FAQ's ON REVIEWING FOR THE ORIGIN YEAR EXPENDITURE TEST

1. How does grant-based accounting impact compliance with the planning & admin cap?

In annual appropriations acts, Congress limits the amount grantees may use for planning, management development, and administration to no more than 20 percent of each grant. The grant based accounting interim rule implements two distinct compliance tests under §570.200(g) for planning and administration funds: the existing obligation test and a new origin year expenditure test. The grantee must pass <u>both</u> tests to meet compliance.

- <u>Program year obligation test</u>: (§570.200(g)(2)) This test has always occurred, and continues to be in Part V of the PR26 CDBG Financial Summary report. The amount of CDBG funds <u>obligated</u> during each program year for planning plus administrative costs, as defined in §570.205 and §570.206, respectively, must be limited to an amount no greater than 20 percent of the sum of the grant made for that program year plus the program income received by the recipient and its subrecipients (if any) during that program year.

- <u>Origin year grant expenditure test</u>: (§570.200(g)(1)) This is a new test and required for 2015 CDBG origin year grants and subsequent origin year grants. No more than 20 percent of any origin year grant shall be <u>expended</u> for planning and program administrative costs, as defined in §570.205 and §570.206, respectively. Program income expenditures for planning and program administrative costs are excluded from this calculation. Funds from a grant of any origin year may be used to pay planning and program administrative costs associated with any grant of any origin year.

2. **Since the origin grant year expenditure test does not include program income, could a grantee that has or will receive program income use it to cover the amount expended in excess of the planning and administration cap?**

Yes. However, the grantee would still need to meet the program year obligation test under §570.200(g)(2). The amount of CDBG funds obligated during each program year for planning plus administrative costs, as defined in §570.205 and §570.206, respectively, must be limited to an amount no greater than 20 percent of the sum of the grant made for that program year plus the program income received by the recipient and its subrecipients (if any) during that program year.

3. How can field office and grantees verify compliance?

Compliance with the origin year expenditure test is not determined until a grantee has expended 100% of that given year's origin year grant funds. HUD has developed an IDIS report, "PR26 – Activity Summary by Selected Grant", to determine compliance for the origin year expenditure test. This test applies to 2015 CDBG origin year grants and subsequent grants.

HUD staff and grantees should use this report at the end of each program year (during the CAPER process) to determine if a grantee has expended no more than 20 percent of any origin year grant for planning plus program administration costs. A good practice would be to use this report periodically throughout the year, and particularly with each year's CAPER, to track how close a grantee is getting to the 20% cap for each origin year grant.

4. Where do I find directions on how to use the PR26-Activity Summary by Selected Grant report?

Directions on how to run and use the PR26 – Activity Summary by Selected Grant are available in the PR26 CDBG Financial Summary Report Troubleshooting Guide located on the HUD Exchange at https://www.hudexchange.info/resources/documents/Updated-Instructions-Completing-CDBG-Financial-Summary-Report-Pr26.pdf.

5. What happens if the grantee exceeds the maximum threshold of 20%?

A grantee may review the entries in the report to confirm they are correct and all adjustments have been made in IDIS. If the grantee has expended 100% of its CDBG funds for a specific origin year grant and the percentage calculated is over 20%, HUD will request repayment of the dollar amount in excess of the 20% limit as a "Finding of Noncompliance" in its Program Year Performance Review letter. The grantee will be required to reimburse its line of credit.