



CDBG/CDBG-CV

***HUD, Office of Block Grant Assistance
Entitlement Communities Division***



FINANCIAL MANAGEMENT



GENERAL ADMIN VS. ACTIVITY DELIVERY

- Direct cost of carrying out activity is considered activity delivery cost
 - Example: cost of running a rehab program (taking applications, writing specs, inspections, etc.)
- Other = General administration (or Program Admin Costs - PAC)
- General administration is capped at 20%

GENERAL PLANNING AND ADMINISTRATION COSTS

- General management, oversight and coordination
- Two options for charging salaries:
 - Entire amount
 - Pro rata share
- Direct v. indirect
- Must maintain supporting documentation by timesheets or *indirect cost allocation plan*

PLANNING AND ADMINISTRATIVE COSTS (CONT.)

- Other eligible admin/planning functions include:
 - Public information
 - Fair Housing
 - Preparation of Consolidated Plan
 - Submission of applications for Federal programs
 - Overall program management of:
 - EZ/ECs
 - HOME program
 - Planning, policy work, and studies

ADMINISTRATIVE AND PLANNING COSTS (CONT.)

Overall program management of:

- A federally designated Empowerment Zone or Enterprise Community
- The HOME Program

ADMINISTRATIVE CAP (OBLIGATION TEST)

- **Obligations** for planning and administration may not exceed the amount of:
 - 20% of annual entitlement grant and the program income received during current Program Year
- Cap is imposed through annual appropriations legislation, not statute
- Regulatory citation: 24 CFR 570.200(g)(2)
- Note: This cap is calculated differently for States

CALCULATING ADMIN OBLIGATION CAP

Total entitlement grant amount	\$1,000,000
Surplus from Urban Renewal	-
Program income received by grantee and its subrecipients	<u>\$50,000</u>
Total: the basis for calculating the cap	\$1,050,000
<i>Multiplied by 20 percent</i>	<u>x 0.20</u>
Maximum dollar level that may obligated and charged to Planning and Capacity Building and Program Administration	\$210,000

DETERMINING COMPLIANCE WITH THE ADMIN CAP (OBLIGATION TEST)

Total costs under Planning and Administration for the program year	\$150,000
Add unliquidated obligations for planning and administration activities, as of the end of the program year	\$35,000
Subtract unliquidated obligations for planning and administration activities, as of the end of the preceeding program year	<u>(\$20,000)</u>
Net obligations for planning and administration during the program year	\$165,000
Compare to maximum dollar level calculated above to determine planning and administrative cost cap	\$210,000

EXPENDITURE TEST ON PLANNING AND ADMINISTRATION CAP

- Apply to 2015 and subsequent grants
- Limit planning and administration expenditures to no more than 20 percent of each grant (excluding program income)
- Compliance will be determined at the end of the grant
- This test is included at 24 CFR 570.200(g)(1)
- PR26 – Activity Summary by Selected Grant report can be used to check compliance

CDBG-CV

PLANNING AND ADMINISTRATION CAP

- Limit planning and administration expenditures to no more than 20 percent of CDBG-CV grant
- Two IDIS reports can be used to check compliance:
 - PR26 – CDBG-CV Financial Summary Report
 - PR26 – Activity Summary by Selected Grant

DETERMINING COMPLIANCE WITH THE ADMIN CAP (EXPEDITURE TEST)

- PR26 Activity Summary BY Selected Grant

Total Grant Amount for 2014 Grant year = \$1,269,701.00													
State	Grantee Name	Grant Year	Grant Number	Activity Group	Matrix Code	National Objective	IDIS Activity	Activity Status	Amount Funded From Selected Grant	Amount Drawn From Selected Grant	% of CDBG Drawn From Selected Grant/Grant	Total CDBG Funded Amount (All Years All Sources)	Total CDBG Drawn Amount (All Years All Sources)
GA	Athens	2014	B14MC130007	Acquisition	01	LMH	971	Completed	\$124,813.65	\$124,813.65		\$180,813.69	\$180,813.69
GA	Athens	2014	B14MC130007	Acquisition	01	LMH	975	Open	\$77,481.70	\$77,481.70		\$195,815.00	\$142,219.56
GA	Athens	2014	B14MC130007	Acquisition	04	LMC	989	Completed	\$4,666.00	\$4,666.00		\$4,666.00	\$4,666.00
GA	Athens	2014	B14MC130007	Acquisition	04	LMC	991	Open	\$26,902.51	\$26,902.51		\$45,334.00	\$27,035.00
				Acquisition					\$233,863.86	\$233,863.86	18.42%	\$426,628.69	\$354,734.25
GA	Athens	2014	B14MC130007	Administrative And Planning	21A		970	Completed	\$136,648.02	\$136,648.02		\$253,940.20	\$253,940.20
				Administrative And Planning					\$136,648.02	\$136,648.02	10.76%	\$253,940.20	\$253,940.20
GA	Athens	2014	B14MC130007	Economic Development	18B	LMJ	976	Completed	\$38,118.79	\$38,118.79		\$72,753.51	\$72,753.51
GA	Athens	2014	B14MC130007	Economic Development	18B	LMJ	978	Completed	\$55,688.07	\$55,688.07		\$73,855.74	\$73,855.74
GA	Athens	2014	B14MC130007	Economic Development	18C	LMC	977	Completed	\$35,638.43	\$35,638.43		\$86,413.00	\$86,413.00
				Economic Development					\$129,445.29	\$129,445.29	10.19%	\$233,022.25	\$233,022.25

OBLIGATION vs. EXPENDITURE TEST

	Program Year Obligation Test	Origin Year Expenditure Test
Test applies to:	Every CDBG grantee annually	2015 CDBG grants & forward
Tests for:	CDBG funds <u>obligated</u> for planning & admin each program year (by grantee & subrecipients)	CDBG funds <u>expended</u> for planning & admin over the life of the origin year grant
Program Income included in test	Yes	No

PRE-AWARD COST RULES

- Costs incurred prior to effective date of grant agreement.
 - Grant agreement effective date is latter of:
 - Program year start date, OR
 - Date Con Plan received by HUD
- Activity must be eligible, meet cross-cutting requirements and be in the Action Plan or amended Plan.
- Total must not exceed \$300,000 or 25% of grant amount, whichever is greater.
- Pre-award rules for states are at the UGLG level.

PROGRAM INCOME (PI)

- What is PI? Money that comes back to grantee or subrecipient that is generated by a CDBG-assisted activity, such as:
 - Proceeds from sale or lease of real property acquired and/or improved with CDBG funds.
 - Gross income from use/rental of real or personal property acquired, constructed, improved (less costs incidental to generation of income) with CDBG funds.

PROGRAM INCOME (CONT.)

- What is program income (cont'd):
 - Payments of principal & interest on loans made with CDBG funds.
 - Proceeds from the sale of loans or obligations secured by loans made with CDBG funds.
 - Interest earned on program income pending its disposition.
 - Funds collected through special assessments on properties not owned/occupied by LMI persons.

PROGRAM INCOME (CONT.)

- What is not program income?
 - Income received in a single year not exceeding \$25,000
 - Income generated by some Section 108 activities
 - Proceeds of subrecipient fundraising
 - Funds collected through special assessment
 - Subrecipients' proceeds from disposition of property five years or more after grant close-out

USE OF PROGRAM INCOME

- Program income
 - Use for eligible CDBG activities
 - Subject to all CDBG rules and regulations
 - Examples: procurement, labor standards, environmental, etc.
- Miscellaneous revenue is not subject to these rules
- Can expend up to 20% of total program income for administration

MISCELLANEOUS REVENUE

- Total amount of funds earned in a single year (from all sources) that is less than \$25,000 not program income
- Funds earned from certain types of activities carried out by certain nonprofits not program income
 - CBDOs
 - Nonprofits serving local development needs (state program only)

DISBURSING PROGRAM INCOME

- Must use program income prior to drawing new CDBG funds from the line of credit.
 - Program income cannot be held for specific projects
 - Program income cannot be banked
- Exception: Revolving loan fund balances.

EXCESS PROGRAM INCOME REMITTANCE

- Reg cite §570.504(b)(2)(iii)
- Grantee must determine at end of program year whether it has *excess* program income
- Excess must be returned to HUD's CFO for deposit into a separate special account, not line-of-credit

CALCULATING EXCESS PROGRAM INCOME

- (1) Determine aggregate amount of program income held by grantee and subrecipients
- (2) Subtract immediate cash needs, revolving fund loan balances, lump sum drawdown balances, and cash used as security for Section 108
- (3) Anything in excess of 1/12 of recent entitlement must be remitted

SAMPLE CALCULATION

Program income:	\$250,000
Less:	
Immediate cash needs	(\$ 20,000)
Revolving loan fund balance	(\$180,000)
Lump sum draw down	(\$0)
Cash held for 108	(\$0)
Balance:	<u>\$ 50,000</u>
Annual CDBG entitlement:	\$1,920,000
1/12 annual entitlement:	\$ 160,000
Amount to be remitted:	(\$0)

REVOLVING FUND

- A separate fund/account for specific activities that generate repayments for reuse for the same activity. (hence *revolving* funds)
- Must be in an interest bearing account
 - Interest earned on fund remitted to HUD
 - Interest paid by borrowers & loan repayments are program income

TIMELINESS

- Timeliness refers to how quickly the grantee is able to commit and expend CDBG funds.
- Entitlement is not allowed to have more than 1.5 times its allocation in line of credit and local program account 60 days prior to end of its program year.
- If the grantee chronically has more than 1.5 times their allocation in their line of credit, HUD can withhold future grants until the grantee effectively spends their existing resources.
- States do not have same requirement.

UNIFORM ADMINISTRATIVE REQUIREMENTS

- CDBG recipients must comply with federal administrative guidelines & financial management requirements now found in 2 CFR Part 200 (referred to as the “Super Circular”)

COST PRINCIPLES

All costs must be:

- Reasonable,
- Allowable, and
- Allocable

COST REASONABLENESS

- Cost is reasonable when it does not exceed what a prudent person would incur under similar circumstances
- Consideration should be given to these issues:
 - Is cost necessary and ordinary?
 - Were prices comparable for similar goods and services?
 - Did individuals act with prudence?
 - Were there deviations from set policy?

ALLOWABLE COSTS

- 2 CFR Part 200 identifies allowable and unallowable costs
 - Some costs are never allowed
 - Examples of unallowable costs: entertainment, alcohol, bad debts
 - Some costs are allowed but with certain conditions
 - Some costs depend on the federal funding source

ALLOWABLE COSTS (CONT.)

- Criteria for allowability
 - Must be reasonable.
 - Must conform to limitations.
 - Must be in accordance with Generally Accepted Accounting Principles.
 - Must not be included under another federally funded program.
 - Must be adequately documented.

SOURCE DOCUMENTS

- Records must be supported by source documents
 - Explain basis of costs incurred
 - Actual dates of expenditure
 - Examples include cancelled checks, paid bills, payroll, etc.

COST ALLOCABILITY

- 2 CFR 200.405 Allocable costs
- Determine where to charge costs
- Process known as cost allocation methods
- Develop a cost allocation plan (re: direct & indirect costs [see beginning of FM])
- GAAP provides guidance

EFFECTIVE FINANCIAL MANAGEMENT SYSTEMS

- Effective financial management systems must:
 - Record all financial transactions
 - Relate expenditures to activities
 - Ensure compliance with laws and regulations

PROCUREMENT

- 2 CFR 200.318 general procurement standards. 2 CFR 200.320 methods of procurement
- When selecting private, for-profit administrators or buying goods/services, grantees, state recipients and subrecipients must comply with the Federal requirements
- Also comply with Section 3 and State/local laws
- Should also adopt written procurement procedures
 - Designed to achieve maximum open and free competition
 - Covers standards of conduct and small & minority business outreach

OTHERS COVERED BY PROCUREMENT

- Grantee not required to competitively procure state recipients, nonprofit/public subrecipients
- Once under grantee agreement, if these entities buy goods/services for CDBG program, they must procure it
- Developers and beneficiaries not subject to procurement
 - Example: A developer can simply hire a contractor
 - However, grantee may elect to impose these rules via contract

METHODS OF PROCUREMENT

- Micro purchase Procedures
 - Goods & services \leq \$10,000
- Small Purchase Procedures
 - Goods & services \leq \$250,000
- Procurement by Sealed Bids
 - Preferred Method For Construction Contracts
- Competitive Proposals
 - more than one source submits an offer, and either a fixed price or cost reimbursement type contract is awarded.
- Non-competitive Proposals
 - Very limited usage in specific situations

Many States and localities have lower limits.

ACCOUNTING RECORDS

- Records should sufficiently identify source and application of funds
- Minimally, a records system must have:
 - Internal Controls
 - Chart of Accounts
 - Transactions (identified and tracked)

SINGLE AUDIT REQUIREMENTS

- If expending \$750,000 or more in federal awards in one year, must get single audit
- If less than \$750,000, exempt from audit requirements for that year
- Requirements now found in 2 CFR Part 200.501

AUDIT REQUIREMENTS

- Qualified CPA must conduct audit
- Audits due to federal clearinghouse no later than nine months after end of fiscal year
 - Clearinghouse is supposed to send to HUD
- Recipients must resolve audit findings

CHANGE IN USE

- Applies to *real property* under a subrecipient's control acquired and/or improved with \$25K or more of CDBG
 - property must:
 - Meet a national objective for five years after *expiration* of the Subrecipient Agreement or a longer period if determined appropriate.
 - If changed
 - Must return \$ at current market value and grantee must treat as CDBG program income
 - See 24 CFR 570.503(b)(7) Reversion of assets

CHANGE IN USE

- Applies to real property under the grantee's control acquired or improved with \$25K or more of CDBG
 - Must notify citizens and receive comments on change and
 - property use must:
 - Meet a national objective for five years after *closeout* of an entitlement recipient's participation in the entitlement CDBG program
 - If changed
 - Must reimburse its CDBG program account for the current market value
 - See 24 CFR 570.505
 - Note: State rule is based the property acquired or improved in whole or in part using CDBG funds in excess of the threshold for small purchase procurement (2 CFR 200.88). See 24 CFR 570.489(J).