

# ***EXPEDITED DRINKING WATER GRANT FUNDING PROGRAM GUIDELINES***

The Water Quality, Supply, and Infrastructure  
Improvement Act of 2014  
(Proposition 1)

The California Drought, Water, Parks, Climate, Coastal  
Protection, and Outdoor Access for All Act of 2018  
(Proposition 68)

California Budget Act of 2021 and Budget Act of 2022,  
General Fund Appropriations

Safe and Affordable Drinking Water Fund

***Adopted by the State Water Board March XX, 2023***



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## **1. PURPOSE AND OVERVIEW**

This document serves as the Project Solicitation and Evaluation Guidelines (Guidelines) (Public Resources Code, §80010 and Water Code, §79706) for the State Water Resources Control Board's (State Water Board) Expedited Drinking Water Grant Funding Program. The funds available for projects will be provided as grants only. These Guidelines do not establish a loan program. The State Water Board's Division of Financial Assistance (DFA) administers the program, and the solicitation for project proposals that DFA develops will include more information on how to apply.

This program provides an expedited process by which public agency applicants with qualifying high priority projects can receive State grant funding. Application forms, reviews, procedures, and requirements may vary from the Drinking Water State Revolving Fund (DWSRF) funding program to the extent authorized by the Deputy Director of DFA or designee to support reduction of processing times and information submittal requirements. Applicants that do not qualify for this program may be directed to apply for funding through the process established in the Policy for Implementing the DWSRF (DWSRF Policy) and the DWSRF Intended Use Plan (IUP), or through other funding programs.

Changes to the Guidelines may be necessary due to legislation or changes in State Water Board policy. If substantive changes are necessary, these Guidelines will be amended and subject to a public review process. The Deputy Director of DFA may make non-substantive changes to the Guidelines.

The Deputy Director of DFA may update and amend the Appendices to the Guidelines, and create new Appendices, as necessary.

See Appendix A for a summary of acronyms, abbreviations and definitions used in these Guidelines.

## **2. HUMAN RIGHT TO WATER**

Section 106.3 of the Water Code provides that it is the policy of the state that "every human being has the right to safe, clean, affordable and accessible water adequate for human consumption, cooking, and sanitary purposes." The State Water Board has considered the provisions of Section 106.3 of the Water Code in establishing these Guidelines. By establishing this expedited funding program, critical drinking water infrastructure projects will be constructed on a shorter timeline, resulting in many small communities gaining access to safe, clean, affordable, and accessible water much sooner than would occur without this program.

## **3. FUNDING**

The Expedited Drinking Water Grant Funding Program utilizes a variety of state funding sources for drinking water infrastructure projects, described below. These funding

sources may also be administered through the DWSRF Policy and DWSRF IUP or through the Policy for Developing the Fund Expenditure Plan for the Safe and Affordable Drinking Water (SADW) Policy (SADW Policy) and SADW Fund Expenditure Plan (SADW FEP) or as otherwise authorized by the State Water Board. If other funding sources are specified in the DWSRF IUP or are otherwise authorized by the State Water Board for this program, DFA may commit the funds consistent with these Guidelines as authorized.

### **3.1. Proposition 1**

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Assembly Bill 1471, Rendon) authorized the sale of general obligation bonds for water projects including surface and groundwater storage, ecosystem and watershed protection and restoration, and drinking water protection. Section 79724 of Proposition 1 allocated \$260 million for drinking water grants and loans for Public Water System (PWS) infrastructure improvements and related actions to meet safe drinking water standards, to ensure affordable drinking water, or both.

### **3.2. Proposition 68**

Proposition 68, the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018 (Senate Bill 5, De León) authorized the sale of general obligation bonds for water projects including surface and groundwater storage, ecosystem and watershed protection and restoration, and drinking water protection. Section 80140 of Proposition 68 allocated \$220 million for drinking water and clean water grants and loans for PWS infrastructure improvements and related actions to improve water quality or help provide clean, safe, and reliable drinking water.

### **3.3. Safe and Affordable Drinking Water Fund**

Senate Bill 200 (Ch. 120, Stats. 2019) established the SADW Fund to address funding gaps and to provide funding solutions to water systems, especially those serving disadvantaged communities, to address both their short- and long-term drinking water needs.

### **3.4. General Fund Infrastructure Appropriations**

The Budget Act of 2021 (Senate Bill 129 and Senate Bill 170) appropriated \$1.55 billion to the State Water Board in item 3940-106-0001. The budget bill specified that \$650 million is for drinking water projects, with priority given to disadvantaged communities. If additional general fund appropriations are approved by the California State Legislature, the State Water Board may commit the funds consistent with these Guidelines as authorized.

## 4. ELIGIBILITY REQUIREMENTS

Applicants applying to the Expedited Drinking Water Grant Funding Program must meet all relevant eligibility criteria to be considered for funding.

### 4.1. Eligible Funding Applicants

Eligible applicants are:

- Community water systems owned by public agencies, e.g., cities, counties, special districts, Joint Powers Authorities (JPAs), or other political subdivisions of the state; or
- Non-transient, noncommunity water systems owned by public school districts.

### 4.2. Eligible Projects

Projects that are eligible to receive funds through the Expedited Drinking Water Grant Funding Program:

- a. Must be eligible project types under the DWSRF Policy and the current DWSRF IUP, except as modified herein;
- b. Must benefit a small severely disadvantaged community (SDAC), a small disadvantaged community (DAC), a small non-disadvantaged community (non-DAC)<sup>1</sup>, or an expanded small DAC/SDAC, as defined in the DWSRF Policy and DWSRF IUP;
- c. Must consist of the construction of capital assets, as defined in Government Code §16727(a);
- d. Must not be comprised solely of the planning activities associated with an eventual construction project; and
- e. Must be a Category A-D project and/or be a consolidation project, as defined in the DWSRF Policy and DWSRF IUP.

### 4.3. Funding Prioritization

In its evaluation of project proposals, the State Water Board will prioritize projects that benefit small DACs and small SDACs, with an emphasis on consolidations, based on the following criteria and the requirements of the funding sources:

- a. **Human Right to Water** – the project supports and advances the State's policy on the human right to water, including any resolutions or policies adopted by the State Water Board.
- b. **Regulatory Priority** – the project has been identified as a high priority by the applicable state or federal regulatory agency (i.e., Division of Drinking Water, the United States Environmental Protection Agency).

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<sup>1</sup> Projects benefiting non-DACs may be eligible to receive grant funds from SADW (if the project reduces greenhouse gas emissions) or from the general fund infrastructure appropriations. Projects benefiting non-DACs cannot receive grant funds from Proposition 1 or Proposition 68.

- c. **Drought Related** – the project is needed to address acute drinking water shortages in domestic water supplies; prevent a potential acute drinking water shortage; increase drought resilience; or meet the requirements of Senate Bill 552 (Stats. 2021, ch. 245).
- d. **Timeliness for Project Completion** – the project’s schedule is reasonable and meets appropriation deadlines.
- e. **Status of Environmental Review** – the project qualifies for a California Environmental Quality Act (CEQA) exemption or the CEQA process is complete.

#### **4.4. Other Considerations**

Additional eligibility considerations are discussed in further detail below.

##### **4.4.1. Phased Projects**

Drinking water infrastructure projects can be complex and in some cases are most effectively carried out in phases. A phased project is one in which one phase of the project must be completed before the next phase begins (e.g., a well is drilled and pump tested before being developed with permanent equipment), or where two or more phases can be conducted independently, but each phase must be completed to successfully accomplish overall project goals (e.g., development of a new production well to increase the receiving water system’s source capacity, and consolidation of a small water system).

Multiple project phases may be included in one grant agreement if it is administratively expedient to do so and the phases have similar, relatively short-term schedules for completion. Individual or multiple project phases may be funded separately if the information from one phase is needed to accurately describe the scope and budget of the subsequent phase, if one phase is on a significantly different schedule than another, or if the overall project is sufficiently complex that phasing the project with separate grant agreements is in the best interest of the state to maintain adequate fiscal and regulatory oversight.

##### **4.4.2. Multiple Projects**

The State Water Board may enter into a single grant agreement with an applicant for multiple projects, if it is administratively expedient to do so, or may have separate grant agreements for individual projects (e.g., if the projects have significantly different timelines for completion; or legal issues may hold up one project, but not another). In either case, each individual project must meet all the eligibility requirements under this program.

## **5. GRANT AMOUNTS**

Grant funding for eligible projects will be awarded based on the criteria, maximums, and funding decision processes set forth in the most current version of the DWSRF IUP, unless otherwise indicated in these Guidelines.

### **5.1. Maximum Funding Amounts**

The grant amount per project cannot exceed \$10 million, and cannot exceed the maximum grant limit specified in the DWSRF IUP applicable to the project (e.g., maximum grant amount per connection or maximum grant amount received by the community over a five-year period). On a case-by-case basis, for good cause, the Deputy Director of DFA or designee may approve grants above \$10 million per project, so long as the approved amount does not exceed the maximum grant limitations specified in the DWSRF IUP.

Proposition 1 and Proposition 68 limit construction grants to \$5 million per project in most cases.<sup>2</sup> DFA has the discretion to utilize grant funding from multiple sources for a project. For example, a \$10 million project may be funded with \$5 million in grant funds from Proposition 1 and \$5 million in grant funds from general fund appropriations.

## **6. PROJECT SELECTION PROCESS**

For the initial round(s) of funding, DFA staff anticipate identifying projects for which DFA has already received partial or complete DWSRF Program applications, or that are receiving technical assistance, that qualify under these Guidelines, and selecting preliminary funding award recipients from these existing applicants. Thereafter, applicants shall submit project proposals and other application materials described below via the Financial Assistance Application Submittal Tool (FAAST). DFA will periodically announce a deadline to submit project proposals for consideration. Application procedures and anticipated time frames are summarized in Appendix E. DFA may continue to direct applicants with partial or complete DWSRF Program applications into the program. DFA staff will conduct workshops to address questions and provide general assistance to applicants.

Project proposals will be evaluated based on the eligibility requirements and criteria discussed in these Guidelines. Applicants and/or projects that are ineligible for funding under these Guidelines may be directed to other funding programs.

### **6.1. Project Proposal**

The project proposal form is referenced as Appendix B and will be posted on DFA's website. This is a more streamlined application compared with the DWSRF

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<sup>2</sup> Construction grants for projects that provide regional benefits or are shared among multiple entities, at least one of which is a small DAC, are limited to \$20 million.

application. Applicants will be required to submit the information specified in the applicable form(s), such as the following:

- a. General information about the applicant (e.g., contact information, entity type) and the water system (e.g., population, number of service connections) that is necessary to determine eligibility
- b. Explanation of the problem that the project will address
- c. Self-Certification Form
- d. Engineering report, technical memo, or similar document that includes a description of alternatives considered
- e. Project scope, schedule, and budget
- f. Adopted authorizing resolution (if available)

Other documents may be provided if available (e.g., feasibility studies, environmental documents, documentation demonstrating that the applicant has the required access/property rights required for the project). Technical assistance may be provided to assist with the preparation of the application.

It is **highly** recommended that applicants review both the sample grant agreement (posted at \_\_\_\_\_) and the form of opinion of counsel (posted at \_\_\_\_\_) with their own attorney prior to submission of their project proposal to ensure that they will be able to comply with the required terms, including the cross-cutting state laws (e.g., nondiscrimination, drug-free workplace, competitive bid, etc.) and will be able to make the representations and warranties (e.g., long-term property rights, solvency, no relevant litigation, etc.). Notwithstanding the foregoing, the State Water Board may revise the standard grant agreement terms and conditions to reflect changes in state law or make other necessary revisions.

## **6.2. Completeness and Eligibility Review**

All project proposals will undergo completeness and eligibility reviews for the required items listed in the application materials. If a project proposal is determined to be incomplete or ineligible, it may not be reviewed or considered for funding.

DFA will consult with the local Division of Drinking Water (DDW) district office to ensure that the project is consistent with State Water Board policies, permits and orders. DDW will assist DFA in reviewing the scope, schedule, and budget of each application that is submitted and determined eligible for funding. The level of involvement and review by the DDW will depend on the scope of the proposed project. DDW will inform the applicant of any requirements (e.g., Safe Drinking Water Act, California Waterworks Standards) that may require consideration in the applicant's project.

DFA staff will identify projects recommended for funding. The Deputy Director of DFA makes the final decision as to which applicants will receive a preliminary funding award.



### **6.3. Preliminary Funding Award Notification**

DFA will notify applicants of preliminary funding awards via email, or by letter, and will post approved project lists on the State Water Board website. Award notifications will identify draft terms and conditions, including conditions precedent, that will be applicable to the grant agreement. The notification will include deadline(s) for deliverables that need to be completed to receive a grant agreement, such as:

- a. Adopted authorizing resolution
- b. Technical, Managerial, and Financial (TMF) Assessment Form (see Appendix C)
- c. Environmental Package for the Expedited Drinking Water Grant Funding Program (see Appendix B), including documents or a notice of exemption (NOE) filed with the County Clerk and State Clearinghouse, any comment letters, and resolution/minutes adopting CEQA Documents (only if the CEQA process is complete).

DFA may request additional information or documentation. Any lack of responsiveness by applicants to inquiries and requests for information or documentation may result in DFA withdrawing preliminary funding awards.

### **6.4. Grant Agreement**

Following notification of preliminary funding awards and completion of the deliverables identified in the award notification and any other requirements, the State Water Board will issue grant agreements to recipients. Grant agreements will not be effective until signed by the recipient's authorized representative and the State Water Board, and must be accompanied by a satisfactory legal opinion of the recipient's counsel (see form of opinion of counsel posted at \_\_\_\_\_).

The grant agreement will require the recipient to provide complete technical, financial, and environmental information for review, to the extent not already provided, before the Division provides approval to proceed with activities such as solicitation of construction bids, selecting a construction contractor, and commencement of construction of the project.

## **7. REIMBURSEMENT OF COSTS**

Only work performed within the terms and conditions of an executed grant agreement that meets the applicable requirements, which may depend on the funding source, will be eligible for reimbursement.

Recipients may request reimbursement of planning/design and other eligible non-construction costs upon execution of the grant agreement, except that recipients shall not purchase any equipment or land, or other property rights for the project without

written approval from the project manager. Compliance with any conditions required by the State Water Board, and completion of the recipient's CEQA documents and the State Water Board's environmental review, will be conditions precedent to reimbursement of certain purchases and will be required before any construction costs are incurred. No activities requiring CEQA review, including construction, may proceed unless and until the State Water Board, as the CEQA responsible agency, completes its own CEQA review process and notifies the recipient of approval to proceed. (See Sections 8.1 and 8.2 of these Guidelines)

DFA may also include conditions that must be satisfied prior to disbursement of construction funds, completion of construction or final disbursement, such as documentation demonstrating that necessary elements of TMF have been addressed, adopted water rates sufficient to operate and maintain (O&M) the water system and the project, or submission of a permit amendment application to the local DDW district office (if applicable).

### **7.1. Eligible Project Costs**

Allowable costs are those set forth in the DWSRF Policy and DWSRF IUP. For projects receiving grant funds from SADW, additional guidance on allowable costs is set forth in the Policy for Developing the Fund Expenditure Plan for the SADW Policy (SADW Fund Policy) and the SADW Fund Expenditure Plan (SADW FEP).

### **7.2. Advance Payment**

Proposition 1 and Proposition 68 authorize up to 25 percent (25%) of a grant for a project serving DACs to be awarded in advance of actual expenditures (Water Code, §79724, subd. (a)(1) and Public Resources Code, §80030). The State Water Board is also authorized to provide necessary advance payments for projects funded by the SADW Fund (Health and Safety Code, §116766(i)), or by any other funding source to the extent authorized. An advance payment program may be established and approved by the Deputy Director of DFA at a later date. No advance payments will be provided unless such a program is established.

## **8. GENERAL PROGRAM REQUIREMENTS**

All applicants that are awarded a grant through the Expedited Drinking Water Grant Funding Program must comply with the terms and conditions set forth in the grant agreement, including the following general program requirements. Before applying, applicants must consider their ability to comply with these requirements. Guidance for recipients, including details that State Auditors may review if a grant is audited, are discussed in Appendix D.

All requirements, terms, and conditions in the DWSRF Policy and DWSRF IUP applicable to non-DWSRF state grant funded projects apply, unless inconsistent with these Guidelines, or waived by the Deputy Director of DFA or designee. Additional

statutory and regulatory requirements may apply as well, depending on the funding source. Application forms and procedures for environmental review, financial review, and final budget and construction approval, disbursement, and other procedures and requirements may vary from the DWSRF Policy and IUP to the extent approved by the Deputy Director of DFA or designee.

### **8.1. CEQA Compliance**

Recipients are responsible for complying with all applicable laws and regulations for their projects, including CEQA. State Water Board selection of a project for funding does not indicate that the consideration of mitigation measures that would reduce or eliminate adverse environmental effects of that project is adequate. No construction may proceed unless and until the State Water Board completes its own CEQA findings if applicable and gives authorization to proceed with construction. The State Water Board may enter into a grant agreement to begin funding planning/design activities for a project, but such an award will not constitute approval of the construction scope element of the grant agreement or be a guarantee of construction funding. **The State Water Board expressly withholds approval of any construction project or construction element of a project and the release of funds associated with that construction project or that construction element of a project pending completion of the CEQA process, including the State Water Board making its own findings under CEQA if applicable.** Any funds in the award or the grant agreement linked to the construction element of a project are for encumbrance purposes only and will be reviewed after the State Water Board makes any necessary CEQA findings. The appropriate environmental review under CEQA must be complete before the State Water Board determines whether to approve funding for construction of the project or for any site acquisition (purchase of land, etc.) associated with the project.

When the lead agency's CEQA review process is complete, the lead agency must file a CEQA notice of determination or NOE for the project with the County Clerk and the State Clearinghouse.

### **8.2. Project Manager Notifications**

Recipients will be required to obtain approvals from the Project Manager prior to soliciting for construction bids; purchasing necessary equipment, land or other property rights for the project; and/or any construction activities. The Project Manager will verify that the recipient has complied with all applicable conditions before giving such approval. **Proceeding with the bid solicitation process, equipment procurement, purchase of land or other property rights, and/or construction prior to receiving such authorization from the Project Manager may render the project ineligible for funding and may be grounds for immediate termination of the agreement.**

The Project Manager may conduct site visits and inspections to verify that the project is proceeding in accordance with the grant agreement. The Project Manager may document such field visits with photographs or notes, which may be included in DFA's project file.

### **8.3. Reporting**

Every recipient is required to submit quarterly progress reports to DFA that detail activities that have occurred during the applicable reporting period. Reporting is required even if no project related activities took place during the reporting period. Additional reporting requirements specific to Greenhouse Gas Reduction Fund (GGRF) expenditures may be applicable to projects that receive SADW funds, as described in the SADW Fund Policy and the SADW FEP.

At the conclusion of the project, the recipient must submit a Project Completion Report, which must include a description of the project, a description of the problem the project sought to address, and a summary of compliance with applicable grant agreement conditions.

### **8.4. Confidentiality**

Any privacy rights, as well as other confidentiality protections afforded by law with respect to the application materials that are submitted will be waived once submitted to the State Water Board. The locations of all projects awarded funding must be reported to the State Water Board and made available to the public. The State Water Board may report project locations to the public through internet-accessible databases. The State Water Board uses Global Positioning System (GPS) coordinates for project locations.

### **8.5. Disputes**

An applicant or recipient may appeal a staff decision within 30 days. Disputes will be reviewed and resolved pursuant to the procedure set forth in the DWSRF Policy.

Where a grant agreement has been executed, the dispute and remedies provisions of that grant agreement will control, and the dispute provisions of this section are inapplicable. Recipients must continue with the responsibilities under the grant agreement during any dispute.

## **APPENDIX A: ACRONYMS, ABBREVIATIONS, AND DEFINITIONS**

### **ACRONYMS AND ABBREVIATIONS**

CEQA	California Environmental Quality Act
DAC	Disadvantaged Community
DDW	Division of Drinking Water
DFA	Division of Financial Assistance
DWSRF	Drinking Water State Revolving Fund
FAAST	Financial Assistance Application Submittal Tool
GGRF	Greenhouse Gas Reduction Fund
Guidelines	Project Solicitation and Evaluation Guidelines
IUP	Intended Use Plan
JPA	Joint Powers Authority
NOE	Notice of Exemption
Non-DAC	Non-Disadvantaged Community
O&M	Operation and Maintenance
PWS	Public Water System
SADW	Safe and Affordable Drinking Water
SADW FEP	SADW Fund Expenditure Plan
SADW Fund Policy	Policy for Developing the Fund Expenditure Plan for the SADW Policy
SDAC	Severely Disadvantaged Community
SDWA	Safe Drinking Water Act of 1996
State Water Board	State Water Resources Control Board
TMF	Technical, Managerial, and Financial

### **DEFINITIONS**

Unless otherwise defined in these Guidelines, the definitions in the DWSRF Policy and the DWSRF IUP apply to funding provided under the Expedited Drinking Water Grant Funding Program. Additional definitions in the SADW Fund Policy and the SADW FEP are applicable to projects that receive SADW funds.

## **APPENDIX B: PROJECT PROPOSAL FORM**

The Project Proposal Form is posted at: (\_\_\_\_\_)

## **APPENDIX C: TECHNICAL, MANAGERIAL, AND FINANCIAL CAPACITY**

The federal SDWA requires states to incorporate TMF capacity into PWS operations. This requirement helps ensure that PWSs have long-term sustainability and are able to maintain compliance with all applicable drinking water laws and regulations.

Generally, applicants will be required to submit the appropriate TMF assessment form attached as an appendix to the DWSRF Policy prior to receiving a grant agreement. DFA will review and comment on the TMF assessment and will determine if all TMF elements have been satisfactorily addressed by the applicant. The applicant will be required to address the mandatory elements of TMF prior to receiving construction authorization. Recipients will be required to address the necessary elements of TMF prior to completion of construction or prior to the final disbursement. Exceptions or variations may be approved on a case-by-case basis as described in the DWSRF Policy or DWSRF IUP.

Technical assistance may be provided to ensure TMF elements will be addressed.

## **APPENDIX D: RECORDKEEPING GUIDANCE FOR RECIPIENTS**

The list below details the documents and records that State Auditors would need to review in the event of a grant being audited. Recipients will be required to maintain such records for each funded project consistent with the records retention timeline established in the grant agreement.

### **Internal Controls**

- 1) Organization chart (e.g., the recipient's overall organization chart and organization chart for the grant funded project)
- 2) Written internal procedures and flowcharts for the following:
  - a. Receipts, deposits, and disbursements
  - b. State disbursement requests
  - c. Grant expenditure tracking
  - d. Guidelines, policy, and procedures on grant funded project
- 3) Audit reports of the recipient's internal control structure and/or financial statements within the last three years
- 4) Prior audit reports on grant funded project

### **Grants**

- 1) Original grant agreement, any amendment(s), and budget modification documents
- 2) A listing of all bond-funded grants received from the state
- 3) A listing of all other funding sources for each project

### **Contracts**

- 1) All subcontractor and consultant contracts and related documents, if applicable
- 2) Contracts between the recipient and other agencies as related to the grant funded project

### **Invoices**

- 1) Invoices from vendors and subcontractors for expenditures submitted to the state for payments under the grant
- 2) Documentation linking subcontractor invoices to state disbursement requests and related grant budget line items
- 3) Disbursement requests submitted to the state for the grant

### **Cash Documents**

- 1) Receipts (copies of warrants) showing payments received from the state
- 2) Deposit slips (or bank statements) showing deposit of the payments received from the state
- 3) Cancelled checks or disbursement documents showing payments made to vendors, subcontractors, consultants, and/or agents under the grant
- 4) Bank statements showing the deposit of the receipts



**Accounting Records**

- 1) Ledgers showing entries for grant receipts and cash disbursements
- 2) Ledgers showing receipts and cash disbursement entries of other funding sources
- 3) Bridging documents that tie the general ledger to requests for grant reimbursement

**Administration Costs**

- 1) Supporting documents showing the calculation of administration costs

**Personnel**

- 1) List of all contractors and recipient's staff that worked on the grant-funded project
- 2) Payroll records including timesheets for contractor staff and the recipient's personnel who provided services charged to the project

**Project Files**

- 1) All supporting documentation maintained in the project files
- 2) All grant-related correspondence

## **APPENDIX E: SUMMARY OF PROCEDURES**

This is a placeholder for Appendix E.