CDBG GRANT ADMINISTRATION HANDBOOK

Updated May 2026

Chapter 4 – Financial Management

South Dakota Community Development Block Grant Program

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

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FINANCIAL MANAGEMENT

INTRODUCTION

Accurate financial record-keeping, including the timely deposit, disbursement and accounting of Community Development Block Grant (CDBG) funds is crucial to the successful management of a CDBG funded project. Grantees must take the following steps to prepare a financial management system to receive and utilize CDBG grant funds:

1. Appoint a person to be responsible for Financial Management,
2. Establish accounting records,
3. Set up bank accounts or separate ledger accounts, and establish receipting procedures, and
4. Establish procedures for approving invoices, submitting claims, and issuing payment to vendors.

Financial record-keeping is the primary responsibility of the Grantee's Chief Financial Officer, i.e. the Clerk-Treasurer or Auditor, or any other authorized individual as determined by the Grantee. The Grantee is responsible for the review and approval of all expenditures and claims of subrecipients. It is the responsibility of the Grant Administrator to advise, assist and counsel the Chief Financial Officer on administrative requirements in regard to the receipt, disbursement and accounting of federal funds and the records to be maintained. Failure to comply with financial management standards may result in monitoring and audit findings. Depending on the infraction, the Grantee may be required to pay back federal dollars. This chapter will focus on the records that must be maintained in order to receive and utilize CDBG funds.

APPLICABLE REQUIREMENTS

The CDBG regulations require grantees that are governmental entities or public agencies to adhere to certain administrative and financial management requirements. The CDBG regulations at 24 CFR 570.489 contain basic program administrative requirements.

All CDBG grants are required to comply with 2 CFR Part 200 (of the Code of Federal Regulations), the new 'Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.'

2 CFR Part 200 establishes principles and standards for determining allowable costs under federal grants. It also includes requirements for audits such as the type and level of audit required, reports issued by auditors, and audit review and resolution.

Finally, it includes requirements for financial management systems, reports, records, and grant closeouts for recipients of federal grant funding. Subjects covered include financial management standards, internal controls, budget controls, accounting controls, cash management, procurement, and contracting.

ESTABLISHING A FINANCIAL MANAGEMENT SYSTEM

The fundamental purpose of financial management is to ensure the appropriate, effective, and timely use of funds.

Specifically, grantees must ensure that:

- Internal controls are in place and adequate;

- Documentation is available to support all accounting records;
- Financial reports and statements are complete, current, reviewed periodically; and
- Audits are conducted in a timely manner and in accordance with applicable standards.

Requirements

In establishing a financial management system, grantees are to follow both 24 CFR Part 570, Subpart I and 2 CFR Part 200, which govern CDBG grantee financial management systems. GOED also imposes additional requirements that can be found throughout this chapter. Failure to appropriately document and account for all CDBG funds expended may result in monitoring findings from GOED or HUD, debarment from participation in GOED funded programs, and/or removal of good standing status by GOED.

A grantee's financial management system must provide for the following:

- Accurate, current, and complete disclosure of financial results;
- Records that identify adequately the source and application of grant funds;
- Comparison of actual outlays with amounts budgeted for the grant;
- Procedures to minimize the amount of time elapsed between the transfer of funds from the US Treasury and the disbursements by the grantee;
- Procedures for determining reasonableness and allowable costs;
- Accounting records that are supported by appropriate source documentation; and
- A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

The three basic functions, which must be served by the financial management system, are:

1. The financial management system must have an identified procedure for recording all financial transactions.
2. All expenditures should be related to allowable activities in the standard agreement approved by GOED.
3. All expenditures of CDBG funds must be in compliance with applicable laws, rules, and regulations.

2 CFR Part 200 also requires that grantees take reasonable measures to safeguard personally identifiable information (e.g., social security or bank account numbers) and other information designated to be sensitive by HUD or the state, consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality. More information on PII can be found in Chapter 7: Reporting and Recordkeeping.

Internal Controls

Internal controls refer to the combination of policies, procedures, defined job responsibilities, personnel, and records that allow a grantee (or subrecipient) to maintain adequate oversight and control of its cash, property, and other assets.

The soundness of any grantee's financial management structure is determined by its system of internal controls.

Specifically, the main goals of internal controls are to:

- Ensure resources are protected against waste, mismanagement or loss.;

- Ensure that accounting information is accurate and reliable; and
- Ensure reasonable cybersecurity measures are in place to safeguard sensitive information, including personally identifiable information (PII); and
- Ensure resources are used for authorized purposes and in a manner consistent with applicable laws, regulations, and policies.

As part of an effective internal control system, one person will be designated (per the financial management responsibilities checklist) as the primary person at the grantee organization responsible for the overall financial management of a CDBG project. This person should be familiar with their organization's present accounting system. Refer to 2 CFR 200.303 for more information.

Accounting Records

Each grantee should determine the accounting procedures that will assist in providing accurate and complete financial information. Grantees are required to maintain accounting records that sufficiently identify the source and use of the CDBG funds provided to them. All records must be supported by source documentation.

The grantee may have CDBG accounting records fully integrated into an existing accounting system. Grantees may also have partially integrated records into an existing system; however, ledgers should be developed to provide the required accounting information for the CDBG grant. Separate records eliminate potential conflicts with the grantee's usual record keeping systems.

At a minimum, a grantee's accounting system, must:

- Clearly identify all receipt and expenditure transactions of the grant; and
- Provide for budgetary control by tracking expenditures and accrued obligations by approved activity.

GOED staff and the grantee's auditors should be able to readily trace all transactions through the accounting system at any time during the grant period of performance or after grant close-out.

Budget Controls

The grantee must be able to report expenditures for each approved activity. A record of the account balances must be maintained for each approved activity that accounts for expenses accrued as well as obligations that have been incurred but not yet been paid out.

Source Documentation

Accounting records must be supported by source documentation. Source documentation includes items such as cancelled checks, paid bills, payrolls, time and attendance records, contract documents and other paperwork.

Source documentation should tell the story of the basis of the costs incurred and the actual dates of the expenditure. For example, source documentation on payments to contractors would include a request for payment, proof of inspection to verify work and materials, and, perhaps, cancelled checks. GOED encourages the use of purchase orders or payment vouchers when preparing expenditures for payment of any cost associated with the project. These documents are prepared in accordance with local policies and procedures as well as those required by federal regulations.

Allowable Costs

Any cost incurred must be allowable per 2 CFR 200.402 - 202.475. It is the grantee's responsibility to ensure that CDBG funds are spent only on those costs which are included in the Grant Agreement.

The grantee must establish policies and procedures for determining cost reasonableness, allowability, and allocability of costs.

ADMINISTRATIVE COSTS

There are two types of administrative costs: General Administration Costs (GACs) and Activity Delivery Costs (ADCs). GACs are those costs associated with implementation of the grant. These costs may include salaries for personnel who devote full or part time to the grant, supplies used for grant activities, and the cost of administrative services provided by other agencies. ADCs are those costs directly related to the implementation of grant activities.

General Administrative Costs (GACs)

GA costs may include, but are not limited to, the following categories:

- Salaries, wages, and related costs of the Grantee's staff engaged in activities associated with the general administration of the CDBG program, including general management, accounting, and auditing.
- Travel costs incurred in carrying out the general management of the program.
- Administrative services performed under third-party contracts, such as regional planning commissions, for general administration of the CDBG program.
- Costs for goods and services related to the general management of the program, including rental and maintenance of office space, insurance utilities, office supplies, and rental or purchase of office equipment.
- Costs incurred in providing information and resources to individuals, families, and households in the LMI group, and to citizen organizations participating in the planning, implementation, or assessment of the Grantee's program.
- Administrative funding can also be used for required fair housing activities.

If a cost cannot be associated with one of the above listed groups and cannot be associated with direct project costs, the GOED will, upon the Grantee's request, decide whether it is an administrative cost, an Activity Delivery cost, or an ineligible cost according to 24 CFR §570.489 and 24 CFR §570.482

In documenting general administrative costs, grantees should keep in mind:

- All general administration costs charged to the project must be documented through timesheets, purchase orders, or invoices.
    - Contracted grant consulting must be documented with the contract, including payment terms and all accompanying invoices.
    - Invoices for time and materials contracts must include timesheets.

Activity Delivery Costs (ADCs)

Activity Delivery Costs are any allowable costs incurred by the grantee for implementing and carrying out eligible CDBG activities.

All ADCs are allocable to a CDBG eligible activity that meets a national objective, including direct and indirect costs integral to the delivery of the final CDBG-assisted activity. ADCs are not Administration or funds used for the general operations of CDBG programs, but rather the costs incurred to achieve a specific eligible activity and meet a national objective.

Activity Delivery Costs may include, but are not limited to:

- Costs for completing a project specific environmental review and publication.
- Engineering/design/architectural services for a specific project.
- Marketing for a specific CDBG program.
- Development of program guidelines and application documents.
- Applicant intake/assistance, staff time to sit with applicants to fill out an application or collect income and application documentation.
- Costs of labor standards and section 3 requirements, such as weekly payroll review, employee interviews and documenting labor hours.

HUD does not establish a maximum ADC percentage as the level of effort and reasonable costs for ADCs will vary by program type, location, and scale. While GOED is not establishing an ADC cap, this section is designed to provide grantees with guidance to ensure program costs and ADCs are reasonable and necessary. Past HUD trainings have indicated that in general, ADC costs between 15-25% are reasonable for most CDBG programs. This range can be considered a safe harbor for reasonable ADCs. However, there may be times when significant investment in outreach, application assistance, complex environmental mitigation, etc. could significantly increase the ratio between ADCs and Activity Costs. If the ratio of ADC costs is outside of this safe harbor range, Grantees must ensure that in addition to CDBG required expenditure documentation, they have documentation in the program file demonstrating that higher ADC costs are reasonable and necessary.

NOTE: Activity Delivery costs other than A/E and environmental review are typically associated with the delivery of public services, housing rehab, and economic development programs.

NON-CDBG PROJECT FUNDS

Grant records should account for **all** funds committed to the project. The receipt and expenditure of the funds should be carefully documented. If leveraged funds are derived from a source outside the local government, project records should identify the source and amount.

ASSET MANAGEMENT

Grantees who maintain real or personal property paid in whole or in part with CDBG funds are required to properly manage these assets and to ensure that the assets continue to be used for their intended purposes in accordance with the CDBG regulations at 24 CFR 570.489(j) and (k) and 2 CFR 200.310-.316.

Grantees must maintain appropriate records of their assets, whether in their possession or in the possession of a subrecipient organization. Specifically:

- In the case of real property, meaning land and any improvements to structures on the land, grantees must maintain a current real property inventory, updated at least biannually. In cases where the grantee is maintaining land, grantees should also describe the intended reuse of the land and the timeframe for improving the land so that it meets a CDBG national objective.
- For personal property, grantees should maintain a fixed assets ledger that includes the following: a description of the property; any identifying information such as a serial number; the funding source (grant number); the acquisition date and cost; the federal share of the cost; and the location, use, and condition of the property; and disposition data. Grantees are required to conduct a physical inventory of personal property biannually to ensure that the property is being maintained in good condition and that there are procedures in place to prevent loss, damage, or theft of the property.

Change of Use

Grantees must maintain records that properly document the disposition of any CDBG-funded property. It should be noted that real property purchased or improved with CDBG funds in excess of the Small Purchase Threshold (currently $350,000) must continue to meet the CDBG national objective approved for the project for at least five years after close-out of the grant that funded the property purchase or improvement. Should the recipient choose to change the use of property, they must contact GOED to ensure that proper procedures are followed. Failure to do so can result in payback of the grant award. More information on Change of Use can be found in Chapter 8: Monitoring and Closeout**.**

REQUESTS FOR PAYMENT

Payments may be requested only after the Initial Requirements have been satisfied. (See Chapter 1: General Requirements)

Process for Requests for Payments

Instructions for completing the top and middle portion of the Form 4-1: Request for Payment

- Input the Grant ID number as assigned in the grant agreement.
- Input the drawdown request number.
- The subgrantee name and address must match the W-9 as submitted to the State.
- Pay request expenses itemized relative to the original budget request submitted.

Instructions for the “CERTIFICATION” section

1. Input the CDBG percentage portion of the project in the space provided (shown in the grant agreement under Section B, #4 “Basis for Subaward Amounts” on page 2).
2. Input the dollar amount requested in the space provided.
3. Input the percentage of physical completion of the project in the space provided.
4. Must have original signatures of authorized certifying official.

Required Documentation

- Includes the planning district's ledger tracking all project expenses.
- Submit source documentation for the requested funds. (Example, construction projects would include the AIA Document G702-1992 Application and Certificate for Payment.)

Submission

Draw requests may be submitted via regular mail or email. Emailed submissions may be either a digital signature format such as DocuSign or Adobe Signature, or a scanned PDF of the original ink signature. Draw requests must be submitted to the address shown below.

Governor's Office of Economic Development
711 East Wells Avenue
Pierre, South Dakota 5750l-3369
Stephanie.Deyo@state.sd.com

Additional Information

The amount requested on Form 4-1: Request for Payment **MUST** represent either eligible reimbursed expenses or the immediate cash requirements for the project. Only grant-eligible costs which have been incurred, or for which expenditures have been made as of the request date, can be claimed. Any amount, up to the total grant award, can be claimed if supporting invoices are submitted.

The amounts requested for each cost classification may not exceed the amount budgeted for CDBG in the grant agreement for that cost classification.

If the grantee is using CDBG funds to pay contractors (as opposed to requesting reimbursement for contractor pay requests), the funds must be disbursed within three banking days after the receipt from the State funding transaction. At no time should the money requested be more than what can be expended in this three-day limit. If it becomes apparent that a cash balance has been accumulated, its return will be required.

TIMELY EXPENDITURE

Grantees must minimize the time lapsing between the receipt of CDBG funds and their disbursement per 2 CFR 200.305, which states that grantees must adhere to Treasury Regulations at 31 CFR Part 205. To ensure that these requirements are met, all funds must be disbursed within 3 days of receipt. Failure to meet the timely distribution of funds will result in a finding at monitoring.

PROGRAM INCOME

Any proceeds generated from a CDBG activity, including repayment of funds, will fall into one of two categories: 1) program income, or 2) miscellaneous revenue. Different rules apply for each of these categories. This section defines each of these types of funds and the rules that will apply.

Under the CDBG Program, funds received by the Grantee as a result of a CDBG-funded activity are generally referred to as program income. Program income funds retain their federal identity **in perpetuity** and are ***subject to all federal requirements***.

What is Program Income (PI)?

Program income is defined as gross income of $35,000 or greater, received by a Grantee or a subrecipient of a Grantee that was generated from the use of CDBG funds regardless of whether or not the activity has been closed out. Examples of program income can be found at 24 CFR 570.489(e)(1).

Funds not considered program income will be identified as miscellaneous revenue (e.g. receipts totaling less than $35,000 in any given CDBG Program Year). These funds do not retain their federal identity, and federal requirements, such as environmental review, procurement, and labor standards, do not apply to the reuse of these funds. However, GOED requires grantees and subrecipients generating miscellaneous revenue track and report on all revenue generated by the CDBG activity.

Reporting Program Income

The grantee is required to report Program Income (PI) received to GOED. If a Grantee anticipates the receipt of CDBG Program Income they should notify GOED immediately for reporting instructions.

Use of Program Income

Program income must be used for eligible CDBG activities as listed in Section 105(a)(15) of the Housing and Community Development Act. Program income is subject to all of the rules and regulations governing CDBG funds including, but not limited to, compliance with: national objective, procurement, equal opportunity, environmental, labor standards, lead-based paint hazard treatment, etc.

CONTRACT REVISIONS AND AMENDMENTS

This section lists the type of grant amendments that may be requested, defines each type of amendment, determines whether an amendment is minor or substantial, describes the procedure for submitting a request, and includes the form on which to request an amendment. 2 CFR 200

Types of Amendments

1. Extension of Time

This type of amendment is determined as a MINOR amendment and must be requested when the subgrantee determines that all grant work cannot be completed prior to the grant expiration date.

2. Reduction in Effort

Per 2 CFR 200.308(f)(3) Grantees must request approval from GOED if the Grantee disengages from a project for more than three months or has a 25 percent reduction in time and effort devoted to the CDBG award over the course of the contract period. This is determined to be a MINOR amendment and must be requested if the Grantee (or Grant Administrator) is not able to show documented progress for 3 consecutive months.

3. Budget Revisions

This type of amendment must be requested when the subgrantee needs to make changes to either the CDBG grant funding or the total project budget.

MINOR amendments include:

- Change in total project costs of 20% or less.
- Adjusting the CDBG allocation percentage on the original grant agreement to correct the actual allocation on eligible expenses.

- Additional CDBG funding of 10% or less of the original award.

SUBSTANTIAL amendments: Any changes outside of the revisions under "minor" would require a substantial amendment further discussed on the next page.

4. Scope of Work

This type of amendment must be requested when expanding or reducing the approved scope of work to be performed.

MINOR amendments include:

Any change of scope that results in project changes of 20% or less. *(i.e.: a grant was approved for a 4,000 sq ft building, and the subgrantee decided to add an additional 700 sq ft room.)*

SUBSTANTIAL amendments include:

Any activity that results in a substantial change from the project that was originally applied for and approved in the grant agreement. *(i.e.: a grant was approved to construct 20 blocks of water and sewer mains, but the subgrantee is only going to construct 15 blocks of water and sewer mains, a substantial amendment must be submitted.)*

5. Special Conditions

This type of amendment must be submitted if a subgrantee wishes to seek approval to modify, eliminate, or extend a special condition on the grant award. Grantees should seek guidance from the CDBG Program Manager to discuss this request.

Procedures for Submitting and Acting on Request for Amendment

1. Minor amendments must be submitted at least 30 days prior to the grant expiration date.
2. Substantial Amendments require following the Citizen Participation Plan prior to submitting requests. A public hearing must be conducted to receive comments from interested parties on the proposed activities before an amendment may be submitted.
    a. Notice of the required public hearing should be given through an advertisement in a newspaper that is widely read by the persons who will be affected by the project. The notice should be published and posted in a public place 7 days prior to the public hearing. The notice must contain:
        i. The topic of discussion (the proposed project).
        ii. The date and time of the meeting.
        iii. The place of the meeting.
        iv. The amendment details proposed.
    b. Citizens must be given a 7-day comment period after the hearing before submitting Form 4-2: Request for Amendment.
3. All amendments must be submitted on Form 4-2: Request for Amendment and must be signed by the Chief Elected Official.
4. Approval of Amendments by GOED

a. Minor Amendments: if the request is approved by GOED, Form 4-2: Request for Amendment will be returned reflecting signed approval.

b. Substantial Amendments: if the request is approved by GOED, the approval will be transmitted on an updated Grant Agreement that must be signed.

All approved amendments will become a part of the original Grant Agreement and will be subject to all applicable conditions and assurances.

Notice is hereby given that (Grantee) will hold a public hearing on (date) at (time) at (location) to solicit public input on local community development and needs in relation to the Community Development Block Grant (CDBG) funding for a project in our community.

The (Grantee) is requesting to amend the Scope/Budget/Special Conditions for the CDBG grant to be used for the project in progress because _____.

Information related to this project will be available for review prior to the public hearing as of (date) at (Grantee address), between the hours of (9am-4pm Monday-Friday). Interested citizens are invited to provide comments regarding these issues either at the public hearing or by prior written statement. Written comments should be submitted to (contact name and address), no later than (date and time) to ensure placement of such comments in the official record of the public hearing proceedings. A plan to minimize displacement and provide assistance to those displaced has been prepared by the (Grantee) and is also available to the public. This project will/will not result in the displacement of any persons or businesses.

Persons with disabilities or non-English speaking persons who wish to attend the public hearing and need assistance should contact (local contact name) at (address and telephone) no later than 48 hours prior to the meeting date to allow for necessary arrangements. Every effort will be made to make reasonable accommodations for these persons.

For additional information or to submit written comments, send to (local contact name, title, address, telephone number). Comments should be postmarked by (date).

FINANCIAL STATEMENTS

Each grant sub-recipient is required to submit Form 4-3: Interim Financial Statement and Form 4-4: Final Financial Statement.

Form 4-3: Interim Financial Statements are due for every calendar year in which project expenditures were incurred. This includes both CDBG as well as all local expenditures.

The status of the project should include the accomplishments for the current calendar year being reported. It can include anticipated completion date, percentage of completion, reason for delay of the project, anticipated start date, etc.

The interim statements are required to be sent to the Governor's Office of Economic Development (GOED) no **later than January 31 of each year**.

Form 4-4: Final Financial Statement should be filed with GOED within **three months** of the project's completion.

AUDIT REQUIREMENTS

One of the primary financial management requirements implicit with the use of Federal funds is the single annual audit. 2 CFR Part 200 Subpart F provides requirements for audits of governmental entities and nonprofit organizations.

Grantee's or Subrecipients that have spent more than $1,000,000 in total federal funds within a fiscal year are required to have a Single Annual Audit conducted in accordance with 2 CFR Part 200 Subpart F except when they elect to have a program-specific audit conducted. ***For fiscal years beginning prior to October 1, 2025, the threshold is $750,000 per fiscal year.***

A program audit is an audit of one federal program (such as CDBG). A program-specific audit is allowed when the subgrantee expends federal awards under only one federal program. A single annual audit is an audit that includes both an entity's financial statements and its federal awards (from all applicable federal programs).

If a subgrantee expends less than $1,000,000 a year in federal awards ($750,000 prior to 2025), it is exempt from the audit requirements for that year; however, records must be available for review or audit by appropriate officials of the federal agency, the State, and the Government Accountability Office.

Subgrantees should contact the Department of Legislative Audit concerning audit requirements.

Department of Legislative Audit
427 S. Chapelle
Pierre, SD 57501
605-773-3595

Deadline and Submission

GOED receives copies of the single annual audit from the Department of Legislative Audit. Once GOED receives an audit, it will be reviewed for compliance. If an unresolved audit question occurs that involves a violation of applicable state or federal law, GOED may recall all, or any portion of, the affected CDBG monies, may request corrective action, or may declare the subgrantee to be ineligible for future grants or loans or future installments of an existing grant or loan. Any monies recalled or withheld would then be returned to the pertinent federal agency or redistributed by GOED as allowed.

After all the audits are completed and accepted, GOED will notify the subgrantee by letter that the Certificate of Completion has been approved and the CDBG grant is formally closed out. See Chapter 8: Monitoring and Closeout for more information and forms.

REVISION HISTORY

Revision	Date	Description of changes	Approved By
1.0	8/23/24	• Initial Release	S Deyo
1.1	3/26/25	• Updated Single Annual Audit requirement from $750,000 to $1,000,000 for all fiscal years beginning after October 1, 2025 per 2 CFR 200.501.	S Deyo
2.0	5/22/26	• Revised Form 3-3: CDBG Contract Provisions (PDF) • Updated hyperlinks • Updated requirements on Internal Controls per 2 CFR 200.303 • Revised Form 4-1: Request for Payment to include the 2 CFR 200.415 Certification requirement. • Revised Form 4-2: Request for Amendment per 2 CFR 200.308 • Revised Form 4-3: Interim Financial Report to include the 2 CFR 200.415 Certification requirement. • Revised Form 4-4: Final Financial Report to include the 2 CFR 200.415 Certification requirement.	S Deyo