



# FINANCIAL MANAGEMENT BASICS

FOR SUBRECIPIENTS | JUNE 2021

CALIFORNIA DEPARTMENT OF  
HOUSING AND COMMUNITY DEVELOPMENT



# TRAINING AGENDA

- **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)**
- **Questions and Discussion**





# INTRODUCTION

# LEARNING OBJECTIVES



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;
- Program Income;
- Real Property, Supplies and Equipment;
- Single Audit;
- Related Topics;
- Cost Allowability; and
- Cost Allocation

# RELATIONSHIP TO CDBG-DR



As a condition for receiving CDBG-DR awards from HUD, and as required by multiple federal laws and regulations, HCD was required to ensure that:

- Adequate fiscal controls applicable to the CDBG-DR awards are in place;
- Subrecipients have adequate capacity to implement CDBG-DR awards and receive training and technical assistance, as necessary; and
- Policies and procedures for financial management are developed and implemented by HCD and its subrecipients.

The contents of this training are not exhaustive, and therefore, subrecipients are reminded of their responsibility to review and adhere to applicable laws, regulations and requirements in their entirety.



# FINANCIAL MANAGEMENT GENERAL REQUIREMENTS

- Overview of Financial Management
- Uniform Administrative Requirements
- Community Development Block Grant Administrative Requirements
- Generally Accepted Accounting Principles (GAAP)



# OVERVIEW OF FINANCIAL MANAGEMENT

Financial management is the process of using funds effectively, efficiently, and transparently. It is accomplished through a combination of procedures, methods, rules of conduct, and standards.

HCD and its subrecipients must adopt financial management policies and procedures that include, at minimum:

- Cost Principles;
- Internal Controls;
- Accounting Systems;
- Budgeting;
- Cash Management; and
- Records and Reporting.

# EFFECTIVE FINANCIAL MANAGEMENT SYSTEMS



Effective and efficient Financial Management systems have the following key characteristics in common:

- Transparency and clear accountability at all levels of operation;
- Hold all parties accountable for making good financial decisions and for following all rules and regulations;
- Expenditures are planned, then checked against the plan (e.g., approved budget);
- Costs are reasonable, necessary, allowable, and appropriately allocated to the correct funding source;
- Funds do not sit idle and are protected from misuse;
- Records are clearly understood; and
- Reports are useful to Program Managers and agency leadership.



# UNIFORM ADMINISTRATIVE REQUIREMENTS

## 2 C.F.R. §200

HCD and its subrecipients must adhere to Uniform Administrative Requirements codified at 2 C.F.R. §200.

The Uniform Administrative Requirements require HCD and its subrecipients to maintain adequate control and accountability over all funds, property, and other assets, and ensure CDBG-DR funds are used solely for the authorized purposes.

- A large part of the training will focus on 2 C.F.R. §200 Subpart E – Cost Principles (2 C.F.R. §200.400 – 200.475).
- Cost principles must be used in determining the allowable costs of work performed by HCD and its subrecipients under the CDBG-DR award (2 C.F.R. §200.401).



# CDBG ADMINISTRATIVE REQUIREMENTS

**24 C.F.R. §570.502 and 2 C.F.R. §200.101**

The CDBG regulations codified at 24 C.F.R. §570.502 set forth the applicable uniform administrative requirements that must be adhered to in the administration and implementation of the CDBG-DR program.

Where conflicts occur between the definitions in 2 C.F.R. §200 and 24 C.F.R. §570, the definitions at 24 C.F.R. §570 shall govern (2 C.F.R. §200.101).

# GENERALLY ACCEPTED ACCOUNTING PRINCIPLES



Adherence to Generally Accepted Accounting Principles (GAAP) is required by several provisions of 2 C.F.R. §200. 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).
- Is a combination of authoritative standards and the commonly accepted ways of recording and reporting accounting information.
- Aims to improve the clarity, consistency, and comparability of the communication of financial information.



# FEDERAL AWARD REQUIREMENTS

- Budget
- Accounting Systems and Records
- Cash Management
- Internal Controls
- Program Income
- Real Property, Equipment and Supplies



# OVERVIEW OF BUDGETS

2 C.F.R. §200.1 | 83 FR 40314 and 86 FR 569

A budget is the financial plan for the CDBG-DR project or program described in the HCD's CDBG-DR Action Plan and subrecipient agreements.

HUD requires HCD to include in its CDBG-DR Action Plan a single chart or table that illustrates, at the most practical level, how all funds are budgeted (e.g., by program, subrecipient, grantee-administered activity, or other category).

Budgets are further developed, tracked and enforced in HUD's Disaster Recovery Grant Reporting (DRGR) system.



# SUBRECIPIENT AGREEMENT BUDGET

## 2 C.F.R. §570.503

Before disbursing any CDBG-DR funds to a subrecipient, HCD must sign a written agreement with the subrecipient (“*subrecipient agreement*”).

- The agreement shall remain in effect during any period that the subrecipient has control over CDBG-DR funds, including program income.
- The agreement shall include a description of the work to be performed, a schedule for completing the work, and a budget.

These items shall be in sufficient detail to provide a sound basis for HCD to effectively monitor performance under the agreement.



# SUBRECIPIENT OPERATING BUDGETS

The CDBG-DR award must be incorporated into the subrecipient's 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; and
- Capital expenditures.



# ACCOUNTING SYSTEMS

## 2 C.F.R. §200.302(b)

### Subrecipient Accounting Systems must:

- Identify and separately maintain accounts for each federal award, including the HCD CDBG-DR award, received and expended by unique identifiers (e.g., subrecipient agreement number and year) as required at 2 C.F.R. §200.302 (b)(1).
- Provide accurate, current, and complete disclosure of the financial transactions of each CDBG-DR award in accordance with 2 C.F.R. §200.327 Financial reporting and 2 C.F.R. §200.328 Monitoring and reporting program performance.
- Allow for comparison of expenditures with budget amounts for each Federal award.
- Comply with 2 C.F.R. §200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of information, 200.336 Access to records, and 200.337 Restrictions on public access to records.



# ACCOUNTING RECORDS

2 C.F.R. §200.302(b) and 200.336

HCD and its subrecipients must maintain records that identify the source and application of CDBG-DR funds:

- Records must include information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- All costs allocated to the CDBG-DR award must be supported by contracts, procurement actions, invoices, payroll records, etc.

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



# ACCOUNTING RECORDS

2 C.F.R. §200.302(b)(3) and 200.336

All accounting entries must be appropriately approved and supported by source documentation. Documentation must show that costs charged against CDBG-DR funds were:

- Incurred during the effective period of the CDBG-DR subrecipient agreement.
- Verifiably paid out, or adequately accrued.
- Expended on eligible costs and within approved budgets.
- Approved by the appropriate official(s) within the subrecipient's organization.



# LOCAL INVOICING AND CASH MANAGEMENT

Subrecipient policies and procedures must conform with:

- 2 C.F.R. §200 Uniform Administrative Requirements.
- Applicable HCD requirements and the subrecipient's internal procedures, such as:
  - Financial Management;
  - Invoicing;
  - Procurement; and
  - Record Keeping
- Terms and conditions of the subrecipient agreement with HCD.



# TIMELY EXPENDITURE OF FUNDS

HCD must have adequate procedures in place that include how it will:

- Track expenditures each month;
- Monitor expenditures of its subrecipients;
- Account for and manage program income;
- Reprogram funds in a timely manner for activities that are stalled; and
- Project expenditures to provide for the spending of all CDBG–DR funds within the period of the grant agreement.

Subrecipients are also required to expend funds in a timely manner to avoid recapture by HCD and/or HUD.



# OVERVIEW OF INTERNAL CONTROLS

## 2 C.F.R. §200.303

Internal controls are a combination of tools designed to minimize the misuse of funds and poor record keeping, and to maximize the likelihood of detecting problems if they occur.

- Internal controls require that multiple people with different roles review every financial transaction.
- They cross check one another to make sure that budgets, costs, records, and reports all match up.
- Internal controls help make sure that funds are being used appropriately and that no one person can defraud the organization.





# OVERVIEW OF INTERNAL CONTROLS

## 2 C.F.R. §200.303

HCD and its subrecipients must establish and maintain effective internal controls that include the following:

- Provide reasonable assurances the CDBG-DR award is managed in compliance with Federal statutes, regulations, and the terms and conditions of the CDBG-DR award.
- Evaluate and monitor compliance with statutes, regulations and the terms and conditions of the CDBG-DR award.
- Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.
- Take reasonable measures to safeguard protected personally identifiable information (PII) and other information HUD, HCD, and the subrecipient designates as sensitive.



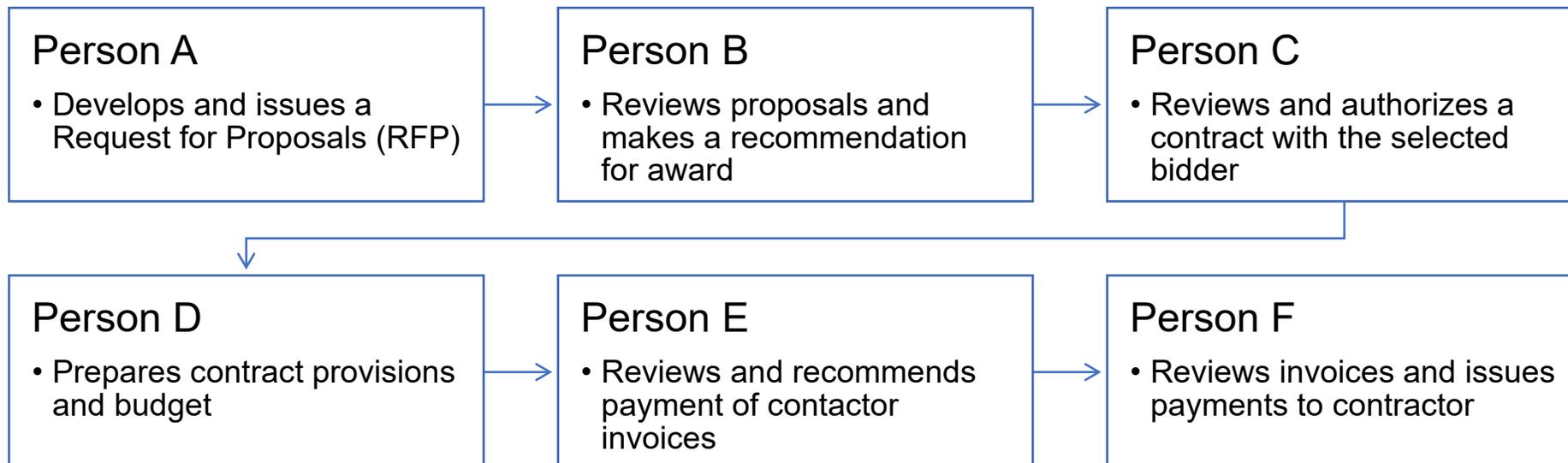
# SEPARATION OF DUTIES

## 2 C.F.R. §200.303

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.

### Example:





# PROGRAM INCOME

24 C.F.R. §570.500(a)

Program Income is gross income directly generated from the use of CDBG-DR funds including, but not limited to:

- Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG-DR funds.
- Proceeds from the disposition of equipment purchased with CDBG-DR funds.
- Gross income from the use or rental of real or personal property acquired by the subrecipient with CDBG-DR funds, less costs incidental to generation of the income.
- Gross income from the use or rental of real property, owned by the subrecipient, that was constructed or improved with CDBG-DR funds, less costs incidental to generation of the income.



# PROGRAM INCOME

24 C.F.R. §570.500(b) and 24 C.F.R. §570.504(c)

Subrecipient agreements will contain one of the following provisions:

- The subrecipient may retain Program Income for use in the program activities under the subrecipient agreement so long as the Program Income is substantially disbursed before additional CDBG-DR funds are requested from HCD; or
- The subrecipient must remit the Program Income generated to HCD.

Regardless of the method, each subrecipient must report Program Income received and, if allowed, expended along with its monthly invoice package in Grants Network.

- A separate interest-bearing bank account must be established to manage Program Income if a Revolving Loan Fund (RLF) is established.



# REAL PROPERTY

## 2 C.F.R. 200.311 Real Property

If acquisition of real property is allowed under the subrecipient agreement, title for the real property acquired with CDBG-DR funds must be vested upon acquisition by the subrecipient.

- Real property must be used for the originally authorized purpose as long as specified in the subrecipient agreement, during which time the subrecipient must not dispose of or encumber its title or other interests.
- When real property is no longer needed for the originally authorized purpose, the subrecipient must obtain disposition instructions from HCD.

# SUPPLIES AND EQUIPMENT

2 C.F.R. §200.313 and §200.314



## 2 C.F.R. §200.313 Equipment

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



## 2 C.F.R. §200.314 Supplies

Assets acquired with CDBG-DR funds with a value of less than \$5,000 per unit.



## OTHER RELATED TOPICS

- Closeout (2 C.F.R. §200.331 (a)(6))
- Procurement (2 C.F.R. §200.317 – 200.326)
- Anti-fraud, Waste and Abuse (Federal Register 83 FR 40314 and 86 FR 569)
- Record Retention and Access (2 C.F.R. §200.333 – 200.337)

# Questions & Discussion





# COST PRINCIPLES

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



# OVERVIEW OF COST PRINCIPLES

Cost Principles govern all costs charged to and reimbursed by the CDBG-DR award.

All costs must be:

- Allowable
  - In the CDBG-DR grant agreement with HUD and the subrecipient agreement;
  - Treated equally with like costs; and
  - Not otherwise ineligible or unallowable.
- Necessary and Reasonable
- Allocable to the correct funding source
  - Costs must be allocated as either Direct costs or Indirect costs.



# NECESSARY AND REASONABLE

## 2 C.F.R. §200.403(a) and §200.404

Costs must be necessary and reasonable for the performance of the CDBG-DR award and be allocable to the CDBG-DR award.

- A cost is necessary if it is essential to ensure proper and efficient performance and administration of the CDBG-DR award.
- A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Costs are considered necessary if the cost was essential to ensure proper and efficient performance and administration of the CDBG-DR award.

***Example:*** the purchase of iPads using CDBG-DR funds because they are convenient would not be considered necessary in and of itself, especially if iPads are not used for other similar operations within the agency.



# REASONABLE COSTS

## 2 C.F.R. §200.404

Costs are considered reasonable if they do not exceed what a prudent person would incur under similar circumstances. All costs must pass the 'rational person' test by meeting all of 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.



# REASONABLE COSTS

## 2 C.F.R. §200.404

In determining cost reasonableness, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the CDBG-DR awardee or the proper and efficient performance of the CDBG-DR award.
- Whether the CDBG-DR awardee significantly deviated from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the CDBG-DR award's cost.
- The restraints or requirements imposed by such factors as:
  - Sound business practices;
  - Arm's-length bargaining;
  - Federal, state, local, and other laws and regulations; and
  - Terms and conditions of the CDBG-DR award.
- Market prices for comparable goods or services for the geographic area.



# TOTAL ALLOWABLE AND ALLOCABLE COSTS

## 2 C.F.R. §200.402

The total cost of the CDBG-DR award is the sum of the allowable direct and allocable indirect costs, minus any applicable credits.

- If program income is generated, the program income must be deducted from total allowable costs to determine the net allowable costs.
- Subrecipients that generate program income may be required to return program income to HCD instead of expending the program income on allowable costs.

***Example:*** if a subrecipient implements a housing rehabilitation program, and a new air conditioning unit was purchased for one of the housing units:

Cost to purchase Air Conditioning unit	\$8,000
Rebate from the manufacturer	<\$1,000>
Program Income on-hand	<\$500>
<b>Request for Reimbursement from HCD</b>	<b>\$6,500</b>



# COST ALLOWABILITY

## 2 C.F.R. §200.403

A cost is allowable to charge to the CDBG-DR award if the goods or services involved:

- Are necessary and reasonable.
- Conform to limitations or exclusions set forth in the subrecipient agreement, including the types and amount of costs (e.g., personnel costs, equipment purchases).
- Are consistent with policies and procedures that apply uniformly to costs allocable to both the CDBG-DR award and other, non-CDBG-DR sources.
- Are accorded consistent treatment. A cost may not be assigned to the CDBG-DR award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the CDBG-DR award as an indirect cost.
- Are adequately documented.



# COST ALLOWABILITY LIMITATIONS

## 2 C.F.R. §200.408

Any costs incurred in excess of the caps are not allowable to be charged to the CDBG-DR award.

The CDBG-DR award is subject to statutory requirements that limit the allowability of costs.

**Examples** include:

- *Administrative costs (5 percent)*
- *Planning costs (15 percent)*
- *Public Service costs (15 percent)*

HCD may place further caps on subrecipients, including not allowing certain items of cost (2 C.F.R. 200.331(a)(3)).

# COST ALLOWABILITY: CDBG-DR EXAMPLES

24 C.F.R. §570



<b>Project Costs (“Hard Costs”)</b>	Costs incurred to provide the Activity/Project (e.g., construction, acquisition, demolition, business loans, etc.).
<b>Activity Delivery Costs (ADCs)</b>	Costs incurred for the implementation, management or oversight of a Project/Activity.
<b>Planning Costs</b>	The “end product” of a Planning Activity is a Plan.
<b>Administrative Costs</b>	Costs incurred for the general management, oversight and coordination of the CDBG-DR grant.

**HUD Training:** <https://files.hudexchange.info/course-content/2019-cdbg-dr-problem-solving-clinic-days-2-and-3-active-cdbg-dr-grantees/Understanding-Administrative-Planning-and-Activity-Delivery-Costs-Slides.pdf>

**CPD Notice 13-07:** <https://www.hudexchange.info/resource/3725/notice-cpd-13-07-allocating-staff-costs-program-administration-delivery-costs-cdbg/>



# COST ALLOWABILITY: LIMITATIONS AND EXCLUSIONS

## 2 C.F.R. §200.403(b) and §200.420–475

Costs must conform to any limitations or exclusions set forth in 2 C.F.R. §200 or in the CDBG-DR award as to types or amount of cost items.

2 C.F.R. §200.420–475 provide additional considerations for select items of costs.

### **Examples:**

- *Payroll costs*
- *Employee healthcare*
- *Equipment*

In case of a discrepancy between the provisions of the CDBG-DR award and items of cost, the CDBG-DR award governs:

- 24 C.F.R. §570
- Multiple Federal Register Notices (e.g., 83 FR 40314 and 86 FR 569)



# COST ALLOWABILITY: LIMITATIONS AND EXCLUSIONS

## 2 C.F.R. §200.403(c) and §200.403(d)

### Limitations and Exclusions

- Costs must be consistent with policies and procedures that apply uniformly to both the costs incurred for the CDBG-DR award and other costs incurred by CDBG-DR awardee.
- If the CDBG-DR award imposes stricter requirements in the subrecipient agreement.

#### **Example:**

*The stricter requirements apply to the entire cost, not just the cost allocable to the CDBG-DR award.*

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

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



# UNALLOWABLE COSTS

## 2 C.F.R. §200.410

Payments made for costs determined to be unallowable by HUD (for HCD) or by HCD (for subrecipients) either as direct or indirect costs, must be refunded (including interest) to HUD or HCD.

**Examples** of types of costs that are unallowable:

- *Food and alcohol*
- *Political activities*
- *Assistance to private utilities*

Payments made to a subrecipient may be recaptured if:

- They exceed the maximum allowable rates;
- Are not allowed under applicable laws, rules, or regulations; and
- Are inconsistent with the subrecipient agreement.



# TOTAL ALLOCABLE COSTS: APPLICABLE CREDITS

## 2 .F.R. §200.406

Applicable credits refer to receipts or reduction-of-expenditure-type transactions that offset or reduce expenses allocable to the award.

**Examples** include but are not limited to:

- *Purchase discounts;*
- *Rebates or allowances;*
- *Recoveries or indemnities on losses;*
- *Insurance refunds or rebates; and*
- *Adjustments of overpayments or erroneous charges.*



# ALLOCABLE COSTS

## 2 C.F.R. §200.405

A cost is allocable to the CDBG-DR award if the goods or services involved:

- Are incurred specifically for the CDBG-DR award (direct costs);
- Benefits both the CDBG-DR award and other work of the subrecipient and can be distributed in proportions that may be approximated using reasonable methods (indirect costs); and
- Is necessary to the overall operation of the subrecipient and is assignable in part to the CDBG-DR award (indirect costs).

## Un-allocable Costs

- Any cost allocable to a particular Federal award may not be charged to other Federal awards, such as the CDBG-DR award, to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.
- However, this prohibition does not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.



# ADEQUATE DOCUMENTATION OF COSTS

## 2 C.F.R. §200.403(g)

Costs must be adequately documented (e.g., by invoices, receipts, contracts, etc.). Subrecipient agreements contain provisions and requirements for supporting documentation.

HCD's invoicing policies specify the required supporting documentation that is necessary to receive reimbursement for eligible costs incurred.

2 C.F.R. §200.420 – 200.475 provide additional considerations for select items of costs, including required documentation.



# INDIRECT VS INDIRECT COSTS

## 2 C.F.R. §200.412

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 Federal 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.



# DIRECT COSTS

## 2 C.F.R. §200.413

Direct costs are those costs incurred specifically for the CDBG-DR award and are not otherwise treated as indirect costs.

### Examples:

- Payroll costs incurred to administer the CDBG-DR award, supported by timesheets and payroll records detailing the date and time the employee worked on the CDBG-DR award.
- Costs incurred by contractors performing services solely for the CDBG-DR award.
- The purchase of supplies and equipment used solely for the CDBG-DR award.
- Direct awards to eligible CDBG-DR applicants for eligible CDBG-DR activities.

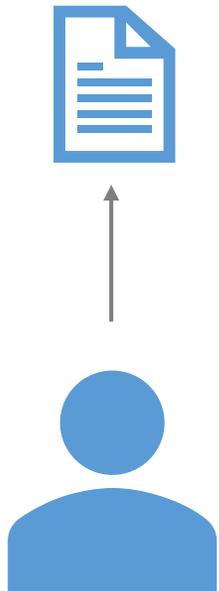
Weekly Time Sheet									
SUBRECIPIENT NAME									
								Employee:	
Week ending:	7/16/2021								
Day		CDBG-DR	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Total	Comments
Friday	7/1/2021								CDBG-DR: Performed applicant eligibility reviews
Saturday	7/2/2021								
Sunday	7/3/2021								
Monday	7/4/2021								

# DIRECT COSTS

2 C.F.R. §200.413

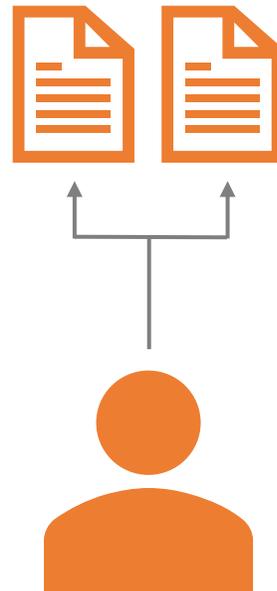
## Direct Costs

Staff Member A is fully dedicated to CDBG-DR (100%)



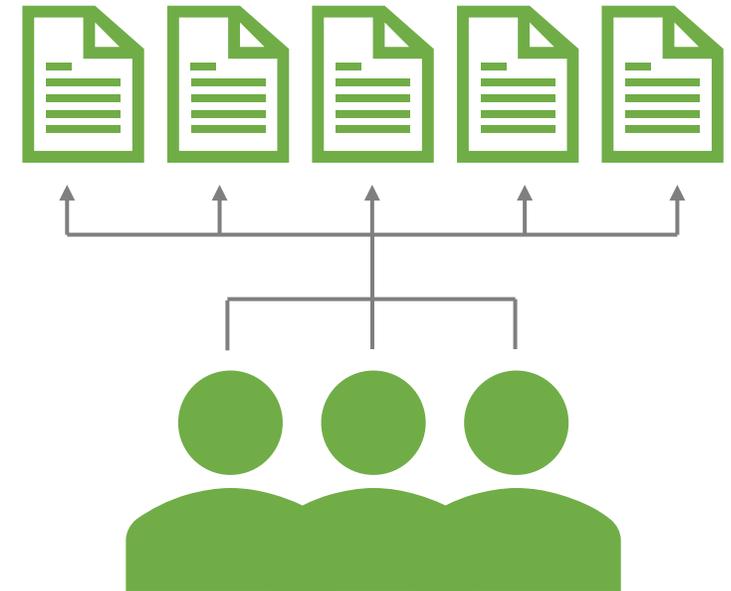
## Direct Costs

Staff Member B works on CDBG-DR 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 HCD.





# OVERVIEW OF INDIRECT COSTS

## 2 C.F.R. §200.414

Indirect costs are costs incurred for a common or joint purpose benefitting more than just the CDBG-DR award and not readily assignable to the CDBG-DR award without first determining the amount that can be reasonably charged to the CDBG-DR award.

**Examples** may include:

- *Rent and utility costs;*
- *Accounting and administrative staff;*
- *Internal auditing costs;*
- *Motor pools; and*
- *Computers and software.*



# INDIRECT COSTS: THREE OPTIONS

## 2 C.F.R. §200.414(d)

For a subrecipients to charge indirect costs, subrecipient agreements must require that one of the three (3) 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 subrecipient agreement includes requirements and provisions for charging indirect costs.

- If a subrecipient agreement allows indirect costs to be charged to the CDBG-DR award, subrecipients must first submit supporting documentation for one of the three options to HCD and receive written approval prior to requesting reimbursement for indirect costs.



# INDIRECT COSTS: DE MINIMIS RATE

## 2 C.F.R. §200.414(f) and § 200.1

Subrecipients that have never received\* a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of Modified Total Direct Costs (MTDC) which may be used indefinitely.

- \*As of November 12, 2020, subrecipients may charge de minimis rate if previously had negotiated indirect cost rate but negotiated rates expired.
- Non-Federal agencies receiving over \$35 million in direct Federal funding may not use the 10% De Minimis Rate.
- If chosen, this methodology once elected must be used consistently for all Federal awards until a CDBG-DR awardee chooses to negotiate for an indirect rate.
- No documentation is required to justify the 10% de minimis indirect cost rate.

## Modified Total Direct Cost (MTDC)

- MTDC includes all direct salaries & wages, applicable fringe benefits, materials & supplies, services, travel, and up to first \$25,000 of each subaward (regardless of the period of performance under the award).
- MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships & fellowships, participant support costs & portion of each subaward in excess of \$25,000.



# COMPUTING DE MINIMIS INDIRECT COSTS

2 C.F.R. §200.414(f)

**Example: Grant Award Amount = \$1,000,000**

Budget Line Item	Direct Cost	Exclude	MTDC
Direct Salaries	\$500,000	\$0	\$500,000
Fringe Benefits	\$75,000	\$0	\$75,000
Travel	\$5,000	\$0	\$5,000
Supplies	\$10,000	\$0	\$10,000
Subaward – Subrecipient #1	\$85,000	(\$60,000)	\$25,000
Subaward – Subrecipient #2	\$20,000	\$0	\$20,000
Marketing/Outreach	\$20,000	(\$20,000)	\$0
<b>Total Costs:</b>	<b>\$905,000</b>	<b>(\$80,000)</b>	<b>\$795,000</b>

Costs	Cost
Total Direct Costs	\$905,000
10% Eligible Indirect MTDC	\$79,500
<b>Allowable Reimbursement:</b>	<b>\$984,000</b>



# COST ALLOCATION PLANS AND INDIRECT COSTS RATES

## 2 C.F.R. §200 – Appendix V and Appendix VII

### Appendix V Cost Allocation Plans

- Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis.
- Since federally-supported awards are performed within the individual operating agencies, cost allocation plans provide the process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis.
- All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

### Appendix VII Negotiated Indirect Cost Rates

- A separate indirect cost rate is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.

#### **Examples:**

*Indirect costs may include subrecipient-wide central service costs, general administration of the subrecipient accounting, personnel services performed by the subrecipient, depreciation on buildings and equipment, and the costs of operating and maintaining facilities.*



# COGNIZANT AGENCIES

## 2 C.F.R. §200.1

### Cognizant Agencies

- A Cognizant agency is the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans, or indirect cost proposals developed under this part on behalf of all Federal agencies.
- All negotiated rates must be approved by the CDBG-DR awardee's cognizant agency.
- The cognizant agency is the Federal agency that awards the most funds to the CDBG-DR awardee.
- If awards provided by HUD, such as CDBG and CDBG-DR awards, represent the largest amount of funds awarded by Federal agencies, then the cognizant agency is the US Department of Health and Human Services (HHS).

### Guidance For Cost Allocation Plans and Indirect Cost Rates

- Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for States and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government."
- A copy of this brochure can be found here: <https://rates.psc.gov/fms/dca/ASMBc-10.pdf>



# DEVELOPMENT AND SUBMISSION REQUIREMENTS

## 2 C.F.R. §200.414(e)

The following requirements for development and submission of indirect cost rate proposals and cost allocation plans apply:

- **Appendix III:** Indirect Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs);
- **Appendix IV:** Indirect Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations;
- **Appendix V:** State/Local Governmentwide Central Service Cost Allocation Plans;
- **Appendix VI:** Public Assistance Cost Allocation Plans;
- **Appendix VII:** States and Local Government and Indian Tribe Indirect Cost Proposals; and
- **Appendix IX:** Hospital Cost Principles.



# AUDITS

- Single Audits





# TRAINING AGENDA

## 2 C.F.R. §200.501 & 200.514

CDBG-DR awardees, including HCD 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 CDBG-DR award

Subrecipients must provide to HCD the results of each Single Audit as required in the subrecipient agreement.

# Questions & Discussion

