1. **Purpose**: This Notice provides specific guidance on the Administrative and Planning expense requirements for the participants in the Indian Housing Block Grant (IHBG) program. In the Office of Inspector General’s report titled *Nationwide Audit of Implementation of the Native American Housing Assistance and Self-Determination Act of 1996* issued on August 2, 2001, they identified confusion by tribes and tribally designated housing entities (TDHEs) over what constitutes allowable Administrative and Planning expenses and recommended the regulations be clarified.

2. **Authorization**: The IHBG Program is authorized by the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) and the regulations governing the program are found at 24 CFR Part 1000. Section 101(h) of NAHASDA authorizes the expenditure of grant funds for Administrative and Planning by stating “The Secretary shall, by regulation, authorize each recipient to use a percentage of any grant amounts received under this Act for any reasonable administrative and planning expenses of the recipient relating to carrying out this Act and activities assisted with such amounts, which may include costs for salaries of individuals engaged in administering and managing affordable housing activities with grant amounts provided under this Act and expenses of preparing an Indian housing plan under section 102.” The IHBG regulation at 24 CFR §1000.238 establishes 20 percent of the annual grant amount as the maximum that may be charged for Administrative and Planning expenses without prior approval of HUD.

3. **Regulatory Requirements for Administrative and Planning Expenses**: The IHBG regulations at 24 CFR §1000.236 provide specific guidance for the IHBG program recipients when it states:

   *What are eligible administrative and planning expenses?*
   
a. Eligible administrative and planning expenses of the IHBG program include, but are not limited to:
   
   (1) Costs of overall program and/or administrative management;
(2) Coordination monitoring and evaluation;
(3) Preparation of the IHP including data collection and transition costs;
(4) Preparation of the annual performance report; and
(5) Challenge to and collection of data for purposes of challenging the formula.

b. Staff and overhead costs directly related to carrying out affordable housing activities can be determined to be eligible costs of the affordable housing activity or considered administration or planning at the discretion of the recipient.

4. Examples of Eligible Administrative and Planning Expenses:

a. Costs of overall program and/or administrative management.
   -- Salary and the associated expenses of the TDHE’s Executive Director and immediate staff or the tribe’s Housing Division Director and immediate staff while managing the housing entity’s or division’s overall operations;
   -- Expense or a portion of the expense of obtaining a periodic financial review or audit of the tribe or TDHE;
   -- Expense or a portion of the expense of the accounting and personnel divisions of the TDHE or tribe;
   -- For those tribes that have an approved indirect cost rate, the applicable indirect expenses (Note: For the indirect expenses to be allowable the approved indirect cost proposal must include the IHBG program in the direct cost base.);
   -- Development expenses or a portion of the expenses to develop a comprehensive housing affordability strategy and community development plan describing needs, resources, priorities and proposed activities on a reservation-wide or Indian area-wide basis.

b. Coordination monitoring and evaluation.
   -- Salary and associated expenses or contractor expense for the self-monitoring effort by the tribe or TDHE;
   -- Salary and associated expenses of a tribe when evaluating the operations of their TDHE;
   -- Salary and associated expenses of a tribe or TDHE when evaluating the operations of a subrecipient.

c. Preparation of the IHP including data collection and transition costs.
   -- Salary and associated expenses or contractor expense for collecting housing and population data and preparing the IHP (Note: These expenses may be incurred prior to the IHBG award.);
   -- Expense to transition the housing authority and its operations from operating under the 1937 Housing Act guidelines to NAHASDA;
   -- Start-up expenses of a tribe that is taking over the housing needs responsibility from a housing authority.
   -- Salary and associated expenses or contractor expense for collecting data and
   compiling it for the APR;
   -- Expense of making the APR available to the public and obtaining public
   comments before submitting the APR to the Area Office of Native American
   Programs (ONAP).

e. Challenge to and collection of data for purposes of challenging the formula.
   -- Salary and associated expenses or contractor expense for gathering and
   presenting data to the Area ONAP to challenge the IHBG formula.

f. Staff and overhead costs directly related to carrying out affordable housing
   activities.
   -- Administrative expenses of an individual affordable housing activity.
   **Note:** If a recipient chooses to charge direct administration costs of an
   affordable housing activity as Administrative and Planning, the cost of
developing or operating the activity will be understated. This may cause
problems when, in the normal course of property management, the recipient
evaluates the true cost of the activity for cost/benefit and whether to continue or
repeat that activity. A recipient should review its financial management
information needs before electing to charge direct costs to Administrative and
Planning expense.

5. **Deficiencies in Administrative and Planning Charges:** NAHASDA recipients are
required to meet the general allowability cost guidelines of OMB Circular A-87. The
general guidelines are to (1) be necessary and reasonable; (2) be allocable; (3) be
authorized; (4) conform to any limitations or exclusions; (5) be consistent with policies,
regulations, and procedures; (6) be accorded consistent treatment; and (7) be
determined according to generally accepted accounting principles. The following are
examples of deficiencies in charging of Administrative and Planning expenses
identified by the Inspector General’s audit report.

a. **IHBG program recipient allowed funds or property to be used for personal employee use.** A recipient used IHBG funds to pay personal obligations of an employee. Another recipient allowed employees to use recipient’s property for their personal use. The property was purchased with federal funds, including IHBG funds. The recipient also used IHBG funds to pay the maintenance and operating expenses of the property. OMB Circular A-87 (Attachment B, Section 13) states “Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.” Additionally OMB Circular A-87 (Attachment A, Section C.1.) requires costs to “be necessary and reasonable for proper and efficient performance and administration of Federal awards.” Use of recipient-owned funds or property for other than recipient business is considered a contribution to others and unnecessary and unreasonable costs, and therefore, an ineligible
b. IHBG program recipient was paying a disproportionate share of a computer network’s purchase and installation costs with IHBG funds. About 60 percent of the computer network’s purchase and installation cost was charged to the IHBG program. Only 3 percent of the network users are in the IHBG program’s employ. OMB Circular A-87 (Attachment A, Section C.3.a) states “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” In this instance, a proportional share of the network cost is an eligible charge to the IHBG program; however, the amount actually charged is unsupportable and unreasonable, and therefore ineligible.

c. IHBG program recipients were miscalculating the indirect cost allocation share. The recipient was using an indirect rate that was developed before it withdrew from an umbrella TDHE, established its own housing entity and changed its organization structure. The recipient continued to use the old negotiated rate instead of renegotiating a new rate. The cost negotiation agreement required the recipient to obtain approval from the Department of the Interior’s Office of Inspector General for changes that may affect indirect rates, including changes in organizational structure or changes in accounting methods. In this instance, the recipient was charging an inappropriate amount of indirect costs to the IHBG program and repayment would be required.

d. Several IHBG program recipients exceeded the 20 percent IHBG Administrative and Planning ceiling without HUD approval. Twenty-Four CFR §1000.238 allows up to 20 percent of its annual grant amount for Administrative and Planning. HUD approval is required if the recipient desires a higher percentage. Charges in excess of the HUD approved amount would be ineligible expenses.

e. IHBG program recipient was repetitively applying the 20 percent computation to the same funds. The recipient charged Administrative and Planning expenses of 20 percent of each open IHBG each year. Twenty-Four CFR section 1000.238 authorizes up to 20 percent of an IHBG award for Administrative and Planning. A recipient may charge up to a maximum of 20 percent of the award for Administrative and Planning; any costs in excess of the 20 percent limitation would be ineligible.

f. IHBG program recipient did not have adequate support to demonstrate that all of its Administrative and Planning expenses related to affordable housing activities. The recipient’s financial management records did not support the costs charged to the Administrative and Planning expense line item. Recipients are authorized by 24 CFR §1000.238 to charge up to 20 percent of the grant award for Administrative and Planning expenses. These charges must be the
actual amounts paid by the recipient and documented in the recipient’s financial records. A recipient may not automatically charge 20 percent of the grant to Administrative and Planning expenses. Such unsupported costs would be questioned and the recipient given an opportunity to provide supporting documentation of the costs. Costs that the recipient could not provide supporting documentation for would be classified as ineligible.

g. A tribe’s subrecipient agreement specified that Administrative and Planning expenses of the subrecipient were to be charged directly to housing activities. The subrecipient’s responsibilities included preparing and submitting the IHP, the APR and progress reports to the tribe. The agreement between the tribe and the subrecipient specified that “. . .costs incurred by the [subrecipient] . . . shall be deemed to be ‘costs directly related to carrying out affordable housing activities’ and not administrative or planning costs.” The effect of the agreement forced the subrecipient to report costs of the Administrative and Planning function as direct expenses of various housing activities. Twenty-Four CFR §1000.236(b) allows the recipient to classify staff and overhead costs directly related to an affordable housing activity as Administrative and Planning costs. The NAHASDA statute or regulations do not allow a recipient to classify general Administrative and Planning costs as direct costs of an affordable housing activity. In a situation where a tribe and a subrecipient or TDHE are both incurring Administrative and Planning expenses, all Administrative and Planning costs must be compiled from all sources to determine compliance with the IHBG program requirements.

If you have any questions regarding this Notice, please contact your local Area ONAP office.

_/s/ William Russell for Michael Liu
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Assistant Secretary for Public and Indian Housing
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