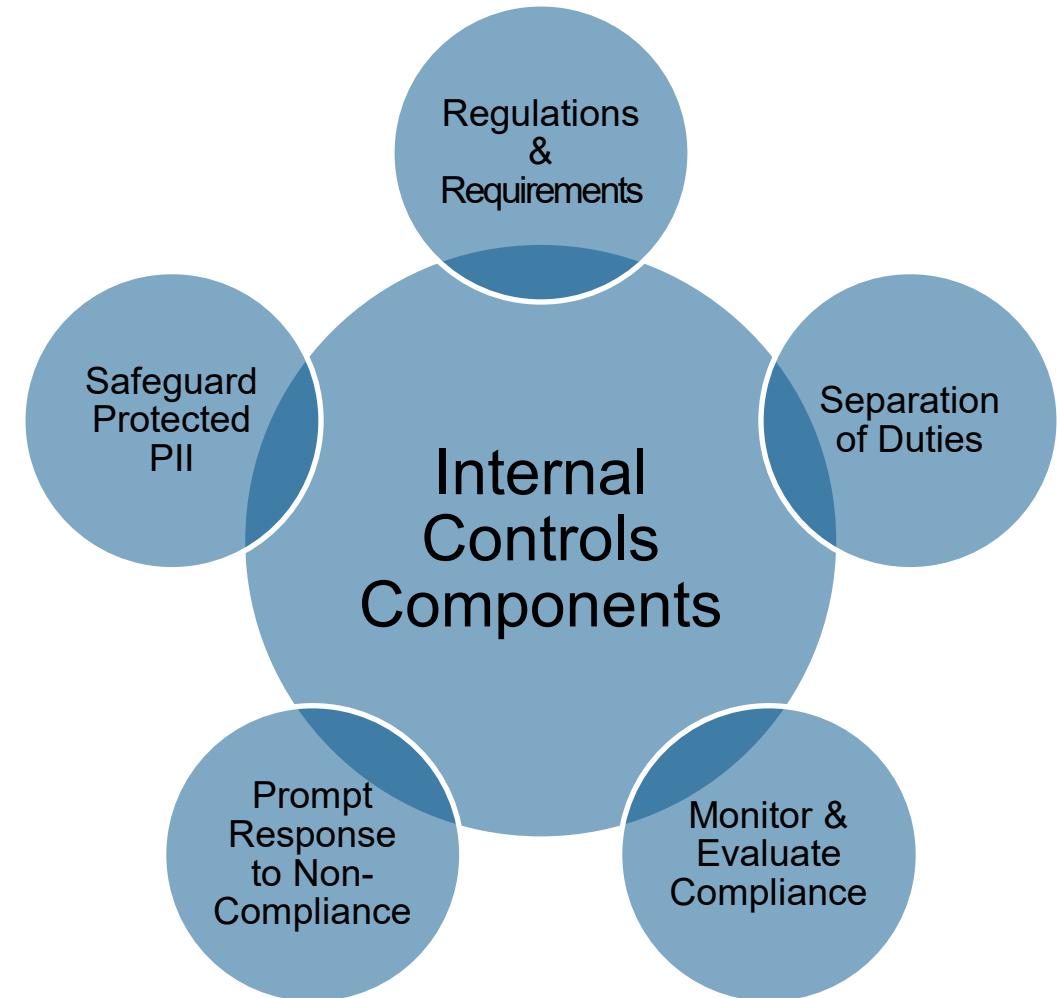
# Accounting Records

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- All accounting entries must be supported by source documentation showing the costs charged to the ESG-CV award were:
  - Incurred during the effective period of the standard agreement
  - Verifiably paid out, or adequately approved
  - Expended on eligible costs and within approved budgets
  - Approved by the appropriate official(s) within the organization
- CA HCD has the right to access all grantee and subrecipient financial records pertinent to the ESG-CV award for monitoring and audit purposes

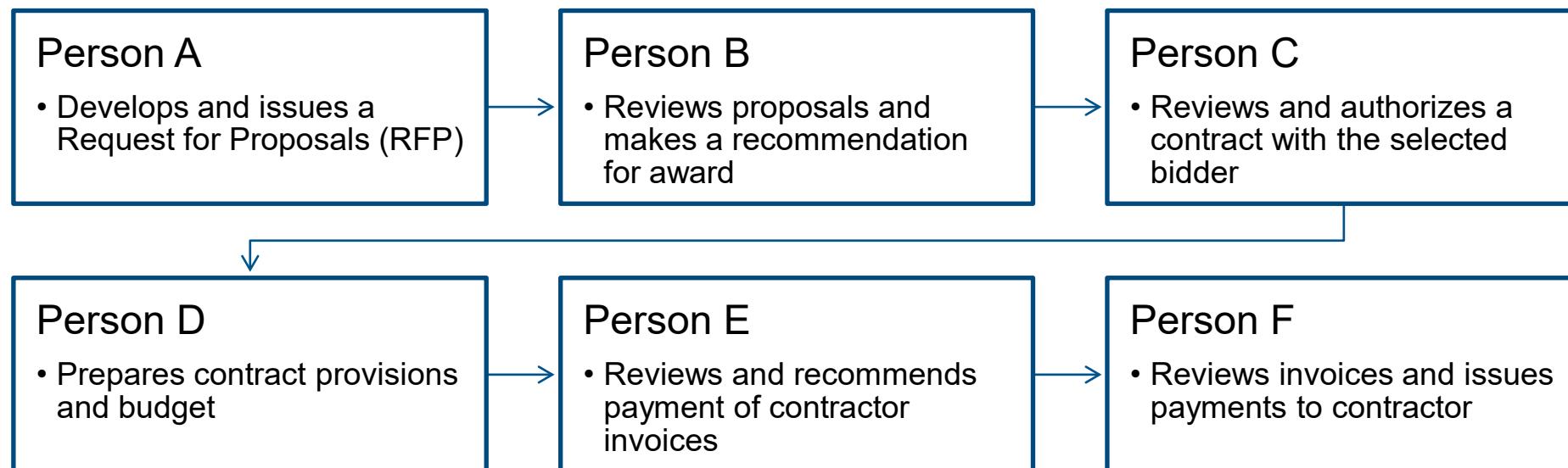
# Internal Controls

- Internal controls are designed to minimize misuse of funds and poor recordkeeping, and to maximize the likelihood of detecting problems if they occur



# Separation of Duties

- Separation of duties is primarily meant to prevent fraud, waste and abuse
  - No single person can have the authority to authorize a transaction, execute a transaction, record a transaction, and have custody of any resulting assets



# Monitor and Evaluate Compliance

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- CA HCD, its grantees and their subrecipients must have adequate procedures in place that include how it will:
  - Track expenditures each month
  - Monitor expenditures of its grantees/subrecipients
  - Account for and manage program income
  - Reprogram funds from stalled activities in a timely manner
  - Forecast expenditures to exhaust all ESG-CV funds within the period of the grant agreement
- Grantees are also required to expend funds in a timely manner to avoid recapture by CA HCD and/or HUD

- If acquisition of real property is allowed under the standard agreement for temporary emergency shelter, title for the real property acquired with ESG-CV funds must be vested upon acquisition by the grantee or its subrecipient
  - Real property acquired for temporary emergency shelter must be used for the originally authorized purpose and disposed of in accordance with 2 CFR 300.311
  - Real property for which ESG-CV funds are used for rehabilitation, conversion or other renovations must comply with minimum period of use requirements under 24 CFR 576.102

# Supplies and Equipment

## ■ 2 CFR 200.313 Equipment

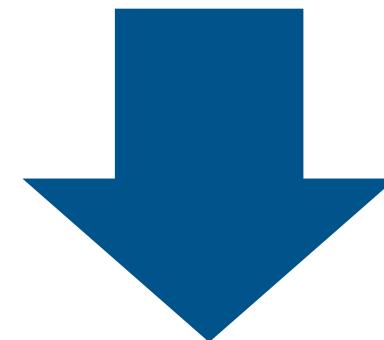
- Assets acquired with ESG-CV funds with a value of \$5,000 or more per unit
- Equipment must be capitalized, inventoried, and monitored



**Equipment:** Asset value is \$5,000 or more per unit

## ■ 2 CFR 200.314 Supplies

- Assets acquired with ESG-CV funds with a value of less than \$5,000 per unit



**Supplies:** Asset value is less than \$5,000 per unit

- Procurement is a multi-step process for obtaining goods or services from potential vendors



- The purpose of procurement is:
  - To promote equitable purchasing standards
  - To ensure fair treatment of proposers in accordance with the rules applicable to each procurement
  - To ensure that the cost or price for the goods or services to be acquired is reasonable

# Procurement Methods

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- The Standard Agreement includes requirements for grantees to provide CA HCD with evidence of compliance with one (1) of the following procurement methods:

**Informal**

Micro purchase

Small purchase

**Formal**

Sealed bidding

Competitive proposals

# Procurement Records

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- The following procurement records must be maintained:
  - Solicitation documents including the user request, scope of work, evaluation criteria, and terms and conditions of the solicitation
  - Evaluations, recommendations and determinations taken by the procuring entity
  - Advertisements and their details including those to comply with MBE/WBE/Section 3 requirements
  - Documents or information requested, considered, or received by the procuring entity, including questions or comments
  - Offers received during the solicitation process

## Other Related Topics

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- Closeout (2 C.F.R. §200.331 (a)(6))
- Anti-fraud, Waste and Abuse (CPD Notice 21-08)
- Record Retention and Access (2 C.F.R. §200.333 – 200.337)
- Contracting with Minority and Women-Owned Businesses (2 C.F.R. §200.321)
- Section 3 Requirements (24 C.F.R. §135)

# Federal Award Requirements Take Away

- Does my organization (and my subrecipients, if applicable) have adequate **Accounting Systems** in place?
- Does my organization (and my subrecipients, if applicable) have adequate **Policies and Procedures** for:
  - Internal controls and separations of duties?
  - Real Property, Equipment and Supplies?
  - Procurement?
  - Other requirements?





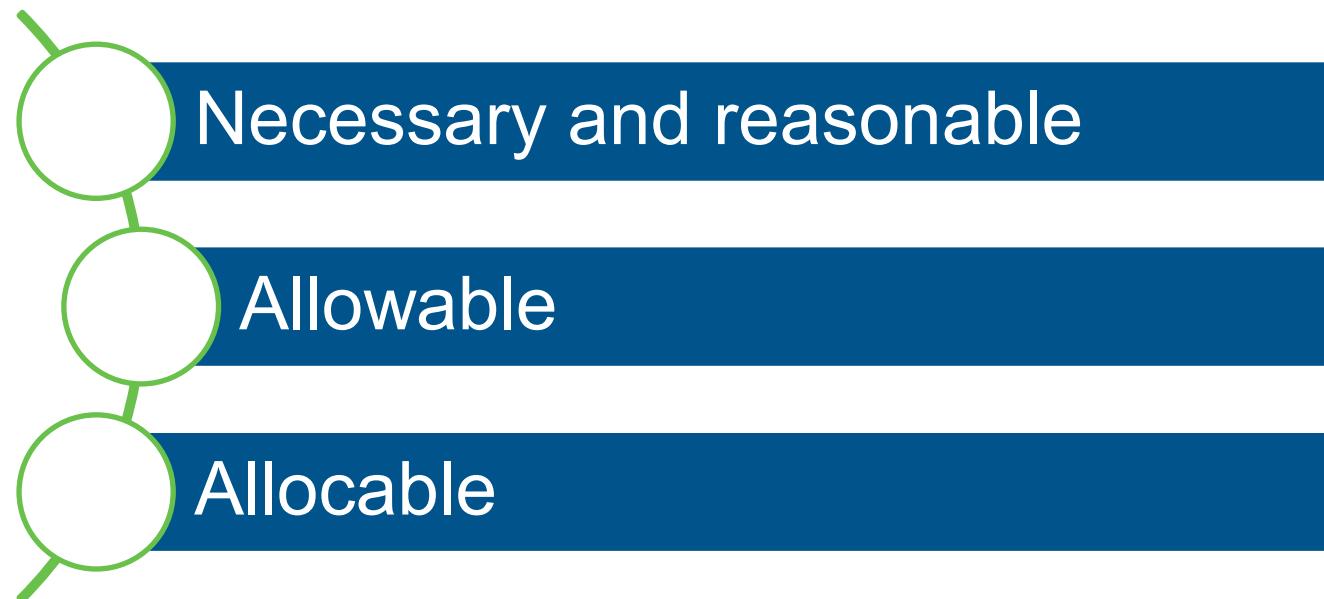
# Cost Principles

- Overview of Cost Principles
- Necessary and Reasonable Costs
- Cost Allowability
- Cost Allocability
- Direct and Indirect Costs

# Overview of Cost Principles

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- Cost principles govern all costs charged to and reimbursed by the ESG-CV award
- All costs must be:





# Necessary and Reasonable Costs

## Necessary

- Costs are considered necessary if they are essential to proper and efficient performance and administration of the ESG-CV award

## Reasonable

- Costs are considered reasonable if they do not exceed what a prudent person would incur under similar circumstances

## Example: Purchase of iPads using ESG-CV funds

### Not Necessary

- If purchased simply because they are convenient, especially if iPads are not used for other similar operations within the agency

### Not Reasonable

- If other, less costly tablets, can perform the same purpose

# Necessary and Reasonable Costs

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- To determine if a cost is reasonable, it must meet the following criteria:
  - The cost is recognized as ordinary and necessary for the operation of the organization and/or project.
  - The cost is in accordance with market prices for comparable goods or services as evidenced by cost estimates and documentation.
  - The individuals responsible for incurring the cost acted with prudence and for the benefit of the organization and its activities.
  - The cost has been incurred after following the established practices of the organization, in accordance with the terms and conditions of the award.

# Cost Allowability

## Allowable

- Costs are considered allowable if they are:
  - In conformance with the terms of the Standard Agreement
  - Treated equally with like costs
  - Not otherwise ineligible or unallowable
  - Adequately documented

## Total Allowable

- The total costs charged to the ESG-CV award are the sum of the allowable direct and allocable indirect costs, minus any applicable credits
  - Applicable credits include discounts, rebates or allowances, recovering or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges

## Example

- If a grantee implements a homeless shelter program, and purchases a new air conditioning unit for \$8,000 but received a \$1,000 rebate from the manufacturer and had \$500 of program income on hand:
  - The RFF to CA HCD would be for **\$6,500**  
$$\$8,000 - \$1,000 - \$500 = \$6,500$$



# Cost Allowability Limitations

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- Any costs incurred in excess of budget amounts by eligible activity in the Standard Agreement are not allowable to be charged to the ESG-CV award
- The ESG-CV award is subject to statutory requirements that limit the allowability of costs, such as:
  - Administrative costs
  - Acquisition costs for temporary emergency shelter (\$2.5M)
- CA HCD may place further caps on grantees, including not allowing certain items of cost (2 C.F.R. 200.331(a)(3))

# Cost Allowability Limitations

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- Costs must conform to any limitations or exclusions set forth in 2 C.F.R. §200 and the ESG-CV requirements and regulations as to types or amount of cost items
- 2 C.F.R. §200.420–475 provide additional considerations for select items of costs, such as:
  - Payroll costs
  - Employee healthcare
  - Equipment
- In case of a discrepancy between the provisions of the ESG-CV award and 2 C.F.R. §200.420–475, the ESG-CV award governs:
  - 24 C.F.R. §576
  - CPD Notice 21-08

# Cost Allowability Limitations

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## ■ Limitations and Exclusions

- Costs must be consistent with Standard Agreement and policies and procedures that apply uniformly to both the costs incurred for the ESG-CV award and other costs incurred by ESG-CV awardee

## ■ Example:

- The stricter requirements apply to the entire cost, not just the cost allocable to the ESG-CV award

## ■ 2 C.F.R. §200.403(d) Consistent Treatment (Direct vs. Indirect Costs)

- A cost may not be assigned to the ESG-CV award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the ESG-CV award as an indirect cost

# Cost Allowability: ESG-CV Examples

<b>Project Costs (“Hard Costs”)</b>	Costs incurred to provide the activity/project (rehabilitation of emergency shelter)
<b>Activity Delivery Costs (ADCs)</b>	Costs incurred for the implementation, management or oversight of project/activity
<b>Administrative Costs</b>	Costs incurred for the general management, oversight, and coordination of the ESG-CV grant

# Unallowable Costs

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- Payments made for costs determined to be unallowable by HUD or by CA HCD either as direct or indirect costs, must be refunded (including interest) to CA HCD and/or HUD
- Examples of types of costs that are unallowable:
  - Assistance to non-qualifying program participants
  - Activities not allowed under CPD Notice 21-08
  - Political activities
- Payments made to a grantee may be recaptured if:
  - They exceed the maximum allowable rates
  - Are not allowed under applicable laws, rules, or regulations
  - Are inconsistent with the standard agreement

# Direct vs. Indirect Costs

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

# Allocable Costs

## Direct Costs

- Costs are considered allocable if they are incurred specifically for the ESG-CV award

## Indirect Costs

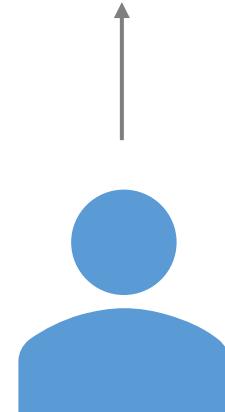
- Costs are considered allocable if it benefits both the ESG-CV award and other work of the grantee or subrecipient and can be distributed in approximate proportions

- Direct costs are those costs incurred specifically for the ESG-CV award and are not otherwise treated as indirect costs
- Examples:
  - Payroll costs incurred to administer the ESG-CV award, supported by timesheets and payroll records detailing the date and time the employee worked on the ESG-CV award
  - Costs incurred by subrecipients performing services solely for the ESG-CV award
  - The purchase of supplies and equipment used solely for the ESG-CV award
  - Direct awards to eligible ESG-CV applicants for eligible ESG-CV activities

# Direct Costs

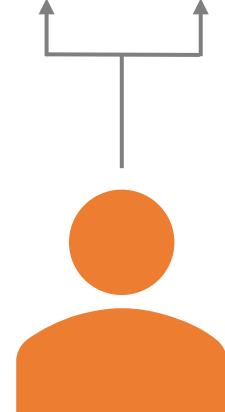
## Direct Costs

Staff Member A is fully dedicated to ESG-CV (100%)



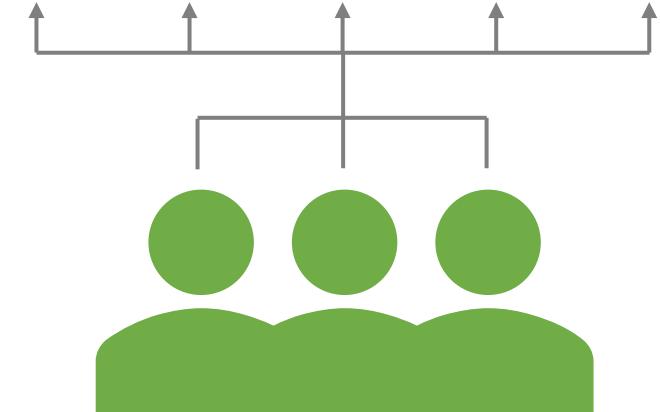
## Direct Costs

Staff Member B works on ESG-CV and another federal grant, and documents their hours spent per grant on timesheets



## Indirect Costs

The Payroll and Human Resources departments process payroll for all of the grantee or subrecipient



- Indirect costs are costs incurred for a common or joint purpose benefitting more than just the ESG-CV award and not readily assignable to the ESG-CV award without first determining the amount that can be reasonably charged to the ESG-CV award
- Examples may include:
  - Rent and utility costs
  - Accounting and administrative staff
  - Internal auditing costs
  - Motor pools
  - Computers and software

# Indirect Costs: Three Options

- For a grantee to charge indirect costs to an ESG-CV award, standard agreements must require that one of the three options are followed and documented (2 C.F.R. §200.331(a)(d)):
  - 10% De Minimis Rate
  - Negotiated Indirect Cost Rate Agreement (NICRA)
  - Cost Allocation Plan
- Each standard agreement includes requirements and provisions for charging indirect costs
  - If a standard agreement allows for indirect costs, grantees must first submit supporting documentation for one of the three options to CA HCD and receive written approval prior to requesting reimbursement for indirect costs

These requirements also apply to Grantees utilizing Subrecipients

# Cost Principles Take Away

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- Are applicable staff of my organization (and my subrecipients, if applicable) adequately knowledgeable of:
  - Necessary and reasonable requirements?
  - Which types costs are allowable?
- Does my organization (and my subrecipients, if applicable) plan to charge indirect costs, and if so, have all required supporting documentation been submitted and approved?





# Audits

- Single Audits

- ESG-CV awardees, including CA HCD, grantees and subrecipients, that expend \$750,000 or more during its fiscal year in federal awards, must have a single audit conducted in accordance with 2 C.F.R. §200.514
- Single Audits focus on:
  - Financial statements and records
  - Internal Controls
  - Compliance with requirements of the ESG-CV award
- Grantees must provide to CA HCD the results of each Single Audit as required in the Standard Agreement

# Single Audit Take Away

- Did my organization (and my subrecipients, if applicable) expend \$750,000 or more during the last fiscal year in federal awards?
- If so, was a single audit performed for last fiscal year?
- Will a single audit be triggered for this fiscal year?





Thank you for listening

