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## Session 1 – Introduction

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### Welcome [slide 3]

#### Course Objectives [slide 3]

The focus of this training is on the proper financial reporting and accounting requirements related to the Housing Choice Voucher program, with an emphasis on Financial Data Schedule (FDS) reporting requirements.

The PHA's FASS submission is a key report for HUD. These submissions are used to inform policy makers, provide inputs into funding formulas, help assess financial health and compliance and identify possible instance of waste fraud and abuse. Data from the FDS is used to meet these objectives. Therefore, this training was created to help ensure that PHAs report their FDS correctly to HUD. This training will:

- Describe the annual financial reporting requirements, submission process, and related filing timeframes.
- Provide an overview of the different FASS reporting models based on a PHA's organizational structures.
- Provide guidance on how to report activities associated with the Housing Choice Voucher Program on the FDS.
- Provide guidance on how to report NRA balances and the impact of HUD's cash management guidance on the NRA balance.
- Provide an overview of the unaudited and audited submission process, including the IPA review process.

## **Training Instructors [slide 3]**

### **Mr. Chris Kubacki, CPA (Training Sessions – Newark, NJ) Senior Manager, Phineas Consulting**

Chris Kubacki is a Senior Manager with Phineas Consulting, LLC and has over 10 years of specialized experience in the public housing industry, including the implementation of public housing's conversion to asset management and REAC's year-end financial reporting requirements. For the past several years, Mr. Kubacki has provided consulting support on various projects for HUD's Real Estate Assessment Center including the Financial Assessment Sub-system for public housing (FASS-PH) and the Housing Choice Voucher program area.

Mr. Kubacki has trained extensively on several topics that are pertinent to both Public Housing and the Housing Choice Voucher programs, including: 1) Accounting and year-end financial reporting requirements for the Public Housing and Housing Choice Voucher programs; 2) Public housing requirements under asset management and fee-for-service, and 3) the Operating Fund formula.

Prior to joining Phineas Consulting, Mr. Kubacki was employed by the U.S. Department of Housing and Urban Development (HUD). At HUD, he served as the Director of the Financial Management Division (Public Housing Operating Fund) and as the Director of the Financial Assessment of Public Housing Agencies (FASS-PH). In addition, Mr. Kubacki worked for ten years at the U.S. Census Bureau where he specialized in business process reengineering and financial analysis of state and local governments.

### **Raymond G. Adair (Training Sessions – Newark, NJ)**

#### **Vice President of Finance & Senior Associate for Nan McKay and Associates (NMA)**

Mr. Raymond Adair, MBA, CGFM, is the Vice President of Finance and a Senior Associate for NMA. He has been with the company for 18 years. Mr. Adair is considered one of the public housing industry's leading experts in the areas of financial management and accounting for HUD's Public Housing and Housing Choice Voucher programs.

Over the years, Mr. Adair has trained hundreds of housing authority staff, executives, and commissioners in the proper application of HUD's fiscal requirements for the Housing Choice Voucher and Public Housing Programs, as well as the proper application of governmental GAAP. He has also provided technical assistance, conducted fiscal reviews, and accounting and policy reviews for various housing authorities around the country. In addition, he has extensive knowledge of HUD's fiscal requirements for various grant programs, HUD's online systems (VMS and FASS-PHA), the use of fee-for-service, and the preparation of indirect cost allocation plans.

Mr. Adair assisted HUD in the development of accounting and financial reporting requirements for asset management under the new Operating Fund Rule and trained the HUD Headquarters and Financial Management staff on HCV financial management and reporting. Mr. Adair served on the working group committee that provided HUD with technical assistance in regulation development, and he helped author HUD's handbook supplement "Changes in Financial

Management and Reporting Requirements for Public Housing Agencies under the New Operating Fund Rule”. He has also served as the Project Manager under a contract with HUD to review stop-loss applications for compliance with asset management under the Operating Fund Rule. In addition, Mr. Adair provided technical assistance under a contract with HUD for the implementation of asset management to various Public Housing Agencies (large and small).

**Ronald Urlaub, CPA**  
**President, Urlaub & Company**

Ronald Urlaub, CPA, is the President of Urlaub & Co., PLLC., an accounting firm located in Ada, Oklahoma. The firm specializes in providing accounting services for housing agencies as well as other governmental and nonprofit entities. Over the last 18 years, services provided by Urlaub & Co., PLLC, include performing financial audits and attestation services, fraud investigations, development of accounting policies and procedures for PHAs, establishing quality control programs, and assisting PHAs in their conversion to the asset management model.

Mr. Urlaub graduated from East Central University in 1988. He is a frequent lecturer and trainer for numerous groups at the state, regional and national level, including the American Institute of Certified Public Accountants (AICPA), the Affordable Housing Association of Certified Public Accountants (AHACPA), state CPA societies, and State Auditor Offices. He has participated in several HUD contracts, including the development of the *Changes in Financial Management and Reporting Handbook* released by HUD, performed Stop Loss submission reviews, and served as an instructor for HUD’s sponsored asset management training seminars. Mr. Urlaub is a member of the AICPA, the Oklahoma Society of Certified Public Accountants, the Association of Government Accountants (AGA) and the AHACPA.

**Agenda [slide 4]**

Time	Session	Topics Covered
8:00 – 8:30	Training Registration	
8:30 – 8:45	Session 1 – Introduction	Session 1 will welcome participants and introduce the trainer(s) and topics.
8:45 – 9:30	Session 2 – The Reporting Entity	<p>Session 2 explains the general financial reporting requirements; discusses the different organizations that administer the HCV program, and the programs that should be reported on the FDS. Topics to be covered include:</p> <ul style="list-style-type: none"> <li>• Submission Due Dates</li> <li>• Extension and Waiver Request</li> <li>• GAAP Reporting Entity</li> <li>• FASS Submissions and the PHA: <ul style="list-style-type: none"> <li>○ Standalone PHAs</li> <li>○ PHAs that are a General Purpose Government (emphasis)</li> <li>○ PHAs that are part of a Nonprofit Agency</li> </ul> </li> <li>• FYE and PIC FYE Reporting</li> </ul>
9:30 – 10:15	Session 3 – HCV and HCV-related Programs	<p>Session 3 provides information on financial reporting issues specific to the HCV program. Topics to be covered include:</p> <ul style="list-style-type: none"> <li>• HCV and HCV-related Programs</li> <li>• Revenue Recognition for HAP and Administrative Fees with emphasis on the new Cash Management policy</li> <li>• Cash &amp; Investments</li> <li>• Investment Income</li> <li>• Fraud Recovery</li> <li>• Family Self Sufficiency</li> <li>• Portability</li> </ul>
10:15 – 10:30	Break	
10:30 – 12:15	Session 3 – HCV and HCV-related Programs	Continued
12:15 – 1:15	Lunch	
1:15 – 2:30	Session 4 – NRA Balances and Other Reporting	<p>Session 4 discusses when to use and how to properly report the following types of transactions:</p> <ul style="list-style-type: none"> <li>• Administrative Fee and HAP Equity (FDS Lines 11170 and 11180)</li> <li>• The relationship of these Memo Equity accounts to the Financial Statements</li> <li>• Reviewing HUD-calculated NRA Balances</li> <li>• Other Reporting and Compliance Considerations</li> </ul>

Time	Session	Topics Covered
		<ul style="list-style-type: none"> <li>• Proper Close-out of 14.VSH (VASH)</li> <li>• GASB 54 – Fund Balance Accounts</li> </ul>
2:30 – 2:45	Break	
2:45 – 3:15	Session 5 – Case Study	Session 5 provides a case study that emphasizes the new cash management requirements and the effects on the PHA's NRA balance.
3:15 – 4:45	Session 6 – Understanding the Unaudited and Audited Submissions	<p>Session 6 provides an overview of the unaudited and audited submissions, including the IPA review process. This session will focus on the audited submission and required attachments.</p> <ul style="list-style-type: none"> <li>• Unaudited Submission Process</li> <li>• Audited Submission Process</li> <li>• FDS and the Audited Submission</li> <li>• Overview of the Data Collection Form (DCF)</li> <li>• Completing the DCF</li> <li>• Supplementary Information and SAS 29 Opinion</li> <li>• Required Audit Attachments (emphasis Component Unit)</li> </ul>
4:45 – 5:00	Session 7 – Conclusion	Session 7 provides time for an open discussion and for training evaluations.

\*Participant learning exercise will be conducted as part of the various sessions.

## Ground Rules [slide 5]

- Please turn off cell phones.
- Please ask questions and add to the overall learning objectives.
- If you need to leave in the middle of a discussion, please do so quietly.
- Take your materials with you at the end of the day.

## Acronyms

AcSEC	Accounting Standards Executive Committee
A/E	Architect and Engineering
AICPA	American Institute of Certified Public Accountants
AMP	Asset Management Grouping
ARC	Annual Required Contribution
ARRA	American Recovery and Reinvestment Act of 2009
BLI	Budget Line Item
CFDA	Catalog of Federal Domestic Assistance
ABA	Annual Budget Authority
CFP	Capital Fund Program
CFFP	Capital Fund Financing Program
CFR	Code of Federal Regulations
COCC	Central Office Cost Center
DCF	Data Collection Form
DHAP	Disaster Housing Assistance Program
DVP	Disaster Voucher Program
FASS-PH	Financial Assessment Subsystem – Public Housing
FASB	Financial Accounting Standards Board
FDS	Financial Data Schedule
FMC	Financial Management Center
FSS	Family Self Sufficiency
FYE	Fiscal Year End
GAAFR	Governmental Accounting, Auditing, and Financial Reporting ('The Blue Book')
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
HAP	Housing Assistance Payment
HCV	Housing Choice Voucher
HUDCAPS	HUD Central Accounting and Program System
IPA	Independent Public Accountant
KDHAP	Katrina Disaster Housing Assistance Program
LOCCS	Line of Credit Control System
MD&A	Management's Discussion & Analysis
MF	Mixed Finance
MTW	Moving-to-Work
NASS	iNtegrated Assessment Subsystem

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NCGAS	National Council on Governmental Accounting Statement
NRA	Net Restricted Assets
OMB	Office of Management and Budget
PHA	Public Housing Agency
PIC	Public and Indian Housing Information Center
PIH	Public and Indian Housing
REAC	Real Estate Assessment Center
R&O	Regulatory & Operating Agreement
SAC	Special Application Center
SFAS	Statement of Financial Accounting Standards
TFAE	Total Federal Awards Expended
UFRS	Uniform Financial Reporting Standards Rule
URA	Unrestricted Net Asset
VASH	HUD Veterans Affairs Supportive Housing Program
VMS	Voucher Management System



## Session 2: Financial Reporting Entity

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## **I. OVERVIEW [slide 2]**

**This session will provide information on the following topics:**

- Provide a brief introduction to the FASS-PH System.
- Discuss the financial reporting requirements under the Uniform Financial Reporting Standards (UFRS) rule.
- Discuss the different financial reporting entities.
- Discuss the FDS reporting requirements for the different types of reporting entities.

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## II. THE FASS-PH SYSTEM

### Introduction to the FASS-PH System [slides 4 & 5]

FASS-PH is responsible for assessing the financial condition of approximately 4,100 PHAs that receive HUD funding. In addition to evaluating the financial health of PHAs, FASS-PH conducts various analyses to aid in the improvement of PHA's financial health, the accuracy of the funding formulas, and provides guidance in identifying possible instances of waste, fraud, and/or abuse. These functions assist HUD in distinguishing between PHAs that are financially healthy and compliant with HUD's regulations and those that present a higher degree of financial risk to the Department.

The mission of FASS-PH is to:

- Collect financial data from PHAs;
- Review, analyze, and assess the financial data collected;
- Provide technical assistance and accounting guidance;
- Develop and maintain the FASS-PH reporting system; and
- Provide analysis and information for policy and decision making purposes.

The FASS-PH system is a secure on-line system that allows PHAs to input and submit their required financial information electronically to HUD. This system meets the following three requirements of the Uniform Financial Reporting Standards (UFRS) rule, financial information are:

1. Prepared in accordance with GAAP as further defined by HUD in supplementary guidance;
2. Submitted electronically to HUD through the Internet; and
3. Submitted in such form and substance as prescribed by HUD.

The FASS-PH system also allows the PHA to generate a series of reports on its financial information. The latest *Public Housing Agency and Auditor User Guide* can be found at: [http://www.hud.gov/offices/reac/products/fass/pha\\_doc.cfm](http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm) and contains detailed instructions on the requirements and process of submitting financial information to the FASS-PH system. The document is shown under the header "Other Documents" and is titled "Guidelines on Reporting Attestation Requirements of Uniform Financial Reporting Standards UFRS". HUD's FASS-PH website can be found at <http://www.hud.gov/offices/reac/products/prodpha.cfm>.

### III. FASS REPORTING REQUIREMENTS

#### Uniform Financial Reporting Standards [slides 7-9]

The Uniform Financial Reporting Standards (UFRS) regulation for HUD Housing Programs (24 CFR Part 5 Subpart H) requires all PHAs to submit financial information electronically to HUD on a schedule based on the reporting entity’s fiscal year end (FYE). The UFRS regulation states that:

- PHAs must submit their data electronically.
- Annual financial information to be reported to HUD must be prepared in accordance with Generally Accepted Accounting Principles as issued by the United States of America (GAAP).
- The submission date for the unaudited statements would be no later than two months after the end of the PHA’s fiscal year<sup>1</sup>.
- The submission dates for audited statements would be no later than nine months after the end of the PHA’s fiscal year.

Table 2.1 Uniform Financial Reporting Standards

Seq	24 CFR § 5.801 Uniform Financial Reporting Standards	Requirement	Clarification and Other Comments
1	Applicability	PHAs and other entities that administer the Public Housing and/or Housing Choice Voucher (HCV) programs.	This regulation is applicable to all PHAs that administer the Public Housing and HCV programs (i.e., Section 8 only, Combined, and Low Rent only PHAs), including those PHAs that are part of another government (e.g., department of a municipality).
2	Submission of Financial Information	Prepared in accordance with GAAP as further defined by HUD in supplementary guidance.	<ul style="list-style-type: none"> <li>• A PHA is considered to be an entity that is required to report using GAAP as prescribed by GASB.</li> <li>• HUD will provide additional reporting guidance when GAAP is unclear or when GAAP provides insufficient guidance as it relates to HUD programs.</li> </ul>
		Submitted electronically to HUD through the	Financial data must be submitted in the FASS-PH system through the completion

<sup>1</sup> The regulation states that an unaudited submission is due to HUD 60 days after a PHA’s FYE, which has been interpreted as 2 months.

Seq	24 CFR § 5.801 Uniform Financial Reporting Standards	Requirement	Clarification and Other Comments
		Internet, or in another electronic format designated by HUD, or in a non-electronic format that HUD may allow.	of the financial data schedule (FDS).
		Submitted in such form and substance as prescribed by HUD.	The financial data schedule was designed to accumulate entity-wide information. For those Section 8 only PHAs that are a component of a municipality, the PHA should report only the HCV-related programs.
3	Reporting Compliance Dates	PHA with fiscal years ending September 30, 1999, and later.	
4	Annual Financial Report Filing Dates	Unaudited financial statements are due two months after the PHA's FYE.	
		Audited financial statements are due no later than 9 months after the PHA's FYE.	
5	Responsibility for Submission of Financial Report	The responsibility for submission of the financial report due to HUD under this section rests with the PHA.	The PHA is responsible for the timely submission of the Financial Data Schedule, not the fee accountant or auditor.

PIH Notice 2012-21 provides information on the UFRS regulation, possible penalties for non-compliance, and other financial reporting guidance, with emphasis on Section 8 only agencies. The full version of the notice can be found at:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/publications/notices](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/publications/notices)

### Submission Due Dates [slide 10]

The UFRS rule and FASS-PH operating guidelines require two financial submissions: 1) An unaudited submission due two months after the PHA's FYE and 2) an audited submission due nine months after the PHA's FYE (if the PHA completes or is required to have an audit performed). *Table 2.2* below shows the unaudited and audited submission due dates based on a PHA's FYE.

**Table 2.2 Financial Reporting Schedule Due Dates**

Fiscal Year End	06/30	09/30	12/31	03/31
Unaudited (due 2 months after FYE)	08/31	11/30	02/28 <sup>2</sup>	05/31
Audited (due 9 months after FYE)	03/31	06/30	09/30	12/31

From time to time, HUD will extend the submission due dates. If and when this occurs, HUD will update its website accordingly. At this time, submissions are due as required under the UFRS rule:

- Unaudited submissions are due two months after the PHA's FYE.
- Audited submissions are due nine months after the PHA's FYE (if the PHA completes or is required to have an audit performed).

In addition, on occasion HUD will require specific information to be uploaded as a comment to provide support to HUD or to accommodate a new accounting pronouncement.

### Extensions and Waivers from FASS-PH Submission Schedule [slides 11 & 12]

PHAs that need extra time in order to make their submission by the due date may request additional time from HUD through an extension or waiver. **Both extensions and waivers must be requested before the submission due date.**

#### Extension Request [slide 11]

If the PHA has an unusual circumstance that will cause the PHA to be unable to submit its **unaudited** submission within the allotted deadline, the PHA may request an extension. The PHA's request, along with HUD's decision to grant an extension, is performed electronically online through the Administrative link in the Integrated Assessment Subsystem (NASS system).

To receive an extension, a PHA must ensure that REAC receives the PHA's extension 15 days prior to the submission due date. The request for extension must contain information on the number of days requested for extension and an objectively verifiable justification as to why the PHA cannot submit the information by the submission due date.

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<sup>2</sup> In leap years the due date is 02/29.

The extension request form can be found in the NASS System. Once in NASS, select the Administrative Tab and a drop down selection will show: Extension Request. *Figure 2.1* provides a screen shot of the NASS system and the Extension request drop down selection.

**Figure 2.1 Integrated Assessment Subsystem (NASS) & Extension Request**



Once “Extension Request” is selected, enter the PHA Code and Fiscal Year. *Figure 2.2* provides a screen shot of the Extension Request form. The PHA should complete the form and select “Submit” in order to submit the PHA’s extension request to HUD. After the extension request has been submitted, the PHA should call their FASS-PH analyst or manager informing them that a request was made. HUD will respond (grant or deny the request) electronically using this same area of NASS. PHAs should check the website to determine the status of their extension request. If the PHA is granted an extension, the extension begins on the submission due date.

**Figure 2.2 PHA Extension Request**

**Waiver Request [slide 12]**

A waiver request is used to request additional time for an **audited** submission. PIH Notice 2012-21 provides detailed instructions and guidance on how to request a waiver. To initiate the request, the PHA's request is submitted to its local HUD Field Office for approval via hard copy. Documentation supporting the circumstances surrounding the request must be included.

The Field Office makes its recommendation and forwards the request to HUD headquarters. If the waiver request is approved, HUD will notify the PHA by mail. HUD provides further waiver guidance through PIH Notice 2009-41.

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## IV. DEFINING THE REPORTING ENTITY

### Objective

The objective of this section is to understand the programs and activities that need to be reported to HUD through the FASS-PH system. This module will discuss the reporting entity (or what programs should be included in the submission to HUD) for those PHAs that administer the HCV program and not the public housing program (i.e., Section 8 only PHAs) and for Section 8 only PHAs that are considered to be a program or department of a larger general-purpose or non-profit entity.

### GAAP Reporting Entity [slides 14-16]

The GASB, through GAAP, determines what organizations, departments, divisions, and other entities should be accounted for in the financial statements of a governmental entity (the financial reporting entity).

#### Defining the Financial Reporting Entity

A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data must be included with the financial data of the primary government. [Codification of Governmental Accounting and Financial Reporting Standards as of June 30, 2011 2100.113 Defining the Financial Reporting Entity].

#### GASB defines that:

“...The financial reporting entity consists of (a) the primary government (the PHA and all its programs and activities) (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.” [Codification of Governmental Accounting and Financial Reporting Standards as of June 30, 2011- 2100.111 Defining the Financial Reporting Entity].

#### Other definitions

*Financial reporting entity.* A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary governmental are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete. The nucleus of a financial reporting entity is usually a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

*Primary government.* A state government or general-purpose local government. Also, a specialized purpose government that has a separately elected body, is legally separate, and is fiscally independent of other state and local governments.

*Other stand-alone government.* A legally separate governmental organization that (a) does not have a separately elected governing body and (b) does not meet the definition of a component unit. Other stand-alone governments include some special-purpose governments, joint ventures, jointly governed organizations, and pools.

*Component Units.* Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

[Source: Codification of Governmental Accounting and Financial Reporting Standards as of June 30, 2011-2100.501 Defining the Financial Reporting Entity]

### **HUD's General PHA Classification [slide 17]**

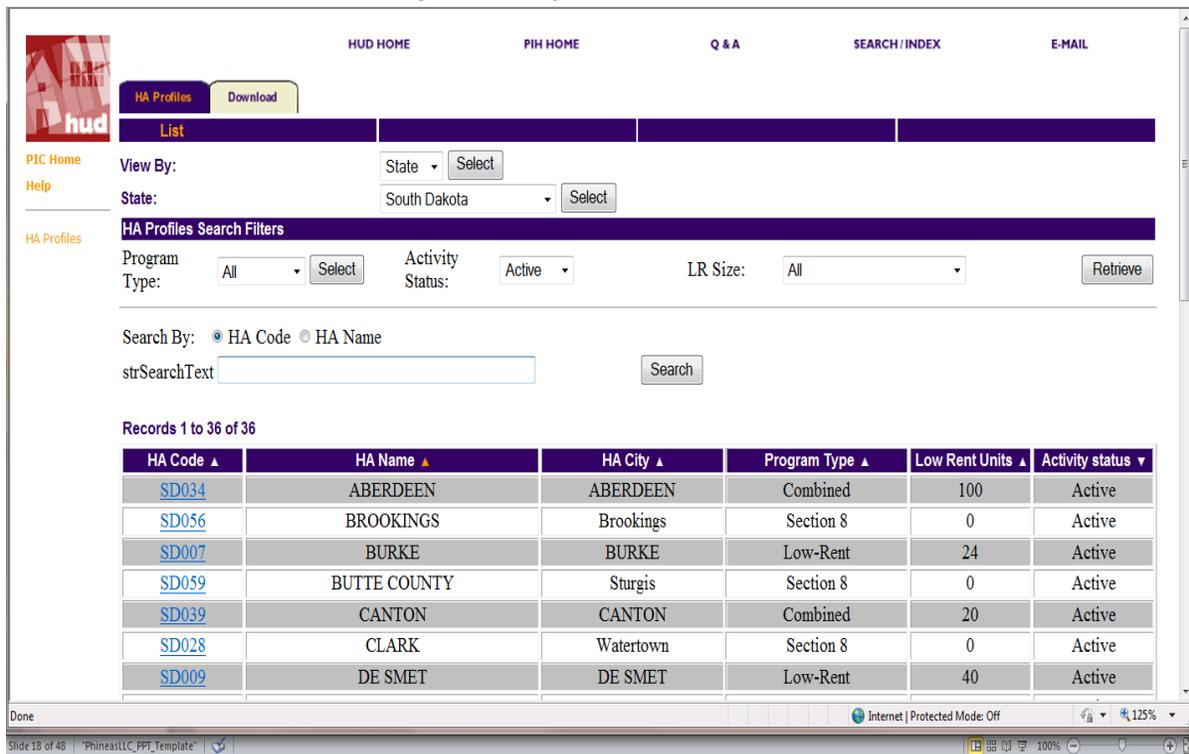
For its own organizational purposes, the Department classifies PHAs into three general categories: Section 8 Only; Low-Rent Only; and Combined.

- Section 8 Only. Those PHAs that administer the HCV program but not the public housing program.
- Low Rent Only. Those PHAs that administer the Public Housing program but not the HCV program.
- Combined. Those PHAs that administer both the HCV and Public Housing program.

PHAs may view their PHA classification by viewing the following website:

<https://pic.hud.gov/pic/haprofiles/haprofilelist.asp> and then clicking on "Browse or Search HA Profile" under the System Access link to query HUD's database for information on the HUD's classification of each PHA. *Figure 2.3* provides a screen shot of the HA Profile screen from the Public and Indian Housing Informational Center (PIC) system.

Figure 2.3 PIC System – HA Profile Screen



While this classification takes into account only these two programs, the Department understands that PHAs administer numerous other HUD and non-HUD programs and activities.

**The FASS-PH Submission and the Reporting Entity [slides 18-22]**

The FASS-PH system was built on an “entity-wide” concept, which means that a PHA (the reporting entity) is required to provide financial information on all programs and projects that make up the reporting entity as defined by GAAP. For example, a PHA that administers the HCV program, a Single Room Occupancy project, and a grant from the state would report all these programs in the PHA’s FASS-PH submission and not just the HCV program.

The programs and activities that should be submitted to HUD through the FASS-PH system are normally reported in the PHA’s financial statement (i.e., required by GAAP). The PHA, in fact, is reporting to the Department a summary of its annual overall financial activities.

However, for a number of PHAs that administer Section 8 programs only, with no Public Housing, this requirement is not practical and does not provide HUD the usual level of assurance. Therefore, alternate procedures have been established for certain Section 8 Only PHAs.

Section 8 Only PHAs can be classified into one of the three following categories:

1. **Section 8 Only PHAs that are a Stand Alone Reporting Entity (Primary Government) [slide 20].** For these Section 8 Only PHAs, defined as a Primary Government by GAAP, or a component unit or nonprofit agency that will have its own financial audit, the PHA will report all of its financial activities (entity-wide).
2. **Section 8 Only PHAs that are part of a Larger General Purpose Government [slide 21].**

For those Section 8 Only PHAs that are considered part of a larger general purpose government (e.g., program, division, or department within a municipality or state), the PHA should report only their HCV-related programs. The following list represents the programs required to be reported separately on the FDS based on their CFDA number:

<ul style="list-style-type: none"> <li>• Housing Choice Voucher Program</li> <li>• Disaster Housing Assistance Program (DHAP)</li> <li>• Disaster Housing Assistance Program –Ike (DHAP-Ike)</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate Rehab</li> <li>• Disaster Voucher Program</li> <li>• Veterans Affairs Supportive Housing (VASH)</li> <li>• Mainstream 5</li> </ul>
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It is recommended that PHAs that are part of a larger general purpose government declare the Section 8 HCV-related programs as a major enterprise fund. For these HCV related programs that are accounted for as part of general purpose government’s General or Special Revenue fund(s), the entity may submit to FASS-PH using the modified accrual basis of accounting.

If the PHA is reporting as part of a larger general purpose government, it is important to check the component unit box in the PHA Information screen notifying HUD that the PHA will not have a separate audit, and that the financial activity will be incorporated into the general purpose government’s financial statements. *Figure 2.4* provides a screen shot of the component unit box on the “PHA Information” tab in the FASS-PH system.

Figure 2.4 Component Unit Box – PHA Information (FASS-PH System)

PHA Information	
PHA Code	CA999
PHA Name	Housing Authority of the City of Fayette
EIN Number	N/A
Address(line1)	123 Fourth Street
Address(line2)	
City	Hometown
State	CA
Zip Code	99998
Reporting Beginning Date	10/01 2009 (Four Digit Year)
Reporting Ending Date	09/30 2010 (Four Digit Year)
Submission Type	<input type="radio"/> Unaudited/Non-A-133 <input checked="" type="radio"/> Unaudited/No Audit <input type="radio"/> Unaudited/A-133
Asset Management	<input type="radio"/> Non-Asset Management with Elimination Only <input checked="" type="radio"/> Non-Asset Management with COCC/Elimination <input type="radio"/> Non Asset Management <input type="radio"/> Asset Management without COCC/Elimination <input type="radio"/> Asset Management with Elimination Only <input type="radio"/> Asset Management with COCC/Elimination
Component Unit	<input type="checkbox"/> Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will <b>not</b> be receiving its own separate A-133 or non A-133 audit.)
<input type="button" value="Save"/>	

**Check this box if the program's financial activities are being including in the larger general purpose government financial audit**

- Section 8 Only Programs that are part of a Nonprofit Agency [slide 22].** For Section 8 Only PHAs that are organized as part of a nonprofit agency that is mostly non-housing related or part of a larger non-general purpose governmental agency (such as a state housing finance agency or state development authority), and whose HCV and related activities (including housing assistance payments) constitute less than 50% of that entity's activities, the PHA should report only the HCV related programs and Mainstream 5 Year Program, if applicable. Activity is defined for this purpose as total operational expense and capitalized costs incurred during the current reporting period.

### **Program-Specific Audits**

For general purpose governments and non-profits that have elected to perform a program specific audit for their HCV related programs, the entity should produce the financial statements and supporting information (e.g. notes to the financial statements) using the full accrual basis of accounting. Having a program specific audit, while preferred, is not a requirement at this time, as it is not reimbursed by the Department.

HUD may request certain PHAs that have no coverage under a typical audit to have a program specific audit. For these cases, HUD may reimburse the cost of the program specific audit subject to funding availability. Under the requirements of PIH Notice 2012-21, PHAs that are part of a general purpose government or non-profit that have not declared their HCV and HCV-related programs as a major enterprise fund, the PHA must contact HUD to determine if additional audit testing is required.

### **Fiscal Year End Reporting [slide 23]**

Comprehensive annual financial reports should be prepared and published covering all funds and activities of the primary government and component units [**Source:** Section 2200-Comprehensive Annual Financial Report – Statement of Principle Annual Financial Reporting B].

Annual financial reports are based on the entity's (primary government) fiscal year end. An entity has only one fiscal year end that normally encompasses a 12 month period. An entity's fiscal year end is normally listed in the entity's incorporation documents and some states may mandate that PHAs have a specific FYE.

Programs and activities do not have fiscal year ends. Programs and activities may have monthly, quarterly, or yearly reporting requirements but this is not the equivalent of a fiscal year end.

### **FYE and PIC FYE Reporting [slides 24-27]**

PHA reporting is based on the FYE of the entity. Depending on whether the PHA is part of a larger entity, the PHA may request a fiscal year end change in order to align the PHA's reporting in FASS with that of the larger entity. The following are the FYE change options available to PHAs based on the PHA's organizational classification.

1. **Section 8 Only PHAs that are a Stand Alone Reporting Entity (Primary Government) [slide 24].** For PHAs that are stand alone entities, the PHA reports based on its FYE.
2. **PHAs that are a Component Unit of another Government [slide 24].** The PHA has two (2) options:
  - The PHA should report to REAC based on the PHA's FYE if it has stand-alone financial reports.
  - However, if the component unit PHA has a different FYE than the primary government and does not issue a stand-alone financial report, the PHA will submit based on the primary government's FYE. This option may cause a certain

amount of reporting problems and a component unit PHA should consider issuing a separate stand-alone report.

- 3. PHAs that are a Program or Department of another Government or Non-profit [slides 25-27].** The PHA must submit to HUD based on the FYE of that government and not on its own “program” FYE (if different). These PHAs must and will be granted a fiscal year end change to align the PHA’s FYE with that of the primary government or non-profit’s FYE. PIH Notice 2011-57 (HA) establishes the procedures for changing a PHA’s fiscal year end.

For some PHAs (typically Section 8 Only PHAs) that are part of a larger government or non-profit, the FYE recorded in PIC system is different than the FYE of the primary government or nonprofit agency under which the PHA is organized. For these PHAs, the PHA should report its year-end financial data to FASS-PH based on the primary government or nonprofit agency’s FYE. The PHA should immediately request an update to its HCV FYE in PIC to coincide with that of the primary government or nonprofit agency. If the PHA does not request such an update, HUD may update PIC on its own schedule.

Until the update in PIC is complete, the PHA will file its unaudited submission based on its current PIC FYE. To fulfill the audited submission as required under UFRS, the PHA may request a waiver for additional time to coincide its audit submission with that of the primary government, or the PHA should procure IPA services for financial and compliance procedures as outlined by the Department (auditor agreed upon procedures) if the PHA’s HCV-related programs are over the OMB Circular A-133 threshold.

In lieu of updating their FYEs, these PHAs may elect to have a program specific audit of their HCV related programs, based on their current recorded FYE in PIC. PHAs that elect this method need not contact HUD, but are required to submit their information based on their FYE as reported in PIC and FASS PH. This additional audit cost may or may not be reimbursed by the Department.

If the FYE of the primary government does not end on a quarter, the PHA should not change its fiscal year end and may need to procure IPA services for financial and compliance procedures as outlined by the Department (auditor agreed upon procedures). PHAs must first contact the FMD at [PIH Financial Management Division@hud.gov](mailto:PIH_Financial_Management_Division@hud.gov) in order to receive confirmation. If the need to procure IPA services is required, the Department will reimburse the agency for this additional cost subject to funding availability.

### ***Learning Activity 2.1 – Financial Reporting Entity [slide 28]***



## Session 3: HCV and HCV- Related Programs

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## I. OVERVIEW [slide 2]

### **This session will cover the following topics:**

- Provide an overview of the reporting requirements for the HCV program and HCV-related programs.
- Clarify revenue recognition for HAP and administrative fees, taking into consideration Treasury's cash management requirements.
- Review the HAP disbursement process based on Treasury's cash management requirements.
- Review proper HCV program accounting and financial reporting based on GAAP and HCV program regulatory and statutory guidance as they relate to investment income, fraud recovery, the Family Self Sufficiency (FSS) program and portability.

### HCV Program Guidance [slide 4]

The HCV program is directed by laws, regulations, and notices. These items directly impact the proper accounting and financial reporting for the HCV program. Program guidance, Federal Register Notices, PIH Notices, Handbooks, Guides and other important HCV program information can be found by visiting the following HUD website pages:

- Office of Housing Choice Vouchers
- HCV Financial Management Center (FMC)
- Housing Voucher Financial Management Division (FMD)
- Financial Assessment Subsystem (FASS-PH)
- Library

### HCV Program Activities [slides 5-8]

The HCV program is reported under the Catalog of Federal Domestic Assistance (CFDA) number 14.871, Section 8 Housing Choice Vouchers. In addition, the following are voucher types that should also be reported as part of the HCV program under CFDA #14.871.

- Litigation Vouchers
- Mainstream 1-Year Vouchers
- Homeownership Vouchers
- HOPE VI Vouchers
- Tenant Protection Vouchers and Enhanced Vouchers
- Non-Elderly Disabled 2008/2009 Vouchers (NED)
- Family Unification Vouchers (FUP), both original and 2008/2009
- Temporary Housing Unit (THU) to HCV
- Veteran's Affairs Supportive Housing (required for PHA's FYE 06/30/2011 and after)
- All Other Vouchers

The following table outlines the proper reporting of the HAP expense for non-special purpose HCV program vouchers and special purpose vouchers that are reported under CFDA #14.871 on FDS Line 97300 (HAP Expense Details)

**Table 3.1 FDS Line Item 97300 – HAP Expense Details**

Line Item #	Description
97300-010	Mainstream (1 Year)
97300-020	Home-Ownership
97300-025	Litigation
97300-030	Hope VI – Section 8
97300-035	Moving to Work
97300-040	Tenant Protection including Enhanced Vouchers
97300-050 <sup>1</sup>	All Other, includes non-special purpose vouchers plus special purpose vouchers: NED, FUP, THU to HCV and VASH (beginning with PHA FYEs of 6/30/2011).

<sup>1</sup> DHAP to HCV was also reported in CFDA #14.871. At settlement, any unspent funding should have been reported as a payable to HUD.

The Moving to Work (MTW)<sup>2</sup> vouchers HAP expense reported under FDS line 97300-035 represents those vouchers for a MTW PHA that have been designated as regular vouchers and not part of a block grant.

In addition, the following voucher activities will also be reported as part of HAP expense on FDS Line Item 97300-050:

- Mid-Month HAP Expense
- Port Out HAP Expense
- FSS Escrow Deposits
- Utility reimbursements<sup>3</sup>

There are several voucher related programs that are **not** reported in CFDA # 14.871. They have their own assigned CFDA numbers and will be reported to the REAC independently of the CFDA # 14.871 program. The table which follows outlines the related voucher programs and their associated CFDA numbers.

**Table 3.2 CFDA #s for HCV-Related Programs**

HCV-Related Programs	CFDA #
Mainstream 5-Year Program	14.879
Disaster Voucher Program	14.DVP
Moderate Rehabilitation	14.856
Veteran's Affairs Supportive Housing	14.VSH
Disaster Housing Assistance Program	97.109
Disaster Housing Assistance Program - Ike	DH.IKE

HUD had previously instructed PHAs to report the Veteran's Affairs Supportive Housing's (VASH) HAP payments under CFDA #14.VSH. In September 2011, HUD provided new reporting instructions for the VASH program that requires PHAs (starting with fiscal year end June 30, 2011 and after) to close-out the 14.VSH program and report the data with the HCV program (14.871). This topic will be further discussed in Session 4.

<sup>2</sup> MTW agencies report the balance of HCV program funding not used in the voucher program and treat these funds as a block grant in CFDA # 14.881.

<sup>3</sup> Utility reimbursements made on behalf of special purpose voucher holders would be reported in the appropriate special purpose voucher FDS Line Item as shown in the table above.

## II. REVENUE RECOGNITION OF HUD FUNDING IN THE HCV PROGRAM

### 2005 – 2011: HAP Revenue Recognition [slides 10-12]

Funding for the Housing Choice Voucher (HCV) program is provided by Congress through Annual Appropriation Acts to HUD. HUD, in turn, distributes the funds to PHAs in accordance with the Appropriation Acts. Since 2005, HUD disbursed 100% of the PHA's annual budget authority (ABA) to the PHA regardless of the level of the PHA's actual Housing Assistance Payments (HAP). Any unspent HAP or other related HAP revenue (such as interest income earned on HAP balances or FSS forfeitures) became part of the PHA's equity called Net Restricted Assets (NRA). For most of this time period, PHAs earned and still earn administrative fees based on vouchers leased and any unspent fees was accounted for as part of the administrative fee equity.

The 2012 Conference Report contains Congressional language which requires HUD "to follow Treasury's rules on cash management" for the HCV program, effective January 1, 2012. This language effects how HAP funds will now be distributed to a PHA and is commonly referred to as cash management.

*Table 3.3* illustrates the pre-cash management HAP funding model as if the 2012 Congressional language did not exist. Under the previous funding model, HAP funding for a PHA would be determined by formula (i.e., ABA), in this case \$1,260,000. This amount was disbursed to the PHA throughout the year irrespective of the HAP expense that the PHA incurred. When a PHA generated net income, the PHA's NRA balance was increased. In this example, the PHA showed a net income of \$60,000 in 2012. Subsequently, the PHA's NRA is increased by \$60,000 in 2012 and amounted to \$660,000. The PHA could use this amount to cover HAP expenses for the next year.

**Table 3.3 Previous HAP Funding Model [slide 12]**

<b>2012 ABA</b>	\$1,260,000			
<b>Program Reserve – 1/1/2012</b>	\$0			
<b>NRA -1/1/2012</b>	\$600,000			
<b>Month</b>	<b>HAP Disbursement</b>	<b>HAP Expense</b>	<b>Net Income</b>	<b>NRA Balance</b>
Jan-12	\$105,000	\$100,000	\$5,000	\$605,000
Feb-12	\$105,000	\$110,000	-\$5,000	\$600,000
Mar-12	\$105,000	\$90,000	\$15,000	\$615,000
Apr-12	\$105,000	\$100,000	\$5,000	\$620,000
May-12	\$105,000	\$110,000	-\$5,000	\$615,000
Jun-12	\$105,000	\$100,000	\$5,000	\$620,000
Jul-12	\$105,000	\$95,000	\$10,000	\$630,000
Aug-12	\$105,000	\$95,000	\$10,000	\$640,000
Sep-12	\$105,000	\$100,000	\$5,000	\$645,000
Oct-12	\$105,000	\$110,000	-\$5,000	\$640,000

<b>2012 ABA</b>		\$1,260,000		
<b>Program Reserve – 1/1/2012</b>		\$0		
<b>NRA -1/1/2012</b>		\$600,000		
<b>Month</b>	<b>HAP Disbursement</b>	<b>HAP Expense</b>	<b>Net Income</b>	<b>NRA Balance</b>
Nov-12	\$105,000	\$90,000	\$15,000	\$655,000
Dec-12	\$105,000	\$100,000	\$5,000	\$660,000
Total	\$1,260,000	\$1,200,000	\$60,000	
<b>Program Reserve – 12/31/2012</b>		\$0		
<b>NRA – 12/31/2012</b>		\$660,000		

### **PIH Notice 2011-67: Cash Management Requirements & Impact on HAP Funding [slides 13 & 14]**

Cash management refers to the disbursements of funds and the Department of Treasury’s rules on cash management as provided in the Treasury Financial Manual, Vol. 1, Part 6 Section 2025 and states that:

“Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances will be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and proportionate share of any allowable indirect costs”.

The Conference Report language, in effect, requires HUD to control the disbursement of HCV funds to PHAs in such a way as to ensure that PHAs do not receive federal funds before the funds are needed. The following sections provides guidance to PHAs on how to recognize revenue with respect to HUD funding of housing assistance payments (HAP) and administrative fees in the HCV program under cash management. Specifically, this section provides information on the following topics:

1. A summary of the cash management requirements as provided in PIH Notice 2011-67.
2. Revenue recognition requirements for the HCV program as prescribed under *GASB Statement No. 33: Accounting and Financial Reporting for Non-exchange Transactions* for PHAs using the accrual and modified basis of accounting.
3. Changes to the revenue recognition requirements for the HCV program (Housing Assistance Payments and Administrative Fees) as a result of the cash management requirements.

HUD’s implementation of Treasury’s rules on cash management for the HCV program is provided in PIH Notice 2011-67. The requirements of cash management will result in a number of changes associated with HAP accounting. Cash management does not change the amount of

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HAP funds that are available to the PHA, as the amount of funds available is still determined by formula, but will impact the *timing* when and if such funds are made available to the PHA.

The following is a list of items associated with the Housing Assistance Payments (HAP) that are impacted as a result of cash management.

1. Disbursement of HAP funds. HUD will limit the disbursement of HAP funds to the amount needed by the PHA to make immediate HAP payments.
2. Undisbursed HAP funds will be available for future HAP payments. The amount determined by formula (known as the annual budget authority (ABA)) will still be available to the PHA for future HAP payments, unless recaptured by Congress or other similar action.
3. Undisbursed HAP funds will be held by HUD rather than by the PHA. HUD will only disburse HAP funds to the PHA when funds are needed by the PHA to make immediate HAP payments. The difference between the PHA's ABA and the disbursed funds will remain at HUD.
4. Undisbursed HAP funds held at HUD will be referred to as program reserves. Unearned undisbursed HAP funds held at HUD are referred to as **program reserves**. Program reserves are equal to the difference between accumulated ABA (starting with the 2012 Appropriation) and the unearned undisbursed HAP. In some cases, PHAs will earn HAP above the amount disbursed for any given calendar year. For example, a PHA may request additional HAP funds above the scheduled amount in December 2012 for December 2012 HAPs. In cases where HUD disburses these additional funds in the following calendar year, these HAP funds will be considered earned in the calendar year (2012) associated with the request/need and will reduce the program reserves calculated as 12/31/2012. If the same request was for January 2013 HAPs, the additional disbursement would decrease the 2013 program reserve. The examples assume a PHA with a 12/31 FYE.

Unearned undisbursed HAP funds accumulating at HUD during the calendar year become program reserves after the respective calendar year is over. While not officially called program reserves during the current calendar year, any unearned undisbursed HAP funds are still available to PHAs for HAP needs.

5. Program reserves will not be presented or reflected in the PHA's financial statements. Program reserves should not be reported as an asset and equity on the PHA's financial statements. However, program reserves need to be taken into consideration by PHA management when making financial management and leasing decisions for the HCV program.

6. The concept of net restricted assets (NRA) will still exist. The concept of NRA (i.e., unspent HAP funds held by the PHA) will still exist under cash management. However, the amount of NRA will decrease over time.
- Actual HAP disbursements will be based on HUD's estimate of the PHA's HAP needs, as calculated from the data reported in the VMS. However, because disbursements are based on estimates, the disbursements will typically differ from the actual HAP expense incurred by the PHA.
  - Unused HAP funds, held by the PHA, will still reside in the NRA.
  - Fraud recovery (the amount due HUD) and FSS participant escrow account forfeitures will continue to accumulate in the PHA's NRA balance.
  - Interest revenue earned on invested NRA balances will now be returned to the U.S. Treasury, starting with interest income earned on or after 01/01/2012. Therefore, interest earned on NRA balances will not increase the PHA's NRA balance.
7. Existing NRA balances currently held by the PHA will be transitioned to program reserves. HUD will disburse HAP funds taking into consideration the PHA's available NRA balances. For example, where a PHA's monthly HAP payment is \$500,000 and the PHA has \$700,000 in NRA, the PHA may not receive a HAP disbursement from HUD or the HAP disbursement amount may be significantly reduced for that month. In effect, this practice will require the PHA to spend down the NRA. Through this process, PHAs will first use their NRA balances to fund their current HAP needs, resulting in an increase in their program reserves. HUD will inform the PHAs when this process will begin.

If HUD is unable to reduce the PHA's NRA balance to an acceptable amount by the end of December 2012 through a reduction of HAP disbursements, HUD may require PHAs to write a check to HUD for any amount above an acceptable NRA balance.

### Cash Management HAP Funding Model [slide 15]

Table 3.4 illustrates the Cash Management Funding Model. In this example, PHA's ABA remains at the same level of \$1,260,000. However, funds are now distributed based on the PHA's immediate need. When HUD temporarily stops disbursing funds from April until September, the PHA starts to incur "losses", which requires the PHA to use its NRA balance until the NRA balance is reduced to \$0 in September 2012. HUD then disburses just enough funds to cover the PHA's monthly expenses. By the end of the year, PHA's net income and NRA balance amount is \$0. The difference between ABA and the disbursed HAP equals \$660,000 and is referred to as Program Reserve. The amount of \$660,000 will not be reflected on the PHA's financial statement and will remain at HUD.

Table 3.4 Cash Management HAP Funding Model [slide 15]

<b>2012 ABA</b>		\$1,260,000		
<b>Program Reserve – 1/1/2012</b>		\$0		
<b>NRA -1/1/2012</b>		\$600,000		
<b>Month</b>	<b>HAP Disbursement</b>	<b>HAP Expense</b>	<b>Net Income</b>	<b>NRA Balance</b>
Jan-12	\$100,000	\$100,000	\$0	\$600,000
Feb-12	\$100,000	\$110,000	-\$10,000	\$590,000
Mar-12	\$100,000	\$90,000	\$10,000	\$600,000
Apr-12	\$0	\$100,000	-\$100,000	\$500,000
May-12	\$0	\$110,000	-\$110,000	\$390,000
Jun-12	\$0	\$100,000	-\$100,000	\$290,000
Jul-12	\$0	\$95,000	-\$95,000	\$195,000
Aug-12	\$0	\$95,000	-\$95,000	\$100,000
Sep-12	\$0	\$100,000	-\$100,000	\$0
Oct-12	\$110,000	\$110,000	\$0	\$0
Nov-12	\$90,000	\$90,000	\$0	\$0
Dec-12	\$100,000	\$100,000	\$0	\$0
Total	\$600,000	\$1,200,000	-\$600,000	
<b>Program Reserve – 12/31/2012</b>		\$660,000		
<b>NRA – 12/31/2012</b>		\$0		

### Revenue Recognition for Non-exchange Transactions – General Information [slides 16-18]

The majority of PHAs follow accounting as prescribed by the Governmental Accounting Standards Board (GASB)<sup>4</sup>. *GASB Statement No. 33: Accounting and Financial Reporting for Non-exchange Transactions* provides the authoritative guidance on how revenue is recognized with respect to HAP and administrative fees.

<sup>4</sup> PHAs that are organized as a non-profit organization will follow accounting as prescribed by the Financial Accounting Standard Board (FASB) and would not recognize revenue as prescribed by GASB.

When determining how to recognize revenue, GASB Statement No. 33 requires that the non-exchange transaction or event be categorized into one of four categories of non-exchange transactions. The revenue recognition criteria are different under each category. The four categories of non-exchange transaction are shown below:

- Derived tax revenues;
- Imposed non-exchange revenues;
- Government-mandated non-exchange transactions; and
- Voluntary non-exchange transactions

It is HUD's guidance that the funds that the PHAs receive from HUD under the HCV program are considered voluntary non-exchange transactions. GASB Statement No. 33 defines a ***voluntary non-exchange transaction*** as a transaction in which a government gives or receives value without directly receiving or giving something of equal value in return and that these transactions (typically resulting from legislative or contractual agreements) are entered into willingly by two parties.

Revenue recognition criteria for voluntary non-exchange transactions differ under GASB Statement No. 33 based on the eligibility requirements that are typically contained in legislative or contractual agreements and depending on whether the PHA is using the full accrual or modified accrual basis of accounting. Regardless of the basis of accounting used, PHAs will recognize revenue when all revenue recognition criteria have been met.

The sections below discuss the revenue recognition criteria associated with PHAs using the accrual basis and modified basis of accounting.

### **Revenue Recognition for Non-exchange Transactions – Accrual Basis of Accounting [slide 19]**

PHAs that treat the HCV program as an enterprise fund use the accrual basis of accounting. A PHA using the accrual basis of accounting should recognize revenue under a voluntary non-exchange transaction when all of the following conditions are met:

1. Measurable. Simply stated, the recipient must know the amount of the transaction or can reasonably estimate the amount. For PHAs this condition is not normally problematic as HUD provides funding letters and schedules to PHAs, as well as PIH Notices that provide for the calculation of HAP and Administrative fees.
2. Probable of collection. In order for revenue to be recognized, the amount of revenue must likely be collected. Probable is defined as “the future event or events are likely to occur”. For HUD funding, the likelihood of collection of funds owed to the PHA by HUD is normally considered probable.
3. All eligibility requirements are met. All eligibility requirements that are found in the legislative or contractual agreements governing the funds must be met. The eligibility requirements may specify eligible recipients, when funding can begin to be used or when

the funding is no longer available to be used, or make provisions for reimbursements and/or contingencies.

- a. Required characteristics of recipients. The recipient must have the characteristics specified by the provider. In the case of the HCV program, PHAs are deemed to meet this requirement since HUD has engaged in a contract (the HCV Annual Contribution Contract (ACC)) with the PHA for the administration of the program.
  - b. Time requirements. Time requirements specify the period or periods when resources are required to be used or when use may begin. Time requirements exist for both HAP and administrative fee funds. For HAP funding, time requirements are normally related to Appropriation language that does not allow the funds to be used until January 1<sup>st</sup> of each calendar year for HAP expenses starting January 1<sup>st</sup> and after. This requirement means that current year HAP funding may not be used to fund prior year HAP deficits. Current HAP funding may only be used prospectively.  
  
Also increments on the HCV ACC funding exhibits have both a beginning date of term and an ending date of term. Revenue will not be available for that increment before the beginning date of the term. Similarly, renewal funding may be available after the end of term for an increment, but renewal funding will also have a new beginning date of term and a new ending date of term, i.e., a time requirement.  
  
Administrative fees have a time requirement that relate to the requirement that administrative fees are partially earned<sup>5</sup> on the number of vouchers that are under HAP contract as of the first day of each month.
  - c. Reimbursements. A requirement that the receiver of funding must actually incur an eligible expense to receive the funding (reimbursed). Reimbursements has not been an eligibility requirement of the HCV program since 2005 when the program was converted from a cost reimbursement program for HAP funding to a formula/budget-based program.
  - d. Contingencies. A requirement that funds will be given based on a contingency; usually this is a fund matching requirement of some sort. In the case of the HCV program there is no such requirement.
4. Legal enforceable claim exists. The last consideration in the recognition of revenue is determining if the grantee has an enforceable legal claim to resources based on specifications of enabling legislation or contractual requirements. If a determination has

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<sup>5</sup> The amount of fee earned is also based on an established fee rate and proration if applicable.

been made that the grantee does not have an enforceable legal claim, then revenue should not be recognized. For example, a local government generally cannot force the state or federal government to pay promised resources, nor is a local government likely to sue the state or federal government; therefore there is no legal claim and revenue should not be recognized. Accordingly, PHAs are not normally considered to have a legal enforceable claim to undisbursed HAP funds held by HUD (for example, program reserves under cash management).

### **Revenue Recognition for Non-exchange Transactions – Modified Accrual Basis of Accounting [slide 20]**

PHAs accounting for the HCV program in a special revenue fund use the modified accrual basis of accounting. Revenue recognition for a PHA using modified accrual includes all of the requirements discussed under the accrual basis of accounting. In addition, for PHAs using modified accrual, the funds also must be available. *Available* is defined by GASB Statement No. 33 as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

### **Revenue Recognition for Non-exchange Transactions & Purpose Restrictions [slide 21]**

In addition to the revenue recognition criteria for voluntary non-exchange transactions discussed above, *purpose restrictions* limit how funding may be used once it is received. For example, the statute for the HCV program limits the use of HAP funds received to only the payment of HAPs and HAP-related expenses (i.e., funding FSS escrow accounts, utility reimbursements and home ownership mortgage payments). Purpose restrictions do not impact when revenue for voluntary non-exchange transactions are recognized by the PHA. Purpose restrictions on HAP funds result in excess disbursements becoming restricted for payment of future HAP and HAP-related expenses. In proprietary funds, the excess HAP funding becomes a component of Restricted Net Assets on the statement of Net Assets and reflects the amounts disbursed by HUD to the PHA in excess of HAPs and HAP-related expenses. In summary, currently for the HCV program, the most relevant eligibility requirement for HAP and Administrative funding is the time requirement and the enforceable legal claim requirement.

### **Program Specific Guidance for Revenue Recognition**

#### **HAP Revenue Recognition [slides 22-29]**

Although the federal fiscal year runs from October 1 to September 30 each year, HAP renewal funding is disbursed to PHAs over a calendar year regardless of the PHA's fiscal year. The total amount available is provided by the Congress to HUD in an annual Appropriations Act and provided to PHAs based on a formula set forth in the Act. Under the current HAP renewal funding methodology being used by HUD, PHAs are notified each calendar year about their HAP funding, referred to as the Annual Budget Authority (ABA). The ABA is outlined for the PHA in a funding letter sent by e-mail to the PHA. This funding letter provides PHAs with information about the total amount of renewal HAP funding that is available to them for the CY.

The HAP funds, under cash management, are now disbursed to a PHA based on need. In addition, there can be adjustments to a PHA's CY funding due to special set-aside funding additions or pro-rations as applicable. The annual renewal funding letter to the PHA serves as a base for HUD's obligation. However, actual disbursements and need will determine HAP revenue recognition for a PHA based on the GAAP criteria described above.

With the implementation of the cash management requirements of Notice PIH 2011-67, HUD will no longer automatically disburse the full ABA to a PHA as it has since 2005. The ABA will now be disbursed to PHAs based on need, limited to the PHA's program reserves. Amounts of the ABA not disbursed to the PHA during the CY will no longer be recognized by the PHA as HAP revenue and will instead credit to a Program Reserve held at HUD. PHAs will be able to access amounts held in the Program Reserve based on need to the extent they are not over-leasing during the CY and are subject to offsets through congressional actions.

### **Need = Disbursement [slides 23 & 24]**

Under cash management, PHAs will recognize HAP revenue based on "need" limited to the program reserves. For most PHAs, "need" will normally equal HUD HAP disbursements. HUD through analysis of VMS data and other information (i.e., NRA balance, a PHA request for program reserves) will determine the amount of immediate HAP disbursements the PHA will need to pay, avoiding an accumulation of NRA. The disbursement of HAP funds by HUD to the PHA satisfies all the requirements under GASB No. 33 in order to recognize revenue (i.e., measureable, probable of collection, all eligibility requirements, and an enforceable legal claim).

The following journal entry is applicable where need is equal to disbursement.

**Table 3.5 Journal Entry: Need = Disbursement [slide 24]**

FDS Line Item		Debit	Credit
113	Cash - Other Restricted	\$200,000	
70600-010	HUD PHA Operating Grants - HAP		\$200,000

In cases where the PHA has been disbursed more in HAPs than needed, typically, there will not be accounts payable to HUD for excess HAP disbursements. However, PHAs may need to book deferred revenue in cases where HAP funds were advanced prior to the month where they were legally available to be used to make HAPs. For example, assume a PHA has a December year end and they received January HAP funding from HUD at the end of December. This advance would be booked as deferred revenue and relieved in January when the time requirement was met. Regardless of the time requirement, most PHAs would recognize this revenue based on the matching principle which would require the early funding (advance) to be treated also as deferred revenue and recognized as revenue in the subsequent month.

### Need Is Greater Than Disbursement [slides 25-27]

Where HUD HAP disbursements and NRA balances have been fully utilized and the PHA needs additional funds to make immediate HAP payments, the PHA will be able to access their program reserves for eligible HAP needs by contacting their HUD Financial Analyst. Most PHAs will simply continue to recognize this transaction as revenue when the funds are disbursed by HUD. However, if the request for funding is made near the end of the reporting period, the PHA will need to reflect this amount in the reporting period when the request was made (and not in the following reporting period), even if the funds were not disbursed. The following illustrates the journal entry when the PHA requested additional HAP funds but the funds were not received by the PHA in the reporting period.

**Table 3.6 Journal Entry: Need is Greater than Disbursement [slide 27]**

FDS Line Item		Debit	Credit
122	Accounts Receivable - HUD Other Projects	\$25,000	
70600-010	HUD PHA Operating Grants - HAP		\$25,000

It is HUD's guidance that a request by the PHA for additional HAP disbursements from the PHA's program reserve for immediate eligible HAP expenses meets the definition of a legal enforceable claim and therefore is subject to revenue recognition in the reporting period.

Program reserves do not meet the conditions of revenue recognition under GASB No. 33. While the law and supporting HUD notices and guidance supports that program reserves will be available to the PHA, the PHA does not have a legal enforceable claim as defined by the GASB. Specifically, a PHA generally cannot force the federal government to pay promised resources (i.e., program reserves), nor is a PHA likely to sue HUD; therefore, there is no legal claim and revenue should not be recognized. In addition, program reserves may not meet the requirement of being probable of collection, especially if the HUD formula amount is greater than actual HAP expenses or where Congress reduces program reserves through Appropriation law (i.e., offsets).

In summary, generally HAP revenue recognition will be based on actual HAP disbursements received by the PHA plus undisbursed need, limited to Program Reserves (i.e., undisbursed ABA). In cases where the PHA has received more in disbursements than needed to make HAPs, the amount will accrue to the NRA account.

**Example 1 – HAP Revenue Is Equal to Disbursements [slide 28]**

In this example HAP revenue would be equal to disbursements received during the year. The following description and table provides the general information.

Table 3.7 provides an example of the effects of cash management on the PHA’s NRA and program reserves. The PHA is a 12/31 fiscal year and based on the 2012 Appropriations and formula, the PHA has an ABA of \$2,500,000. Since this is the first year of cash management, the PHA has a beginning program reserve of \$0 (01/01/2012). The PHA’s NRA balance as of 12/31/2011 is \$200,000. **Note:** The example below is used to only illustrate the general effect of cash management on the PHA’s NRA balance and funding. The actual determination of annual budget authority, HAP disbursements, etc. is outlined in annual PIH notices.

**Assumptions:**

1. **PHA FYE:** 12/31
2. **2012 Budget Authority:** \$2,500,000
3. **Program Reserve (1/1/2012):** \$0
4. **NRA (12/31/2011):** \$200,000
5. Actual HAP Disbursement (Col B) and Actual HAP Expense (Col C) are for illustration only; the calculation used by HUD to determine the amount of actual HAP disbursement is dependent on the specific PHA circumstances.
6. Fraud recovery and interest earned as shown on the table below refer to the Fraud recovery credited to HAP and the interest earned on NRA balances only.

**Table 3.7 Example 1 – HAP Revenue Is Equal to Disbursements**

2012 Budget Authority            \$2,500,000  
 Program Reserve - 1/1/2012        \$0  
 NRA - 12/31/2011                \$200,000

Line #	A Time Period	B Actual HUD HAP Disbursement based on VMS	C Actual HAP Expense (VMS)	D Net HAP Activity	E Fraud Recovery	F NRA Balance	G Program Reserve*	H Interest Earned
1	Jan-12	\$191,250	\$190,000	\$1,250	\$2,000	\$203,250	\$2,308,750	\$250
2	Feb-12	\$193,250	\$195,000	-\$1,750	\$0	\$201,500	\$2,115,500	\$250
3	Mar-12	\$195,250	\$195,000	\$250	\$2,000	\$203,750	\$1,920,250	\$255
4	Apr-12	\$195,250	\$195,000	\$250	\$3,000	\$207,000	\$1,725,000	\$260
5	May-12	\$194,250	\$225,000	-\$30,750	\$0	\$176,250	\$1,530,750	\$220
6	Jun-12	\$193,250	\$225,000	-\$31,750	\$0	\$144,500	\$1,337,500	\$180
7	Jul-12	\$196,250	\$225,000	-\$28,750	\$2,000	\$117,750	\$1,141,250	\$150
8	Aug-12	\$201,250	\$230,000	-\$28,750	\$1,000	\$90,000	\$940,000	\$110
9	Sep-12	\$201,250	\$235,000	-\$33,750	\$300	\$56,550	\$738,750	\$70
10	Oct-12	\$201,250	\$230,000	-\$28,750	\$0	\$27,800	\$537,500	\$35
11	Nov-12	\$231,250	\$225,000	\$6,250	\$2,000	\$36,050	\$306,250	\$45
12	Dec-12	\$231,250	\$220,000	\$11,250	\$0	\$47,300	\$75,000	\$59
13	<b>Total</b>	<b>\$2,425,000</b>	<b>\$2,590,000</b>	<b>-\$165,000</b>	<b>\$12,300</b>	<b>\$47,300</b>		<b>\$1,884</b>

Program Reserve - 12/31/2012                                \$75,000

\* Unearned undisbursed ABA does not become program reserves until the end of the calendar year but are still available for the PHA for HAP needs, other than to cover the cost of over leasing during the calendar year. For illustration purposes, the table does not make a distinction.

1. In the first two quarters (01/01/2012 - 6/30/2012) of the year, the initial HAP disbursements was be disbursed without taking into consideration a PHA's NRA balance or other NRA income. However the disbursements are based on actual validated VMS HAP expenses, which can be as much as six months prior. For the first two quarters, this PHA was disbursed HAP funds of \$1,162,500 (B1- B6) and processed \$1,225,000 (C1- C6) in HAP payments. The amount of unearned undisbursed ABA is \$1,337,500 calculated based on the \$2.5 million in ABA minus the \$1,162,500 in HUD HAP disbursement for the first two quarters.
2. HAP disbursements from HUD are \$62,500 less than the PHA's actual HAP expense. Therefore, the NRA decreased by \$62,500 (D1- D6).
3. The PHA's NRA balance for the first six months of the year was credited (increased) with \$7,000 (E1-E6) of fraud recovery (HAP portion). Therefore, as of 06/30/2012 the PHA's ending NRA balance is \$144,500 (F6) calculated as follows: \$200,000 beginning balance minus \$62,500 (D1-D6) from net HAP activity plus \$7,000 (E1-E6) of fraud recovery.
4. In the third quarter HUD disbursed \$598,750 (B7-B9) and these disbursements are based again on prior period VMS HAP expenses (January 2012 through March 2012; note the same shading (B7-B9) and (C1-C3)) with HUD adding a small assumed increase of 3% of monthly BA. Actual HAP expenses have increased over the past quarters. Third quarter HAP expenses are reported at \$690,000 (C7- C9). In order to pay the HAPs the PHA is using its NRA. This action has the effect of further lowering the NRA balance to \$56,550 (F9) as of 9/30/2012. An important point is that for the third quarter the reductions in NRA balance are directly related to HUD providing HAP funding based on an estimate of need (the latest available HAP expense), which would not take into consideration increased HAP expense over the recent past months, as HUD does not have these figures. The HUD HAP disbursements still does reflect any adjustment by HUD that takes into consideration the PHA's NRA balances. HUD will begin disbursing less when NRA balances are considered, which will in effect transition a PHA's NRA balance to program reserves.
5. In the final quarter HUD disbursed \$663,750 (B10-B12) and the amount is based again on prior period VMS HAP expenses (April 2012 through June 2012; note the same shading (B10-B12) and (C4-C6)) with HUD adding a small assumed increase of 3% of monthly BA. The actual HAP expense has decreased over the past quarter. Fourth quarter HAP expenses are reported at \$675,000 (C10 - C12). In order to pay the HAPs the PHA is again using its NRA. This action has the effect of lowering the NRA balance to \$47,300 (F12) as of 12/31/2012.

6. At the end of the fiscal year the PHA has a NRA balance of \$47,300 (F12 or F13) and program reserves of \$75,000 (ABA of \$2,500,000 minus HUD disbursements of \$2,425,000). The PHA would report HAP revenue of \$2,425,000, in the PHA's financial statements; this amount is equal to HUD's actual HAP disbursements for the fiscal year.
7. Even though the PHA earned \$1,884 in interest on the NRA balance, the NRA balance is not increased by this amount as the interest earned is due to the U.S Treasury. If the PHA is required to remit the interest earned to the U.S. Treasury directly, no further adjustments are needed by the PHA in order to calculate its NRA balance. However, if HUD remits the interest earned to the U.S. Treasury on behalf of the PHA, other accounting entries may be required in order to properly state the NRA balance.
8. Under pre-cash management, the PHA would have instead recognized revenue in the amount of \$2,500,000 (2012 ABA) and the NRA would be increased by the amount of program reserves and interest earned.



\* Unearned undisbursed ABA does not become program reserves until the end of the calendar year but are still available for the PHA for HAP needs, other than to cover the cost of over leasing during the calendar year. For illustration purposes, the table does not make a distinction.

At the end of the fiscal year the PHA has a NRA balance of \$0 and program reserves at 12/31/2012 of \$75,000. This amount was calculated as follows: ABA of \$2,500,000 minus HUD disbursements of \$2,425,000 (B13). HUD may include the \$4,700 in the PHA's final program reserve calculation for the year. If this is the case, the PHA's program reserve would be further reduced by this amount to \$70,300. The PHA would report HAP revenue of \$2,429,700 in the PHA's financial statements; this amount is equal to the HUD HAP disbursements of \$2,425,000 (B13) plus the additional amount requested by the PHA for 2012 HAP of \$4,700 (F12, the amount of negative NRA) but not yet received.

### **Monthly HAP Disbursements (Implementation of the Cash Management Requirements of the HCV Program)**

It is HUD's intention that at the end of each quarter, and as soon as data for the final month of the quarter has been validated, each PHA's actual costs will be compared by HUD to funds disbursed to the PHA for the quarter as reported in the VMS. Subsequent disbursements will be adjusted as needed to immediately recoup any excess disbursements. A final CY reconciliation will be conducted by HUD as soon as data for the final month of the CY has been validated in order to determine whether the PHA has received excess or insufficient HAP funding. Based on this final reconciliation, HUD will either make an additional HAP disbursement or offset future HAP disbursements to the PHA to complete the CY reconciliation process. The amount of any additional HAP disbursement is limited to the PHA's program reserves.

If HUD is unable to reduce the PHA's NRA balance to an acceptable amount by the end of December 2012 through a reduction of HAP disbursements, HUD will likely require PHAs to write a check to HUD for any amount above an acceptable NRA balance.

### **Administrative Fee Revenue Recognition [slides 31-33]**

Ongoing administrative fees are funded separately from HAP funding. PHAs earn ongoing administrative fees based on an eligibility time requirement that vouchers must be leased on the first day of the month. The amount of administrative fees a PHA will earn during a year is based on three items:

1. The number of vouchers that are under HAP contract as of the first day of each month;
2. An established fee rate; and
3. If applicable, less any pro-ration.

Since 2008, HUD makes estimated ongoing administrative fee disbursements to PHAs on the first day of each month based on the number of units leased as of the first day of each month as reported in the Voucher Management System (VMS), times fee rates established by HUD. HUD later reconciles a PHA's monthly lease-up in the VMS to adjust the estimated ongoing

administrative fees paid for a previous month to actual fees earned based on actual VMS leasing. HUD also conducts a final reconciliation after a calendar year to capture any changes PHAs may have made to their previously reported VMS leasing data, so that PHAs are paid based on actual leasing during the calendar year less any applicable pro-rations.

Proration factors are applied by HUD when it is anticipated that funding available for the payment of administrative fees during a calendar year will not be sufficient to cover a PHA's eligibility. In years in which HUD pro-rates funding, PHAs will typically recognize the pro-rated fee amount. Stated differently, PHAs typically are not able to establish that the amounts not received due to proration are available, measurable, and probable of collection and, therefore, these amounts are not subject to recognition.

The requirements of cash management do not affect revenue recognition of administrative fees. It is common practice that PHAs will continue to recognize administrative fee revenue based on actual monthly HUD disbursements and then reconcile to actual administrative fees earned periodically or at year-end less any applicable pro-ration. For financial statement reporting, the PHA will need to make an adjusting/reconciling entry, based on a comparison of the funds disbursed versus the amount the PHA was eligible to receive at the end of the reporting period, based on actual voucher usage. Normally, this entry is an estimate based on the best available data at the time (for example a final proration factor). The reconciliation can result in the PHA booking the following types of journal entries:

- Accounts receivable from HUD if the PHA earned more in fees than the PHA was paid by HUD (Example 3).
- Deferred revenue if the PHA received more in fees from HUD than the PHA earned. In this case, PHAs will not book accounts payable to HUD. HUD will "recapture" these overpayments to the PHA by reducing future administrative fee advances (Example 4).

The requirement that PHAs earn administrative fees based on the number of vouchers that are under HAP contract on the first day of the month triggers a time requirement as described under GASB No. 33. Examples 3 and 4 provide a further discussion of this time requirement for revenue recognition of administrative fees.

**Example 3 [slide 32]**

Table 3.9 illustrates the funding and proper journal entries to record monthly administrative fees. The latest validated VMS data shows that the PHA had 500 HAP contracts under lease on the first day of the month at a fee rate of \$60 per voucher. Based on this information, HUD disbursed \$30,000 in administrative fees to the PHA. The PHA’s management information system shows that the actual numbers of HAP contracts under lease was 550 vouchers. At a fee rate of \$60 per voucher the PHA actually earned \$33,000 in administrative fees. The table below summarizes this information.

**Table 3.9 Recording Monthly Administrative Fees**

HAP Contracts Under Lease on First Day of the Month		Fee Rate	Amount Disbursed	Amount Earned
Older VMS Data used in Estimate	500	\$60	\$30,000	
Actual	550	\$60		\$33,000

Note: For this example, no pro-ration was assumed.

Based on the above information, the PHA would recognize \$33,000 in administrative fee revenue, with \$30,000 received in cash. The journal entry below shows the correct accounting.

FDS Line Item		Debit	Credit
111	Cash – Unrestricted	\$30,000	
122	Accounts Receivable - HUD Other Projects	\$3,000	
70600-020	HUD PHA Operating Grants - Administrative Fees		\$33,000

**Example 4 [slide 33]**

The table below illustrates the funding and proper journal entry to record monthly administrative fees when HUD provides more funds than the PHA earned. In this example, the latest validated VMS data shows that the PHA had 550 HAP contracts under lease on the first day of the month at a fee rate of \$60 per voucher. Based on this information, HUD disbursed \$33,000 in administrative fees to the PHA. The PHA knows that the actual number of HAP contracts under lease was only 500 vouchers. At a fee rate of \$60 per actual leased voucher, the PHA earned \$30,000 in administrative fees. The table below summarizes this information.

**Table 3.10 Recording Monthly Administrative Fees – HUD Provides More Funding than PHA Earned**

HAP Contracts Under Lease on First Day of the Month		Fee Rate	Amount Disbursed	Amount Earned
Older VMS Data used in Estimate	550	\$60	\$33,000	
Actual	500	\$60		\$30,000

Note: For this example, no pro-ration was assumed.

Based on the above information, the PHA would recognize \$30,000 in administrative fee revenue; however, the PHA received \$33,000 in cash. This results in the PHA needing to book deferred revenue. The journal entry below provides the correct accounting.

FDS Line Item		Debit	Credit
111	Cash - Unrestricted	\$30,000	
115	Cash – Restricted for Payment of Current Liability	\$3,000	
70600-020	HUD PHA Operating Grants - Administrative Fees		\$30,000
342	Deferred Revenue		\$3,000

The PHA cannot recognize all \$33,000 of disbursed funds as revenue, because of the time requirement. The PHA is not eligible to use the additional \$3,000 in disbursed funds because the funds have not been earned.

### FDS Lines Applicable to Revenue Recognition in the HCV Program [slides 34-35]

FDS line 70600 (HUD PHA Operating Grants) is used to record HAP and administrative fee revenue in the HCV program. Note that regardless of whether HCV funding is used for operating expenses or the purchase of capital equipment, all funds received from HUD for the HCV program will be booked in this line item. This FDS line is further broken out into the following subaccounts.

**Table 3.11 FDS Lines to Record Administrative Fee & HAP Revenue**

FDS Line Item	Account Description	Typical Use
70600-010	Housing Assistance Payments	This subaccount is used to record all HAP funding received from HUD.
70600-020	Ongoing Administrative Fees Earned	This subaccount is used to record all administrative fees earned by the PHA from HUD.
70600-030	Hard-to-House Fee Revenue	This subaccount was used in years past to record hard-to-house fees the PHA earned from HUD. This subaccount has not been used in recent years as this fee has not been funded by the Congress.
70600-031	FSS Coordinator Grant	This subaccount is used to record FSS Coordinator Grant funding received by the PHA. This account is only used if the PHA has been funded for an FSS coordinator grant.
70600-040	Actual Independent Public Accountant Audit Cost	This subaccount is used to record funding the PHA received to cover the cost of an audit where HUD requires additional audit work above A-133 requirements. For the majority of PHAs this line is zero.
70600-050	Total Preliminary Fees Earned	This subaccount is used to record a special fee that PHAs received for leasing incremental vouchers for the first time. Currently, this fee represents a one-time fee PHAs receive for housing conversion units or a new HCV program.
70600-060	All Other Fees	This subaccount is used to capture any other type of fee a PHA receives from HUD not specified in another subaccount. Currently the most common fee recorded in this subaccount is the homeownership closing fee for PHAs participating in a homeownership program. PHAs receive a one-time fee of \$5,000 for their first homeownership closing and \$500 for each subsequent closing as reported in PIC.

The following FDS line items related to the balance sheet are also applicable, with the cash and investment accounts that are discussed in detail in the next section.

**Table 3.12 Balance Sheet FDS Lines Related to HAP & Administrative Fee Revenue**

<b>FDS Line Item</b>	<b>Account Description</b>	<b>Typical Use</b>
111	Cash—unrestricted	In the context of the HCV program, cash representing administrative fee revenue will be a component of this line item.
113	Cash—other restricted	In the context of the HCV program, cash representing HAP revenue will be a component of this line item.
131	Investments—unrestricted	In the context of the HCV program, investments made with excess HCV administrative fee revenue will be a component of this line item.
132	Investments—restricted	In the context of the HCV program, investments made with excess HAP revenue will be a component of this line item.
122	Accounts receivable—HUD other projects	In the context of the HCV program, this line item could represent administrative fees earned but not yet paid by HUD to the PHA or HAP funds earned (as shown through need) but not yet disbursed.
331	Accounts payable—HUD PHA programs	In the context of the HCV program, this line item could represent amounts due back to HUD for offsets HUD makes in order to recapture funding. The use of this line is rare for this purpose.
342	Deferred revenue	In the context of the HCV program, this line item can represent HAP funds advanced to a PHA and/or administrative fee funding not earned in the period they were received.

**NRA Offsets [slide 36]**

In past funding periods, the Congress has required HUD to reduce a PHA's HAP renewal funding eligibility by specific amounts in order to force a PHA who was considered to have an excess NRA balance to reduce that balance. When NRA offsets occur the offset does not result in the creation of accounts payable to HUD. The offset simply means that in the year the offset is applied, the PHA will be awarded less HAP renewal funding than their renewal funding eligibility amount.

**Offsets Other than NRA Offsets [slide 37]**

Although not common, HUD can reduce the amounts due a PHA in order to recapture amounts that must be paid back to HUD. This process allows HUD to recapture funds without the PHA having to issue a check or transfer funds back to HUD by wire transfer. This type of offset will result in the PHA booking accounts payable to HUD for the amount of the recapture.

**Accounting for Retroactive Funding and Payments [slide 38]**

Retroactive payments related to the HCV program are payments made by HUD to a PHA after a funding period has closed, typically a calendar year. From HUD's perspective, these payments are made in a subsequent calendar year from appropriations from a previous year. These payments are normally the result of HUD conducting final calendar year reconciliations that result in the availability of additional funds. When retroactive payments are received by a PHA, the question becomes whether the payment should be treated as revenue of the period the funds are received or as a prior period adjustment.

The accounting standards for prior period adjustments are contained in Statement of Financial Accounting Standards (SFAS) No. 16. Prior period adjustments are used to correct or move back to a prior accounting period accounting activity that should have been reported in the previous accounting period, typically a prior fiscal year. Corrections to prior periods may be needed because of mathematical errors, an incorrect application of GAAP, or oversight or misuse of facts at the time the PHA issued its financial statements for the period. Retroactive payments do not represent an error on the part of the PHA. Therefore, in most cases a PHA should treat a retroactive payment as revenue in the fiscal year it is received. In addition, retroactive payments are not measurable by the PHA or available to the PHA at the close of the previous fiscal year, further supporting the fact they do not represent an error that should be corrected.

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### III. CASH AND INVESTMENTS [slides 39-45]

#### Unrestricted Cash and Investments (FDS lines 111 and 131) [slides 40 & 41]

These FDS lines represent cash and investments that are available for use to support any activity of the program or project. For FDS reporting, unrestricted cash and investments should include all balances that are not further defined under FDS lines 112 through 115, 132, and 135 as restricted.

It is understood that cash and investment balances in federal programs, as well as in many of the state and local programs, are limited in their use to support only that program for which the funds were provided. Therefore, for FDS reporting, cash and investments - unrestricted means cash available to support the general operations of the program without other third party restrictions or further limitations of the providing government/source itself. Cash and investments-unrestricted for the HCV program specifically includes:

- Balances associated with HCV administrative fees (both Pre-2004 and Post-2003); and
- Balances associated with HCV program port-in housing assistance payments and administrative fees.

Other non-HCV specific examples include:

- Balances associated with public housing operating subsidy and other public housing program income (i.e., dwelling rental income, non-dwelling rent, and unrestricted interest income);
- Balance associated with fee income earned by the COCC;
- Balances set aside for self insurance that can be accessed by PHA management or not restricted to be set aside by HUD or a third party; and
- Balances that have been reserved/encumbered/designated by the PHA Board or PHA management.

#### Cash – Restricted – Modernization and Development (FDS line 112) [slides 42-43]

This FDS line represents cash and cash equivalents that are only allowed to be expended for certain, specified modernization and development activities. The restriction on the use of the funds has been specified by the source of the monies, not by the PHA. Generally, this account includes proceeds from the sale of property that had been acquired with grant and development funds, insurance recoveries received in advance of contractor bills, unspent bond proceeds, loans and other advances, and CFP drawdowns designated for future capital activities. PHAs report the cash associated with these activities only where no current liabilities are reported. The portion of cash related to a payment of current liability should be reported in FDS Line 115. Normally this FDS line is not used for the HCV program.

**Cash and Investments – Other Restricted (FDS lines 113 and 132) [slide 44]**

These FDS lines represent cash and investments that are only to be expended for specified, restricted purposes. The restriction on the use of the funds has been imposed by the source of the monies. Cash and investments-restricted for the HCV program specifically includes:

- Housing assistance payment equity account of the Housing Choice Voucher Program;
- A PHA's Family Self Sufficiency (FSS) escrow account that will be used for payment of contracts not due within 12 months of the Balance Sheet date; and
- Homeownership program funds that are limited in use as per the agreement with HUD and are reported in the Public Housing or Housing Choice Voucher programs.

Other non-HCV specific examples include:

- All monies contractually and/or legally unavailable for use in the day-to-day operations of the program.

**Cash and Investments – Restricted for Payment of Current Liability (FDS lines 115 and 135) [slide 45]**

These FDS line items represent restricted cash and investments that are only to be expended for specified restricted purposes but will be used in the next fiscal year and are supported by a reported current liability/deferred revenue. The restriction on the use of the funds has been imposed by the source of the monies, not the PHA. Examples of cash and investments - restricted for payment of current liability for the HCV program include items such as:

- Balances associated with advances of grant and subsidy funds not yet earned; and
- Balances in the PHAs Family Self Sufficiency (FSS) escrow account that will be used for payment of contracts due within 12 months of the Balance Sheet date.

Other non-HCV specific examples include:

- Debt service payments; and
- Cash restricted for modernization and development up to the amount of any associated and reported current liability.

The portion of restricted cash and investments that will not be used in the next fiscal year or will not be used for payment of the reported current liability or to offset the deferred revenue should be reported in FDS Lines 112, 113, and 132.

#### IV. INVESTMENT INCOME [slides 46-50]

In accordance with GASB 31, investments should be reported at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. All investment income, including changes in the fair value of investments, should be recognized as revenue in the operating statement or other statement of activities. Proper accounting for investment activity requires:

- Determination of the fair market value of an investment;
- Recording investment income as it is earned (accrued); and
- Recording changes in the value of investments.

For PHAs, all investments should be classified as current. The following FDS lines will be used to account for investment activity in the HCV program.

**Table 3.13 FDS Lines – Investment Activity**

FDS Line Item	Account Description	Typical Use
111	Cash—unrestricted	In the HCV program, idle cash accumulated from excess fees and other income accumulated as Admin Fee Equity.
113	Cash—other restricted	In the HCV program, idle cash accumulated from excess HAP funds received and other income accumulated as HAP equity.
129	Accrued interest receivable	In the case of the HCV program, to accrue interest that has been earned on an investment during the accounting period but not yet received in cash.
131	Investments—unrestricted	In the case of the HCV program, to record the investment of Unrestricted Net Assets.
132	Investments—restricted	In the case of the HCV program, this line is used to record the investment of Restricted Net Assets.
135	Investments—restricted for payment of current liability	In the case of the HCV program, to record, HCV funds received prior to the start of the calendar year (i.e., unearned) which are invested and will be used to pay a current liability or to offset a deferred revenue.
71100	Investment income—unrestricted	In the case of the HCV program, to record interest income earned on the investment of Unrestricted Net Assets.
72000	Investment income—restricted	In the case of the HCV program, to record interest income earned on the investment of Restricted Net Assets.

The HCV program Annual Contributions Contract (ACC), Form HUD-52520, requires PHAs to use a depository agreement that is authorized by HUD. HUD’s depository agreement Form HUD-51999 includes a clause that states, “All monies deposited by PHA/IHA with the Depository shall be credited to the PHA/IHA in a separate interest bearing deposit or interest bearing accounts.”

The PHA must keep in mind the following two items when reporting investment income:

- **Restricted vs. Unrestricted:** Investment income should be allocated based on asset type. If the assets on which income is earned are unrestricted, the investment income should be classified as unrestricted in FDS line 71100. If the assets, on which income is earned, are restricted, the investment income should be classified as restricted in FDS line 72000.
- **HAP vs. Administrative Fee Revenue:** Investment income should be allocated based on the funding source. If HAP funds earn investment income, the income should be reported to HAP (72000-010). If administrative funds earn investment income, the income should be reported to Administrative Fee (FDS line 71100-020).

**Investment Income Journal Entry [slide 50]**

The PHA records investment income related to the Equity Account as follows:

Table 3.14 Investment Income – Journal Entry

Description	Debit	Credit
<del>(113) Cash – Other Restricted (HAP)</del>	XXX	
<del>– (72000-010) Investment Income – Restricted (HAP)</del>		XXX
(111) Cash – Unrestricted (Admin Fee)	XXX	
(71100-020) Investment Income – Unrestricted (Admin Fee)		XXX

**Note:**

It is likely that interest revenue earned on invested NRA balances will now be returned to the U.S. Treasury, starting with interest income earned on or after 01/01/2012. Therefore interest earned on NRA balances will not increase the PHA’s NRA balance. At the time of this training, it is unknown if the PHA will be required to directly remit interest earned on their NRA balance to the U.S. Treasury or if HUD will remit the interest earned on behalf of the PHA to the U.S. Treasury in the amount of interest reported in the Voucher Management System. Because HUD has not determined a final policy on how interest income earned on NRA will be remitted to the U.S Treasury, journal entries have not been provided. PHAs should be mindful to review HUD’s guidance on this issue.

All bank charges should be reported as an expense in FDS line 96200 (Other General Expenses) and not netted out against investment income. Operating expenses will flow automatically as a charge to the administrative fee equity account. This guidance includes any bank charges related to HAP cash and/or investment accounts.

## V. FRAUD RECOVERIES [slides 51-61]

*24 CFR 792.* In order to encourage PHAs to take actions to identify and collect fraud amounts, HCV program regulations allow PHAs to share in the fraud recovery amounts that are collected.

*24 CFR 792.202.* HCV program regulations allow, where the PHA is the principal party initiating or sustaining an action, to recover amounts from tenants that are due as a result of fraud and abuse, to retain the greater of:

- Fifty percent of the amount the PHA actually collects from a judgment, litigation (including settlement of a lawsuit) or an administrative repayment agreement pursuant to, or incorporating the requirements of 24 CFR 982.555; or
- Reasonable and necessary costs that the PHA incurs related to the collection from a judgment, litigation (including settlement of a lawsuit) or an administrative repayment agreement pursuant to, or incorporating the requirements of 24 CFR 982.555.

*Notice PIH 2003-34.* PHAs that take none of the above actions must return to HUD all amounts that constitute an overpayment of subsidy.

*24 CFR 792 & Notice PIH 2006-3.* The PHA may only use the amounts it is allowed to retain in support of the HCV program in which the fraud occurred. The remaining balance of the recovery proceeds must be applied as directed by HUD.

The following FDS line items are available to record accounting entries related to fraud.

**Table 3.15 FDS Lines – Fraud Recovery**

FDS Line Item	Account Description	Typical Use
111	Cash—unrestricted	Record the fraud recovery proceeds the PHA may retain.
113	Cash—other restricted	Record the fraud recovery proceeds that will be part of restricted net assets (returned to HUD).
128	Fraud recovery	Record the full amount of the fraud recovery booked.
128.1	Allowance for doubtful accounts – fraud	Record in the case of fraud recovery the anticipated uncollectable amount of the fraud recovery receivable.
71400-010	Fraud recovery – HAP	Record the fraud recovery revenue portion that is returned to HUD.

FDS Line Item	Account Description	Typical Use
71400-020	Fraud recovery – Admin fees	Record the fraud recovery revenue portion the PHA may retain.
96600	Bad debt – other	Record the estimated amount of the fraud recovery not expected to be collected.
11170-050	Administrative fee equity – other revenue	Adjust the Unrestricted Net Asset account to share in the bad debt expense.
11180-090	Housing assistance payment equity – other expense	Adjust the Restricted Net Asset account to share in the bad debt expense.

The sections below shows the accounting transactions related to fraud recovery activity and the associated FDS lines.

**Booking Fraud Recovery Accounts Receivable [slide 57]**

Typically, the PHA will book a fraud recovery accounts receivable once the PHA has a signed repayment agreement (perfected the receivable) from a tenant. Assume the PHA has a new repayment agreement for \$2,000, and historical data shows they collect 50% of the repayment agreements that are booked.

The following journal entries would be made at the time the repayment agreement is recognized in the accounting records:

**Table 3.16 Fraud Recovery Journal Entry – Repayment Agreement**

FDS Line Item	Debit	Credit
128 – Fraud recoveries	\$2,000	
71400-010 – Fraud recovery revenue–HAP		\$1,000
71400-020 – Fraud recovery revenue–Admin fees		\$1,000
96600 – Bad debt–other	\$1,000	
128.1 – Allowance for doubtful accounts–fraud		\$1,000

In addition, since entries to FDS line item 96600 (Bad debt–other) automatically flow through Unrestricted Net Assets, the PHA will need to adjust the memo accounts when reporting on the FDS to move part of the bad debt expense to Net Restricted Assets.

Assuming bad debt expense of \$1,000 at the time the repayment agreement was recognized in the accounting records, the following additional entry would be shown in the FDS at year-end:

FDS Line Item	Debit	Credit
11180-090 – Housing assistance payment equity–other expenses	\$500	
11170-050 – Administrative fee equity–other revenue		\$500

### Booking Payments Received for Fraud Recovery [slide 58]

Assuming the PHA received \$1,000 dollars towards a repayment agreement and the PHA uses the 50/50 methodology to split the amount that should be returned to HUD and allowed to be kept, the following entry would be used to recognize this activity in the accounting records:

**Table 3.17 Fraud Recovery Journal Entry – Payments Received**

FDS Line Item	Debit	Credit
111 – Cash–unrestricted	\$500	
113 – Cash–other restricted	\$500	
128 – Fraud recovery		\$1,000

### Writing Off Fraud Recovery Receivables as Uncollectable [slide 58]

Amounts booked for fraud recovery should be periodically examined to determine the collectability of the receivable. At a minimum, this examination should occur once each year before the PHA closes the accounting period. When a fraud recovery receivable has been identified as uncollectable, such as a participant that is no longer in the program and the PHA is no longer able to locate the tenant to lobby for payment, the amount may need to be written off.

Assuming that a \$1,000 balance on a repayment agreement was determined to be uncollectable, the following entry would be used to write off the uncollectable account:

**Table 3.18 Fraud Recovery Journal Entry – Write-off of Receivables as Uncollectable**

FDS Line Item	Debit	Credit
128.1 – Allowance for doubtful accounts–fraud	\$1,000	
128 – Fraud recovery		\$1,000

**Booking Collection of Accounts Receivable Previously Written Off [slide 59]**

It is not uncommon that PHAs, after writing off an accounts receivable, get paid sometime in the future. Assuming the PHA receives payment of \$1,000 that was originally recorded 50/50 to HUD and the PHA and was written off as uncollectable, the following entries would be used to record this activity in the accounting records:

FDS Line Item	Debit	Credit
128 – Fraud recovery	\$1,000	
128.1 – Allowance for doubtful accounts–fraud		\$1,000
111 – Cash–unrestricted	\$500	
113 – Cash–other restricted	\$500	
128 – Fraud recovery		\$1,000

**Adjusting Previously Recorded 50/50 Split When Collection Cost is Greater [slide 60]**

PHAs will not know at the time they identify fraud receivables whether the direct costs of collection will be greater than 50% of the amount they collect. Typically, a PHA will assume the receivable amount will be split 50/50 between HUD and the PHA at the time the receivable is booked. If, however, it turns out that the direct costs of collection exceeded 50% of the amount collected, the PHA would need to adjust its accounting records.

Assume a repayment agreement for \$2,000 was originally booked crediting 50% to HUD and 50% to the PHA, but the direct costs of collection were actually \$1,600. The following entries would be needed to adjust the accounting records:

FDS Line Item	Debit	Credit
111 – Cash–unrestricted	\$1,600	
113 – Cash–other restricted	\$400	
128 – Fraud recovery		\$2,000
71400-010 – Fraud recovery–HAP	\$600	
71400-020 – Fraud recovery–Admin		\$600

**Disposition of Fraud Recovery Funds for Port-In Vouchers [slide 61]**

PHAs administering a port-in family who recover amounts due to fraud in the program will be entitled to keep 50% of the amount they collect or the reasonable direct costs of collection. The remaining amount will be refunded to the initial PHA where it will be treated as Fraud Recovery Revenue and accrue to the initial PHA's NRA account.

## **VI. FAMILY SELF SUFFICIENCY [slides 62-67]**

### **Family Self Sufficiency [slides 62-64]**

Family Self-Sufficiency (FSS) is a HUD program that encourages PHAs to develop local strategies to help voucher families obtain employment that will lead to economic independence and self-sufficiency. PHAs work with welfare agencies, schools, businesses, and other local partners to develop a comprehensive program that gives participating FSS family members the skills and experience to enable them to obtain employment that pays a living wage. The FSS regulations are at 24 CFR 984 for both the Section 8 and Public Housing FSS Program. The FSS escrow account is covered in Section 984.305.

For programs with a HUD-funded FSS Coordinator Grant, the FDS includes Line 70600-031 (FSS Coordinator) to record the grant revenue. If the FSS Coordinator grant creates a difference in LOCCS/ HUDCAPS Report, explain in the Comments tab.

Regardless of whether FSS services are funded through a grant or not, FSS expenses should be reported in the Tenant Services line items (92000 series) in the FDS, specifically:

- Line 92100 – Tenant Services Salaries
- Line 92300 – Employee Benefit Contributions Tenant Services
- Line 92400 – Tenant Services Other

The financial transactions involved in accounting for the Family Self Sufficiency Escrow accounts include the following:

- Managing the escrow accounts;
- Investing escrow proceeds;
- Reporting to tenants on their escrow account balances; and
- Tracking the disbursement of escrow account funds.

### **FSS Escrow Activity [slides 65-67]**

The PHA is required to deposit the FSS account funds of all families participating in the PHAs FSS program into a single depository account. If the PHA is having a management company administer the FSS program, the depository account should still be in the PHA's name and reported in FASS-PH under the HCV Program. The total combined FSS account funds will be supported in the PHA accounting records by a subsidiary ledger showing the balance applicable to each FSS Family. During the term of the contract of participation, the PHA shall credit periodically, but not less than annually, to each family's FSS account the amount of the FSS credit due to the family, including interest.

The following FDS Line Items are used to record transactions related to FSS escrow activities:

FDS Line Item	Account Description
113	Cash Other Restricted (corresponding liability is 353)
115	Cash Restricted for Payment of Current Liability (corresponding liability is line 345)
345	Other Current Liabilities
353	Non-current Liabilities Other
72000	Investment Income - Restricted
97300	Housing Assistance Payments

The following shows the accounting transactions related to FSS activity and the associated FDS lines.

**Example 1: To set up the escrow account for the family: [slide 66]**

Description	Debit	Credit
(97300) Housing Assistance Payment (for escrow portion) (113) Cash – Other Restricted (HAP reserves)	XXX	XXX
(113) Cash – Other Restricted (FSS escrow cash) (353) Non-current Liability - Other (FSS – Escrow Liability)	XXX	XXX

**Example 2: To record investment income related to the escrow funds: [slide 66]**

Description	Debit	Credit
(113) Cash – Other Restricted (FSS escrow cash) (72000) Investment Income - Restricted	XXX	XXX
(72000) Investment Income – Restricted (353) Non-current Liability - Other (FSS – Escrow Liability)	XXX	XXX

**Example 3: To record FSS Forfeitures: [slide 67]**

Description	Debit	Credit
(353) Non-current Liability - Other (FSS – Escrow Liability) (113) Cash – Other Restricted (FSS escrow cash)	XXX	XXX
(113) Cash – Other Restricted (HAP reserves) (71500) Other Revenue (HAP Equity <sup>6</sup> )	XXX	XXX

<sup>6</sup> The PHA will need to manually flow this HAP equity on FDS Line 11180-020 (Other Revenues).

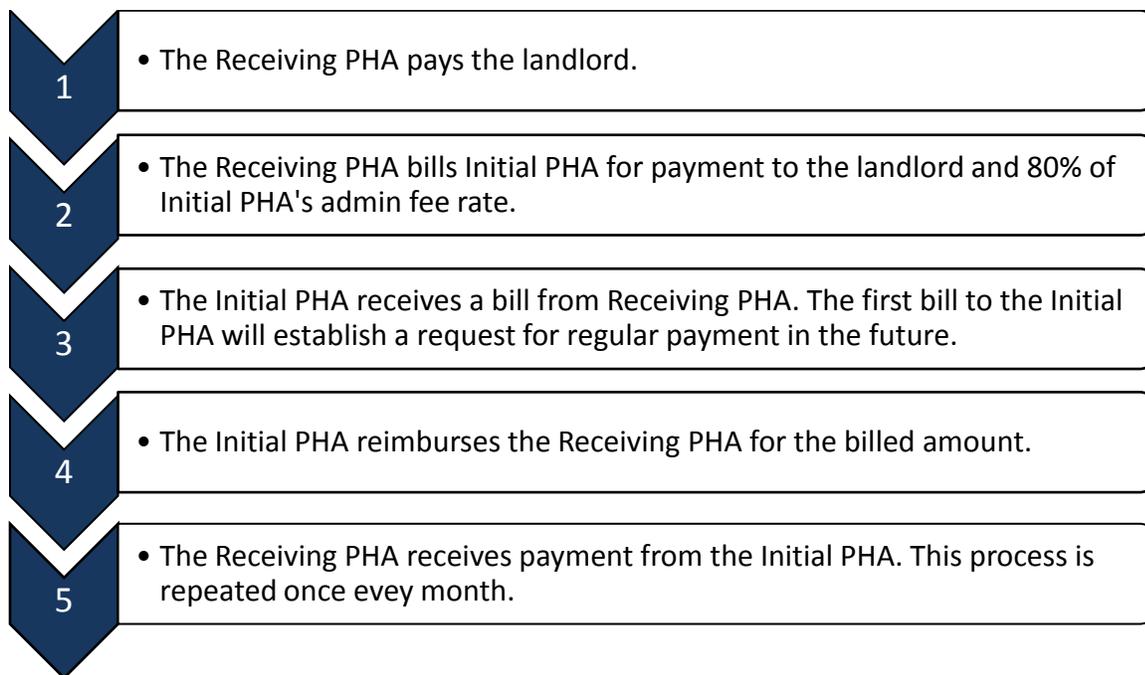
## VII. ACCOUNTING PROCEDURES FOR PORTABILITY [slides 68-76]

With certain restrictions, an eligible HCV program family may use their voucher to lease a unit anywhere in the United States where there is a PHA operating a HCV program. This feature of the HCV program is referred to as portability. The PHA that issues the voucher to a family that wishes to move to another jurisdiction under portability is called the initial PHA. The PHA in the jurisdiction to which the family wishes to relocate is called the receiving PHA. Program regulations covering where a family may move and the responsibilities of the initial PHA and the receiving PHA are found at 24 CFR 982.353 through 982.355. PHAs should refer to PIH Notice 2011-3 for specific deadlines associated with portability billing. This section describes how to account for portability transactions.

### Portability Billing Process [slide 70]

The figure below describes the steps involved in the portability billing process between a receiving and initial PHA.

**Figure 3.1 Portability Billing Process - Receiving & Initial PHA (Monthly Recurring Process)**



**Note:** A HUD proposed rule (HCV Program: Streamlining the Portability Process”) issued on March 28, 2012 proposed to amend the portability regulations allow the Receiving PHA to bill the Initial PHA based on 100% of the Receiving PHA’s Administrative Fee Rate .

*PIH Notice 2011-3.* The HCV program regulations require that the initial PHA must promptly reimburse the receiving PHA for the full amount of the HAP payments and with 80% of its ongoing administrative fee from column B (or a negotiated amount if both PHAs agree) for each

month that the family receives assistance from the receiving PHA. The first billing from the receiving PHA to the initial PHA creates a request for subsequent regular payments. The initial PHA should continue to pay the receiving PHA based on this amount until such time as the receiving PHA sends a new billing changing the amount. Changes in the billing amount can be the result of changes in the HAP, the HUD posted administrative fees or if a family ends participation in the program.

The initial PHA and the receiving PHA must comply with billing and payment deadlines under the financial procedures for portability activity as specified in PIH Notice 2011-3. HUD may assess penalties against an initial PHA or a receiving PHA for violations of the deadlines specified by HUD in PIH Notice 2011-3.

Information on administrative fees for portability billing purposes is provided in annual HUD guidance on administrative fees. Typically this guidance directs that the receiving PHA bill the initial PHA for 80% of the Column B posted administrative fee rate of the initial PHA, or some other negotiated amount. PHAs apply the pro-ration factor determined by HUD to the 80% of the Column B posted rate. HUD allows PHAs to use the pro-rate fee amounts for the entire calendar year to avoid the need for PHAs to re-calculate their portable fees each quarter. An important concept to keep in mind is that the funding that supports the payments made by the receiving PHA for the portable vouchers of initial PHAs comes from the receiving PHAs unrestricted cash balance, which is related to the PHA's Unrestricted Net Assets. Appropriations law stipulates that restricted cash and Net Restricted Assets may only be used to support the HAP and HAP-like expenses of the PHA's authorized units (ACC vouchers). Only in cases where the receiving PHA decides to absorb the portability family into its program, can the PHA's ACC funding be used to pay the HAP.

### Portability – FDS Lines [slide 71]

The following FDS lines are used to record portability transactions.

Table 3.19 FDS Lines – Portability Transactions

FDS Line Item	Account Description	Typical Use
111	Cash–unrestricted	In the context of the HCV program, this line item represents cash accumulated from excess administrative fees earned and other administrative revenue.
113	Cash–other restricted	In the context of the HCV program, this line item represents cash accumulated from excess HAP funds received and other HAP related revenue.
121	Accounts receivable–PHA projects	In the context of the HCV program, amounts in this line item relate to portability billing amounts billed by the receiving PHA to the initial PHA.

FDS Line Item	Account Description	Typical Use
332	Accounts payable–PHA projects	In the context of the HCV program, amounts in this line item relate to portability billing amounts billed to the initial PHA by the receiving PHA.
71500	Other revenue	In the context of the HCV program, amounts in this line item represent, among other things, the HAP and administrative fee revenue per amounts billed by the receiving PHA to the initial PHA.
96200	Other general expenses	In the context of the HCV program, amounts in this line item represent the portion of the initial PHA’s administrative fee paid to the receiving PHA for administering a portable voucher on the initial PHA’s behalf.
97300-050	Housing assistance payments—all other	Amounts in this line item represent all HAP expense not accounted for in another subaccount of line item 97300, including HAPs for portable vouchers which are not absorbed by the receiving PHA.
97350	HAP portability–In	Amounts in this line item represent the amount of HAP expense paid by the receiving PHA on behalf of the initial PHA for portable vouchers the receiving PHA has not absorbed.

The following important concepts should be kept in mind with respect to portability transactions.

- FDS Line 97300 (Housing Assistance Payments) should only reflect the HAP expense for vouchers associated with a PHA’s ACC. The FDS template used for 3/31/2008 and prior did not allow for the Receiving PHA to record the expenses associated with payments to a landlord for a portability-in voucher. The current FDS template now includes FDS Line 97350 (HAP Portability-in) which allows the Receiving PHA to record a portability transaction in accordance with GAAP. The accounting for this transaction changes for the Receiving PHA in that revenue and HAP portability expense is now shown on the Receiving PHA’s income statement.
- The funding that supports the payments made by the Receiving PHA for the portable vouchers of the Initial PHA is from the Receiving PHA’s unrestricted cash balance, which is related to the Receiving PHA’s Unrestricted Net Assets (UNA). Appropriations law stipulates that restricted cash and Net Restricted Assets (NRA) may only be used to support the HAP and the HAP-like expenses of the PHA’s authorized units (ACC vouchers). Only in cases where the Receiving PHA decides to absorb the portability family into its program, can the Receiving PHA’s ACC funding be used to pay the HAP.

The sections below shows the accounting transactions related to portability, including the associated FDS lines.

### Receiving PHA Transactions [slides 72-74]

The following are three (3) examples of portability transactions associated with the receiving PHA.

**Example 1** – The receiving PHA pays the \$575 HAP payment for the portable voucher on behalf of the initial PHA. The following accounting entry would be made to book this activity:

FDS Line Item	Debit	Credit
97350 – HAP Portability–In	\$575	
111 – Cash–unrestricted		\$575

**Example 2** – The receiving PHA bills the initial PHA for reimbursement of 100% of the HAP (\$575), plus 80% of the initial PHA’s posted Column B administrative fee rate of \$45. Assume HUD initially paid PHAs at 98% of their eligible fee rates.

The following accounting entry would be made to book this activity:

FDS Line Item	Debit	Credit
121 – Accounts Receivable–PHA projects	\$619.10	
71500 – Other revenue		\$619.10

**Note:** The total amount billed to the initial PHA is \$575 for the HAP plus \$44.10 for the administrative fee (\$45.00 x 98%, the initial HUD applied pro-ration amounts). The pro-ration amount is subject to change since the pro-ration depends on whether available administrative fee appropriations provided to HUD are sufficient to pay all PHAs at 100% of their eligibility during the calendar year.

Notice PIH 2011-3 requires the first billing to be mailed to the initial PHA within 10 working days after the date the HAP contract is executed. The receiving PHA is also required to submit a new billing form to the initial PHA within 10 working days following the effective date of any change in the billing amount. If the receiving PHA fails to follow these deadlines the initial PHA is typically not required to pay the billed amount.

PHAs should also remember that when completing the Memo Administrative Fee Equity FDS line items at year-end, the FDS memo line item 11170-050 (Other Revenue) will not auto populate from data entered directly into FDS line 71500 (Other Revenue). The PHA will have to

manually populate this line item. The memo FDS line 11170-051 (Comment for Other Revenue) should be used to explain the amounts entered on 11170-050 (Other Revenue).

**Example 3** – The receiving PHA receives payment in the amount of \$619.10 from the initial PHA. The following accounting entry would be made to book this activity:

FDS Line Item	Debit	Credit
111 – Cash–unrestricted	\$619.10	
121 – Accounts receivable–PHA projects		\$619.10

### Initial PHA Transactions [slides 75-76]

The following are two (2) examples of portability transactions associated with the initial PHA.

**Example 1** – The initial PHA receives the billing from the receiving PHA in the amount of \$619.10 which represents \$575 for the HAP and \$44.10 for the administrative fee. The following accounting entry would be made to book this activity:

FDS Line Item	Debit	Credit
97300-050 – Housing assistance payments–all other	\$575.00	
96200 – Other general expenses	\$44.10	
332 – Accounts payable–PHA projects		\$619.10

PIH Notice 2011-3 requires the initial PHA to pay the first billing within 30 days of receipt. Subsequently, the initial PHA is required to make payment no later than the fifth working day of each month for each month the billing arrangement is in effect.

**Example 2** – The initial PHA pays the receiving PHA the billed amount of \$619.10. The following accounting entry would be made to book this activity:

FDS Line Item	Debit	Credit
332 – Accounts payable–PHA projects	\$619.10	
111 – Cash–unrestricted		\$44.10
113 – Cash–other restricted		\$575.00

### *Learning Activity 3.1 – HCV & HCV-Related Programs [slide 77]*



## Session 4: NRA Balances and Other Reporting

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## I. OVERVIEW [slide 2]

### **This session will cover the following topics:**

- Clarify the reporting of HAP and administrative fee equity memo accounts.
- Provide information on items to consider when reviewing HUD's provided quarterly NRA balance.
- Provide guidance on other reporting and financial management aspects of the HCV program.
- Review of the proper close-out requirements for 14.VSH (Veterans Affairs Supportive Housing Program – VASH).
- Review the proper implementation of GASB 54 for PHAs reporting under modified accrual.

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## II. DIFFERENTIATING HAP EQUITY FROM ADMIN EQUITY

### **Differentiating HAP & Administrative Equity [slides 4 & 5]**

Starting January 1, 2005, excess budget authority disbursed to PHAs that was not utilized to pay Housing Assistance Payments (HAP) became part of the PHA's equity. Administrative fees in excess of administrative expenses were always reported as equity. In PIH Notice 2008-9, HUD stated that unused HAP under proprietary fund reporting should be reported as restricted net assets (equity), with the associated cash and investments also reported on the FDS as restricted. Any unused administrative fees should be reported as unrestricted net assets (equity), with the associated assets reported on the FDS as unrestricted. However, HUD also understood that other aspects of the HCV program could also be accounted for as part of restricted net assets that were not related to unspent HAP, such as proceeds from debt and certain homeownership activity.

In order to help PHAs differentiate between HAP and administrative fee equity, the FDS was expanded for 09/30/2006 submissions and later to allow PHAs to enter detailed information related to the PHA's administrative fee and HAP activities. The following two FDS line items (memo accounts on the income statement of the Financial Data Schedule) include detail links for reporting the component parts of HCV equity:

- FDS Line 11170 – Administrative Fee Equity (UNA); and
- FDS Line 11180 – Housing Assistance Payments Equity (NRA)

The Department reviews and analyzes these accounts during the review of the FASS-PH submission.

### **Relationship between Memo Equity Accounts & Balance Sheet Equity Accounts [slide 6]**

FDS Lines 11170 and 11180 are memo accounts that HUD uses internally to differentiate between HAP (NRA) and administrative fee (UNA) equity. The information in these accounts is generated through the transactions and activities the PHA conducts that would normally impact the income statement. In other words, any revenues, expenses, or other financing sources that would be reported on the PHA's Statement of Activities (income statement) would also have to be reported in the PHA's memo accounts FDS lines 11170 and/or 11180.

The Department uses these memo accounts to monitor the PHA equity levels. The reported amounts are used in the analysis for any required NRA offset and in determining HAP disbursement by HUD. These accounts and the associated FDS information, in fact, replace the year end settlement statement (Form HUD-52681) that has been discontinued.

The Department is also aware that by using the FASS-PH system, which is typically reported using the full accrual basis, the calculation itself changes especially for the administrative reserve equity. The Form HUD-52681 was reported using the old HUD basis of accounting; under GAAP certain transactions are now reported differently. For instance, under the previous system, capital outlays were reported as an expense in the year that the purchase was made and the costs would normally have reduced the administrative equity account by the full amount.

However, under a full accrual approach, this transaction flows to the administrative equity account through depreciation expense over the useful life of the asset. The HAP equity account is less impacted since the majority of the transactions are related to cash transactions (HAP revenue and expense, FSS forfeitures, etc.).

*Table 4.1* illustrates the relationship between the balance sheet equity accounts under both the modified and full accrual accounting methods and the HAP and administrative fee equity memo accounts.

**Table 4.1 Relationship of Balance Sheet Equity to HCV Memo Account Equity**

<b>FDS Line Item Number</b>	<b>FDS Line Item Description</b>
<b>Full Accrual</b>	
508.1 – Invested in Capital Assets, Net of Related Debt	11170 – Administrative Fee Equity
512.1 – Unrestricted Net Assets	
511.1 – Restricted Net Assets	11180 – HAP Equity
<b>Modified Accrual (GASB 54)</b>	
508.3 – Nonspendable Fund Balance	11170 – Administrative Fee Equity
510.3 – Committed Fund Balance	
511.3 – Assigned Fund Balance	
512.3 – Unassigned Fund Balance	
509.3 – Restricted Fund Balance	11180 – HAP Equity
<b>Total Equity</b>	
513 – Total Equity/Net Assets	11170 – Administrative Fee Equity plus 11180 – HAP Equity

### **FDS Line 11170 - Administrative Fee Equity [slides 7 & 8]**

FDS line 11170 (Administrative Fee Equity) represents the administrative fee equity for the Housing Choice Voucher program only. FDS line 11170 is equal to the accumulated (i.e., including all prior years) total administrative fee revenue minus total administrative expense. This account is now the equivalent of what was formerly known as “operating reserves” or “administrative fee reserves” for the HCV program. Since this is an equity account, the balance will be carried forward from year to year. The administrative fee equity can be used for administrative expenses incurred in the operation of the HCV Program or for funding to support HAP expenses up to the number of authorized vouchers.

*Table 4.2* on the following page shows the detail FDS lines associated with administrative fee equity.

Table 4.2 FDS Line 11170 – Administrative Fee Equity

Line Item Number	Line Item Description	Comments
11170-001	Administrative Fee Equity- Beginning Balance	For the initial submission and submissions using the FDS Excel tool, the PHA populates this field. For subsequent submissions, this field will be populated by prior year balance of line item 11170-003.
11170-010	Administrative Fee Revenue	Field will be populated from the sum of FDS line items 70600-020 and 70600-050.
11170-020	Hard to House Fee Revenue	Field will be populated from FDS line item 70600-030.
11170-021	FSS Coordinator Grant	Field will be populated from FDS line item 70600-031
11170-030	Audit Costs	Field will be populated from FDS line item 70600-040.
11170-040	Investment Income	Field will be populated from the sum of FDS line items 71100-020 and 72000-020.
11170-045	Fraud Recovery Revenue	Field will be populated from FDS line item 71400-020.
11170-050	Other Revenue	To be entered by PHA.
11170-051	Comment for Other Revenue	To be entered by PHA. Field comment should indicate that, "PHA is expected to explain what "Other" is composed of".
11170-060	Total Admin Fee Revenue	Calculated field by the sum of 11170-010, 11170-020, 11170-021, 11170-030, 11170-040, 11170-045, and 11170-050.
11170-080	Total Operating Expenses	Field will be populated from FDS line item 96900.
11170-090	Depreciation	Field will be populated from FDS line item 97400.
11170-095	Housing Assistance Portability In	Field will be populated from FDS line item 97350
11170-100	Other Expenses	To be entered by PHA.
11170-101	Comment for Other Expenses	To be entered by PHA. Field comment should indicate that, "PHA is expected to explain what "Other" is composed of."
11170-110	Total Expenses	Calculated field populated by the sum of 11170-080, 11170-090, 11170-095, and 11170-100.
11170-002	Net Administrative Fee	Calculated field populated by the sum of 11170-060 minus 11170-110.
11170-003	Administrative Fee Equity- Ending Balance	Calculated field populated by the sum of 11170-001 and 11170-002.

**FDS Line 11180 - Housing Assistance Payments Equity [slide 9]**

FDS Line 11180 (Housing Assistance Payments Equity) represents the Housing Assistance Payments Equity for the Section 8 HCV Program only. FDS Line 11180 is equal to total HAP revenue minus total HAP expense. Since this is an equity account, the balance will be carried forward year to year. The HAP equity can be used only for HAP payments incurred in the operation of the HCV Program.

Table 4.3 shows the detail FDS lines associated with Housing Assistance Payments Equity.

**Table 4.3 FDS Line 11180 – Housing Assistance Payments Equity**

Line Item Number	Line Item Description	Comments
11180-001	Housing Assistance Payments Equity- Beginning Balance	For the initial submission and submissions using the FDS Excel tool, the PHA populates this field. For subsequent submissions, this field will be populated by prior year balance of line item 11180-003.
11180-010	Housing Assistance Payment Revenues	Field will be populated from FDS line item 70600-010.
11180-015	Fraud Recovery Revenue	Field will be populated from FDS line item 71400-010.
11180-020	Other Revenue	To be entered by PHA.
11180-021	Comment for Other Revenue	To be entered by PHA. Field comment should indicate that, "PHA is expected to explain what "Other" is composed of".
11180-025	Investment Income	Field will be populated from the sum of FDS line items 71100-010 and 72000-010.
11180-030	Total Housing Assistance Payments Revenues	Calculated field populated by the sum of 11180-010, 11180-015, 11180-020 and 11180-025.
11180-080	Housing Assistance Payments	Field will be populated from FDS line item 97300.
11180-090	Other Expenses	To be entered by PHA. Field comment should indicate that, "PHA is expected to explain what "Other" is composed of".
11180-091	Comment for Other Expenses	To be entered by PHA. Field comment should indicate that, "PHA is expected to explain what "Other" is composed of."
11180-100	Total Housing Assistance Payments Expenses	Calculated field populated by the sum of 11180-080 and 11180-090.
11180-002	Net Housing Assistance Payments	Calculated field populated by the sum of 11180-030 minus 11180-100.
11180-003	Housing Assistance Payments Equity- Ending Balance	Calculated field populated by the sum of 11180-001 and 11180-002.

**Use of the “Other” Revenue and Expense Accounts [slide 10]**

Many of the line items in administrative fee and HAP equity accounts are automatically populated from information provided from FDS income statement line items. However, HUD has allowed for “other” revenue and “other” expense lines. These lines should be used to record any revenue or expense associated with equity accounts that are not automatically populated or to adjust the account to the correct year-end balance, including any prior period adjustment. PHAs should fully utilize the associated comment field to explain any entry in these “other” line items.

### **III. REVIEWING HUD – PROVIDED QUARTERLY NRA BALANCES**

#### **Reporting and Use of NRA Balances [slides 12 & 13]**

PHAs received an electronic letter from HUD that requested the PHA to review the contents of the letter as well as HUD's calculation of the PHA's NRA balance to ensure that the data is correct. The NRA balance now plays a critical function in the determination of the PHA's funding as follows:

- First, the FY 2012 Appropriations Act, which was signed into law on November 18, 2011, requires an offset of \$650 million from PHA NRA accounts in 2012. While the allocation off-set will be based on calendar year end 2011 NRA balances, HUD began providing PHAs with their September 30, 2011 NRA balances to facilitate a PHA's review of their December 31, 2011 NRA balances.
- Secondly, PHAs will no longer hold their unspent HAP but instead these funds will be held by HUD as program reserves. It is HUD's intention to take into account the PHA's NRA balance when determining how much funds should be disbursed to the PHA, which means that some PHAs will be required to support a portion of their FY 2012 renewal funding eligibility by using some of their NRA balance in lieu of receiving new budget authority.

Therefore, it is important for PHAs to accurately track their NRA balances to avoid being inadvertently harmed by offset calculations or by receiving too little HAP to cover needed HAP payments.

A comparison of the HUD calculated roll forward balance to PHA's self-reported NRA balances in VMS vary significantly in some instances. If the HUD-calculated NRA balances are significantly different from the PHA's self-reported NRA balances in VMS or other PHA reports, the PHA is encouraged to contact their FMC analyst to resolve any issues. PHAs will likely continue to receive a quarterly NRA balance calculations from HUD for review.

**Calculation of HUD – Provided Quarterly NRA Balances [slide 14]**

All PHAs received a schedule similar to *Figure 4.1* below for 09/30/2011 and 12/31/2011. The schedule below is an example of a HUD-provided NRA calculation for September 30, 2011.

**Figure 4.1 Example Quarterly NRA Report Provided to PHAs**

PHA NUMBER:	XXXXX	
PHA NAME:	XXXXX	
1	NON-VASH NRA STARTING BALANCE SOURCE:	FASS Audited / A-133
2	NON-VASH NRA STARTING BALANCE DATE:	12/31/2010
3	NON-VASH STARTING BALANCE:	\$732,464
4	VASH NRA THRU 6/30/2011	\$43,527
REVENUE TO 9/30/2011:		
5	NON-VASH HAP DISBURSEMENTS FROM HUD THRU 6/30/2011	\$2,028,432
6	ALL HAP DISBURSEMENTS FROM HUD 7/1 THRU 9/30/2011	\$794,982
7	FRAUD RECOVERY	0
8	INTEREST INCOME	\$7,073
9	FSS FORFEITURES	\$15,545
10	OVER-LEASING	\$0
11	TOTAL REVENUE	\$2,846,032
12	NON-VASH HAP EXPENSES TO 9/30/2011:	\$3,150,920
13	VASH HAP EXPENSES 7/1 THRU 9/30/2011	\$12,661
14	HUD CALCULATED NRA BALANCE 9/30/2011: (LINE 3 + LINE 4 + LINE 11 - LINE 12 - LINE 13)	\$458,442
15	PHA REPORTED NRA BALANCE 9/30/2011:	\$418,424

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## Sources of Financial Data Used to Calculate NRA Balances [slide 15]

The NRA balances provided by HUD are calculated based on data from four main sources:

- HUDCAPS HAP Disbursements:
  - PHAs may find this within their records as well as the FMC Notices of Intent to Disburse.
- Voucher Management System (VMS):
  - HAP Expenses.
  - NRA income (fraud recovery, interest income, and FSS forfeitures) reported by the PHA.
- Financial Assessment Sub-system (FASS):
  - NRA balance reported by PHAs in their FDS as submitted to HUD.
- HUD's NRA Reconciliation:
  - Each PHA has had the opportunity to review and concur or revise the NRA balance as of December 31, 2009 during the reconciliation conducted by HUD over the past year.

## Calculation of Quarterly NRA Balances

The beginning balance for the NRA is based on: 1) The 12/31/2009 concurred balances based on the 2010 NRA reconciliation process between HUD and the PHA, or 2) if the PHA has submitted in FASS and made the necessary adjustments to reflect the concurred to balances, the beginning balance is based on the data in the latest approved FASS submission.

1. As noted in *Figure 4.1* above, the starting balance is either the PHA's concurred NRA balance as of December 31, 2009 or the most recent approved FASS-reported NRA balance.
2. All non-VASH HAP funding disbursed to the PHA after the date of the starting balance through June 30, 2011 (the dates through which VASH funding was not in regular renewal HAP funds) is added to that balance.
3. HUD adds to the balance the NRA resulting from HUD VASH renewal funds (as calculated by HUDCAPS VASH funding minus VMS VASH reported expenses through June 30, 2011).
4. HUD adds to that balance all HAP disbursements from July 1, 2011 to the quarter end date of the reporting period (VASH and non-VASH funding increments and disbursements were combined as of July 1, 2011).
5. The following amounts reported by the PHA in VMS for the "roll forward" period are also added to the NRA balance:
  - a. Interest income,
  - b. Fraud Recovery (portion accruing to HAP only),
  - c. Family Self Sufficiency Escrow Forfeitures, and
  - d. HAP Costs for PHA over-leasing (based on VMS reported HAP and leasing).
6. All non-VASH HAP expenses through the quarter end of the reporting period and VASH HAP expenses from July 1, 2011 through the quarter end of the reporting period, as reported in VMS, are subtracted from the NRA balance.

## IV. Other Reporting and Financial Management Aspects

### Administrative Fee Reserves [slide 17]

Pursuant to 24 CFR 982.155, PHAs maintain a single administrative fee reserve account for the Housing Choice Voucher (HCV) program. PHAs credit to the administrative fee reserve the total of: 1) the amount by which program administrative fees (paid by HUD for a PHA fiscal year) exceed PHA program administrative expenses for the fiscal year; plus 2) interest earned on the administrative fee reserve and other increases (i.e., PHA fraud recovery, port-in administrative fees, etc). These reserves are referred to as unrestricted net asset (UNA) accounts.

Beginning with the Federal Fiscal Year (FFY) 2004 Appropriations Act, use of administrative fee reserves is restricted to activities related to the provision of Section 8 tenant based assistance, including related development activities. Accordingly, administrative fee reserves from FFY 2004 and subsequent funding periods (referred to as “post-2003” funds) are restricted to HCV activities even though under GAAP these reserves remains an “unrestricted” net asset. Administrative fee reserves remaining from funding periods prior to the FFY 2004 Appropriations Act (referred to as “pre- 2004” funds) are restricted in use pursuant to 24 CFR 982.155(b)(1).

### Use of Administrative Fees [slide 17]

The HCV program regulations at 24 CFR 982.152 provide that PHA administrative fees may only be used to cover costs incurred to perform PHA administrative responsibilities for the program in accordance with HUD regulations and requirements. **During the PHA’s current fiscal year, any administrative fees received in that PHA’s fiscal year may only be used for this purpose.** At the end of the PHA’s fiscal year, the amount of administrative fees paid by HUD for the PHA fiscal year which exceeds the PHA’s administrative expenses for the fiscal year becomes administrative fee reserves.

If a PHA lacks administrative fee reserves, the PHA can temporarily supplement the administrative fee provided by HUD with non-Federal, non-restricted funds to cover eligible HCV program expenses. The PHA may use subsequent administrative fees to reimburse the source of the non-Federal, non-restricted funding used as the temporary bridge to cover the HCV program administrative expenses. However, HCV administrative fees may never be loaned to another program in order to cover ineligible expenses, regardless of whether the PHA intends to reimburse the HCV program at a later date.

### Use of Pre-2004 Administrative Fee Reserves [slide 17]

Any administrative fees funded prior to the FFY 2004 Appropriations Act remain subject to the regulatory requirements at 24 CFR 982.155(b)(1), which states:

*The PHA must use funds in the administrative fee reserve to pay program administrative expenses in excess of administrative fees paid by HUD for a PHA fiscal year. If funds in the administrative fee reserve are not needed to cover PHA*

*administrative expenses (to the end of the last expiring funding increment under the consolidated ACC), the PHA may use these funds for other housing purposes permitted by State and local law. However, HUD may prohibit use of the funds for certain purposes.*

Due to the restrictions imposed by the FFY 2004 and subsequent appropriations, the use of administrative fee reserves for “other housing purposes permitted by State and local law” only applies to pre-2004 administrative fee reserves.

### **Use of Post-2003 Administrative Fee Reserves [slide 17]**

Administrative fees funded from the FFY 2004 Appropriations Acts and subsequent appropriations require that administrative fee reserves provided from these appropriations shall only be used for activities related to the HCV Program, including related development activities. Examples of related development activities include: unit modifications to HCV units to provide accessibility features or project-based voucher development costs. Any post-2003 administrative fees moved into the administrative fee reserve account at year end may not be used for “other housing purposes permitted by state and local law.”

As provided in 24 CFR 982.155 b(3), if the PHA has not adequately administered HCV requirements, HUD may prohibit the PHA from using funds in the administrative fee reserve, and may direct the PHA to use funds in the reserve to improve administration of the HCV program or to reimburse ineligible expenses. Post-2003 administrative fee reserves may not be used for Low-Rent Public Housing (PH) development activities or public housing maintenance, and may not cover PH funding shortfalls nor be loaned to other PHA programs.

### **Administrative Fee Reserves Reporting Requirements [slide 18]**

HUD requires PHAs to report any unused administrative fees as Unrestricted Net Assets (equity) on the FDS in FDS line 512.1 – Unrestricted Net Assets (full accrual PHA) and the associated assets net of related liabilities (111 Cash; 131 Investments) should be reported as unrestricted.

Previously, there was no requirement for PHAs to segregate unrestricted net assets as pre-2004 and post-2003. As noted earlier, a PHA may use pre-2004 administrative fees *for other housing purposes permitted by State and local law*; while post-2003 fees are limited to HCV-related purposes. As a result, this separation requires reconciliation to ensure the proper accounting and use of administrative fees. In order to track these reserves annually, beginning with the reporting period ending December 31, 2009, PHAs must report post-2003 administrative fee reserves separately from pre-2004. In a future system release, the FDS will include administrative fee equity account detail line items for post-2003 and pre-2004. This separation will be forthcoming within the Financial Assessment Subsystem.

In the interim, PHAs must describe the reconciliation in the comments link showing balances from 2003 and previous years administrative fee reserves separately from amounts held as 2004 and subsequent years administrative fee reserves. This schedule must tie to the balances reflected in FDS line 512.1 – Unrestricted Net Assets. If there are no pre-2004 administrative fee reserves, the PHA should make a statement to this effect in the comment box. It is important

that PHAs reconcile these accounts with their internal records. HUD will be using the information in these accounts to assess PHA's use of the administrative fee reserves and to monitor PHA's compliance with the statutory and regulatory requirements concerning the use of administrative fee reserves.

### **Use of HAP [slide 19]**

HAP funding, which includes net restricted assets (NRA), may only be used for eligible HAP needs of rent, escrow payments for family self-sufficiency, or utility reimbursements. **HAP shall not under any circumstances be used for any other purpose, such as to cover administrative expenses or be loaned, advanced or transferred (referred to as operating transfers due to/due from) to other component units or other programs such as Low Rent Public Housing.** Use of HAP for any purpose other than eligible HAP needs is a violation of law, and such illegal uses or transfers will result in sanctions and a possible breach of the ACC.

In instances where a PHA is found to have misappropriated HAP funds by using the funds for any purpose other than valid HAP expenses for units up to the baseline, HUD will require the immediate return of the funds to HAP. HUD may take action against a PHA or any party that has used HAP funds for non-HAP purposes.

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## V. CLOSE-OUT OF 14.VSH (VASH)

### Overview

The HUD-Veterans Affairs Supportive Housing Program (VASH) program provides rental assistance under a supportive housing program for homeless veterans. This program combines Housing Choice Voucher rental assistance for homeless veterans with case management and clinical services provided by the Department of Veterans Affairs at its medical centers and in the community.

HUD had previously instructed PHAs to report HAP activity of the VASH program under CFDA #14.VSH for FDS reporting purposes. This requirement was changed by the 2011 Appropriations Act which instructed PHAs with a fiscal year end of June 30, 2011 and later to report the VASH HAP transactions with the HCV program, even if the PHA was still funded for VASH under a separate and distinct funding code from HUD. For most PHAs, the last initial VASH funding increment funded under the “VA” (i.e., the VASH HAP funding code) program type ended on June 30, 2011, while for a smaller number of PHAs the increments ended on September 30, 2011.

For a number of PHAs, the failure to complete this transfer in a timely manner resulted in the rejection of the PHA’s FDS submission or an incorrectly calculated NRA balance.

### Financial Reporting Instructions for 2011 submissions [slides 21-25]

Below are the steps that the PHAs administering the VASH program should have taken in order to appropriately complete the transfer of that program to the HCV. These instructions are applicable for all unaudited and audited submissions to the FASS-PH system.

### *CFDA 14.VSH – Veterans Affairs Supportive Housing [slides 22 & 23]*

#### Income Statement

1. A June 30, 2011, September 30, 2011, or December 31, 2011 PHA should have reported on their 2011 FDS under CFDA #14.VSH, a VASH program income statement from the beginning of the PHA’s fiscal year to either the PHA’s 2011 fiscal year end or PHA’s last initial VASH funding increment expiring under the “VA” program type, whichever is earliest.
2. The above instruction also applies to any memo accounts, such as FDS lines 11190 (Unit Months Available) and 11210 (Unit Months Leased).
3. FDS line 11040 “Equity Transfer” should have reported a transfer out to the HCV program for all equity in the VASH program as of the PHA’s 2011 fiscal year end or the PHA’s last initial VASH funding increment expiring under the “VA” (i.e., the VASH HAP funding code) program type, whichever is earliest.

#### Balance Sheet

No balance sheet activity should have been reported as any asset, liabilities, and equity will be closed into (i.e. zeroed out and move into) the HCV program through the equity transfer.

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**CFDA 14.871 – Housing Choice Voucher [slides 24 & 25]****Income Statement**

1. PHAs should have reported on their FDS under CFDA #14.871, any VASH HAP transactions that were not reported in the income statement of the VASH program above, including any associated memo account information such as FDS lines 11190 (Unit Months Available) and 11210 (Unit Months Leased).
2. PHAs should have reported all administrative fee revenue and expenses associated with the VASH program for all months in the reporting period under CFDA # 14.871. PHAs were always required to report administrative fee revenue and expense associated with the VASH program in CFDA #14.871; there is no change to this reporting instruction.
3. FDS line 11040 “Equity Transfer” should have reported a transfer in from 14.VSH.

**Balance Sheet**

1. The HCV 2011 balance sheet should reflect the assets, liabilities, and equity that were transferred out of the VASH program.
2. Unspent VASH HAP is considered HAP equity (also referred to as Net Restricted Assets) and should be reflected in FDS lines 11180 (HAP equity) and 511.1 (Restricted Net Assets under full accrual accounting) or 508.3 (Restricted Fund Balance for modified accrual accounting).

**Post-Transfer Submissions [slide 26]**

Once 14.VSH is closed out, via the equity transfer to the HCV program, no activity will be reported in 14.VSH in future years. PHAs are also reminded that the number of units leased as well as the associated HAP costs for the VASH program must still be reported separately in VMS on a monthly basis.

**VASH Financial Management and Reporting Concerns [slides 27 & 28]**

Initial VASH HAP is appropriated for VASH recipients only. PHAs are reminded that any initial unspent VASH HAP can only be used for VASH HAP, including VASH HAP after the initial term. Initial unspent VASH HAP cannot be used for other eligible HCV HAP activity. PHAs are also reminded that guidance has been issued under PIH Notice 2011-32 (*Policies and Procedures for Special Purpose Housing Choice Vouchers for Non- Elderly Disabled Families and Other Special Populations, Issued June 14, 2011*), specifically section 5.f. *Funding Shortfalls*, that provides further instructions and information on the issuance and termination of VASH vouchers.

Both VASH and HCV program activity have been and are still reported on the Schedule of Federal Awards under CFDA # 14.871.

## VI. GASB 54 REQUIREMENTS AND IMPLEMENTATION

### Overview [slides 30-34]

A new GASB Statement No. 54 (“*Fund Balance Reporting and Governmental Fund Type Definitions*”) affects all PHAs using modified accrual starting with PHAs with a June 30, 2011 FYE and after. The statement changes the way in which fund balance is reported for governmental funds. For PHAs using modified accrual, these PHAs will no longer report fund balances under the following accounts: 1) Fund Balance Reserved; 2) Unreserved, Designated Fund Balance; and 3) Unreserved, Undesignated Fund Balance.

These funds balances are replaced with the following:

Fund Balance Component	Definition
FDS Line 508.3 Non-spendable fund balance	Represents fund balance that is inherently non-spendable. Examples include inventories and prepaids. A negative amount is not allowed to be reported for this line item.
FDS Line 509.3 Restricted fund balance	Represents fund balance that is restricted in its use by external bodies such as creditors, grantors, contributors, or laws and regulations of other governments. Restrictions can also be the result of laws through constitutional provisions or enabling legislation. A negative amount is not allowed to be reported for this line item.
FDS Line 510.3 Committed fund balance	Represents fund balance whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making and that remain binding unless removed in the same manner. A negative amount is not allowed to be reported for this line item.
FDS Line 511.3 Assigned fund balance	Represents fund balance the government intends to use for a specified purpose. The intent would have to be established at either the highest level of decision making, or by a body such as the finance committee or an official designated for that purpose. A negative amount is not allowed to be reported
FDS Line 512.3 Unassigned fund balance	Represents the net resources in excess of what is categorized in one of the other four categories of fund balance. A positive amount of unassigned fund balance will only be reported in the general fund not in other individual governmental funds. However, governmental funds other than the general fund could report a negative unassigned fund balance if the total of the other four components of fund balance exceed the net resources of the fund.

**Impact on the HCV Program [slides 35 & 36]**

The GASB 54 change will only impact PHAs using modified accrual (generally, PHAs reporting in a special revenue fund) to account for the HCV program. In addition, the PHAs using governmental funds may not have balances in all these new fund balance accounts. Individual PHA circumstances will determine their use. GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010.

New FDS line items have not been but will be established to accommodate the change in fund balance components. However, until the FDS has been updated to add the new FDS line items, PHAs using a governmental fund to account for the HCV program will continue to use the old fund balance accounts when reporting the FDS in the FASS-PH system, but will be required to separate out fund balance into the new FDS line items via the use of an Excel tool which will be attached to the PHA's FDS submission.

**GASB 54 and FASS-PH System [slides 37-39]**

The reporting instructions and the required Excel tool can be found on the FASS-PH website.

Financial Assessment of ... X

TUESDAY, JUNE 19, 2012

**HUD.GOV**  
U.S. Department of Housing and Urban Development  
Secretary Shaun Donovan

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## Financial Assessment of Public Housing Agencies (FASS PHA)

3,300 Public Housing Agencies exist in the United States. In order to assess the financial condition of these agencies, REAC reviews each agency's financial information annually.

### Highlights

- Revisions to the Financial Data Schedule (FDS) Line Definition Guide – Updated May 2012**  
 The FDS Line Definition Guide has been updated to reflect the issuance of GASB #54 and to provide additional information, examples, and clarification for specific FDS line definitions. The Guide is effective for PHAs with Fiscal Year End of June 2008 and later. This Guide supersedes the FDS Line Definition Guide that was issued November 2008.
- GASB #54 Fund Balance Reporting Instructions:** The Governmental Accounting Standards Board issued a new standard "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB #54). This standard is effective for PHAs reporting financial statements for the period beginning after June 15, 2010. From a FASS-PH Financial Data Schedule reporting perspective, GASB #54 will only affect Section 8 Only agencies that report using modified accrual. As a result of current information technology constraints, the FDS is unable to accommodate the latest GASB #54 requirements. Until the FDS is updated to include the latest GASB #54 equity line items, PHAs that are submitting under the new GASB #54 requirements are required to submit the GASB #54 line item balances via an Excel spreadsheet. Click the following hyper link for the GASB #54 Supplementary Reporting Schedule.
- REVISED HUD-VETERANS AFFAIRS SUPPORTIVE HOUSING (HUD-VASH) PROGRAM AND FINANCIAL DATA SCHEDULE (FDS) REPORTING:** This document updates HUD's instructions to PHAs regarding Financial Data Schedule (FDS) reporting of the VASH program as a result of language contained in the 2011 Appropriations

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This Excel spreadsheet consists of five tabs. Each tab is described below:

- Tab 1 – Instructions.** This tab provides *detailed instructions* on how to complete and save the Excel file and where to attach the file in the FDS submission.
- Tab 2 – Fund Balances.** This tab allows the PHA to reclassify and provide their GASB #54 fund balances by program. (See *Figure 4.2* page 4-19 for a screen shot of this tab).
- Tabs 3 through 5 – FDS Comments.** Tabs 3 through 5 allow the PHA to provide additional comments to HUD.

After the Excel file is downloaded, the PHA is instructed to save the file to a local computer and perform the following steps:

1. Complete “Fund Balances” tab. Complete the “Fund Balance” tab and verify that: 1) all programs from the FDS are included; 2) the total ending equity (FDS Line 513) for each program reported on the FDS is the same as the total ending equity (FDS Line 513) as reported on the spreadsheet, and; 3) any necessary comments are provided.
2. Complete FDS “Comment(s)” tab. Provide additional comments about other FDS lines or other reporting issues using “FDS comments 1”, “FDS Comments 2”, or “FDS Comments 3” tabs, if needed.
3. Save the file. Using the “Save” button found on the “Fund Balances” tab, save the file. The “Save” button will automatically save the file using a standard file naming convention, “PHA Code\_Submission Type\_PHA FYE\_GASB54”. For example, “**DC999\_Unaudited\_12312011\_GASB54**”.
4. Attach GASB#54 Spreadsheet to FDS. Using the upload submission comment link found under the “PHA Information – Comments” screen in the FASS-PH system, attach the completed GASB #54 Supplementary Reporting Schedule spreadsheet.
5. Submit the FDS. Submit the FDS as normal.

***Learning Activity 4.1 – NRA Balances and Other Reporting [slide 40]***



Figure 4.2 Fund Balances Tab

**GASB #54 Supplemental Reporting Schedule**

**PHA and Submission Identification**

PHA Code	KY901
PHA Name	Kentucky Housing Corporation
PHA FYE	6/30/2011
Submission Type	Audited / A-133
Accounting Method	Modified Accrual

**GASB 54 Reporting Schedule**

Program Column #	1	2	3	4	5	6	7	8	
CFDA Number	14.871	14.238	14.856	14.181	8	14.195	DHAP.IKE		
Program Name	Housing Choice Voucher Program	Shelter Plus Care	Lower Income HA Program_Section 8 Moderate Rehabilitatio	Supportive Housing for Persons with Disabilities	Other Federal Program 1	Section 8 Housing Assistance Payments Program_Special	DHAP IKE		Total

**Section 1 - Equity**

FDS Line Item	FDS Line Item Name	1	2	3	4	5	6	7	8	Amount
513	Total Equity as Reported in FDS	\$1,530,250	\$0	\$26,519	\$1,837	\$31,073	\$0	\$2,817		\$1,592,496
508.3	Nonspendable Fund Balance	\$0	\$0	\$0	\$0		\$0	\$0		\$0
509.3	Restricted Fund Balance	\$1,530,250	\$0	\$26,519	\$1,837	\$31,073	\$0	\$2,817		\$1,592,496
510.3	Committed Fund Balance	\$0	\$0	\$0	\$0		\$0	\$0		\$0
511.3	Assigned Fund Balance	\$0	\$0	\$0	\$0		\$0	\$0		\$0
512.3	Unassigned Fund Balance	\$0	\$0	\$0	\$0		\$0	\$0		\$0
Sum of 508.3 to 512.3	Total Equity as Calculated	\$1,530,250	\$0	\$26,519	\$1,837	\$31,073	\$0	\$2,817	\$0	\$1,592,496
Edit Results	Must be equal to zero. --->	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

**Section 2 - Comments**

Comment Instructions: Please double click the Comments box to insert comments. In order to go to the next line within the comment box, please press ALT + Enter



## Session 5: Case Study

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#### **I. CASE STUDY OVERVIEW [slide 2]**

**This session will reinforce today’s materials through a case study**

- Review the information provided in *Learning Activity 5.1 – Reporting under Cash Management*.
- Use the information and answer the associated questions.
- Please participate in the discussion of the answers.



## Session 6: Understanding the Unaudited and Audited Submissions

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## I. OVERVIEW [slide 2]

### **This session will cover the following topics:**

- Highlight major aspects of the unaudited submission.
- Describe the audited submissions including the IPA review process and the required audit attachments.
- Describe the common reporting issues associated with PHAs' unaudited submissions.
- Describe additional reporting issues associated with PHAs' audited submissions; and
- Provide information on REAC's submission decisions, notification, and follow-up process.
- Information on the recording of expenses is provided as part of the training materials but will not be discussed as part of the training.

## II. UNAUDITED SUBMISSIONS

### 1. Content of Unaudited Submission [slides 4 & 5]

All PHAs are required to submit unaudited financial data to HUD. The PHA's unaudited financial submission consists of the following three (3) FASS-PH system items.

1. Financial Data Schedule (FDS). The FDS was designed to standardize the financial information reported by PHAs to HUD. The FDS is comprised of a Balance Sheet and Income Statement by Catalogue of Federal Domestic Assistance Number (CFDA #).
2. Data Collection Form (DCF). The DCF consists of four (4) tabs which are described in *Section III Audited Submissions – Data Collection Form*. The DCF is required to be completed for both the unaudited and audited financial submissions. However, for the unaudited submission, the “General Information” tab is the only tab on the DCF that is required to be completed.
3. Submission Comments. While optional, it is strongly suggested that the PHA address any issues that were questioned in prior REAC reviews and any other reporting issue that may cause the submission to be rejected. The submission comment tab is currently required as PHAs must report Pre-2004 and Post-2003 administrative fees.

The PHA is responsible for ensuring that the unaudited financial submission is submitted on time, is complete, compliant with GAAP, and that the data is a fair reflection of the PHA's financial condition.

The unaudited submission is due within two months after the PHA's fiscal year end (FYE).

### 2. PHA Info Screen: Asset Management Types [slide 6]

Under the guidelines of the asset management model each PHA must select one asset management type and indicate whether the PHA has a COCC and whether the PHA needs the elimination worksheet. Asset Management is a business model that is used by PHAs administering Public Housing. PHAs who are Section 8 Only PHAs should only select a Non-Asset Management type.

*Figure 6.1* on the next page provides a screen shot of the PHA Info screen and the asset management types that are available to the PHA.

Figure 6.1 PHA Info Screen – Different Types of Business Models

PHA Name	Any Town USA Housing Authority
EIN Number	N/A
Address(line1)	1234 Main Street
Address(line2)	
City	Any Town
State	N/A
Zip Code	00000
Reporting Beginning Date	10/01 2007
Reporting Ending Date	09/30 2008
Submission Type	<input type="radio"/> Unaudited/Non-A-133 <input type="radio"/> Unaudited/No Audit <input checked="" type="radio"/> Unaudited/A-133
Asset Management	<input type="radio"/> Non-Asset Management with Elimination Only <input type="radio"/> Non-Asset Management with COCC/Elimination <input type="radio"/> Non Asset Management <input checked="" type="radio"/> Asset Management without COCC/Elimination <input type="radio"/> Asset Management with Elimination Only <input type="radio"/> Asset Management with COCC/Elimination
Component Unit	<input type="checkbox"/> Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will <b>not</b> be receiving its own separate A-133 or non A-133 audit.)
Submission	<input checked="" type="radio"/> Blank Submission <input type="radio"/> Download Submission

1. Non-Asset Management with Elimination Only. Used by PHAs who have elected not to implement Asset Management. However, the PHA needs an elimination column to eliminate the inter-program balances or other operating transfers.
2. Non-Asset Management with COCC/Elimination. Used by a PHA without Public Housing units that utilizes a fee-for-service approach (i.e. Section 8 Only entity that uses a management fee approach).
3. Non-Asset Management. Used by PHAs who have elected not to implement Asset Management.
4. Asset Management without COCC/Elimination. PHAs that have elected to use an alternative approach to Asset Management.
5. Asset Management with Elimination Only. Used by a PHA that has less than 400 Public Housing units and has implemented Asset Management. Eliminations are used to eliminate inter-program accounts and operating transfers.
6. Asset Management with COCC/Eliminations. Used by PHAs that administer Public Housing that have implemented the Asset Management model using a fee-for-service approach. Elimination entries are used at a minimum to eliminate the fee income earned by the COCC.

### III. AUDITED SUBMISSIONS

#### Overview

This section provides information on the following topics associated with the audited submission to the FASS-PH system.

1. Audited Submission and IPA Review Process
2. Financial Data Schedule
3. Data Collection Form
4. PHA Info Screen: Component Unit Box
5. Required Audit Attachments
6. Required Supplementary Information and SAS 119 Opinion
7. Auditor Attestation

#### 1. Audited Submission Process [slides 8 & 9]

The audited submission is based on a three-step procedure. Audited financial data submissions are not complete until all three steps have been completed and the submission has been received by PIH-REAC. The steps are:

1. Draft Status. The PHA creates a draft submission by entering the financial information (including the required attachments) into the FASS-PH system and submits the draft to the IPA. The FDS is normally completed by downloading the information from the approved unaudited submission. Once the PHA completes the submission and submits the data, the submission status will change to “IPA Review”, and the submission will be converted to a “read-only” format.
2. IPA Review Status. The IPA performs the 'agreed upon procedures' to certify that the information in FASS-PH is true and correct in accordance with the auditor's hard copy audit report. The IPA may either agree or disagree with the PHA's submission. At this point, the status of the submission will change to “IPA Agree” or “IPA Disagree.”

**Note:** If the IPA disagrees with the information provided, the PHA will need to make the changes specified by the auditor. The PHA can make the changes specified by the auditor by editing the “IPA Disagree Submission”.

3. Submission to HUD. Once the PHA and the IPA reach “IPA Agree” status, the PHA must 'Submit' the audited financial data to PIH-REAC to begin the review and approval process. Until the audited financial data is submitted and received in the FASS-PH system, the process is not considered complete.

The PHA's audited financial submission will include, at minimum, the completion of the following three (3) major FASS-PH items.

- Financial Data Schedule (FDS)
- Data Collection Form
- Required Attachments to Audited Submission

The audited submission is due within nine (9) months after the PHA's fiscal year end (FYE).

The PHA is responsible for ensuring that the audited financial submission is submitted on time, is complete, compliant with GAAP, and that the data appears to be a fair reflection of the PHA's financial condition.

The next sections provide information on the three items required for a PHA's audited submission.

## **2. Financial Data Schedule (FDS)**

PIH-REAC reviews financial submissions closely to ensure that PHAs are properly classifying financial data. Financial Data Schedule (FDS) submissions are reviewed by the REAC in order to obtain a level of confidence that the information submitted by the PHA is complete and presented in conformity with GAAP. The FDS was designed to standardize the financial information reported by PHAs to HUD. Audit adjustments to the trial balance may be necessary. During audit testing, certain amounts may be reclassified and/or adjusted.

1. The FDS is essentially a trial balance of the financial statements, arranged in the Catalog of Federal Domestic Assistance (CFDA) program format. The auditor may make adjustments based on testing.
2. The auditor must understand HCV program accounting in order to make appropriate adjustments to the trial balance, as needed.
3. If there are audit adjustments, the auditor should communicate them to the fee accountant as well as the PHA, so the books of record can be correctly updated.

The auditor, fee accountant, and PHA must communicate with each other in order to make sure that the audited submission properly reflects all adjustments. Additionally, all parties need to understand the accounting for the HCV program in order to provide data that is a fair reflection of the PHA's financial condition. The communication between the auditor, fee accountant, and PHA will increase the likelihood that the financial submission will be accepted or conditionally accepted by PIH-REAC.

### 3. The Data Collection Form [slides 11 & 12]

An important part of the audited submission is the OMB required Data Collection Form (DCF). The FASS-PH online system duplicates OMB's DCF. The DCF collects the same information as the audit attachments in a form version. Thus, the DCF must match the information provided in the audit attachments or the submission may be rejected. The DCF consists of four (4) tabs which are described in *Table 6.1* below.

**Table 6.1 FASS-PH System – Data Collection Form (DCF)**

Tab	Tab Name	Description
1	General Information	Provides basic contact information about the PHA, Auditor, and audit type (e.g., Single, Program-Specific).
2	Financial Statements	Provides an overview of the financial statements including the auditor's opinion and any material or non-material findings or indicators.
3	Federal Programs	Provides an overview of the federal programs including the dollar threshold for major fund, opinion and findings on major programs, agency risk indicator, and total federal awards expended (TFAE).
4	Supplemental Information	Provides an overview of the supplemental information including SAS 119 opinion, MD&A, and any other supplemental information that is required to accompany the financial statements.

When completing the DCF, use the audit attachments as your guide. The opinion, findings, and other financial and program information reported in the DCF must match the audit information.

The General Information tab is completed as part of the PHA's unaudited submission. Below is an overview of the remaining three (3) DCF tabs that are required for the PHA's audited submission:

1. Financial Statements;
2. Federal Programs; and
3. Supplemental Information.

### 3.1 Financial Statements [slides 13-16]

The Financial Statements tab summarizes the auditor’s opinion. FASS reviewers verify that the values selected on the DCF Financial Statements tab as seen in *Figure 6.2* match the Auditor’s Report on Financial Statements and Auditor’s Report on Compliance and Internal Control (Financial Reporting). For example, if the Auditor expresses an unqualified opinion on the financial statements, the value selected for Element #G3000-010 Fund Opinion must be unqualified.

Figure 6.2 Data Collection Form Financial Statements Tab

The screenshot shows the 'Real Estate Assessment Center' interface. At the top, there is a navigation bar with tabs: My Inbox, PHA Info, FDS, DCF (selected), Notes and Findings, Submit, Edit Flags, Reports, and Logout. Below this is a sidebar with 'General Information', 'Financial Statement' (selected), 'Federal Program', and 'Supplemental Information'. The main content area is titled 'PHA Information' and contains the following data:

PHA Code	CA899
PHA Name	Hometown Housing Authority
Fiscal Year End Date:	03/31/2010
Submission Type:	Audited/A-133

Below this is the 'Financial Statement' table:

Element#	Description	Value	Details
*G3000-005	Financial Statements Using Basis Other Than GAAP	No	---
*G3000-010	Type of Audit Report	<input type="checkbox"/> Qualified Opinion <input type="checkbox"/> Unqualified Opinion <input checked="" type="checkbox"/> Adverse Opinion <input type="checkbox"/> Disclaimer of Opinion	<a href="#">[Details]</a>
*G3000-020	Going Concern Indicator	Yes	---
*G3000-030	Significant Deficiency Indicator	Yes	<a href="#">[Details]</a>
*G3000-040	Material Weakness Indicator	Yes	<a href="#">[Details]</a>
*G3000-050	Material Noncompliance Indicator	Yes	<a href="#">[Details]</a>
*G3000-060	Fraud	Yes	<a href="#">[Details]</a>
*G3000-070	Illegal Acts	Yes	<a href="#">[Details]</a>
*G3000-080	Abuse	Yes	<a href="#">[Details]</a>

At the bottom of the table are 'Save' and 'Reset' buttons. A red circle highlights the '[Details]' link for element \*G3000-010.

\*mandatory field

Additionally, if there are any significant deficiencies (G3000-030) or material weaknesses (G3000-040), the corresponding value must be marked as “Yes” on the DCF Financial Statements tab. Furthermore, if a significant deficiency, material weakness, fraud, and (or) abuse are identified by the auditor, the PHA must identify whether the condition is related to the Low Rent or Capital Fund programs.

**Fund Type and Fund Opinion.** The DCF Financial Statements Detail links allow the PHA to enter the Fund Type and Fund Opinion for each opinion unit. An opinion unit is a major fund or a group of non-major funds that receive a Financial Statement opinion by the auditor. If the PHA is reporting using only a single fund, all fund types should be marked as ‘major’ for FDS reporting.

*Figure 6.3* provides a screenshot of the DCF details page. When completing this screen, it is important to note that the system currently may not allow PHAs to enter their fund(s) as defined by GASB 34. The PHA will provide the fund opinion for each program that resides in the fund. The fund opinion does not signify that the auditor has provided an opinion on the program but

merely that the program is in a fund that received the respective opinion. Stated another way, the DCF is asking for the fund type and fund opinion that the CFDA Program is contained in. The DCF is **not** asking for a Financial Statement audit opinion of the CFDA Program. REAC in no way interprets programs as opinion units.

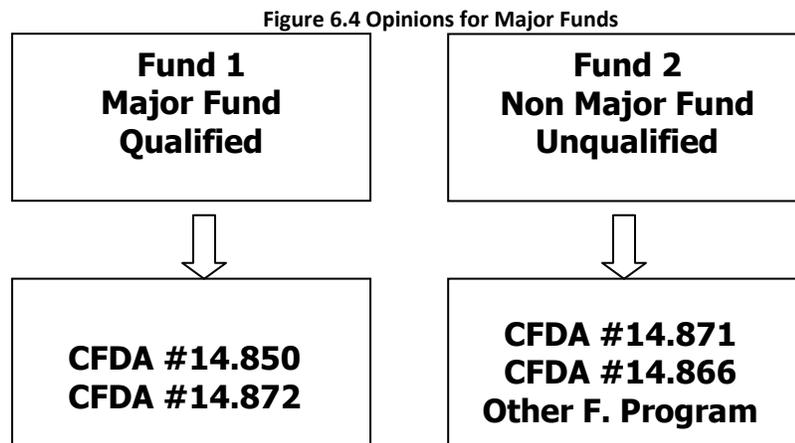
**Figure 6.3 Data Collection Form Financial Statements Audit Details Page**

CFDA#	NAME OF PROGRAM	DETAILS
<b>14.850 Fund Type and Opinion of the Fund containing Low Rent Public Housing</b>		
*G3000-200	Fund Type	Non Major Fund ---
*G3000-210	Fund Opinion	Unqualified Opinion ---
*G3000-220	Is the Departure or qualification related to the Low Rent Program?	No ---
<b>14.872 Fund Type and Opinion of the Fund containing Public Housing Capital Fund Program</b>		
*G3000-200	Fund Type	Non Major Fund ---
*G3000-210	Fund Opinion	Unqualified Opinion ---
*G3000-220	Is the Departure or qualification related to the Capital Fund Program?	Yes ---
<b>14.866 Fund Type and Opinion of the Fund containing Revitalization of Severely Distressed Public Housing</b>		
*G3000-200	Fund Type	Major Fund ---
*G3000-210	Fund Opinion	Qualified Opinion ---
<b>8 Fund Type and Opinion of the Fund containing Other Federal Program 1</b>		
*G3000-200	Fund Type	Major Fund ---
*G3000-210	Fund Opinion	Qualified Opinion ---
<b>14.871 Fund Type and Opinion of the Fund containing Housing Choice Vouchers</b>		
*G3000-200	Fund Type	Major Fund ---
*G3000-210	Fund Opinion	Qualified Opinion ---

Save Reset

Most PHAs are special purpose governments with only a single enterprise fund. Accordingly, the opinion on the enterprise fund (which is the opinion unit) will be applicable to all of the programs associated with that specific fund.

As an example, *Figure 6.4* shows a PHA that has five programs which are in two funds. Fund 1 is a Major Fund whose activity constitutes two programs. Fund 1 has a Qualified Opinion. Fund 2 is a Non-Major Fund whose activity constitutes three programs. Fund 2 has an Unqualified Opinion.



The qualified opinion shown for Fund 1 is an opinion on Fund 1 and is not interpreted as a qualified opinion on the two programs therein. The unqualified opinion reported for Fund 2 is an unqualified opinion on the fund and is not interpreted as an unqualified opinion on each of the three programs therein.

Additionally, the fund designation as major or non major also applies to the funds only and not the programs. The DCF Financial Statements Details tab reflects the fund type and fund opinion that the CFDA Program is contained in and is **not** a Financial Statement audit opinion of the CFDA Program.

The Financial Statements tab of the DCF must match the information provided in the Auditor’s Report on Financial Statements, Auditor’s Report on Compliance and Internal Control (Financial Reporting), and Summary of Audit Results (if included in the Schedule of Findings & Questioned Costs). PHAs should please verify that the information matches the DCF prior to submission or the submission may be rejected.

### 3.2 Federal Programs [slides 17-19]

The DCF Federal Programs tab (*Figure 6.5*) requests information about the federal programs including dollar threshold, opinion and findings, agency risk indicator, and total federal awards expended (TFAE). This Federal Program is only applicable for A-133 Audits. Therefore, if the audit type is “Audited/Non-A133”, then the DCF Federal Programs tab is not applicable.

FASS analysts verify that the values selected on the DCF Federal Programs tab matches the Auditor’s Report on Compliance and Internal Control (Major Program), Auditor’s Schedule of Expenditure of Federal Awards (SEFA), and Auditor’s Schedule of Findings and Questioned Costs.

**Figure 6.5 Data Collection Form Federal Programs Tab**  
**Real Estate Assessment Center**  
**Financial Assessment Subsystem (FASS-PH)**

Element#	Description	Value	Details
*G4000-020	Dollar Threshold Used to Distinguish Type A and Type B Programs	\$300,000	---
*G4000-030	Low-Risk Auditee Indicator	Yes	---
*G4000-040	Indicator-Any Audit Findings Disclosed that are Required to be Reported	Yes	---
*G4000-080	Was a Schedule of Prior Audit Findings prepared?	Yes	---
*G4100-040	Total Federal Awards Expended	\$1,000,000	[Details]

\*mandatory field

For example, if the Auditor provides a qualified opinion and states that there are findings for the HCV program in the summary of audit results, the value selected for Element #G4000-040 (Indicator – Any Audit Findings Disclosed that are Required to be Reported) must be marked as “Yes”. Some items to note regarding the DCF Federal Programs tab are summarized below:

- Element # G4000-020 (Dollar Threshold Used to Distinguish Type A and Type B Programs) is \$300,000 or three percent (.03) of total Federal awards expended if TFAE equal or exceed \$300,000 but are less than or equal to \$100 million. (Ref: Circular A-133 Section § .520)
- Auditor should verify that Element G4000-040 (Indicator – Any Audit Findings Disclosed that are Required to be Reported) matches Auditor’s Report on Compliance and Internal Control (Major Program), Auditor’s Schedule of Expenditure of Federal Awards, and Auditor’s Schedule of Findings and Questioned Costs.
- Element #G4100-040 (Total Federal Awards Expended) must match the SEFA for programs reported.

Continuing with the above example, where the Auditor provided a qualified opinion on the HCV program in the Schedule of Findings and Questioned Costs, TFAE Details Element #G4200-050 (Type of Opinion on Major Program) must also show “Qualified Opinion”. If there are audit findings, additional information must be provided in the details link for each program in which there are findings, including type of compliance requirement or internal control finding and/or amount of questioned costs.

Federal Programs TFAE Details tab (*Figure 6.6*) provides more information on each federal program, including the amount expended, major federal program indicator, type of opinion on major program and audit findings.

**Figure 6.6 Data Collection Form Federal Programs Total Federal Awards Expended Details**

<b>14.871 Housing Choice Vouchers</b>			
*G4100-030	Amount Expended	\$ 500,000	---
*G4200-010	Major Federal Program Indicator	Yes	---
*G4200-050	Type of Opinion on Major Federal Program	Qualified Opinion	---
*G4200-060	Number of A-133 Compliance Audit Findings	2	<a href="#">[Details]</a>
G4200-070	Audit Finding Reference Number	2008-01 2008-02	---
*G4200-090	Are Awards Received Directly from a Federal Agency?	Yes	---
*G4200-100	Significant Deficiency Indicator	Yes	<a href="#">[Details]</a>
*G4200-110	Material Weakness Indicator	Yes	<a href="#">[Details]</a>
*G4200-120	Material Non-compliance Indicator	No	---
*G4100-050	Total Amount of Questioned Costs	\$0	---

\*mandatory field

### 3.3 Supplemental Information [slide 20]

Figure 6.7 shows the DCF Supplemental Information tab. The DCF Supplemental Information tab collects information on the auditor’s opinion on supplemental information (SI) and verifies all SI has been included in the auditor’s hard copy report. This tab is required to be completed regardless of the PHA’s audit type. Element “G3100-040 SAS 119 “in relation to” Opinion on the FDS should match the auditor’s SAS 119 opinion that is generally found as the last paragraph of the Independent Auditor’s Report or may be reported in a separate auditor’s report.

Figure 6.7 Data Collection Form Supplemental Information Page

**Real Estate Assessment Center**  
Financial Assessment Subsystem (FASS-PH)

My Inbox PHA Info FDS **DCF** Notes and Findings Submit Edit Flags Reports Logout

**General Information**

**Financial Statement**

**Federal Program**

**Supplemental Information**

**PHA Information**

PHA Code: CA999  
 PHA Name: Hometown Housing Authority  
 Fiscal Year End Date: 03/31/2010  
 Submission Type: Audited/A-133

Supplemental Information			
ELEMENT#	DESCRIPTION	VALUE	DETAILS
*G3100-040	SAS 29 "in relation to" Opinion on the Financial Data Schedule	Fairly Stated	---
<b>Required Supplemental Information</b>			
*G3100-050	Is MD & A Omitted?	No	---
*G3100-060	Are other supplemental Information Omitted?	Yes	---

Save Reset

\*mandatory field



#### 4. PHA Info Screen: Component Unit Box [slides 22 & 23]

At the end of the PHA Information page, there is a box that says “Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will **not** be receiving its own separate A-133 or non A-133 audit).” *Figure 6.8* provides a screen shot of the Component Unit box on the PHA Info screen. The required audit attachments also differ based on whether the reporting entity is a component unit or not. An overview of the reporting entity is provided in Session 2. This section clarifies whether a PHA should select the component unit box on the PHA Info page.

Figure 6.8 PHA Info Screen – Component Units

The screenshot shows the 'Real Estate Assessment Center Financial Assessment Subsystem (FASS-PH)' interface. It includes a navigation menu with 'PHA Info' selected, and a 'PHA Information' section with the following details:

- PHA Code: NY010 Fiscal Year End Date: 12/31/2010
- PHA Name: Watertown Housing Authority
- Submission Type: Audited/A-133

A second, larger 'PHA Information' form is shown below, containing more details:

- PHA Code: NY010
- PHA Name: Watertown Housing Authority
- EIN Number: N/A
- Address(line1): 142 MECHANIC ST.
- Address(line2):
- City: WATERTOWN
- State: NY
- Zip Code: 13601
- Reporting Beginning Date: 01/01 | 2010 | t Year
- Reporting Ending Date: 12/31 | 2010 | t Year
- Submission Type:
  - Audited/Non-A-133
  - Audited/A-133
- Asset Management:
  - Non-Asset Management with Elimination Only
  - Non-Asset Management with COCC/Elimination
  - Non Asset Management
  - Asset Management without COCC/Elimination
  - Asset Management with Elimination Only
  - Asset Management with COCC/Elimination
- Component Unit:
  - Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will **not** be receiving its own separate A-133 or non A-133 audit.)

The 'Component Unit' checkbox and its description are circled in red in the original image.

There are two categories of reporting entities which impact the required audit attachments:

- Primary Governments. PHAs that issue their own financial statements.
- Component Units. PHAs that do **not** issue their own financial statements but instead are part of another larger entity’s financial statement. In this context, HUD is not using the GAAP definition of a component unit.

Certain departments and programs of the local government should select the component unit box even though they are not technically a ‘component unit’ per GASB 61. The general rule is:

1. The PHA **should not** select the Component Unit box if the PHA is reporting as the primary government or has its own audit. Also, PHAs should not select this box if the local government, which the PHA is a part of, conducted a program specific audit.
2. The PHA **should** select the Component Unit box if the PHA is:
  - Reporting as a component unit, department or program of the local government or jurisdiction and
  - Will not be receiving its own separate A-133 or non A-133 audit.

PHAs that select the component unit box are only required to provide up to 3 attachments. All other PHAs must submit the required audit attachments based on the audit type selected (e.g., A-133 or Non-A-133). For PHAs that select the Component Unit box, there are three required attachments:

1. Notes to the Financial Statements;
2. Audit Findings (if applicable); and
3. Action Plan (if applicable)

Currently, the system also displays the audit information tab. In order to ensure that a component unit PHA is not rejected, the PHA should attach the requested reports.

## 5. Required Audit Attachments [slides 25-27]

All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the *OMB Circular A-133 Compliance Supplement* and *Government Auditing Standards*.

There are two audited submission types: 1) Audited/A-133 and 2) Audited/Non-A-133. For Audited/Non-A-133 Submissions, PHAs may submit a Yellow Book Audit or a GAAS Audit. Required audit attachments vary based on the audit type selected. *Table 6.2* below shows the required attachments for these audit types:

**Table 6.2 Required Audit Attachments**

### **A-133 Audit Required Attachments for the Reporting Entity:**

1. Management’s Discussion & Analysis.
2. Basic Financial Statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows.
3. Notes to the Basic Financial Statements
4. Auditor’s Report on Financial Statements
5. Auditor’s Report on Compliance and Internal Control (Financial Reporting)
6. Auditor’s Report on Compliance and Internal Control (Major Program)
7. Auditor’s Schedule of Expenditure of Federal Awards
8. Auditor’s Schedule of Findings and Questioned Costs
9. Action Plan (related to audit findings)

**Non A-133 Audit (Yellow Book Audit) Required Attachments for the Reporting Entity:**

1. Management's Discussion & Analysis.
2. Basic Financial Statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows
3. Notes to the Basic Financial Statements
4. Auditor's Report on Financial Statements
5. Auditor's Report on Compliance and Internal Control (Financial Reporting)

Table 6.3 provides an overview of the audit attachments by tab in the FASS-PH system. If an attachment does not apply to your audit type, please disregard. If the attachment does apply, please make sure that it is included as part of the submission or the submission will be rejected.

**All attachments must be attached in the required section** as directed in FASS-PH in the Notes & Findings section of the submission. Failure to properly attach these documents correctly will result in a rejection.

**Table 6.3 Required Audit Attachments by Types of Audits**

Submission Type	1 Management Discussion & Analysis	2 Financial Statements	3 Notes	4 Audit Information (Opinion)	5 Audit Information (Attachments)	6 Audit Findings	7 Action Plan
A-133	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Optional
A-133 Component Unit without separate audit	N/A	N/A	Mandatory	Mandatory	Currently Mandatory	Mandatory	Optional
A-133 Component Unit with separate audit (same as A-133)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Non A-133	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	N/A	N/A
Non A-133 Component Unit without separate audit	N/A	N/A	Mandatory	Mandatory	Currently Mandatory	N/A	N/A
Non A-133 Component Unit with separate audit (same as non A-133)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	N/A	N/A

The sections below provide information on each of the above-referenced audit attachments.

### 5.1 Management's Discussion & Analysis [slide 28]

GASB 34 included a new section to the audited financial statements – Management's Discussion and Analysis (MD&A). The MD&A must be attached to the **MD&A** tab in the FASS-PH system. The MD&A provides an analytical overview of the PHA's financial activities and is required for all reporting entities. Since GASB 34 prescribes the topics that should be contained in the MD&A, additional information that does not relate to the specific topics may be discussed elsewhere such as in the Letter of Transmittal or the other forms of supplementary information.

The MD&A is required by GASB 34 to cover the following topics:

- A brief discussion of the basic financial statements, including how they relate to each other and the significant differences in the information they provide.
- Condensed current and prior-year financial information from the government-wide or basic financial statements with a comparative analysis that discusses reasons for significant inter-period changes and economic factors that significantly affected current-year operations.
- Analysis of individual fund financial information, including the reasons for significant changes in fund balances (or net assets) and whether the limitations significantly affect the future use of fund resources.
- Description of currently known facts, decisions, or conditions that are expected to have a significant effect on the PHA's financial position or the results of operations.

PHAs should verify that reported figures and data in the MD&A are consistent with other financial reports including the financial statements and DCF.

**Note:** Non-profits that report under FASB are not required to produce a MD&A of their annual audit. These entities should attach a document that explains that they are a non-profit and that an MD&A is not required.

### 5.2 Financial Statements [slide 29]

The following information must be attached to the **Financial Statements** tab:

- Government-wide Financial Statements. The government-wide financial statements report all financial and capital assets, short- and long-term liabilities, revenue, expenses, gains and losses using the economic resources.
  - *Statement of Net Assets*. The statement of net assets presents the government's financial position as a point in time, similar to the balance sheet.
  - *Statement of Activities*. The statement of activities presents the government's activities during a period, similar to an operating statement.
  - *Statement of Cash Flows*. A statement that reflects the government's cash inflows and out flows for period of time; normally required under full accrual accounting.
- Fund Financial Statements (if applicable).

### 5.3 Notes to the Financial Statements [slide 30]

The Notes to the Financial Statements must be attached to the **Notes** tab in FASS-PH. The Notes to the Financial Statements provide a greater understanding of the financial information submitted. FASS-PH reviews the audit attachments, including the notes, to determine if the classification and information reported on the FDS appears accurate, and that all minimal required disclosures have been provided. Material errors, including the omission of required disclosures are grounds for rejecting the submission.

The notes to the financial statements should be complete and properly presented. The Notes to the Financial Statements should include the following information.

1. Summary of Significant Accounting Policies
2. All Other Required Note Disclosures

FASS-PH reviews the amounts presented within the Notes to the amount shown in the FDS, where applicable. Materiality is considered, especially for amounts reported on the Notes that do not reconcile to the basic financial statements or the FDS. FASS-PH reviewers also ensure that all required note disclosures are included.

### 5.4 Audit Information (Opinion) [slide 31]

Figure 6.9 provides a screen shot of the “Audit Information” tab on the “Notes and Findings” screen. Under the “Audit Information” tab, the PHA is required to provide responses to the following question – 1. Opinion on Supplemental Information. A drop down box is provided with a list of the available responses.

Figure 6.9 Notes and Findings Screen – Audit Information (Opinion)



## Real Estate Assessment Center

### Financial Assessment Subsystem (FASS-PH)

My Inbox	PHA Info	FDS	DCF	Notes and Findings	Submit	Review Submission	Edit Flags	Reports	Logout
Notes									
Audit Information									
Action Plans									
Financial Statements									
MD&A									
Audit Findings									

PHA Information		
PHA Code:	RQ005	Fiscal Year End Date: 06/30/2010
PHA Name:	PUERTO RICO PUBLIC HOUSING ADMINISTRATION	
Submission Type:	Audited/A-133	

Audit Information		
Element	Description	Value
G5100-010	Opinion on Supplemental Information	Fairly stated <input type="button" value="v"/>
G5100-020	Auditor Opinions and Schedule of Expenditure of Federal Awards	OPINION, SCHEDULE & SAS 29.pdf <a href="#">View</a>

### 5.5 Audit Information (Attachments) [slide 31]

The attachments that belong in the **Audit Information** tab include the following:

1. Auditor's Report on Financial Statements
2. Auditor's Report on Compliance and Internal Control (Financial Reporting)
3. Auditor's Report on Compliance and Internal Control (Major Program)
4. Auditor's Schedule of Expenditure of Federal Awards (SEFA)

Basically, these attachments comprise the Independent Auditor's Report and provide the opinion whether there are findings or issues identified for both the financial statements and federal programs and the audited SEFA. This information is the same information the auditor must provide in the DCF on the Financial Statements and Federal Programs tabs. Since these attachments and the DCF are reporting the same categories of information, they must match.

The following is a list of specific items to keep in mind for the attachments that are included on the Audit Information tab:

1. Verify that the auditor's opinions and financial statements were prepared using current GAAP and GAGAS requirements.
2. State what types of activities or funds were reviewed in the financial statements, if applicable (Auditor's Report on Financial Statements).
3. Be sure to include the SAS 119 Opinion on the SI, which includes the SEFA and FDS (Auditor's Report on Financial Statements).
4. If findings are identified in any of the audit reports, make sure that what is reported in the DCF matches the report.
5. The Auditor's SEFA must match the TFAE on the DCF for the reported programs.
6. CFDA numbers should be consistent between the audit information and FDS.
7. Be sure the auditor has updated his report language to include the new SAS 112 language in the Auditor's Report on Compliance and Internal Control for **both** the financial reporting and A-133 major programs reports.

### 5.6 Audit Findings [slide 32]

The information required on the **Audit Findings** Tab includes: 1) Auditor's Schedule of Findings and Questioned Costs, and 2) Summary Schedule of Prior Audit Findings. The Schedule of Findings and Questioned Costs is required for A-133 audited submissions. If the schedule is not attached, the submission will be rejected. The following items are required on the Audit Findings tab:

1. Major programs identified in the Schedule of Findings and Questioned Costs should also be identified as such on the DCF.
2. Verify that all opinions and findings match what is reported in the DCF, including the number of findings and finding details.
3. If there are prior audit findings, the summary schedule must be provided.

### 5.7 Action Plan [slide 33]

The Action Plan must be attached to the **Action Plan** tab. An action plan is required if there are findings reported for financial reporting and/or federal programs. The PHA must submit an Action Plan that states how the PHA plans to resolve audit finding(s). If the Action Plan is not attached, the submission may be rejected. The Action Plan should include the following:

1. An identification of each finding as reported by the auditor, including the reference number assigned by the auditor for each finding.
2. A description of action taken or to be taken or an explanation why corrective action is not necessary.
3. The name(s) of the contact person(s) responsible for corrective action.
4. The anticipated completion date for the corrective action.

(Ref: OMB A-133, Sections (a) and (c))

### 6. Required Supplementary Information & SAS 119 (formerly SAS 29) Opinion [slide 35]

The Schedule of Expenditures of Federal Awards (SEFA) is a required report for A-133 audits. REAC reviews the SEFA and compares the programs, CFDA numbers, and federally expended amounts with the programs and federally expended amounts reported on the DCF. Materiality is a consideration; however, the programs that are reported on the DCF should match the SEFA.

HUD requires that the FDS be prepared as supplementary information to the financial statement. The FDS should also be produced in hard copy (normally as part of the annual financial report but may be issued separately), and reported on by the auditor regardless of whether the FDS is entity-wide. If the FDS has not been subjected to the auditing procedures applied in the audit of the basic financial statements, the auditor would express an “in relation to” opinion on the FDS; however, the Independent Auditor’s Report must include the FDS as supplementary information.

### 7. Auditor Attestation [slide 36]

In order to assure the accuracy and completeness in the data submitted to PIH-REAC, auditors are required to perform Agreed Upon Procedures (AUP). In general, the Auditor must compare the electronic data in the draft FASS-PH submission to the hard copy of the basic financial statements, audit reports, and FDS. This procedure should be performed in accordance with Chapter 2 of the Statement on Standards for Attestation Engagements (SSAE) No. 10 *Attestation Standards: Revision and Recodification* of the AICPA. The FDS is supplemental information; therefore, it is not audited. However, the FDS should receive a SAS 119 “In relation to” opinion. Although the procedure is simple, it is above the requirements of Circular A-133 and the issuance of the SAS 119 reporting, and will require some additional time.

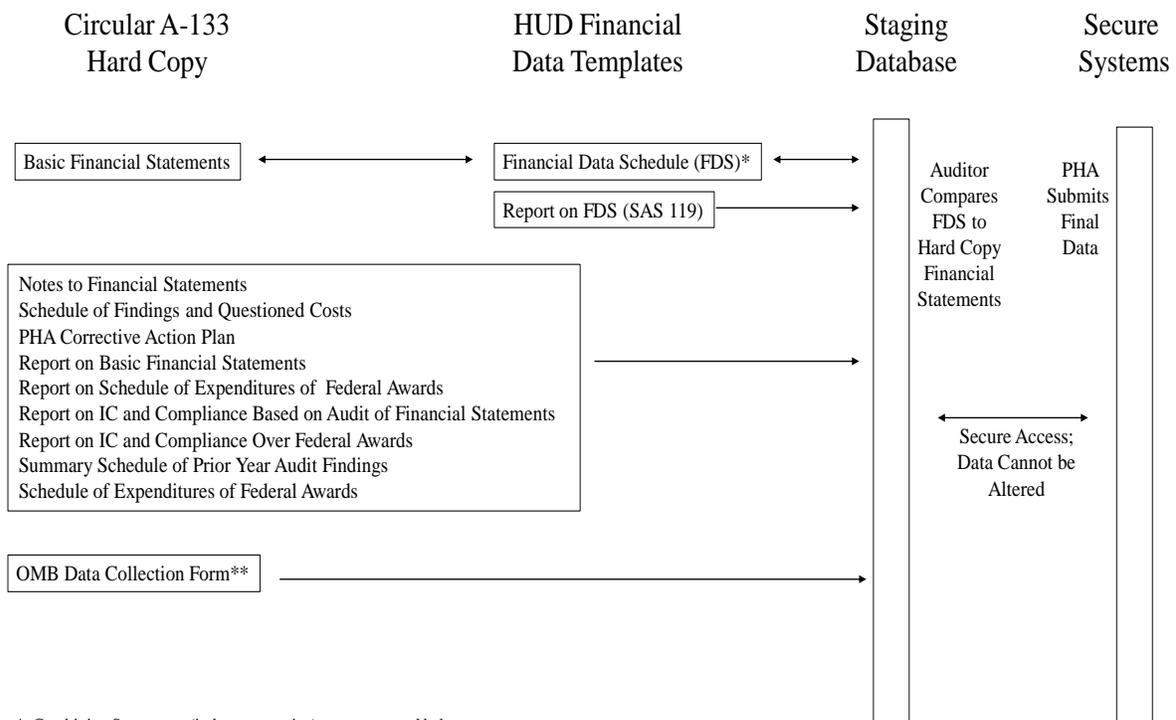
During the audited submission process, PHAs submit data derived from the audited financial statements into a PIH-REAC “staging” database. Submission to this “staging” database does not require the PHA to do anything differently. The submission is in the “staging” database when it is in “IPA review” status – meaning only the auditor with the WASS CPV role may review and complete the agreed upon procedures to the submission. The updates the auditor can make are limited to those items on the Auditor Procedures tab that is an option under the submit menu.

Auditors then compare the submitted information in the “staging” database with the hard copy audited information prepared by the PHA and reported on by the auditor.

- If the information agrees, the auditor will complete the attestation report on the FASS Auditor Reporting screen by clicking the “agrees” button. This will return the data to the PHA for final submission. The PHA can only submit data that agrees. The security features of Secure Systems will not permit the PHA or HUD to alter data after the auditor attestation process has been completed.
- By clicking “agrees” the auditor is attesting to the statements listed on the Annual Financial Electronic Submission pages. It should be noted that the AUP attestation report could be submitted by the OMB Circular A-133 auditor, financial statement auditor, or a third party auditor.
- If the information does **not** agree, the auditor will complete the attestation report on the FASS Auditor Reporting screen by clicking the “does not agree” box. This step will return the data to the PHA for correction. Once the PHA resubmits corrected data, the auditor must repeat the above process. While Secure Systems provides for identification of those elements that do not agree, most auditors will find it beneficial to discuss any areas of disagreement with the PHA and come to resolution prior to the PHA’s initial submission of the FDS data.

Figure 6.10 below provides an illustration covering the IPA review process from start to finish. It is the PHA’s responsibility to make sure that all of the steps below are completed within nine months after the PHA’s FYE.

Figure 6.10 IPA Review Process



\* Combining Statements (industry practice) source-general ledger.

\*\* Certain miscellaneous information, such as Federal agencies required to receive reporting package, will be entered manually into Secure Systems.

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## IV. COMMON REPORTING ISSUES – UNAUDITED SUBMISSIONS [slides 38-40]

### Overview

REAC reviews the FDS for completeness, accuracy, and inconsistencies. Generally, REAC reviews against prior year submissions and VMS data to identify potential errors or omissions. This may also help verify that something is classified properly or at least consistently. Edit checks are used to compare the FDS to other HUD information.

Items one and two below are checks completed by REAC against other independent data. Material variances between the FASS reported data and VMS or HUDCAPS, without appropriate comments will likely cause the submission to be rejected. Check #4 (Business Rules) is completed by the system and REAC staff and helps ensure the basic integrity of the data. For example, last year's ending equity balances should equal the beginning balances. Finally, REAC reviews for financial compliance and distress. PHAs are encouraged to complete similar review steps prior to submission.

The main goal of the unaudited review is to make sure that the FDS is completed accurately; thereby decreasing the chance that the audited submission will have to be rejected.

### 1. Perform HCV Edit Checks Using VMS Data

REAC uses various reporting tools to validate the submission. REAC uses a tool to compare data reported in the FDS to data reported in the Voucher Management System (VMS). The primary purpose of VMS is to provide a central system to monitor and manage the PHA's use of vouchers. VMS data provides a monthly snapshot of each PHA's costs for the HCV program. For each month, PHAs report the number of vouchers issued and amount of HAP by voucher category, overall administrative expenses, and information on portables and disaster-related vouchers.

REAC generates the VMS report for the 12-month period ending with the PHA's FYE. This allows REAC to compare HAP and administrative expenses as well as number of vouchers (units) leased. Some of the FDS line items that may be checked against data reported in VMS include the following:

- Line 96900 – Total Operating Expenses
- Line 97300 – HAP Expense
- Line 11210 – Unit Months Leased

REAC also reviews fraud recovery (FDS line 71400), ports in and out (FDS lines 121, 332, 71500, and 97350), FSS forfeitures (FDS line 71500), and audit costs (FDS line 91200). While there is not an expectation for the FASS-PH and VMS submissions to match exactly under these circumstances, the numbers should be closely correlated. Current VMS submissions are to be completed using the same basis of accounting as is required in the PHA's financial statements. Thus, the differences between VMS and FDS should be minimal.

## 2. HCV Edit Checks Using HUDCAPS Data

The reporting of HUD revenue (which is the largest source of revenue for the HCV program) is an important part of proper financial reporting. Financial submissions are also checked against the LOCCS/HUDCAPS reports. REAC recommends that PHAs contact their local Field Office or the FMC to verify the amount of disbursements and amounts obligated to the PHA. REAC analysts may use additional information from HUDCAPS to verify the information reported in FDS line 70600 (HUD PHA Operating Grants). FDS line 70600 has various detail lines. However the detail lines of greatest interest are FDS lines 70600-010 and 70600-020 as summarized in *Table 6.4* below:

**Table 6.4 Edits Checks using HUDCAPS**

LINE ITEM #	ACCOUNT DESCRIPTION	AMOUNT
70600-010	Housing Assistance Payment Revenues	\$2,000,000
70600-020	Administrative Fees Revenues	\$220,000
70600-030	Hard-to-House Fees Revenues	\$0
70600-031	FSS Coordinator	\$25,000
70600-040	Independent Public Accountant Cost	\$15,000
70600-005	Total Preliminary Fees Earned	\$0
70600-060	All Other Fees	\$0
70600-070	Administrative Fee Calculation Description	The PHA received \$15,000 for a program specific audit as required by HUD Notice 2008-09

The PHA's annual budget authority (ABA) and respective disbursements is important for reporting HUD revenue (FDS line 70600) on the FDS properly. In addition to ensuring that the total revenue reported for FDS line 70600 is correct, the breakdown between HAP (70600-010) and AF (70600-020) is also verified by REAC. These lines, along with other revenue and expense lines, populate FDS lines 11170 (Administrative Fee Equity) and 11180 (HAP Equity) which make up the PHA's total equity/net assets (FDS line 513) on the FDS. REAC also reviews the DCF paying attention to the TFAE.

## 3. HCV Program Compliance

REAC also looks for potential program compliance issues during the review. Program compliance does not impact the review of financial submissions. However, a review of program compliance may indicate that further analysis should be performed and the information is forwarded to the FMC and Field Office for follow-up. Program compliance issues may include the following items.

- FDS Line 144 (Interprogram Due From) if this relates to loans or temporary loans.
- Equity and/or Operating Transfers Equity, which may represent the transfer of HCV program funds for unallowable transactions.
- Negative FDS line 11170 (Administrative Fee Equity).

- Negative FDS line 11180 (HAP Equity).
- Negative FDS line 11030 (Beginning Equity).
- FDS line 1121 (Unit Months Leased) is greater than the number of units authorized and may represent over leasing.
- Late Submission/No submission.

#### 4. Business Rules

REAC recommends that PHAs pay special attention to these particular business rules before submitting data into FASS-PH. REAC will review these equations to verify if they are correct in the submission. Failure of the PHA to verify whether these equations are correct could result in a rejection of the submission.

- FDS lines 11030, 11170-001, and 11180-001 should equal last year's 513, 11170, and 11180.
- FDS lines  $11170 + 11180 =$  FDS line 513
- FDS lines  $11030 + 11040 + 10000 =$  FDS line 513
- In most cases: FDS lines  $508.1 + 512.1 =$  FDS line 11170 (Full accrual)
- In most cases: FDS lines  $511.1 =$  FDS line 11180 (Full accrual)

#### 5. Other General Reporting Problems – Unaudited Submissions

As part of a PHA's final review of the submission, verify that the issues listed below are not applicable to the submission. This review will decrease the likelihood of rejection. For the submissions reviewed over the past 12 months, particularly for Section 8 Only agencies, listed below are common issues that have prompted the most rejections.

- Other CFDA number activity has been commingled with 14.871 Housing Choice Voucher activity.
- PHA failed to report a program(s).
- PHA is not providing a split between Pre-2004 Administrative Fee Reserves and Post-2003 Administrative Fee Reserves as required by PIH Notice 2011-59.
- Inter-program transfers (due to/due from) or operating transfers (in/out) do not balance and the difference is material.
- Line 70600 (HUD PHA Operating Grants) must be reported using revenue recognition principals under GASB 33 and is correctly reported between HAP and Administrative Fee Revenue.
- FDS line items must be used according to the definitions in the FDS line item definition guide. PHAs should not use wrong line items or aggregate transactions in one or two line items.
- Report all revenue and all expenses. Do not net revenue or expenses (e.g., net Administrative Fee revenue by reporting half of fraud recovery, or net HAP instead of reporting FSS forfeitures as revenue).
- VMS data is materially different when compared to FDS reported data.
- The HUDCAPS reports (HUD funding system) are materially different than data reported to FASS.
- GASB 54 Excel tool is not attached for PHAs submitting under modified accrual with FYE 06/30/11 and after.

**V. COMMON REPORTING ISSUES – AUDITED SUBMISSIONS [slides 41 & 42]**

**Overview**

Prior to submitting, please verify that none of the above issues from the section on common reporting issues in the unaudited submissions are present in the audited submission. This review will help decrease the chance that the audited submission is rejected. The section below provides a list of common reporting errors in PHAs’ audited submissions.

**1. Federal Awards Expended**

There has been a lot of discussion on the correct reporting of awards expended for the HCV program. Element #G4100-040 – Total Federal Award Expended (TFAE) on the DCF reports the TFAE for all federal programs. There is a detail link to provide TFAE by federal programs. Federal Awards Expended is defined within OMB Circular A-133 Section .205(a) as follows:

- (a) **Determining Federal awards expended.** The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to sub recipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.

For the HCV program, REAC will accept the federal awards expended reported on the DCF as either: 1) equal to FDS line 70600 (HUD PHA Operating Grants); or 2) equal to FDS line 90000 (Total Expenses) less FDS line 97400 (Depreciation Expense) plus transfers out of Federal funds plus balance sheet only activities as further described in *Table 6.5* below:

**Table 6.5 Reporting Federal Awards Expended**

FDS Line Items	Description
FDS Line 70600 (HUD PHA Operating Grants)	Annual Budget Authority or HUD Revenue Recognized
FDS Line 90000 (Total Expenses) less FDS Line 97400 (Depreciation Expense) plus any transfers out of Federal funds plus federal funds used for balance sheet only activities, such as the acquisition of capital assets.	Program Expenditures

## **2. Other General Reporting Problems – Audited Submissions**

As part of the PHA's final review of the audited submission, verify that these issues are not applicable to the submission. This review will decrease the likelihood of rejection.

- PHA submission type is incorrect (e.g., component unit check box is incorrectly marked).
- SAS 119 audit of the FDS is missing from IPA's opinion or not referenced on the table of contents.
- Required report attachments are missing and/or incomplete.
- Required report attachments have not been properly attached.
- Auditors Reports do not reconcile to the Data Collection Form (opinions, findings, federal awards expended).
- Financial Statements do not reconcile to the FDS and the differences are material.
- MD&A, Financial Statements, and Notes to the Financial Statements do not reconcile to each other.
- Financial Statements and associated information do not meet minimum professional requirements.

## VI. SUBMISSION DECISION, NOTIFICATIONS, AND FOLLOW-UP

### 1. Submission Decision [slides 44 & 45]

After the review, REAC's goal is to approve a financial submission that is properly classified and shows data that is a fair reflection of the PHA's financial condition. There are two levels of review. The Analyst makes a recommendation and generally a FASS-PH Manager makes the decision on whether the submission will be accepted, conditionally accepted or rejected.

Keeping in mind REAC's goal, submissions are generally conditionally accepted unless the errors or issues noted are material, meaning the FDS may not provide a fair reflection of the PHA's financial condition. For example, if net assets are off by more than 10%, the submission may be rejected. *Table 6.6* provides a summary of the three types of submission decisions that can be made by REAC.

**Table 6.6 Different Submission Decisions**

Recommendation	Description
Accept	No errors noted and all prior issues corrected.
Conditional Accept	Issues noted, but deemed immaterial.
Reject	Errors and/or issues noted that are material or a significant number of small issues are present that cause the submission to be unreliable.

Accepted and conditionally accepted submissions do not have to be re-submitted. Conditionally accepted issues need to be addressed on the next submission. Rejected submissions need to be corrected and re-submitted within 15 days of rejection.

### 2. Notifications and Follow-up [slide 46]

PHAs receive notification of conditional acceptance and rejections via NASS. Conditional acceptance means issues should be addressed on the audited submission. For rejections, PHAs have 15 days to re-submit. PHAs should also check the FASS-PH system to see if the submission has been accepted.

- Conditional Acceptance Unaudited/Audited Letter
- Unaudited/Audited Financial Submission Rejected

If a submission is rejected, the PHA must resubmit a corrected submission within 15 days. Reminder, Past Due and other notifications are automatically sent to PHAs. These notifications are sent using the email address as reported in PIC. Additional notifications include:

- Audited Submission Reminder Letter
- Unaudited Submission Failure to Submit Letter
- Audited Submission Failure to Submit Letter

### *Learning Activity 6.1 – Understanding Audited and Unaudited Submissions [slide 47]*

## VII. RECORDING EXPENSES

### (Informational Only)

#### Overview

Expenses need to be reported in accordance with *OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments*. The objective of Circular A-87 is designed to provide that Federal awards bear their fair share of cost recognized under these principles. Circular A-87 determines allowable costs (both direct and indirect) and sets criteria on their reasonableness based on:

- Allowability of costs;
- Cost reasonableness; and
- Allocable costs

#### Factors Affecting Allowability of Costs

To be allowable under Federal awards, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of this Circular.
- Be authorized or not prohibited under State or local laws or regulations.
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms, and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal awards as an indirect cost.
- Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- Be adequately documented.

#### Reasonable Costs

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

- The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- Market prices for comparable goods or services.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

### **Allocable Costs**

- 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.
- All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
- Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
- Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan is required.

If the PHA has an expense that is identified in the 90000 series of line items, please use these line items. For example, unless the HCV program is managed by an outside management company (FDS line 91300), the following FDS lines should be reported.

- Salaries (FDS line 91100),
- Audit fees (FDS line 91200),
- Compensated absences (FDS line 96210),
- Employee benefit contributions (FDS line 91500), and
- Other operating administrative (FDS line 91900)



## **Session 7: Conclusion**

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