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#### CHAPTER 20 FINANCIAL MANAGEMENT

#### 20.1 CHAPTER OVERVIEW

PHAs have a significant degree of flexibility in managing the financial resources available for the housing choice voucher program. That flexibility allows each PHA a measure of discretion in tailoring its program to address the needs of the community it serves, but it also dictates that the PHA be actively involved in designing the financial management structure of its program. This chapter explains HUD's key financial management requirements for the housing choice voucher program. It also provides guidance on how to develop a comprehensive financial management systems as well as several planning tools that can be used to monitor and control finances in order to maximize available resources.

#### 20.2 FINANCIAL MANAGEMENT REQUIREMENTS

Annual Contributions Contracts (ACCs) identify the financial record keeping and management requirements for the housing choice voucher program. Applicable regulations, HUD notices, and HUD guides set forth other important aspects of program financial management.

Summary of ACC Requirements. When executing an ACC, the PHA agrees to comply with the following requirements:

- A complete and accurate set of books of account and supporting records will be established and maintained so that speedy and effective auditing is possible.
- All program receipts will be deposited in a financial institution that is under a HUD-approved depositary agreement.
- All program funds will be expended for allowable program costs only.
- Each fiscal year, an estimate of the annual contributions required for the program will be submitted to HUD.
- Program funds will be expended in accordance with the annual contributions estimates provided to HUD.
- Payments will be periodically requisitioned from estimated annual contributions.
- Excess payments (payments in excess of approved annual contributions) will be applied in accordance with HUD directives, including the remittance of excess payments to HUD.
- If funds on-hand exceed current needs they will be invested in accordance with current HUD regulations.

- A year-end settlement report will be prepared to reconcile any differences between the PHA's estimated requirements and the level of funds actually needed.
- HUD will be permitted to periodically inspect PHA offices, to access facilities, and to review any and all books of account.
- Statistical, operating, and financial reports will be provided to HUD upon request.
- The PHA will ensure that an independent public accountant conducts all required program audits.
- An administrative fee reserve account will be maintained and credited with the amount by which the total administrative fees earned and interest earned on the reserve exceed the actual administrative expenses during any given fiscal year.

#### 20.3 BUDGETING

The PHA must prepare an annual estimate of required annual contributions and an operating budget to ensure that costs do not exceed the annual contributions provided by HUD. Housing assistance payments, ongoing administrative fees, hard-to-house fees, audit costs, and, in certain cases, preliminary fees are included in the calculation of annual contributions. The preparation of a budget and the imposition of good financial management controls are critical components of the PHA's financial management process. The budgeting process includes preparation and submission of form HUD-52672, Supporting Data for Annual Contribution Estimates, and form HUD-52673, Estimate of Total Required Annual Contributions.

HUD's approval of an application for vouchers through a notification letter and the supporting Funding Exhibit to the ACC establishes the amount of the annual contributions available for leasing over the term of the award. It does not dictate to the PHA a fixed number of units or a specific mix of units by bedroom size. The PHA determines the number and type of units that will be leased and must manage its program to ensure that (1) annual contributions funds available are fully utilized, and (2) costs do not exceed annual contributions. Maintaining the balance between under and over-spending presents a significant challenge to the PHA. The budget process, along with regular monitoring, is the key to maximizing utilization of funding without over-spending.

#### **Estimating Housing Assistance Payments**

Housing assistance payments are amounts the PHA pays to the property owners on behalf of voucher program participants. A housing assistance payment (HAP) is calculated by deducting the amount payable by the family from the lower of the applicable payment standard or gross rent.

The PHA must use Form HUD-52672 to calculate the anticipated average gross rent, payment standard, amount payable by the family, and HAP. Each of these averages is calculated by

bedroom size. The HAP is then multiplied by the number of unit-months anticipated for each bedroom size in order to determine the total subsidy required for the year.

#### **Estimating Fee Earnings**

HUD compensates PHAs for the cost of administering the housing choice voucher program through administrative fees. While fee rates may change, the types of fees are special fees and ongoing fees. There are five types of special fees: preliminary, conversion, hard to house, lead paint, and counseling. An ongoing fee is paid for each unit each month that unit is under lease. The term "per-unit month" is used to describe the measure of "one unit for one month."

#### Preliminary Fees

A preliminary fee of up to \$500 per unit is available for PHAs that are establishing a new housing choice voucher program. The fee is not available for PHAs with an existing program.

The preliminary fee covers one-time costs of processing participating families to the point of HAP contract execution. This fee also covers the cost of intake functions to achieve occupancy for the newly authorized vouchers including: publicizing the program, briefing applicants, participants, and owners, receiving and reviewing family applications, determining and verifying family income and eligibility, setting up family files, conducting initial unit inspections, certifying and documenting rent reasonableness, and preparing HAP contracts.

The HUD Financial Management Center may approve a reasonable per-unit preliminary fee of up to \$500. The actual amount of the preliminary fee is determined at year-end settlement based on cost justifications submitted by the PHA. The amount of the actual preliminary fee is the lesser of actual expenditures or the amount approved by HUD. If the PHA's leasing schedule spans two PHA fiscal years, the PHA is eligible to earn preliminary fees during that period. The PHA must use form HUD-52672 to calculate preliminary fees.

#### Housing Conversion Fees

A PHA may be eligible to receive a Housing conversion fee when it has received voucher funding specifically for residents involved in a Housing conversion action. PHAs are entitled to a conversion fee of up to \$250 per unit for each unit that is occupied at the time HUD provides housing choice vouchers to the PHA for a housing conversion action. These conversion actions include: owner prepayment of a mortgage, owner opt-outs, HUD property disposition actions, and HUD enforcement actions.

The conversion fee covers out-of-pocket expenses related to the conversion action(s). The Financial Management Center approves the actual amount to be paid to the PHA based on actual eligible costs reflected on the PHAs year-end settlement statement.

#### Hard-to-House Fees

The hard-to-house fee provides reimbursement for the additional administrative costs PHAs incur when housing families that include three or more minors or a person with disabilities. HUD has established the fee amount at \$75 per family; it is earned for each eligible family that is initially housed in a unit other than its pre-program unit, or for a participating eligible family that moves.

The PHA must use form HUD-52672 to estimate the total number of hard-to-house families with three or more minors or a disabled person that will be assisted. On a supplemental sheet, the PHA must provide the supporting calculation for the estimated number of new hard-to-house families that are likely to receive vouchers and the number of hard-to-house families currently participating in the voucher program that are likely to move from one assisted unit to another. In developing this estimate, the PHA should consider the characteristics of current program participants, the composition of its waiting list, and the turnover and move rates for large families.

Special Fees for Lead-Based Paint Hazard Clearance Tests and Risk Assessments

Chapter 10 describes the requirements of lead-based paint regulations.

PHAs may request special fees to reimburse costs to conduct risk assessments, and lead-based paint hazard clearance tests before allowing a unit to be occupied, and upon annual inspection. This testing is required by the revised lead-based paint regulations published in the *Federal Register* on September 15, 1999.

PHAs are permitted to contract the clearance testing directly or may require the owner to do so. In cases where the PHA requires the owner to contract for the service the PHA must reimburse the owner of the unit.

#### Fee for Risk Assessment

The fee for risk assessment is \$350 for conducting an assessment required by the rule. This includes situations where the local health department or other medical health care provider has confirmed that the family has an EIBLL child under age six, as long as the blood test was done while the child was residing in the assisted unit. The amounts should be reflected on the PHA's form HUD-52681, Year End Settlement Statement, prepared at year-end. Along with the statement, the PHA should attach a certification indicating the number of units where a risk assessment was completed during the PHA fiscal year.

#### Fee for Clearance Testing

The fee for clearance testing is \$150 for conducting a test required by the rule. This includes situations where the clearance test is conducted on a unit occupied by a family with a child under the age of six that has deteriorated paint requiring clearance testing after the owner completes paint stabilization or repairs where the PHA determines that the *de minimis* levels were

exceeded. The amounts should be reflected on the PHAs Form HUD-52681 Year End Settlement Statement prepared at year end. Along with the statement the PHA should attach a certification indicating how may units received the clearance test during the fiscal year as required by the LBP rule (24 CFR 35 Subpart M).

#### **Counseling Fees**

HUD Headquarters may provide a specific funding increment for counseling fees in connection with litigation, regional deconcentration efforts, and public housing demolition or HOPE VI activities. These funds may only be used for counseling purposes under the housing choice voucher program.

The field office authorizes the PHA to make use of this special fee and identifies the amount authorized in its application approval letter. The Financial Management Center approves the actual amount to be paid to the PHA based upon actual costs reflected on the PHA's year-end settlement statement.

#### Ongoing Administrative Fees

Ongoing administrative fees are earned by a PHA for each unit that is under a HAP contract on the first day of each month (even if the unit does not stay occupied for the entire month). The number of units eligible for the ongoing administrative fee is limited to the number of units supported within the annual budget authority. The ongoing administrative fee is determined by multiplying the number of unit months the unit is under lease by the per-unit-month administrative fee, as periodically published by HUD in the *Federal Register*.

HUD established three different types of ongoing administrative fees.

- A rate per unit for the first 600 units leased each month;
- A rate per unit for all units above 600 leased each month;
- A rate per unit for PHA owned units.

For budget purposes, estimating the amount of ongoing administrative fees that will be earned requires the PHA to project the number of "unit months under lease" for the year. The PHA does this by adding together the number of units expected to be under lease on the first day of each month in the budget year. The PHA uses form HUD-52672 to calculate the PHA's estimate of unit months under lease and ongoing administrative fees earned.

#### Higher Administrative Fees

A PHA may request that the Financial Management Center provide an increase in the administrative fees to cover a PHA's higher administrative costs incurred as a result of administering a small program or administering a program over a large geographic area. A small program is one where the vouchers and moderate rehabilitation units under ACC in the current PHA fiscal year are fewer than 200; a large geographic area is an area covering multiple counties that are primarily non-metropolitan.

The maximum increase that may be approved by the Financial Management Center is 110 percent of the monthly fees listed under Column A in the administrative fee tables published annually in the *Federal Register*. If the Financial Management Center determines that an increase to 110 percent of the amounts in the fee tables is not adequate, the FMC may submit to HUD Headquarters written justification for a higher fee. Any increase will be good for only one PHA fiscal year and is not retroactive to a prior fiscal year.

A PHA will not qualify for a higher administrative fee if the PHA anticipates that its administrative fee reserve balance at the end of the current budget year will exceed 20 percent of projected administrative expenditures for the next PHA fiscal year.

#### Administrative Fee Penalties

Under certain conditions, HUD may impose penalties against the PHA's administrative fees. Such conditions include, but are not limited to: failure to furnish form HUD-50058 as required by HUD regulations, housing quality standards violations in a significant percentage of units, failure to take corrective action where there has been evidence of intentional program abuse or unintentional administrative errors by the PHA, owners, or families housed, and drawing down from HUD more than five percent more funds than the PHA actually needs.

#### **Estimating Audit Costs**

PHAs are entitled to reimbursement for audit costs related to the housing choice voucher program. Only those audit costs that may be allocated to the housing choice voucher program are available. The PHA should request the audit costs on form HUD-52673.

#### **Total Annual Contributions Required**

After calculating estimated housing assistance payments, estimated fee earnings (ongoing administrative fee, hard-to-house fee, and, if applicable, counseling fee, conversion fee or preliminary fee), and estimated audit cost, the PHA is able to calculate total annual contributions required. Total annual contributions required is the sum total of each of the above. The PHA requests the total annual contribution required on form HUD-52673.

#### **Calculating Annual Budget Authority**

The annual budget authority is the funding provided to the PHA to pay housing choice voucher program expenses, including housing assistance payments, ongoing administrative fees, special fees, and audit costs.

The annual budget authority equals the prorated total for the PHA fiscal year of all of the PHA's funding increments, each of which has a maximum funding level. Funding increments are generally for a one year period, and specify a certain number of "baseline" units. However, the PHA may lease more or less than the number of baseline units if authorized by the HUD

approved budget. This concept is explained in further detail in the section entitled "monitoring utilization" below.

The annual budget authority is the product of two calculations:

- The prorated portion of funding increments in effect as of the first day of the PHA's fiscal year. Although funding increments generally have a term of one year, the one-year term often does not match the PHA's fiscal year. Therefore it is necessary for the PHA to reflect the prorated amount of each of the funding increments in the budget.
- Renewal funding for the funding increments after they expire and are renewed. The renewal funding provides annual contributions for the PHA for the remaining months of the fiscal year for each funding increment that expires during the year.

The annual budget authority is calculated as part of the PHA's budget submission, and is recalculated during the year-end settlement process. The annual budget authority for the PHA fiscal year is calculated on subsidiary forms attached to the budget and is summarized on form HUD-52673.

#### Prorated Annual Budget Authority

The first step in calculating the annual budget authority is to determine the prorated account balance of any funding increments in force as of the first day of the PHA's fiscal year. This step is accomplished by prorating, by month, all funding increments that will be in effect on the first day of the budget year.

#### PRORATED ANNUAL BUDGET AUTHORITY

If a PHA with a budget year beginning January 1 has a funding increment "V037" expiring May 31 that has a funding level of \$120,000, the annual budget authority applicable to the PHA year would be \$50,000 (\$120,000/12 months = \$10,000 per month; 5 months times \$10,000 equals \$50,000).

Because the budget is prepared at least 90 days before the beginning of the PHA fiscal year, the PHA must project the funding increments that will be in effect on the first day of the PHA fiscal year. This projection will be accomplished by making a list of all funding increments in effect at the time the budget is prepared, removing any funding increments expiring before the beginning of the budget year, and adding renewal funding increments expected on or before the beginning of the budget year.

#### Renewal Funding

The second step in calculating the annual budget authority is to determine the total amount of prorated renewal funding to be provided for funding increments expiring during the budget year.

In general, renewal funding must be projected for each funding increment by multiplying the number of baseline units by an adjusted historical per unit cost. Exhibit 20-1, *Determination of Initial Baseline*, shows the steps in calculating the December 31, 1999 baseline.

# EXHIBIT 20-1 DETERMINATION OF INITIAL BASELINE AS OF DECEMBER 31, 1999

HUD has established an initial baseline number of units reserved for each PHA as of December 31, 1999, to be used in calculating the renewal units and amounts for calendar year 2000 and subsequent years. HUD used the following process to determine the December 31, 1999 initial baseline:

- Step 1: HUD determined the number of families assisted as of October 1, 1997. The number of assisted units under lease was specified in the supporting documentation submitted by PHAs with the Voucher for Payment of Annual Contributions and Operating Statement filed for the PHA's first year-end following October 1997 (form HUD-52681).
- Step 2: HUD determined the adjusted reserved number of units as of October 1, 1997 by adding the number of reserved units as of October 1, 1997, to the number of authorized units reserved after October 1, 1997 as a result of HUD's review, conducted in Federal Fiscal Year 1998, of leasing in excess of the number of units reserved. This adjustment was necessary to avoid double counting units in the course of performing the comparison since a portion of the additional authorized units would also be included in the number of units leased on October 1, 1997.
- Step 3: HUD compared the number of leased units as of October 1, 1997 (step 1) to the number of reserved units (step 2); the higher of the two was used for further calculations. The comparison was performed separately for the certificate and the voucher programs.
- Step 4: HUD added any additional units reserved for the PHA subsequent to October 1, 1997 to the result of Step 2. Adjustments included incremental funding as well as conversion funding awarded to provide continued assistance to assisted families pursuant to the conversion of project-based assistance to tenant-based assistance. HUD also included adjustments for assistance transferred from one housing agency to another. In this case, the gaining PHA's adjusted baseline would increase and the transferring PHA's adjusted baseline would decrease in an amount equal to the number of units transferred.
- *Step 5:* Finally, HUD added the calculated number of units from Step 4 in the certificate program to the calculated number of units from Step 4 in the voucher program to establish the initial baseline (as of December 31, 1999) for each PHA.

EXAMPLE
CALCULATING 12/31/99 BASELINE

Category	Certificate	Voucher
1. Families assisted as of 10/1/97	175	110
Units reserved as of 10/1/97	200	100
Units reserved after 10/1/97 resulting from HUD	0	5
FFY98 review of leasing in excess of # reserved		
2. Adjusted reserved number of units	200	105
3. Larger of #2 and #3	200	110
Add new units reserved	0	10
Add/Subtract units transferred	0	10
4. Baseline for 12/31/99 by program	200	130
5. Baseline as of 12/31/99 300		

Per Unit Cost. The PHA's latest HUD-approved year-end settlement statements, (form HUD-52681) determine the per unit cost (PUC). The total annual contributions required divided by the number of unit-months leased yields the average PUC per month. The monthly PUC multiplied by 12 yields the annual PUC. The annual PUC is increased by the annual adjustment factor (AAF) published annually in the Federal Register (Table 1 amount with the highest cost utility included) for the number of subsequent Federal fiscal years between the time of the latest HUD-approved year end settlement statement and the time of the renewal. If the PHA serves more than one jurisdiction with separate AAFs, the highest AAF is used.

#### RENEWAL FUNDING FOR A PHA FY ENDING 6/30

If the last approved year-end statement was for PHA fiscal year 1999 and it required annual contributions of \$500,000, and the PHA had leased 1,250 unit-months in that year, the PUC before the AAF would be \$400 ( $$500,000 \div 1,250$ ). If the AAF for FY2000 was 1.02, and the AAF for FY2001 was 1.03, the adjusted PUC would be \$420.24 per month ( $$400 \times 1.02 \times 1.03$ ), or \$5,043 per year ( $$420.24 \times 12$ ).

#### Total Renewal Funding

The number of baseline units to be renewed multiplied by the per unit cost provides the total renewal funding for a given funding increment. If the renewed funding increment term does not correspond with the PHA's fiscal year, the renewal funding for the funding increment will be prorated accordingly. For example, if the PHA's budget year begins on January 1, and it has one funding increment that will renew on July 1 for \$504,300, then the renewal funding provided will be \$252,150 ( $$504,300 \div 12$  months = \$42,025 per month, x 6 months).

#### Consolidation and Synchronization

HUD intends to synchronize the term of multiple funding increments expiring during the year to expire on the same date. This will reduce the number of funding increments tracked by HUD and the PHA. The synchronization process for individual funding increments may result in terms not equal to twelve months in order to enable HUD and the PHA to consolidate multiple funding increments into one and to synchronize all of the PHA's funding increments to a date that begins six months after the end of the PHA's fiscal year.

#### Determination of Utilization

Beginning with PHA fiscal years ending December 31, 1999 and thereafter, HUD will assess the leasing rate and use of budget authority by each PHA on an annual basis when HUD processes the PHA's year-end statement (approximately four months after the end of the PHA's fiscal year. A PHA with chronic under-utilization may be subject to involuntary reallocation of units after proper notification and an adequate amount of time to resolve the problem. (See Chapter 24.)

#### Penalty for Under Utilization

If the assessment reveals that the PHA's lease rate is less than 90 percent of the reserved number of units ("90 percent unit threshold") and the PHA has expended less than 90 percent of its annual budget authority ("90 percent annual budget authority threshold"), HUD will issue a warning to the PHA, the applicable PHA governing board and the chief executive officer of the general unit of local or state government. The warning will state:

- That the PHA's administrative fee reserves will be frozen with HUD approval required for any PHA access for any use other than direct program operations; and
- That, if the PHA fails to increase its lease rate to 95 percent of the number of reserved units by the time that it submits its second budget after the warning (approximately 16 months after the warning), its unexpended baseline authority and the number of reserved units will be subject to reallocation by HUD to another PHA.

#### CALCULATING UTILIZATION RATES

The Main Street Housing Authority's fiscal year ends December 31, 2000. At the time it submits its year-end statement (YES) in February 2001, the PHA reports that the number of units months leased for the 2000 fiscal year was 1020 (the equivalent of 85 units out of the possible 130) and that it expended \$408,000 out of a total annual budget authority of \$611,000. When HUD performs its assessment in conjunction with approving the year-end statement (around June of 2001), assuming the YES is approved as submitted by the PHA, HUD will perform the following steps:

#### **Unit Threshold**

- HUD will subtract the 10 litigation units from the PHA's 130 adjusted baseline units.
- For the remaining 120 units available for lease-up, HUD will compare the 1,440 possible units months leased (120 x 12) with the 1,020 actual unit months leased to derive the lease-up rate of 71 percent.

#### Annual Budget Authority Threshold

- Since the lease-up percentage falls below the 90 percent threshold, HUD will determine the percentage use of annual budget authority as follows:
  - HUD will first subtract the annual budget authority for the 10 excluded litigation units (\$48,000) from the total annual budget authority for the PHA (\$611,000) to determine the available annual budget authority (\$611,000-\$48,000=\$563,000).
  - HUD will then divide the amount expended (\$408,000) by the amount of the available budget authority (\$563,000) to determine the percentage of budget authority utilization (\$408,000 ÷ \$563,000=72%). In this instance the assessment would indicate that the PHA should be issued a warning based on its lease up rate of 71 percent and its budget authority utilization rate of 72 percent; both are below the 90 percent threshold.

When the PHA submits its second budget after receipt of a warning, the PHA will provide a status report on its lease-up rate to the FMC. If the PHA has failed to achieve a lease-up rate of 95 percent of its total number of reserved number of units minus any units identified in the formula (e.g., units reserved for litigation), the FMC will reduce both the PHA's annual budget authority and its adjusted baseline number of units.

In this instance, the FMC will reduce budget authority not required to support currently assisted families through the end of the contract increment term from the PHA's budget to bring its utilization rate to 95 percent. Budget authority amounts reduced from the PHA's budget will be made available for reallocation to other PHAs.

HUD will calculate the number of units the deleted budget authority would have supported based on the PHA's adjusted per unit cost and will reduce the baseline to be used in calculating future renewal funding for the PHA.

#### THE REALLOCATION PROCESS

The Main Street Housing Authority (MSHA) will process its first budget about four months after having received the warning in October of 2001. At the time that it processes its second budget after the warning in October 2001, it will provide a report on its lease-up rate.

At that time, MSHA reports that its lease-up rate has improved from the equivalent of 85 units to 105 units. The lease-up percentage has increased from 71 percent to 88 percent. It will also report that its budget authority utilization rate increased from 72 percent to 85 percent. In this instance, HUD will calculate the amount of budget authority that would bring MSHA to 95 percent utilization of its budget authority (\$478,550/.95=\$503,157) and reduce the remaining budget authority (\$563,000 -\$503,157=\$59,842). HUD will also calculate the number of units that the subtracted budget authority represents (\$59,842 divided by \$4,800 per unit cost = 12 units) and subtract those units from MSHA's adjusted baseline for the purpose of calculating future renewals.

Each year HUD will issue a PIH Notice (and subsequent *Federal Register* notice) outlining the criteria for determining how PHA(s) may apply for the reallocated budget authority. The notice will outline the process for implementing the transfer as well as the number of units and the priority for reallocating budget authority.

Summary Example – Calculating Annual Budget Authority

Exhibit 20-2, *Calculating Annual Budget Authority – Summary Example*, presents a summary example of calculating annual budget authority, incorporating the contracted budget authority and renewal funding. This example summarizes the steps required to perform the calculation described in this section.

### EXHIBIT 20-2 CALCULATING ANNUAL BUDGET AUTHORITY - SUMMARY EXAMPLE

#### **Assumptions:**

- Fiscal year ends December 31.
- Budget is being prepared for the fiscal year that ends December 31, 2002.
- Budget is due October 1, 2001.
- There is one funding increment that runs from July 1, 2001, through June 30, 2002, that has funding of \$502,000.
- Annual contributions required per the year-end settlement statement form HUD-52681 for the fiscal year ended December 31, 2000, were \$500,000. Number of unit-months leased during the year that ended December 31, 2000, were 1,250.
- Annual Adjustment Factors: 2001 = 1.02; 2002 = 1.03
- Number of Baseline Units: 100

#### The Annual Budget Authority for the budget year ending December 31, 2002:

**Contracted Budget Authority:** 

Funding Increment	\$ 502,000	
Pro-ration January 1 to June 30, 2002 (÷12 mos x 6 mos)	\$ 251,000	\$ 251,000
Renewal Funding:		
Annual Contributions Required – 2000	\$ 500,000	
Unit-months Leased	1,250	
Per-unit Cost (\$500,000 divided by 1,250)	\$ 400.00	
Annual Adjustment Factor 2001	x 1.02	
Annual Adjustment Factor 2002	<u>x 1.03</u>	
Adjusted Per-unit Cost	\$ 420.24	
Annual Adjusted Per-unit Cost (\$420.24 x 12)	\$5042.88	
Number of Baseline Units	<u>x 100</u>	
Total Annual Renewal Funding	\$504,288	
Pro-ration July 1 to December 31, 2002 (÷12 mos x 6 mos)	\$ 252,144	<u>\$ 252,144</u>
Grand Total Annual Budget Authority		\$ 503,144

#### Replacement of Moderate Rehabilitation Units with Vouchers

As moderate rehabilitation contracts expire, the participants are provided with vouchers. HUD will provide renewal funding for the moderate rehabilitation contract expirations. The renewal funding will be provided in the form of additional funding increment(s). The renewal funding for these vouchers is based upon per unit costs calculated from the most recent year-end statement adjusted using subsequent AAF(s).

#### 20.4 EXCESS ANNUAL BUDGET AUTHORITY AND THE ACC PROGRAM RESERVE

The "ACC program reserve" (previously known as project reserve, or project account) contains the amount of excess annual budget authority not used by the PHA. Each year, the program reserve increases or decreases by the difference between (1) annual budget authority, and (2) annual contributions required. If annual budget authority less annual contributions required yields a positive number, the program reserve increases. If annual budget authority less annual contributions required yields a negative number, the program reserve decreases. With certain limited exceptions, PHA's are required to contain annual contributions required ("costs") within the annual budget authority. This cost containment is to be accomplished through a combination of budgeting and monitoring (see information below in the Monitoring Utilization section of this chapter).

It is imperative that PHAs properly budget and monitor to prevent overspending. By the same token, excessive additions to the program reserve is a sign that the PHA is not effectively utilizing its funding, and that the PHA may be able to afford to lease more units. HUD recaptures excess program reserves.

HUD continues to maintain local program reserves (ACC program reserve accounts) for each PHA's program in the amount determined by HUD in accordance with the PHA's consolidated annual contributions contract. In accordance with the Public Housing Reform Act of 1998, HUD revised its methodology for allocating funding for the renewal of expiring contracts in the housing choice voucher program.

HUD anticipates that some PHAs may not receive adequate budget authority to support the adjusted baseline number of units under the revised allocation system. Some PHAs may experience cost increases that exceed the per unit costs predicted by the revised renewal allocation methodology and would therefore not have sufficient funds to support the adjusted baseline.

To provide reasonable assurance that there will be adequate funding to support families assisted in the housing choice voucher program, PHAs have access to their ACC program reserve account. The approved ACC program reserve level is one-sixth of the projected expenditures in the PHA's approved budget for a given PHA fiscal year. Amounts accumulated by a PHA in the ACC program reserve account above the approved reserve level are considered excess reserves and are subject to annual recapture.

#### Procedures for Accessing ACC Reserve Account

A PHA that is not designated as troubled under SEMAP and is not in breach of its ACC is permitted to access up to 50 percent of its approved ACC program reserve level upon submitting a budget or budget revision to the FMC.

If a PHA requires access to program reserves in excess of 50% of the approved reserves level and is not a troubled PHA, it must submit the following to the FMC.

- A budget or budget revision.
- A narrative justification that clearly outlines the circumstances that cause the PHA to need to access the ACC program reserve account.
- A plan that describes:
  - The steps the PHA takes to ensure that it will not exceed its budget authority, including balances in the ACC program reserve account, in the current fiscal year;
  - How the PHA will reduce (and ultimately eliminate) its reliance on ACC program reserve funding over the subsequent two years; and
  - In instances in which the PHA is obligated to restore ACC program reserves, its plan for restoring ACC program reserves.

A PHA designated as troubled under SEMAP may access reserves if the FMC approves a request that may include documentation and justification as referenced above. The FMC will inform the applicable Troubled Agency Recovery Center (TARC) whenever a troubled PHA requests access to its ACC program reserves and will also inform the TARC of the proposed decision on the request. A troubled PHA may be required by the FMC and/or the TARC to provide additional documentation and/or justification to substantiate its request to access ACC program reserve funds.

#### **Permissible Uses of ACC Program Reserves**

Supporting the Reserved Number of Units

After the allocation of renewal funding a PHA must compare the budget authority that HUD assigned with the actual per unit costs the PHA is incurring. If at any time the PHA determines that the overall cost of maintaining assistance for the number of families assisted under the PHA's program (but not exceeding the number of units reserved to the PHA) has increased to a level that will not be supported within its budget authority, the PHA may request authorization to use up to 50 percent of the amount in its ACC program reserve account. In this instance, HUD may restore depleted ACC program reserves in accordance with the instructions below and subject to the availability of funds.

#### Supporting Units above the Reserved Number of Units

A PHA may issue as many vouchers that the PHA's allocated annual budget authority can prudently support, even if the number of vouchers exceeds the number of units reserved for the PHA. PHAs that exercise this flexibility are engaging in "maximized leasing." It is important for PHAs that take advantage of maximized leasing to monitor its impact and ensure that it does not jeopardize adequate support for the reserved number of units in subsequent years. The PHA may not use the ACC program reserve account to support units beyond the number of units supported by annual budget authority for more than a year except under exceptional circumstances. Leased units exceeding the PHA's reserved number of units will not be supported in the allocation of renewal funding. The PHA may use the ACC program reserve account to maintain assistance for maximized leased units on a temporary basis while the PHA takes steps to reduce the size of its program through attrition to its reserved number of units, or the number of units that can be supported by its allocated budget authority on a long term basis. HUD encourages PHAs to manage turnover and lease-up of units in a manner that fully utilizes their budget authority without relying on the ACC program reserve account. Over-issuance (issuing more vouchers than the program can support) is a standard and assumed approach to achieving full lease up for any PHA in a housing market where fewer than 100 percent of voucher holders can be expected to lease units. However, if more families than predicted are successful in leasing units, the PHA is permitted to use funds from its ACC program reserve account to cover costs exceeding its budget authority until it can reduce the program size through attrition.

A PHA that has had to use the ACC program reserve account to support units beyond its reserved number of units must restore the amount of ACC program reserves depleted by using less than its full annual budget authority in the subsequent year(s). The PHA must not admit families from its waiting list until it first uses attrition to reduce the number of families in its program to the number of units that will permit replenishing the ACC program reserve account, and then to a number that can be supported under its annual budget authority.

#### Restoration of Depleted Reserves

Subject to the availability of appropriated funds, HUD may restore ACC program reserve account amounts to the one-sixth level in accordance with the following:

- HUD will determine the amount by which the ACC program reserve account is depleted below the approved ACC program reserve level from the most recent year-end statement that the FMC approved and processed compared to the approved budget for the current year at the time that the Department calculates the amounts to be restored.
- If the PHA has leased more than its reserved number of units, HUD will not restore the
  depleted ACC program reserve account. However, HUD may grant an exception to this
  policy on a case by case basis where a PHA has substantially depleted the ACC program
  reserve account and HUD has determined that the PHA will require short term support for
  units not supported by annual budget authority.

• HUD will determine the schedule for restoration of depleted ACC program reserves in instances where a PHA has not leased more than its reserved number of units or HUD has determined that the PHA is not providing long term support for units not supported by annual budget authority apart from the funds in the ACC program reserve account.

#### Excess ACC Program Reserve Amounts

HUD must annually assess and recapture ACC program reserve account amounts in excess of the approved ACC program reserve level.

#### 20.5 MONITORING UTILIZATION

Managing utilization is a critical component of voucher program financial management. Utilization refers to the degree to which the PHA uses available annual budget authority through leasing of units. The more units that are leased, the greater the amount of annual budget authority used.

#### CALCULATING UTILIZATION OF FUNDS

Assume that a PHA has annual budget authority for a given budget year based upon the existing annual budget authority and the renewal funding of \$502,150. If the PHA's total annual contributions required, including housing assistance payments, ongoing administrative fees, hard-to-house fees, and audit cost were \$450,000, then the PHA is utilizing 89.6 percent (\$450,000 divided by \$502,150) of its funding.

It is possible for a PHA to utilize more than its available annual budget authority, although utilizing more than 100 percent is permitted only under limited circumstances. (See Section 20.4 regarding the ACC program reserve for details concerning over-leasing and utilization of the ACC program reserve.)

#### UTILIZATION EXCEEDING 100% OF ANNUAL BUDGET AUTHORITY

Assume again that a PHA has projected annual budget authority for a given budget year of \$502,150. Assume further that the PHA has budgeted and requisitioned the entire \$502,150 from HUD. If the PHA's total annual contributions required, including housing assistance payments, fees, and audit cost were \$525,000, then the PHA is utilizing 104.6 percent (\$525,000 divided by \$502,150) of its funding.

It is the responsibility of the PHA to budget and monitor utilization to maximize use of the available funding without exceeding annual budget authority. As mentioned above, excessive ACC program reserves are an indication that not all funding has been utilized for leasing. Underutilized funding increases the ACC program reserve. By the same token, decreases to the

ACC program reserve are an indication that excessive leasing has taken place, or that the PHA's costs are rising at a rate higher than the annual adjustment factor. Balancing over and underutilization is a challenging task that the PHA must master.

It is important for PHAs to manage utilization closely because:

- Significant under-leasing prevents families in need from participating in the program.
- Under-leasing also causes the PHA to lose ongoing administrative fee income, that is earned directly in proportion to the number of units under lease.
- Significant over-leasing, on the other hand, may cause the agency to prematurely deplete its resources, a dangerous result because the former relief of ACC cost amendments are no longer available.

#### **Factors Affecting Utilization**

As indicated above, the way that the housing choice voucher program is funded gives the PHA broad discretion to adjust its program to meet the changing needs of its program applicants and participants. There are two critical variables within the control of the PHA that must be regularly re-considered: (1) the number of units leased, and (2) the payment standard. Changes in either of these variables will have an impact on annual contributions required.

The number of units leased will vary depending on program turnover, the number of vouchers issued and the number of voucher holders that are successful in leasing units. PHAs should monitor all of these factors on a monthly basis. When a program is under-utilized, the PHA should issue enough vouchers to obtain the desired number of leases. The PHA needs information on the success rates of recent searches to estimate the number of vouchers to issue.

Payment standards also have an impact on program utilization. When payment standards are too low, families either fail to succeed in the housing search or select units for which they must pay a high percentage of family income. At those times, the payment standards need to be increased.

If either the number of units under lease or the payments standards are increased, annual contributions required will increase.

In addition to the number of units and the payment standard, the family contribution and bedroom mix are also variables that affect required annual contributions and utilization. A number of factors affect family contribution including changes in program components (e.g., welfare to work families may have lower average income), changes in preferences or targeting requirements, and changes in household size. As units turn over through attrition, the family mix can change, which may affect the average family contribution toward the rent. If the average family contribution goes up, annual contributions required will decrease—if all other variables are held constant. If the average family contribution goes down, annual contributions required will increase—assuming that all other variables are held constant. Changes in bedroom mix will also affect annual contributions required.

#### **Funding Based Upon Historical Per-Unit Cost**

The renewal funding formula utilizes a historical actual per-unit cost to provide annual contributions to the PHA for the upcoming budget year. The per-unit cost used is the average per-unit cost from the PHA's latest year-end settlement statement (form HUD-52681) approved by HUD. As discussed above, the per-unit cost is adjusted for inflation using the annual adjustment factor, and then multiplied by the number of units renewed to determine the PHA's housing choice voucher program annual budget authority.

A period of one to two years may have transpired from the time the per-unit cost is established until it is used for the budget, because the latest year-end settlement statement approved will be from the year preceding the budget year, or the year earlier, depending upon the timing of the renewals.

As part of its responsibility to ensure that its costs do not exceed the annual contribution commitment, the PHA must monitor the adequacy of the historical per unit cost. If the PHA's per-unit cost is on a decreasing trend, it is conceivable that per-unit renewal funding (based upon the historical cost) may exceed current per-unit cost. In this case, the PHA may be able to temporarily lease a number of units greater than the number authorized. On the other hand, if the PHA's current per-unit cost is on an increasing trend, it is conceivable that per-unit renewal funding (based upon the historical funding) may be less than the current per-unit cost. In this case the PHA may not be able to afford to lease the number of units authorized because per-unit costs have increased, or may be able to lease the reserved number of units only by accessing the ACC program reserve account.

#### **Effect of Increasing the Payment Standard**

PHAs are permitted to establish a payment standard within the range of 90 percent to 110 percent of the fair market rent (FMR). Increasing the payment standard may have the impact of increasing per-unit cost. An increase in per-unit cost may create disparity between per-unit renewal funding and current per-unit cost that will require the PHA to temporarily lease less than the number of units authorized. Exhibit 20-3, illustrates the impact of an increased payment standard amount on per-unit cost and utilization funds.

# EXHIBIT 20-3 IMPACT OF INCREASED PAYMENT STANDARD ON PER-UNIT COST AND UTILIZATION OF FUNDS

If a PHA has a current average per unit cost for year 2000 of \$400 per unit per month, and it increases its payment standard from 90 percent of the FMR to 100 percent of the FMR in the year 2001, its per unit cost will likely increase in succeeding years (as the payment standard increase is phased in upon reexamination). Although the renewal funding formula allows an Annual Adjustment Factor to account for inflation (see Calculating Annual Budget Authority section above), an increase in the payment standard may cause the per unit cost to increase faster than the inflation factor allowed by HUD.

For example, the above PHA with a year 2000 per unit month cost of \$400, would be funded by HUD for the \$400 per unit per month, as well as the Annual Adjustment Factor. Let us assume that the annual adjustment factor was 1.02 for the year 2001 and 1.03 for the year 2002. The funding provided by HUD for the year 2002 would be:

Per-unit Cost - Fiscal Year 2000

\$ 400.00

Annual Adjustment Factor 2001

x 1.02

Annual Adjustment Factor 2002

x 1.03 \$ 420.24

Adjusted Per-unit Cost – Fiscal Year 2002

Ψ 120.2

(**Note:** this calculation is shown in more detail in Section 20.3, Exhibit 20-2).

If the PHA's per-unit cost were to increase from \$400 to \$460 by the year 2002 due to the increased in the payment standard, and if the year 2002 is funded based upon the above inflated per-unit cost of \$420.24, the PHA may need to use program reserves to maintain leasing at the baseline number of units, or reduce leasing by as much as ten percent. One of these steps may be necessary because the PHA is spending more than the funding provided by HUD (cost of \$460 as compared to funding of \$420.24 POM).

A PHA should make this determination after taking into consideration available ACC program reserves and the use of ACC program reserves prescribed by HUD notice. This is an over-simplified example, because other factors such as bedroom mix, family contribution, and annual adjustment factors will affect the per-unit cost.

#### **Budgeting and Monitoring Utilization**

It is important for PHAs to build a budget that projects an appropriate level of utilization. When building the budget, the PHA will note whether anticipated leasing levels (based upon estimated unit-months of leasing for the budget year) will exhaust the annual budget authority, not use the full annual budget authority, or use almost 100 percent of the annual budget authority. Ideally, the budget will be built to reflect the level of leasing and number of unit-months needed to use almost 100 percent of annual budget authority, so that it is not exceeding the annual budget authority from HUD. This is defined as "full utilization."

The PHA may need to try several different "budget scenarios" with different projected leasing levels, in order to identify the approach that fully uses the annual budget authority. These scenarios will require the PHA to compile several trial budgets with estimated leasing that is below, equal to, or perhaps even above the number of units authorized in order to identify which level of leasing will most effectively use the annual budget authority provided.

In addition, PHAs need to establish an internal tool to monitor (1) available funding, (2) the current per-unit cost, and (3) the number of units the PHA can presently afford to lease given the amount of funding and average per-unit cost. For most PHAs this analysis, computed on a leasing worksheet, should be prepared monthly.

#### **Leasing Worksheet**

PHAs should regularly analyze their leasing accounts in order to optimize leasing and use all of the funding available. This analysis may be accomplished by using a tool referred to as the "Housing Voucher Leasing Worksheet." The worksheet (see Exhibit 20-4, *Main Street Housing Authority - Housing Choice Voucher Program for the Month Ending June 30, 2001*) begins with the amount of the annual budget authority for the PHA for the current year (from the PHA's budget), which is then divided by 12. This monthly amount becomes the "target" because it is what the PHA should aim for in monthly utilization to maximize the leasing and annual contributions required.

Next, the PHA should calculate the average per unit month (PUM) cost to lease a unit. This is determined as follows:

HAP (line 4)	Total payments from HAP register or General Ledger for month
Ongoing Administrative Fees	Latest annual requisition amount and divide by 12
(line 4)	
Special Fees (line 4)	Latest annual requisition amount and divide by 12
Audit Cost (line 4)	Latest annual requisition amount and divide by 12
Preliminary Fees (line 4)	Latest annual requisition amount and divide by 12
Total Monthly Expenses	Add all amounts on line 4 for total on line 5
Number of Units Leased (line 6)	Obtain from HAP register or other report(s)
Average Cost (line 7)	Total monthly expenses divided by number of units leased

# EXHIBIT 20-4 MAIN STREET HOUSING AUTHORITY HOUSING CHOICE VOUCHER PROGRAM FOR THE MONTH ENDING JUNE 30, 2001

	HOUSING VOUCHER LEASING WORKSHE	ET	
1.	Annual Budget Authority (HUD52673, line13)		\$2,195,011
2.	Divide line 1 by 12 to get monthly average		12
3.	Monthly target amount		\$182,918
4.	Monthly expense:		
	Current HAPs\UAPs: \$141	,791	
	Current ongoing administrative fees \$17	,638	
	Current special fees	\$143	
	Current audit costs	\$63	
5.	Total expense for the month		\$159,635
6.	Number of units under lease		384
7.	Current average total unit cost (line $5 \div line 6$ )		\$416
8.	Insert line 3 (monthly funding available)		\$182,918
9.	Insert line 7 (average per-unit per-month cost)		\$416
	Estimated number of units funding should support (line 8 divided by line 9) ick double check: comparison to prior year		440
a.	Line 30, HUD-52681		\$1,704,360
b.	Divided by Line 11, HUD-52681		4,068
c.	Prior fiscal years average unit cost (compare this to line 7 and explain any variance)		\$420

After obtaining average PUM for the latest month, the PHA simply divides monthly funding available (the "target" on line 3) by the average per-unit-month cost (line 9) to calculate how many units it can afford to lease (line 10) given the funding available.

The sample PHA has 384 units under lease (line 6). The analysis shows that the PHA could have leased 440 units (line 10), or an additional 56 units.

The rest of the worksheet (a, b, and c) is used to double-check that the data used was valid. The double-check changes only once per year and need not be updated monthly. It is designed to compare average PUM cost to lease a unit last year to this year's cost. A cost decrease from last year to this year is probably a sign of some inaccuracies in the data used for the worksheet. In any case, this final section of the report should include an explanation of any major variance between this year's PUM cost and last year's.

While a valuable and useful tool, the leasing worksheet must be used with caution and in conjunction with longer term planning. For example, if the PHA intends to increase its payment standard in the near future, leasing up to the full amount of annual budget authority can be dangerous.

The PHA must do long term budgeting in order to minimize the risk of over-leasing. Although it is not a program requirement, HUD encourages PHAs to prepare budgets as soon as information becomes available in order to engage in long term planning. PHAs can begin to prepare their budgets for the upcoming year as soon as the per-unit cost for the prior year is known, and they are encouraged to do so. For example, a PHA with a September 30 year-end could begin to prepare its December 31, 2002, budget in March of 2001 (10 months before the year begins), which is when the 2000 per-unit cost used to build the 2001 budget becomes known.

Annual budgeting, monthly monitoring, and longer term planning are all key components to optimizing utilization of the housing choice voucher program.

#### 20.6 Projecting Administrative Expenses

Housing voucher budget documents required by HUD are used to calculate annual budget authority provided by HUD, annual contributions required by the PHA to run the program, and ACC program reserves. HUD does not require the PHA to submit an administrative budget. However, establishing an administrative budget will enable the PHA to more effectively control its administrative costs.

A budget comparing estimated fee earnings (see page 20-3) to estimated administrative expenses, as shown in Exhibit 20-5, *Main Street Housing Authority Administrative Budget – Voucher Program*, is highly recommended.

EXHIBIT 20-5
MAIN STREET HOUSING AUTHORITY
ADMINISTRATIVE BUDGET – VOUCHER PROGRAM

Fee Income:	
Ongoing Administrative Fees	\$50,000
Hard-to-House Fees	1,000
Audit Cost Reimbursement	1,500
Total	\$52,500
Administrative Expenses:	
Administrative Salaries	\$30,000
Benefits	6,000
Audit Costs	1,500
Other Administrative Costs	10,000
General Expenses	4,000
Total	\$51,500
Excess of Income Over Expenses	\$1,000

#### 20.7 BOOKS OF ACCOUNT

This section summarizes the minimum accounting requirements for the housing choice voucher program. The PHA may establish additional accounting records as needed.

<u>General Ledger</u>. The General Ledger summarizes all of the financial activity of the PHA. It is supported by subsidiary records or ledgers. The subsidiary records should be periodically reconciled with the General Ledger to eliminate discrepancies.

<u>Income and Expense Subsidiary Ledgers</u>. HUD requires that the PHA maintain these subsidiary ledgers. The Income Ledger (as a subsidiary to the General Ledger Account 3000) is maintained for each program (e.g., vouchers, moderate rehabilitation). The Expense Ledger Account (as a subsidiary to the General Ledger Account 4000) is maintained for each program to record HAP payments and administrative costs paid.

<u>Cash Receipts and Disbursements Registers</u>. These registers are used to record amounts received and paid by the PHA.

<u>Journal Vouchers</u>. Journal Vouchers provide additional explanations for entries made into the General Ledger.

<u>Checks</u>. PHAs should always use checks when making withdrawals from the General Fund. Checks should be pre-numbered and used in numerical sequence.

<u>Housing Assistance Payments Register</u>. The HAP Register is used to record monthly housing assistance payments. This register must include the following:

- Name and address of family;
- Name and address of owner;
- Dwelling unit size;
- Beginning date of lease term;
- Monthly contract rent payable to owner;
- Monthly Family contribution;
- Monthly housing assistance payment to owner;
- Date the family vacated, and the number of days the unit is vacant, if any.

<u>Property Ledger</u>. The Property Ledger provides a separate record of nonexpendable equipment the PHA purchased and capitalized in accordance with its capitalization policy.

<u>Account Numbers</u>. The Low Rent Housing Accounting Guide (7510.1) provides an outline of the required accounts for the voucher program. The PHA may establish additional accounts if more detailed accounting data are needed.

<u>Deposits</u>. The PHA must have HUD deposit annual contributions for its housing choice voucher program in accordance with the terms of a General Depositary Agreement executed between the

PHA and depository institution. The PHA may pool deposits for different programs or the PHA may establish a separate bank account for the voucher program. If the deposits are pooled, the PHA must maintain separate accounting for each pooled resource.

#### 20.8 PORTABILITY ACCOUNTING

Portability represents one of the most detailed areas of voucher program accounting. Portability occurs when a voucher holder moves from one PHA's jurisdiction to another. If the voucher holder moves from PHA A's jurisdiction, to PHA B's jurisdiction, the voucher holder is considered an outgoing portable to PHA A and an incoming portable to PHA B. The PHA authority that issued the voucher (PHA A) is known as the initial PHA. The PHA in the area where the voucher holder has moved (PHA B) is known as the receiving PHA.

When a family moves into the jurisdiction of the receiving PHA, the receiving PHA has the choice of "absorbing" the family or "administering" the subsidy from the initial PHA. If the receiving PHA absorbs the family, it issues one of its own vouchers, returns the initial PHA's voucher and no portability accounting is required. If the receiving PHA decides to administer the portable voucher, it takes on a number of responsibilities, including the occupancy, rent determination/reexamination, inspection and owner oversight responsibilities on behalf of the initial PHA. In exchange for fulfilling all of these responsibilities, the receiving PHA is entitled to bill the initial PHA for 80 percent of the administrative fee (that is requisitioned in full, from HUD by the initial PHA). The 80 percent administrative fee calculation is based upon column B of the latest fee chart published in the *Federal Register* for the initial PHA's jurisdiction.

#### Accounting Entries

Assumptions: The initial PHA pays a \$350 housing assistance payment to the receiving PHA on behalf of the participant. The initial PHA's administrative fee from Column B in the *Federal Register* is \$50.

The following entries present the accounting for billing by the receiving PHA and receipt of the bill by the initial PHA:

1) The receiving PHA sends a bill to the initial PHA for HAP and 80% of the initial PHA's ongoing administrative fee and records this entry in its books:

	Acct #	Account Title		
Debit	1125	Accounts Receivable – Initial PHA (HAP and		
		80% Administrative Fee)	\$390	
Credit	3300	Income not affecting annual contributions		
		(80% Administrative Fee)		\$40
Credit	1111.1	Cash (for amount of HAP paid)		\$350

2) The initial PHA receives the above bill from the receiving PHA and records this entry in its books:

	Acct #	Account Title		
Debit	4715	Housing Assistance Payments (for amount of	\$350	
		HAP paid above)		
Debit	4590	General Expense (for 80% of Administrative	\$40	
		Fee)		
Credit	2119	Accounts Payable – Receiving PHA (HAP		\$390
		and 80% Administrative Fee)		

The initial PHA pays the receiving PHA for the liability recorded in (2) above and records this entry in its book:

	Acct #	Account Title		
Debit	2119	Accounts Payable – Receiving PHA (HAP		
		and 80% Administrative Fee)	\$390	
Credit	1111.1	Cash		\$390

4) The receiving PHA receives the payment receivable from the initial PHA and records this entry in its PHA book:

	Acct #	Account Title		
Debit	1111.1	Cash	\$390	
Credit	1125	Accounts Receivable – Initial PHA (HAP and		\$390
		80% Administrative Fee)		

Note that in entry (1) the receiving PHA posts the 80 percent administrative fee billed to account 3300. In this way, the portable administrative fee does not detrimentally affect annual contributions, and is for the benefit of the receiving PHA, because it is "Income Not Affecting Annual Contributions." Do <u>not</u> use account 3690 (Other Income), which may reduce or offset housing voucher annual contributions earned because the voucher has not been absorbed into the program.

#### 20.9 ACCOUNTING FOR TENANT AND OWNER FRAUD

Tenant/owner fraud recoveries can include a number of situations. Perhaps the most common is the under-reporting of tenant income, which results in an overpayment of housing assistance payments (HAP) to owners. When this fraud is discovered, the PHA may pursue the tenant for repayment of the funds. These repayments are referred to as fraud recoveries.

Under certain circumstances, PHAs are allowed to retain 50 percent of fraud recoveries, or a greater amount if the cost of collecting the fraud recovery exceeds 50 percent.

As long as the PHA has signed a repayment agreement or a legal judgment, 50 percent of the tenant/owner fraud recovery or the cost of the collection, whichever is greater, may be credited to account 3300 "Income Not Affecting Annual Contributions," and therefore be retained by the

PHA. The following briefly illustrates the accounting for tenant/owner fraud recoveries utilizing the 3300 account:

To set up the Tenant or Owner Fraud Recovery receivable:

	Acct #	Account Title		
Debit	1129	Accounts Receivable-Other	\$1,000	
Credit	2690	Undistributed Credit		\$1,000

To record a collection and distribute between the PHA and HUD

	Acct #	Account Title		
Debit	1111.1	Cash	\$100	
Credit	1129	Accounts Receivable-Other		\$100
Debit	2690	Undistributed Credits	\$100	
Credit	3300.1	Income Not Affecting A/C		\$50
Credit	4715	HAP		\$50

In this case, due to the nature of the housing voucher year-end financial statement, the \$50 credited to account 3300.1 is retained by the PHA. The other \$50 credited to account 4715 reduces the PHA's annual contributions and therefore effectively goes back to HUD. Remember that the \$50 is the standard 50 percent retention. If the PHA could prove that its direct cost of recovery (salaries and benefits of the individual(s) recovering, and other direct costs) exceeds \$50, more than 50 percent could be retained, as approved by HUD.

# 20.10 INTEREST EARNINGS ON ADMINISTRATIVE FEE RESERVE VS INTEREST EARNINGS ON GENERAL FUNDS

In the housing choice voucher program there are two different types of interest earnings: (1) interest earned on general fund investments, and, (2) interest earned on administrative fee reserves.

#### **Interest Earned on General Fund Investments (Account 3610):**

Interest earned on general fund investments is interest earned on funds not belonging to the PHA. These funds include:

- Annual contributions advanced by HUD for payment to owners (housing assistance
  payments) which have not yet been disbursed. PHAs sometimes have the benefit of holding
  owner funds for a few days before owner checks clear.
- Over-requisitioned funding from HUD, which is owed to HUD as a liability at the end of the year.

Interest on these funds is considered interest on general fund investments, and is handled as a deduction from annual contributions earned (subsidy). Therefore, the interest is effectively returned to HUD. This amount is entered on form HUD-52681, the Voucher for Payment Of Annual Contributions and Operating Statement (the housing choice voucher program year-end

settlement statement) as operating income and also as "project receipts" reducing housing voucher annual contributions earned.

#### **Interest Earned on Administrative Reserve (Account 3300)**

Interest earned on administrative reserves is interest earned on funds that belong to the PHA, (administrative fees earned in excess of administrative expenses incurred). Interest earned on the administrative fee reserve may be retained by the PHA. This amount is entered on form HUD-52681, the Voucher for Payment Of Annual Contributions and Operating Statement (the housing choice voucher program year-end settlement statement) as operating income, but <u>not</u> as project receipts so it does not reduce housing voucher annual contributions earned.

#### Sample calculation:

Balance of administrative fee reserve at the beginning of the fiscal year	\$100,000
(comes from last year's form HUD – 52681 – the year end statement)	
Plus or minus: estimated change in administrative fee reserves for the fiscal year	\$25,000
(may be obtained by subtracting administrative expenses from administrative fees)	
Equals: Estimated ending balance of administrative fee reserve	\$125,000
Average balance of administrative fee reserve	\$112,500
$(100,000 \text{ beginning balance} + 125,000 \text{ ending balance}) \div 2$	
Multiplied by: Rate of Return on Investments (interest rate)	4.38%
Equals: amount of interest allocated to interest on administrative fee reserve (acct 3300)	\$4,927.50
	•
Total amount of interest earned	\$9,328.43
Less: amount reclassified to account 3300	\$4,927.50
Equals: interest on general funds (account 3610) *	\$4,400.93

<sup>\*</sup> The amount posted to account 3610 should be checked for reasonableness as a comparison of the earnings that should have resulted in over-requisitioned funding during the year.

#### 20.11 YEAR-END RECONCILIATION

The year-end reconciliation provides the final calculation of annual budget authority for the PHA. The final calculation of annual contributions required including the determination of actual housing assistance payments, ongoing administrative fees, special fees, audit costs, and, if applicable, preliminary fees and the final provision (increase or decrease) to the ACC program reserve occurs at this time.

During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year-end settlement process reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and administrative fees earned, special fees and audit costs. The reconciliation may result in either overpayment due to HUD or an underpayment due to the PHA.

#### Required Forms

The year-end settlement report is form HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement. The PHA must also provide a schedule disclosing the calculation of administrative fees earned. The form must be completed and submitted to the HUD Financial Management Center within 45 calendar days of the end of the PHA fiscal year.

#### 20.12 HUD-REQUIRED FINANCIAL AND BUDGET DOCUMENTS

#### Form HUD-52672 – Supporting Data for Annual Contributions Estimates

When To Submit the Form. The PHA must submit form HUD-52672 to the HUD Financial Management Center annually, at least 90 calendar days before the beginning of the PHA's fiscal year. The PHA should also submit a revised form HUD-52672 to reflect significant changes in program circumstances (e.g., increases or decreases in program size).

*Purpose of the Form.* This form is used to compute all of the supporting data necessary to prepare the budget form HUD-52673. Part I of form HUD-52672 is used to estimate housing assistance payments. Parts II through IV are used to calculate the estimated PHA ongoing administrative fee, the special fees, and the preliminary fee, respectively.

#### Form HUD-52673, Estimate of Total Required Annual Contributions.

When To Submit the Form. The PHA must submit form HUD-52673 to the HUD Financial Management Center annually, at least 90 calendar days before the beginning of the PHA's fiscal year. The PHA should also submit a revised form HUD-52673 to reflect significant changes in program circumstances (e.g., increases or decreases in program size).

Purpose of the Form. This form provides information concerning annual budget authority, ACC program reserve, and total annual contributions available. It also uses information from form HUD-52672 to compute total annual contributions required, including the estimated housing assistance payments, and anticipated administrative fees for the PHA's housing choice voucher program for a 12-month period. Form HUD-52673 represents the budget for the expenditure of the annual contributions available for the PHA's program.

#### Form HUD-52663, Requisition for Partial Payment of Annual Contributions.

When To Submit the Form. The PHA must submit form HUD-52663 to the HUD Financial Management Center annually, at least 90 calendar days before the beginning of the PHA's fiscal year. The PHA should also submit a revised form HUD-52663 to reflect significant changes in program circumstances (i.e., increases or decreases in program size), and to keep the PHA in compliance with the requisition requirements that require the PHA to ensure that funds requested do not exceed funds required by more than five percent. HUD imposes sanctions for over-requisitioning.

*Purpose of the Form.* Form HUD-52663 is used to requisition annual contributions required from HUD. It is prepared based upon the completed form HUD-52673, Estimate of Total Required Annual Contributions.

# Form HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement.

When To Submit the Form. The PHA must submit form HUD-52681 to the HUD Financial Management Center annually, within 45 calendar days after the end of the PHA's fiscal year.

*Purpose of the Form.* The Form HUD-52681 provides the final calculation of annual contributions for the PHA. The final calculation of annual contributions required is made on this statement, including the determination of actual housing assistance payments, ongoing administrative fees, special fees, audit costs, and, if applicable, preliminary fees. The final provision (increase or decrease) to the ACC program reserve is also shown on this statement.

During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year-end settlement process on the HUD-52681 reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and fees earned. The reconciliation may result in either an overpayment due to HUD or an underpayment due to the PHA.

Finally, the HUD-52681 presents the operating income, operating expenditures, and operating reserve of the PHA for the reporting year.

#### Form HUD-52595, Balance Sheet.

This form is no longer required by HUD.

#### **GAAP-Based Financial Data Schedule and Data Collection Form**

When To Submit the Form. The PHA must also submit a Financial Data Schedule (FDS) prepared on the basis of Generally Accepted Accounting Principles (GAAP). The deadline for this submission is two months after the end of the PHA's fiscal year. The FDS is to be submitted electronically to HUD's Real Estate Assessment Center (REAC).

*Purpose of the Form.* The FDS includes all PHA programs and component units, including the housing choice voucher program, and is prepared in accordance with GAAP. The FDS provides a Balance Sheet, Income Statement, and Supplementary Information.

The Data Collection Form provides information concerning the PHA's Audit, Auditor and Federal Financial Assistance.

For more information concerning the FDS and the Data Collection Form, visit the REAC website at <a href="www.hud.gov/reac">www.hud.gov/reac</a>. Important documents on this website include the HUD-PHA GAAP Conversion Guide, and the Financial Data Schedule Line Definitions and Crosswalk Guide.

#### 20.13 INTERNAL FINANCIAL REPORTS

In addition to HUD required reports, well-managed PHAs will also prepare monthly financial reports concerning the housing choice voucher program. Internal financial reports to be prepared monthly may include the following:

- Operating statement reflecting income, expenditures, and excess of income over expenditures;
- Balance sheet reflecting assets, liabilities, and fund balance;
- Utilization report.