Public Housing Authority  Financial Management Training

Module 8: Financial Monitoring
Module 8 Topics

• Financial Reporting Framework
• The Accounting Cycle
• Monthly Accounting Reports
• Identifying & Monitoring Key Performance Indicators (KPIs)
• Off-Financial Statements Items
• Additional Information - Descriptions of Detailed Accounting Reports
Module 8

FINANCIAL REPORTING FRAMEWORK
Financial Reporting Framework

• The financial reporting framework can be described as a set of rules or criteria to determine how and when transactions are to be reported and recognized in the financial statements on a monthly and year-end basis.

• The framework is typically broken down as follows:
  – Monthly financial statements (combination of cash basis and certain accruals)
  – Year end financial statements (Generally Accepted Accounting Principles (GAAP) basis, as required by HUD’s Uniform Financial Reporting Standards (UFRS) rule)
Financial Reporting Framework (continued)

• There is substantial time involved in accumulating the required GAAP information for the reporting of many transactions, such as the following:
  – Taking a physical count of the maintenance inventory at each project
  – Waiting on vendor statements in the following month to calculate the accounts payable balance
  – Calculations associated with accruals (i.e., salary payable, compensated absences, etc.)

• Due dates must also be considered:
  – Board meetings
  – VMS due dates
Developing a Financial Reporting Framework

• The framework should be designed to include the following factors:
  – Accounting expertise
  – Accuracy of the amounts reported
  – Timing requirements (due dates) to produce financial statements
  – Cost/benefit analysis
  – Financial position/financial issues

• Most fee accounting firms use a standardized framework for their clients
## Typical Timing for Certain Transactions Types

<table>
<thead>
<tr>
<th>Item</th>
<th>Prepared Monthly</th>
<th>Prepared Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording of depreciation</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Accruing of accounts payable</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Accruing of employees’ leave</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Adjusting material inventory balance</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Tenant accounting reconciliation</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Cash deposits/disbursements</td>
<td>●</td>
<td></td>
</tr>
<tr>
<td>Accruing of wages payable</td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Recording of tenant prepaid rents</td>
<td></td>
<td>●</td>
</tr>
</tbody>
</table>

- See Handout #3 – Module 8: GAAP Conversion Example
Changing the Financial Reporting Framework

• The typical financial reporting framework may need to be changed upon the identification of a significant condition or item that could impact the financial position of the PHA

  – Example 1

  • For most PHAs, accounts payable are not accrued monthly because the PHA is able to process the payment of invoices on a timely basis

  • However, a PHA that is in financial hardship and is struggling with cash flow may be unable to pay all vendor balances during the month. In this case, it may be necessary that accounts payable be recorded in the accounting system and therefore shown on the financial statements each month (i.e., accrued) as this item becomes critical for monitoring purposes
Changing the Financial Reporting Framework (continued)

– Example 2

• A PHA is accumulating debt from the use of the company credit card. The credit card is not paid in full each month. The Board of Commissioners would like to track the credit card debt in the financial statements on a monthly basis, and requires that all credit card debt be accrued on a monthly basis to track the unpaid balances in the financial statements

• Potential drawbacks with changing the framework include:
  – The preparation of the financial statements may be delayed
  – The accounting cost may be increased for the additional time incurred
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THE ACCOUNTING CYCLE
Accounting Cycle

• The typical accounting cycle can be divided into three (3) distinct categories:
  – Budgeting: The process of working through the steps to build and implement the operating budget
  – Accounting: The processing of payments and deposits, and accounting for transactions in the accounting system to produce financial statements
  – Monitoring: The process of reviewing and analyzing financial statements to determine whether the goals established during the budgeting process are met
Typical Accounting Cycle

1. An operating budget is prepared to meet the program goals within the permitted funding levels.

2. Review of costs and potential contracts to work within the approved budgetary limits and policy requirements.

3. Deposits and payments are processed.

4. Financial statements are prepared from the reconciled trial balance.

5. The G/L accounts are reconciled based on the monthly transactions.

6. Revenues and expenses are entered into specific account codes in the accounting system.

7. Financial statements are provided to management for monitoring.

8. Budget to actual report is reviewed, variances are analyzed, and key performance indicators are also reviewed.

9. Financial statements are presented to the Board of Commissioners for approval.
Typical Cycles of PHA

• Revenue Cycles
  – HUD Operating Subsidy
  – Tenant charges
  – Miscellaneous sources

• Expense Cycles
  – Payroll
  – Accounts payable/vendor
Example – Tenant Charge Cycle

Tenant Charges
- Tenant A/R increases as charges are assessed
- Income increases as the charges to the tenant A/R are recorded

Collections
- As tenant receipts are collected, the tenant A/R balance decreases
- Cash balance increases due to the collection of tenant receipts

Uncollected Accounts
- Tenant accounts receivable balances are written off
- Collection losses increase
Example – Financial Effects

- Increase in tenant accounts receivable balance
  - Financial Effect: • Lower cash balances • Higher bad debt expense

- Increase in maintenance materials inventory
  - Financial Effect: • Lower cash balances • Possible increase in material costs in future years and inventory becomes obsolete

- Change in Personnel Policy increases accrued leave balances
  - Financial Effect: • Higher operating expenses to be budgeted • Higher liability balance • Lower cash balances in the future
Monthly Accounting Reports

• The PHA’s accounting department, fee accountant, or a combination of both, should be able to produce a number of financial reports on a monthly basis.

• These accounting reports are base products from accounting operations, therefore if the report is not available, the lack of availability is an indication that there may be an issue with the PHA’s accounting operations.

• These reports help form the basis of monitoring and the board meeting package.
  – If the PHA uses a fee accountant, the contract between the PHA and fee accountant will provide the reports that are the responsibility of the fee accountant and the schedule (usually monthly) the reports are due to the PHA.
  – If the fee accountant does not produce the report, the responsibility for the report is on the PHA.
Monthly Financial Statements

• Below is a list of common financial reports that should be prepared and provided on a monthly basis:
  – Board Required Reports
    • Balance Sheet (Statement of Net Position)
    • Income Statement (Profit & Loss Statement) with budget comparisons
    • Financial Dashboard
  – Additional Reports
    • Capital Fund Program (CFP) Reports
    • Bank Reconciliation
    • General Ledger
    • Transaction Journals
  – The needs of additional departments should be considered in the design of financial reports
    • Executive Management
    • Property/Program Management
Monthly Financial Statements (continued)

• Balance Sheet (Statement of Net Position)
  – Consolidated
  – Program Level

• Income Statement (Profit & Loss Statement)
  – Consolidated
  – Program Level with budget to actual comparison

• If the PHA uses a fee accountant, the fee accountant will normally provide these reports on a monthly basis
Other Financial Reports – Public Housing

• The following reports should be available on a monthly basis if the PHA is administering the Public Housing program:
  – Capital Fund Report: A report that compares the total costs of the grant incurred to the approved budget by CFP Budget Line Item (BLI) and grant year. A Capital Fund report is normally provided as part of a Board meeting package
  – Utility Consumption Information Report: A report which provides monthly utility costs and consumption data normally at a utility bill level for use in monitoring and completing the HUD Form – 52722: Calculation of Utilities Expense Level

• While these reports / information should be available, as a general rule most fee accountants do not provide these reports
Other Financial Reports – HCV

• The following reports should be available on a monthly basis if the PHA is administering the HCV program:
  – HCV Utilization Report: A report that shows voucher leasing and HAP utilization information, including projection of future leasing and HAP expenses. Only about a third of fee accountants provide this report.
  – VMS Report: A report which provides UNP, NRP and other accounts for VMS reporting lines. Typically this report is provided by the fee accountant in cases where the PHA is entering their own VMS data.

• If the PHA uses a fee accountant, the fee accountant will normally provide these reports on a monthly basis.
Financial Reporting Process

Accountant
- Prepare accurate financial statements in accordance with framework.
- Provide financial statements in a timely manner.

Management
- Review and analyze financial statements.
- Answer Board’s questions on financial statements.

Board of Commissioners
- Review financial statements.
- Verify that the actual results are within the approved operating budget amounts.
- Ask about variance amounts on reports.
Module 8
IDENTIFYING & MONITORING KEY PERFORMANCE INDICATORS (KPIs)
Key Performance Indicators (KPIs)

• Cash/investment balances
• Tenant accounts receivable
• Occupancy
• Monthly/year to date profit (loss)
• HUD PHAS indicators
  – Example (See Partial Board Meeting Package)
Development of Key Performance Indicators (KPIs)

• Stay within the financial reporting framework

• Indicators
  – Monthly
  – Year end
  – Compare results for that time period

• Depending on the reporting framework used, the PHA may not need to track certain items every month
## Monthly Monitoring – Example

<table>
<thead>
<tr>
<th>Item</th>
<th>Established KPI</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum unrestricted cash balance</td>
<td>$50,000</td>
<td>As a measurement, cash will not be permitted to decrease lower than this amount. Any balance lower than this must be explained.</td>
</tr>
<tr>
<td>Investment balance</td>
<td>Investments not allowed to be reduced without Board approval</td>
<td></td>
</tr>
<tr>
<td>Tenant A/R</td>
<td>$1,500</td>
<td>Maximum balance, explain any reason for amounts over.</td>
</tr>
<tr>
<td>Occupancy</td>
<td>97%</td>
<td>Explain any amount lower than the established benchmark.</td>
</tr>
<tr>
<td>Budget to actual</td>
<td>10%</td>
<td>Explain any monthly variance above 10%.</td>
</tr>
</tbody>
</table>
Back to the Budgeting Process

• In order to effectively monitor the actual to budget reports, the PHA will need to ensure that there is a proper budgeting process
  – The budgets should be well thought out and documented
  – The budgets should allow for details so that the preparer can show how they arrived at the budgeted amounts

• A properly prepared budget should not vary to actual costs by a great deal (there are exceptions)

• A budgeting tool is in development to assist the PHA
Module 8

OFF-FINANCIAL STATEMENT ITEMS
Off-Financial Statements Items

• Because of the GAAP requirements, certain items cannot be reported in the financial statements because the ownership of these items has not actually transferred to the PHA.

• While the items are not tracked on the financial statements, they are crucial to the financial operations of the PHA and should be monitored. Examples of these items include:
  – Unused CFP funds
  – HUD held program reserve balance for the HCV Program
Unused CFP Funding

- Unused CFP funds cannot be reported in the financial statements until the PHA has an eligible expense that allows the PHA to book and draw the funds through eLOCCS.
- There is a potential that the funds will be taken back by HUD if the PHA fails to follow regulations such as failing to obligate and expend the funds within the required due dates.
HUD-held Program Reserves

• HUD held program reserves represent the excess of funds obligated by HUD over the amounts disbursed to the PHA’s HCV program for the payment of HAP expenses

• Unused program reserves will be retained by HUD until the need for these funds arises

• PHAs are allowed to utilize program reserves for HAP payments as long as the PHA does not lease units in excess of the PHA’s allowed number of vouchers for the calendar year
Module 8

ADDITIONAL INFORMATION - DESCRIPTIONS OF DETAILED ACCOUNTING REPORTS
Descriptions of Detailed Accounting Reports

• **Bank Reconciliations:** A report that shows that bank accounts were reconciled and what transactions are outstanding and or what accounts are out of balance

• **General Ledger:** A report that shows all of the PHA’s accounts and lists each transaction posted to the account. The general ledger should be reviewed on a monthly basis for coding or posting errors

• **Transaction Journal:** A detailed report that lists each entry posted in a given period. The transaction journal is usually sorted by check, ACH or journal entry number
Descriptions of Detailed Accounting Reports (continued)

- **Cash Report**: A report that lists each bank account and investment account separately
- **Land, Structures, and Equipment Report**: A report which simply lists all fixed assets. It is similar to a depreciation schedule but only lists the assets but does not include depreciation
Chart of Accounts

• A chart of accounts is a financial organizational tool that provides a complete list of every account in an accounting system. Each account is unique for each type of asset, liability, revenue, and expense as well as to each program, project, or Central Office Cost Center (COCC)

• Each PHA should have a complete list of their chart of accounts to aid them in understanding line items in the operating budgets, reviewing budget to actual reports, and understanding how to read the general ledgers
End of Module

This Ends the Training Module on
Financial Monitoring
Learning Activity 6: Review of an Income Statement
Leaning Activity 6:
Review of an Income Statement - Background

• In this learning activity, you are assuming the role of a new Board Commissioner of the fictitious Anywhere Housing Authority

• You want a better understanding of the financial condition of East Farm Road Apartments, a public housing project that seems to have some issues. You start by reviewing the monthly income statements that were included in the board reporting package
Leaning Activity 6:
Review of an Income Statement - Instructions

• Download and print – Learning Activity 6: Review of Income Statement and the Income Statements for East Farm Road Apartments and Simon Street Apartments

• Next, start reviewing the financial statement for East Farm Road Apartments and answer the eight (8) questions on pages 1 and 2 of the Learning Activity document
  – Slide 4 provides information on the layout of the Income Statement

• Once you have answered the questions, return to the webinar for the answers and explanations
Leaning Activity 6:
Review of an Income Statement – Instructions (Continued)

- The income statements in this learning activity provides:
  - Monthly Information
    - Column C – is the actual current month activity
    - Column D – is the budgeted amount for the month
    - Column E – Is the variance between the actual current month activity and the monthly budgeted amount
  - Year-to-Date Information (in this example, six months)
    - Column G – is the actual year-to-date activity
    - Column H – is the budgeted year-to-date amount
    - Column I – Is the variance between the actual year-to-date activity and the budgeted year-to-date amount
End of Module

This Ends Learning Activity 6: Review of an Income Statement
Learning Activity 6:
Solutions to Review of an Income Statement
Goal of Learning Activity 6

- The goal of this learning activity is to help those charged with governance and PHA staff in key management roles who are not familiar with reviewing and interpreting financial statements become more comfortable in using financial statements as a monitoring and oversight tool.

- Further learning activities in this training course will build on this exercise by helping course participants develop skills to:
  - Identify risk and root causes of identified problems
  - Implement policies and procedures for proper monitoring and control
Solution to Question 1

Question 1: How much was charged to Office Expenses for the current month of March?

• Answer - Office expenses for East Farm Road Apartments for the current month was $1,505 (C25).
Solution to Question 2

Question 2. How much is budgeted year-to-date for maintenance contracts costs at East Farm Road Apartments?

• Answer – Year-to-date budget for maintenance contracts was $19,001 (cell H42).
Solution to Question 3

Question 3. Review the budget amounts provided for Gas Utility expenses at East Farm Road Apartments (cells D36 and H36 in the income statement), how much was the annual budget for gas utility expense and how did you determine the amount?

- Answer – Annual gas expense was budgeted at $3,000. The monthly budget was $250 (cell D36). Multiplying $250 by 12 months equals $3,000. The year-to-date budget amounts shows $1,500 (cell H36) and this amount is associated with six of months of the year, making the annual budgeted amount $3,000 (double (2 X) $1,500). This answer assumes that the PHA simply divided the annual budgeted amount evenly over each month.
Solution to Question 4

Question 4. Why is there no compensated absence expense recorded at East Farm Road Apartments (cells C52 and G52)?

• Answer – Compensated absences is an account that is usually only accounted for when reporting under GAAP. During the fiscal year, the PHA will account for items under a financial framework that is more akin to cash basis accounting. Normally GAAP entries are not recorded until the end of the fiscal year.
Question 5. What might be an explanation for why no Payment in lieu of taxes (PILOT) expenses are recorded at East Farm Road Apartments this month but the associated monthly budget figure is $1,735 (cells D53 and E53)?

• Answer – For East Farm Road Apartments, the budget was evenly spread over the twelve months to arrive at a monthly budget amount. However, the related expense is not typically recorded on a monthly basis. Normally PILOT payments are actually paid after the end of the fiscal year after the PILOT has been accrued at the end of the fiscal year. Best practices have PHA’s budget revenue and expenses in the months the funds are to be received and expensed. This practice is especially critical for PHA’s with limited funds (i.e., cash flow issues).
Solution to Question 6

Question 6. Review the year-to-date operating revenue data for East Farm Road Apartments (cells G9 to I18) and then review net income (cells G70 to I70), are there areas of concerns that should be analyzed?

• Answer – From a revenue standpoint there is no area of concern, i.e., actual total operating revenue is higher than the budgeted amount by $13,213 or about 5%, with most of the increase mostly attributable to net tenant rental charges. The bigger issue is that, one would not expect that East Farm Road Apartments to have shown a large net loss (cell G70) of $9,269. Further analysis will raise concerns over major costs over runs in: 1) Office expenses (cells G25 – I25); 2) Other administrative expenses (cells G28 – I28); 3) maintenance materials (cells G41 – I41) and maintenance contracts (cells G42 – I42); and 4) unbudgeted costs associated with replacement of equipment and property betterment (cells G66 & G67).
Solution to Question 6 (continued)

• If revenue was much lower than the budgeted amount, analysis and inquiries should be made into what has caused the lower than expected revenue. Depending on the answer, a budget revision may be needed to adjust the revenue and possibly decrease budget expenses for the remainder of the year.
Solution to Question 7

Question 7: Other Administrative expense (row 28) for East Farm Road Apartments for the current month is considerably higher than the budget amount. What is the per unit month (PUM) amount for both East Farm Road Apartments and for Simon Street Apartments for the current month? Does the result warrant further attention? Note: East Farm Roads has 100 units and Simon Street Apartments has 120 units.

• Answer – PUM amounts are $40.10 ($4,010 (cell C28) / 100 units,) for East Farm Road Apartments and $2.78 ($333 (cell C28) / 120 units) for Simon Street Apartments. In addition to the PUM discrepancy, the actual amount charged was significantly higher than the budget. Additional analysis should be conducted to determine what items / services were purchased that comprise these costs. The variance could also be due to the accountant miscoding a check entered into the accounting system.
Solution to Question 8

Question 8 What if the year-to-date maintenance contract cost is significantly less than the projected amount? Note: For East Farm Road Apartments the budget to actual shows spending is much greater than budgeted. What are possible reasons for the discrepancy?

• Possible Answers could include the following items:
  – A substantial amount of services will be incurred later in the year for lawn care services or other contract services.
  – Expected level of contracted services were not needed. For example, the PHA normally contracts for snow plowing services but the snowfall totals were much lower than expected.
  – The budget included contracted services to provide additional resources in order for the PHA to complete certain tasks but the PHA has yet to move forward on these initiatives or cannot find qualified bidders. For example, the PHA has a number of units that are vacant and funds were made available to hire a firm to help turn these units but a contract is still not in place.
  – Not enough time was taken during in the budget preparation process and the budgeted figure is just not accurate.
End of Learning Activity 6 Solutions

This Ends the Solutions to Learning Activity 6:
Review of an Income Statement