

CDBG Financial Management and Procurement

Case Study #1

“Subgrantees: Which Rules are Followed?”

The Town of Darby applied for and was awarded a CDBG grant through its State and Small Cities CDBG Program. Darby has been awarded grants in the past and the staff of the Darby Office of Economic and Community Development (ECD) is well versed in the financial management and procurement requirements of the CDBG grants. In the past, the Darby staff either performed the work themselves or, through its procurement policy, obtained services and materials directly from vendors.

This time, however, Darby is going a different route. For the CDBG grant just awarded, Darby is going to enter into a subrecipient agreement with the Darby Central City Economic Development Coalition (DCCEDC), a newly formed nonprofit organization. DCCEDC is comprised of two staff members who understand economic development issues but have little knowledge of working with Federal grants. They will be working with the local community to develop a comprehensive economic development program for the downtown neighborhood.¹

ECD is working with DCCEDC to build the organization's capacity in working with Federal grants as well as delivering the programs planned in the grant. ECD staff will train and monitor DCCEDC's compliance with Federal financial rules.

1. Which set of Federal financial rules will apply to DCCEDC?
2. What steps should ECD staff take to ensure that DCCEDC staff meet the Federal financial rules?
3. How should DCCEDC handle indirect costs?

¹ Please refer to 24 CFR 570 for details regarding eligible CDBG activities.

Answer Key – Financial Management and Procurement Case Study #1: Which Rules are Followed?

1. Which set of Federal financial rules will apply to DCCEDC?

- OMB Circular A-133 (Audits of State, Local Governments and Nonprofit Organizations)
- OMB Circular A-122 (Cost Principles for Nonprofit Organizations)

2. What steps should ECD staff take to ensure that DCCEDC staff meet the Federal financial rules?

Each OMB Circular contains lengthy descriptions of allowable costs. Part of ECD's focus in training the DCCEDC staff should be to go through each of the allowable cost items listed in A-122 to ensure that there was a clear understanding by the DCCEDC staff of the costs that would be allowed. ECD should focus on those costs that DCCEDC is expected to incur in the project they were undertaking. ECD should also inform the staff that if unallowable expenditures are made, DCCEDC will have to reimburse Darby for the costs.

3. How should DCCEDC handle indirect costs?

There are two main categories of indirect costs: facilities and administration. "Facilities" includes depreciation and allowances on buildings, equipment and capital improvements, interest on debt associated with certain buildings, and operations and maintenance expenses. "Administration" includes general administration and general expenses, such as the director's office, accounting and personnel. DCCEDC will need an indirect cost allocation plan to document how the costs are applied to multiple programs.

Note: Refer to OMB Circular A-122 for methods for allocating indirect costs against multiple programs.