CDBG Origin Year Expenditure Test Webinar, 7/30/19

Puping Huang: Good afternoon, everyone. My name is Puping Huang. I'm a senior CPD specialist with Office of Block Grant Assistance Entitlement Division. Today, we are going to discuss the origin year expenditure test for the admin and planning costs for the entitlement CDBG program. We are going to cover the following topics.

First, we will discuss the CDBG program year obligation cost and the origin year expenditure test for the administrative and planning costs. Second, we'll introduce the IDIS report that can be used to check origin year admin/planning expenditure test. And third, and that's also a very important one, is we will introduce the interim remediation solutions for the grantees who have exceeded the 2015-'16-'17 origin year expenditure cap.

The origin year is a new term. So what is the origin year? Origin year means the specific federal fiscal year during which the annual grant funds were appropriated and the program year is an existing term, the grantee actually operated program year all this long. So that means the grantee established a 12-month operating period of CPD programs.

That's including CDBG, HOME, HOPWA and ESG. So all these CPD programs use the same program year and it's established in the action plan and [inaudible]. The program year begins on the first calendar days of the month between January 1 and October 1. As most of you know, started from 2015 grant HUD merged from First-In, First-Out disbursement method to grant-based accounting method.

So the grant-based accounting implemented two distinguished admin and planning tests. The first one is existing one we call program year obligation test. That is described at 24 CFR 570.200(g)(2). Each state that no more than 20 percent of entitlement grant made for that grant made for that grant year, plus program income received by the grantee and receiving during that program year may be obligated for the planning and admin costs.

The program year obligation test, we apply all prior and future program year versus the origin year expenditure test, that's introduced as new. That applies for -- to 2015 and the subsequent grant years. This is described as 24 CFR 570.200 (g)(1). That limits planning and administration expenditures to no more than 20 percent of each grant.

The origin year grant expenditure test will be used to determine compliances within your Appropriation Act requirements at end of the grant for the FY-2015 and onward grants. The difference between obligation test and expenditure test, the obligation test applies to a single program year and every program year annually while expenditure test is not limited to single program year.

It applies to the lifetime of a grant. For example, if 2016 grant was used for admin activities for 2016, like 5 percent was used for program year 2016 and then in program year 2017, another 10 percent of that grant amount was used for admin planning and 10 percent in program year 2018. Cumulatively, the grantee spent 25 percent of 2016 grant on planning and admin activities.

So that means it is over the expenditure cap by 5 percent. So the grantee actually spent three years to use up to 25 percent. But by then program year 2018, it's exceeded the cap. So the origin year expenditure cap does not apply to a single program year but a lifetime over grant. The obligation test is 20 percent of current year grant amount plus program income.

That includes regular program income, revolving funds and the Section 108 program income. The cap for the obligation test only determines the maximum amount of CDBG funds can be obligated for the planning and admin funds. It does not apply restriction [inaudible] type as long as the total amount of funds obligation does not exceed the cap amount.

But one thing I need to point out, the grantee should pay attention, although the revolving funds are included in calculating obligation cap, the grantee cannot actually expend the revolving funds for the general admin or planning activities under the current rule. Meanwhile, the origin year expenditure test is applied to the 2015 and the later grant funds only.

So the origin year expenditure test, we measure the grant funds expended from those 2015 and the later grants and also the cap for the expenditure test, the program income is not included. When the grantee or HUD staff should check the origin year expenditure test, the HUD staff and the grantee should use IDIS PR26 Activity Summary by selected grant report at end of each program year to check to see if grantee is in compliance with each origin grant.

Sometimes even the grantee has not expended 100 percent of their grant funds, they already exceeded 20 percent of admin/planning expenditure cap. So I think when the grantee submits paper, it is a good time to check to see if you are in compliance for the origin year expenditure test.

Of course, a good practice is to use PR26 to report activity summary report periodically throughout the year and see if the grantee is getting close to the 20 percent of the cap for each origin year grant. In IDIS, we have two PR26 reports that can be used to check admin and planning cap.

The first one is PR26 Financial Summary Report. Most of the grantees are probably familiar with this report. This origin PR26 report can be used to check planning admin obligation cap for the program year as well as to check overall benefit public services cap. The second report is implemented in July, 2016.

We added a new report called CDBG Activity Summary by selected grants. That report can be used to check the planning and admin origin year expenditure cap for the 2015 origin year grant. So the grantee or HUD staff can use PR26 Activity Summary Report by selected grant report to check the origin year expenditure test.

This report is group activities by grant year and by activity type. Each section -- all the data in this report comes from the data entered by grantees. The grantee can run this report for a single origin year or multiple origin year grants and use this report to determine whether that single

grant was used more than 20 percent of their grant funds for any origin year for the admin and planning costs.

So this is a screenshot in IDIS when the grantee or HUD staff run IDIS report. You click on PR26 report tab, then you will see two reports listed on the PR26. One is PR26 CDBG Activity Summary by selected grant, the other report is PR26 CDBG Financial Summary Report. So if you click PR26 CDBG Activity Summary by selected grant, you can see a list of activities that used a specific grant and all the activities are grouped by activity type.

You see acquisition, admin. All the admin and planning activities are grouped together. And then if you see that green circle, it will tell you what is the percentage over the total grant amount were expended for the admin and planning activities. If it's over 20 percent, that means the grantee already is over the 20 percent of the expenditure cap.

If less than 20 percent, it's okay, but if over than 20 percent, then that means it's in noncompliance for the expenditure cap. And sometimes the grantee maybe find out the data were not accurate in IDIS. So how can you check to see if the data in IDIS are accurate?

What we recommend to do is review the month funded and confirm activities have been properly reported in IDIS and check to see if you actually qualify the general admin costs and activity delivery costs are correct. So the activity delivery costs, it can be included in regular activity as part of the activity costs instead of classified as general admin costs and take part of your general admin cap.

If you determine it's activity delivery costs, then you can change that to the regular activity and switch over matrix code from general admin activity matrix code to actual activity. For example, if it's rehab admin costs, you can change that matrix code from 21A to 14A or 14B. So instead of take part of your cap.

And the grantee can use PRO7 report, which is a drawdown by voucher report to reconcile your draws for the activity. If you find any mistakes or misclassified vouchers, you can correct that in IDIS. After you correct that in IDIS, rerun the PR26 Activity Summary Report by the second day, because the micro strategy report is refreshed at night.

So it's not updated like at the same time after you change the data in IDIS. What will happen if grantee exceeded the 20 percent origin year expenditure cap? HUD will require repayment in amount of exceeded the 20 percent of limit. HUD will also issue a finding of noncompliance in its program year [inaudible] review letter and the grantee must repay the line of credit to the year whatever has exceeded the cap.

However, HUD realized the origin year expenditure cap is new and some grantees violated that expenditure test due to lack of understanding of the requirement. So HUD offered one-time interim remediation solutions if the grantee exceeded the 20 percent expenditure cap.

And just to remind you, HUD only allows once. You can remediate it once. So if you violated the second year, HUD will not allow you to remediate that. So the only solution for the second

year of noncompliances will repay the funds back. However, for the first time, the grantee allowed to use those remediation solutions. In order to use these remediation solutions, first, the grantee must be in compliance with program year obligation test under 24 CFR 570.200(g)(2).

Then to cover the amount expended over 20 percent of the expenditure cap, the grantee may use program income, if available, and also HUD could allow you to use the grant funds that's from older year, like pre-2015 funds or sometime -- 2015 or later. For example, if grantee used 2015 grant for admin activities for both program year 2015 and '16 and exceeded the expenditure cap for the 2015 grant, but underspent for 2016 grant.

So the grantee may return the funds to 2015 grant and then withdraw from 2016 grant. So to use program income, first, of course, I mentioned in previous slides the grantee will return the funds to the line of credit to whatever the grant that exceeded the cap and then withdraw from program income if there's program income available.

Of course, when you withdraw the funds from program income, you must be sure you still meet the program year obligation test. However, it could be when you draw down program income, when you remediate the origin year expenditure test, you probably -- the draw happened in a different program year.

That means for the current program year, you may need to make adjustment in PR26 report. In other words, apply your program income draws to the old year and then deduct that from 2018 or 2019 PR26 report. The grantee can also use funds from different grant year. If you have pre-2015 funds available, you can use 2014 or 2013 grant.

However, sometimes, like I mentioned earlier, you can use later funds as well if indeed you use, say, 2015 grant instead of 2016 grant for program year 2016 admin activities and then you can repay the funds to 2015 grant and withdraw from 2016 grant for the program year 2016 and of course, anytime if you want to use any solution, consult with your field office.

In limited circumstances, the grantee maybe can swap funds between admin/planning activities and other activities that were included in same year action plan. For example, in the 2015 action plan, the grantee budgeted and drew $50,000 of leftover 2015 funds for public facility improvements activity and used all 2015 grant funds for admin and planning activities.

The grantee may swap costs between public facility activities and general admin activities. If grantee wants to use this solution, it will need to obtain field office's approval and also it's not an easy solution when you swap funds. So if you need technical assistance, send the question to IDIS-Ask-Question at HUD Exchange link.

I mentioned earlier if the grantee exceeded the plan and admin expenditure cap, the first action required is to repay the funds to line of credit. So the way to return the funds to line of credit, first, if it's $2,000 or less, the grantee can send a check through the following address, to P.O. Box 277303 to Atlanta.

If it's $2,000 or more, it must be returned through wire transfer. So this is the bank information when you do wire transfer. So you send money to Bank of New York and then the routing number and account number and most importantly, you want to state the grantee name and the grant number that the funds need to be returned and in the memo field, you enter whatever is returned or overdrawn for the admin and planning expenditures.

So the grantee needs to be -- make sure the funds returned needs to apply to the funds that were origin of draw. So you need to identify the grant number for funds needing to be returned. So to find out where the funds were origin of draw, you go on search voucher screen and then on this screen, give your -- the screenshot of search voucher.

Look at that circle in this red. That's the grant number. So if that activity drawn from 2015 grant on this voucher, you will return to 2015. So some grantee mistaken that and think, oh, this admin activity, I'm thinking, used for 2016 program year. So actually, the drawdown voucher really used 2015 grant.

So the funds will need to be returned to 2015 grant. It's not the action plan year you think you used. If the draw was from multiple grants, when you return the funds, you need to split and return the amount to multiple grants to the dollar amount. If you draw down $10,000 to 2015 grant and $10,000 from 2016 grant, when you return the funds, you need to return $10,000 to 2015 grant and $10,000 to the 2016 grant.

So the action must be taken after funds were returned to line of credit. First, after funds are returned to the line of credit, it will be posted into IDIS as a negative draw under activity 2. So from the time you wire funds to line of credit to the time you receive the negative voucher in IDIS normally takes about 10 to 15 business days.

So after 10 to 15 business days, you go into IDIS, you search voucher under activity 2. If you see a negative voucher, it's called collection voucher. That's the funds you returned. You will click on that voucher at maintain and then it will bring up maintain voucher screen. Then you will revise voucher to another activity.

When you revise the collection voucher, you need to remember you enter a negative -- you enter IDIS activity for the funds needed to be revised to and then you enter a negative sign next to the dollar amount. For example, if you returned $10,000, the collection voucher or, say, negative drawdown vouchers, will show as negative $10,000.

So you revise that voucher to admin activity 100. So on this screen, the activity IDIS activity you will enter 100 and then you show drawdown action and then you would enter negative $10,000. Of course, for revising voucher, you need to enter just [inaudible]. You just say apply the return of funds to the origin of admin activity, whatever the explanation that's suitable for the situation.

We have some real good resources on HUD Exchange. One, we have instructions for completing CDBG Financial Summary Report, PR26 Financial Summary Report. So you can click -- we provide a link on the right. You can check that link and see how to run and use that report. The second one we have IDIS online user guide. You can click that link to check that user guide.

We also have resources online for grant-based accounting. For example, the today's topic, origin year expenditure test for the admin and planning costs is included in these grant-based accounting web pages. So that is the web link. So do we have any questions today? Let me see, my presentation is ended here.

So now I'm going to take care of some questions. Okay. I see some people ask, "How can we make sure that we are under the 20 percent expenditure cap?"

The easiest and best way is probably in IDIS, there's a function called sub-fund function. The grantee can actually sub-fund 20 percent of your grant funds as admin funds. So when you fund and draw funds for admin and planning activities, you will draw from those admin sub-funds instead of directly from grant funds.

In that case, when you sub-fund 20 percent of admin funds, you make sure everything is under admin and you use that part of money, it won't go over the 20 percent of funds. So that's a good way. The other way, of course, you check that PR26 Activity Summary by selected grant report periodically, like quarterly so you make sure you're still under the 20 percent cap.

The other question I get is, "Say, if we do not have program income on hand at this point; can we cancel some PI drawdown vouchers that are used for other activity and reuse them for admin activities?"

The answer is no, you cannot do that, because the program income has to be used first before you draw down any grant funds. So although we offer to use program income as interim solutions, that means if you have program income on hand when you're trying to remediate this expenditure test, you can use program income. It doesn't mean you can swap funds from existing activity.

Okay. I got another question. "Can we revise draws between 2015 grant funds and 2016 grant?"

Unfortunately, the answer is no. For the 2016 and the later grants, the draws can only be revised if the draws have same year and same resources. That means from same grantees or like same year. So that means if you have to change the funds -- or change draws between two grant years, the first step you have to do is to return the funds to line of credit, apply to the 2015 grant and then withdraw from 2016 grant.

Third question here I've got, "If we exceeded 2015 admin expenditure cap, can we return the funds to the local program account?"

The answer is no. The funds should be returned to line of credit to the original admin activity and credited to the original admin activities so that the original admin activities draws can be reduced. Let me see if I have any other questions. Okay. Currently, I don't have any other questions.

So if we don't have any additional questions, of course, you can send in question later. I got question that says, "If you have a repayment for 2014 and for 2015 and 2017, can you use 2014 repayment to correct the 2015 and 2017 overage?"

So I'm not totally sure what is repayment for 2014-'15-'17. The basic answer will be you will -- like if you meant you have overage for all three grant -- actually, 2014 grant, the origin year expenditure test does not apply to 2014 grant. It really only applies to 2015 and '17 grant.

So you will repay funds and line of credit to 2015 and the 2017 grant and then you can use 2014 grant for that overage. In other words, you can draw down from 2015 -- from 2014 grant to pay your admin and planning costs. Of course, you have to make sure -- have your field office make sure you're in obligation test for all these years, 2015, '16 and '17 and possibly 2018.

"Is there an obligation and expenditure deadline for the CDBG Entitlement grants? If so, what is it?" It's not a so-called deadline. The obligation test applies to every program year. The expenditure test applies to the lifetime of grants. So technically speaking, the origin year expenditure test, the deadline is the lifetime of that grant.

Whenever the time you expend 100 percent of that grant, that's your deadline, but of course, if you spend more than 20 percent of the grant funds for admin and planning expenditures, you probably want to correct that before you spend 100 percent of the grant funds.

"Does the original year test affect the public services cap?" No. The public services cap remains the same. So the origin year expenditure test only applies to the admin and planning activities. It does not apply to the public services cap.

Here's a question. "Please clarify if we overspend 2016, if I understand, we can use underspent 2017 admin funds to pay back 2016. Do we get to get the paid-back funds back to use again for non-admin activities or not?"

The answer is yes. The funds you repaid back to 2016 grant you can use for other activities. For example, if you repay $10,000, you overspent 2016 grant for admin and planning activities by $10,000, so you repay $10,000. Once you repay to line of credit back to IDIS, you can use that $10,000 for other activities, like public services or public facilities or housing activities.

"So basically, what happened to the funds send back to HUD?" The funds to send back to HUD is to still -- you send funds to your line of credit. It will add back to your line of credit. You will apply that -- the [inaudible] funds to the original admin and planning activities. That will reduce your draws and increase the total funds available for you.

So it's the same way act like normally, like you return the funds to line of credit. It's no different. So -- but you have to remember take actions to release the funds, apply the returned funds from activity to the original admin and planning activity so you can fund the activity with the returned funds again.

Okay. I see some people said, she has trouble with her chat with Q&A functions, but I think I --

Female: I believe you answered her question already.

Puping Huang: Oh, I did. Okay. Good. So looks like I don't have any more questions here. So if we don't have any additional questions, like later on even after this webinar ends, you can send a question to your field office. We can address there, but of course, you can send a question to help desk as well. So if we don't --

Female: Okay. Thank you, Puping.

Puping Huang: You're welcome.

Female: There's just a few announcements that I wanted to make before we close out the webinar. We will be holding another webinar scheduled for tomorrow and I wanted to make sure that you all understood that it will be the same delivery.

We are providing a second offering to accommodate schedules and once that second webinar is complete, we will issue an FAQ document after reviewing all of the questions that came in today and during tomorrow's webinar. We will issue a FAQ document to ensure the best answer is provided and also especially since this is a technical area. Puping, did you have anything else before we close the webinar out?

Puping Huang: No.

Female: Okay. Then I believe we will go ahead and end early. Thank you, Puping.

Puping Huang: You're welcome. Thank you. Bye.