



Housing Counseling Toolkit: Managing Expenditures and Avoiding Recapture

OFFICE OF
HOUSING COUNSELING



TABLE OF CONTENTS

SECTION 1	3
<i>INTRODUCTION TO EXPENDITURE MANAGEMENT</i>	<i>4</i>
SECTION 2	6
<i>BUDGET PLANNING TO AVOID RECAPTURE</i>	<i>7</i>
SECTION 3	11
<i>MANAGING EXPENDITURES DURING THE AWARD PERIOD OF PERFORMANCE</i>	<i>12</i>
SECTION 4	14
<i>CLOSING OUT YOUR GRANT TO AVOID RECAPTURE</i>	<i>15</i>
SECTION 5	16
<i>RESOURCES AVAILABLE FOR BUDGET PLANNING AND TRACKING</i>	<i>17</i>



SECTION 1

INTRODUCTION TO EXPENDITURE MANAGEMENT

INTRODUCTION TO EXPENDITURE MANAGEMENT

This toolkit is for Housing Counseling Agencies that want to improve their management of budgets and expenditures potentially avoiding a recapture of funds. It reviews common reasons for recapture and provides tips for a systematic approach to budgeting and expenditure tracking that will help agencies avoid loss of funds.

Disclaimer: The information and guidance provided in this toolkit is intended to assist programs participants with budgeting grant funding to avoid recapture or loss of grant funding. This Toolkit does not supplant or supersede OHC Housing Counseling Program (HCP) requirements including but not limited to Section 106 of the HUD Act of 1968, 24 CFR Part 214, 2 CFR Part 200, HCP NOFAs, HCP Notices or NOFA Grant Agreements.

What is recapture?

A Housing Counseling Agency's grant agreement with HUD includes a provision for recapture. This allows HUD to take back any grant funds that the agency does not expend during the grant period of performance. Grantees are required to cooperate with recapture requests and return the funds to HUD. HUD may use these funds in future Notices of Funding Availability (NOFAs) or put the funds to other uses.

Why is recapture a concern?

The recapture of funds is a concern for both HUD and the Housing Counseling Agency. The time and effort spent on recapture could be spent on other productive programmatic activities for both HUD and the agencies. There is a significant administrative burden in accounting for these funds. In addition, when agencies fail to use their funds, it could suggest that the funds are not needed, and undermines future Congressional appropriations.

Is recapture common?

From 2014 – 2016, HUD recaptured roughly half a million dollars from over 40 housing counseling agencies. Recapture occurs for several reasons. Some agencies lack the capacity to expend their funds. For example, an agency may have insufficient staff to manage their expected case load and do not perform the volume of work expected. An agency may have a deficient grant management system that does not allow them to manage and track their funds appropriately. If recapture occurs, the agency may be at risk for being placed in inactive status as a HUD-Approved Housing Counseling Agency. Some agencies have had funds recaptured because they used them for ineligible expenditures such as funds spent on unauthorized housing counseling services. An agency with a good grasp of program rules and strong tracking systems should be able to act in a timely way to reprogram funds to allow them to be spent and thus avoid recapture.

Avoiding recapture

With appropriate planning and grant management, agencies can expend their funds during the period of performance and avoid recapture. The remainder of this guide discusses strategies for in three stages:

- **Planning.** In the three to six months prior to grant receipt, develop a realistic budget based on agency capabilities, your funding portfolio, and your local market.
- **During the period of performance.** Implement systems for active tracking of expenditures so that funds can be reprogrammed if necessary.
- **Close-out.** During the 90-day closeout period, complete a final accounting of funds and apply lessons learned to future grant budgets.



SECTION 2

BUDGET PLANNING TO AVOID RECAPTURE

BUDGET PLANNING TO AVOID RECAPTURE

This toolkit includes a [Housing Counseling Budget Tracking Tool](#) that allows an agency to plan the pace of expenditures during the period of performance and track adherence to that plan. To make that plan, the agency should use the strategies recommended by high performing agencies, outlined below. These activities typically take place in the three to six months before the grant period begins.

Consider agency capacity, resources, and priorities

Because the HUD grant typically covers only a portion of the Housing Counseling Agency's operations, it is important to put these funds in context. Consider resources available, agency priorities, capacity, and how those might affect the pace of spending of HUD funds. Your analysis should include:

- **Case load.** How many clients does the agency typically serve? What percentage of these can be served under the HUD grant? Does the case load tend to distribute evenly across the grant period or are there periods of higher demand?
- **Services.** What services are best addressed with HUD funding? What does HUD fund that other sources may not cover?
- **Staff capacity.** What level of effort can your staff support? What is your typical staff turnover? What portion of the staff's time is already allocated to other funding sources? Make sure your estimate of costs applied to staff labor is consistent with staff availability.
- **Other resources.** What are the agency's other sources of funds? What is the timing of those funds? What are the priorities for or restrictions on those funds?
- **Priorities.** What are the agency's priorities for the grant term? Are there any specific initiatives this year, such as additional staff training or a significant marketing effort? Is there an emerging need in the community that needs to be addressed such as an upswing in rental costs or a surge in foreclosures?

Factors beyond agency control

The Housing Counseling Agency may not always control all aspects of its financial picture. Funding sources can dwindle, needs can rise, and often timing can be unpredictable. Consider the potential for:

- **Delays in funding availability.** Sometimes there is a delay between the award of the HUD grant and the availability of the funds to the agency. The funds must be made available within the Housing Counseling System (HCS) as well as Electronic Line of Credit Control System (eLOCCS). When planning for the use of HUD funds, consider whether they will be available at the beginning of the period of performance. Some agencies are allowed to go back to the beginning of the Federal Fiscal Year, (October 1st) because they set up accounts and track costs back to that date, even if their grant agreement is not signed until after the beginning of the Federal Fiscal Year. If a delay is possible,

establish whether the agency has the capacity to pay for costs and obtain reimbursement later. If agency reserves are such that the ability to extend funds is limited, it may be prudent to push back the use of HUD funds to the second or third quarter of the grant.

- **Changes in the environment.** Over the course of the grant period, the agency may see changes in the local housing market and client needs as well as in the capacity of partners. For example, an economic downturn or a local disaster could result in an upsurge of need and a loss of other service providers in the community. Depending on the agency expertise and the strength of the local network, the agency may consider to be less conservative in the spending of HUD funds.

Establish budget expectations

Based on the analysis above, the agency should make an expenditure plan. Take overall budget numbers approved from the budget proposal and consider how quickly the agency will spend down the various line items. Use the [Housing Counseling Budget Tracking Tool](#) to codify spending plans. Determine the pace of spending. Common models include:

- **Frontload spending.** Agencies that allocate all funds to be spent over the first four months of the grant can use the last two quarters to use any unspent funds.
- **Delay spending.** In cases where funds may not be available immediately and the agency has other funding available, the agency may allocate the spending of funds later in their grant POP. This approach requires closer tracking in the final months of the grant to ensure everything is spent.
- **Steady state spending.** If the agency has steady funding from its various funders and a predictable case load, it may choose to allocate a sixth of the budget each quarter. In such cases, pay attention to line items that are more sporadic, such as training and marketing.

Set up tracking systems

Agencies have several tools available to help them track their grant expenditures. The key is to establish the systems and procedures in advance of the grant. The agency should:

- **Set up a cost center.** Establish coding in your financial system to track each open HUD grant separately. Ideally, your accounting calendar will begin on October 1 to coincide with the Federal fiscal year, but this may not always be the case. Some agencies are not allowed to start recouping costs as of October 1, due to agency and/or board requirements.
- **Establish a tracking system.** Use the [Housing Counseling Budget Tracking Tool](#) or a similar spreadsheet or system to record actual expenditures each quarter and compare them to the spending plan.
- **Create a calendar.** Create a shared calendar that specifies dates for inputting, reviewing, and analyzing the spending data. This may be weekly, bi-weekly, or monthly depending on the volume of activity. The calendar should include a date for reviewing expenditures

and considering reprogramming decisions half way through the grant and monthly thereafter.

- **Establish roles and responsibilities.** Assign staff to input data. Ensure that program and finance staff have a clear understanding of their responsibilities and a system for communicating. Provide training as necessary on key tools including eLOCCS, Client Management System (CMS), HCS, agency accounting systems. Review and update policies and procedures.
- **Define eligible expenses.** To ensure that only eligible costs are allocated to the grant, make sure that finance staff know what is eligible under the grant. Raise any questions about eligible costs with the HUD Point of Contact (POC).
- **Test key systems.** Log into eLOCCS, CMS, and HCS to ensure that the agency's accounts are active and passwords function. Include in the calendar a reminder to log into these systems monthly, even when they are not in use, to avoid being locked out.

Address eLOCCS Security

Ensure you have an IT Security policy in place. The policy should:


- **Follow HUD's guidelines.** [HUD's Rules of Behaviors](#) should be built into your eLOCCS security policy.
- **Plan for change of staff.** If the Approving Official or the User leaves the agency, it is good practice to identify a new Approving Official or User as soon as possible to avoid any delays in voucher requests. The Approving Official cannot be in an "Acting" position. Once identified, the new Approving Official or User must register in Secure Systems and the new User must complete a HUD-27054E eLOCCS Access Authorization Form.
- **Review eLOCCS security policies.** The [eLOCCS Access Guidelines for Grantees](#) outline critical steps for requesting payments.

Strategies for HUD Intermediaries

HUD Intermediaries, including state housing finance agencies and multi-state organizations, have a different set of concerns as they allocate funds for their affiliates to manage. They can take steps during the grant planning period to help ensure the timely expenditure of funds including:

- **Use a rating and ranking system.** Develop a system to rate and rank the needs and capabilities of affiliates and use that system to inform the allocation process.
- **Diversify the portfolio of affiliates.** Include more affiliates in the network than is minimally necessary to allocate all funds. Spread the funds across this broader network of affiliates so that if some affiliates struggle, the agency has a bench of other affiliates who can use the funds.

- **Allocate only a portion of funds.** Hold some funds in reserve to allocate midway through the grant term towards those affiliates who have been more successful in spending their grant funds.
- **Track affiliate performance.** Regularly review affiliates' expenditures to confirm they are spending their funds as planned. Include a midyear review of spending and reprogram funds if affiliates do not meet their spending goals.
- **Include provisions in contracts with affiliates.** If reprogramming funds is a strategy, the contract must include provisions for adjusting grant amounts during the period of performance.



SECTION 3

MANAGING EXPENDITURES DURING THE AWARD PERIOD OF PERFORMANCE

MANAGING EXPENDITURES DURING THE AWARD PERIOD OF PERFORMANCE

Even with proper planning, the agency may not be able to expend grant funds as expected. Lower than expected case volume, changes in staffing, and other factors can cause variance in the budget. Agencies should track their expenditures on a regular basis to determine if funds are being expended as planned and if any reprogramming is needed. The Agency should put in place procedures to ensure reliable tracking and analysis. The [Housing Counseling Budget Tracking Tool](#) provides one format for tracking.

Make data entry a priority

Without data, there is no way to track progress. To make sure data gets entered in a timely and accurate manner, agencies should implement the following practices.

- **Make data entry a habit.** Agencies may enter data weekly, monthly or quarterly. The key to success is to establish calendar dates by which data must be entered and adhering to those dates. Create calendar reminders and follow-up systems to create a culture of accountability around data.
- **Take advantage of well tested tools.** Housing counseling agencies have several tools and reporting systems to make data tracking easy. The 9902 reporting serves as a mechanism for regular data collection. Some agencies also use Counselor Max client management system to establish workflows and facilitate tracking. The [Housing Counseling Budget Tracking Tool](#) provides an easy format for comparing actual to planned expenses.
- **Log into key systems at least monthly.** Agencies should be logging into eLOCCs, HCS, and CMS regularly as part of their usual processes, however, it is good practice to schedule an entry at least once a month to ensure that password remain valid and access stays open.
- **Check data for accuracy and compliance.** Data entry processes should also include a check for data accuracy and compliance. Check data to ensure that all costs are allowable. If there are questions on eligible costs, review the NOFA and/or check with your HUD POC.

Revisit assumptions

Agencies should evaluate data regularly to see if assumptions were correct or if there is a need to adjust the budget plan.

- **Reconcile data across systems.** Look at the 9902 Detail Report and compare it to any other reports. For example, some agencies have Counselor Max and are able to run the Audit Report to identify discrepancies and errors.
- **Verify data in HCS.** Agencies are required to ensure their data in HCS is complete and accurate. To facilitate data input, Agencies must transmit their data using their CMS.

Manual input is only permitted on an exceptional basis when CMS is unable to transmit. CMSs allow transmission into HCS four data sets: Agency Profile, 9902 reports, Client & Counselor data. After any CMS transmissions are conducted, agencies must access HCS to verify the accuracy of the data and validate that the appropriate boxes within HCS are checked.

- **Compare actuals to the plan.** Most agencies review their costs monthly, but some larger agencies do it more regularly. A simple comparison of the actual expenses for the quarter against the quarterly budget is sufficient. The [Housing Counseling Budget Tracking Tool](#) provides a quick check for budget against actuals.
- **Do a reality check.** Numbers do not always reflect the whole picture, so consult with staff to see if they have noticed any trends that are not yet reflected in the data. For example, they may have notice an uptick in client referrals or a higher need for marketing. Plan a weekly or monthly staff meeting to discuss trends and costs.
- **Check in more often in second half of the grant period.** As the end of the period of performance approaches, agencies should check their data and consult with staff more frequently to ensure that spending is still on pace. The grant calendar should include more reminders and check in meetings.

Address spending issues

If the expenditure analysis reveals that funds are not being spent at the rate that was planned, take steps to address the issue.

- **Identify the source of the problem.** Is there a staffing problem? Is there a shortage of clients? Is data not being entered correctly? The agency's first step should be to diagnose the issue and implement corrective measures.
- **Make necessary changes to the budget plan.** Even with corrective measures, the agency will likely need to change the budget to speed up (or slow down) spending. This may mean reprogramming funds towards a new use.
- **Identify the need for an extension early.** Agencies are more likely to receive approval for a grant extension if they inform HUD early about their financial situation. Requests to HUD should explain the reason for the expenditure delays and provide a clear plan for expending the extra funds in the extension period requested.

Strategies for HUD Intermediaries

HUD Intermediaries should monitor its affiliate's expenditure rates, just as they monitor all other aspects of network performance. They should keep an eye out for underperforming agencies, provide technical assistance as necessary, engage their HUD POC when appropriate, and, as a last resort reclaim and reprogram funds.

As reprogramming funds takes time, HUD Intermediaries should plan to make funding reallocation decisions at least six months before the end of the grant period of performance.



SECTION 4

CLOSING OUT YOUR GRANT TO AVOID RECAPTURE

CLOSING OUT YOUR GRANT TO AVOID RECAPTURE

Grant close-out is a time to review your budget and financial reports and confirm that your documentation is in order.

Review final financials


Once the grant period of performance is over, the agency has 90 days to complete the final report and make the final draw from eLOCCS. If the agency has been tracking data diligently, this should be a short process, however, if the agency discovers issues at this point, they should reconcile data as quickly as possible. It may be possible to reprogram funds retroactively or to request an extension from HUD. HUD grants one-time extensions on a case-by-case basis. The agency must show a plan for expending the funds within the extension period.

Review program performance

Grant close out is also a good time to review grant performance and consider changes for future grants. Specifically, review budget actuals and use that data to propose a more realistic budget for the next grant period. If recapture occurs, revisit agency data and procedures and consider changes for future grants.

Strategies for HUD Intermediaries

If affiliates are subject to or come close to recapture, the HUD Intermediary should consider if training and technical assistance can make a difference or if future grants should be allocated to other affiliates.



SECTION 5

RESOURCES FOR BUDGET PLANNING AND TRACKING

RESOURCES AVAILABLE FOR BUDGET PLANNING AND TRACKING

OHC has several resources on budget planning and tracking including:

- [The Housing Counseling Budget Tracking Tool](#)
- [The Managing Expenditures and Avoiding Recapture Webinar](#)
- [HUD Housing Counseling Frequently Asked Questions](#)