HPRP Financial Management:
Strategies for Accelerating Expenditure Rates

About this Tool

This tool is designed to help HPRP grantees meet the spending requirements set forth in the American Recovery and Reinvestment Act legislation. It contains a variety of financial management strategies that grantees and subgrantees can use to help accelerate program expenditure rates and avoid recapture of unspent funds.

Introduction

Under the American Recovery and Reinvestment Act (ARRA) of 2009, the Homelessness Prevention and Rapid Re-Housing Program (HPRP) allocated $1.5 billion to support homelessness prevention and re-housing initiatives through a national formula-based spending program. As with all ARRA funds, HPRP grantees and subgrantees are required to spend funds quickly. HPRP grantees are obligated to expend 60 percent of their grant funds within two years of the date HUD signed the grant agreement, and 100 percent of the funds within three years. Grantees that do not meet these deadlines may have their funds recaptured by HUD.

This document offers an overview of financial management strategies that grantees and subgrantees can use to help ensure that they meet their 60 percent spend-down target (and sustain progress toward meeting the 100 percent goal). Strategies presented include:

- Redefine HPRP program targeting and outreach
- Increase frequency of reimbursement submissions/shorten turnaround time for payment
- Redefine HPRP spending plans
- Remove barriers in case documentation and payment approvals
- Request and utilize cash advances
- Streamline multi-layered government requirements
- Incur all eligible expenses
- Charge all eligible indirect costs
- Align spending with most current HUD-issued HPRP guidance

While based on prior HUD-issued HPRP guidance and Frequently Asked Questions (FAQs), these strategies are neither exhaustive nor prescriptive. Grantees should assess their own unique circumstances and choose the best options – consistent with HUD rules and local realities – to meet the two-year spend-down target. Grantees do not have to do any of these, and can come up with other ways to increase spending if they anticipate that they will not meet the expenditure deadline.

Furthermore, as a means of identifying progress toward meeting the target, grantees are encouraged to analyze their current spending rates using data available from their own IDIS submissions or financial systems. In general, grantees that have expended less than 30 percent of their HPRP grant at the end of the first year should conduct a project-wide spending analysis and consider using one or more of the strategies identified in this document.

Strategy 1: Redefine HPRP Program Targeting Criteria and Outreach Efforts

Some HPRP implementations may have constrained their spending by targeting financial assistance in a manner that is more restrictive than what HUD rules require. Grantees or subgrantees may have limited their assistance only to specific sub-populations or created unnecessarily narrow income-qualification criteria, or focused on households within a restricted range of criteria. For example, a number of grantees implemented additional eligibility criteria, screening for “likelihood of success” (or even making it an extra eligibility criteria), which had the result of excluding large numbers of potentially eligible program participants.

These initial program design decisions may have had an unintended consequence of restricting the community’s ability to spend funds for an eligible purpose. Grantees in this position can take several steps to redefine their HPRP program targeting criteria and outreach efforts.

- *Grantees should review subgrantees’ intake and assessment data to evaluate the rates of applicant flow, acceptance, or rejection*. Based on this analysis, grantees might then consider expanding population(s) targeted for financial assistance and/or broadening eligibility criteria.
- *HPRP grantees should consider engaging in more rapid re-housing efforts*. The documentation requirements for persons who are literally homeless (living on the streets or in shelters) are easier to meet than for prevention. Also, persons receiving rapid re-housing assistance might need a longer term of assistance, and thus a greater per-household expenditure, which will increase both the level and the pace at which funds are committed.
- *Grantees should also consider their level of investment in community outreach and approaches to consumer engagement*. Programs that are not clearly understood within a community or that fail to assertively reach out to hard-to-find populations of potential program participants will be less actively utilized. Grantees can consider re-directing or increasing resources for outreach, potentially enhancing their effectiveness in achieving HPRP goals and accelerating their rate of spending.

As with other strategies identified in sections above, grantees need to assess whether such changes in targeting of resources will trigger the need for a Substantial Amendment to their Consolidated Plan. And even if this is not the case, grantees should consult with their local HUD Field Office and their HUD HPRP Desk Officer prior to implementing related changes. Further, if grantees do decide to make changes to existing policies and procedures, they should be sure to clearly inform subgrantees and program participants about these changes so that everyone is operating with the same, current information.

Strategy 2: Increase Frequency of Reimbursement Submissions/Shorten Turnaround Time for Payment

If cash flow is a problem in spending down funds, and a cash advance approach is not feasible (see Strategy 5), grantees and subgrantees can consider submitting invoices with greater frequency. (As an example, if a subgrantee generally invoices once a month, they could consider invoicing twice a month.) With this approach, the grantee and subgrantee are still operating on a reimbursement model, but neither entity has to go very long before getting reimbursed.

Similarly, grantees and subgrantees can always work out an accelerated payment schedule through their own local systems. For example, if a grantee currently takes two weeks to process an HPRP reimbursement request, but is able to reduce that turnaround time by half, then subgrantee cash flow issues would likely be minimized.

Strategy 3: Redefine HPRP Spending Plans

In some HPRP implementations, rates of spending have been hampered as projects have locked themselves into initial budgeting assumptions. With greater understanding of the reality of demand for HPRP assistance and community need based on documented experience, grantees may now want to consider altering their initial spending plans. Given that there are no firm caps established for HPRP-eligible cost categories – except for the five percent limit on administrative costs – grantees may reassess their initial budgeting commitments wherever it may be helpful and responsive to do so. Potential areas for change include:

- *Expand the terms of assistance to match allowable HPRP rules.* Many communities initially established limits on the amount or duration of financial assistance that were more restrictive than the HPRP rules enabled -- for example, capping rent assistance at no more than three months, or allowing only limited assistance for utility costs. Easing these restrictions could result in more funds being expended more rapidly, and in some cases, improved outcomes for program participants.
- *Increase the number of HPRP program staff.* If spending rates are constrained by not having enough dedicated staff in place to manage HPRP activities, increasing staffing can result in more clients being served and may accelerate spending rates. Even though grantees are a year or more into their HPRP implementation, it is acceptable to modify original staffing assumptions, including hiring temporary employees.
- *Increase the number of HPRP subgrantees.* Some HPRP grantees contracted with only a few provider organizations in their communities, and might accelerate rates of expenditure by increasing the number of partners, especially if staff capacity at the subgrantee level is limited and adding staff is not an option. Increasing the number of portals into the HPRP delivery system can allow more clients to be served, potentially accelerating the spend-down rate.
- *Internally reallocate resources from slow-spending subgrantees to high-performing providers.* Based on analysis of data from the first year of HPRP activity, most grant managers should be able to identify subgrantees who are outperforming others, and may have the flexibility (within contractual constraints) to move funds from an underperforming subgrantee to a different, higher-performing subgrantee. Assuming the process is consistent with established protocols and federal procurement rules, shifting resources to providers with documented success may accelerate the overall pace of grant expenditures. Aside from Consolidated Planning requirements, there is no set procedure or deadline for reallocating funds. Grantees, however, should be mindful of the importance of providing appropriate notice to subgrantees.
- *Increase the allocation of resources for data collection (HMIS) and evaluation.* Grantees may have initially underestimated their data collection and evaluation needs, or minimized their investment in related costs. As there are no specific limits on data collection and evaluation expenses, grantees can choose to reallocate funds internally to address these needs.
- *Serve program participants in other jurisdictions.* This may be an option for some grantees, especially when they are in close geographic proximity to other urban or suburban areas. For example, a neighboring community might not have received HPRP funding or has spent down their allocation and still has a need for HPRP in the community. Some grantees have limited HPRP assistance to persons and households living in their own jurisdiction, but if this area can be expanded to meet an existing need, it is another allowable way to meet the expenditure requirement. While serving program participants in neighboring jurisdictions may depend on local political will, it is worth considering as an option.

While there is no firm "across-the-board" prescription or protocol governing the process for changing an HPRP budget, each of the following issues must be addressed by a grantee considering this strategy:

- The grantee must comply with the Substantial Amendment criteria established in the Citizen Participation Plan portion of its local Consolidated Plan. Issues of timing, public participation, and thresholds requiring a resubmission are unique for each jurisdiction. Also remember that when a state subgrants HPRP funds to a non-profit organization located in an entitlement area covered by another Consolidated Plan, the local government for the area in which the office of the non-profit organization is physically located must certify that it approves of the program. If funds are being provided to a non-profit organization in an area covered by the state's Consolidated Plan, certification is not required.
- If the proposed budget change necessitates a Substantial Amendment to the Plan, the grantee must send a copy of the revised amendment to the local HUD Field Office as well as the grantee's HPRP Desk Officer (see list at the end of this document). This submission should include clear documentation that the jurisdiction has complied with its own Substantial Amendment requirements. In addition, the grantee must report the change in the Grant Allocation table of its subsequent HPRP Quarterly Performance Report (QPR).
- If the proposed budget change falls short of the threshold for a Substantial Amendment, a revised and updated budget must still be sent to the local HUD Field Office and the grantee's HPRP Desk Officer for review.
- The grantee must also document any allocation changes in IDIS and revise related contracts with subgrantees.

Grantees should involve their HPRP Desk Officer and local HUD Field Office in this process, and should consult with their subgrantees to seek their input and to inform them regarding any planned or potential changes.

Finally, as mentioned in the introduction, grantees are encouraged to use IDIS to analyze and monitor their HPRP spending, drawdown information, and fund balances. Relevant IDIS reports include the PR02 (List of Activities), PR60 (HPRP Financial Summary Report), and PR61 (HPRP Expenditure Deadline Report). Grantees can use the data in these reports to forecast whether funds will be expended in a timely manner by specific subgrantees (or by the entire grant), and to flag if or when their original spending plan may need to be revised.

Strategy 4: Remove Barriers in Case Documentation and Payment Approvals

While HPRP rules establish clear and stringent monitoring and reporting requirements, some grantees have imposed additional obligations that ultimately slow down the approval of draw-downs from HUD. To help expedite payment approval processes – and keep the volume of activity high – HPRP grantees should have clear, consistent, and concise procedures and invoicing requirements that it shares with their subgrantees. A grantee's ability to pay promptly is influenced by the completeness and accuracy of the invoices it receives, and increasing clarity in this area can streamline work flow both at the subgrantee and grantee level. Grantees should also provide training and regular communication to manage the process.

Grantees should make sure that their subgrantees are fully aware of exactly what type of source documentation is required. In light of the complexity of HUD requirements for documentation, it may be helpful for grantees to create a checklist of mandatory documentation and distribute it to their subgrantees. Grantees that do this are encouraged to review the HPRP Notice, review the CPD

Monitoring Handbook (available on the HUD web site), or contact their HPRP Desk Officer for clarification as to what type of documentation HUD will be looking for in their monitoring process.

HUD's Homelessness Resource Exchange (www.hudhre.info) includes an entire section of HPRP FAQs on determining and documenting client eligibility, as well as a series of related tools and webinars providing guidance on documentation of income eligibility, housing status, housing quality standards, financial management, and monitoring. In addition, sample client file and documentation checklists have recently been added to the site. Developed with attention to HUD's monitoring requirements, these templates may be useful in guiding a grantee's efforts to clarify and streamline its invoicing process. Grantees are encouraged to review these materials to ensure they are requiring appropriate and necessary types of documentation while avoiding creating an undue burden on subgrantees.

Strategy 5: Request and Utilize Cash Advances

In many federal programs, grantees are required to incur expenses and then submit a request for reimbursement; federal rules generally prohibit payment of funds in advance. However, the large volume of direct financial assistance processed under HPRP has made it difficult for some grantees and subgrantees to keep up with cash flow demands. This causes some programs to operate inefficiently, slows the expenditure rate, and may result in decreased services for program participants.

Recognizing that HPRP has created a higher-than-typical demand for cash, HUD allows for two types of advances that grantees might utilize to help improve the flow of funds: cash advances and working capital advances. Key features of each are summarized below:

- **Cash Advances:**
  Grantees and subgrantees may be paid in advance, provided that they minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. If electing this option:
  - State and local governments must follow the requirements articulated in *24 CFR part 85.21*, and
  - Non-profit organizations must follow the requirements in *24 CFR part 84.22*. Specifically, non-profit organizations are required to maintain financial management systems that meet certain standards (described in the regulation). Also, cash advances to a non-profit organization must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the organization in carrying out the purpose of the approved project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the organization for direct program costs and the proportionate share of any allowable indirect costs.

- **Working Capital Advances:**
  Some subgrantees have had to suspend their programs periodically as they run out of working capital. A working capital advance is a mechanism that grantees can use if they cannot meet the criteria for advance payments described in 24 CFR part 84 or 85 (see above), <u>and</u> if HUD has determined that operating on a reimbursement-only basis is not feasible because the grantee or subgrantee lacks sufficient working capital. Grantees need to contact their local HUD Field Office or HPRP Desk Officer at HUD Headquarters if they would like to consider use of a working capital advance.

Under the rules for working capital advances, grantees and, in turn, subgrantees, are permitted to receive a one-time cash advance to cover their estimated disbursement needs for an initial period, generally geared toward the disbursing cycle (often, one month). After that, HUD or the grantee will reimburse the grantee or the subgrantee, respectively, for actual cash disbursements.

It is important to note that the working capital advance method of payment must not be used if the reason for using it is the unwillingness or inability of the grantee to provide timely payments to the subgrantee to meet the subgrantee's actual cash disbursements. Grantees who use this mechanism should also be aware that all funds advanced must be expended and accounted for prior to the subsequent drawdown, and in compliance with the federal regulations outlined in 24 CFR 85.21 for units of local government and in 24 CFR 84.22 for non-profit organizations.

While IDIS is the mechanism through which grantees draw down their HPRP funds, IDIS does not distinguish whether a drawdown request is for an advance or a reimbursement. Therefore, it is incumbent on the grantee to document that the drawdown is indeed an advance. The grantee also needs to ensure proper accounting for the funds that are advanced, to document that the advance is completely expended and is used only for eligible costs.

If local government policy serves as an additional barrier in not permitting advances, grantees may want to consider changing the policy or creating an exception for HPRP. In any event, grantees and subgrantees intending to use a cash advance strategy should be prepared to demonstrate that they have a track record of correctly determining housing status and income eligibility for program participants, that they have established capacity to manage financial reconciliation, and that they are maintaining appropriate documentation of related records.

Grantees and subgrantees may also consider negotiating local "lines of credit" to help address the challenges of managing cash flow. Use of such funds – or relying on other local discretionary funds – to maintain cash flow are entirely legitimate approaches. But again, in order to obtain full reimbursement from HUD, any funds advanced must be spent in accordance with HPRP regulations. Keep in mind that interest payments are not an eligible HPRP expense.

Strategy 6: Streamline Multi-Layered Government Requirements

Because HPRP funding is distributed as a formula grant awarded through local and state units of government, subgrantees can find themselves dealing with multiple layers of requirements and approval processes established by those governmental bodies, some of which may even be contradictory. This is one of the most common reasons for slow spending in HPRP.

In some instances, these conflicts are further amplified as state-level HPRP grantees, for example, may subgrant their funding to local counties, cities, or parishes, which in turn subgrant to non-profit service providers. This layering, and the potential for conflicting requirements, can easily slow the rate of expenditure, causing some HPRP grantees to experience multiple rejections of reimbursement requests and delaying their ability to make payments to landlords or utility companies by as much as 90 days.

As an ARRA program, HPRP has more extensive and stringent documentation requirements than many other HUD-funded homeless assistance programs that grantees and their subgrantees may have participated in. Clarifying HPRP's more intense requirements for recordkeeping, invoicing and file compliance, and using strategies to remove barriers like those outlined in Strategy 4 (above), may help staff at all levels of HPRP implementation to understand and streamline processing.

It is in all parties' interests – grantee, subgrantee, and program participant – to simplify and expedite their review and payment processes as much as possible to help keep HPRP funds actively flowing. The specific methods for doing this will, of course, vary for every local government. Grantees may well find it worth their while, however, to review and re-assess where there are redundancies or extra layers that can be eliminated in their local systems, and to revise their procedures and protocols accordingly.

Strategy 7: Incur All Eligible Expenses

HPRP grantees can and should incur all eligible expenses. Allowable HPRP administrative costs, for example, include:

- Accounting for the use of grant funds;
- Preparing reports for submission to HUD;
- Obtaining program audits, and
- Staff training related to HPRP requirements.

If a grantee or subgrantee spends two hours preparing a Quarterly Performance Report, but does not charge that time to HPRP, they are failing to incur an eligible cost and are, in effect, missing an opportunity to increase their HPRP expenditures.

To that end, grantees and subgrantees should review the allowable (and unallowable) costs for all HPRP activities and charge these expenses accordingly**.** Grantees should also review the HPRP FAQs, which may help identify additional eligible costs that the grantee or subgrantee has either overlooked or has been paying for out of its own pocket. For example, HUD has determined that the costs associated with conducting habitability inspections and lead-based paint visual assessments are eligible HPRP financial assistance expenses. If a grantee or subgrantee has been paying for these activities out of pocket, they can go back, gather the source documentation, and retroactively claim those costs. (Please note: If the grantee or subgrantee has already invoiced another funder for the same costs, and the funder deadline to submit amended or corrected invoices has passed, then this retroactive charge is <u>not</u> allowed.)

Strategy 8: Charge All Eligible Indirect Costs

HUD recently updated its guidance on charging indirect costs retroactive to the beginning of the HPRP grant (www.hudhre.info/index.cfm?do=viewFaqById&topicID=102&subTopicID=122&faqid=862#detail). Grantees considering this strategy should be mindful of the following general principles:

- Indirect costs must be consistent with an indirect cost allocation plan developed in accordance with OMB Circulars A-87 (for governmental entities) or A-122 (for non-profit organizations).
- Non-profit organizations must submit their indirect cost proposal to the appropriate federal agency for negotiation of an indirect cost rate. Non-profit organizations should contact their local HUD Field Office for more information.
- Government grantees must prepare an indirect cost proposal, retain it for audit, and submit to the appropriate federal agency for negotiation of an indirect cost rate. Government grantees should contact their local HUD Field Office for more information.

Grantees and subgrantees without an indirect cost rate should analyze their HPRP activities with respect to indirect costs, determine a reasonable method for allocating the costs, and charge accordingly. For example, a subgrantee may have ten full-time employees (FTEs), four of whom are working on HPRP case management. In this instance, it is reasonable for the subgrantee to charge 40 percent of its monthly office rent to the Housing Relocation and Stabilization Services category (based on proportional allocation). In these circumstances, subgrantees will need to work with the grantee to ensure that this practice is acceptable and to make any necessary budget changes following such review and approval.

Indirect costs should be reasonable and supported by documentation. Using the example above, the subgrantee would charge 40 percent of its monthly office rent, but only for the time period when the HPRP services were being provided (i.e., during the period of the grantee's agreement with HUD, or the subgrantee's agreement with the grantee, whichever is shorter). The subgrantee would also need to document that the office rent was actually paid.

Grantees can also develop a reasonable methodology for indirect cost allocation for other directly engaged agency staff, such as the Executive Director or bookkeeper, and propose that for review and approval. (Some sample indirect cost proposals are described in the *HPRP Financial Management Webinar* posted online at www.HUDHRE.info.) Grantees should remember that salaries which are incorporated into the indirect cost rate may not also be charged as direct labor, to avoid double-charging for the same salary. Total administrative costs charged to HPRP, including both direct and indirect costs, cannot exceed five percent of the grantee's total HPRP grant amount.

As with other strategies discussed throughout this document, if charging indirect costs had not been considered in the initial grantee or subgrantee budgets, grantees will need to determine if such adjustments will trigger the need for a Substantial Amendment to their Consolidated Plan.

Strategy 9: Align Spending with Most Current HUD-Issued HPRP Guidance

Some HPRP grantees may have trouble spending funds because they are unaware of clarifications and updates that HUD has made regarding eligible participants, activities, and costs. Some costs may then be allowable that the grantee or subgrantee has failed to realize. For example, HPRP funds can be used to pay for application fees and/or for credit reports to assist a program participant with budgeting and credit repair, or to reimburse the subgrantee for the cost of completing habitability inspections and lead-based paint visual assessments. If grantees and subgrantees are unaware of these clarifications, they may be spending their own funds rather than seeking reimbursement for these eligible costs from HPRP. To that end, grantees should regularly consult the HPRP *Frequently Asked Questions* (FAQs) that are periodically updated on HUDHRE.info, sign up for the HPRP Listserv, and view all relevant training webinars to make sure that they are, and continue to remain, up to date on all allowable costs.

HPRP FAQs are periodically updated and are searchable by topic, keyword, and date posted/updated. They can be found at: http://www.hudhre.info/index.cfm?do=viewFaqs. If a grantee cannot find the answer in the published FAQs, they can submit a question to the Virtual Help Desk at http://www.hudhre.info/index.cfm?do=viewHelpdesk.

Grantees, subgrantees, and front line staff (e.g., case managers and intake workers) should also join the HPRP Listserv. The Listserv is HUD's primary way of communicating the most up-to-date information on HPRP, and addresses both policy and implementation concerns. To sign up for the HPRP listserv, go to: http://www.hud.gov/subscribe/signup.cfm?listname=Homelessness%20Prevention%20and%20Rapid%20Re-housing%20(HPRP)&list=HPRP-L.

Finally, the *HPRP Financial Management Webinar* describes standards for financial management systems, methods for tracking and achieving financial targets, and best practices for preventing fraud. Grantees may view the audio of the webinar and a PDF of the training slides by going to:
http://www.hudhre.info/HPRP/index.cfm?do=viewHPRPFinancialWebinar
http://www.hudhre.info/documents/HPRP_FinancialMgmtWebinar_Slides.pdf

Summary

HPRP is part of the American Recovery and Reinvestment Act, and is intended to help people who need assistance now, during this current economic crisis. The 60 percent expenditure requirement was established to ensure that the assistance gets to the people who need it quickly. HPRP grantees should be ramping up their programs and spending their funds rapidly during the first two years of their grant period. Federal rules governing HPRP are clear that failure to meet this spend-down requirement could result in the recapture of unused funds. Issues causing slow spending should be clearly identified and promptly addressed, not only to avoid the recapture of unused funds, but to ensure that the HPRP program prevents or ends homelessness for as many eligible program participants as possible.

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