

FINANCIAL MANAGEMENT PROCESS

I. INTRODUCTION

Proper fiscal management of Arkansas Community and Economic Development Program (ACEDP) projects requires grantees to establish a financial management system that is consistent with Generally Accepted Governmental Accounting Standards (GAGAS) and provides sufficient documentation to enable preparation of A-133 Audits. (See the Audit Chapter of the ACEDP Administrative Procedures Manual for information regarding audit preparation.)

Section II below discusses each of the major steps required to establish a financial management system. Section III defines Request for Payment (RFP) preparation requirements and the ACEDP drawdown process. Finally, Section IV is a glossary of key financial management terms that are introduced in this chapter.

II. ESTABLISHING THE FINANCIAL MANAGEMENT SYSTEM

A. Open a Non-Interest-Bearing Checking Account

Each ACEDP project must have a separate, non-interest-bearing checking account opened prior to the initiation of financial transactions. Selected banks must be members of the Federal Deposit Insurance Corporation (FDIC) and be capable of receiving electronic direct deposit disbursements. Grantees are not prohibited from depositing and disbursing other sources of project funds through this account; however, this practice is discouraged because of the complexities that may arise from specific financial requirements of multiple agencies (e.g., eligibility determinations of costs, different individuals responsible for financial transactions and other ACEDP grant-specific requirements discussed below). **Fees should not be charged by the bank for the project checking account.**

Checks for this account must be pre-numbered and identify the name and/or number of the ACEDP project and the address of the grantee. **Use of unnumbered, “temporary” checks is not acceptable.**

B. Prepare the Bank Designation and Check Signature Form, the Request for Payment Signature Card, the Arkansas Direct Deposit System General Expense Direct Deposit Authorization Form, and the W-9 Request for Taxpayer Identification Number and Certification Form

Grantees will receive two copies of the Bank Designation and Check Signature Form (Form 2) and the Request for Payment Signature Card (Form 3) and one set of the Direct Deposit Information (Form 4) with three copies of the grant agreement. Grantees must complete each form and return two Bank Designation and Check Signature Forms, two Requests for Payment Signature Forms, and one Direct Deposit Form, each with original signatures, along with the completed W-9

form to the Arkansas Economic Development Commission prior to requesting grant funds.

The Bank Designation and Check Signature Form requires signatures of all persons designated to write checks on the project checking account and also provides information specific to the bank that will receive direct deposits of ACEDP funds. Grantees must designate at least two individuals as check signatory agents. Because one or more of these individuals may periodically be unavailable, grantees are urged to designate up to four individuals to sign checks so that payment delays may be avoided. **None of the designated individuals can have a pecuniary interest in the project or be designated on the Request for Payment Signature Card.** A sufficient internal control system requires that checks contain two signatures, one of which is an employee of the grantee bonded under the grantee's public employee blanket performance bond.

The Request for Payment Signature Card requires at least one signature. However, up to four individuals may be authorized to sign Request for Payment forms. As stated above, grantees are urged to designate more than one individual to sign Requests for Payment to avoid processing delays. These individuals also must have no pecuniary interest in the project and cannot be designated to sign checks from the project account.

The Direct Deposit Form packet documents specific information regarding the grantee's project bank account in order that the direct deposit system can be activated. **A copy of a voided check or deposit slip from this account must be submitted with this form.**

New forms must be submitted whenever an individual not previously designated signs checks or Request for Payment forms.

C. Establish Internal Controls

Internal controls are required to ensure that the grantee's financial management system defines specific processes governing the receipt and disbursement of ACEDP funds that are consistent with state law and GAGAS. Examples of internal controls include:

- Maintaining blanket performance bonds for all officers and employees of the grantee as required by state law.
- Requiring counter signatures on checks and Requests for Payment.
- Ensuring that the same individuals who request funds are not responsible for fund disbursement or recording financial transactions.
- Avoiding conflicts of interest.
- Maintaining accrual accounts. The accrual basis of accounting is the preferred basis of accounting as specified by GAGAS; however, grantees may utilize a modified accrual basis of accounting as long as it is disclosed by audit.
- Defining allowable/eligible grant expenditures as specified by the grant agreement (See Section II.D. below).

- Familiarization with financial requirements of the Arkansas Economic Development Commission (i.e., the Financial Management Chapter of the ACEDP Administrative Procedures Manual).
- Requiring a double entry accounting system with a general journal in which all transactions are recorded in detail and are reconcilable with subordinate ledger accounts.
- Maintaining source documentation such as invoices, bills, vouchers, etc., that are approved (signed and dated) by the grantee.

Basically, internal controls require that more than one individual be involved in financial management to avoid the likelihood that intentional or unintentional errors will be undetected or that funds are improperly received and/or expended.

D. Categorize Eligible Costs

To ensure that only eligible costs are reimbursed from ACEDP funds and to ensure that financial transactions are properly recorded in the accounting system, the grantee should review the grant agreement to determine the scope of eligible activities and classification of costs by specific budgetary line items of the grant agreement. To avoid confusion, the specific disbursement accounts established should be consistent with the grant budget line items. Below is a general description of eligible costs applicable to most ACEDP projects:

- **Construction Costs:** All costs must be specific to the scope of work defined in the grant agreement and consistent with the amount of work completed as confirmed by the contractor's estimates. Confirmation shall be in the form of signature by the engineer or architect who observed and can confirm that the work is consistent with the amount of grant funds requested.
- **Equipment:** ACEDP funds for equipment should be expended only when such equipment has been installed. Partial payment for equipment that has not been installed is acceptable as long as the amount requested is for the material cost of the equipment and not any labor that is to be performed. Only equipment specified in the grant agreement may be purchased with ACEDP funds.
- **Design Services (Architectural/Engineering Fees):** If expenditures for these services are included in the grant agreement, payment must be made on a pro rata basis consistent with the fee payment schedules specified in the applicable professional service contract. Payment in excess of these amounts shall not be made with ACEDP funds. Additionally, payment for "additional services" shall not be made unless prior approval has been obtained from the Arkansas Economic Development Commission grants manager. No Design Service funds shall be approved without the engineer / architect being current in SAM.gov and without a contract on file with AEDC.

- **Acquisition:** Expenditures for all activities budgeted in the grant agreement specific to acquisition can be paid with ACEDP funds in the amount(s) specified in the acquisition line item(s) of the ACEDP grant budget.

Examples of these activities include appraisal, survey, property purchases, legal condemnation costs, abstractor, filing/recording fees, relocation assistance to displaced property owners or businesses, and associated costs such as postage and publication.

- **Permits/Fees/Testing/Other:** All permits, fees and testing required as a specific component of the project may be made from ACEDP funds. Examples include Arkansas Department of Health plans and specifications review fees; discharge, construction, storm water and other permit fees required by state and federal agencies; and, soil and geotechnical testing.

All “other” expenditures must be justified in writing and approved by the Arkansas Economic Development Commission grants manager prior to payment. Questions regarding specific costs should be discussed with the grants manager for eligibility determinations and grant agreement amendments (if necessary) prior to expending ACEDP funds.

- **Legal Fees:** Except for condemnation filing, all legal fees are ineligible ACEDP grant expenditures.
- **Hookup Fees:** Eligibility for these costs must be determined on a project-by-project basis, according to the scope of work defined in the grant agreement.
- **Administration (Contract):** Payment must be disbursed on a pro rata basis consistent with the fee payment schedule specified in the ACEDP Contract for Administrative Services. Payment in excess of these amounts shall not be made because overhead expenses (e.g., travel, postage, lodging, materials) are included in the ACEDP Administrative Services Contract. No funds shall be approved without AEDC having a contract on file. Any costs for general administrative expenditures shall be categorized below as administration (general) expenditures.
- **Administration (General):** These expenses must be reasonable and directly attributable to grant expenditures incurred by the grantee. Specific examples include check printing costs, advertisement fees, costs for files, postage, printing and other grant-related activities. Total costs cannot exceed the amount specified in the grant agreement budget. Specific documentation, including receipts and invoices must be provided to document costs.
- **Administration (Audit):** Expenditures for the pro rata share of audit costs attributable to the audit of ACEDP funds can be paid only when audit approval has been obtained from the Arkansas Economic Development Commission. Although no ceiling for individual audit costs has been

established by the grants division, the total amount of audit expenditures cannot exceed the amount specified in the audit line item grant budget.

- **Force Account Work:** Grantees must maintain documentation for all labor, materials and supply costs performed for the grants division-approved force account projects. Such work must be specified in the grant agreement and cannot exceed budgeted amounts. Force account labor is exempt from Davis-Bacon requirements; however, workers must be paid the local minimum wage and weekly payrolls must be kept, as well as any other required information, as defined in the Labor Standards Chapter of the ACEDP Administrative Procedures Manual. All supplies and materials must be specific to the project and must be invoiced.
- **Connection Fees:** All costs incurred for modifications to existing utility systems necessary to serve the grant are eligible and reimbursable in the amount specified in the grant agreement. Disbursement should be no sooner than the commencement of construction activities after a written agreement between the grantee and the entity charging the connection fee has been executed.

All other costs, unless specified by the grant agreement, are ineligible for ACEDP reimbursement, unless specific determination to the contrary has been made by the Arkansas Economic Development Commission grants manager. Occasionally, eligible unbudgeted costs may be incurred during the project. Reimbursement for such expenditures may be made only if the grants manager's approval is received and proper budget adjustments to the grant agreement have been made.

Costs specific to other funding agency requirements, e.g., capitalized interest, preparation of non-ACEDP documents, etc., are ineligible for ACEDP grant reimbursement. Additionally, costs incurred prior to the execution of the grant agreement or issuance of an incur-cost letter by the grants division, are not eligible for reimbursement. Specific eligibility determinations by the grants manager should be requested as necessary.

E. Develop the Accounting System

The grantee's accounting system should be a double entry system which records receipt and disbursement of project funds as debits and credits in a general journal cash entry ledger page and separate disbursement accounts listed by expenditure type. The grantee's own accounting system can be used; however, only the accounts specific to the grant project should be established.

Once all expenditures have been identified as eligible, a chart of accounts must be developed to classify each expenditure into a particular account, which should be posted to a separate ledger page for each line item expenditure.

Chart of Accounts

Below is a sample chart of accounts for a typical ACEDP project. *(Note: This is only a sample; grantees must develop accounts applicable to the specific sources and uses of all funds included in the account.)*

Examples of Asset and Equity Accounts	
Account Name	Account Description
Cash	Cash held in the ACEDP project bank Account
Payroll (Equity)	Taxes and other withholdings payable
Escrow Cash	Cash set aside for specific future costs already incurred (e.g., condemnation or liquidated damages escrow accounts)

Examples of Revenue Accounts	
Account Name	Account Description
ACEDP Grant	Funds received through the Arkansas Economic Development Commission grant
Reimbursement	Repayment of funds expended from the ACEDP account or other refunds
Other Funding Source Specify (_____)	Funds from other funding sources, matching funds, etc. A separate account for each source of funds must be established if the account will process such funds
Program Income	Income earned by the grantee from grant-supported activities

Examples of Disbursement Accounts	
Name of Account	Sub-accounts (categorized by activity)
Administration (Contract)	ACEDP Administrative Services Contract expenses. The administrator should retain such documentation as payrolls, time sheets, expenditure vouchers, etc.
Administration (General)	Supplies, materials, printing, publication, postage, etc.
Administration (Audit)	A-133 Audit preparation costs
Construction	Specify sub-accounts for each construction contract
Equipment	Specify each piece of equipment purchased as one disbursement account
Labor (Force Account)	Salaries, fringe benefits, etc.
Engineering/Architectural	ACEDP engineering or architectural contract expenses. Subaccounts may include soil testing, geotechnical services, etc.
Other/Miscellaneous	Permit fees, testing, review fees, written assessments, etc.
Hookups	Work write-ups, inspections, plumbing contracts, tap fees, etc.
Acquisition	Purchase costs, abstractor, survey, appraisal, filing fees, condemnation, title searches, relocation of displaced individuals or individuals, etc.

The grantee should ensure that each activity in which expenditures will occur has been specified.

Basically, disbursement accounts will be those particular line items defined in the budget of the grant agreement while subaccounts will be particular subdivisions or components of line items.

Program income is any income generated as a result of grant-supported activities. Examples include: revenues derived from loan repayments from grant funds provided to localities; rental fees; retained bid bonds; certain assessment fees to recover capital costs of fees; etc. The grantee should contact the grants manager whenever program income is anticipated. Specific reporting and use of such funds will be determined on a project-by-project basis.

The General Journal/Ledger

The general journal is the book of original entry for all transactions showing the debits and credits for all transactions. Journal columns should be established for each source of funds and each major expenditure account. The sample general journal shown is typical of ACEDP projects. All general journal/ledgers should be reconciled at least monthly.

Ledger

A ledger is a book of final entry that summarizes each journal account (See chart of accounts). Usually, the ledger is posted monthly from the journal entries. As a matter of practice, most grantees prefer to establish multiple page ledgers with each expenditure account listed on a separate page. Posting the journal entries contained within the sample general journal would be as follows:

Account: Cash			
Date	Debit	Credit	Balance
10/31/07	35,000	34,900	100

Account: ACEDP			
Date	Debit	Credit	Balance
10/31/07		35,000	35,000

Account: Engineering			
Date	Debit	Credit	Balance
10/31/07	7,500		7,500

Account: Construction			
Date	Debit	Credit	Balance
10/31/07	25,000		25,000

Account: Acquisition			
Date	Debit	Credit	Balance
10/31/07	2,400		2,400

Cash Control Ledger

To ensure that ACEDP funds are disbursed in a timely manner, grantees should monitor cash flow through use of a cash control register. Below is an example of a cash control register. If only ACEDP funds are deposited into the account, grantees can monitor cash flow by maintaining the check register provided by the bank with the preprinted checks. At no time should the ACEDP account balance exceed \$5,000 for more than three business days.

Cash Control Register				
Project Name and Number: _____				
Date	ACEDP Receipts	Other Contributions/ Deposits	Disbursements	Balance

Contract Register

This register records financial transactions applicable to specific contracts and is recommended as a supplemental tracking system to the ledger entries, which record financial transactions for all expenditures within accounts. The advantage of using this tracking system is that remaining balances of particular contracts, as amended, can be determined at a glance. This is particularly useful when preparing requests for payment. The following example is a sample contract register for a construction linework contract.

Project:		790-03000-03		
Effective Date:		6/12/07		
Expiration Date:		12/30/07		
Contractor: More-Reliable Contracting			Contract Amount: \$100,000	
Payments			Change Order(s)	Remaining Balance
Date	Amount	Total to Date	Amount	
10/10/06	\$25,000	\$25,000		\$75,000
11/15/06			+\$10,000	\$85,000

General Journal								
Sources of Funds					Expenditure Classifications			
Date	Transaction	Cash Debit	Credit	ACEDP Funds Debit	Credit	Engineering	Construction	Acquisition
10/1/07	RFP #1	10,000			10,000			
10/2/07	“Reliable Engineering” Check 101		7,500			7,500		
10/2/07	Parcel Purchase-Bob Jones Check 102		2,400					2,400
10/9/07	RFP #2	25,000			25,000			
10/10/07	“More-Reliable Contracting” Check 103		25,000				25,000	

**List
other
expenditure
accounts
across
columns**

Source Documentation

Each grant transaction will usually generate its own source documents in the form of vouchers, checks, invoices, purchase orders, time sheets, payroll records, check stubs, receipts, cost allocation, plans, budgets, and similar materials. These documents serve as (1) the basis for making entries into the accounts, and (2) proof that the transaction occurred as reflected in the accounts. For these reasons, no entries are made in any account unless supported by a source document. The source document must be retained in the files. Every invoice should have an approval signature and date of approval on it as well as the check number and date payment was made.

Ultimately, financial management practices should be consistent with state law and any local ordinances governing the appropriation, receipt and disbursement of funds.

F. Establish and Maintain a Property Control System

The grantee must also establish and maintain a property control system, which inventories all property and equipment, acquired with ACEDP funds. Physical inventory should be verified annually for audit purposes, until the grant is closed out. A Sample Property Inventory Card is included as Form 6. Such record must include a description of the property, serial/model numbers, the date of purchase, the original purchase cost and location. Fixed asset and equipment records constitute one part of the general financial records of entities and must be made available to auditors during audit preparation.

The following general considerations should be examined when establishing a property control system:

- The title to real property acquired in whole or in part with ACEDP funds is vested with grantees. Long-term leases from the grantee, as owner to other entities are permissible.
- The disposition of property produces program income, which must be tracked according to specific processes developed by the Arkansas Economic Development Commission. Any property disposition should be discussed with the grants division prior to disposition.
- Property must be used solely for authorized purposes.
- Property must be inventoried annually during the life of the grant.
- All property should be “tagged” with identification numbers, permanent labels, engravings, etc., with information cross-referenced to the Property Information Card or the inventory system.
- Purchased property must be efficiently maintained and safeguarded to ensure adequate service throughout its useful life.

III. DRAWDOWN OF ACEDP FUNDS

Once the ACEDP grant is executed and the accounting system is established, grant funds may be requested or drawn down. All drawdowns must be requested by submitting a Request for Payment (RFP). Specific instructions regarding preparation of the RFP are on the reverse side of each RFP.

Below are basic guidelines for requesting and disbursing ACEDP funds.

- A. The signature(s) on the RFP must match those on the Request for Payment Signature Card.
- B. Requests must be specific to the project and be for incurred costs documented by attached source documentation such as receipts, vouchers, bills, invoices, etc. All invoices should be approved by the Mayor, County Judge, or Chief Operating Official.
- C. All grant expenditures must be allowable; necessary and reasonable for the proper and efficient administration of the grant; allocable to the grant; be authorized or not prohibited under state or local laws; and, conform to the limits or exclusions in federal laws and regulations.
- D. Although funds may be requested weekly, the Arkansas Economic Development Commission would prefer that drawdown requests not be submitted for amounts less than \$5,000 in order to reduce paperwork.
- E. The grants division processes RFP's on a daily basis. The grantee should allow approximately 10 days from the date of the RFP request until funds are directly deposited into project accounts.
- F. One copy of the RFP is for the grantee's files. The white copy and two other copies should be mailed to the grants division.
- G. If any program income is received, it must be spent before any additional grant funds are received. All new instances of program income must be reported to the grants division for use/disposition instructions.
- H. ACEDP funds must be expended in a timely manner in order that the checking account balance never exceeds \$5,000 for more than three business days.
- I. Grantees may elect to submit an initial RFP for \$1,000 without source documentation to pay for start-up expenses. Source documentation for such expenditures must be submitted on subsequent payments listing such paid expenses.
- J. All other sources of project funding must be exhausted prior to requesting more than 85 percent of the total ACEDP grant funds.

Each RFP must be filled out completely, contain no significant errors, and signed by the authorized official(s). When numbering RFPs, number each RFP, including rejected ones, consecutively. RFPs may be rejected for the following reasons:

- 1. If any dollar figure given is incorrect or does not correspond with source documentation.
- 2. If the signature(s) does not match the signature(s) on the Request for Payment Signature Card.
- 3. If the grant agreement number or grant identification number is incomplete.
- 4. If the bank account number is not listed.
- 5. If information contained in Section II of the RFP does not correspond to previously submitted RFPs.
- 6. If the amount requested has been rounded up inappropriately.

7. If typographical or mathematical errors affect the amount of funds requested.
8. If corrections appear on the final amount requested.
9. If carbon sets are not readable.

All RFPs will be carefully reviewed by the Arkansas Economic Development Commission. If errors are discovered, the grantee will be advised and may be requested to submit a new RFP with requested corrections. Accuracy in preparation of all reports is very important because when completed, each report will supply cumulative figures for subsequent RFPs.

IV. GLOSSARY

Account– Any system/method for accumulating additions and subtractions relating to a single asset, equity item, receipt, expense, etc. Examples include cash, construction contract, engineering, etc.

Accrual Accounting – The accrual accounting basis assumes that revenue is realized at the time of the sale of goods or services, irrespective of when the cash is received; expenses are recognized at the time the services are received and utilized, irrespective of when payment for these services is made. For example, if an employee works three days at the end of June, and he is not paid for that work until the end of the pay period the following month, the expense for three days of salary would be accrued in June. Under cash basis accounting, the salary for that three days would be recorded in July when the employee was actually paid.

Accounting records need not be maintained on the accrual method on a day-to-day basis; however, it must be possible to accumulate the necessary accrual information for audit purposes.

Adjusting Entry – An entry made to the general journal at the end of an accounting period to record transactions or other accounting events which, for some reason, have not been recorded or have been improperly recorded during the accounting period.

Audit – A systematic inspection of an accounting system involving analysis, tests, and confirmations. Each project will be audited by an independent auditor to determine the financial integrity of the ACEDP grant and to ensure compliance with program guidelines.

Balance – The difference between the sum of the debit and the credit entries in an account.

Book of Original Entry – A journal in which the various transactions of the program are recorded for the first time.

Budget – A financial plan that is used to estimate the results of future operations and frequently used to help control future operations. The grant agreement budget will form the basis against which the program's progress and performance will be monitored.

Capital Expenditure – An expenditure to acquire long-term assets such as the purchase of a building, land or similar items.

Cash – Currency and coins, negotiable checks and balances in bank accounts.

Cash Accounting – Cash-basis accounting assumes that revenue is realized when cash is received irrespective of the time of the sale of goods or services; expenses are recognized when payment is made irrespective of the time the services are received or utilized.

Cash Disbursements Journal – A specialized journal used to record disbursements by check.

Cash Receipts Journal – A special journal used to record all receipts of cash. Examples include cash receipts resulting from drawdown requests, any type of program income, and similar items.

Cost Classification – A budget line item breakout, such as acquisition, construction, and architecture/engineering fees.

Credit – An entry on the right hand side of an account. Records increase in equity and receipts; records decrease in assets and disbursements.

Debit – An entry on the left-hand side of an account. An entry to record increases in assets and disbursements; records decrease in equity receipts.

Disbursement – A payment of program funds.

Drawdown – Request for and the receipt of, grant money by the grantee.

Equity – An account type that normally carries a credit balance which may indicate net worth or net liability.

Escrow – Funds dedicated or set-aside for a specific purpose. Funds, set-aside for condemnation or liquidated damages, may be considered escrow funds.

Financial Statements – Reports, which present the financial performance of the grant program.

Fixed Assets – Building, machinery, or land.

General Journal – The formal record in which transactions, or summaries of similar transactions, are recorded in journal entry form as they occur.

General Ledger – The name for the formal ledger containing all of the accounts. It has equal debits and credits as evidenced by the trial balance.

Internal Control – The procedures used by program management in attempting to ensure that operations are carried out or recorded as planned.

Invoice – A document or bill from a vendor showing the details of a sale or purchase transaction. This is a source document.

Journal – The place where transactions are recorded as they occur. The book of original entry.

Journal Entry – A recording in a journal of equal debits and credits, with an explanation of the transaction, is necessary.

Post – To record entries in an account in a ledger; usually the entries are copied from a journal.

Program Income – Income earned by the grantee from grant-supported activities.

Reconciliation – A calculation that shows how one balance or figure is derived systematically from another.

Source Documents – The details of accounting transactions are recorded on source documents. Source documents may include purchase orders, contracts, vendor invoices, time distribution sheets, canceled check copies, grant receipts and journal vouchers. All employees paid in whole or in part from ACEDP funds or whose time is to be credited to the ACEDP program as local effort, are required to prepare time sheets allocating time to the specific activity for each pay period for which they have worked on ACEDP activities.

Sub-Cost Classification – Smallest budget line-item breakout such as property cost, appraiser, legal and abstractor under acquisition.

Trial Balance – A listing of accounting balances taken from the general ledger pages; all accounts where debit balances are totaled separately from the accounts with credit balances. The two totals should be equal.