

BOARD COMMISSIONER TRAINING

PHA Budget and Finance



2021

Developed in 2021 using HUD's Lead the Way training, adapted by Econometrica, as well as other sources.

ECONOMETRICA, INC.

Learning Objectives

After completing this module, you should be able to:

- Describe the purpose of PHA budgets.
- Understanding the operating budget process.
- Explain how to read a PHA budget.
- Board role in financial reporting.
- Define methods used to increase revenue and decrease expenses.
- List internal controls for managing budgets.
- Summarize methods for avoiding budget pitfalls.
- Understand the role of procurement and contracts in the budget and financial management process.
- Identify audit requirements.



Today's Agenda



- Public Housing and Central Office Cost Center Budget
- Housing Choice Voucher Budget
- Operating Budget Process
- Financial Reporting
- Procurement - Contract
- Audit

The Board and the Budget

- Financial oversight – fiduciary obligation for the agency viability.
 - Monitor agency budgets.
 - Review financial obligations – contracts, expenses.
 - Ensure the annual audit and other financial reporting is compliant and timely.





Public Housing and the COCC



Public Housing Overview

- **Authorization:** U.S. Housing Act of 1937 and subsequent acts.
- **Purpose:** Provide decent, safe, sanitary rental housing for low-income families.
- **Ownership:** Funded by federal government. Established by state law. PHA holds property title with conditions without HUD approval.



- **Financing:** By federal subsidy (Operating Fund, Capital Fund, and special purpose grants), rental income from tenants and grants.
- **PILOT:** Payment in lieu of taxes to the city instead of local taxes.
- **Rent:** Based on 30 percent of a family's monthly adjusted income.

Low Rent Housing Program

- Operating funds from HUD are provided each year along with dwelling rents that are used to sustain the operating budgets.
- Funds are restricted for the use of the Low Rent Housing Program (aka Public Housing) only.
- Section 11 of the Annual Contribution Contract (ACC) Paragraph (D) states:
 - “The HA shall not incur any operating expenditures except pursuant to an approved operating budget.”



Low Rent Housing Program (Continued)

- The asset management model requires larger PHAs to account, budget, and manage properties at the project level.
- Operating budgets shall be developed for each Asset Management Project (AMP).
- PHAs shall develop and maintain AMP budgets that allow for comparative analysis of budgeted line items to actual revenues and expenses.
- Individual AMP budgets must be approved by the Board of Commissioners.

Summary of Individual Project Budgets							
Sample Housing Authority							
For the year ended 9/30/2017							
			Totals	AMP1	AMP2	AMP3	AMP4
Occupancy Type (family, senior, mixed)				family	mixed	mixed	mixed
Built Date				1/1/1970	1/1/1961	1/1/1967	1/1/1972
Date of Last Renovation				1/1/2006	N/A	N/A	1/1/2002
ACC Units				188	311	165	146
Estimated Occupancy Rate:				97%	97%	97%	97%

Central Office Cost Center

- The Central Office Cost Center (COCC) is a business unit that performs the overall strategic monitoring of projects, programs, and the overall PHA.
- The COCC is funded based on HUD established mgmt. and bookkeeping fees provided by other programs (Low Rent & Housing Choice Voucher).

Sample Housing Authority			
Central Office Cost Center Budget			
For the Year Ended September 30, 2017			
Revenue			
Management Fees			
Public Housing	\$		552,127
Housing Choice Voucher			295,200
Capital Fund Management Fee			120,000
Bookkeeping Fees			
Public Housing			70,713
Housing Choice Voucher			110,700
Asset Management Fees			-
Total Operating Revenue			1,148,740
Expenses			
Administrative Salaries			340,773
Administrative Benefits			129,494
Auditing Fees			7,020
Advertising Expense			7,053
Office Expense			139,536
Protective Services			-
Insurance			65,813
Total Operating Expenses			775,189
Other Items			
HUD Repayment Agreements			180,000
Net Cash Flow (Deficit)	\$		193,551

Operating Reserve Levels

Low Rent Program
Financial Health



Operating Reserve > 4 mos. of
Operating Expenditures

COCC Financial Health



Operating Reserve > 6 mos. of
Operating Expenditures

HCV Program Financial
Health



Operating Reserve (Admin. Fees) > 6 mos. of
Administrative Operating Expenditures

Calculating Operating Reserve Levels

- Operating reserves can be calculated by taking resources available and subtracting current liability balances.
 - Resources can be defined as cash & investment balances.
 - Current liabilities generally consist of accounts payable, wages payable, PILOT, security deposits and other liabilities.



Please note that this calculation is simplified and differs slightly from the HUD formula.

Reserve Calculation Example

Description	Balance
Cash-Unrestricted	\$120,000
Current Liabilities (Accts. Pay, Wages Pay, etc.)	\$ 40,000
Operating Reserve	\$ 80,000
Annual Operating Budget Expenditures	\$480,000
Monthly Expenditure Level	\$ 40,000
Number of Months (Reserve)	2



HCV Program Budget



Housing Choice Voucher, Section 8 Program Basics

- **Purpose:** Assist very low-income families to afford decent, safe, and sanitary housing in the private market.
- **Eligibility:** Families at less than 50 percent of area median income eligible, but most are at 30 percent of median income or below.
- **Rent/Housing Subsidy:** Based on PHA determined payment standard. Tenant pays 30 percent of their adjusted income toward rent and HUD pays remainder as a subsidy to the landlord.
- **Voucher Allocation:** Varies based on budget authority provided by HUD and the subsidy amount needed per voucher.



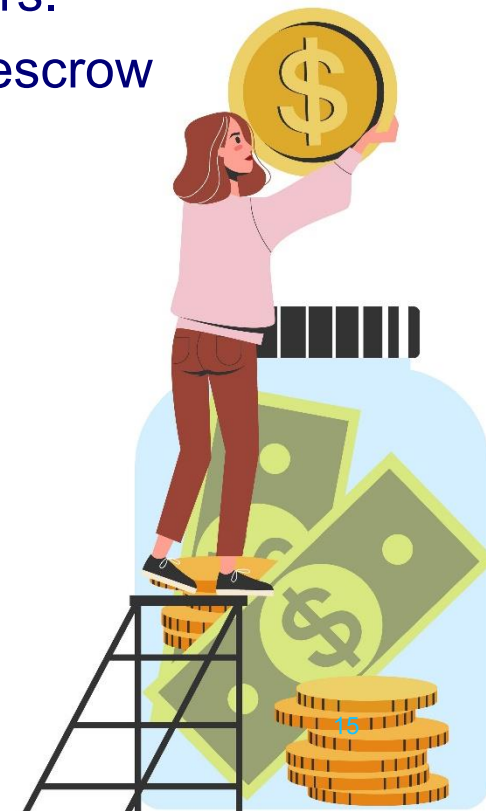
Housing Choice Voucher Funding

Administrative Fee Funds:

- Paid based on leased units as of the first of the month reported to HUD in VMS.
- Calculated per leased unit per month (HUD list).
- Eligible HCV administrative expenses.
- Disbursed monthly/reconciled quarterly by HUD based on VMS units.
- Pro-rated based on appropriations.
- Maintained in “admin. Reserve

Housing Assistance Payment (HAP) Funds:

- Rental assistance provided to landlords.
- Utility reimbursements to renters.
- Family Self-Sufficiency (FSS) escrow deposits.
- Higher HAP costs can result





Operating Budget Process



Budget

- The budget is a tool to quantify goals and measure success.
- All PHAs must develop and maintain a system that allows for analysis of the actual revenues and expenses associated with each property and the overall agency.
- Facilitates effective planning, decision-making and cost controls.
- Prepared accurately, it provides a precursor of future financial results and method of forecasting.



Budget (Continued)

Sample Housing Authority

Operating Budget Forecast Excluding Capital Fund Program
For the Year Ended September 30, 2017

	COCC	AMP 1	AMP 2	AMP 3	AMP 4	HCV Program	Total
Operating Revenue							
Dwelling Rent	-	170,740	709,560	312,380	316,000	-	1,508,680
Vacancy Loss	-	(5,120)	(21,290)	(9,370)	(9,480)	-	(45,260)
HUD Operating Subsidy/Admin. Fees	-	927,670	869,830	735,300	400,260	1,294,180	4,227,240
Interest Income	-	50	50	100	50	-	250
Total Operating Revenue	1,148,740	1,010,020	1,697,830	976,090	709,290	11,713,690	17,255,660

Roles with the Budget

- Review actual financial statements to the operating budgets on a monthly basis.
- Approve project-based budgets prior to start of fiscal year.
- The operating budget should reconcile with the Financial Data Schedule line items.
- Review revenue and expense reports monthly.
- Monitor PHA performance

**Did the agency operate at a surplus,
break even, or have a deficit?**



Roles with the Budget, Cont.

Finance Dept.	Property Mgrs./HCV/COCC
Manages and monitors revenue and expenses for each AMP and PHA programs.	Uses financial data and anticipated changes in revenue and expenses to prepare AMP budget.
Reports financial information in accordance with GAAP.	Monitors AMP and Department finances against budget.
Provides financial reports to Board, staff and HUD in a <u>timely manner</u> .	Works with Executive mgmt. as needed to increase revenue or decrease expenses.

How to Read A Budget

- Income
 - Dwelling Rent.
 - Operating subsidy/Operating grants.
 - Other income, including fees and damages projected.
- Expenses
 - Salaries.
 - Utilities.
 - Supplies/contracts.
 - Resident and other programs.

Summary of Individual Budgets

Budget Type: Original
For the year ended 9/30/2015

	15-1 Plaza Apts and Monroe Circle	15-2 Plaza Apts and Monroe Circle	15-3 Northwest Plaza	15-4 Northwest Plaza	Total PH
ACC Units	191	310	164	143	808
Estimated Occupancy Rate:	96%	96%	99%	96%	98%
Operating Income:					
Gross Potential Rent	58,140	653,265	239,857	359,627	1,310,890
Less: Vacancy Loss	(1,167)	(13,065)	(2,890)	(13,103)	(30,225)
Net Tenant Rental Revenue	59,307	640,200	236,967	346,525	1,282,999
Gross Potential Subsidy	1,119,162	813,008	793,171	550,897	3,276,237
Less: Proration Amount	(172,507)	(114,574)	(104,335)	(79,469)	(470,886)
Net Operating Subsidy	946,654	698,434	688,835	471,428	2,805,351
Gross Administrative Fees	-	-	-	-	-
Less: Proration Amount	-	-	-	-	-
Net Administrative Fees	-	-	-	-	-
Net HAP Funding	-	-	-	-	-
FSS Forfeitures	-	-	-	-	-
Other Tenant Charges	22,049	13,106	13,456	28,113	76,724
FSS Coordinator Grant	-	-	-	-	-
Excess Utilities	-	-	-	-	-
Investment Income	217	423	193	167	1,000
Fraud Recovery	-	-	-	-	-
Port-In Admin Fees and HAP	-	-	-	-	-
Management Fee Revenue	-	-	-	-	-
Bookkeeping Fee Revenue	-	-	-	-	-
Asset Management Fee Revenue	-	-	-	-	-
Other Income	1,040	4,279	232	144	5,694
Total Operating Income	1,029,267	1,356,442	939,693	848,377	4,171,769
Operating Expenditures:					
Administrative					
Administrative Salaries	93,242	87,656	87,656	87,656	356,211
Employee Benefits - Administrative	25,215	24,075	19,518	20,396	89,203
Auditing Fees	7,634	12,593	6,742	5,808	32,776
Management Fees	130,785	212,283	113,216	96,282	552,566
Bookkeeping Fees	16,845	27,342	14,582	12,401	71,170
Advertising and Marketing	-	-	-	-	-
Office Expense	21,990	32,711	20,958	19,388	95,047
Legal Expense	2,959	9,996	11,643	4,274	28,872
Travel/Training	88	-	-	-	88
Inspection/Service Contract	-	4,446	-	-	11,688
Other Administrative Costs	2,627	-	2,565	2,051	-
Total Administrative	301,384	411,102	276,880	248,254	1,437,621
Asset Management Fees	22,920	-	19,680	17,180	59,780
Tenant Services					
Tenant Services - salaries	-	-	-	-	-
Employee Benefits- Tenant Services	-	-	-	-	-
Relocation Costs	-	-	-	-	-
Tenant Services-Other	4,707	9,182	4,076	5,101	23,065
Total Tenant Services	4,707	9,182	4,076	5,101	23,065

How to Read A Budget (Continued)

- Per Unit Per Month (PUM) - analysis of a property's income and expenses as an average for each unit for one month
- For the HCV Program, PUC for administrative expenses are presented for the state for comparison purposes.
- PUM comparisons may be made across properties within the PHA or across other PHAs.

<i>Account Title</i>	<i>AMP #1</i>	<i>AMP #2</i>	<i>AMP #3</i>	<i>Average</i>
Maint. Labor	48.92	59.02	47.98	51.97
Maint. - Employee Benefits	21.42	20.98	28.94	23.78
Maintenance Materials	24.68	42.68	46.84	38.07
Maintenance Contract	29.80	30.12	29.87	29.93

Question 1



Per Unit Per Month calculations provided in project-based budgets are used to complete which of the following?

- a. Allow, through trending, to better plan for seasonal spikes in expenses or major payment due dates.
- b. Determine the rents to be charged to each resident, based on their monthly expenses.
- c. Allow for the PHA management to home in on each unit's monthly expenses to forecast expense budgeting in the future.
- d. Is a term no longer used for PHA budgeting - PHAs should move away from this method.

Budget Walk-Through

- Let's review a budget
- The Anywhere County Housing Authority has the following programs:

Program	Funding
Low Rent (2 individual AMPs)	Federal Funding
HCV Program	Federal Funding
COCC	Non-Federal
Non-Profit	Non-Federal



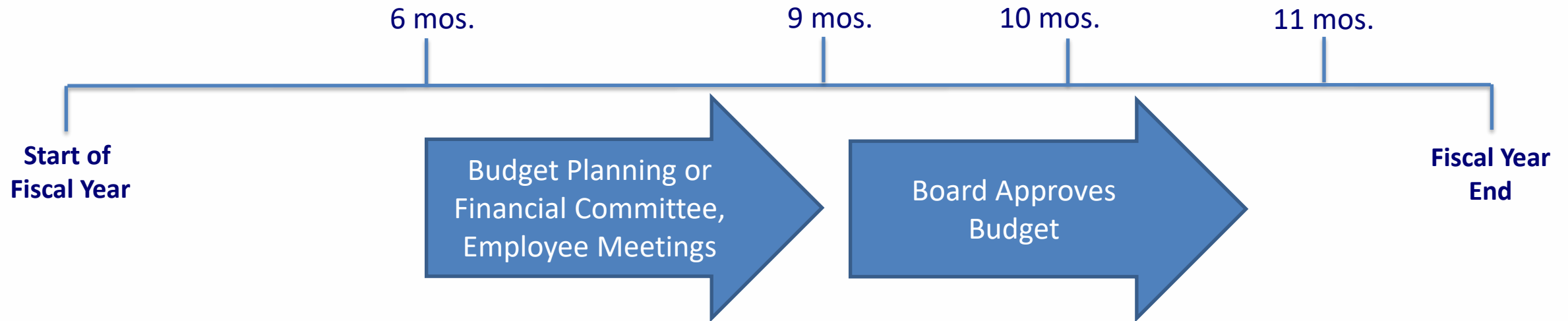
Budget Steps

Preparing a budget involves the following steps:

- Meeting with the Board of Commissioners to define program goals for the year.
 1. Determine an adequate reserve level (safety net).
 2. Profit margin required to be generated.
 3. Types of services to be provided.
- Determine the individual program's operating reserve levels (equity) available from previous years earnings.
 - Operating reserves can be defined as resources available that have been accumulated.
- Determine the revenue.
- Determine the expense levels.
- Determine if the plan is feasible.
- Obtain board approval.



Establishment of a Budget Plan



- Develop a timeline for establishing budget goals, working with staff, and approving the budgets.
- As a best practice, PHAs will develop a budget policy listing due dates and procedures for approval.

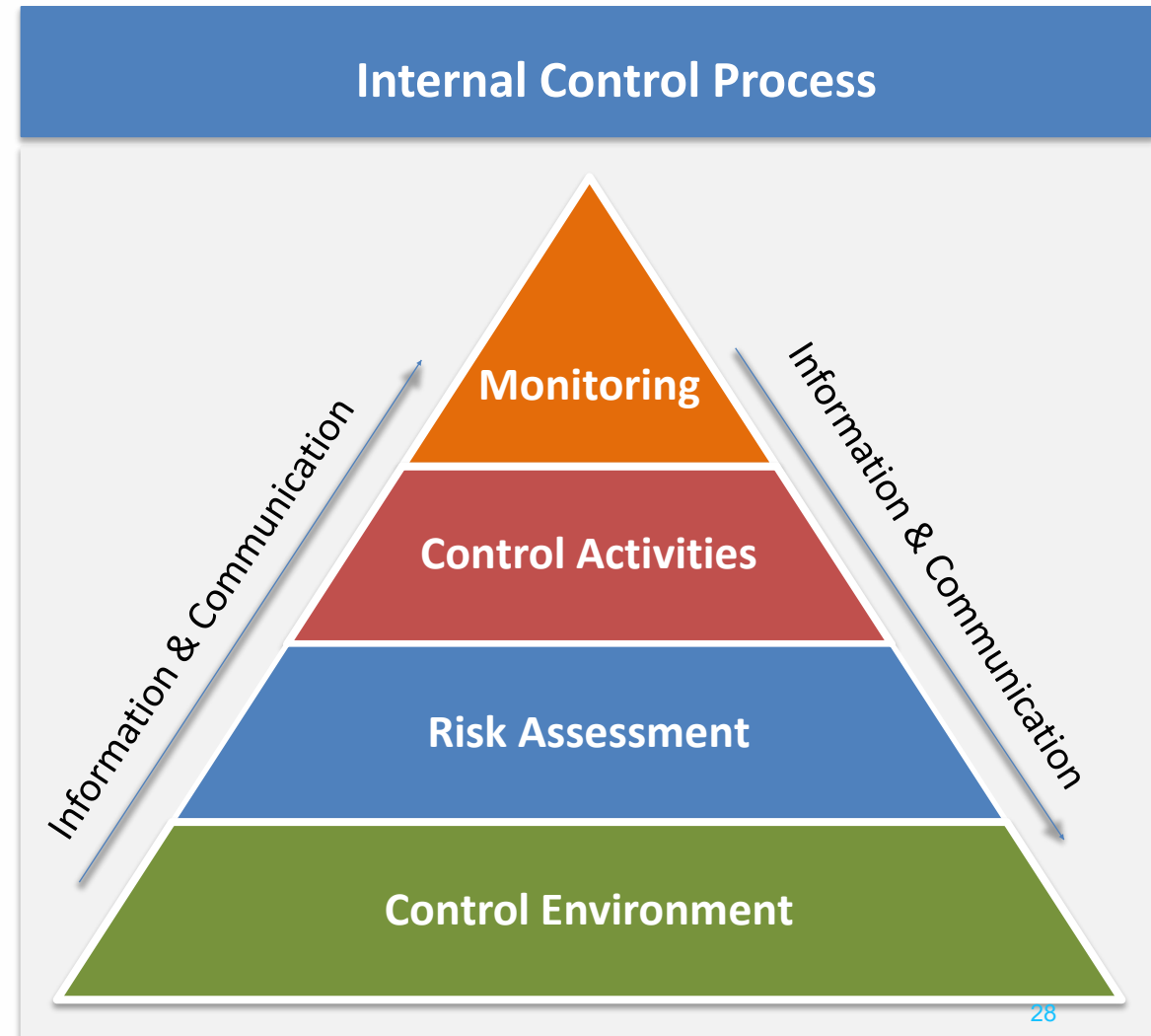
Review of the Operating Budget

- Projected operating reserve levels.
- Revenue streams.
- Reasonableness of expense categories.
 - Maintenance.
 - Insurance.
 - Salaries/Staffing.
 - Utilities.
 - Overall employee benefit rate – the method used to calculate the percentage rate as compared to gross salary cost.
 - Repayment agreements/capital expenditures.
- Net cash flow or cash deficiency.



Internal Control Process

- Control Environment – setting the tone at the top.
- Risk Assessment – identifying areas at risk of fraud, theft, misappropriation.
- Control Activities – implement policies and procedures to mitigate the threat of fraud or theft to the identified risk areas.
- Monitoring – testing controls to ensure they are working.
- Communication.



Examples of Internal Controls

- Check signature authority.
- LOCCS security (Authorizing Official).
- Designated Contracting Officer.
- Cash Accounts and Credit Card Usage.
 - Separate cash accounts may be required to meet program requirements.
- Use of Restricted Funds.
- Separation of Financial Responsibilities.
- Proper Cost Allocations.
 - Cost allocations/cost sharing arraignments should be recognized between programs & component units (nonprofit entities).

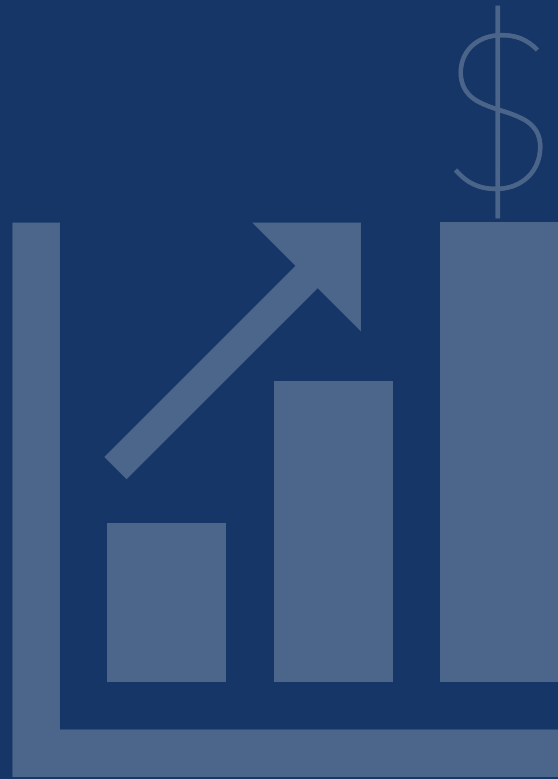


Question 2



Internal controls the PHA management team should have in place include all the following except:

- a. Establishing check signature authority.
- b. Designating a contracting officer.
- c. Controls of restricted funds use.
- d. Centralization of financial responsibilities.



Financial Reporting



Monthly Financial Reporting & Monitoring

Receive and review monthly financial reports – budget against actuals. Ask questions:

- Are there variances in the actuals as compared to the budget? Why?
- Which AMPs are not performing within their budget?
- What is the projected occupancy rate used to budget dwelling rent versus the current occupancy rate?
- Are reserves being used to support budget losses and are they sufficient to cover projected deficits?
- Does the budget contain required paybacks to HUD?
- Are there comingling of funds to cover losses (Due to/Due from balances)?
- What are the projected proration levels used to budget HUD funding? What are our current proration levels?



Understand Financial Performance

- **FASS – Financial Assessment Subsystem.**
 - Measures the financial condition of each AMP.
 - Determined by data reported to HUD in the Financial Data Schedule (FDS).
- **Strategies to Improve FASS.**
 - Maintain accurate financials
 - Submit financials on time
 - Increase QR
 - Increase MENAR

Understand Financial Performance (Continued)

Quick Ratio (QR)

- Liquidity
- Current assets

Months Expendable Net Asset Ratio (MENAR)

- Adequacy or reserves
- Operate using net available resources

Debt Service Cover Ratio

- Capacity to cover debt
- Ability to meet regular debt obligation

Strategies for Improving Financial Performance

Increase Revenue	Decrease Expenses
Evaluate lease enforcement and rent collection policies and implementation.	Energy conservation measures.
Raise minimum rents within HUD guidelines.	Evaluate existing contracts for cost and value.
Consider property repositioning or the sale of non-public housing property.	Evaluate and reprice insurance costs, fleet vehicles, travel, ancillary benefits.
Assess whether portability revenue is fully collected and consider the portability policy.	Contract property management or maintenance to an outside entity or other PHA.
Obtain additional grant or supplemental funding.	Evaluate staffing levels and organizational structure.

Budget Pitfalls



Strategies to Avoid Financial Pitfalls

- Ineffective oversight of overall PHA financial operation.
- Failure to notice if PHA resources are effectively spent on designated programs.
- Failure to implement internal controls and separation of duties.
- Lack of external checks on financial reporting
- Focus on executive pay at expense of other employees.
- Spending restricted funds for other purposes.
- Mixing family, business, and charitable board work (conflicts of interest).



Question 3



Key questions the board should ask regarding the budget include all the following except:

- a. How will projected losses be funded?
- b. Is the anticipated revenue realistic?
- c. Is variance from prior year actual expenses sustainable?
- d. Can the PHA change the annual budget based on the current month's shortfall?

Procurement - Contracts



Procurement and Financial Oversight

Procurement/contracts = expenses.

- Expenses is one of the two key elements of the PHA budget.
- Board oversight of procurements/contracts helps with budget oversight overall.



Procurement Questions

- Is this contract necessary?
- Are we procuring it in the most appropriate, compliant and cost-efficient way?
- Did the PHA do an independent cost estimate so that they could properly judge price reasonableness and perform cost analysis?



Procurement Questions (Continued)

- Do we have the funds to pay for this contract? Do they have an expiration date or specific requirements?
- What may we be giving up in order to fund this contract?
- Was the procurement done compliantly?
- Does the procurement action follow our approved Procurement Policy?





Audits



FDS Submissions to HUD

- Regulations for Financial Reporting
 - Public Housing Assessment System
 - Uniform Financial Reporting System

Unaudited FDS

- Submitted to REAC
- Due 2 months after FY end
- Prepared by Finance/Fee Accountant

Audited FDS

- Submitted to REAC
- Due 9 months after FY end
- Prepared by Finance/Fee Accountant
- Auditor performs Agreed Upon Procedures

A Final Thought

- Once the budget is approved and finalized, the Executive Director and Board of Commissioners will then need to monitor how the project is performing against the budget.
- This is accomplished by reviewing actual-to-budget reports that are typically provided by the accountant.



Thank you
for your commitment and service to
your PHA and its residents!

