FINANCIAL MANAGEMENT

CDBG-DR

County of Maui, Office of Recovery
Email: cdbg-dr@mauicounty.gov
Phone: (808) 270-6267

Version History

Version	Date	Summary Description
1.0	06/04/2025	Final version submitted to HUD for FM Certification
	06/13/2025	HUD Approved

Table of Contents

1. Overview

Pursuant to Public Law 118-158 allocations, 90 FR 1754 requirements, and Maui County Code 2.84.040(B), the County of Maui Office of Recovery (OOR) is required to certify and document its financial management systems and internal control framework. This framework must reasonably demonstrate the eligible use of Community Development Block Grant – Disaster Recovery (CDBG-DR) funds and minimize the risk of noncompliance by providing:

- Proficient financial management and accounting system documentation and controls
- Full and open, competitively compliant procurement
- Prevention of duplication of benefits
- Timely and compliant use and tracking of expenditures for approved projects
- Financial and compliance reporting
- Procedures for detecting and preventing fraud, waste, and abuse (FWA)

The County OOR is responsible for the compliant, efficient, and transparent management of CDBG-DR funds. Financial operations will be carried out in accordance with established policies and procedures that align with federal cost principles, internal controls, and generally accepted accounting principles (GAAP).

The County's Capacity Assessment and Staffing Analysis outlines the roles, responsibilities, and organizational structure supporting this financial framework. Dedicated CDBG-DR personnel, including a Fiscal Officer, Grant Manager, internal audit function, and supporting fiscal staff, are in place to ensure robust oversight and accountability throughout the grant lifecycle.

The County's financial management system is designed to:

- Align Action Plan spending with compliant procurement and accounting practices to track actual expenditures and support timely reporting and financial analysis
- Promote transparency and clear accountability at all operational levels
- Ensure that all costs are reasonable, necessary, allowable, and properly allocated

a. Program Allocations

The U.S. Department of Housing and Urban Development (HUD), through its Office of Disaster Recovery (ODR) within the Office of Community Planning and Development (CPD), awarded the County of Maui $1,639,381,000 in Community Development Block Grant – Disaster Recovery (CDBG-DR) funds to support long-term recovery from the Hawaii Wildfires (DR–4724–HI). These funds, made available under Public Law 118-158: The Disaster Relief Supplemental Appropriations Act, 2025, are intended to address unmet needs after all other forms of assistance have been used.

To guide the use of these funds, the County OOR developed a CDBG-DR Action Plan that outlines how funds will be used to support recovery in the most impacted areas. The Action Plan is based on an analysis of wildfire damage, remaining unmet needs, and community input.

HUD has provided regulatory waivers and flexibilities through Federal Register Notice 90 FR 1754 (January 8, 2025), to help accelerate recovery and adapt the CDBG program to disaster conditions. The County OOR will apply these flexibilities to deploy funds efficiently and in compliance with program requirements.

The County OOR is committed to ensuring that CDBG-DR funds benefit low- and moderate-income (LMI) households, as required by Section 103 of the Housing and Community Development Act. Based on available data, funding allocations in the Action Plan prioritize the greatest needs, especially in housing and infrastructure. These categories account for over 60% of the total identified unmet needs, which exceed $6 billion.

HUD has also set limits on how much of the total grant can be used for certain activities:

- Public Services: up to 15%
- Planning: up to 15%
- Administration: up to 5%

To develop the Action Plan, the County engaged disaster-impacted residents, local governments, housing authorities, and other stakeholders. Input was collected through community meetings, consultations, surveys, and public comment opportunities, both online and in person.

As recovery progresses and new needs emerge, the County OOR may update the Action Plan. However, the HUD-imposed percentage caps on administrative, planning, and public service costs will remain fixed.

Table 1: Unmet Needs and Program Allocation

Category	Remaining Unmet Need	% of Unmet Need
Housing	$ 2,427,723,167.00	35.3%
Economic Revitalization	$ 2,422,500,000.00	35.2%
Infrastructure	$ 1,932,225,151.77	28.1%
Public Services	$ 105,000,000.00	1.5%
Total Unmet Need	**$ 6,887,448,318.77**	**100.0%**

Category	Program Allocation Amount	% of Program Allocation
Administration	$ 81,969,050.00	5.0%
Housing	$ 903,579,950.00	55.1%
Mitigation	$ 213,832,000.00	13.0%
Economic Revitalization	$ 15,000,000.00	0.9%
Infrastructure	$ 400,000,000.00	24.4%
Public Service	$ 25,000,000.00	1.5%
Total Program Allocation	**$ 1,639,381,000.00**	**100.0%**

Source: County of Maui CDBG-DR Action Plan

2. Responsible Positions, Roles, and Responsibilities

The following section outlines the organizational structure and supporting roles that ensure compliant and effective administration of CDBG-DR funds under the County OOR.

a. County of Maui, Budget Office

The County's Budget Office will be responsible for reviewing and providing ongoing budget analysis and guidance, coordinating all departmental budget requests, and presenting these requests to the Mayor for final approval.

b. County of Maui, Department of Finance

The Department of Finance is responsible for the overall financial administration of all County departments. The administration, accounts, treasury, and purchasing division will further support the County OOR funding. Functions performed by the Department of Finance include, but are not limited to:

- Maintaining records of financial transactions
- Receiving and depositing revenues
- Issuing checks for both vendors and employees
- Investing surplus revenue
- Monitoring all payment transactions for both accuracy and adherence to relevant policies, procedures, codes, ordinances, and statues
- Maintaining and monitoring information in a database for the County's fixed asset inventory

i. County of Maui, Department of Finance, Purchasing Division

The Purchasing Division serves all departments and divisions within the County. Its primary responsibility involves optimizing the values of goods and services purchased with emphasis on fairness to all parties and efficient use of taxpayer dollars. In addition to servicing the customers, the division is also responsible for ensuring compliance with the State and County procurement laws to include sole source, emergency, small purchase, and exemptions. Services include:

- Processing of purchase orders
- Management of the procurement card program
- Managing travel processes and paperwork
- Management of all procurement methods/processes as defined by 103D of the Hawaii Revised Statutes
- Assists and advises on the writing of specifications to ensure compliance with HRS/HAR
- Developing and maintaining of County price lists
- Handling disputes and protests
- Maintaining the vendor database
- Managing the processing of contracts and grants
- Document management of procurements, contracts, and grants

ii. County of Maui, Department of Finance, Treasury Division

The Treasury Division manages County funds by providing banking management for the County including but not limited to CDBG-DR draw requests and program income.

The Treasury Division consists of the following sections:

- Investment and Banking – Provides centralized management and investment of the County's cash, ensuring its investments are secure and adequately collateralized, along with debt management responsibilities and billing, and collection for various County charges

- Real Property Tax (RPT) Collections – Collects all real property taxes and fees, administers the tax relief program, and oversees the tax sale of properties with delinquent taxes

c. County of Maui, Office of Recovery (County OOR)

The County OOR serves as the central coordinating body for all disaster recovery operations, overseeing both strategic planning and program implementation. Led by the Office of Recovery (OOR) Administrator, the office directs the execution of recovery initiatives across six Recovery Support Functions (RSFs): Community Planning, Economic Revitalization, Health and Social Services, Housing, Infrastructure, and Natural and Cultural Resources. The County OOR works closely with local, state, and federal partners to prioritize and address intermediate and long-term recovery needs. To strengthen oversight and accountability, the department will engage an internal auditor who will report directly to the Mayor.

Contact
The County OOR is responsible for ensuring compliance with HUD CDBG-DR funding. To connect with the County of Maui, Office of Recovery regarding these efforts, please contact:

- **Phone:** 808-270-6267
- **Email:** cdbg-dr@mauicounty.gov

d. County of Maui, CDBG-DR Program Office

The County CDBG-DR Program Office is housed in the OOR and is responsible for administering the CDBG-DR funds allocated to Maui County. The CDBG-DR Program Office is responsible for ensuring HUD compliance for CDBG-DR funding. The program office is led by the CDBG-DR Program Chief and includes a CDBG-DR Fiscal Officer, who both reports directly to the OOR Administrator.

A detailed Capacity Assessment and Staffing Analysis was developed to ensure the County has the resources necessary to manage CDBG-DR funds in full compliance with federal requirements. Dedicated CDBG-DR staff are assigned across key areas including grant management, fiscal oversight, procurement, compliance, and internal audit. Further information on staffing roles and responsibilities can be found in the Capacity Assessment.

Financial policies and procedures are implemented and overseen by trained staff, including a CDBG-DR Fiscal Officer and Grant Manager, to ensure accurate budgeting, expenditure tracking, and reporting. Cross-functional teams are in place to monitor performance, maintain internal controls, and ensure timely drawdowns and reconciliation. This staffing structure ensures the program funds are effectively managed and meet all financial compliance obligations.

3. Fraud, Waste, and Abuse

The County OOR is responsible for preventing, detecting, reporting, and addressing instances of fraud, waste, and mismanagement. A separate policy outlines detailed procedures to prevent, detect and report suspected fraud, waste, and abuse.

To further support the CDBG-DR program, an independent auditor will be employed to conduct both financial and programmatic oversight of activities. In addition to ensuring compliance, the auditor will also be responsible for detecting potential fraud, waste, and abuse. The independent auditor shall report directly to the Mayor, the Chief Executive Officer.

4. Internal Controls

The County OOR and its subrecipients will establish, document and incorporate internal controls into their financial management system as required by 2 CFR 200.303. These controls will include processes, procedures, and technical safeguards implemented by administration, senior leadership, and other personnel to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance. The internal control system must conform to the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and will:

- Provide reasonable assurance that the County OOR and its subrecipients are managing the federal award in compliance with federal, state, and local statutes, regulations, and the terms and conditions of the federal award
- Comply with the "Internal Control Integrated Framework" issued by COSO, as outlined in the COSO framework principles table below
- Provide a means to evaluate and monitor compliance with statutes, regulations, and the terms and conditions of federal awards, including detection and prompt action to address fraud, waste, and abuse
- Define prompt actions to be taken when instances of noncompliance are identified, including noncompliance identified in audit findings
- Ensure reasonable measures to safeguard protected personally identifiable information (PII) and other information that the federal awarding agency or pass-through entity designates as sensitive, or that the non-federal entity considers sensitive, in accordance with applicable federal, state, and local laws regarding privacy and confidentiality

The COSO framework for internal controls has five components – the control environment, risk assessment, control activities, information and communication, and monitoring. The following results from adequately implemented internal controls:

- Fund oversight to ensure the appropriate use of funds
- Separation of duties including authorization, reviews, payment management, reporting, and monitoring. No single person can have the authority to authorize a transaction, execute a transaction, record a transaction, and have custody of any resulting assets. Internal controls require that multiple people with different roles review every financial transaction. Report and entry cross-checks are conducted to ensure budgets, costs, records, and reports are reconciled
- Risk assessments, compliance reviews, and monitoring are used to 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

a. COSO Framework-Components and Principles

The following COSO components and principles are integrated into the financial management processes and internal controls of the County OOR and its subrecipients. The County OOR promotes the operationalization of these internal controls for CDBG-DR through documented procedures, activities, tools, and techniques identified in its Internal Control Policies and Procedures. To clearly demonstrate adherence to COSO principles, internal controls will be identified in the financial management procedures using document tags that correspond to the relevant COSO principles (e.g., IC-1, 6, 10).

Table 2: COSO Principles

Internal Control Component	Principles
Control environment	1. Demonstrates commitment to integrity and ethical values. 2. Exercises oversight responsibility. 3. Establishes structure, authority, and responsibility. 4. Demonstrates commitment to competence. 5. Enforces accountability
Risk assessment	6. Specifies suitable objectives. 7. Identifies and analyzes risks. 8. Assesses fraud risk. 9. Identifies and analyzes significant changes.
Control activities	10. Selects and develops control activities. 11. Selects and develops general controls over technology. 12. Bases controls on thorough policies and procedures.
Information and Communication	13. Uses relevant information. 14. Communicates internally. 15. Communicates externally.
Monitoring	16. Conducts ongoing and/or separate evaluations. 17. Evaluates and communicates deficiencies.

5. Cost Principles

The County OOR and its subrecipients are responsible for complying with the cost principles outlined in 2 CFR § 200.400 and ensuring that all CDBG-DR funds are used effectively, efficiently, and in accordance with federal requirements. Under these principles, the County and its subrecipients must:

- Manage the CDBG-DR award using sound and efficient practices
- Administer federal funds in line with the grant agreement, program goals, and federal award conditions
- Apply appropriate management strategies that reflect the County's staffing, facilities, and operational capacity
- Incorporate cost principles into internal accounting systems that accurately track and document all costs

- Follow HUD's and the County's approved indirect cost allocation plan, which ensures fair and reasonable treatment of administrative costs
- Not retain any profits or earnings from federal funds unless specifically allowed in the terms of the federal award or subrecipient agreement (see also 2 CFR § 200.307 and 24 CFR § 570.204)

According to 2 CFR Part 200, Subpart E and 24 CFR § 570.502, all costs charged to CDBG-DR must be necessary and reasonable. Additionally, 2 CFR § 200.402 defines the total cost of a federal award as the sum of:

- Allowable direct costs, plus
- Allocable indirect costs, minus
- Any applicable credits

These classifications guide how budgets are developed and how costs are assigned to program activities. If any conflict arises between definitions in 2 CFR Part 200 and 24 CFR Part 570, the definitions in 24 CFR Part 570 will apply (2 CFR § 200.101).

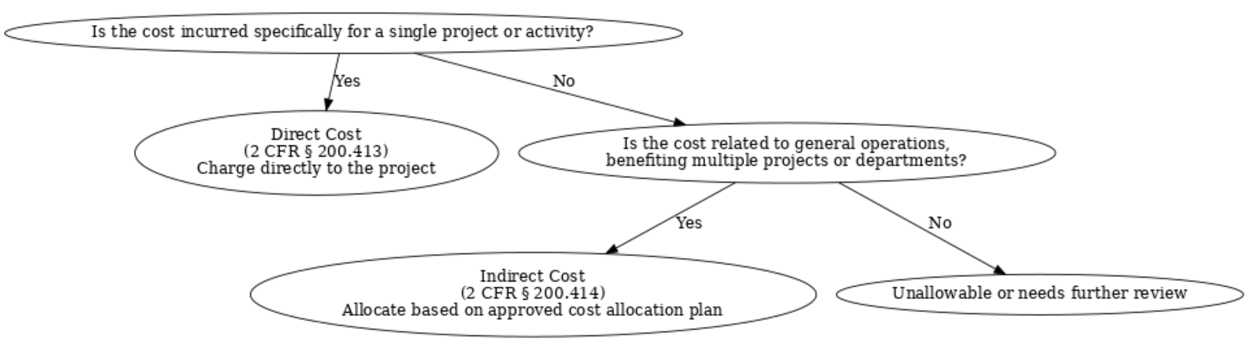
a. Classification of Direct and Indirect Costs

The County OOR will classify each cost item consistently—as either a direct cost or an indirect cost—based on its purpose and use, as required by 2 CFR § 200.412. This ensures that the same cost is not charged to federal awards more than once.

- Direct costs will be classified following 2 CFR § 200.413.
- Indirect costs will follow the guidance in 2 CFR § 200.414.
- If applicable, cost allocation plans will be used to document and justify central service costs, as outlined in 2 CFR § 200.416.

Subrecipients must clearly explain how they account for their direct costs and provide enough detail to show how they developed their project budgets and assigned costs to the appropriate accounting categories.

Figure 1: Direct or Indirect Cost Decision Tree



i. Direct Costs Definition and Determination

Direct costs are expenses that can be clearly and directly tied to specific projects or programs. These costs can be assigned to those activities.

According to 2 CFR § 200.403(a) and 2 CFR § 200.405, costs for the same purpose, under similar circumstances, must be treated consistently as either direct or indirect—but not both.
Per 2 CFR § 200.413, examples of allowable direct costs include:

- Costs directly associated with a specific good, service, or activity, such as a federal award or an internal/external project.
- Expenses clearly identifiable with a federal award based on the nature of the goods or services provided.

If a cost benefits two or more programs and the benefit to each can be measured, then it must be divided based on the actual proportion of benefit received using any reasonable and well-documented method.

ii. Indirect Costs Definition and Determination

Indirect costs are expenses that support multiple programs or departments and cannot be directly linked to a specific project or federal award. These costs are shared across programs and must be fairly allocated.

According to Uniform Guidance, Appendix VII to 2 CFR Part 200, local governments must support the allocation of indirect costs with either:

- A Cost Allocation Plan, or
- An indirect Cost Proposal, based on one of the three standard federal methodologies.

Indirect costs must be allocated so that each grant program pays its fair share of the total indirect costs.

b. Budgets

The County OOR and its subrecipients will use budgets as key tools for managing projects and maintaining financial control. Each budget will serve as a financial plan that outlines:

- The goods, services, and resources needed,
- The funding allocated (including CDBG-DR funds), and
- Estimated costs required to carry out the project over a specific period.

Budgets will include both direct and indirect costs and will reflect all anticipated revenue sources, with CDBG-DR allocations as a central component.

The County's CDBG-DR Action Plan provides the overall funding framework. More detailed budgets will be developed for individual programs, projects, activities, and subrecipients as needed. Budgets will be presented in a clear and consistent format—such as charts or tables—showing planned revenues and expenditures at the most practical and manageable level.

Ongoing financial reports will compare:

- Proposed (budgeted) costs,
- Actual expenditures,
- Remaining budget balances, and
- Any differences (variances) between planned and actual spending.

c. Financial Accounting

The County OOR will manage CDBG-DR funds in accordance with Generally Accepted Accounting Principles (GAAP).

All CDBG-DR revenues and expenses will be classified and tracked using the County's fund-based accounting system, as defined by Governmental Accounting Standards. This approach ensures proper accounting for both general funds and specific grant programs.

Financial records—including procurement and related documentation—will be maintained according to the County of Maui Department of Finance Internal Control Framework.
These records will be available for review by:

- The County,
- Internal auditor(s),
- HUD program staff,
- The HUD Office of Inspector General (OIG), and
- Other oversight entities, as outlined in the subrecipient monitoring policies.

i. Expenditure Certification

In accordance with 2 CFR § 200.415, the County OOR and its subrecipients must include a signed certification with all payment requests, financial reports, and records related to CDBG-DR funding. This certification must be signed by an authorized official with legal authority to bind the organization.

If a subrecipient submits a cost allocation plan or indirect cost rate proposal, it must also include a certification as required under 2 CFR § 200.415(b).

For nonprofit subrecipients, a certification is required (when applicable) to confirm that the organization does not qualify as a "major nonprofit organization," as defined in 2 CFR § 200.414(a).
To determine whether specific costs are allowable, the County OOR and its subrecipients must follow the guidelines in 2 CFR Part 200, Subpart E (General Provisions for Selected Items of Cost). This section provides detailed rules on which types of costs can be charged to a federal award.

In some cases, subrecipients may be required to follow additional County policies or procedural requirements for certain types of expenditures, beyond the standard documentation.

Table 3: Chart of Cost Items from 2 CFR Part 200, Subpart E

Cost Item	Allowability Summary
Advertising and Public Relations	Allowable with restrictions (e.g., program outreach, recruitment). See 2 CFR 200.421.
Advisory Councils	Allowable only when required by the federal award. See 2 CFR 200.422.
Alcoholic Beverages	Unallowable under any circumstances. See 2 CFR 200.423.
Audit Services	Allowable if required by federal award and conducted in accordance with 2 CFR 200.425.
Bonding Costs	Allowable if required by federal award. See 2 CFR 200.427.

Conferences	Allowable with prior approval. Costs must be reasonable. See 2 CFR 200.432.
Contributions and Donations	Generally unallowable. See 2 CFR 200.434.
Depreciation	Allowable with specific conditions. Must be documented. See 2 CFR 200.436.
Entertainment Costs	Unallowable. See 2 CFR 200.438.
Equipment and Capital Expenditures	Allowable with prior approval for capital expenditures. See 2 CFR 200.439.

ii. Allowability of Costs

The County OOR and its subrecipients will review and determine whether costs are allowable based on the criteria in 2 CFR § 200.403. All costs charged to the CDBG-DR award must meet the following conditions:

- Be necessary and reasonable for carrying out the objectives of the federal award, and allocable to the program under federal cost principles.
- Follow any restrictions or limitations specified in the federal regulations or the grant agreement (e.g., type or amount of cost).
- Be consistent with the organization's policies and procedures and apply equally to both federal and non-federal activities.
- Be treated consistently—costs charged as direct costs cannot also be counted as indirect costs under similar circumstances.
- Follow GAAP unless otherwise stated for state or local governments.
- Not be used to meet match or cost-sharing requirements of another federally funded program (current or prior). See 2 CFR § 200.306(b).
- Be properly documented and supported by clear records. See 2 CFR §§ 200.300–200.309.
- Be incurred within the approved budget period. The federal agency may, at its discretion, allow unobligated balances to be carried forward under 2 CFR § 200.308(c)(3).

iii. Cost Reasonableness

The County OOR and its subrecipients must evaluate the reasonableness of costs in accordance with 2 CFR § 200.404. A cost is considered reasonable if it reflects what a prudent person would pay under similar circumstances. To determine this, the following factors must be considered:

- Ordinary and necessary: Is the cost commonly accepted as needed for the operation or for carrying out the federal award?
- Compliance with laws and regulations: Does the cost follow sound business practices and meet federal, state, local, tribal, and grant-specific requirements?
- Market prices: Is the cost in line with current market prices for similar goods or services in the same area?
- Prudent judgment: Were decisions made with care, considering responsibilities to the organization, its stakeholders, and the federal government?
- Consistency: Does the cost follow the organization's usual policies and procedures, or does it represent a significant and unjustified departure that could raise costs?

Per 2 CFR § 200.401, if there are unusual or questionable costs, County OOR or its subrecipients are encouraged to seek prior written approval or technical guidance before spending to avoid disallowance later.

The County OOR, its subcontractors, partners, and subrecipients must document cost reasonableness for all procurement and purchasing actions according to the County CDBG-DR Procurement Policy.

iv. Cost Allocability

The County OOR and its subrecipients must evaluate the allocability of costs based on the criteria in 2 CFR § 200.405. A cost is allocable to a federal award if it directly benefits the award and can be clearly assigned to it.

A cost is considered allocable if it meets any of the following conditions:

- Incurred specifically for the award – The cost was clearly incurred to support the CDBG-DR award.
- Benefits multiple programs – The cost supports both the federal award and other activities and can be fairly divided among them using reasonable methods.
- Supports overall operations – The cost is necessary to run the organization and can be appropriately assigned to the CDBG-DR award based on the benefit received.

Important: Costs that are allocable to one federal award cannot be shifted to another federal award simply to cover budget shortfalls, avoid restrictions, or for convenience. However, allowable costs may be split between two or more awards if done in accordance with applicable regulations and award terms.

If the purchase of equipment or other capital assets is specifically approved under the CDBG-DR award, the cost is fully assignable to that award—even if the asset is later used for something else. See also 2 CFR §§ 200.310–200.316 and 2 CFR § 200.439 for rules on property and capital expenditures.

v. Limitation on Allowance of Costs

CDBG-DR funds must follow federal rules that place limits on how much can be spent in certain categories. If more is spent than allowed, the extra amount cannot be charged to the federal grant. This rule is outlined in 2 CFR § 200.408 – Limitation on Allowance of Costs.

Key Funding Limits:

- No more than 5% of the total CDBG-DR grant plus program income can be used for administrative costs.
- Up to 15% of the annual CDBG-DR grant plus program income can be used for public service activities.

Any costs that go over these limits must be covered by non-federal funds.

vi. Collection of Unallowable Costs and Improper Payment

If HUD or the County determines that any direct or indirect costs charged to the CDBG-DR grant are unallowable, those payments must be paid back to the federal government—including any interest owed. Subrecipient repayments must be repaid directly to the County, unless federal laws or regulations say otherwise. This requirement is based on the following federal regulations:

- 2 CFR § 200.410 – Collection of unallowable costs
- 2 CFR § 200.428 – Interest costs
- 2 CFR §§ 200.300–200.309 – Standards for financial management (Subpart D)

6. Financial Management Requirements

In accordance with 2 CFR § 200.302, the County OOR and its subrecipients must have a process that ensures compliance with federal rules, supports accurate reporting, and tracks how CDBG-DR funds are used. CDBG-DR Program Staff and its subrecipients must be able to:

- Prepare all required HUD and internal reports,
- Track and document funds in detail,
- Show that funds are used for eligible purposes, and
- Minimize the time between receiving and spending federal funds.

The County's Accounting system, Finance Enterprise (FE), managed by the Department of Finance, is used for:

- County-wide budget, payment, and procurement functions.
- CDBG-DR transactions that are processed and managed directly by CDBG-DR Fiscal Staff.

The County OOR will implement procedures that process transactions using the County's accounting system.

Subrecipients may use their own accounting systems, but it must:

- Align with CDBG-DR recordkeeping requirements, and
- Complement (not replace) the County's required system of record.

a. Accounting Capabilities

As required by 2 CFR § 200.302(b), the accounting system must be able to:

- Track each federal award separately (e.g., by subrecipient agreement number or fiscal year).
- Produce accurate, timely financial reports (per 2 CFR 200.327 (Financial Reporting) 200.328 (Monitoring and Reporting Program Performance)).
- Maintain detailed records on funding sources, obligations, balances, expenditures, income, and interest, with proper source documentation.
- Control and safeguard funds, property, and assets to ensure they are used only for authorized purposes (2 CFR § 200.303).
- Compare actual spending against budgeted amounts for each award.
- Follow written procedures that comply with 2 CFR § 200.305 (Payment) and Subpart E (Cost Principles).
- Meet records retention and access requirements under 2 CFR §§ 200.333–200.337.

b. Specific Accounting Features

The system used by the County OOR and its subrecipients must include:

- Chart of Accounts – A listing of account names and numbers used to organize all financial transactions.
- Cash Receipts Journal – Records the receipt of funds, including dates, amounts, and sources.

- Cash Disbursements Journal – Tracks outgoing payments, including what was paid, when, and to whom.
- Payroll Journal – Details payroll and benefits, categorized for compliance and reporting.
- General Ledger – Summarizes all financial transactions and links back to supporting journals and documents.

The system must track:

- Total federal funds received and authorized,
- Obligated and unobligated balances,
- Assets and liabilities,
- Program income and actual expenditures—by program, funding year, and activity.

c. Document Management

Documentation should demonstrate that all CDBG-DR costs are:

- Incurred during the approved grant or subrecipient agreement period,
- Paid or properly accrued,
- Spent on eligible activities, and
- Approved by authorized personnel.

Examples of acceptable documentation include:

- For payroll: employment letters, time records, certified payroll logs.
- For supplies: purchase orders, invoices, canceled checks, supply logs.

d. DRGR System

The County OOR will use HUD's Disaster Recovery Grant Reporting (DRGR) system to:

- Draw down grant funds,
- Submit Quarterly Performance Reports (QPRs),
- Report financial data and program performance,
- Comply with HUD and Congressional reporting.

Table 4: DRGR Roles and Responsibilities

DRGR Role	Financial Policy Role
Grant Manager	Primary approver of drawdowns, submit voucher docs
Fiscal Officer	Backup for drawdowns and voucher approvals, ensures timely draw downs and reporting
Program Chief	Secondary backup for drawdowns and HUD submission approvals
Program Manager (Compliance/Monitoring)	Supports voucher submission and collects QPR data
Specialist II (Fiscal)	Backup drawdown requester; reconciles with DRGR
Specialist I (Fiscal)	Primary drawdown requester

e. System of Record

The County OOR will utilize a system of record to maintain proper documentation for subrecipient awards, cost reasonableness, and audit readiness. The system will be used for individual housing programs and will retain all required supporting documentation within individual activity files.

f. Smartsheet

Smartsheet serves as the County OOR's internal tracking system for department expenditures. All invoices submitted for CDBG-DR related expenses will be maintained in Smartsheet. The system also contains automated workflows that assist in routing documents through internal review and approval processes. This system also serves as a tool for reconciliation between DRGR and Finance Enterprise.

7. Record Retention, Storage, Transmission, and Access

The County OOR and its subrecipients must maintain financial records in compliance with 2 CFR 200.334, which outlines federal requirements for record retention.

The County OOR will follow record retention and disposal schedules approved by the County of Maui Managing Director, in accordance with County Policy 2.84.060, which governs the Records Disposition Committee. Financial management systems must also meet the requirements of 2 CFR § 200.336 and the County's Personally Identifiable Information (PII) Policy. This includes secure methods for collecting, transmitting, and storing sensitive information. When possible, records will be kept in open, machine-readable formats (such as, but not limited to, CSV or XML), which are easier to access and process than closed formats or paper documents.

In line with 2 CFR 200.337 and 200.338, the County OOR and its subrecipients must provide access to financial records and relevant staff for review by authorized agencies. The County OOR reserves the right to access all subrecipient financial records related to the CDBG-DR award for monitoring, audits, or other oversight purposes.

8. Payments and Disbursement Procedures

The County OOR will process payments to contractors, vendors, and subrecipients for eligible and properly allocated CDBG-DR expenses, following the federal payment standards in 2 CFR 200.305.

Both the County OOR and its subrecipients must ensure that drawdown requests are accurate and complete. If funds are drawn by mistake—or if funds are advanced but not spent right away—they must be returned promptly.

All payments must be made on time, according to the payment schedule in the grant agreement. If a payment is delayed and doesn't meet the required timeline, a written explanation must be documented and kept on file.

a. Pre-Award Costs

CDBG-DR grant funds may be used to reimburse eligible pre-award and pre-application costs incurred by homeowners, businesses, and other qualified applicants in response to a declared disaster—even if these costs were incurred before the applicant officially applied for CDBG-DR assistance.

To be eligible for reimbursement:

- Projects must meet all federal requirements, including Davis-Bacon, Civil Rights, Lead-Based Paint, URA, and those outlined in the HUD Universal Notice.
- An environmental review must be completed before committing funds or starting recovery activities.
- If the project cannot meet the environmental review standards under 24 CFR Part 58, or if environmental harm occurred or may occur, the pre-award costs cannot be reimbursed.

CDBG-DR funds may only be used for costs that are "necessary expenses" related to disaster relief and recovery, starting from the date of the disaster. This includes expenses incurred before the CDBG-DR grant agreement is officially signed.

Under 24 CFR 570.200(h), the County OOR may reimburse itself or pay pre-award costs if the following conditions are met:

- The activity and costs follow all CDBG-DR rules and environmental requirements.
- The costs comply with all program rules in effect at the time of payment.
- Reimbursement occurs within two program years of the grant or amendment date.
- The total pre-award payments in any program year do not exceed the greater of 25% of the grant or $300,000.

i. Payment Methods

The County OOR and its subrecipients must use procedures that limit the time between receiving CDBG-DR funds and spending them. This helps avoid unnecessary drawdowns and reduces federal financing costs.

CDBG-DR funds may be transferred from the U.S. Treasury to the County or subrecipients using three methods:

- Reimbursement Method
- Cash Advance Method
- Working Capital Method

The County OOR primarily uses the Reimbursement Method and limited Cash Advances as needed.

ii. Reimbursement Method

Under this method, the County or subrecipients spend their own funds first, then request reimbursement by submitting documentation showing what was paid.

- This is the default method for most payments.
- Subrecipients must submit proof of payment (e.g., invoices, canceled checks) when requesting reimbursement.

iii. Cash Advance and Working Capital Methods

The County may provide cash advances to subrecipients who do not have enough working capital to cover initial expenses. These advances are based on estimated near-term spending needs. After the initial advance, future payments must follow the reimbursement method.

The working capital method is rarely used. It will only be considered if the subrecipient cannot cover costs upfront, and the County is unable to provide timely advances.

The Cash Advance Method is closely monitored to ensure compliance with 2 CFR 200.305. Funds must be drawn only for actual, immediate needs—no excess funds can be drawn or held.

b. Improper Payments

This section explains how the County OOR determines whether costs are eligible and what happens if payments are later found to be improper.

An improper payment is any payment that:

- Should not have been made or was made in the wrong amount,
- Was made to someone not eligible,
- Paid for ineligible goods or services,
- Was duplicated or not supported by documentation,
- Was made for a good or service not received, unless legally authorized,
- Did not apply available discounts.

See 2 CFR 200.513 for guidance.

Corrective Action

- County OOR will document the issue in the case file and clearly link the repayment requirement to the findings.
- Subrecipients must repay improper payments within 60 days of receiving written notice.
- Repayments must be made using non-federal funds.
- Repaid funds (including interest, if applicable) will be returned to the County's CDBG-DR line of credit.
- If a subrecipient repays an improper payment, the amount will be credited back to their CDBG-DR account in the County's system.

9. Program Income

Some CDBG-DR funded projects will generate income—called program income. Program income must be used according to the rules in Federal Register Notice 90 FR 1754, 24 CFR 570.504, and other CDBG-DR requirements.

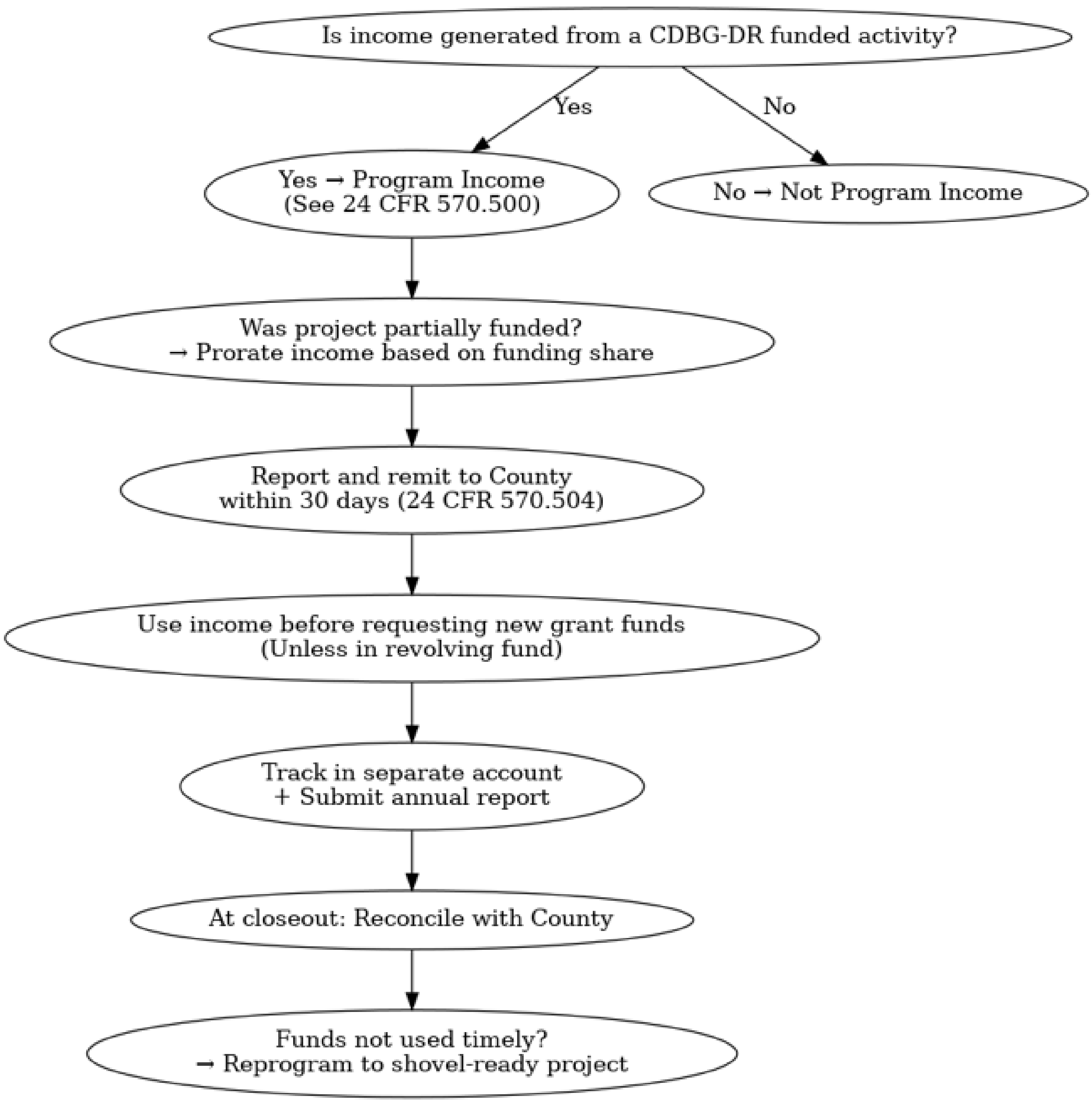
a. What is Program Income?

Per 24 CFR 570.500(a), program income is any money earned directly from the use of CDBG-DR funds. Examples include:

- Rent or sale proceeds from property bought or improved with grant funds.
- Payments on CDBG-DR-funded loans (principal and interest).
- Proceeds from selling loans made with CDBG-DR funds.
- Interest earned on program income before it's spent.
- Special assessments from non-LMI properties for improvements paid with CDBG-DR funds.
- Income from a government ownership interest in a for-profit business, if supported by CDBG-DR.

If only part of a project is paid with CDBG-DR funds, only a share of the income counts as program income, based on how much CDBG-DR contributed.

Figure 2: Program Income Flowchart



b. What is Not Program Income?

Not all income qualifies. Examples that are not program income:

- Loan payments from subrecipients using program income.
- Investment earnings before grant funds are spent.
- Income from ineligible activities or projects not meeting CDBG national objectives.
- Sale proceeds after required affordability/use periods.
- Certain income from nonprofit partners under Section 105(a)(15) of the Housing and Community Development (HCD) Act (24 CFR 570.489(e)(2)(ii)).

c. How Program Income is Handled

Under 24 CFR 570.504, the County of Maui CDBG-DR Program must:

- Receive all program income from subrecipients within 30 days.
- Use program income before requesting more grant funds (unless it's in a revolving fund).
- Track and document how income was earned and how it's used.
- Only use it for eligible activities under current program rules.

If the income is transferred to the regular CDBG program, it's no longer treated as CDBG-DR and must follow CDBG Entitlement Program rules.

d. Subrecipient Responsibilities

Subrecipients must:

- Report all program income to the County CDBG-DR Program.
- Return income using checks or electronic transfer.
- Keep clear records and maintain a separate chart of accounts for program income.
- Submit an annual Program Income Report to the County.
- Work with the County to reconcile program income at project closeout (per 2 CFR 200.302(b)(4) and 24 CFR 570.503(b)(7)).

e. Timeliness and Reporting

Even though 24 CFR 570.902 timeliness rules are waived, the County still expects timely spending. Each project will have deadlines. If progress stalls:

- Subrecipients may get a written warning.
- If they're still behind, the County may reprogram the funds.
- Unused funds may be moved to other "shovel-ready" projects or reallocated through a Notice of Funding Availability (NOFA).

If a project ends early or a subrecipient agreement is terminated, all program income must be returned within 30 days.

10. Project Closeout Financial Review

At the end of each project, the County OOR will review the financial records to determine if any unused funds need to be de-obligated (released from the project). If the project costs less than originally planned, the leftover funds will be removed from that agreement and made available for other eligible CDBG-DR activities. To help with this, the County OOR will review an Unencumbered and

Obligations Report every month to make sure funds are being spent and committed on time to projects that are moving forward.

11. Asset Management

The County OOR must follow federal and county rules for managing property and equipment bought with federal funds. This includes proper acquisition, tracking, use, and disposal of assets, as required under 2 CFR 200.313, 200.314, 200.311, and 200.439.

Key Requirements:

- Equipment or software that costs $5,000 or more per unit is subject to federal rules and must be tracked and reported.
- Assets costing less than $5,000 must still be documented according to the County's asset management procedures.
- All assets must be monitored to ensure they are used for authorized purposes and not misused or disposed of improperly.

a. Fixed Asset Management

The County OOR will tag and track any fixed asset costing $1,000 or more. Subrecipients must follow the County's asset policies and define who is responsible for managing assets. Staff must:

- Never remove asset/property tags.
- Check with the property control clerk before disposing of any item, even if not tagged.
- Notify the clerk before removing or demolishing community-based assets (e.g., playgrounds, bus shelters).
- Notify the IT department before disposing of software worth $5,000 or more.

Assets meeting the $5,000 threshold must be capitalized, inventoried, and monitored, per 2 CFR 200.313 and 200.314.

b. Disposal of County Property

According to Maui County Code 2.72, items like office equipment and furniture not classified as fixed assets must follow a disposal process:

- Advertise the surplus item on the County intranet/bulletin board for five business days to see if another department needs it.
- If no interest, the item is considered salvage and should be:
    - Transferred to another local government agency
    - Donated to a local nonprofit
    - Disposed of as trash (following solid waste procedures)

c. Real Property

Under 2 CFR 200.311, title to real property bought or improved with federal funds belongs to the County or the subrecipient. The property:

- Must be used for its original authorized purpose.
- Cannot be sold or used as collateral during the required use period without County approval.

d. Disposing of Real Property

When the property is no longer needed for the approved purpose, subrecipients must request instructions from the County OOR. Options may include:

- Keep the Property
  - The subrecipient may keep it but must pay HUD its share based on the fair market value and federal share of purchase/improvement costs.
- Sell the Property
  - Sell the property and reimburse HUD based on its share of the sale (after selling expenses).
  - If the federal grant is still active, the sale proceeds can be used for a new project under the same grant.
- Transfer Title to HUD or a HUD-approved third party
  - HUD must pay the subrecipient its share of the current fair market value, based on how much local funding was used.

All sales must follow competitive procedures to get the **highest return possible**, per federal guidelines.

12. Audits

The County OOR and all subrecipients must follow the audit rules in 2 CFR Part 200, Subpart F. The County OOR will employ an internal auditor that provides both programmatic and financial oversight of activities and will conduct an audit every year at minimum. The internal auditor and responsible audit staff will report independently to the Chief Executive Officer.

Accurate and clear financial records will be provided to the auditor upon request. All documentation will be maintained to support audit readiness. Auditors will have access to needed systems, space, and equipment—whether the audit is on-site or virtual.

Audit Reports must include:

- An opinion (or disclaimer) on the accuracy of financial statements
- A review of internal controls and test results
- A compliance report detailing any rule violations
- A list of findings or problems (if any)

Reports must be submitted to the federal clearinghouse within 30 days of receipt or within 9 months of the audit period's end.

All financial and audit records must be kept for at least three years after the final expenditure report is submitted to HUD, or longer if required by ongoing audits or unresolved findings, as required by 2 CFR 200.334.

13. Federal Cross-Cutting Financial Management

a. Transparency Requirements: FFATA and DRGR Reporting

Under the HUD Universal Notice, the County OOR and its subrecipients must report on all funded activities using the Disaster Recovery Grant Reporting (DRGR) system.

Additionally, the Federal Funding Accountability and Transparency Act (FFATA) requires that information about federal awards, spending, and recipients be made public at www.USASpending.gov.

Appendix A: Financial Management Policy Crosswalk

This appendix outlines how each section of the Financial Management Policy aligns with HUD Universal Notice requirements, 2 CFR 200, and other applicable federal regulations.

Requirement / Citation	Requirement Summary	Policy Section
2 CFR 200.302	Financial Management System requirements	Section 4: Financial System
2 CFR 200.303	Internal Controls (COSO framework)	Section 2: Internal Controls
2 CFR 200.305	Payment and Cash Management	Section 7.1–7.3
2 CFR 200 Subpart E	Allowable Costs and Cost Principles	Section 3: Cost Principles
24 CFR 570.500–504	Program Income	Section 8: Program Income
2 CFR 200 Subpart F	Audit Requirements	Section 11: Audits
2 CFR 200.332	Pass-Through Entity Responsibilities	Section 11.5
90 FR 1754	HUD CDBG-DR Universal Notice requirements	Throughout; noted in Section 1, 8, 12
Federal Funding Accountability and Transparency Act	Public reporting of federal awards (FFATA/FSRS/USASpending)	Section 12: Transparency Reporting
DRGR Reporting (HUD Universal Notice)	HUD's Disaster Recovery Grant Reporting System	Section 4(e), 12.1