

Section 5 – Financial Management

The objective of the Financial Management Section of the Weatherization Operations Manual is to outline the fiscal policy used by DNR/DE in the management of the Low Income Weatherization Assistance Program formula grant. The requirements are as follows:

I. Budget Submission and Revision

A. Submission

1. Budgets (*See Attachment 5-1 for budgeting instructions*)

Prior to awarding a subgrant, the following documentation must be submitted to the DNR/DE through MoWAP:

Detail Budget

Production services goals

Personnel descriptions with percent of position that is being funded through the grant

Indirect rate negotiation information

Proof of liability and pollution occurrence insurance

DOE subgrants require the following additional documentation:

Leveraging Plan. The subgrantee is required to submit a plan documenting how Leveraging funds will be managed. Approval of the Leveraging Plan is required prior to incurring costs in this budget category. The Leveraging Plan will include, but is not limited to, specific planned activities; targeted partners (e.g. landlords, utility, other agencies); and estimated outcomes, including dollar amounts.

Training and Technical Assistance (T&TA) Plan. The subgrantee is required to submit a plan documenting how T&TA funds will be managed. Approval of the T&TA Plan is required prior to incurring costs in this budget category. The T&TA Plan will include, but is not limited to, agency-specific priorities for training and technical assistance (e.g. major turnover of energy auditors will require investment in basic weatherization training, blower doors, heating systems, the National Energy Audit Tool (NEAT) and the Mobile Home Energy Audit (MHEA)).

2. Revisions

Budget revisions, as defined in 10 CFR 600, paragraph 600.125, must be submitted to DNR/DE through MoWAP. 10 CFR 600 details the circumstances that require budget revisions and when prior approval is required. Changes in the production schedule are considered as changes in the scope of work and require prior written approval by DNR/DE.

B. Budget Categories

1. Administrative Funds

Allocation: Each program year, DNR/DE allocates five percent (5%) of new funding to be allocated as administrative funds to the WAP agencies using the funding formula. A subgrantee allocated less than \$350,000 in total WAP funds may request up to an additional five percent (5%) in administrative funds. However, the additional funds are not in addition to the base grant, but will be taken from the program operations category. To qualify for increasing the administrative funds, the subgrantee must justify its need. The following items will be considered: (1) an approved indirect rate, (2) previous year expenditure for the WAP and (3) the planned purchase of equipment to manage the WAP.

Carryover: DNR/DE will authorize WAP agencies to carry over administrative funds in an amount equal to a subgrantee's unspent administrative funds from the previous program year providing the rate of administrative expenditures to total expenditures is not greater than the amount allowed in the budget section of the grant award. Discrepancies between the financial audit and reported expenditures will be adjusted in the next supplemental or regular budget period.

Total Administrative Budget: The total administrative budget is the sum of the new administrative funding allocated under the base grant, the amount of administrative funds carried over from the previous year and any increase approved as outlined above.

Restrictions:

- a) The WAP portion of the agency's single audit costs are not to be included as an administrative expense unless financial audit costs are included in the indirect cost pool of a negotiated approved, indirect cost rate. This expense is to be budgeted in the "Financial Audit" budget category.
- b) Non-administrative carryover funds may not be converted to the administration funds category.
- c) If a subgrantee's expended administration funds exceed twenty percent (20%) of total WAP expenses at the end of any reporting period, DNR/DE may require written justification from the subgrantee.

2. Insurance

All subgrantees must secure appropriate insurance coverage for their agency and their weatherization personnel. All insurance must be procured by the competitive bid process and must include these types:

Vehicular/Equipment Insurance to protect program property from damage and loss. All vehicles (and equipment where appropriate) must have personal and property liability

insurance.*

Liability Insurance for agency coverage, and for personnel who perform on-site work and pre- and post-inspections. Both personal injury and property damage, and completed product liability insurance must be included in this policy.**

Pollution Occurrence Insurance (POI) is required to be carried by each subgrantee. See the federal LIWAP website at www.waptac.org for additional information.**

Property Insurance to cover all weatherization materials and tools owned by the program from damage and loss.

Vehicular/equipment insurance and property insurance are Program Operations items and must be budgeted accordingly. Insurance coverage shall be at adequate amounts. * The type and extent of coverage shall be monitored by DNR/DE during monitoring visits.

*** Should the cost of the insurance exceed the value of the vehicle or equipment, replacement coverage need not be carried.**

**** Liability and POI insurance is to be recorded in the Insurance budget category.**

3. Financial Audit

Section 440.23 of the federal program regulations permits a separate budget category for financial audits. Unless financial audit costs are included in the indirect cost pool of a negotiated, approved, indirect cost rate, it is recommended to budget that expense in the "Financial Audit" budget category. This will help to not over-burden the limited administrative cost category.

4. Leveraging

Subgrantees may budget up to, but no more than, five percent (5%) of their grant allocation for leveraging activities. A leveraging plan is required to be submitted with each budget. Leveraging activities include paying for agency staff or hiring consultant staff to explore and develop partnerships with property owners, utility companies and other entities that generate non-Federal resources for the program. Other allowable activities include: holding leveraging meetings; preparing technical materials/briefs or facilitating voluntary match funds from a non-Federal source. The leveraged resources should expand energy efficiency services and/or increase the number of DOE-eligible dwelling units weatherized. The work done with leveraged resources must be consistent with an approved energy audit and utilize cost-effective measures. Leveraging efforts will not always be successful, but subgrantees should aim to produce more than one dollar leveraged for each DOE dollar expended.

Utility funds for weatherization obtained by the DNR/DE through utility regulatory cases or other actions may not be reported by subgrantees as leveraged funds.

5. Training and Technical Assistance (T&TA)

Expenses charged to this category are used to fund training to support weatherization activities, subject to restrictions found in 10 CFR 600. A T&TA plan is required to be submitted with each annual budget. T&TA activities are intended to maintain or increase the efficiency, quality and effectiveness of the Weatherization Assistance Program at all levels. Such activities should be designed to maximize energy savings, minimize production costs, improve program management and crew/contractor "quality of work" and/or the potential for waste, fraud and mismanagement.

6. Program Operations

Program Operations is defined as all expenses that directly support low-income weatherization operations. These include, but are not limited to, support (personnel and other expenses), labor, materials directly related to weatherizing homes, vehicle and property insurance, telephone and office supply expenses not allocated as administrative expenses under the agency cost-allocation plan and rental of office space.

C. Carryover Restrictions

Administrative, Leveraging and T&TA funds may be carried over in their respective categories or converted into Program Operations.

Program Operations funds may be carried over, but shall not be converted to Administrative, Leveraging or T&TA funds.

Federal WAP funds not spent by the end of a program year may be recaptured. However, fifteen percent (15%) of total WAP subgrant funds may be carried forward. If a subgrantee determines the need to carry over monies in excess of fifteen percent (15%) of grant funds, prior written approval must be obtained from the State. Before state approval may be granted, a detailed request that explains the necessity of the carry over funds and the circumstances that caused the subgrantee to carry over an amount greater than fifteen percent (15%) must be submitted. The request should also describe the corrective measures that will be taken to ensure that carry over funds will not exceed fifteen percent (15%) in the following year and have assurances that WAP clients have not or will not be deprived of WAP services. Funds in excess of fifteen percent (15%) of the base subgrant may be redistributed as determined by the State.

D. Cost Limits

1. Average Cost Per Home

DOE establishes a national average expenditure limit per home each program year. This average is identified in the State WAP plan and can also be found on the federal LIWAP website at www.waptac.org.

DNR/DE reserves the right to approve or reject certain costs as allowed expenditures. Costs for program operations that exceed the established annual average cost per home, as specified in 10 CFR 440 paragraph 440.18(b), may be repaid to DNR/DE if the statewide average is more than the amount specified in 10 CFR 440.

At the close of the program year, if the statewide average is less than the maximum allowed by program rule, but a subgrantee's average is above the maximum, DNR/DE reserves the right to recapture excess expenditures. Subgrantees may submit a request for waiver to DNR/DE attn: "Weatherization Program Director and Administrator."

During the program year, if DNR/DE determines that the average cost per home will exceed the maximum allowable annual average cost per home, additional cost restrictions may be imposed. Implementation of these limits will be based on data gathered by the State regarding actual cost averages and may be imposed on one or all subgrantees as needed. The State will notify the subgrantee by certified mail of the cost restrictions to be implemented and procedures for implementing the restrictions. Upon receipt of such letter, the subgrantee will be required to implement this procedure for all homes for which materials have not been ordered or for which a job order has not been issued to a contractor.

2. Multi-Family Dwellings

When WAP services are provided for multi-family dwellings, the following guidance applies:

- a) Single-family unit costs limitations apply.
- b) Total cost may not exceed the maximum cost allowance multiplied by the total number of eligible units.
- c) A waiver for the maximum cost of eligible units does not apply.

3. Incidental Repair Cost Limits

The Incidental Repair Cost Limit for site-built and mobile homes is \$600 in materials. A subgrantee is required to document and request prior approval for any incidental repairs requiring more than \$600 in materials. The request and approval/disapproval documentation should be included in the client file. **Incidental repairs, as defined in 10 CFR 440, means those repairs necessary for the effective performance or preservation of weatherization materials.** Such repairs include framing or repairing windows and doors which could not otherwise be caulked or weather-stripped and providing protective materials, such as paint, used to seal materials installed. Other types of incidental repair costs include repair of solid-fuel heating equipment, repair of permanently installed electric-resistance heating equipment, heating system repairs, primary door replacement, lumber, roofing materials, flashing, siding materials, masonry supplies, hardware for door repairs, kitchen/bath exhaust fans and clothes dryer vents.

4. Health and Safety Cost Limits

A statewide limit for the average cost per home for Health and Safety abatement costs has been set at ten percent (10%) of expenditures. DNR/DE recognizes that some hazards will be beyond the scope of the resources of the program to abate. Dwellings that contain such hazards will be rejected if a serious hazard is likely to be aggravated by the weatherization process or cause harm to the technicians working on the home. If conditions are found that endanger the occupants and are beyond the scope of the WAP, a subgrantee should take whatever actions necessary to inform the occupants and appropriate authorities. Additional health and safety information is available in the Weatherization Master File under Health and Safety Plans (See *State Plan* section of this manual).

II. Funding

A. Subgrant Advance

The purpose of up-front funding is to provide funds to cover the lag between the time a sub-recipient incurs an expense and is reimbursed by the State. All previous-year funds, including both cash and the value of inventory, held by a subgrantee at the close of the Program Year will be shown as an advance of subgrant funds against new funds to be allocated by the State and will be considered a portion of the current year's allocation. DNR/DE may withhold reimbursement requests in order to liquidate the advance. Advancements must be requested through MoWAP.

DNR/DE has established a policy of providing up-front funding.

The actual amount of advance funding will be based on the amount of expenditures the subgrantee expects to make in the first 60 days of the grant period. The initial advance will be reconciled with actual expenditures within the first 90 days of the grant period. However, this does not preclude the subgrantee from submitting additional advance funding requests after the initial advance has been at least 66.7% reconciled with actual expenditures. Any subsequent advance funding requests must be in 60 day or less increments, and must be reconciled with actual expenditures on or before the next 90 days of the grant period. No ensuing advance funding requests will be approved until the previous request has been at least 66.7% reconciled with actual expenditures. A less restrictive reconciliation schedule may be considered by DNR/DE on a case by case basis. There must be a zero agency fund balance (i.e., a full reconciliation of advances to expenditures) at the end of the grant period. Also, please be aware that advance funding is subject to federal cash management rules that can be found in CFR Title 10, part 600.122. Required documentation for upfront funding must be uploaded to the advancement request on MoWAP. The following are the basic requirements that must be followed:

- a) If advance funding is authorized, those funds must be deposited into an insured, interest bearing account.

- b) Advance funding requests cannot exceed twenty-five (25%) of the total grant amount unless the recipient demonstrates good cause.
- c) Recipients of advance funding must maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the subgrantee and that the subgrantees have financial systems that meets standards for fund control and accountability.
- d) The timing of cash advances shall be as close as administratively feasible to the actual disbursements by the subgrantee.
- e) Interest would be earned from the day the advance is deposited until it is withdrawn to make a payment and if any advance funding remains after payment (positive cash balance) it will continue to draw interest until it is withdrawn for another payment.
- f) If interest earned on the advance exceeds the dollar thresholds established (\$250 for a Non-Profit and \$100 for a state or local government) it must be repaid to the federal Department of Health and Human Services.
- g) The initial advance will be reconciled with actual expenditures within the first 90 days of the grant period. Any subsequent advance funding requests must be in 60 day or less increments, and must be reconciled with actual expenditures on or before the next 90 days of the grant period. No advance funding requests will be approved until the previous request has been at least 66.7% reconciled with actual expenditures. There must be a zero agency fund balance (i.e., a full reconciliation of advances to expenditures) at the end of at the end of the grant period.
- h) Reconciliation of the advance funding will begin the first month of the 90 day (three months) reconciliation cycle. Payment requests will be reduced by 33.3% of the advance funding amount in the first month, 33.3% in the second month and the remaining 33.4% in the third month of the 90 day reconciliation cycle. If payment requests do not cover the advance funding amount, then payment requests will not be paid until the advance can be reconciled with actual expenditures.

To support the amount of requested advance funding, the following documentation must accompany each request:

- i) Vehicles and Equipment – Submit bid documentation and copies of approval letters from DOE and DNR/DE for all vehicle purchases or equipment that costs over \$5,000 per unit, for the expected purchases that will be completed during the period for which advance funding is being requested. In addition, provide information regarding the number of vehicles the agency plans to keep (year and approx. miles), those the agency plans to get rid of (year/miles), number of existing staff and number of new hires to show the need for the additional vehicles.

- j) Training – Submit type of training, cost, and employee(s) or contractor(s) that will be attending training during the period for which advance funding is being requested.
- k) Names and addresses of the homes that will be weatherized during the period for which advance funding is being requested.
- l) Dates when weatherization work is scheduled to begin on each of the homes.
- m) If energy assessments have been performed on the homes, include the projected cost of completing the weatherization work. Costs should include support, materials and labor.
- n) Additional space costs – Submit copy of lease/rent or space allocation agreement.
- o) Any additional documentation that the agency considers important to support the request for advance funding.
- p) Written procedures that outline advance funding requirements in accordance with CFR Title 10, part 600.122.

Advance funding requests are to be completed through the MoWAP system. This is done through the Advancements Screen which can be accessed from the main menu. Supporting documentation for the advancement can be uploaded on the Advancements Screen through MoWAP or it can also be sent to DNR/DE by e-mail, fax, or by mail.

B. Reimbursement

The intent of DNR/DE is to process reimbursements in a timely manner if proper documentation is submitted.

The State's preferred method of payment is reimbursement.

Reimbursement requests shall be submitted through MoWAP. See *Section 4* of this manual for reporting requirements.

Agency Fund Balance. If a subgrantee's agency fund balance (funds on hand) exceeds twenty percent (20%) of the grant at the end of any reporting period, DNR/DE may require written justification from the subgrantee and may withhold reimbursement requests in order to liquidate fund balances.

Upon receipt of the reimbursement request, DNR/DE shall perform an analysis of the request and shall initiate reimbursement procedures. The purpose of the analysis is to review revenue and expense categories and identify significant variances from the subgrant budget as well as non-compliance with expense and revenue limits. Client files reported on the reimbursement request are reviewed to ensure compliance with WAP program rules and technical standards.

Any corrections or revisions noted by DNR/DE staff that need to be completed by the weatherization agency before reimbursement can be authorized will be relayed to the agency through MoWAP and email, and documented in the agency monthly report files.

Once DNR/DE's review is complete and reimbursement approved, DNR/DE staff will enter and approve reimbursement requests in the SAM II state accounting system for payment.

To ensure a zero agency fund balance at the end of the program year, DNR/DE will withhold a portion of the monthly report payments during the fourth quarter of the program year until the agency fund balance is zero.

III. Asset Management

A. Inventory

Materials inventory shall be valued on the Agency's Balance Sheet using the First In First Out (FIFO) inventory valuation method.

Agencies may choose either the perpetual or periodic inventory system. If the perpetual system is chosen, the agency must submit the results of a reconciliation between a physical inventory and the general ledger carrying value of the inventory, as of the end of the Program Year. The results of the reconciliation shall be reported on the final monthly report as inventory gain/loss.

B. Equipment

Reportable equipment and vehicles are defined as equipment with a cost equal to or greater than \$5,000.

The agency must insure its equipment in accordance with the provisions of 10 CFR 600.

DNR/DE requires an annual equipment inventory. The results of the annual inventory are due to DNR/DE not later than December 1 of the current Program Year. (*See Section 6, Procurement Attachments, for the Vehicle and Equipment Inventory Form*)

Sale of Equipment/Property Disposition. (*See Section 6, Procurement, subsection III*)

IV. Sale of Weatherization Materials

During a transition from crew to contract labor, a subgrantee may dispose of remaining materials to contractors at the price at which the subgrantee purchased the material. In its bid request, the subgrantee may note that it will require the winning contractor to purchase the remaining inventory at cost as needed to complete the work assigned. The request for bid should list approximate quantities and prices in order to help the bidders determine how this requirement will affect their costs. The subgrantee shall not purchase new materials for this purpose.

V. Closeout of Weatherization Program Years

Subgrantees may only report homes as completed that have all work, a final inspection and all re-work completed by the end date of the Program Year specified in the Terms of Grant Agreement. Only services or supplies received prior to the end of the Program Year will be reimbursed by DNR/DE (i.e., services, office supplies). DNR/DE will not reimburse the cost of any material inventory or for homes in progress. Homes in progress are to be classified as inventory and must be carried over into the next Program Year.

A home in progress is a home for which one of the following applies: (1) energy conservation measures (ECMs) have actually commenced, (2) specialty items have been ordered that cannot be returned to the vendor or (3) the home has been awarded to a contractor.

VI. Final Reports and Audits

A. Final Reports

Authority to spend subgrant funds is for a specific time period. The final report must document accrued expenditures and ending inventory as of June 30th of the Program Year. Each subgrantee must submit an accurate final report within 30 days following the completion of the Program Year.

B. Audits (See Attachment 5-2)

A complete audit report is due to DNR/DE within nine months from the end of the agency's fiscal year or thirty days from the date the final report is submitted to the recipient by the independent auditor.

All figures on the final report are subject to auditor confirmation. A copy of the agency single audit shall be submitted to DNR/DE. See the WAP audit guide for guidance concerning agency single audits. All accounts payable must be liquidated. Subgrants will not be considered concluded until the State sends the subgrantee an audit review letter and a management decision letter, if applicable. **Discrepancies between the final report and the auditor prepared schedules in the audit report have to be reconciled prior to submission otherwise the audit report will be forwarded to the agency's Board of Directors for corrective action.**

VII. Program Income

DOE defines program income as any funds earned by grantees and/or subgrantees from non-Federal sources during the course of performing DOE Weatherization work. The income generated must be used to complete additional dwelling units in accordance with U.S. DOE rules.

Program income is subject to the specific guidance provided in the DOE Financial Assistance Rule, 10 CFR 600, Subpart B, Section 600.124 and Subpart C, Section 600.225, as appropriate, and should be treated as an addition to program funds and are subject to the same rules as appropriated funds. Because of changes to 10 CFR 600, DOE will stipulate, in the grant award, that program income is

to be treated as an addition to program funds. Property owner (i.e. landlord) contributions and leveraged resources (i.e. utility or State funds) are NOT considered to be "program income" for the purposes of the Weatherization Assistance Program.

VIII. Terminology Definitions

Grant Balance. The total agency grant amount, minus reimbursable expenditures. This is the, "Available" field as displayed on the MoWAP Reimbursement screen.

Agency Fund Balance. The beginning agency fund balance plus reimbursements, minus the agency's reimbursable expenditures.

Reimbursable Expenditures. Allowable costs incurred by the agency within the specified program year. This is the, "Current Expenditures" field as displayed on the MoWAP Reimbursement screen.

Beginning Agency Fund Balance. The funds an agency has at the beginning of the program that were carried forward from the previous Program Year.