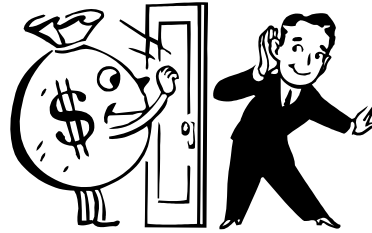


Financial Issues & Procedures



William F. Snyder

William Katchen, CPA

History

“Fiduciary Responsibility”

- ◆ The financial management system is at the center of all PHA systems. It is a necessity to understand this system in order to prudently fulfill your “*Fiduciary Responsibility.*”
- ◆ You are responsibly for ensuring that the PHA’s public funds are utilized in an “*Economical & Efficient Manner.*”



Important Notes

- ◆ Listen to what we say
- ◆ Take Notes
- ◆ Write down all the “important points” on a separate piece of paper

Introduction

- ◆ How many of you have receive copies of the following documents after being appointed to the Board of Commissioners?
 - Budgets, HUD, NJ, Capital Fund and HCV current year funding
 - Audit
 - Cash Management Plan
 - Personnel Policy
 - Procurement Policy
 - Disposition Policy
 - Annual & Five Year Plans
 - Other (By-laws, etc.)

NOTE: You cannot fulfill your fiduciary responsibility without being familiar with these documents!

Introduction

- ◆ Course Structure:
 - Budgets (Course book-Section 2)
 - Interim Financial Statements (Course Book-Section 3)
 - Year-end Financial Statements (Course Book Section 3)
 - Audits (Course book-Section 4)

Fiscal Year

Each PHA has a fiscal year that coincides with the completion of their first Project (DOFA & EIOP)

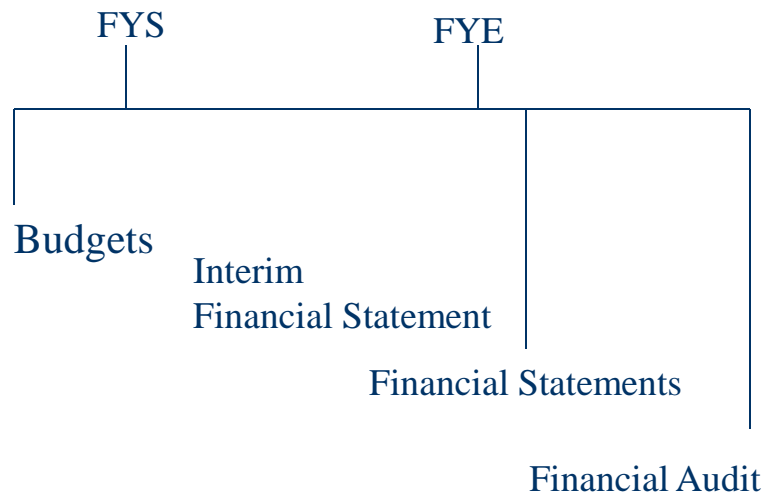


- ◆ 1/1 FYS-12/31 FYE
- ◆ 4/1 FFY-3/31 FYE
- ◆ 7/1 FYS-6/30 FYE
- ◆ 10/1 FYS-9/30 FYE

Note: FYS-Fiscal Year Start
FYE-Fiscal Year End

The Financial Management Cycle

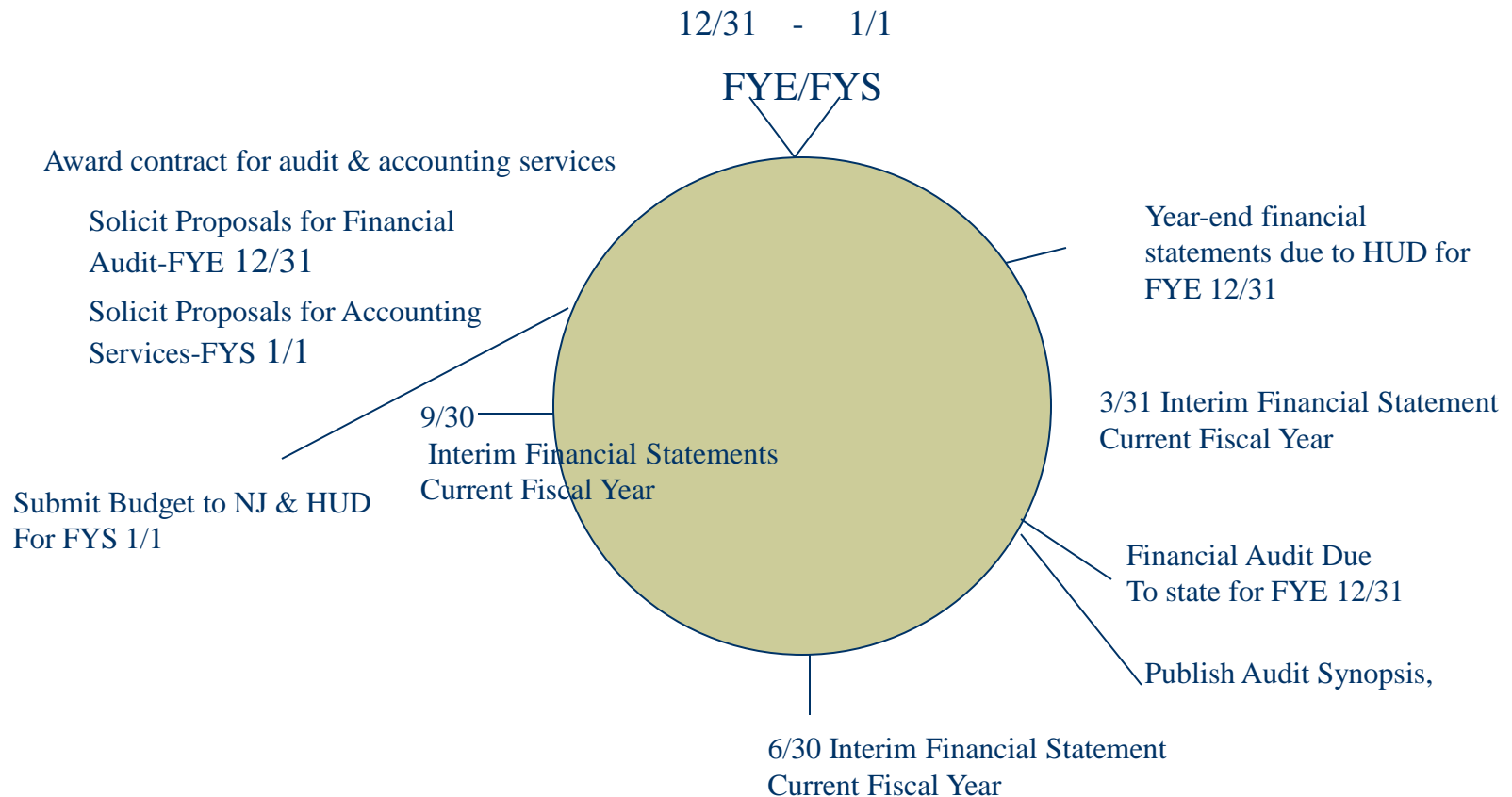
Financial Cycle



Note: The financial cycle is continuous

- ◆ Budgets-Prior to the commencement of the fiscal year.
- ◆ Interim Financial Statements-During the course of the fiscal year
- ◆ Year-end financial statements-after the close of the fiscal year
- ◆ Audits-After completion of the year-end financial statements

Continuous Financial Cycle



Your Course book

(Keep as a reference tool)

- ◆ **The book is designed according the financial management cycle (budgets, financial statement , audits)**
- ◆ **Last Section of the book includes the following:**
 - DLGS Telephone List
 - Local Authorities Fiscal Control Law
 - Part A of the Annual Contributions Contract (ACC)
 - Sample RFP-Accounting Services
 - Sample RFP-Auditing Services
 - Sample RFP-Legal Services
 - Local Finance Notice-Deferred Compensation
 - Cash Management Synopsis
 - Sample-Cash Management Plan
 - Local Finance Notice-Use of Credit Cards
 - GUDPA-Governmental Unit Deposit Protection Act
 - General Depository Agreement
 - Declaration of Trust
 - HUD proposed salary guide

Financial Terms & Definitions

- ◆ *ACT*-The U.S. Housing Act of 1937
- ◆ *PEL* (Project Expenses Level)-The per unit, per month (PUM) dollar amount of expenses, excluding utilities and other approved add-on costs that is used to compute the amount of PHA operating subsidy.
- ◆ *ACC* (Annual Contributions Contract)-The contract between HUD and the PHA.
- ◆ *Capital Fund Program*-The Capital Fund provides an annual allocation of funding in order to make managerial improvements and physical improvements to the public housing stock.
- ◆ *Cooperation Agreement*-The agreement between the PHA and the local government providing the PHA with authorization to build public housing units and requiring the PHA to make an annual PILOT to the municipality
- ◆ *PILOT*-Payment in Lieu of Tax
- ◆ *ROSS*-Resident Opportunity and Supportive Services Grant
- ◆ *FISCAL YEAR*-The PHA's fiscal year

Financial Terms & Definitions

- ◆ *GAAP*-Generally Accepted Accounting Principles
- ◆ *HUD*-The U.S. Department of Housing & Urban Development
- ◆ *Housing Choice Voucher Program*-A rental subsidy program that provides assistance to tenants in order to pay their rent. The Housing Authority's portion of the rent is paid directly to the tenant's landlord.
- ◆ *Payment Standard*-The PHA established rent limit based upon the HUD published Fair Market Rent.
- ◆ *SEMAP*-Section 8 Management Assessment Program
- ◆ *NJDCA*-New Jersey Department of Community Affairs, Division of Local Government Services, Bureau of Authority Regulation. This is the state department that is charged with fiscal oversight of all Authorities.
- ◆ *Operating Fund Formula (Operating Fund)*-The Operating Fund calculation is a formula used by HUD to determine the annual amount of operating subsidy for a PHA's public housing program. This system was a result of the Brooke Amendment.
- ◆ *Brooke Amendment*-The Housing Act amendment that provided for public housing tenants to pay a percentage of their income towards their rent (25% to 30%).

Financial Terms & Definitions

- ◆ RAD- Rental assistance demonstration program
- ◆ *PHA*-Public Housing Authority
- ◆ *PHAS* (Public Housing Assessment System)-HUD's system for monitoring PHAs based upon the conditions of their buildings, their managerial capability, resident satisfaction and financial strength.
- ◆ *Project Based Accounting*-The maintenance of financial records by individual PHA project.
- ◆ *Unrestricted net assets*-Governmental term which is synonymous with retained earning in commercial accounting.
- ◆ *ELOCCS*-(Line of Credit Control System)-The electronic system that HUD uses to disburse fund to the Housing Authority.
- ◆ *GUDPA*-(Governmental Unit Deposit Protection Act) An Act of the State of New Jersey that provides banking protection for all governmental deposit in excess of federal FDIC & FSLIC limits (\$250,000.00 currently).
- ◆ *Local Authorities Fiscal Control Act*-The New Jersey Act that provides the requirement for preparation and approval of budgets & audits to the State.
- ◆ *Local Public Contracts Law*-The New Jersey Law that provides requirement concerning public bidding, currently \$ 17,500 without a qualified purchasing agent

Budgets

- ◆ What is a budget
 - A budget is a forecast of the expected results of operations for the fiscal year. The Executive Director is primarily charged with the responsibility of preparing the budget. Usually the fee accountant or comptroller prepares the bulk of the budget in consultation with the Executive Director

Budgets

- ◆ Why are budgets necessary?
 - 1) It is the responsibility of the PHA to be fiscally responsibly
 - 2) The HUD Annual Contributions Contract (Section 11) requires that an operating budget be prepared and approved by the Board of Commissioners on an annual basis.
 - 3) The New Jersey Local Authorities Fiscal Control Law (40A:5A-10) requires that each PHA submit a budget to the state.

Budget Process

- ◆ The budget must be approved by the Board of Commissioners.
- ◆ Two Masters-State of New Jersey
 - U.S. Department of Housing & Urban Development
 - The State of New Jersey-Department of Community Affairs

Each regulatory entity has its own set of financial rules and forms (Separate budgets).

Budget Approval Process

State of New Jersey

Budgets must be submitted to the State of New Jersey at least 60 days prior to FYS. The Local Authorities Fiscal Control Act specifies the legal requirements for budget submission and approval

2 Step Process:

- Introduction
- Adoption



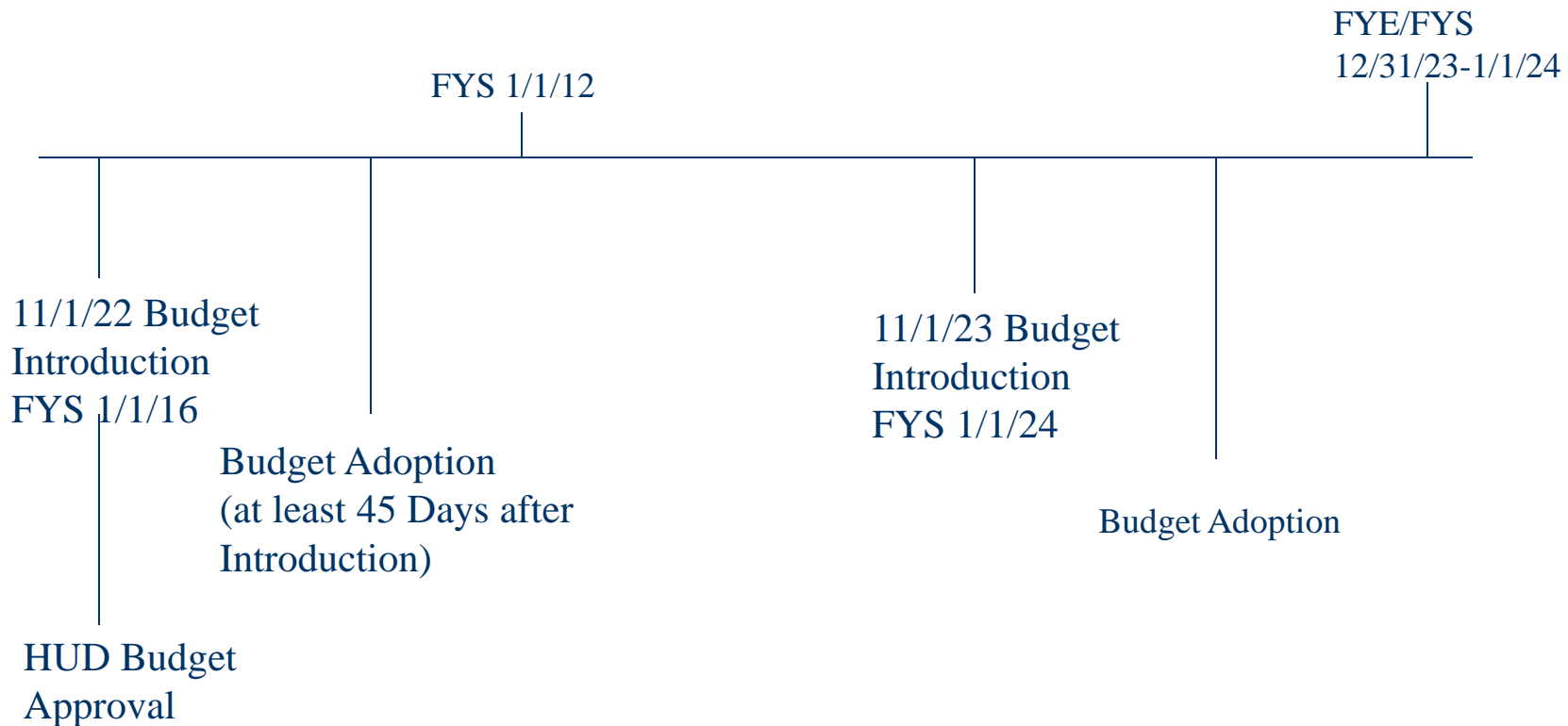
♦ U.S. Depart. of HUD

■ 1 Step Process

- Approval of the Proclaimer resolution
- Approval is generally provided at the same time that the State budget resolution for introduction is adopted.
- Standard and high Performers under PHA only submit their Operating Fund calculations and budget approval
- Troubled PHA's may be required to submit a complete Budget to HUD

Budgets

FYE 12/31/23



Fiscal Year Budget Calendar

Fiscal Year Start

NJ Budget Due Date

(60 Days Prior to FYS)

1/1

11/1

4/1

2/1

7/1

5/1

10/1

8/1

NOTE: PHAS Score determines whether a complete budget is submitted to HUD.

Budget

- ◆ ***HUD*** (by Program)
 - Section 8 (Housing Choice Voucher Program)
 - Public Housing (Operating Budget)
 - Capital Fund Program (Annual & Five year Plan)
 - Other (ROSS, CD, etc.)
- ◆ ***State of New Jersey*** (Consolidated Budget)
 - All program combined into one budget document

Budgetary Considerations

- ◆ Most of your budget is driven by formulas. As such, your basic budget line-items are not as discretionary as many people would think. Most items are fixed based upon your experience and need.

Revenue:

- Rent (formula)
- Interest (based upon market & investment strategy)
- Other Income (entrepreneurial)

Expenditures

- Utilities (based upon experience and formula)
- Salaries & Benefits (based upon collective bargaining agreement or personnel policy)
- PILOT (Formula Driven)
- Contract costs (based upon experience)
- Maintenance Material & Supplies (based upon experience)
- Insurance (based upon the market & quotes)
- Replacement of Equipment (some discretion)
- Property Betterment & Additions (some discretion)

Calculation of Project Expense Level

- ◆ PEL Calculation

- ◆ 1) Prior year HUD approved PEL _____

- 2) Inflation factor _____

- 3) Total of lines 1 & 2 _____

Operating Fund Calculation of Operating Subsidy

◆ Operating Subsidy Calculation

- 1) PEL as calculated - \$ _____
- 2) Proposed/Actual audit fees and other add ons _____
- 3) Proposed utility costs _____
- 4) Total of Lines 1-3 _____
- 5) Estimated annual rental income _____
- 6) Line 4- Line 5 _____
- 7) Operating subsidy eligibility _____

Utility Cost Calculation

CONSUMPTION

<i>Period</i>	<i>Sewer & Water</i>	<i>Electric</i>	<i>Gas</i>
12 Mos. Prior	_____	_____	_____
24 Mos. Prior	_____	_____	_____
36 Mos. Prior	_____	_____	_____
Total Consumption	_____	_____	_____
Estimated Consumption for budget year.	_____	_____	_____
Consumption Rate	_____	_____	_____
Total Utility Cost	_____	_____	_____

Budgets

Operating Fund Formula

$$\begin{aligned} & \text{Project Expense Level as calculated} \\ & + \\ & \text{Proposed or actual audit fee and other add ons} \\ & \text{for budget year} \\ & + \\ & \text{Proposed utility costs for year} \\ & - \\ & \text{Estimated rental charges to tenants} \\ & = \\ & \textbf{Operating Subsidy eligibility for year} \end{aligned}$$

Capital Fund Budget

- ◆ QHWRA of 1998 made the program an entitlement (approximately 3 billion dollars for 2022).
- ◆ Capital Fund may be used for:
 - Physical & Managerial Improvements to Public Housing Stock
 - Vacancy Reduction
 - Code Compliance
 - Demolition & Replacement
 - Resident Relocation
 - Program to improve self-sufficiency of public housing tenants.
 - Security & Safety issues regarding public housing tenants

Capital Fund Budget

- ◆ Do you know where this funding is going?
- ◆ Are you, your local officials and your tenants part of the process of determining where the funds are expended?
- ◆ Do you approve the annual capital fund plan?
- ◆ Do you know if your Authority is obligating and expending the funding within HUD's acceptable guidelines (Obligation-24 months, Expended-48 months)?

Interim Financial Statements

(During the Fiscal year)

- ◆ NJAC 5:31-7-4 Provides the state's requirements for preparation of interim financial statements.
- ◆ These statements provide an assessment of where the PHA stands financially during the fiscal year. It allows the staff and Board to determine if they are operating within the constraints of their budget.
- ◆ They should be prepared at the end of each month or quarter (minimum).
- ◆ Should include, at least, a budget to actual statement to determine current financial position, operating results and other pertinent information.

NOTE: *These statement are primarily prepared for the Board of Commissioners in order that they might examine the financial operations of the Authority.*

Year-End Financial Statements

- ◆ Who gets the year-end financial statements?
 - Financial Statements are electronically submitted to HUD.
- ◆ What are Financial Statements:
 - Financial Statements provide the financial results of the PHA's operations at fiscal year-end.

Year-End Financial Statements

- ◆ When are the Financial Statements due to HUD?
 - Year-end financial statements are due at HUD within 60 days after the end of the PHA's fiscal year.

<u><i>Fiscal Year End</i></u>	<u><i>Due Date</i></u>
3/31	5/31
6/30	8/31
9/30	11/30
12/31	2/28

HUD Year-End Financial Statements

Required HUD Statements;

- ◆ Computation of Payment in Lieu of Taxes (HUD 52267)
- ◆ Financial Data Schedule.

Recommended Additional Statements for internal use;

*Budget to actual for the year ended

PILOT Calculation (Year-End)

◆ 1) Dwelling rent	+	_____
◆ 2) Excess Utilities	+	_____
◆ 3) Nondwelling rental	+	_____
◆ 4) Total Rent Charged	=	_____
◆ 5) Utilities Expense	-	_____
◆ 6) Shelter Rent Charged	=	_____
◆ 7) PILOT %	x	_____
◆ 8) <i>PILOT</i>	=	_____

Financial Audits

- ◆ What is an Audit?
 - An audit is a financial and compliance review of the Authority's financial and programmatic operations.
 - It is performed by an Independent Public Accountant (IPA). The auditor must be a registered municipal accountant (RMA) of New Jersey or a certified public accountant of New Jersey (CPA).
 - The financial records are audited in accordance with the established standards and the program records are audited in accordance with HUD and State of New Jersey compliance guidelines.

Financial Audits

- ◆ How is the auditor selected?
 - An RFP must be issued annually and the contract is awarded to the firm with the highest rated score.
- ◆ Is an Annual Audit Required?
 - Yes! Housing Authorities are required by the Single Audit Act and the Local Authorities Fiscal Control Law to perform an annual audit of its accounts.
- ◆ When must the audit be completed?
 - The Local Authorities Fiscal Control Law (Title 40A:5A-15) stipulates that the audit be completed and filed with the Authority within 120 days after the close of the fiscal year. HUD requirements are 9 months after the close of the fiscal year.

Audit Questionnaire

- ◆ The Housing Authority is presented with a written questionnaire that is required by the State of New Jersey and becomes part of the auditors work papers. Here are some the area that are reviewed:

CASH & INVESTMENTS

Has the Authority adopted a Cash Management Plan?

Are all Depositories and accounts authorized by resolution of the Board?

Are check signers designated by resolution?

(3 signatures on all checks, except payroll)

Audit Questionnaire

INVENTORY (Expendable/Nonexpendable, Capitalization rate)

Are Inventories of materials & supplies under physical control of designated employee who is responsible for purchasing?

Are physical inventories taken annually and supervised by non-storeroom personnel?

ACCOUNTS PAYABLE AND PURCHASING (Public Contracts Law)

Are the following requirements of the Local Public Contracts Law be followed:

Competitive Bidding, Informal Quotes, Cert. Of Availability, Professional Services resolutions & advertisements, Emergency purchasing.

Audit Questionnaire

Payroll

Is there a separate bank account for payroll?

Are payroll procedures established by resolution of the governing body?

Budget System

Were the budgets and amendment approved by DLGS?

Was the adopted budget recorded in the minutes?

Grant Management

Is a permanent file of each grant maintained?

Were grant reimbursement requests filed promptly?

Financial Audit

- ◆ What important records and files does the auditor check?
 - PHAS documentation
 - Financial Records
 - Sampling of tenant records
 - Sampling of procurement files
 - Personnel records
 - Cash Management Plan (GUDPA)
 - Other items

Financial Audit

Calendar

(Suggested Format)

Solicit proposals for auditors	60 days prior to YE
Review audit proposals & award contract	Prior to year-end
Close books and submit financial statements	No later than 60 days after YE
Audit completed & filed with Authority	No later than 120 days after YE
Audit Synopsis published & filed with DCA	To state within 10 days after publication
Audit resolution & Certifications	Within 45 days after receipt of audit
Corrective Action Plan (if necessary)	Within 45 days after receipt of Audit

Audit Acceptance

(Certification & Affidavit)

- ◆ ***Title 40A:5A-17 Certification of review of audit.***
 - The members of the governing body (Board of Commissioners) of each authority shall within 45 days of receipt of the annual audit, certify by resolution to the Local Finance Board that each member thereof has personally reviewed the annual audit report, and specifically the sections of the audit report entitled General Comments and Recommendations, and has evidenced same by group affidavit signed by majority of the full membership of the Authority in the form prescribed by the Local Finance Board. Failure to comply with this provision may subject the members of the Authority to the penalty provisions of section 52 of P.L.1957,c.151 (C52:27BB-52)

Unrestricted Net Assets

- ◆ What are Unrestricted Net Assets (UNA)?
- ◆ How are Unrestricted Net Assets established, increased and decreased and at what point in time during the fiscal year do UNA's change?
- ◆ What are eligible and lawful uses of Unrestricted New Assets?

Unrestricted Net Assets (Class Exercise)

- ◆ A PHA's fiscal year end is 3/31. At year-end, the following information exists:
 - *Total Revenue for the Year* *\$4,500,000*
 - *Total Expenditures for the Year* *\$4,000,000*
 - *Unrestricted Net assets at 4/1,
start of fiscal year* *\$3,200,000*

What is the increase or decrease in Unrestricted Net Assets for the fiscal year ended 3/31 and what is the ending balance at 3/31?

UNA increase/decrease

UNA Balance at 3/31

Other Important Financial Issues



- ◆ ELOCCS-Line of Credit Control System
- ◆ Local Public Contracts Law (Bid Limit-\$17,500.00)
- ◆ Monthly Bill Lists (approved monthly)
- ◆ Open Public Records Act
- ◆ Deferred Compensation
- ◆ Inventory System
- ◆ Use of UNA
- ◆ QHWRA

Thank-you for attending



- ◆ Questions & Answers
- ◆ Course Evaluation
(Please complete both sides)
- ◆ Course Examination
(open book-may refer to notes)