

November 7, 2013 Draft

Guidance on Tracking Program Income in IDIS

The purpose of this guidance is to assist State Community Development Block Grant (CDBG) grantees with tracking program income receipts in the Integrated Disbursement Information System (IDIS). This guidance discusses and explains:

- The regulatory reporting requirements;
- The different types of program income funds in IDIS;
- Proper activity structuring procedures;
- The CDBG State and Small Cities Division policy on proper tracking techniques;
- A forthcoming complementary version of the IDIS PR-09 report; and
- A tracking spreadsheet template.

Properly tracking program income receipts and draws in IDIS is an essential component of State CDBG grantees' reporting and oversight obligations. Furthermore, effective tracking of program income helps State grantees highlight their many accomplishments and success stories, which is particularly important in the increasingly challenging budget environment.

Regulatory Reporting Requirements

Pursuant to 24 CFR 570.489-490, State grantees are **required** to receipt program income payments (including general program income returned to the State, general program income retained by the unit of general local government (UGLG), revolving fund, and state revolving fund payments) in IDIS on an annual basis, although HUD recommends that States receipt program income quarterly. However, pursuant to 24 CFR 570.489(e)(3)(i) and (ii)(C), program income is required to be disbursed ahead of grant funds (as discussed in more detail on page 3). This regulatory requirement has practical implications on grantee IDIS practices and necessitates periodic receipting of program income.

A crucial element of any revolving fund is a reliable system by which UGLGs report program income to the State. Each State has its own policies and procedures with respect to the treatment of program income generated by CDBG activities; however, it is imperative that States establish appropriate internal reporting procedures to facilitate the transfer of financial information from the UGLGs to the States. States cannot fulfill their regulatory obligation to receipt program income repayments in IDIS without obtaining necessary financial information from their UGLGs.

Types of Program Income Funds in IDIS:

In IDIS, there are four categories of program income funds:

PI – General program income category 24 CFR 570.489(e); these receipts pertain to program income returned to the State or held by the local government. Total amounts under \$35,000, per unit of general local government per year, do not have to be reported as program income under 24 CFR 570.489(e)(2)(i) and would not be receipted in IDIS. Once the annual total equals or

exceeds \$35,000, the entirety is to be reported. The \$35,000 threshold excludes the RL and SF amounts described below, which are always reported, regardless of the amount. States are permitted to decrease (but not to increase) the \$35,000 threshold.

RL – Revolving fund category 24 CFR 570.489(f)(1); the State may permit units of general local government to establish revolving funds to carry out specific, identified activities. A revolving fund, for this purpose, is a separate fund (with a set of accounts that are independent of other program accounts) established to carry out specific activities which, in turn, generate payments to the fund for use in carrying out such activities.

SF – State revolving fund category 24 CFR 570.489(f)(2); the State may establish one or more state revolving funds to distribute grants to units of general local government throughout a State or a region of the State to carry out specific, identified activities. A revolving fund, for this purpose, is a separate fund (with a set of accounts that are independent of other program accounts) established to fund grants to units of general local government to carry out specific activities which, in turn, generate payments to the fund for additional grants to units of general local government to carry out such activities.

SI – Section 108 program income category 24 CFR Part 570, Subpart M; these receipts pertain to program income generated by activities financed using Section 108 guaranteed loan funds. According to the regulatory and contractual requirements of the Section 108 Loan Guarantee Program, these funds can be used only for certain purposes (specifically, matrix codes 19F, 19G, 24A, 24B, and 24C).

It is important to note that there are a few exemptions in the definition of program income that grantees may find advantageous. Pursuant to 24 CFR 570.489(e)(1)(iii) & (iv), when renting property, program income is the gross income less any costs incidental to the generation of that income. For example, if renting a community center for events, the portion of the rental payments used for maintenance and staff would be incidental to the operations, and therefore would not be considered program income. Additionally, pursuant to 24 CFR 570.489(e)(2)(ii), program income does not include amounts generated by qualified entities carrying out activities eligible under section 105(a)(15) of the Housing and Community Development Act of 1974, as amended (“Act”). Generally, 105(a)(15) entities are non-profit organizations dedicating to serving the community development needs of their local communities. Income generated by 105(a)(15) entities is not considered CDBG program income because such organizations are considered the beneficiaries of assistance. The income earned by such entities is not subject to federal requirements, and it may be used for activities that are not otherwise eligible under the Act. However, States and UGLGs are permitted to require 105(a)(15) entities to use their generated income for CDBG eligible activities that meet a national objective. Grantees should be cautioned that if the State or UGLG requires prior approval of the 105(a)(15) organization’s activities (such as dictating the recipient of assistance from the 105(a)(15)), the entity will be considered a subrecipient, and future activities carried out using the entity’s generated income must be eligible under another provision of the Act (e.g., assistance to a private, for-profit entity under 105(a)(17)).

Structuring RL and SF funded Activities in IDIS

State grantees cannot track program income receipts in IDIS accurately unless they have structured the initial activities properly and input all required data elements. As with many aspects of IDIS, the quality of the data entered into the system when setting up and completing an activity will dictate the quality and usefulness of the data the system produces when later reporting on that activity.

Each loan funded by a local or state revolving fund is subject to all CDBG rules and regulations. Thus, for each individual loan or grant funded from a local or state revolving fund, the State must set up a separate activity in IDIS. A common misconception holds that it is appropriate for an UGLG to have a revolving loan fund (or for a State to have a fund) which is entered into IDIS as a single activity that stays open indefinitely and funds multiple loans. This is not an acceptable method of structuring revolving funds in IDIS because it ultimately prevents a State from demonstrating eligibility and national objective compliance for each funded activity. Reporting on multiple loans in IDIS through a single activity combines the accomplishments achieved by the various loans and makes demonstrating national objective compliance for each activity impossible.

To set up a local revolving fund, the State grants CDBG funds to an UGLG for purposes of carrying out a specific eligible activity and creates a related IDIS activity. The eligible activity itself is funded through a loan from the UGLG. CDBG grant funds are not to be used to directly capitalize a loan fund (RL or SF). Grant funds must go to a specific eligible activity that meets a national objective. However, the activity may be funded as a loan; repayments made on this initial loan are used by the UGLG to capitalize the revolving fund. Future loans will be funded by repayments made to the UGLG on previous revolving fund loans. If the balance of a fund is insufficient to finance a new loan, grant funds may be included to close the gap. Prior to disbursement of each new loan, the State grantee should set up a new IDIS activity to track the loan and its accomplishments. Below is an example that illustrates this sequence of events.

- *State grants CDBG funds to Spring Township for purposes of carrying out an eligible activity.*
- *Spring Township uses CDBG grant funds to make business loan #1, creating IDIS activity #101 to track its disbursement and record its accomplishments.*
- *Business loan #1 is repaid. Spring Township records accomplishments in IDIS activity #101 and credits the repayment to the IDIS RL fund.*
- *The State receipts the repayments from business loan #1.*
- *Spring Township Revolving Fund makes business loan #2, using available RL funds to finance the loan. Spring Township Revolving Fund creates IDIS activity #102 to track the loan's disbursement and record its accomplishments.*

A state revolving fund would be established in much the same manner. A State would provide grant funds to an UGLG, which would then provide the funds to a beneficiary as a loan. The difference between the RL fund and SF fund is that the UGLG returns the loan payments to the State. The State then receipts those funds in the IDIS SF fund for the purpose of funding the same type of activity (through new grants to UGLGs, which are subsequently re-lent to the

ultimately beneficiary). State revolving funds may fund additional activities either via the same UGLG or another UGLG anywhere in the State or within a specific region defined by the State.

Both States and UGLGs can establish multiple revolving funds for different activity types or regions. States that employ state revolving funds must identify and describe such revolving funds in their Method of Distribution.

Tracking and Disbursing Program Income:

HUD regulations require that “to the maximum extent feasible, the State must distribute program income before it makes additional withdrawals from the Department of the Treasury.” 24 CFR 570.489(e)(3)(i). Furthermore, 24 CFR 570.489(e)(3)(ii)(C) states that “the State must require units of general local government, to the maximum extent feasible, to disburse program income . . . before requesting additional funds from the State for activities.” Therefore, if the UGLGs return program income to the State, the State must disburse those funds prior to disbursing available grant funds. Similarly, if UGLGs retain program income at the local level, the local governments must disburse those funds before requesting additional grant funds from the State.

The regulations cited above pertain to a grantee’s cash management practices and not to the reporting of program income in IDIS. However, these regulations have practical implications for a grantee’s use of IDIS. Without periodic and accurate creation of program income receipts, it may become difficult for a grantee to reconcile its IDIS activity records with its financial accounting systems. This could result in a situation where the grantee accidentally becomes noncompliant with the above-cited regulations by drawing on its line of credit (by creating an IDIS draw voucher against allocated grant funds) prior to utilizing program income funds available to the grantee but not yet reported in IDIS. Additionally, failure to properly receipt program income could diminish the accuracy of IDIS reports designed to enhance grantee program management.

A common misconception among grantees is that drawing or receipting program income funds in IDIS initiates the transfer of funds from one account to another. This is the case for a grantee’s normal entitlement allocation; because IDIS is tied to a line of credit maintained by the U.S. Treasury through the LOCCS system, creating a draw voucher in IDIS will pull funds from the Treasury account to the grantee CDBG account. However, program income funds are generally held at the local or State level and are almost never returned to the U.S. Treasury. As such, drawing against available PI funds in IDIS will not automatically effect a transfer of funds. Rather, the grantee will have to make separate arrangements to transfer the funds. Similarly, receipting program income in IDIS does not result in the return of funds to the U.S. Treasury; the program income funds will remain in the State or UGLG’s local account until utilized for a new eligible activity. With respect to program income funds, receipts and vouchers are used as tracking mechanisms, rather than a means of electronically transferring funds. It is also important to note that IDIS will allow users to draw against available PI for any activity without first adding PI funds in the activity funding set-up screen. However, the same is not true for RL and SF funds. Users must edit the funding of the activity to include RL or SF funds in order for those amounts to be available for draws.

As noted in 24 CFR 570.489(f), the local government (RL) and state revolving funds (SF) are independent accounts. Consequently, the receipt and disbursement of program income is specific to these accounts. Additionally, within these accounts, the requirement that program income be utilized ahead of grant funds is still applicable, per 24 CFR 570.489(f)(1) and (2). However, program income paid to the revolving fund is not required to be disbursed ahead of grant funds to non-revolving fund activities. For example:

About ten years ago, Spring Township funded several housing rehabilitation activities with State CDBG grant funds. The funds were provided to the beneficiaries as very low interest loans. Spring Township then established a revolving fund for housing rehabilitation activities, i.e. a local RL account. The loan repayments were collected by the Township and deposited in its local account. Ahead of each draw for new housing rehabilitation activities, the Township enabled the State to update its RL account balance in IDIS by reporting recent loan repayments plus account interest as program income to the State, which were receipted by the State in IDIS under the RL fund category. Each new draw was first made against the RL fund, then against general program income (PI), if any, and lastly against grant funds to make up any difference. When the Township received a grant from the State to carry out a public facility improvement, a non-revolving fund activity, the Township was not required to draw against their RL fund to finance the public facility improvement. However, PI would still have to be drawn ahead of grant funds in this case. Additionally, when Spring Township receives payments to the RL account and funds draws from the same account for existing activities, without need for additional grant funds, it processes those transactions locally and reports to the State in quarterly batches, thus reconciling its local receipts and draws in IDIS.

The same is true for the state revolving funds. For example, if the State establishes a state revolving fund for specific, identified activities (e.g., economic development activities), it must draw against the SF fund ahead of grant funds to finance those economic development activities. Non-economic development activities would not be required to be financed by the SF fund ahead of grant funds. However, any other general program income would still need to be drawn from the PI fund ahead of grant funds for non-revolving fund activities. Periodic receipting of program income (in this example, SF or PI) would help reconcile the grantee's financial records with IDIS activity data and would ensure that the appropriate program income dollars would be available for funding activities in IDIS.

In all cases, if no activities are funded with program income during the year, the requirement is to report the program income at least annually, and preferably quarterly, in order to comply with the annual performance and evaluation report requirements.

Managing the PI, RL, SF, and SI Funds in IDIS:

Receipted program income payments are credited to one of the four funds in IDIS (PI, RL, SF, or SI). This aspect of the system creates unique recordkeeping challenges for State

grantees, which must track program income receipts from (potentially) multiple state SF funds as well as multiple UGLGs, some of which may have more than one RL fund. Currently, IDIS only provides the total balance of the PI, RL, SF, or SI funds. However, IDIS does not readily identify which program income receipts are associated with which UGLGs, RL funds, or state SF funds, so it can be difficult to ascertain which proportion of funds in a program income account can be attributed to which UGLG or revolving fund. Similarly, IDIS does not easily identify the source of Section 108-generated (SI) receipts, which can increase the difficulty of tracking receipts and loan repayments for States that have multiple UGLGs participating in the Section 108 program. This deficiency in IDIS also makes it more difficult to distinguish between program income funds held at the local level and program income funds held at the State level. HUD is working to correct this issue; in the meantime, State grantees may need to establish a complementary accounting method to track the UGLG associated with each program income receipt. Ultimately, HUD regulations require State grantees to disburse available program income funds before drawing upon their annual CDBG allocations (24 CFR 570.489(e)(3)(i)). Distinguishing among program income receipts can help grantees comply with this provision by proving them with a more accurate understanding of what program income funds are available.

HUD is aware that tracking program income receipts can be a complicated undertaking and that many States have developed unique solutions to address this challenge. Some of these solutions, though innovative, have inadvertently created additional data management challenges for State grantees. For example, some State grantees have receipted and funded payments to a single UGLG activity that is representative of the entire UGLGs loan portfolio and all associated activities (e.g., using a single “Springfield Township RLF” IDIS activity to track multiple loan activities). As mentioned previously, this practice is not in compliance with HUD regulations. In a few other cases, State grantees have been using “placeholder” activities in IDIS to help track program receipts by receipting repayments and simultaneously funding an UGLG’s “placeholder” activity with each payment cumulatively until sufficiently funded. While this practice is not necessarily in violation of HUD regulations, it has begun to create additional problems for grantees in light of recent changes to IDIS. IDIS activities with no draws in a twelve-month period are flagged in the PR-59 report, and grantees are required to explain and justify the reasons for their delay in activity-specific “Remediation Plans.” After grantees submit Remediation Plans in IDIS, HUD field offices must review and approve/deny them in the system. This process can be very time-consuming for grantees and field offices alike. Thus, the practice of creating “placeholder” activities in IDIS, while potentially useful as a tracking tool, can create additional and unnecessary work for State grantees.

To assist State grantees with tracking program income receipts and minimize unnecessary recordkeeping burdens, HUD is working to create a new version of the IDIS PR-09 report such that it will 1) clearly identify the UGLG associated with each program income receipt, 2) identify the type of program income being receipted, and 3) allow State grantees to easily determine the balance of all PI, RL, SF, and SI accounts per UGLG. This report will greatly enhance State grantees’ ability to quickly and accurately track program income funds in IDIS and eliminate the need for time-consuming system workarounds. HUD anticipates that the new version of the PR-09 will be available in 2014.

In the interim period, while the new report is being developed, State grantees should use a separate, complementary spreadsheet to track program income receipts.¹ A properly constructed spreadsheet would allow State grantees to track their program income account balances and associate each program income receipt with its respective UGLG. After the initial time investment spent formatting the tracking spreadsheet, this recordkeeping method would be more time-efficient than any potential workaround in IDIS.

Moving forward, State grantees must still receipt program income receipts in IDIS, using the complementary spreadsheet only to attribute the receipts to their corresponding UGLGs. IDIS activities should be established only once they are ready to be funded.

Summary

HUD regulations at 24 CFR 570.489-490 require State CDBG grantees to receipt program income payments (PI, RL, SF, and SI) and report on activities using IDIS. HUD recognizes a need to better explain the process of tracking program income and revolving funds. HUD is building a more useful and precise report to help State grantees track these funds in IDIS. This guidance, including the preview of the new IDIS report as a template for grantee use, will help State grantees in their efforts to properly structure and track their PI, RL, SF, and SI funds in IDIS.

If you have any questions about the new tracking method implemented by this guidance, please contact your HUD field office representative or the State and Small Cities Division at (202) 708-1322.

¹ A sample spreadsheet for tracking program income receipts accompanies this guidance. HUD anticipates that the forthcoming IDIS report will closely resemble the sample spreadsheet.

Prototype of the New Version of the PR-09 for State CDBG Program Income (with Sample Data)

Program Income: IDIS Complementary Tracking Sheet										
Date Generated: MM/DD/YYYY										
Grantee: State of...										
Summary Totals										
								PI Funds Available:	\$	5,700
								RL Funds Available:	\$	19,050
								SF Funds Available:	\$	455,000
UGLG_Name	Actv_ID	Actv_Name	Matrix_Code	Nat_Obj	Actv_Status	Voucher/Rceipt#	Amount_Type	Amount	Voucher/Receipt Date	Fund_Type
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	385244	Draw	\$ (15,000)	7/6/2003	EN
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	984655	Receipt	\$ 3,000	12/30/2003	RL
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	789576	Receipt	\$ 7,200	12/30/2004	RL
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	218948	Receipt	\$ 600	1/15/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	156389	Draw	\$ (10,800)	1/16/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	346648	Draw	\$ (6,200)	1/16/2005	EN
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	271944	Receipt	\$ 4,650	9/30/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	268538	Receipt	\$ 4,800	12/30/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	456312	Receipt	\$ 4,800	12/30/2006	RL
City of Springville	30003	Springville Youth Center	03D	LMA	Open	287148	Draw	\$ (350,000)	5/15/2007	EN
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	769194	Receipt	\$ 4,800	12/30/2007	RL
City of Springville	30003	Springville Youth Center	03D	LMA	Open	945523	Receipt	\$ 5,700	12/30/2007	PI
City of Springville	40404	Business A - EconDev Loan	18A	LMJ	Open	89496	Draw	\$ (50,000)	4/18/2008	SF
and so on...	...	...	...	...	...	...	...	...	...	...
Woodcreek Town	50505	Business B - EconDev Loan	18A	LMJ	Open	548673	Draw	\$ (20,000)	8/20/2008	SF
Woodcreek Town	...	...	...	...	...	...	...	...	...	...
Woodcreek Town	...	...	...	...	...	...	...	...	...	...
NULL	...	...	21J	...	...	...	...	...	...	...

Narrative Explanation of Report

House A is the fund-starter activity, a \$15k loan with 3% interest. Funded with CDBG grant funds (EN type), but repayment will go to the RL. Since revolving funds cannot be directly capitalized with grant funds, this method is utilized.

Ahead of '03 annual reporting, House A payments received in IDIS in the RL fund

Ahead of '04 annual reporting, House A payments received in IDIS, Springville's Housing Rehab fund now has \$10,200 (3K+7.2K)

Ahead of first draw for House B, to-date receipts are entered for House A, Springville's Housing Rehab fund now has \$10,800

Full amount for House B is drawn, bringing balance in Springville's Housing Rehab fund to \$0

Grant funds make up difference on House B (\$10,800 RL + \$6,200 EN = \$17,000 Rehab Loan)

House A makes final payment; Payments from the beginning of the year are received in IDIS.

Ahead of '05 annual reporting, House B payments received in IDIS

Ahead of '06 annual reporting, House B payments received in IDIS, Springville's Housing Rehab fund balance now \$14,250

Springville receives a grant for the youth center, this non-RL fund activity is funded entirely with grant funds

Ahead of '07 annual reporting, House B payments received in IDIS

Ahead of '07 annual reporting, Youth Center event fees and rents are received in IDIS (less incidental costs). In this case, all of Springville's PI category program income is less than \$35,000, and therefore, did Not need to be received in IDIS.

Springville makes a business loan from the State Revolving Fund. The State's SF began much like Springville's RL, by funding activities with grant funds and collecting repayments as income to the SF. After years in existence, the SF has a balance of \$525,000; more than enough to wholly finance this loan. Payments will be returned to the State, and receipted to the SF fund. PI and RL funds are not required to be drawn for this SF activity. The State will track the SF funds across multiple UGLGs, such as Woodcreek below.

General Parameters:

1. By recording all receipts as +positive numbers and all draws as -negative numbers, the report can easily be summarized to provide a balance of the RL fund for any specific local government and/or matrix code.

- a. **For draws**, list each draw by date per activity and per fund type (less any canceled/revised draws) Generate the *Type* as "Draw," and generate the *Amount* as a NEGATIVE NUMBER.
- b. **For receipts**, list all receipts per activity per fund type (less any canceled receipts, of course) Generate the *Type* as "Receipt" and generate the *Amount* as a POSITIVE NUMBER.

Excel Usage Example: Filtering for finding a single piece of info, ad-hoc

The State can easily find the balance of any UGLG-held RL fund by filtering on the UGLG-Name and Fund_Type for "RL"

UGLG_Name	Actv_	Actv_Name	Matrix_Codi	Nat_C	Actv_Stat	Voucher/Receipt	Amount_Type	Amount	Voucher/Receipt_Da	Fund_Ty
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	984655	Receipt	\$ 3,000	12/30/2003	RL
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	789576	Receipt	\$ 7,200	12/30/2004	RL
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	218948	Receipt	\$ 600	1/15/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	156389	Draw	\$ (10,800)	1/16/2005	RL
City of Springville	10001	Springville Rehab HOUSE A	14A	LMH	Completed	271944	Receipt	\$ 4,650	9/30/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	268538	Receipt	\$ 4,800	12/30/2005	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	456312	Receipt	\$ 4,800	12/30/2006	RL
City of Springville	20202	Springville Rehab HOUSE B	14A	LMH	Open	769194	Receipt	\$ 4,800	12/30/2007	RL

Average: \$2,381 Count: 8 Sum: \$19,050

For UGLG's that hold multiple RL funds for different activity types, just add Matrix code to the filter

Excel Usage Example: Pivoting for the Big Picture

Insert a Pivot Table structured on these variables:

Thus generating a summary report like this:

Row Labels	Sum of Amount
EN	-371200
Springville	-371200
PI	5700
Springville	5700
RL	19050
Springville	19050
SF	455000
earlier repayments	525000
Springville	-50000
Woodcreek Town	-20000
Grand Total	108550

If single UGLGs have multiple RLs, add something to distinguish them, like Matrix Code

Row Labels	Sum of Amount
EN	-371200
Springville	-371200
03D	-350000
14A	-21200
PI	5700
Springville	5700
03D	5700
RL	19050
Springville	19050
14A	19050
SF	455000
earlier repayments	525000
18A	525000
Springville	-50000
18A	-50000
Woodcreek Town	-20000
18A	-20000
Grand Total	108550