Multifamily FSS Escrow Accounting and Reporting Basics

This document describes the basic requirements, key considerations, and best practices for:

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CALCULATING AND RECORDING ESCROW

The following are general instructions for recording and entering FSS escrow deposits and submitting billing records to HUD to ensure the owner is appropriately compensated for escrow deposits.

Starting Out

1. As part of the FSS intake process, staff should **record the household's Total Tenant Payment (TTP), annual adjusted income, and annual earned income as of the date of FSS enrollment.** This information should be based on the annual or interim recertification of income in place at the contract start date. There is no need to conduct a new certification at the time of FSS enrollment. Store this information electronically in the property management software (and/or a separate tracking spreadsheet) as well as in writing on the FSS contract of participation (CoP).

2. **FSS participants do NOT earn any escrow when they first sign up for the program**. They will only earn escrow if and when a subsequent income certification shows that their earnings and TTP have increased.

3. There is no need to create a separate FSS escrow account for each FSS participant. Instead, the owner should maintain **a single interest-bearing bank account for holding the FSS escrow deposits of all participants** in the FSS program. The owner must also maintain **a subsidiary escrow ledger that records activity for each household in the FSS program** (i.e., deposits, withdrawals, interest applied). (In lieu of a ledger, the owner may track this information within its accounting system, if this functionality is available).

Best Practice: the owner should also have the ability to access, at any time, the total FSS escrow balance and corresponding monthly escrow credits for each participating household.

Staffing and Managing for Escrow

Each owner, property, or management group may have a different staffing arrangement. When the staff member implementing one step is not the same person who would record information or take an action in the next step, add a step to your process to notify the person who conducts the next action.

In Addition: The recording systems, software, and processes you use may affect these steps. See below for more information on accounting systems and information recording (p.5).

Ongoing Considerations

4. **Every time a tenant at a property with FSS has a recertification of income, staff should check whether the household participates in FSS.** If they do, the staff member should conduct an FSS escrow calculation directly following the recertification to determine the proper amount of monthly escrow. This can be done using HUD's 🔧 *Multifamily Escrow Calculation Sheet* or through your property management system (if it provides that functionality). The monthly escrow amount, if any, and effective date of the change, should be entered into your property management system (and/or a separate escrow tracking spreadsheet). ***Note:*** *the effective date of the escrow is the date that the new rent amount goes into effect for the tenant.* The tenant should be notified of the change in escrow together with notification of the change in TTP.

5. Participation in FSS does not change the amount of rent a household pays. If a household is enrolled in FSS and has a monthly escrow amount, staff should deposit the monthly escrow amount for that tenant into the owner's established FSS escrow bank account on the tenant's behalf on a monthly basis. Staff should deposit the money in the escrow account upon receipt of HUD's Housing Assistance Payments (HAP) for that month that reflects the households' escrow amount (see **#8** below).

6. The interest earned on the FSS bank account must be credited, at least annually, to each participating FSS household in proportion to their escrow balance. Owners may also pro-rate interest more frequently.

7. Per Notice H-2016-08, owners are required to **notify each household in writing at least once a year of:** (1) their escrow balance at the end of the reporting period, (2) escrow balance at the beginning of the reporting period (i.e., since last reporting), (3) FSS escrow accruals from rent payments during the period, (4) any deductions made from the account for amounts due to the owner before interest is distributed, and (5) interest earned during the year. More frequent notification is desirable, however, as it can serve to reinforce for participants the benefits of increasing their earnings.

Billing adjustments to fund the escrow deposits

8. In order to ensure that owners are credited appropriately through their HAP for FSS escrow deposits and withdrawals, the owner should **submit an Owner/Agent Request (OARQ) adjustment for each FSS participant with a non-zero monthly FSS escrow accrual** (See 🔧 *OARQ Basics* for more on OARQ adjustments).

    a. All FSS OARQ adjustments must indicate the Voucher Month/Year for the Escrow Credit, Unit Number, Head of Household's Last Name, and the words "FSS Participant" in the comments section.

    b. If this is the first time the participant is generating escrow, owners will need to create a new positive OARQ adjustment to reflect the household's monthly escrow credit.

    c. A process should be put in place to ensure that the same OARQ adjustment for escrow is submitted each month until the household's FSS escrow changes.

    d. If the participant's escrow amount changes (due to income changes or correction of error) and the OARQ adjustment changes as a result, the owner should modify the OARQ adjustment and ensure that the correct and updated adjustment is submitted in subsequent months. ***Note*** *that the OARQ adjustment amount may differ from the escrow credit amount in a given month (e.g., because of a retroactive adjustment*

following a decrease in a household's earnings). It is a best practice that the owner be able to produce both the monthly OARQ adjustment amount (for HUD reporting) and the monthly escrow credit amount (for accurately informing the tenant).

9. In some cases, such as when a household loses employment and requests a change in their rent, the owner may not know about an escrow change until the period's OARQ adjustment has already been filed. In such cases, the owner should

    a. Recalculate the monthly escrow credit (see #4 above),

    b. Submit a retroactive (negative) OARQ adjustment on the next monthly voucher, and

    c. Update the escrow ledger for the applicable months.

10. If there is an **interim disbursement** approved for an FSS participant, **withdraw the funds** from the escrow bank account, **disburse them to the participant,** and **update the escrow ledger** with the amount, reason, and date of the withdrawal. Remember to ensure these entries are linked to the specific FSS household receiving the disbursement. ***Note:*** *There is no need to submit an OARQ adjustment in connection with an interim disbursement.*

Graduation and program withdrawal

11. Once a determination has been made that a participant is eligible to graduate from FSS, the staff directly involved in recording and accounting for escrow should reconcile the data to confirm that the final escrow amount provided to the participant is accurate and up-to-date. The staff member should then:

    a. Prepare a final FSS escrow statement for the participant showing their final FSS escrow balance.

    b. Ensure that no more FSS OARQ adjustments are submitted to HUD for that participant (with the exception of any final, retroactive adjustments, related to the escrow reconciliation).

    c. Note the final withdrawal on the FSS account ledger and put procedures in place to ensure there are no further deposits to the FSS escrow account on behalf of that household.

    d. Make notations in all locations where FSS information is recorded that the tenant has graduated and is no longer participating in FSS.

12. If an FSS participant withdraws from the FSS program without graduating, or has their participation in FSS terminated, take the following steps:

    a. Determine the total escrow balance attributable to that participant.

Important Considerations for Managing Escrow

Escrow accounting may be a part of multiple accounting components or systems. When there is a change in one place, make sure you have made necessary changes in the other systems too. All staff who deal with billing, payments, recertification, or FSS should be aware of how their jobs relate to FSS records and payments to foster communication and prevent incorrect calculations or billing.

An initial discussion and training for all staff members and occasional refreshers can help ensure that all staff are aware of their roles and responsibilities.

Best Practice: designate a single staff member with ultimate responsibility for tracking and reconciling FSS escrow and component information on a regular basis (ideally, monthly).

b. Return the participant's escrowed funds to HUD through a negative OARQ adjustment on the owner's monthly HAP voucher. The adjustment must equal the total escrow balance as reported in the owner's most recent quarterly report and any savings accumulated since then.

c. Put procedures in place to ensure that no further deposits are made to the FSS escrow account on behalf of that participant and no further OARQ adjustments are submitted to HUD related to that resident's escrow accumulation.

TRACKING FSS FINANCIAL DATA

Needed for: Preparing to start an FSS program; Ongoing tracking, billing, and billing corrections; Recording and tracking escrow amounts.

Data Multifamily FSS Programs Need to Track

The following is a list of data elements owners will need to track regarding each FSS participant to effectively administer escrow.

- **Information Needed to Determine the FSS Escrow Amount (available in the corresponding form 50059)**

  All of the data elements below are inputs for calculating FSS escrow (e.g., through HUD's *Multifamily Escrow Calculation Sheet*).

  - Baseline information as of the date of enrollment in FSS (based on most recent income recertification preceding the effective date of enrollment in FSS):
    - » Household's Total tenant payment (TTP)
    - » Household's Annual Adjusted Income
    - » Household's Annual Earned Income
  - Updated information, as of each subsequent income recertification:
    - » Household's TTP
    - » Household's Annual Earned Income
    - » Household's Annual Adjusted Income
    - » The Low-Income Limit for that household's size
    - » The Very Low-Income Limit for that household's size
    - » Effective date of the new recertification

- **FSS Escrow Accrual and Deposits**
  - Monthly escrow deposit for each month of the household's participation in FSS
  - Date of, amount of, and reason for any interim withdrawals
  - Credits to household's FSS escrow balance related to their pro-rated portion of interest on funds in the FSS escrow account, dates on which credits made, and time periods covered by each credit

- Cumulative total of amounts in the FSS escrow account attributable to each FSS participant (i.e., the net of deposits, allocated interest, and withdrawals)
- Amount and disposition of the final escrow balance (e.g., disbursement to tenant upon graduation, returned to HUD)

- **HUD Billing and Payments**
  - OARQ adjustments for FSS escrow deposits (including amounts and dates). *See* 🛠 *OARQ Basics for more information on how these are used in FSS escrow billing to HUD.*

Property Management Software Packages

As of July 2020, no commercially available property management software includes a fully operational FSS escrow module. However, some vendors are in the process of developing such modules, which could help facilitate the calculation and tracking of FSS escrow:

- **Yardi** has been developing an FSS module to be included in Yardi's upcoming 203A version (expected 2021). Though not widely available, Yardi has developed an interim custom module that can allow users to enter FSS participation on the tenant's home page, including enrollment date, annual earned income and original TTP, and track OARQ adjustments but will not calculate or track escrow deposit amounts (users may do this separately, using the 🛠 *Multifamily Escrow Calculation Sheet* and enter the number into Yardi or a separate escrow ledger). Information entered into the interim custom module will not import into the new Yardi software version or associated modules. ***Note:*** *other software providers may offer similar modules in the future, and Yardi's upcoming 203A version may begin offering a module that calculates escrow deposits internally and which would be widely available to Yardi users.*

- While **other commercially available software packages** may not provide specified fields or locations to record and track FSS participation, and OARQ billing adjustments, it may be possible to customize them to include some or all of this functionality. Property owners may check with their providers for options to add or use fields for these purposes. If it is not possible/practical to include or track the necessary data within the system, owners will need to track it in separate databases or spreadsheets.

- Some owners may use their own **home-grown software or accounting systems** or may use a combination of systems, databases, or spreadsheets. While not originally set up with FSS in mind, these may be highly customizable and allow you to add a field noting FSS participation, dates, and starting TTP, and to track changes in monthly FSS escrow credit, OARQ adjustments and payments from HUD, and deposits into the escrow bank account. As with any other system, if it is not possible/practical to include or track important information, within the system (see above for what needs to be tracked), owners will have to track it in separate databases or spreadsheets.

DOCUMENT RETENTION AND MANAGEMENT

Needed for: Preparing for HUD audits; Quarterly reporting (see below for more on quarterly reporting); Records reconciliation, including for finalizing the escrow amount to prepare for tenant graduation from FSS.

Documents to retain for HUD audits

The following list describes documents that must be retained in preparation for a potential HUD audit, either as paper originals or as electronic copies.

- **HUD specifies that owners/agents must retain:**
  - **Approved Action Plan.** The approved Action Plan must be retained for the <u>term of an active FSS program plus three years</u>.
  - **Executed CoPs** for both current and former participants for the <u>term of tenancy plus three years.</u>
  - **Up-to-date FSS participant tenant files** with current income and escrow data. Owners must retain all supporting tenant documentation relating to FSS participation for the <u>term of tenancy plus three years.</u>
  - **Comparable salary information and current payroll records** for FSS program coordinators paid with residual receipts. Comparable salary information for FSS program coordinators paid with residual receipts must be retained for <u>three years</u>.

- **HUD document security requirements:**
  - FSS files must be maintained in a **locked cabinet or in a password-protected electronic file or folder.**

- **Additional documents (optional) to retain for reporting, reconciliation, and audit backup:**
  - Forms and records relating to recertifications of income (including interim recertifications) and associated documentation from tenants (e.g., pay stubs).
  - Records of communications from tenant about changes in earnings, including dates of those communications.
  - Records of billing to HUD for payments relating to escrow deposits and refunds (including dates and amounts of prospective and retroactive OARQ adjustments).
  - Records of deposits into, the allocation of interest, and disbursements from the FSS escrow account (including deposit statements and internal records of which FSS participants and amounts are associated with each deposit or disbursement).

- **Document organization:**
  - Where possible, financial records uniquely associated with the FSS program and escrow should be stored together (e.g., records of OARQ adjustments and associated escrow ledger deposits).
  - Where FSS documents cannot be stored in escrow-specific systems or folders because they are integrated into a more general system or may be needed for broader purposes (e.g., this may include recertification documentation), owners/managers may:
    » Create a list of where each type of document is stored; or
    » Make a separate copy of all FSS-related materials and store those FSS-specific copies in a single folder, directory, or location.

QUARTERLY REPORTING TO HUD

As specified in Notice H-2016-08, owners/agents must file a quarterly report to HUD for review and approval for each calendar year quarter in which they are operating an FSS program within 30 days after the quarter ends.

- **Submission:** The owner/agent must email the quarterly report to the property's Account Executive (AE). The report must be submitted as an encrypted attachment to email (using Microsoft's Office 365 Message Encryption, WinZip, or any other method that meets Federal encryption standards).

- **Families included:** The quarterly report spreadsheet must include information on all FSS families with an active FSS CoP, FSS families who have graduated and have a completed CoP, and FSS families that have a terminated CoP.

- **Information included:** For each family, the owner/agent must include household and CoP information and FSS status, employment and benefits (public and private), services provided, and escrow data, including monthly escrow accruals and total escrow amounts. The full set of fields to be included is available in Notice H-2016-08 Section V.B.3. Attachment D of that notice is an Excel spreadsheet that HUD has created for collection and submission of quarterly reporting information.

- The Notice stresses **the importance of quarterly reports.** If the owner/agent does not submit quarterly reports in a timely manner, HUD may terminate the owner's FSS program and use of residual receipts (if applicable).