Skills: Budgets

LEAD THE WAY
QUICK REFERENCE

As a commissioner, you provide oversight and guidance to your PHA. To ensure the financial viability of your PHA, your oversight responsibilities include:

- Monitoring your agency's budgets, contracts, and other financial obligations
- Overseeing the annual audit process
- Monitoring the agency's compliance with laws, regulations, and other requirements
- Ensuring that the PHA has a system of internal controls to safeguard the agency's assets
- Reviewing and approving budgets

The budget is a tool to quantify goals and measure success. All PHAs must develop and maintain a system of budgeting and accounting for each project that allows for analysis of the actual revenues and expenses associated with each property. This will facilitate effective decision-making and cost controls at the project level to keep the projects and PHA fiscally solvent overall. There are four pieces of information you should understand to help you review your PHA's budgets:

Income

The annual budget should be constructed so that the PHA at least breaks even, or ideally, operates at a surplus. That is, project expenses should not exceed project revenues. Information needed for budgeting income includes:

- Data on occupancy of units
- Amount of operating subsidy and dwelling income projected
- Other income, including fees and damages projected

Expenses

Expenses that a PHA commonly incurs include administrative and maintenance salaries, utilities, supplies, contracts, as well as resident and other programs. To budget expenses, you need the following information:

- Physical analysis of the property (in other words, physical inspection)

2 CFR Part 200

On December 26, 2013, the *Federal Register* published 2 Code of Federal Regulations (CFR) Part 200, which addresses uniform administrative requirements, cost principles, and audit requirements for Federal awards. This regulation includes coverage for financial criteria such as:

- Monitoring and reporting
- Program performance
- Other areas

Commissioners have the opportunity to ask cost related questions such as:

- Is the cost allowed by our funding sources?
- Is the cost reasonable?
- Is it an ordinary cost?
- Is it a necessary cost?
- Can the cost be allocated to a specific funding source based on what we know about the cost and what it is paying for?

- Fiscal analysis of the property, including past and present data, previous year's budget, and actual income and expenses
- Comparison of the actual income and expenses from two to three previous years to identify trends

Operating Subsidy

The operating subsidy is the primary source of operating revenue for most PHAs. Provided to housing authorities by HUD, it is for operating and maintenance expenses. The subsidies are to help maintain services and provide minimum operating reserves. In general, the operating subsidy is the cost of running a program without non-Federal revenue.

Per Unit Per Month (PUM)

The PUM is an analysis of a property's income and expenses as an average for each unit for one month. It is a budgeting tool that enables property management to do the following:

- Compare across units to determine cost reduction potential
- Plan by using trending data for seasonal spikes in expenses or major payment due dates, such as property insurance
- Compare utility expenses for different units to determine how costs can be reduced

Purpose

Board members use budgets to monitor the management team's planning during the reporting period. At year-end, a comparison of the budget to actual revenue and expenses allows the board to evaluate performance. Did the agency operate at a surplus, break even, or operate at a deficit?

The PHA's finance department keeps the revenue and expense financial records for each Asset Management Project (AMP). The AMP manager uses this data, along with anticipated changes in revenue and expenses for the upcoming year, to prepare the AMP's budget.

For your role as commissioner, these are the most relevant facts to bear in mind:

- Operating budgets should be completed and reviewed at the project level.
- Before to the start of each fiscal year, the board must approve project-based budgets.
- Budgets should reconcile with the updated Financial Data Schedule (FDS). The FDS, which provides additional HUD-required analysis, is a part of the PHA's financial statements that a certified public accounting firm audits.
- The board should review revenue and expense reports each month.

Internal Controls

Ensure that your management team has established an adequate system of internal controls to include segregation of duties and checks and balances in the following areas:

Check Signature Authority

Establish a control over the obligation and drawdown of funds—typically the executive director or chief financial officer has this authority.

LOCCS Security (Authorizing official)

Someone on the PHA's staff will have the authority to access the Line Of Credit Control System (LOCCS), a system that HUD uses for obligating and approving funds.

Designated Contracting Officer

Assure the management team has established a designated contracting officer delegated by the authority over contracts.

Cash Accounts and Credit Card Usage

Credit card internal controls are important for preventing the improper use of your PHA's funds.

Use of Restricted Funds

Assure controls over the transferring of funds between accounts or programs when funds have restricted uses.

Separation of Financial Responsibilities

Segregation of duties is a key financial control.

Proper Cost Allocations

Establish controls to monitor and approve cost allocations charged to federal awards pro-grams.

Financial Reporting and Budget Review

At the end of every month, the books are closed for the month. Each month, the PHA should track the actual income and expenses to the budget projections. As a commissioner, you should request explanations for unusual expenses and verification that payments were made from the proper accounts with eligible program funds.

Some sample questions for you to consider, include:

- Are there variations from the budget? Why?
- Which AMPs are not performing within their budget?
- Are reserves being used to support budget losses?
- Are there intermingling of funds to cover losses?

Strategies to Increase Revenue and Decrease Spending

- Lease and rent collection enforcement
- Raise minimum rents (HUD approval required)
- Sell non-performing public housing (HUD approval required)
- Obtain supplemental funding
- Reduce the scope of non-federal programs to operate within their financial means
- Fully collect portability revenue from the issuing PHAs
- Evaluate utility consumption and energy policies.
- Evaluate all existing contracts for cost and necessity
- Re-price insurance costs
- Evaluate the need and usage of fleet vehicles
- Contract property management or maintenance to another entity or PHA
- Reduce management and line staffing levels or salaries

2 CFR Part 200—Audits

Audits are reviews of an organization's financial accounts and financial accounting systems by independent third-party experts like accountants. A Single Audit Act audit is an independent third-party review of an organization's finances that complies with 2 CFR Part 200, Subpart F. Under the new consolidated circular, recipients and sub-recipients who expend more than $750,000 in Federal funds must complete and submit a Single Audit Act audit.

A Single Audit Act audit is an important component of your financial management system, but it is not adequate by itself to assure proper use of Federal funds. To keep your programs running, you need to make sure that all aspects of your financial management system are functioning well.

HUD's notice on 2 CFR Part 200