ECONOMETRICA, INC.

Board Commissioner Training Module 2: PHA Budget and Finance

Transcript

00:00:00 Margaret McGilvray: Welcome. This is our module on Budget and Finance, and it's one of a series of live and recorded modules for PHA Commissioners. We have four additional training modules that are live virtual training. One is module one, on Roles and Responsibilities; module three, which is on the PHA Plan, Capital Fund, and Strategic Planning; module four, on Procurement; and our fifth module, on PHA Performance Monitoring and Risk Management.

We also should, hopefully in the near future, be releasing three recorded training modules that you can review at your own leisure that should be coming to you from either your Executive Director or your field office. And they are on the Low-Income Public Housing Program and the Admissions and Continued Occupancy Policy, the ACOP; a second one on the Housing Choice Voucher Program and the Administrative Plan; and then a final one on North Carolina and South Carolina Public Housing Law Basics. And that is because it was actually those field offices that contracted with us to create this training and bring it to you. So, we have a little bit of extra focus on North Carolina and South Carolina. We hope you take advantage of both of these trainings.

So, let's get started. As Rose mentioned, my name is Margaret McGilvray. And I'm from Econometrica, which is an organization that provides technical assistance and training to public housing agencies around the country. And we've been hired by HUD to bring this training to all of you. I myself have been working in the field for about 25 years. And I'm joined by my colleague, Ron Urlaub, who's a principal at Urlaub & Associates, an accounting firm that serves PHAs throughout the country with their financial and accounting needs. And Ron is an expert trainer and has been working with housing authorities for over 20 years.

00:02:10 Ron Urlaub: That's why I have no hair left.

00:02:15 Margaret McGilvray: So, let's look at our learning objectives for today. This slide is more of a reference point for you all, and to make sure that we've done our job for today. We want to make sure that at the end of the session, we've provided you with the necessary information to understand your PHA budget and finances, and to sufficiently oversee them properly and keep your organization on solid financial footing and compliant with HUD and other State regulations. Let's look at our agenda for today.

Today, we'll cover the basic elements of both public housing and Section 8 budgeting, to include the Central Operations Cost Center, or COCC. Ron will also walk you through the Operating Budget process, and how and what your PHA should be reporting from a financial standpoint, as well as how best to understand and keep an eye on your agency financials. I'll touch a little bit on procurement, although lightly, since we do have an entire module on that subject. And then Ron will explain a little bit about PHA audit requirements and what you should look for.

So, before we get started, we'd like to pull up a poll so we get a better sense of who's in the room with us. Rose, can you do so? So, we have two questions for you. One is to pick the description that fits your PHA best. These are descriptions around what programs you have and the size of your agency. And then also a second question, do you feel comfortable with and fully understand your agency's finances? And that's a yes or no. So, take a few moments to answer those questions.

00:04:35 Rose Turner: As you are answering these questions, I will give everyone an extra 15 seconds to go ahead and answer before I end the poll.

Okay, I'm going to end the poll now.

00:05:05 Margaret McGilvray: Great. So, it looks like most of our audience is from public housing only, with one AMP and perhaps less than 250 units, and public housing with more than 1 AMP and more than 250 units. So, we will be speaking about the Section 8 Program a little bit, but it does look as though we have a combination of folks here. And we do look like our audience is generally comfortable with your agency finances, but hopefully we can demystify a few elements. And for those of you who aren't as comfortable with it, we'll really hope to make it a lot simpler.

Because—and if you want to go to our next slide, Rose—because, as a Commissioner, you provide oversight and guidance to your agency. And you have a fiduciary obligation to ensure that the agency retains financial viability. And so, your oversight responsibilities can include a wide range that we covered in module one, from program performance and such. But a big piece of that is monitoring your agency's budgets, contracts, other financial obligations; overseeing the annual audit process; and making sure that you're reporting financials to HUD on time, and you have in place a system of internal controls to safeguard the agency's assets. And it is your responsibility to review and approve budgets. So, that's one of the reasons why we really wanted to bring this module to you.

Every PHA is different, and therefore different controls and Board involvement occurs. For example, a Board member of the New York City Housing Authority—or perhaps from our attendees, the Atlanta Housing Authority—that Board member role might be a little bit different than the Board member's role in a small, rural jurisdiction in North Carolina. So, we take that into consideration, as well. However, whether your PHA is over 250 units, has both Section 8 and public housing, that too makes a difference. And whether your housing authority is just one Asset Management Project or many, and therefore has a Central Office Cost Center, those also make a difference. But at the end of the day, every Board member of every PHA needs to know how to read and assess their agency budget, and monitor expenditures and decisions against that budget, and keep your agency financially solid.

So, with that, I will turn it over to Ron to talk a little bit about public housing and the COCC.

00:08:20 Ron: Thanks, Margaret. So, we'll start talking a little bit about public housing and the COCC. I think it's really important, as a Board member, to understand the programs that are managed and owned by the housing authority, right? We've got to know what type of programs you have. So, we're going to talk a little bit about the public housing program. Next, please.

And so, when we start talking about public housing, what are we talking about here? Some people call it the low-rent program, some people call it public housing. You're hearing some people calling them AMPs, which stands for Asset Management Projects here. But basically, the public housing program was initiated back in 1937. It's almost been, what, 80 years or so. And this program was really designed to build apartment complexes, so to speak, to provide decent, safe, sanitary housing. We see that. And there's over 1.2 million units across 3,000 housing authorities across the country here.

Now, what is interesting, by looking at that, is the ownership here. And the Housing Act of '37 basically said, "We want to give your local community control over their housing." And with that being said, housing authorities were developed. Now, the housing authority was created, typically, by your city. Maybe your county, if you're a county housing authority. So, the city spun off the housing authority, much like it would an airport authority or a transit authority that you hear a lot of times. In this case, it's a housing authority here.

So, what is the housing authority? It's just a local government. Right? It's not the Federal Government, and not a nonprofit. We're just a local governmental entity. And once the housing authority was created—which had to be created also by State law, a State Housing Act here—and so then from that, we develop the housing authority. And then HUD contacted the housing authority and said, "Hey, we have some funds here. Would you like to have the public housing program build some public housing units?" And within that, there's an ACC contract, meaning that we follow HUD's regulations here. And so, in the case if you do have public housing—and you may have more than one project, you may have a couple around the county, around the city, depending on your size—kind of looking at that.

Now, how are we actually funded here? So, we built the project. You know, I've seen some of these properties built back in the 40s. Could be the 70s, the 80s. You're going to have maybe some of them being built at different timeframes here. But one of the things that we're looking at is, we've got to maintain the property. And with that being said, HUD will provide what we call an Operating Fund. Now, the rent, as far as the rental income that comes from the tenants, of course is based on a percentage of their family's adjusted income—30 percent. And so, what that basically means is, from that dwelling rent, you understand that you could have a family that makes more money, and they're going to pay more rent. You're going to have the next family maybe not pay as much rent, because their income can be lower. My point being here: I can't raise the rent. Okay? This is a formula. This is a Federal regulation here.

Now, the way this kind of works in the subsidy, HUD determines—what we call the PEL calculation, through the Operating Fund—how much money you would get the run the property. And so, they come in and say, "Alright, you're going to collect this much rent? Great. We'll pay the rest of it in subsidy." Now, if your rents go up, what does that mean? What happens to your subsidy? It's going to go down a little bit. If your rents go down, your subsidy's going to go back up from that sector here. And so, that's kind of how it is being funded within your properties.

Now, you notice you have the Capital Fund. The Capital Fund Program is basically to provide funding for modernizing and rehabbing the properties, right? And that's the general basis of the Capital Fund here. Now, back in 1998, we started coming up with what we call "asset management" here. And really, we're going to talk a little bit more about this, but it's really designed to look at the private sector and look more like that. So, before, we used to keep the books on the public housing all together. Now, HUD has basically said for housing authorities that are over 400 units—the actual rule is 250, but they amended it each year to be 400—that we want you to keep separate books for each property. We want you to know which property is making money or losing money, to see what the needs are.

Before that, we just kept it all together in one big program. And so, you might have 50 different projects, but it was all kept together as one big program. And HUD came back and said, "No, we want to split it out a little bit."

So, that's kind of what you're seeing here, as far as public housing. Now, there's some eligibility requirements here based upon your income and things of this nature that you're going to have to look at here, right? Housing authorities have to use these income limits as set forth by HUD. And so, they set the limits at 80 percent for low-income, or very low-income at 50 percent, of the median income. And so, they're setting the groundwork as to who is eligible here.

Now, as we said, it is based on a percentage of income. And so really, from that standpoint, you can see: I can't control my rent, can I? So, when a person comes on top of the waiting list, you don't know how much rent can be charged until we get that income level. It may be higher, it could be lower from that perspective. Next, Rose.

So, you start looking at these Operating Funds here. And again, this is going to be in addition to the dwelling rent. And you could have some other funds. You may have a laundry facility on the property. The one thing we have to understand here: When you talk about Federal programs, the funds are going to be restricted for that program. I cannot use low-rent money for other programs. Period. You could have $50 million in your low-rent, it stays in the low-rent program. Okay? And you're going to see that later on, with Margaret talking to you about voucher programs, that the funds are going to be restricted here.

Now, with that being said, one of the internal controls we're looking at is having an approved operating budget. And so, the actual ACC contract—the contract between the housing authority and HUD—states, "The housing authority shall not incur any expenditures except pursuant to an approved operating budget." We have to approve a budget before the beginning of the year. From that, management is supposed to operate within that budget that's approved by the Board of Commissioners. And that's what we're looking at here, is saying, what is the budget for the fiscal year? Now, let's stick to it. Right? Next.

And so, we talked about these asset management models a little bit earlier. For larger PHAs, they're forcing them basically to keep separate books and records. And if you think about it, if you owned two apartment projects, you too would probably want to know which one is making a profit and how much, right? And so, under this asset management approach here, operating budgets have to now be developed for each one of these properties. Now, remember, it's only for housing authorities above 400 units, right? If you're under 400 units, you're going to be allowed to simply keep them as one project here. And that's what we're kind of looking at here, is saying, what do we need to see? If you're a smaller PHA, you won't see all these AMPs, right?

Now, with that being said, we're really trying to develop these budgets that let you compare line items. And that's one of the purposes. If you really think about it, you know, whether you're at AMP one, project one, or AMP four, we're trying to find ways that you can actually compare these properties together. And we're going to be looking at that. Again, the AMPs can spend the low-rent money, right? We can't use low-rent money for other programs.

Now, looking at the next slide. With that being said, we've taken these AMPs into these projects. And HUD has come out and said, we want to basically kind of limit the amount of the overhead cost. And so, what they basically did was set up a business unit—a business called the COCC, or the Central Office Cost Center—from that standpoint. And so, think of the Central Office Cost Center like a management company. When you drop by apartment complexes, you probably see a lot of them will say, "Managed by such and such property management company," right? And that's what the COCC is. It's a management company.

Now, what companies, or what apartments do they manage? Well, they're going to manage the projects and the programs of the housing authority, right? So, it's a way that we can charge fees—we're going to charge a management and a bookkeeping fee—to the AMP, to the voucher program, to the Capital Fund program, for maintaining the overhead or the executive management. So, when these fees get paid out of low-rent and Housing Choice Voucher, they're going to be given to the COCC. And then they're going to use the fees to cover management, they're going to cover the human resources, the IT, the finance office. And what we're, of course, trying to budget for here is, as a business, the COCC is self-sufficient. And from that, if you make a profit, the COCC fees can be used for other housing purposes. And that's what we're really kind of hoping here, is that then you can generate some additional units, or make down payments on homeownership programs, if you have this COCC. Now, it's only required for housing authorities that have over 400 units, right?

Now, HUD will set these fee rates, right? And so, the COCC has to operate in that. I can't go charge a higher fee to low-rent. I have to use the HUD-established rate. And so, that's something we've got to look at. We just can't recover that from other programs. Next.

Alright, so, we're kind of talking again about public housing here. And so, this agency here has public housing, a COCC, and a Housing Choice Voucher Program. And so, we're talking a little bit about, what is the operating reserve, and what are those levels? So, when you typically think of "operating reserve," think about that as kind of the safety net, or the amount of funds that you have left over after you pay your bills, your liabilities. And so, in this case, how much money do you want to have as a safety net, as a reserve—kind of a backup reserve—in these cases here? And everybody's going to be a little bit different, depending on the size.

So, low-rent: HUD comes in and says, we want the reserves to basically be above 4 months of your budget, of your operating expenses, right? Four months of the budget. And they're going to grade you on that under PHAS, which we'll get to a little bit later. The COCC is recommended to have 6 months, or half of a budget year, as a reserve. You know, things are going to happen. We're going to have storms, we're going to have things that we're going to have to pay for that we did not anticipate. It could be, you know, a computer's going out or something of that nature that's going to have to be replaced. So, you want to make sure you have an adequate reserve to be able to cover some of these. For the Housing Choice Voucher Program, we're talking about 6 months. And that's for the administrative fee side; we're going to talk a little bit about that versus the HAP side in the future, here.

So, again, think about this as, how much money would be left over after I pay my liabilities? Now, there is a more complicated formula, so we're simplifying this a little bit. But our point is that you understand the concept here.

And so, going to the next slide, let's show an example here. So, here's a reserve calculation. Here, in public housing, they have $120,000 in cash. They owe $40,000 in accounts payable, wages payable, etc. So, if they pay their bills, it would be $80,000 left over. That means my operating reserve is $80,000. My budget for this project is $480,000, meaning my monthly operating expense level is $40,000.

So, how many months do I have? I have two. What does HUD recommend for public housing? Four. My point being, when you're starting to manage your business and your properties, I need to know where I stand. And for this program, or for this project, we're a little bit short, aren't we? We have 2 months, and we would like to get up to 4 months. So, we've got to consider that during the budget process, right?

With that, Margaret, you want to take over the Housing Choice Vouchers?

00:25:45 Margaret McGilvray: Sure. Let's go on to our next slide. So, before we talk a little bit about the Housing Choice Voucher budget, we wanted to orient you, or just make sure we were all on the same page in terms of the Housing Choice Voucher Program in general.

So, like the public housing program, the Housing Choice Voucher Program was created by the Federal Government to assist very low-income families, elderly, and disabled with decent, safe, and sanitary housing. However, the difference is this is within the private market, not physical units that are owned by the housing authority. The Housing Choice Vouchers are administered locally by the public housing agency, and families receive a voucher which pays a portion of their rents. The PHAs also receive Federal funds from the Department of Housing and Urban Development to administer the voucher program, as well as a housing subsidy—or what's referred to as a HAP, or Housing Assistance Payment—that is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

In general, the participant's income should not exceed 50 percent of the median income. But actually, the law requires PHAs to provide 75 percent of their vouchers to applicants whose incomes do not exceed 30 percent of the area median income. So, this program is definitely focused on very low-income families. And then, of course, once a family is determined to be eligible for the program, they're put on the waiting list. And then they wait until their name comes up to the top of the list. Once their name does come up to the top of the list, they're advised of the unit size or the bedroom sizes for which they qualify based on their family size and the composition of their family.

Then the PHAs establish a payment standard, which is basically based on the amount of rent needed for a moderately priced unit in their local market. And then this payment standard is used to help calculate the amount of housing assistance a family will receive. The PHA calculates the maximum amount of housing assistance allowable based on the lesser of the payment standard minus 30 percent of the family's monthly adjusted income. The payment standard, however, does limit the amount of assistance the PHA will pay for a family.

The PHA then receives a budget authority—which we'll get into in the next slide, as well—but receives a budget authority annually. And that basically tells the PHA exactly how much money they have in those HAP payments, or Housing Assistance Payments, to the landlord that they can make on behalf of the voucher holders. And this amount correlates to an anticipated number of vouchers. However, sometimes, if the PHA ends up having to pay more in rent subsidies based on the tenant portions, then they may not be able to fund as many vouchers as anticipated. And so, that's why in some cases you may hear, "Our housing authority has $100,000 for our vouchers, for our HAP payments, and that should fund 100 vouchers. However, we've used up all of our budget authority, and we've only funded 90 vouchers." And that may be because those tenant portions aren't exactly identical to the averages that were anticipated when that estimate was made. And a family which receives a Housing Choice Voucher selects a unit, makes that choice, negotiates with the landlord, and determines that they'll rent there.

So, let's go on to the next slide, to talk a little bit more about the Housing Choice funding. As I mentioned, PHAs receive funding from HUD, but they receive them in two pots: the administrative fee funds, which are used to administer the program, which pay for staff and those sorts of costs; and then the Housing Assistance Payment, or HAP funds, which are basically funds that go from the housing authority to the landlord to subsidize on behalf of the family.

So, let's look at that first pot. This is a set amount—the administrative fees are a set amount by HUD—based on the number of leased units the housing authority reports to HUD monthly in the Voucher Management System, or what's referred to as VMS. Therefore, it's very important for PHAs to keep their vouchers in use, or what is called "leased up," to the greatest extent possible, and that they keep that data in the VMS accurate. Because that's directly tied to how much administrative fee you're getting and receiving.

So, going back to my example, if the housing authority has budget authority for 100 vouchers, but only has issued 80 vouchers to eligible families for whatever reason, then the PHA is losing administrative fee on those 20 additional vouchers, to say nothing of the families who are on the waiting list and desperately in need of those vouchers. However, as I also mentioned, in some cases, HUD does not provide sufficient funding to lease all of the units, and therefore you may not be able to lease up all 100 of those units.

HUD disperses those administrative funds monthly to the PHA but reconciles them on a quarterly basis. So, at a minimum, you want to make sure that, on a quarterly basis, those VMS numbers are accurate. And so, I would say, as Board members, you may want to see some of those numbers on a quarterly basis from your PHA.

The administrative fee may also be reduced based on budget appropriations for HUD by Congress. Oftentimes, Congress does not fully fund the administrative fees, so you may get 90 percent or 85 percent. And so, unfortunately, that's already setting the housing authority up to have to administer their program on less funds than they really need in order to do so. But that's a set amount for each PHA based on that total appropriations pie. So, HUD will divvy it up the same way to all the housing authorities, but sometimes it's less because of the Congressional appropriation, and not because of the PHA's lack of leasing up units.

Now, the other pot of money that I mentioned is for HAP funds, which is the amount the PHA pays to the landlord for rent subsidy as well as utility reimbursement. And this amount is also funded by HUD each year, based on what the PHA spent in the previous calendar year. So, while understanding that, you see the importance of spending HAP funding to provide for future funding of the agency. So, that's another reason why keeping those units leased up and sending those HAP payments to the landlord is critical, because it's not only affecting your current activity, but it may be affecting next year's funding, as well.

So, with that, I will turn it back to Ron to talk a bit about the operating budget process.

00:34:45 Ron Urlaub: Thanks, Margaret. Alright, if we can go ahead and go to the next slide here. So, we're talking about what the budget is and utilizing the budget here. And someone will look at the budget and say, "Why do we have to prepare this?"

Well, we've already seen, in the HUD ACC contract, it's going to be mandatory for public housing. But it's also a great internal control. It shows and hopefully is protecting our funds, because it's letting us see in advance whether we are going to have some financial problems. That's what we're looking at. We don't want to get into the year and run out of money. We would like to see that ahead of time, so then we can make some decisions as to how we're going to handle this, whether it be from cost-cutting measures, or transferring money from maybe non-Federal programs, whatever it may be. And so, with that, once we finalize this budget—again, it needs to be accurate, right? You don't want to see a budget with what I call rose-colored glasses on, just to make you look good on paper. It needs to be accurate, right? We're trying to identify some of these issues.

But then we're going to use it for our roadmap, right? This is where we're looking at saying, "We want the funds to be spent on these categories here." So, with that being said, we're trying to look at certain key items that maybe, as a Board, you want addressed, or maybe from the management coming in and making a request. For example, as a Board member, you come in and say, "I would really like to see some better landscaping here. We want to see better curb appeal. Why can't we plant some bushes and trees around the front to make it look a little bit more inviting?" And so, you establish that as a goal for the upcoming year. Now, the only issue is that's going to cost money. And so, we have to put that money into your landscaping or maintenance contracts for landscaping, right? But now, once we do that, that's where we're telling management, "I want this money spent on this item here." And that's what we're looking for.

Now, when you're looking at these budgets here, we just don't want the budget to be a piece of paper. And you just file it away, and management spends on what they think they want to anyway. And then, at the end of the year, you come to a budget revision. That's not what a budget is working with. The budget is: We're giving you the limit and what we want to be spent on, stick to the roadmap on that.

And so, from that, it now becomes a system of monitoring. We've got to be able to make sure that we are on course, that we're sticking to our budget. Now, we understand that things are going to happen, right? You're going to have, you know, storms. We're going to have issues where we're not going to be maybe funded as much as we thought we were going to be. And we have to make plans and changes throughout. We know the last couple years have been very difficult and have stretched some financial resources on programs and properties here, forcing us to make certain decisions. But we're trying to say that's what we're looking for here: keeping track, monitoring it. If needed, making a change to it. But making sure we're on the right course, and that's really kind of what we're looking at here. Next.

And so, you're going to see some of these example budgets here. We're going to go through a kind of a scenario here looking at this. Again, many agencies are going to have various programs. And so, again, you might just have one, public housing, and with the one project because you're under 400 units. And it's just going to be basically one column. If you're over 400 units, you're probably going to have a COCC budget, right? You're probably going to have multiple AMPs. And if you're a really large PHA, you could actually have something like 40 different projects or more with some of these. And then you could have an HCV Program. And so, Margaret's point about "everybody is different here," you've really got to keep that in mind a little bit when you start going through the budgets here. And you can kind of see, one of the first things is identifying your revenue sources, right? And making sure that we're not thinking that we're going to make more money than what we probably are. Next.

Again, what is our Board's role here? Well, we're hoping to come up with this strategy and goals, and how it's going to affect the AMPs. And so, while we're reviewing these budgets, we need to know where we stand. What are our reserves, right? What is our level that we have? And so, again, we know that you have to approve the budget prior to the start of the year. And the budgets have to be able to be reconciled with what we call the Financial Data Schedule. And the Financial Data Schedule is basically a form that—online, at the end of the year—we have to submit the financial items, then all of the financial statements, to REAC. And so, the budget has to be in sufficient detail that it can be reconciled to these numbers here.

Now, the most important thing here is monitoring. And I cannot stress enough, this is where we're at: Reviewing the revenue and expenses, monitoring is key. And so, when we start reviewing the financial statements, whether they are prepared by an outside accountant or your finance office here, this is how we monitor. And we need to ask questions, right? Why are we over budget on this line item? Are we sticking to our budget? Why are the accounting records not current? Why am I looking at financial statements that are 5 months old? That doesn't help us. We need to have current financial reports, so we can look at making decisions here. What's going on here? Are we operating at a profit, are we breaking even, or are we losing money?

And again, when you start seeing those budgets, you're seeing multiple different programs. And that's what we have to be careful of. Because remember, these programs can't help each other in many cases, can they? Low-rent money can't be used to help the Housing Choice Voucher Program, and the Housing Choice Voucher Program money can't be used to help the COCC. And so, if you put it all together, sometimes yes, I have a surplus. But sometimes you got to dig into a little bit more the details, don't we to see which program is operating at a surplus, or which programs might be having a deficit. Okay, next.

And so, when you're looking at the managers' and monitoring functions here, think about the responsibilities. What is the responsibility of the finance department? And in many cases, the finance department is tasked with what? Preparing the financial statements, to give the income statements compared to the budget. You might use charts, you might use graphs, whatever it may be, but you're trying to make it usable for the user. And so, we talk about that a lot with accounting. Accountants are known for hitting that button and printing off 400 sheets of green and white paper that nobody can read. And we want something that people can understand. That's the purpose here.

Now, the financial reports have to be prepared in accordance with GAAP, Generally Accepted Accounting Principles. Nothing too big, it simply means that if people owe the housing authority money, I'm booking those receivables. If I owe money, whether it be to employees or vendors, I'm booking all of those payables. And then, of course, the final one, one of the most important ones: We are able to provide financial reports to the individuals—whether it be the executive management, program management—in a timely manner.

And so, when you go over to the other one here, you say, "Yes, I'm using this financial data, I'm looking at the previous years, and I'm using it to help prepare my budget." And then, we've got to monitor, right? We always have to check to see how we're stacking up against the budget. Are we sticking to our budget numbers, or are they ignoring the budget? And whenever you start thinking about these, these reports are used by program management and with the executive management. You heard Margaret talk about, maybe HAP expenses are increasing. And what happens with that? Well, we might have to lease less units. But we can only know that if the Program Manager is reviewing these financial statements in a timely manner, right? So, we can make decisions. Okay.

Now, one of the issues we have or that we can utilize is looking through the budgets. Next slide, please. Next, thanks. And so, we've got to be able to understand how to read the budgets here. First of all, we have to what? Determine how much money we have. Do we need to make a profit or loss? I think that's kind of the key, is assessing where you're at on that. Now, from that, let's talk about income. And typically, we're going to say projects are typically going to have rent. They're going to have an operating subsidy. They could have some tenant fees, such as late fees or maintenance charges and things. Maybe we have laundry facilities on that. And so, we've got to identify our revenue here. Now, the hard part: looking at the expenses, right? Typically, we're talking about salaries, admin, maintenance. We're talking about utility costs. We might have to do some things in maintenance contracts that we saw, we might have some needs for our property that are outside of the Capital Fund.

And you always want to compare. Comparing to spot trends, right? A lot of times, when I come in and present a report to the Board, I come back and say, "One last question: Are you doing better today, or 1 year ago?" And you kind of say, "What do you mean?" It's not a tough question: Are you better off? Are you making money, or are you losing money? Do you have more money today, or a year ago? And that's what we're looking at here, is being able to monitor and assess your programs.

And one of the ways that we can do this is a tool—next, Rose—is looking at what we call the PUM. Some people call it "PUM," but it stands for Per Unit Month. And what this does is gives us an average cost for each unit for 1 month. I can't compare properties that are different sizes, right? One AMP may be 200 units, the next project may be 100 units. Obviously, the one with 200 units is going to have more expenses, have more revenue. But if I can divide it and come up with the average for each unit, I can now start comparing the cost between the properties to each other.

So, for instance, here you're looking at the maintenance labor costs. And what do we notice here? AMP 2 has very high labor costs compared to the other two AMPs. The benefits are a lot higher for AMP 3. Maintenance materials, why are AMP 1's material costs so low? And then you look at maintenance contract.

So, we have some questions here, don't we, by looking at it in this frame? Number one, why does it take more labor cost to run AMP 2? And it could be something like, "Ron, AMP 2 is built on 10 acres of land. There's a lot of mowing that has to be done and landscaping work that has to be kept up. So, we basically had to hire a person just to cover that." Where the other two apartments are maybe high-rise buildings, and they don't have that landscaping need. Okay, that's great. That's all we wanted to know. Answer the questions.

Why are maintenance material costs so low for AMP 1? And it could be that they just had a new Capital Fund Program renovation. But we don't want it to be that they're not fixing up the units, right? We don't want them trying to stop our money here. So, if the maintenance materials cost is really low, it also is a sign that maybe we're not spending it the way we should.

Now, you can do the same thing for the Housing Choice Voucher Program. You can look at the per-unit cost for admin expenses and compare your cost compared to other housing authorities across the State. And you can do that in what we call the 2-Year Tool, and you can ask for that. Now, if you don't have but one property, maybe you can ask your neighbors to see what they're spending, and trade off the financials to make sure you're still relatively close from that standpoint.

And so, we'll fix it to get into a question real quick, here. Let's launch that out. And so, what do you think about the Per Unit Month calculations: When they're provided as part of the project-based budgets, they are used to complete which of the following? What do you think here?

00:52:10 Margaret McGilvray: And while you're answering that question, if you yourselves have any questions, we'd like to pause for a moment here to see if you have any questions.

And Ron, we do have one in the Q&A. So, I'll read it out after we look at that response to this poll.

00:52:30 Ron Urlaub: Great.

00:52:35 Rose Turner: I'm going to give everyone an extra 15 seconds to answer the questions. I can see some of you are working through it, so you have another 10 seconds to put in your answer.

Alright, I'm going to end the poll, and share the results with you.

00:53:20 Ron Urlaub: And looking here, you know, we have the answer here as "a" being correct, but I could also see this as "c," because it's really allowing me to home in on some of those expenses. So, I'll come in and say if you said "a" or "c," I would be okay with that. I'm glad to see no one has used number four. So, thank you.

00:53:45 Margaret McGilvray: And with that, Ron, our question is, "We're experiencing an upswing of write-offs due to rent payment issues. It's partly impacted by COVID. Will you address the experience with current issues?"

So, I could—go ahead, Ron.

00:54:05 Ron Urlaub: No, go ahead.

00:54:10 Margaret McGilvray: I was just going to say, we don't directly address that in this session. And certainly, COVID has impacted rent collections and such. But I'll let Ron talk about real life experience a little bit more relative to that.

00:54:30 Ron Urlaub: Well, thank you. Yes, this has been a difficult issue for a lot of agencies with some of the eviction moratoriums and impacts of that, where we are seeing a tremendous amount of bad debts having to be written off. So, obviously that impacts your bottom line, your profit–loss statement. But I come back and say HUD has provided additional funding, right, through the CARES Act to help supplement the operating budgets for public housing, so that you see that additional money coming in. So really, what I'm seeing is that there's been more CARES Act funding provided than most agencies have written off. So, it's actually been a little bit of a surplus, has been my experience.

00:55:30 Margaret McGilvray: Thanks, Ron. And are there any other questions that folks want to run into?

So, we do have another question: "You referenced a couple of comparative financial reports that are good for Boards to review. Where can we obtain a sample packet of recommended financial reports for Board meetings?"

Well, there isn't a place to do so. What Ron's going over is some of the key elements that you would want to see in a financial report. And I think that's where you can request of your Executive Director that you want to see sample reports that provide x, y, and z information. And Ron can go into that a little bit. But unfortunately, there aren't—every PHA does it differently, so there aren't set samples out there.

But I'll turn that back over to Ron. And feel free to continue to put questions into the Q&A and/or into the chat.

00:56:50 Ron Urlaub: Thank you. And a lot of it is based upon what accountant and what software systems you're running. But keep asking questions and talking about the types of reports or things that you want to see that are important: cash balances, tenant accounts receivable, occupancy, things of that nature, right? Those are key reporting items that you want to keep track of.

So, we're going to go through kind of an example budget here. And so, let's look at this agency. They have two AMPs in public housing. They have a Housing Choice Voucher Program. They have a Central Office Cost Center. And they have a component unit, they've spun off a nonprofit corporation. Okay? So, these are the programs of this housing authority. So, Rose, if you can pull up the Excel spreadsheet.

00:57:55 Rose Turner: Yes. One second here, Ron.

00:58:10 Ron Urlaub: That's fine.

And so, that's really kind of one of the keys, here, while she's pulling that up. Ask questions, right? In many cases, as an accountant, I'm having the Board members even contact the accountant to try to look at and ask questions about their numbers a little bit.

Ah, great. Can you click on View, and let's blow this thing up a little bit more?

00:58:45 Rose Turner: Yes. So, I will just make this a little bigger.

00:58:50 Ron Urlaub: Keep on coming, make it a little bit bigger.

00:58:55 Rose Turner: Okay. Is this better?

00:59:00 Ron Urlaub: That'll work, thank you. Alright.

One of the things we did by looking at this budget from a Board, we highlighted in blue the Central Office Cost Center and the nonprofit. And why did I highlight those in blue? Because they are de-federalized, meaning that those funds are not totally restricted for specific programs. Right? And that's something that we'll want to look at. We understand that the Housing Choice Voucher money can only be spent on the voucher program. And, of course, the AMPs—the low-rent money—can only be spent on low-rent. So, we don't have access to those three, they must be spent on themselves. The other two, we actually have a little bit of freedom here on what we can do.

Now, you can't go out and, you know, do crazy things. So, State laws, you have to abide by, and things of that nature, okay? So, those still are restricted from a certain degree here, but you've definitely got a lot more flexibility.

So, let's go down about four or five lines, and we'll see the total revenue here. There we go. And you can see that we have looked at the total revenue, as to what's coming in. And if you look there, you can see the management fees of the COCC. And that's what the COCC is bringing in as revenue. Now, that is being paid out by AMP 1 and 2 and the Housing Choice Voucher Program as an expense, right? So, total budget: $2.2 million, yes, but understanding that those three middle columns, those funds are kind of restricted, aren't they? So, that's something we've got to look at, what can be used from that.

Now, we start working our way down slowly. Okay, let's stop here. And you can see on row 27, Management Fees, that AMP 1, 2, and the voucher program, this is where they are paying the management fees to the COCC. So, you're seeing that it's coming out as an expense out of these buckets, and then it's going into the COCC as profit. So, you're kind of looking over the expenses here, breaking it out. So, let's go down.

And again, there is no specific format that is absolutely mandatory here. The only thing you have to do is be able to reconcile these line items to the FDS schedule. So, there's not a specific form or format that you're going to look at from that perspective.

So, let's work our way down, slowly. Let's keep on. Alright, stop. Thank you.

So, here you are as the Board, looking at these budgets. And yes, you're coming in saying, "Hey, the total looks pretty good. We're making a $53,000 profit." But that doesn't tell you the whole story. Look at AMP 1. They're losing $30,000. Look at the Housing Choice Voucher Program. They're basically breakeven, right? And so, we really don't have as much information here that we can complete our analysis.

And we had a question come in here: “We administer a few tax credit bond programs, and we earn some fees from that. Is that another source of revenue for the COCC?”

Absolutely, if you want to record it in the COCC. Some agencies may put it into a business fund. But yes, that would be another source of revenue for that. So, thanks for the question.

But we’re still looking at this budget, saying, “Wait a minute, where do we stand?” And so, if you will go down just a couple more lines here, let’s look at some additional information. Now, we can really talk about the budget here. So, remember, how many months did we recommend the COCC to have in reserves? We wanted them to have 6, right? They have 11 being projected.

How many months did we want the AMPs to have? Four. Oh my gosh, they’ve got 3 years, 3½ years. Am I worried about this $30,000 loss? Not really, am I? They’ve got plenty of money. I don’t mind seeing them use some of this money up, because I don’t want to see agencies trying to become like a bank and just build up big levels of cash. So, I don’t mind seeing that.

Let’s go to the Housing Choice Voucher Program. Yes, they’re breaking even, but look at how many months in reserve do they have. They have 2.8. How many should they have? We recommended 6. So, in many cases here, you come back and say, “Hey, the Housing Choice Vouchers have to start making some profits to build up their reserve.” Right? And this may take 2 or 3 years to build this up. You can’t just turn it on and say let’s make a big profit one year and get it up. Or, maybe we could transfer some money from the nonprofit or the COCC, and we could give it to the voucher program and go ahead and build up their reserves. And that would be a discussion point for your Board here.

So, in looking at these, I’m coming in and saying, “Hey, I got great shape on most of my programs, except for the voucher program.” That’s what I need to worry about, and that’s where I’m going to be careful for the next year, and really pay close attention to it. Because that is my weakest program, right? And that’s what we’re looking at here.

So, you kind of see how you can work your way through the budget. Alright. Next slide, we’ll go back to the slides.

01:06:15 Rose Turner: Okay. So, give me a second to start sharing the correct screen.

01:06:20 Ron Urlaub: I got Rose bouncing around. Thank you, Rose.

01:06:25 Rose Turner: No problem.

Can you see my screen, Ron?

01:06:40 Ron Urlaub: Yes, I can. Thank you.

And so, when you start going through this budget—go ahead and click on the next slide, Rose. You can see that we need to prepare the budget here. And so, when you’re looking at these, we’re hoping to have goals. Obviously, we’re wanting to make sure that we have a good operating reserve, a good safety net. We don’t want to lose too much money. In fact, we’d like to be breakeven. Maybe, on this example, they may want to use some of that money here. What kind of types of services do we want to provide here? Looking at that.

Now, when you get into that, knowing how much money you have, you can really start then looking at more specific goals, right? Determine the revenue and the expenses, and then whether the plan or the budget is feasible. Obviously, we had one AMP losing money, and they will actually want to buy some equipment for their project, and that's what they will lose in that $30,000. I'm okay with that. They had plenty of money from that standpoint. So, that's kind of what you're looking at here, and then approving the budget. Now, go ahead to the next.

What you start looking at from this standpoint, you kind of have a timeline. And you can't prepare the budget the week before, the day before the Board meeting, right? The Board needs to be part of this. We need to start talking about some of the goals or things we would like to see in the budget. And typically, you start working this thing out, you know, about 6 months before the start of the next year. And so, you might work with the staff and see what they are wanting, or what kind of recommendations they will bring out here. And so, developing a budget policy, listing out these dates will really kind of help you spend the time necessary.

Again, we see a lot of agencies, we're talking to them about their budget. And they just say, "Ron, just take last year's numbers and multiply it by a 1-percent inflation factor." And you can tell they have not spent any time thinking about things. They haven't looked at contracting out with maybe some landscaping companies to see what it might cost to landscape that property that you want to. And so, we need to know some of this data to really put together a good budget, right? And so, we're really looking at setting up some dates here. Okay.

And so, when you start reviewing these budgets here, there's always things to look at. Do I have enough operating reserves? What's my operating reserve going to be after next year according to the budget? What about my revenue streams? Are my costs reasonable—maintenance, insurance, staffing salaries, right? And you've got to take a look at some of these. What about my benefit rate? What is my benefit rate? Is it too high, is it too low, are we right on course here? Do we need to buy some new vehicles or equipment out of our operating budget? Hopefully we don't have any repayment agreements back with HUD. And then, of course, the last one is, "Hey, are we going to make money or lose money in this budget?" Again, the last thing you really want, you don't want to have this budget thrown upon you the last week and have to approve it just to get it approved, right? And that's something that we will establish by setting up those due dates, a little bit. Okay, next.

Through this internal control process—the budget is part of the process. And when you really start looking over the internal control and the activities here is, number one, setting the tone at the top. Is your housing authority organized? Is it very disciplined to stay within your budgets? Are you getting your reports in a timely manner? Do you have good, qualified employees? This is all about setting that tone at the top. And then we start working our way up. What scares us? You know, are you worried about the deterioration of your assets, of your buildings? A lot of people don't quite understand, they think internal control is to protect the cash. But it's also to protect the buildings. That's your biggest asset. And are we not spending enough money on that?

And then you start talking about control activities. We could start doing types of inspections and preventive maintenance as part of our control activities, to worry about that. And then, of course, we've got to monitor. Always got to monitor, monitoring is key. You know, are we sticking to the budget? Are we sticking to our maintenance plan from that? And then, being able to communicate. You know, the housing authority needs to be able to communicate to the Board. Well, the finance office needs to be able to communicate and provide financial reports to the managers, as well. So, you see that communication kind of going both ways, a little bit.

And so, you see some of these examples of internal controls. And again, everybody's different. If I'm a small PHA, you may have a second signature as a Board member on the check. But obviously, if you're a large agency, you probably don't see that, right? And these are things we start talking about in controls. What are you going to allow the credit card to be used for? Are you going to have separate bank accounts for certain items? Are your funds going to be restricted? And understanding what you can use them for, right? And then we talk a little bit about cost allocations. If you have these multiple programs, you have to share the costs between the programs. That's an OMB requirement, I can't get out of that. Every program has to pay their share of certain types of costs, like the accountant's costs, right? And you can't just say, "Make this program pay more because they have more money." That's not fair, and it's not in compliance here. So, these are things you got to look at. Next.

Alright, so let's look at this question here. "Internal controls the PHA management team should have in place include all of the following except." What do you not want to see in your control structure?

01:15:00 Rose Turner: So, I'll give everyone an extra 15 seconds to answer the question.

Alright.

01:15:15 Ron Urlaub: Alright, let's see what we came up with.

01:15:20 Rose Turner: Alright, going to end the poll now.

01:15:25 Ron Urlaub: And "d," that's really the one that we don't want to see, right? The centralization. I don't want one person doing everything, right? I don't want them taking the cash, making the deposit, reconciling the bank book. You try to avoid that. Now, a lot of the agencies are very small, and you're saying, "Ron, I only got one person in the office. What do you want me to do?" And typically, if you have an audit, you may have a finding for being small. And it's like, "That's not really fair." And it's not trying to say anything bad. We're just letting the readers know, "Hey, you don't have different people checking on different things here." So, you want to try to avoid the centralization and having everyone do the financial activities, if you can. "D." Okay, next slide.

01:16:30 Margaret McGilvray: Do we have any questions at this point in time?

01:16:40 Rose Turner: I don't see any questions in the Q&A box, but I do want to encourage everyone to please put in your questions.

01:16:50 Margaret McGilvray: Okay. Alright, great. Then Ron, continue on.

01:16:55 Ron Urlaub: Alright. So, looking here at the financial reports—again, this is very, very critical—when you're looking at these, we've got to ask questions. Why do I have so many vacancies as compared to the budget? What is my occupancy? Which AMPs are not staying within their budget? Why are they losing money here? Why did we underestimate our occupancy rate, right? So, a lot of agencies, they don't want to prepare a budget that is going to be more accurate. They want to show a budget that is going to look pretty, it's going to look good. Well, you want a budget that is accurate here, right?

And now that you see maybe a property or program losing money, the first question is, do I have enough reserves? Can I cover that deficit, or do I need to take immediate action here, right? Do we have all of the paybacks to HUD? A lot of times, they are kind of left out on that. And then, one of what I call smoke and mirrors here, are we commingling funds? And what I mean by that, is AMP 1 paying all of the expenses for all of the programs, but the voucher program can't pay their share back? And that means that you're using low-rent money to pay for Section 8 expenses. And we know we can't do that. That is forbidden here. And so, you need to look to see if you have these due to/due from balances here a bit.

And then, it's always going to be, what happens during the year? You know, when we prepare a budget, we are making an estimate, right? We don't guess in accounting, we make estimates. And so, the estimate may be: We think HUD is going to fund us at 97 percent for our operating subsidy. And then you go on during the year, and then HUD comes out and says, "We're sorry, we're only going to fund you at 90 percent." Well, instantly, we've got to kind of re-look at things, don't we? What's the impact? Are we going to be able to survive? Do I have the reserves on that? Those are things you start thinking about, right, from that standpoint?

And so, we have one question here: "Will you be talking about the impact of RAD conversions?"

Not in this session. We just don't have time to talk about converting public housing into a RAD platform right now. So, we won't be discussing that. Okay, next question—or next slide, please.

So, when you start looking at these here—the FASS Assessment Subsystem. This is where, basically, we've uploaded, our financial statements, and HUD now uses these to grade our financial condition, to grade our different aspects of the control. They're going to make sure we have enough reserves. They're going to make sure that we are paying our bills in a timely manner. These are things that we're looking at. Are we submitting our financials on time? So, they start looking at some of these scores: the Quick Ratio, what we call the MENAR ratio. So, this is HUD's way of monitoring us.

Now, one of the things that I never want anyone to do is, I want us to find our own problems. I really don't like it when somebody else tells me of the problems. And so, I don't like HUD to call and say, "You have an issue." I would like HUD to call and say, "You have an issue," and we come back and say, "Yes, we know, and this is my 2-year plan to build us out of that." That's what we're looking at, as far as monitoring, right? Okay.

Margaret, take it away.

01:21:45 Margaret McGilvray: Sorry, I was on mute. Okay, we'll proceed on to strategies for improving financial performance. Okay, next slide.

01:22:05 Rose Turner: I think this is the correct slide, "Understanding Financial Performance?"

01:22:15 Ron Urlaub: You know, these were the ratios we were looking at earlier, the Quick Ratio, looking at your MENAR ratio. Do I have enough months? Can I cover my debt service payment, right? Those are some of those ratios. And when those ratios start going down a little bit, we're getting scored down, here's some strategies to help improve it.

So, now I'll turn it back over the Margaret where I should be.

01:22:40 Margaret McGilvray: Okay, okay, great. Great, thank you. Sorry about that.

So, as we mentioned, there's really two sides, obviously, to improving your financial performance: either increasing your revenues, or decreasing your expenses. And, as we mentioned, increasing your revenues is a little tricky in assisted housing because, of course, unlike private housing, you can't just increase the rents. However, you can evaluate your lease enforcement and improve your rent collection. Obviously, as the person who asked the question regarding impact from COVID, most recently was not really particularly the best time to do this. And certainly, there was not a lot of eviction going on, if any. But in more normal times—whatever we end up defining that as—making sure that you are collecting as much rent as possible; that you're holding your tenants to their requirements in their leases, particularly as it pertains to payment of rent; putting together payment schedules, if there needs to be corrections from past payments that weren't made; those are all ways that housing authorities can try to increase that revenue.

Some of the other more creative ways are, of course, looking for additional grant funding, but also perhaps looking at your Housing Choice Voucher Program and whether your portability—which has to do with those folks that bring vouchers in from other jurisdictions into your community and use them there—you can either bill that cost back to the originating housing authority, or you can absorb them into your own project. And we won't go into this in detail, because we do that more in some of our other modules; however, that portability issue can have a cost impact. And so, looking at that. And then, of course, looking at if your properties are so old and costing just exorbitant money to maintain. There are repositioning opportunities that may have a better financial impact on the authority.

Then, of course, on the expenses side, one of the first items that comes to mind is looking at your staffing levels and whether you're overstaffed. These days, there aren't a whole lot of housing authorities that fall into that category. So, looking at other areas, such as perhaps at your contracts. Are there places where you are currently contracting out that you could bring that in house, or vice versa? Things like lawn care, and perhaps unit turns when you have a vacancy, and such—those are good contracts. Or just looking at your contracts in general, and making sure that you've got the maximum cost-effectiveness there—energy conservation, and a number of other opportunities. So, this is just a good sort of site list for ways that you might improve your financial performance. Let's go on to the next slide.

So, how to avoid some financial pitfalls that are common with housing authorities? Some Commissioners come on to the Board with lots of experience with budgeting and financial management, others do not. So, it's useful to know, what am I looking out for here? And then to look at some of those strategies that we just mentioned, in terms of combating issues. But, you know, making sure that you do have those internal controls in place, and that they're actually being followed. That you have a separation of duties between those that write the checks—those that determine what checks need to be written, and those that actually write and sign the checks. You know, looking at your staffing costs and making sure that there aren't, you know, extensive pay for your Executive Director that is vastly different from the rest of your staff, or maybe from other peers in the community. Making sure that you're not spending restricted funds in other places, like Ron mentioned, not spending public housing money for Section 8 or vice versa. Making sure that your ethics are in place so that you're not sort of mixing charitable donations, like you're not paying for the mayor's golfing outing that is actually a fundraiser for his next campaign. Those are some key things that tend to get housing authorities into a little bit of trouble. And also, making sure that you're keeping an ongoing eye on your finances so you start to see problems develop before they become monumental.

So, let's take a quick poll to see how we did in disseminating our information. So, "Key questions the Board should ask regarding the budget include all of the following except." So, which one of these items is one that the Board shouldn't necessarily ask in regards to the budget? So, I'll give you a moment.

How are we doing there?

01:29:20 Rose Turner: We're doing great. I see that folks are still answering the question, and we have another 30 seconds to encourage all of you to participate in answering this question. And I'll give you a 5-second warning before I end the poll.

Alright, this is the 5-second warning, and we'll be ending the poll shortly.

01:30:10 Margaret McGilvray: Okay. For those of you who answered "d," you were correct that as Board members, you should ask a) How will the projected losses be funded? You should ask b) Is the anticipated revenue realistic? You should ask c) What does the variance look like between last year's expenses and this year's, and is our budget sustainable at that level? Those are all great questions. "D" is not the case, because you can amend budgets, but budgets are not reflective of immediate activity and shouldn't be changed on a regular basis. So, "d" is the answer that you shouldn't have.

So, let's go on to procurement and contracts. Alright, as I mentioned at the outset, we are not going into procurement in any great depth at all in this session, because we do have a module that's entirely dedicated to procurement. However, it's really impossible to talk about finances without at least having some mention of procurement. And so, one of the ways—as I mentioned earlier—to reduce a PHA budget is to look at the expenses, and look at contracts. And therefore, keeping a close look at those contracts in terms of, you know, what are we spending? What could we be spending?

So, for instance, if you're paying a lawyer a monthly retainer, but you only use them occasionally, maybe you should look at renegotiating that and do it on an hourly rate, or vice versa. Or, if you've been using the same law firm for quite a few years, perhaps it's time to go out and do another competition to just see whether there are maybe new firms on the market, and there might be lower costs or, at a minimum, get some fresh eyes on things. Or, if you have a fee accountant, but you also have a very large finance staff, is there double work happening, and are you essentially paying for the same work twice? Or, for instance, lawn care or trash pickup—is it time to perhaps do a new RFP to see if there are some new providers on the market, and you could get a lower cost? Or are you paying a lot for pest control, but you still have lots of pests? So, are you getting good value for the money that you are extending? Next slide.

So, it's important to just make sure that when you're doing procurement, you know, is it necessary to do a contract? Is this an activity that could be in-house? And if not, are you procuring the right way? Are you keeping the costs of procurement, in and of itself, down? You need to provide full and open competition, and make sure that you're doing good price and cost analysis. But it's important—just because you've always procured it this way, it's not necessarily the best way. And if you come to our procurement module, we'll talk a little bit more about cooperative agreements and intergovernmental agreements, which are ways that housing authorities are now starting to share the costs of procurement a little bit. Next slide.

Lastly, we just wanted to end on some additional questions that you can think of around the costs associated with procurements and contracts. And that has to do with where you are paying for them from. So, there's also small opportunities, but opportunities nonetheless, to perhaps look at which pot of money. For instance, if you were paying for security officers through your operating budget—because that's the only place that they can be paid for from, or non-Federal resources—are those officers the best method? And how tapped is your operating budget? Or, do you have some excess money in your Capital Fund? And you might be able to buy cameras, which is something you can buy through your Capital Fund, and use cameras instead of security officers. So, there's just a number of ways that you can look at procurement, and look at your contracts, and see if there are opportunities for financial savings.

And with that, I'll turn it back to Ron to finish us out with audits.

01:35:35 Ron Urlaub: Right. Thanks, Margaret.

Alright, so we're talking a little bit about some of the audits here. And really, from a financial perspective, there's a set of rules, basically, called UFRS, the Uniform Financial Reporting System. And those rules require that housing authorities submit their financial statements via the Financial Data Schedule to REAC. Now, we start off with submitting the unaudited version, and it is due within 2 months after your fiscal year-end, okay? So, it's typically going to be prepared by your finance department or possibly your fee accountant.

Now, you need to understand that this FDS schedule is used as the basis to score a lot of your components on the PHAS scoring system, right? This is where HUD is going to score your management indicators and your financial indicators from. So, obviously this is very important to get these submitted on time. You're going to lose a point off of your score for every 15 days late we are some on submitting this.

Now, with that being said, all agencies are going to submit the unaudited FDS if they have the HUD programs there. And so, now we're going to look at the audited FDS. Now, OMB, Office of Management and Budget, requires that all governmental entities and nonprofits that receive $750,000 or more per year from the Federal Government, Federal funds programs, they must have what we call a single audit. Okay? So, you've got to look at some of the requirements here. Now, in certain cases, the State may require you to have an audit, and in certain cases, the Board may require the housing authority to have an audit from that standpoint. So, if you have an audit, then it also must be submitted to REAC. And that is going to be due 9 months after the fiscal year-end. And again, typically, that's going to be prepared by finance and a fee accountant. And the auditor has to agree upon the submission, they have to approve it, okay?

Now, the audited due date has been changed slightly because of the COVID pandemic here. And so, some of those timeframes have been adjusted accordingly a little bit. The unaudited one, it was adjusted in the past, but we are now back to the 2-month due date. So, as a Board, this is a very important submission. And we need to kind of keep track of it, make sure that, "Hey, did this get submitted? Are we on time getting these submitted?" And that's what we're really looking for here, right? To make sure that happens. Okay, next slide.

And just as, really, a final thought here: You know, when we're looking through the budget—I mean, once your budget is approved and finalized, we're hoping that management will stick to the budget. And as the director and the Board, we need to monitor this and make sure that we are sticking to the budget, and we're not just spending money outside the norm on this, right? So, most accountants will have a budget-to-actual report, or actual-to-budget report, however they want to call these. And that will show you the comparison, show where you stand actually as compared to your budget. And so that way you can ask questions. And that's going to be one of the keys, is asking questions here.

You know, practicing good financial management here is really kind of accomplished by establishing procedures and setting up good examples. You know, it's really kind of interesting, and we've done this class where we would look at one city and maybe compare it to another city down the road, or another governmental entity. And they're the same size, but why is one of the governmental entities doing so much better than the other agency just down the road? And most of the time, you've got to look at this and say, unfortunately, it could be poor financial management. And they overspent their funding in previous years, and they spent through the reserve. And now, we're trying to dig our way out of that. Well, maybe this other agency, they were being managed financially, they did not dig themselves into that hole, and so they may have more funding.

And so, it's really important to look at establishing these management or financial controls and monitoring, because as the Board, you have the ultimate responsibility to oversee the PHA. And it is a governmental entity providing services for our public, so something we really need to look at and try to accomplish as a Board, right?

So, with that being said here, I would like to thank everyone here. You've been great. A lot of great questions here. Thank you for your commitment. I know this is, you know, services that you're providing, that you don't get a lot of support and a lot of accolades to receive, but thank you so much.