CHAPTER 2
FINANCIAL MANAGEMENT

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CHAPTER 2
FINANCIAL MANAGEMENT

2.0 Introduction

The Grant Recipient must review the financial requirements of the contract and set up a financial accounting system consistent with the requirements of the TxCDBG Program.

Federal Cost Guidelines – 2 CFR Part 200 Uniform Guidance

The financial requirements for local governments receiving TxCDBG Grants are governed by regulations issued by the Federal Office of Management and Budget (OMB) and HUD. Grant Recipients are required to comply with the uniform administrative requirements found in Title 2 of the Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (hereinafter referred to as "Uniform Guidance" or "2 CFR 200"), and the TxCDBG Project Implementation Manual effective September 1, 2016. For TxCDBG requirements in effect prior to September 1, 2016, please refer to **the 2015** TxCDBG Project Implementation Manual.

TDA has adopted 2 CFR Part 200 unless otherwise noted. Policies within this manual reflect these adopted regulations.

2.1 Accounting Procedures

The Grant Recipient is responsible for ensuring that all TxCDBG expenditures are authorized in the approved budget and do not exceed the total budget amount. Separate accounting records must be maintained for TxCDBG project funds (i.e., separate from the general municipal/county funds). These records should be developed to be consistent with the Grant Recipient's general accounting system. Grant Recipients must take the following steps to ensure an adequate local accounting system for TxCDBG funds.

2.1.1 Establish Internal Controls

The Grant Recipient should establish internal controls that provide for responsible management of TxCDBG funds. The system of internal controls should meet the following criteria:

- All federal, state, and local conflict of interest provisions apply.
- The foundation of a good internal control system is segregation of duties. The duties of authorization (signing a check or releasing a wire transfer), custody (having access to the blank check stock or the ability to establish a wire transfer), and recordkeeping (ability to record the transaction in the accounting system) should be separated so that one individual cannot complete a transaction from start to finish. No person should have complete control over every phase of a significant transaction. For example, the person who authorizes payments to contractors should not draft and issue the payment check.
- Best practices also provide that fiscal record keeping for TxCDBG contracts should be maintained separately from the general accounting operations.
- Where feasible, monthly bank reconciliation and/or direct deposit monthly statements should be made by someone who is not responsible for handling cash or issuing checks.

- The person issuing checks for grant expenses should not also handle payroll preparation/issuance of paychecks.

State law and the charters of home rule cities contain fidelity bond requirements for certain city and county officials. For their own protection, TDA recommends that all Grant Recipients additionally obtain a fidelity bond for each employee or official having access to project assets, accounting records, or checks. The bond (position or blanket type) should be in an amount at least equal to the total project assets that would be available to the project at any time. TDA may require adequate fidelity bond coverage where the Grant Recipient lacks sufficient coverage to protect the Federal Government's interest. If the latter requires an additional premium to be paid on the Grant Recipient's existing policy, this extra cost can be reimbursed out of the General Administration budget category of the TxCDBG contract.

2.1.2 Establish/Maintain Document Files and Records

TxCDBG grant funds must be carefully tracked and documented. TDA strongly recommends that the Grant Recipient establish a separate, non-interest bearing bank account for grant and local match funds. Regarding the use of checking accounts, best practice is for the Grant Recipient to deposit CDBG grant funds in a non-interest bearing account. If the Grant Recipient chooses to deposit grant funds into an interest bearing account, contact TDA. (See 2 CFR 200.305(b)(9) for additional regulations for interest bearing accounts).

Financial Records must include the following:

1) Transaction registry documenting:
   - All invoices associated with each Request for Payment; and
   - Source of funds for each invoice (grant funds by activity, matching funds, other funds).

2) Source documentation, including the following:
   - Copies of Requests for Payment;
   - Addendum record of direct deposit payments;
   - Verification of deposits;
   - Monthly bank statements with canceled checks;
   - Check register/transaction ledger;
   - Employee time and attendance sheets;
   - Equipment time record sheets;
   - Property inventory;
   - Purchase orders, invoices, and contractor requests for payments; and
   - All original source documents.

2.1.3 Establish Financial Capacity and Submit Audit Report

All Grant Recipients must provide their Annual Audit Report completed for the most recent fiscal year that ended at least nine months prior to the contract date in order to meet the funding threshold of “financial capacity”. The audit must be an organizational-wide audit and cannot be limited to certain parts of the organization. The audit must include an opinion, and any adverse opinion will require additional documentation to support the financial capacity of the Grant Recipient. *If the audit was submitted with the application for funding, the Grant Recipient does not need to send another copy prior to drawdown.*

- In general, evidence that the community has complied with the Texas Local Government Code audit requirements (Chapters 103, 114 and 115) will be accepted as documentation of financial capacity.
- Electronic versions of the audit report are encouraged.

- The audit submitted to document financial capacity must include the "opinion" expressed by the person or firm performing the audit.
- The Texas Local Government Code allows the required audit for a municipality to be completed by an employee of the municipality; if this type of audit is submitted, a supporting letter certifying the financial capacity of the municipality must be signed by the chief local official.

2.1.4 Establish Responsible Persons

The *Authorized Signatories Designation Form* **(Form A202)** identifies the persons responsible for both contractual documents (executed contract, contract amendments, and various program certifications) and requests for payment.

- Signatures of the persons (at least 2) authorized by the local governing body to sign these documents for the Grant Recipient must be included on the form.
- A copy of the resolution (sample resolution **Form A201**) passed by the city council or county commissioner's court authorizing the signatories (by job title or by name).
- The form and/or resolution must be updated in the event that an authorized signatory of the Grant Recipient changes (elections, illness, resignations, etc.).

2.1.5 Direct Deposit Authorization

The Grant Recipient is strongly encouraged to complete the *Direct Deposit Authorization Form* 74-176 to receive payments from a state agency posted directly to the local bank account. See State Comptroller of Public Account's website for deposit forms and follow the provided instructions for Direct Deposit Authorization - http://www.window.state.tx.us/directdep/. Grant payments released after the form is submitted and processed will be deposited using this method; allow 30 days for processing.

2.2 Release of Funds

TDA requires certain documents to be submitted to TDA in order to meet required thresholds prior to releasing several categories of contract funds. Additional documentation may be required based on the specific fund category or project description and will be listed in the TxCDBG contract.

The Grant Recipient must submit all Start-up Documentation & Basic Federal Requirement Documentation (Group A) and Construction Documentation (Group B) within 12 months of the contract start date. Group C documents are required to release final construction funding.

Threshold	**Budget Available**
General Administration Budget Line Item	
Acceptance of all Group A Documents	0 to 50%
Acceptance of all Group A and Group B Documents	51 to 90%
Issuance of Administratively Complete letter by TDA	91 to 100%
Engineering Budget Line Items (multiple line items may be considered cumulatively to determine thresholds)	
Acceptance of all Group A Documents	0 to 50%
Acceptance of all Group A and Group B Documents	51 to 90%
Acceptance of all related Certificate(s) of Construction Completion AND any regulatory approvals required by the contract (such as TCEQ interim well approvals or TDLR inspections)	91 to 100%
Construction Budget Line Items	
Acceptance of all Group A and Group B Documents	0 to 95%

Acceptance of all Group A, Group B, and Group C Documents	96% to 100%

Maximum General Administration and Engineering Services Reimbursement

Administrative costs may not be more than 16% of the TxCDBG grant funds budgeted for combined construction and acquisition/relocation activities. Additionally, engineering costs may not be more than 25% of the TxCDBG grant funds budgeted for combined construction and acquisition/relocation activities except in exceptional circumstances.

Deobligation of construction and/or acquisition funds:

- If construction and/or acquisition funds are deobligated from the contract during the closeout process, these ratios will be recalculated to ensure that final costs are within the allowable percentage of the actual construction and acquisition/relocation grant funds utilized. Any costs in excess of the recalculated ratios will be considered over budget. The Grant Recipient may not draw down over budget costs and must repay any such costs already drawn, but may claim these costs to meet a contract's match requirements.

- Grant Recipients deobligating construction and/or acquisition funds may request an exception to the recalculated budgets for administration and engineering services if the project was completed within the original contract period. The request letter must include a description of:
    - unforeseen circumstances beyond the Grant Recipient's control;
    - the timely and effective completion of contractual project obligations in their professional/administrative service agreement;
    - additional time invested in the project beyond the normal scope of work; and
    - good faith efforts by the Grant Recipient and the administrative or engineering services provider to use allowable contract modification options to fully utilize the grant funding included in the TxCDBG contract (other than TCF projects for minimum necessary activities).

Construction Retainage

The release of final construction funding is separate from the labor standards retainage described in Chapter 7.

- Five percent (5%) of each construction contract will be retained by TDA until the Grant Recipient submits the Certificate of Construction Completion (COCC)**(Form A709)** and Final Wage Compliance Report **(Form A710).**
- TDA requires that the Grant Recipient ensure that **all** programmatic requirements are met, **all** claims and disputes have been settled, **all** warranties have been received, and **all** liens have been released prior to making the final payment of the retainage.

Group A Documents

1) Executed TxCDBG contract;
2) Authorized Signatories Form and supporting resolution (See Section 2.1 above);
3) Annual Financial Audit;
4) Environmental Exemption Form for administration, engineering, and other applicable activities (See Chapter 3);
5) Applicable Financial Interest Report(s) (See Chapter 5); and
6) Documentation of Compliance with Civil Rights requirements (See Chapter 10):
    a. Excessive Force Policy;

b. Section 3 Policy;
c. 504 Evaluation, Newspaper Ad and procedures;
d. Fair Housing Activities;
e. Citizen Participation - Grievance and Complaint Procedure;
f. Nondiscrimination/EEO Policy;
g. Limited English Proficiency Policy; and
h. Designation of Civil Rights Officer.

Group B Documents

1) Documentation to support Environmental Authorization to Use Grant Funds (See Chapter 3);
2) Initial Acquisition Report (See Chapter 6);
3) Acquisition Report and Acquisition Checklist(s), if applicable (See Chapter 6);
4) Permit and Approval Certification (See Chapter 4);
5) Bid Tabulation(s), Micro-purchase, or Small Purchase Procurement Record(s), if applicable (See Chapter 5);
6) Applicable Financial Interest Report(s) (See Chapter 5);
7) Labor Standard's Officer Appointment (See Chapter 7);
8) Labor Standards Record(s), if applicable (See Chapter 7);
9) Photo of Temporary Project Signage at construction site (See Chapter 4); and
10) Other items listed in Section A of the TxCDBG contract Exhibit D, Special Conditions.

Group C Documents

1) Certificate(s) of Construction Completion, if applicable (See Chapter 7);
2) Final Wage Compliance Report(s), if applicable (See Chapter 7);
3) Documentation of costs for all required matching funds, if applicable;
4) Photo of Permanent Project Signage at construction site, if applicable (See Chapter 4);
5) Written approval of as-built project, if applicable (see Chapter 4); and
6) Other items listed in Section B of the TxCDBG contract Exhibit D, Special Conditions.

2.3 Drawdown Procedures

2.3.1 Submitting a Request for Payment

The following must be submitted for processing **each** drawdown request:

1) *Request for Payment Form* **(Form A203)**
   Form A203 can be found on the TDA website. The form must be completed in Adobe format. Hold your mouse over each required field for instructions to complete the field. Any questions relating to the preparation of financial forms should be referred to the Grant Recipient's assigned Contract Specialist.

2) Backup documentation that justifies payment for each budget line item from which TxCDBG funds are requested.
   - All costs must be supported by invoices or similar documentation, which includes price, quantity, and service delivery dates. See Chapter 8 for acceptable backup documentation for force account costs.
   - Backup documentation included with a Request for Payment must include enough information to confirm that an item is eligible under the TxCDBG contract and that the work billed has been completed.

- Requests for reimbursement will not be processed unless acceptable back-up supporting documentation, including the price and the quantity of the item, is provided. In addition, the backup documentation must justify payment for each budget line item from which TxCDBG funds will be drawn. For example, if a request for reimbursement includes payment under the General Administration and Water Facilities line items, documentation must be provided from both activities. See 2 CFR 200.302(b) (3).

TDA will accept Requests for Payment with accompanying backup documentation in three ways:

1) Printed documents mailed or delivered to TDA Headquarters in Austin, TX;
2) Emailed documents up to ten (10) pages sent to CDBG_Draws@TexasAgriculture.gov ; or
3) Faxed documents up to ten (10) pages in length sent to 888-216-9867.

If the Request for Payment with accompanying documentation exceeds ten (10) pages, the Grant Recipient must submit a printed copy of the Request for Payment. Please note that emails with attachments exceeding ten (10) megabytes cannot be accommodated by the TDA email system.

To avoid any delay in the routing of the emailed request, please include as the subject line: Contract Number, Grant Recipient Name, Draw Number, Contract Specialist's Name

Once a request for reimbursement has been submitted, the TDA Contract Specialist should contact the Grant Recipient within 10 business days, either as notification that the request has been approved and routed for payment or to identify deficiencies that prevent approval of the request. TDA staff may request additional information regarding requests for reimbursement, even if supporting documentation has been provided.

2.3.2 Minimum Drawdown Requests and Disbursement

Grant Recipients may drawdown for eligible costs as often as is actually needed, with the provision that the minimum drawdown request is $2,500. The exceptions to the minimum drawdown of $2,500 rule are as follows:

- The drawdown exceeds 25 percent of a budgeted line item and the Grant Recipient is requesting funds only for that line item;
- The Grant Recipient is requesting funds for the final retainage of a construction contract;
- The Grant Recipient has received prior approval from TDA; or
- The request is the final drawdown for one or more budget line items.

Grant Recipients should base their drawdowns on:

- actual costs incurred – Grant Recipients must disburse funds as soon as administratively feasible - a maximum of 5 business days, not including state and federal holidays, from the time of receipt/deposit of funds to the time of actual local disbursement (For state and federal holidays, the Grant Recipient should note such holidays on their ledger to assist TDA monitoring staff.); and
- Grant Recipients must draw funds under each budget activity at least once a year or as directed by TDA.

2.3.3 Delays, Ineligible Costs, and Denial of Payment

TDA staff will review all Requests for Payment.

Note: All Requests for Payment must be signed and dated.

If some or all costs are not eligible or are not adequately supported with backup documentation, or if the Grant Recipient is out of compliance on one or more program requirements, the Contract

Specialist will either place the Request for Payment on hold pending resolution of the issue, or decline the Request for Payment. The Grant Recipient will be notified of the reasons for holding or denying requests.

Payment Requests that cannot be approved by TDA in a reasonable number of days as a result of insufficient documentation will be declined. A new Request for Payment may be submitted once all costs are reimbursable.

Ineligible Costs

The following list includes common, but not limited to, items that will not be approved for grant or match funding. Please contact your contract specialist with any questions.

- Costs associated with professional administration where the administrator had not been certified by TDA as required by 4 TAC § 30.80.
- Water meters for homes with no identified TxCDBG beneficiaries, including vacant homes, homes not connected to the TxCDBG-funded infrastructure, and other homes not approved as beneficiaries in the application and contract.
- Billing software and related equipment not physically connected to the TxCDBG-funded infrastructure improvements
- Generators that are not permanently installed at the designated location (trailer mounted generators are not considered permanently installed)
- Cost of obtaining permits or other documentation that would be required regardless of the current projects, including CCN applications, renewal of TCEQ permits, etc.;
- Commercial advertising and public relations costs such as the replacement or addition of a logo, water system name, or other cosmetic painting on TxCDBG-funded water tanks and other structures;
- Cost or fees charged for the preparation of a TxCDBG application; and
- Other similar costs.

Refer to 2 CFR Part 200 Subpart E – Cost Principles for the basic guidelines of eligible costs. If the Grant Recipient will be incurring any special or unusual costs, the Grant Recipient should seek prior written approval from TDA. (See 2 CFR 200.407).

Note: TDA requires that Grant Recipients re-survey first-time service beneficiaries for projects involving first-time water or sewer service beneficiaries prior to bidding construction to identify all households that will be connected, a list of those households refusing service, as well as identifying LMI households eligible for TxCDBG-funded yardlines. If a substantial number of proposed beneficiaries do not intend to connect to the TxCDBG-funded infrastructure, contact the Contract Specialist before proceeding. (See also Chapter 4)

2.3.4 Accounting Adjustments

If a Grant Recipient draws funds from an incorrect budget line item, a Balance Adjustment **Form A206** must be submitted as soon as the error is identified.

After a Balance Adjustment Form is submitted and approved, the Grant Recipient must adjust the *Request for Payment* **(Form A203)** in the "Total Prior Request(s)" column and the "Balance" column on subsequent payment requests to reflect the changes.

Please note that a balance adjustment is not routine. A practice of expending funds not in agreement with the purpose for which they were drawn demonstrates insufficient capacity to manage and implement TxCDBG funded projects and may result in disallowed costs and/or ineligibility for program funding. Failure to submit this notification as soon as the error becomes known during the contract period will result in costs being disallowed.

2.4 Matching Funds

Most TxCDBG contracts require matching funds to be provided by the Grant Recipient. TDA strongly recommends and places a high priority on projects that contain matching funds.

Matching funds are defined as actual revenues provided by the Grant Recipient (or other units of local government in a joint application), unless the governing body's resolution included in the application states otherwise. Requests to claim force account costs as match funds must comply with Chapter 8.

Expenditures of matching funds must be reflected in the transaction register.

2.4.1 Acceptability of Matching Funds

Funds can be considered as matching funds only if the matching funds will be used for:

- activities described in the TxCDBG Performance Statement (Exhibit A of the TxCDBG contract); or
- activities that are directly related to supporting the activities proposed for TxCDBG funding.

Match can be considered only if the Grant Recipient has used an acceptable and reasonable method to document the value of the match. Except for cash match, the Grant Recipient must submit an attachment/schedule which shows how the value of each type of match was determined. Please note that local match can only be counted for expenditures that would not occur if the TxCDBG contract were not funded. Local match will only be considered for expenses that meet the eligibility and prior approval requirements of TDA.

Cost Eligibility

Matching funds are subject to all TxCDBG cost eligibility requirements, except that the following items are not eligible for grant funding but may be eligible for matching funds:

- Donated property. The value of property owned by either the Grant Recipient or the utility that will own new grant-funded facilities, excluding easements, rights-of-way, existing locations for the same infrastructure system, or similar property, may be claimed as matching funds.
- Waived Fees. Fees associated with grant or match funded infrastructure that are normally collected by either the Grant Recipient or the utility that will own the infrastructure but that are waived for the TxCDBG project may be claimed as matching funds with prior TDA approval. These fees may include assessment fees, impact fees, capital improvement fees, utility connection fees for low- to-moderate-income households, and similar fees.

Federal, State, and Program Requirements

Matching funds are generally subject to all TxCDBG program requirements. However,

- For construction contracts funded entirely through non-CDBG funds but used to complete the TxCDBG project, the construction contract may be exempt from Davis-Bacon and related requirements. A 10 day confirmation (per Chapter 7) is required to document the work to be performed, the exemption status, and the reason that Davis Bacon requirements do not apply.

- Private funds provided by the benefitting business for Texas Capital Fund Infrastructure and Real Estate contracts may be exempt from some federal requirements if those funds are used for separate construction projects from the grant-funded improvements. (See Section D -Texas Capital Fund)

2.4.2 Reducing the Commitment of Matching Funds

Each Grant Recipient is required to expend the same ratio of local funds to TxCDBG funds as submitted in the application.

If the overall project costs are less than the budgeted funds, the Grant Recipient may proportionally reduce both the grant fund and matching fund amounts without a Budget Amendment. The formula for calculating a proportional reduction in grant and match funds is:

Total Project Cost ÷ (1 + (Exhibit B Match Amount ÷ Exhibit B Grant Amount)) = Adjusted Grant Funds

A Match Calculator is provided on the TDA website to assist in calculating the correct amount of grant and match funds based on actual project costs. The unexpended grant funds must be indicated on the Project Completion Report (A1200) and approved by the Grant Recipient for deobligation.

Unless the terms of the award or fund category require a larger match ratio*, TDA will not require or verify matching funds greater than 100%.

- For contracts in which the local match commitment exceeds the amount of TxCDBG grant funds, the matching funds may be reduced to the point that local funds are equal to or greater than the TxCDBG grant funds expended on the project without reducing grant funds.
- Approval from TDA to proportionally reduce matching funds is required if the overall project costs are proposed to be reduced by deleting work from the TxCDBG contract Performance Statement (Exhibit A) (also requires a Performance Statement Amendment or Modification - see Chapter 11).

* Examples of fund category or award requirements where this policy does not apply include:

- Additional application scoring awarded for very large match commitment - TCF contracts greater than $750,000; and
- Program requirements for specific ratio of funding sources - 25% CDBG to 75% FEMA funding.

These policies are effective for all Grant Recipients, regardless of whether or not local match was a scoring factor at the regional level.

2.4.3 Matching Funds Provided by Other Funding Agencies

If matching funds for a TxCDBG project are provided by other federal or state sources, the Grant Recipient must document those matching funds according to the rules and regulations of the funding agency from which the funds are requested. The Grant Recipient must submit documentation of the following to TDA:

- The amount of funds actually received from each source;
- The scope of the project funded through sources other than TxCDBG (to confirm that the funds are match to the TxCDBG-funded project); and
- Completion of that project.

All sources of funding (other than TxCDBG and the Grant Recipient) should be identified in the application. If additional funding is obtained after the submission of the application, the Grant

Recipient should submit the funding award notification and/or other documentation to TDA within **thirty (30) days** of any change in the expected sources or uses of funds that exceed the lesser of $250,000 or 10 percent of previously disclosed sources. Other sources include state and federal funding agencies other than TxCDBG as well as local Water Supply Corporations or other local entities participating in the project.

All projects funded in whole or in part through TxCDBG funds must comply with federal, state, and program requirements. Except as otherwise indicated, the procedures and requirements of the TxCDBG Project Implementation Manual apply to all work described in the TxCDBG contract Performance Statement (Exhibit A), including work performed by or funded in part through other state or federal agencies.

If a construction contract includes both a TxCDBG project and a separate project (not included in the Performance Statement or claimed as matching funds) to be paid by the Grant Recipient or another funding source, the construction contract should clearly indicate the work and the costs associated with each project.

2.5 Program Income

Program income is defined as gross income received by the Grant Recipient that was generated from activities funded in whole or in part by the TxCDBG contract. As program income generated from a CDBG federally funded project, it is subject to all federal requirements. If a Grant Recipient earns program income, contact TDA. (See 2 CFR 200.307 and 24 CFR 570.489 for additional regulations.)

2.6 Investigation of Fraud Allegations

Allegations of fraud may be reported to TDA or to the HUD Office of the Inspector General. Allegations of fraud involving any TxCDBG funds will be investigated immediately after being brought to the attention of TDA, through whatever source.

Contact information to report FRAUD or WASTE in HUD-funded Programs and Operations

HUD Inspector General Hotline (GFI)
451 Seventh Street, SW
Washington, D.C. 20410
HUD-OIG Hotline Toll-Free 1-800-347-3735
FAX: 202-708-4829
hotline@hudoig.gov
https://www.hudoig.gov/report-fraud

An investigation will be conducted if the allegations are made in connection with the services provided by a Grant Recipient using TxCDBG funds. TDA will immediately:

- Notify the Grant Recipient of the allegation and advise that TDA will conduct an investigation; or
- Advise the Grant Recipient that it must conduct a preliminary investigation and submit a written report within 7 working days from the date of notification. The report must include:
  - Nature of the allegation, dollar amount involved, whether a fidelity bond exists and its dollar coverage;
  - Who is involved (i.e., individual(s) accused of fraud), Grant Recipient's name, names of the Grant Recipient's council/commission, and the Grant Recipient's chief elected officer;
  - When the allegations were made;
  - Time period involved;
  - Where the incident occurred; and
  - How the alleged incident occurred.

The TxCDBG compliance staff will review the report and make a determination as to whether further investigation is warranted.

- If further investigation is not warranted, the file is closed or the Grant Recipient is directed to conclude the issue administratively.
- If it is determined that further investigation is warranted, TDA will conduct a full investigation of the allegations and may recommend withholding payments to the Grant Recipient, pending completion of the investigation. The scope of the investigation will be determined by the facts surrounding the incident.

Upon completion of the investigation TDA will:

- Prepare an Incident Report that includes all findings and any initial corrective action taken to date by TDA;
- Prepare a plan for corrective action, debt collection, and a plan for prosecution, if applicable;
- Cause a claim against the fidelity bond to be filed, if applicable;
- Proceed with the resolution process on any costs which are questioned as a result of the investigation;
- Conduct a follow-up visit to ensure that corrective action has been implemented; and
- Initiate debt collection procedures with the Grant Recipient, as applicable.