

CDBG-DR Financial Management Policy



**DEPARTMENT OF HOMELAND SECURITY AND
EMERGENCY MANAGEMENT**

This policy is effective as of 3/20/2026 and may be updated periodically to reflect program implementation and evolving guidance from the U.S. Department of Housing and Urban Development (HUD).

Version	Date	Summary Description
1.0	03/20/2026	Initial Publication



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I. PURPOSE AND SCOPE

To establish accounting procedures and internal controls that ensure compliance with state and federal requirements for the management of CDBG-DR program funds, safeguarding assets, and maintaining transparency and accountability in all financial transactions.

This policy applies to the Department of Homeland Security and Emergency Management (DHSEM), all counties, subrecipients, contractors, and vendors involved in the administration, management, and oversight of CDBG-DR funded programs and activities.

II. BACKGROUND

The guidelines herein are incorporated into the overall program guidelines for each of New Mexico's CDBG-DR funded programs, where applicable. The policy is designed to ensure that all funds are used in accordance with applicable statutes and regulations, prevent duplication of benefits, and maintain the integrity of financial management systems.

III. POLICY STATEMENT

This policy establishes the financial management framework for the Department of Homeland Security and Emergency Management's (DHSEM) administration of Community Development Block Grant – Disaster Recovery (CDBG-DR) awards. It applies exclusively to all DHSEM divisions, subgrantees, subrecipients, contractors, and consultants that obligate, expend, or manage CDBG-DR funds. The policy governs all phases of CDBG-DR financial administration, including budgeting, accounting, internal controls, payments, procurement linkages, program income, subrecipient monitoring, reporting, audit, closeout, and records retention. All provisions are intended to ensure that CDBG-DR funds are managed in a manner that is compliant, transparent, efficient, and aligned with the State's recovery priorities.

IV. DEFINITIONS

Term	Definition
Abuse	The improper use of authority or position for personal gain or to the detriment of the program. Abuse includes using grant funds or resources in a manner inconsistent with applicable laws, regulations, and policies, even if not rising to the level of fraud or criminal conduct.
Allocable Cost	A cost that is chargeable to a federal award in proportion to the benefits received. A cost is allocable if it is incurred specifically for the award, benefits both the award and other work in proportions that



	can be approximated, or is necessary to the overall operation of the organization and is assignable in part to the award.
Allowable Cost	A cost that meets the criteria established in 2 CFR §200.403 and applicable HUD requirements. To be allowable under a federal award, a cost must be necessary and reasonable for the performance of the award, allocable to the award, consistent with policies and procedures that apply uniformly to both federally financed and other activities, accorded consistent treatment, determined in accordance with generally accepted accounting principles (GAAP), not included as a cost or used to meet cost sharing or matching requirements of any other federally financed program, and adequately documented.
Audit Trail	A documented, sequential record of the steps taken to process a financial transaction, enabling reviewers to trace the transaction from its origin through final reporting.
Cash Disbursements Journal	A chronological record of all funds disbursed, identifying the date of payment, the payee, the purpose of the expenditure, the amount paid, and the method of payment.
Cash Receipts Journal	A chronological record of all funds received, detailing the date of receipt, the amount, the funding source, and any relevant reference numbers or transaction details.
Chart of Accounts	A structured listing of all account names and corresponding numbers used by DHSEM and subrecipients in their accounting systems. Each account name describes the type of transactions to be recorded in that account (e.g., an account titled "Cash" records only cash-related transactions). Account numbers are assigned to group similar account types and are required by most accounting software programs. A standard chart of accounts typically includes the following categories: assets, liabilities, net assets/fund balances, revenues, and expenses.
Cost Share/Match	The portion of project costs not paid by federal funds, which may be provided in cash or in-kind, as allowable under 2 CFR Part 200.
Expenditure	Payment or disbursement of funds for goods or services received, including accruals for goods or services already received but not yet paid.
Fraud	Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.



	In the context of CDBG-DR, fraud includes, but is not limited to, falsifying records, submitting false statements, or misrepresenting eligibility to obtain funds.
General Ledger	The primary accounting record summarizing all financial transactions of the organization by account. Entries are posted to the general ledger from subsidiary journals (e.g., cash receipts, cash disbursements, payroll) and must be cross-referenced to permit transaction tracing (audit trail). All general ledger entries must be supported by approved source documentation and reflect proper authorization.
Improper Payment	Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. This includes payments made to ineligible recipients, payments for ineligible goods or services, duplicate payments, payments for goods or services not received, and payments that do not account for credit for applicable discounts. Improper payments also include payments where insufficient, or no documentation exists to support the payment.
Ineligible Costs	Costs that fail to meet the fundamental tests of allowability, allocability, reasonableness, or necessity under 2 CFR Part 200, or that are expressly prohibited by federal statute, regulation, or the CDBG-DR grant agreement. This includes costs incurred outside the approved period of performance unless specifically authorized as pre-award costs by HUD.
Internal Control	Refers to the combination of policies, procedures, defined job responsibilities, personnel, and records that allow an organization to maintain adequate oversight and control of its cash, property, and other assets.
Obligation	A legally binding commitment to pay a specific amount for goods or services ordered or received.
Payroll Journal	A detailed record of payroll and payroll-related benefit expenses, capturing gross salaries, benefits, deductions, and net pay. For compliance purposes, this journal should distinguish between expense categories in accordance with regulatory and funding requirements.

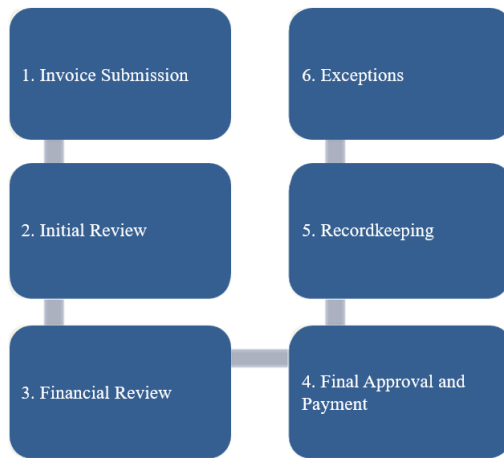


Program Income	Gross income received by DHSEM or subrecipients directly generated by a grant-supported activity, as defined in 2 CFR §200.1 and applicable HUD notices. Examples include proceeds from the sale or lease of property purchased with grant funds, fees for services performed, and payments of principal and interest on loans made with grant funds. Program income must be properly accounted for, reported, and used in accordance with HUD CDBG-DR requirements.
Reasonable Cost	A cost that, in its nature and amount, does not exceed what a prudent person would incur under the circumstances prevailing at the time the decision was made to incur the cost. Determination of reasonableness should consider market prices, sound business practices, and compliance with federal and state laws and regulations.
Source Documentation	Original records that support accounting entries, including invoices, receipts, contracts, payroll registers, bank statements, and other verifiable documents.
Subrecipient	A non-federal entity that receives a subaward from DHSEM to carry out part of a CDBG-DR award. A subrecipient is accountable to DHSEM for the use of the funds provided and must comply with applicable federal statutes, regulations, and the terms and conditions of the subaward. Subrecipients do not include contractors or vendors providing goods or services within normal business operations.
Subsidiary Ledger	A detailed ledger that provides supporting information for a control account in the general ledger. Examples include accounts receivable ledgers, accounts payable ledgers, and fixed asset ledgers.
Unallowable Cost	A cost that is not permitted under the terms and conditions of the federal award, 2 CFR Part 200 Subpart E, or other applicable laws and regulations. Unallowable costs must be identified and excluded from billings, claims, and reports to the federal awarding agency.
Waste	The careless or negligent use of resources, including incurring unnecessary costs as a result of inefficient or ineffective practices, systems, or controls. Waste includes the extravagant, careless, or needless expenditure of grant funds without justification.



V. PROCEDURES

DHSEM has established a standardized process for reviewing, approving, and disbursing payments to contractors, vendors, and subrecipients under the CDBG-DR program.



Below is a detailed, step-by-step process for reviewing, approving, and disbursing payments to contractors, vendors, and subrecipients under the CDBG-DR program:

Step	Process
1.0	Invoice Submission: Contractors and vendors submit invoices to DHSEM using the designated email inbox or the grants management system, referencing the correct disaster recovery project number, task order number, contract number, contract amount, invoice number, and invoice amount. Each invoice package must include the detailed invoice, all required backup such as timesheets, pay applications, receipts, proof of payment for reimbursable costs, progress reports, and any forms required by DHSEM to demonstrate that the work is complete and eligible.
2.0	Initial Review: A program staff member conducts the initial review to confirm the invoice package is complete and matches the approved scope of work, budget, and contract terms. During this step, staff verify that deliverables or milestones have been met, quantities and unit prices align with the contract, and any performance matters are resolved before the invoice is forwarded to the finance team.



3.0	Financial Review: The finance team conducts a detailed financial review to ensure the costs are accurate, allowable, reasonable, and allocable to the CDBG DR grant. This includes verifying calculations, coding costs to the correct grant, activity, and cost category, confirming procurement and contract requirements have been satisfied, ensuring that administrative caps and budget limits are not exceeded, and completing any required duplication of payments or cost allocation checks.
4.0	Final Approval and Payment: When the financial review is complete, the designated approving official will provide written or electronic approval authorizing payment. The finance team then enters the voucher into the state financial system (SHARE), draws funds from the correct CDBG DR grant, issues payment by electronic transfer or check, and updates internal tracking logs with the payment date, amount, and funding source.
5.0	Recordkeeping: DHSEM maintains a complete invoice file for each payment, including the original invoice, all supporting documentation, internal review checklists, financial approvals, and evidence of payment. These records are stored within the official finance grant files in both electronic and physical formats, arranged by disaster number, project activity type, and vendor, and retained for the minimum 3-year period required by HUD for monitoring, audit, and program closeout.
6.0	Exceptions: If an invoice is incomplete, contains errors, or appears to include ineligible costs, reviewers document the issue, place the invoice on hold, and notify the contractor or vendor in writing to request clarification or corrections. Concerns related to fraud, waste, abuse, unresolved eligibility matters, or disputed charges are escalated to management and to any required oversight units, and no payment is released until the exception is fully resolved and documented.

VI. SCOPE OF WORK AND EVALUATION CRITERIA

A. Financial Management System

Strong financial management is essential in the administration of the CDBG-DR program. Under 2 CFR §200.302, DHSEM and all subrecipients are required to maintain financial management systems that can fully support the identification, tracking, reporting, and safeguarding of federal funds. These systems must provide accurate, timely, and complete financial information, support effective internal controls, and ensure that all CDBG-DR resources are used exclusively for authorized purposes. The systems must also:

- Identify all federal awards by ALN (Assistance Listing Number), pass-through entity, HUD's agency name (as the awarding agency), award number, and award period.
- Provide accurate, current, and complete disclosure of financial results and support preparation of DRGR and other reports.



- Maintain effective control over and accountability for all funds, property, and other assets; safeguard assets and assure they are used solely for authorized purposes.
- Support traceability from source documents to the general ledger and through to financial and performance reports (audit trail).
- Enable budgetary controls and commitments/obligations tracking by program, activity, project, and funding source.
- Capture program income, cost share/match, and subrecipient expenditures distinctly.
- Allow for timely reconciliation (monthly minimum) of subsidiary ledgers to the general ledger and resolution of reconciling items.

1. Basis of Accounting

DHSEM uses modified accrual for the CDBG-DR program. The basis will be applied consistently, with adequate schedules to support DRGR and Single Audit requirements.

2. Charts of Accounts and Ledgers

The chart of accounts shall segregate assets, liabilities, fund balance/net position, revenues, and expenditures by program, grant, project, activity, and cost category. General ledger control accounts must reconcile to subsidiary records for accounts payable, accounts receivable, grants receivable, and property/equipment. Identify the source and application of HUD-funded activities by specified revenue and expenditure codes from the general ledger.

B. Internal Controls

DHSEM maintains a formal, documented system of internal controls to safeguard cash, property, and other assets; ensure the accuracy and completeness of financial reporting; and promote full compliance with all CDBG-DR requirements. Internal controls are mandatory and apply to all DHSEM divisions, subrecipients, contractors, and consultants engaged in CDBG-DR activities.

The internal control framework is based on the GAO Green Book principles, integrating control activities into daily operations and requiring ongoing monitoring, documentation, and corrective action where deficiencies are identified.

1. Core Concepts

This section outlines the foundational principles upon which DHSEM's internal control system is built. The following concepts establish the tone for accountability, the scope of assurance, and the expectations for staff competence:

- **Management Accountability:** Senior leadership is responsible for designing, implementing, and monitoring internal controls and must certify annually that such controls are functioning as intended.



- **Reasonable Assurance Standard:** Controls are designed to provide reasonable but not absolute assurance that program and financial objectives are achieved.
- **Staff Competence and Integrity:** All personnel involved in CDBG-DR administration must be trained on relevant procedures, maintain independence in their functions, and follow documented processes.

2. Required Elements

This section outlines the structural components required to establish and maintain effective internal controls. The following elements form the framework for safeguarding resources and ensuring compliance.

- **Segregation of Duties:** No single individual shall control more than one of the following functions: authorization, custody of assets, recordkeeping, and reconciliation. Drawdown requests in DRGR must be prepared by Finance, reviewed by program staff, and certified by an authorized official.
- **Clear Authority Lines:** Organizational charts and job descriptions must be kept current and accurately reflect assigned responsibilities.
- **Access Controls:** Physical and system access to assets, records, and financial systems must be restricted to authorized personnel (e.g., DRGR user roles, IFAS permissions).

3. Required Control Objectives

This section specifies the measurable outcomes that DHSEM's internal control activities must achieve. The following objectives form the operational benchmarks for evaluating control effectiveness.

- Verify the accuracy of all information provided by applicants, vendors, and contractors through a combination of document review, data validation, and cross-verification procedures. This includes confirming eligibility documentation, conducting third-party verifications when necessary, and reconciling submitted financial and performance data against source documentation. Internal auditors and grant management staff will perform periodic sampling, risk-based reviews, and monitoring visits to ensure that all information is complete, accurate, and consistent with federal and programmatic requirements. Any discrepancies identified will be promptly investigated, corrected, and documented in accordance with 2 CFR 200.303 (Internal Controls) and HUD CDBG-DR financial management standards.
- Monthly reconciliation of subsidiary ledgers to the general ledger with documented resolution of any variances.
- Procurement controls that ensure compliance with 2 CFR §§200.317–328, including purchase order issuance, receipt of invoices, review of requisitions of payments and approval workflows.

Commented [AP1]: Update to include through 328 which captures the require for FFR's. I also added this additional language: receipt of invoices, review of requisitions of payments



4. DHSEM Implementation Protocols

DHSEM, the Finance Department, the Budget Office, and the Treasurer's Department work together to ensure that internal controls are consistently applied and effective across all operations. DHSEM maintains internal controls by separating duties among offices and staff members within each office, both in the development of procedures and in the operation of the IFAS financial system. The approval hierarchy in IFAS is designed to segregate duties and require multiple levels of review before disbursement.

DHSEM also maintains additional internal controls specific to the CDBG-DR programs. In addition, financial reviews incorporate FEMA, SBA, insurance, and other assistance data to identify and prevent duplication of benefits.

5. Enforcement

Failure to comply with these internal control requirements may result in disciplinary action, reallocation of responsibilities, or other corrective measures necessary to protect CDBG-DR funds and maintain compliance with federal requirements.

C. Cost Principles

All costs charged to CDBG/CDBG-DR must be necessary, reasonable, and allocable.

1. Reasonable and Necessary

In accordance with 2 CFR 200.403-404, DHSEM shall only approve and charge costs to CDBG-DR grants that are both reasonable and necessary. A cost is deemed reasonable when it does not exceed the amount a prudent person would incur under the circumstances prevailing at the time the decision was made, taking into account market prices, sound business practices, and compliance with applicable laws and regulations. A cost is deemed necessary when it is essential to achieving the specific, documented objectives of the CDBG-DR grant.

All programs and subrecipients must justify the reasonableness and necessity of a cost in writing prior to incurring the expense and maintain documentation to support this determination. Costs lacking adequate justification will not be approved for reimbursement.

2. Allocability

In accordance with 2 CFR 200.405, DHSEM shall ensure that all costs are allocated to CDBG-DR awards in proportion to the relative benefits received. Costs that benefit multiple programs or funding sources must be distributed according to a documented, equitable, and consistently applied cost allocation methodology.

All allocation methodologies must:

- Be documented in writing and retained for audit purposes.



- Identify the basis for allocating shared costs.
- Be reviewed and validated at least annually to ensure accuracy and continued applicability.
- Be consistently applied to all cost objectives.

Costs that cannot be clearly allocated to CDBG-DR in compliance with this standard shall not be charged to the grant.

3. Ineligible Costs

When an ineligible cost is identified, DHSEM will take prompt corrective action. This includes removing the cost from the CDBG-DR account, documenting the reason for disallowance, and pursuing recovery from the responsible subrecipient, contractor, or vendor. Material instances will be reported to HUD as required. The corrective process will be documented in the grant files to provide a clear audit trail.

Examples of ineligible costs include, but are not limited to, costs incurred prior to the environmental clearance date, entertainment expenses, the purchase of alcohol, lobbying or political activities, and any expenditure lacking adequate source documentation. These examples are illustrative, and the absence of a cost from this list does not imply allowability. All costs must pass the federal tests of compliance and be supported by complete, verifiable records to remain in the program ledger.

4. Direct vs. Indirect Costs

Costs incurred for a specific program activity may be charged directly when readily identifiable. However, organization-wide administrative costs are considered indirect and DHSEM will apply either a federally negotiated indirect cost rate, the 10% de minimis rate (if eligible), or a State negotiated rate. Subrecipients may use the de minimis per §200.414(f) if eligible.

D. Cash Management and Payment

DHSEM shall manage CDBG-DR cash resources in a manner that minimizes the time between the drawdown of funds from the U.S. Treasury and the disbursement of those funds for program purposes. All cash management activities shall comply with federal requirements, State policies, and the provisions of this policy:

- **Payment Method:** DHSEM will pay contractors, vendors, and subrecipients for eligible and allocable CDBG-DR-related expenses in accordance with the Federal Payment Standards outlined at 2 CFR 200.305. DHSEM ordinarily operates on a reimbursement basis, and drawdowns are limited to the immediate cash needs for disbursements already incurred or that will be paid within a short, defined horizon. Cash advances to subrecipients are strongly discouraged and, if used, must meet the conditions under §200.305(b) and be kept to the minimum amount necessary to meet immediate cash requirements. All advance payments from the grantee will be held in insured interest-bearing accounts, and interest



earned in excess of \$500 per year must be remitted to the U.S. Treasury per federal requirements. Cash advances must also be periodically reconciled and monitored to ensure compliance.

DHSEM will manage and reimburse eligible expenses incurred in connection with CDBG-DR-funded activities when such expenses are necessary for disaster recovery and meet all federal and State requirements. DHSEM will provide direct services under its New Mexico Home Recovery Program which may include costs for repairs, rehabilitation, reconstruction, or mitigation measures that bring the eligible private property into compliance with applicable codes and program standards. Reimbursement will only be made when:

- The procured contractor has provided complete documentation of costs, including invoices, receipts, proof of payment, and any required permits or inspection reports.
- The costs were incurred after the date of the qualifying disaster and are directly related to disaster recovery.
- The activity and costs meet all applicable CDBG-DR eligibility requirements, national objective criteria, and cross-cutting federal requirements.
- An environmental review under 24 CFR Part 58 has been completed and clearance issued prior to reimbursement.
- The homeowner has executed any required agreements, certifications, or subrogation documents acknowledging DOB requirements and repayment obligations if later determined ineligible.

Reimbursements will be processed in accordance with DHSEM's payment procedures, subject to available funding, and may be prorated if total eligible requests exceed available resources.

- **Timing:** Funds drawn from the U.S. Treasury must be disbursed promptly to avoid idle cash balances. Procedures are in place to minimize time elapsing between the receipt of funds from the grantee and the transfer of funds to the contractor or subrecipient. This includes scheduled disbursement processing, electronic fund transfers, and internal reconciliation reviews to ensure timely and compliant cash flow management. Subrecipients must return unused advances to DHSEM or offset against the subsequent draw request.
- **Cash Receipts and Disbursements Documentation:** Verification and documentation of all cash receipts, disbursements, purchases, payroll transactions, and reconciliations will be maintained in detail within the accounting journals, project ledgers, and a dedicated CDBG-DR cash control register. These records will support the integrity of financial reporting, ensure traceability of federal funds, and provide a complete audit trail for all CDBG-DR financial transactions.



- **Interest:** DHSEM and its subrecipients must track any interest earned on federal advances. Interest amounts over \$500 per fiscal year must be remitted to the U.S. Treasury in accordance with §200.305(b)(11). Written procedures will be maintained to calculate, track, and remit interest as required.
- **Draw Requests:** All draw requests must be supported by adequate source documentation, including approved invoices, payroll and benefit details, or other appropriate records. Each request will be reviewed by both Program and Finance staff, reconciled to the general ledger and DRGR, and approved before submission. Any erroneous draw must be corrected immediately upon identification.
- **Compensation for Payroll:** Payroll charges must be supported by internal controls for timekeeping that provide reasonable assurance charges are accurate, allowable, and properly allocated.
- **Documentation and Controls:** Cash management processes shall be documented in DHSEM's standard operating procedures and include internal control measures such as segregation of duties, multi-level approvals, and audit trails linking draw requests to underlying expenditures.
- **Lump Sum Drawdowns:** DHSEM will not request lump sum drawdowns from HUD.
- **Applicable Credits Statement:** All applicable credits, such as purchase discounts, rebates, refunds, or other recoveries, must be credited to the CDBG-DR award either as a cost reduction or when appropriate as a cash refund to the program. These credits shall be properly documented and reflected in the financial records to ensure the net cost charged to the federal award is accurate and allowable under 2 CFR 200.406.
- **Improper Payments, Overpayments, and Withholding or Suspension of Funds:** DHSEM will identify, report, and recover improper payments in accordance with federal and State requirements. An improper payment is any disbursement made in error, including overpayments, duplicate payments, payments to ineligible recipients, or payments lacking sufficient documentation. Such payments will be promptly investigated, documented, and corrected.

If an overpayment or duplication of benefits (DOB) is identified, DHSEM reserves the right to withhold or suspend further disbursement of funds to subrecipients, contractors, vendors, or beneficiaries until the matter is resolved. This includes situations where other sources have assisted for the same purpose.

When withholding or suspending funds due to improper payments or DOB, DHSEM will:

- Issue a written notice to the affected party detailing the basis for the action, the amount in question, and the required corrective measures.
- Require repayment of ineligible or excess funds within a specified timeframe or offset the amount from future disbursements where permissible.



- Coordinate with Finance, Compliance, and Legal to ensure recovery actions align with 2 CFR § 200.346 and HUD CDBG-DR requirements.

Funds will remain suspended until DHSEM verifies that corrective action has been completed, repayment has been made, or other satisfactory resolution has been achieved. Persistent failure to resolve issues may result in additional remedies under 2 CFR §§ 200.339–200.343, including termination of the subaward or contract.

E. Program Income

DHSEM shall identify, record, and manage all program income generated from CDBG-DR-funded activities in compliance with federal regulations, the HUD CDBG-DR grant agreement, and this policy. This includes the following compliance requirements:

- **Receipt and Tracking:** All program income must be deposited into an account that is clearly identifiable within DHSEM’s financial system. Program income shall be tracked separately from grant funds and coded to allow for full audit traceability. Program income must also be reported in DRGR.
- **Use of Program Income:** Unless otherwise authorized in writing by HUD, program income will be added to the CDBG-DR program and used to fund additional eligible activities that further the program’s objectives. Program income must be expended before requesting additional grant funds.
- **Subrecipient Requirements:** Subrecipients are required to report program income every quarter, or more frequently if specified in their subaward. Retention of program income by subrecipients requires DHSEM’s prior written approval and must be used for the same activity that generated the income unless HUD approves an alternative use.

VII. ROLES AND RESPONSIBILITIES

Stakeholder	Roles & Responsibilities
Budget Office	Prepares the annual budget, assembling, correlating, and revisiting the estimate and request for appropriation of the various departments and the Agencies of the Department.
Treasurer’s Department	Collects all taxes and distributes those collections after the reconciliations have passed through the defined approval process in the IFAS and are approved by multiple levels of management.
Principal Accountant	Initiates vouchers that are subsequently reviewed by multiple individuals. Requests reviewed for accuracy are forwarded to Finance for review and processing. Generally, only requests with final approval are forwarded to Accounts Payable for disbursement.



Grants Management Division	Oversees award setup, budget controls, cash management, DRGR administration, subrecipient agreements, monitoring, and performance/financial reporting.
Finance/Accounting Division	Maintains accounting records; ensures accurate, current, and complete disclosure of financial results; executes payments; performs bank reconciliations; books accruals; and supports audit.
Program Managers	Authorizes programmatic expenditures, certify performance, validate draw requests and reimbursement requests, maintain source documentation, and coordinate with Finance on allowability and allocability.
Procurement	Conducts compliant procurements under 2 CFR §§200.317–.327 and State law; ensures required contract provisions (2 CFR Part 200, Appendix II); verifies contractor responsibility (SAM/debarment checks).
Monitoring / Compliance (or Internal Audit)	Conducts desk and on-site monitoring, issues findings, and tracks corrective actions for DHSEM and subrecipients.
Subrecipients	Implement program activities; maintain systems meeting 2 CFR 200; adhere to this policy, subaward terms, and applicable law; submit timely, complete reports and supporting documentation; cooperate with monitoring and audit.
Contractors / Consultants	Perform under contract; ensure invoices meet contract terms and contain sufficient detail for allowability review.

VIII. COMPLIANCE & ENFORCEMENT

A. Audit Requirements

DHSEM shall comply with both internal audit requirements and the Uniform Guidance audit standards.

- Internal Audits:** DHSEM’s Finance Division, in coordination with the Internal Audit Unit, will conduct periodic reviews of CDBG-DR programmatic and financial transactions, subrecipient expenditures, procurement activities, and compliance with this policy. These reviews will be documented in formal reports and shared with program management for corrective action, where applicable. The reviews will also be used to inform training needs and process improvements.



- **Uniform Guidance Single Audit:** If DHSEM's federal expenditures meet or exceed \$1,000,000 in a fiscal year, DHSEM shall procure an independent Single Audit in accordance with §200.501. The Schedule of Expenditures of Federal Awards (SEFA) will be prepared, and management will provide timely responses and corrective action plans to any audit findings, as required under §200.511.
- **Subrecipient Audit Requirements:** DHSEM will monitor subrecipient compliance with §200.501, obtain and review their Single Audit reports, and issue management decisions on any CDBG-DR related findings within six months of receipt.
- **Documentation:** All uses of program income must be supported by source documentation demonstrating that the funds were used for eligible activities in accordance with the CDBG-DR Action Plan, applicable federal requirements, and the subrecipient agreement.
- **Closeout:** Any program income received after grant closeout must be returned to HUD unless otherwise directed in writing.

Failure to properly identify, report, or use program income in accordance with this policy may result in repayment to HUD, subrecipient sanctions, or other remedies under 2 CFR §§200.339–.343.

B. Preventing Fraud, Waste, and Abuse

DHSEM shall maintain a proactive framework to prevent, detect, and respond to fraud, waste, and abuse in all CDBG-DR-funded activities. This includes the following:

- **Prevention:** All staff and subrecipients must complete annual fraud prevention training and certify their understanding of reporting obligations.
- **Detection:** DHSEM will use risk-based monitoring, data analytics, and internal control reviews to identify anomalies, unsupported costs, or noncompliant transactions. The internal auditor will sign a statement of responsibility outlining their role in detecting fraud, waste, and abuse and affirming their obligation to report any suspected incidents.
- **Reporting:** DHSEM maintains a confidential reporting mechanism for employees, subrecipients, contractors, and the public to report suspected fraud, waste, or abuse.

All confirmed or suspected instances must be referred to the HUD Office of Inspector General (OIG) Fraud Hotline at 1-800-347-3735. Allegations will be investigated promptly, with corrective actions and recapture of funds implemented as appropriate.

IX. CONFLICTS OF INTEREST AND MODIFICATIONS

To maintain the highest standards of integrity, all stakeholders, including DHSEM staff, subrecipients, contractors, and partners, must adhere to strict conflict of interest guidelines and the Conflict of Interest Policy.



Individuals involved in the decision-making or procurement processes must disclose any personal or financial interests that might influence their objectivity in fulfilling financial management objectives. This requirement is crucial to ensuring that all actions taken under the Financial Management Policy are impartial and align with the principles of fairness and equity. Regular training will reinforce these standards and help identify and address potential conflicts proactively.

The Financial Management Policy is subject to continuous evaluation and refinement to adapt to changing legal requirements and community needs. Annual reviews, based on comprehensive feedback from stakeholders and affected communities, facilitate necessary modifications to enhance policy effectiveness. Modifications are implemented in a structured manner, ensuring alignment with both federal mandates and local objectives. All changes are documented, disseminated across all levels of involvement, and incorporated into subsequent training sessions, preserving the policy's integrity and responsiveness to emerging challenges.

X. DOCUMENTATION & RECORDKEEPING

DHSEM, its contractors, and subrecipients shall maintain complete and accurate financial and programmatic records that clearly identify the source and application of all CDBG-DR funds. The accounting system must be capable of tracking receipts and expenditures, generating financial statements upon request, and supporting all entries with appropriate source documentation.

- **Source Documentation:** Acceptable documentation includes, but is not limited to, canceled checks, paid bills, invoices, purchase orders, payroll records, and grant agreements. Each document must explain the basis for the cost incurred and indicate the actual date of the expenditure. DHSEM will use purchase orders for all goods and services unless a purchase order is not warranted (e.g., mileage reimbursement), in which case the expenditure must still be supported by adequate documentation and written approval.
- **Recordkeeping Systems:** All financial records will be maintained in accordance with applicable federal and state regulations, including requirements for organization, secure storage, retrieval, and reporting. DHSEM will designate responsible personnel for recordkeeping and ensure that all required records and formats are consistently maintained.
- **Required Financial Records:** Records must include, at a minimum: chart of accounts; accounting procedures; journals and ledgers; source documentation; procurement files; real property inventory; bank account records; drawdown requests; payroll records and reports; financial reports; audit files; and relevant financial correspondence.
- **Retention and Access:** Records shall be retained for the required period under federal regulations and must be accessible for review by DHSEM, HUD, the Inspector General, and other authorized entities. Records containing Personally Identifiable Information (PII) shall be safeguarded to ensure confidentiality, integrity, and security in compliance with federal financial management and CDBG-DR requirements. Reasonable measures include limiting access to authorized personnel with a demonstrated need to know, encrypting



electronic records, securing physical files in locked storage, using password-protected systems and multi-factor authentication, prohibiting transmission of PII through unsecured email or file-sharing platforms, ensuring proper disposal of sensitive information through shredding or secure deletion, and providing regular staff training on HUD and federal data protection standards.

XI. REFERENCES

The administration of CDBG-DR funds by DHSEM is governed by a framework of federal statutes, regulations, and program-specific requirements designed to ensure accountability, transparency, and the effective use of disaster recovery resources. The core regulatory authority is 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, which establishes the standards for financial management, internal controls, procurement, subrecipient oversight, cost allowability, and audit.

Executive Order, Federal and State Laws and Regulations	Description
24 CFR Part 570	Governs the administration of the CDBG program.
Federal Register Notices for 2024 CDBG-DR Allocations <i>(90 FRN 4759 & 90 FRN 1754)</i>	Official notices detailing regulations and allocations for the CDBG-DR program in 2024, providing guidance on funding distribution and compliance requirements for disaster recovery projects.
State of New Mexico Fire and Flood Recovery (2024 Events) Community Development Block Grant – Disaster Recovery Action Plan	Action Plan governing this CDBG-DR allocation.
CDBG-DR Universal Notice <i>(90 FR 1754, January 8, 2025)</i>	Establishes a unified set of program requirements applicable to all CDBG-DR programs.
2 CFR Part 25	Mandates that entities applying for or receiving federal funds must have a Unique Entity Identifier (UEI) and be registered in the System for Award Management (SAM.gov).
2 CFR Part 170	Federal Funding Accountability and Transparency Act of 2006 (FFATA) subaward reporting.
2 CFR Part 180	Contains the OMB guidelines for government-wide debarment and suspension in nonprocurement activities,



	establishing a system to prevent misconduct by excluding irresponsible persons from federal programs like grants, loans, and cooperative agreements.
2 CFR Part 200.214	Mandates that recipients of Federal funds (non-Federal entities) must comply with regulations (2 CFR Part 180) to prevent awarding funds to parties excluded from Federal assistance, requiring them to check System for Award Management (SAM) to ensure contractors/subrecipients aren't suspended, debarred, or otherwise excluded from Federal programs, thus safeguarding Federal funds from misuse.
Cross-cutting federal requirements	Including but not limited to civil rights, labor standards, environmental review, and accessibility.

In the event of a conflict between this policy and a HUD notice or the Action Plan, the HUD notice and Action Plan will govern. Where State of New Mexico laws, administrative codes, or DHSEM policies impose more restrictive requirements, those standards will govern. All CDBG-DR funds must be administered in full compliance with this regulatory framework to safeguard program integrity and ensure alignment with federal and state recovery objectives.