FREQUENTLY ASKED QUESTIONS (FAQ)

Financial Submission Under Asset Management
September 26, 2008

Introduction

This document provides answers to questions raised by public housing agencies (PHAs), fee accountants, and HUD staff during HUD's "Demonstration of Financial Submissions Under Asset Management" training, conducted via the internet on **August 27, 2008**.[1] A web broadcast of the training is available at:

http://www.hud.gov/offices/pih/programs/ph/am/fasssubfds.cfm

The questions have been grouped into the following categories:
- General Topics
- Financial Data Schedule (FDS) Submissions
- Capital Fund Program
- Fee For Service

The primary goal of the training was to provide PHAs with a preview of the new FDS that will be available later this fall. Many changes have been made to the FDS, including:
- Project-level Reporting
- Consolidation of reporting of the Operating Fund and Capital Fund at the project level.
- Addition of a Central Office Cost Center (COCC) column
- Addition of Elimination Column
- Additional FDS line items necessary to facilitate fee-for-service reporting
- Alternative submissions methods related to how a PHA is implement asset management (e.g., fee-for-service, cost allocation, etc.)
- Improved navigation tools

Although not intended as an in-depth review of financial reporting requirements under asset management, the training nonetheless generated many financial reporting questions, which are also addressed here.

It should be noted that all PHAs will use the new FDS, regardless of whether the PHA implements asset management.

As a reminder, the deadline for submitting the unaudited FDS covering the first year of project-based reporting has been extended, as listed below. The new FDS is anticipated to be available (system release) in October 2008.
- FYE 6/30/08: 90 days after FDS system release
- FYE 9/30/08: 90 days after FDS system release

[1] Some questions have been modified for purposes of general application.

- FYE 12/31/08: 90 days after FYE
- FYE 3/31/09: 90 days after FYE

The deadline for submission of audits has not changed. Audited submissions are still due 9 months after PHA fiscal year end.

General Topics

1. **What happens if you do not input FDS data in project order? Can you input other programs, e.g., HCV, before input of project data?**

   Data may be entered in any order for the convenience of the user.

2. **The new FDS requires the PHA to indicate "Asset Management Type", e.g., Asset Management without COCC/Elimination, Asset Management with Elimination Only, Non-Asset Management etc. Can a PHA change this selection annually?**

   Yes. The system allows for flexibility. The user may elect to change their asset management type at any time as long as this selection corresponds to the correct reporting practices.

3. **When will the new FDS instruction guide be available?**

   A user guide will be available to the public at the time of the FASS-PH system release, expected in October 2008. In the meantime, HUD has posted an FDS prototype, in Excel spreadsheet format, which can be accessed via the URL: http://www.hud.gov/offices/pih/programs/ph/am/docs/fdsprototype.xls

4. **Will the new FDS take more time to complete than the current FDS?**

   The average submission time required to complete a FDS is estimated to increase slightly, primarily due to the requirement for project-level reporting. At the same time, the new FDS includes many improved navigation tools to ease use.

5. **What are the advantages and disadvantages of the "alternative asset management" method for small PHAs?**

   For small PHAs implementing asset management, it may be impractical to establish a separate Central Office Cost Center (COCC). The "alternative asset management" method allows small PHAs to implement asset management without needing to adopt fee-for-service and a COCC. Please see Chapter 9 of the

Supplement to HUD Handbook 7475.1, Rev., CHG-1, Financial Management Handbook, which is included with PIH Notice 2007-9, dated April 10, 2007.

6. **How are "reasonable" administrative costs established for small PHAs that implement the alternative asset management method?**

   "Reasonable" administrative costs are defined as the 80th percentile of administrative costs in FHA housing, by Multifamily field office (also see Chapter 9 of PIH Notice 2007-9 Supplement)
   Link: http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf.

7. **Troubled PHAs can require greater effort to improve and correct operations. Will HUD allow higher administrative costs and/or fees for these projects?**

   In keeping with 24 CFR 902.75, troubled agencies are subject to a Memorandum of Agreement, which provides appropriate schedules, performance targets and incentives for the operation of the PHA. Any impact on fees would be determined by the Memorandum of Agreement.

8. **Can a PHA change its method of reporting (from fee-for-service to cost-allocation) from one method to another in a subsequent year?**

   Yes. PHAs will be able to change methods of reporting from year to year, if those methods match actual operations (e.g., in 2010 a small PHA implements fee-for-service, but reverts back to cost-allocation in 2011.

9. **Why must PHAs report project-level accounting beginning with fiscal years ending 6/30/08?**

   The requirement for project-level accounting is consistent with 24 CFR Part 990.290(d), which states that: "PHAs must be in compliance with the project-based accounting and budgeting requirements in this subpart by FY 2007."

10. **Will PHAs be provided with a test period for the new FDS?**

    The system itself is being tested by parties at REAC. In addition, HUD will also have external testers to test the new FASS-PH system under asset management prior to its final release. (PHAs may view the extended submission due date from two months to three months as a test period for submitting their first FDS under asset management. This extra month will provide PHAs with extra time to become accustomed to the new system.)

11. **Will HUD issue a FDS line definition guide?**

    Yes. (The updated FDS line definition guide will be issued along with release of the new FDS).

<u>**FDS Submissions**</u>

12. **Is Line item 94300, Ordinary Maintenance Contracts, used only to report contracts with the COCC or for outside vendors?**

    Line Item 94300 should capture any ordinary maintenance contracts, whether those contracts are with outside vendors or the COCC. (With the new FDS, this line item has been expanded through use of a "detail link" to provide greater information on the types of maintenance contracts)

13. **Will PHAs only be required to complete the detail link for Line item 94300, Ordinary Maintenance Contracts, if they are implementing asset management?**

    No. The detailed information requested in a line item is applicable to all projects. Detail links have been developed to provide greater information about the operating costs/performance of projects.

14. **Is Line Item 11020, Required Annual Debt Service Payments, only for Low-Rent Public Housing or does it apply to all of the activities of the Housing Authority?**

    This line item must be reported for all projects and programs for which it is applicable. Line Item 11020 – Required Annual Debt Principal Payments represents the portion of required debt principal payments for the current reporting financial year, regardless of whether or not the actual payment has been made.

15. **Can a stop-loss agency use the allocated overhead method?**

    Yes. A stop-loss agency can use the allocated overhead method. Please see Notice 2008 – 31 "Guidance on Demonstration of Successful Conversion to Asset Management to Discontinue the Reduction of Operating Subsidy, Year 3 Applications."

16. For a PHA that does not establish a COCC, where should overhead costs be reported?

If the PHA has 250 or more units, and it is using the cost-allocation method (in lieu of fee-for-service), it should report that overhead on Line Item 91810, Allocated Overhead. For a PHA with fewer than 250 public housing units, it may also use Line item 91810 or it may report those costs in appropriate line items, e.g., 91100, Salaries and Benefits, as it has been reported in the past.

17. Can a PHA use fee-for-service for central maintenance and cost-allocation for overhead?

No. A PHA must be consistent within the same public housing program in terms of using fee-for-service or cost-allocation.

18. For a PHA that maintains a HUD-approved warehouse for materials, the PHA keeps materials in that warehouse that it treats as inventory until they are placed in service. Where should the inventory be reported? At the project level or at the COCC?

Under asset management, a PHA must assign its balance sheet between projects and the COCC. Generally, inventory related to the operation of projects should be assigned to the respective projects. To the extent that a PHA has been approved for a central warehouse, it should report the inventory of the central warehouse under the Other Project Column. When inventories are drawn out of the warehouse and placed for service, they should be expensed to the project at which they are designated for use.

19. The 2008 HUD appropriations act includes an exemption from asset management for PHAs for between 250-400 units. When does that exemption expire?

Currently, the 400 unit exemption applies only to PHAs during the first year of project-based accounting, which corresponds to the following fiscal year ends: 6/30/08, 9/30/8, 12/31/08, and 3/31/09.

20. How should projects that have been "terminated" in the reporting period be reported?

A PHA should report all projects where there was financial activity during the reporting period, including "terminated" projects. (Note: in the October FDS system release, PHAs may need to report these terminated projects in the Other Project column. More guidance will be provided on that matter.)

21. Will Section 8-only agencies also be required to use the new FDS?

Yes.

22. Will there be a separate FDS training session for Section 8-only PHAs?

Section 8-only PHAs should use this training to gain an understanding of the new look and feel of the system. However, HUD expects to provide separate training for Section 8 reporting requirements.

23. How often will FDS reporting be required?

FDS submissions are required annually. If the PHA receives an audit, then the PHA will be required to submit twice, an unaudited and an audited submission.

24. Where is a Revolving Fund reported on FDS?

A revolving fund will be reported in a separate ledger by the PHA but is not reported in the FDS. The only way that a revolving fund would impact the FDS is if there is a temporary Due To or Due From between projects as a result of a particular project making use of funds applicable to another project (from the revolving fund) which remain outstanding at FYE. (Generally prohibited outside excess cash rules).

25. How will the beginning equity be distributed to the new Projects and COCC in the new FDS?

The PHA will need to reasonably allocate all asset and liabilities to the projects and COCC at the end of the first year. Beginning equity will need to be entered for each project on the FDS. For more information please refer to Financial Management Handbook chapter on asset allocation. The Financial Management Handbook can be found at:
http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf

26. At the end of the first year of Project- Based Budgeting and Project-Based Accounting, does the ending Equity balance roll forward? How do you populate account 11030 - Beginning Equity?

In the first year of Project-Based accounting the value of line 11030 – beginning equity must be entered into the FDS manually. However, in subsequent years this line will be automatically populated from the ending equity balance of the prior year.

27. Please explain the elimination column.

The fee for service approach requires many transactions between projects, the COCC, and programs. In order to prevent double recognition of revenues and expenses for intra-PHA transactions when reporting entity-wide totals, the Elimination Column was created. This allows for the true costs to be reflected in the PHA-wide total column.

The example below depicts how the elimination column functions to remove management fee revenue and expense within a PHA. For more information about the elimination column, please refer to the Financial Management Handbook. The Financial Management Handbook can be found at: http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf

FDS Line Item	Description	TOTAL PROJECTS	COCC	Elimination	Total
70710	Management Fee Revenue		$75	($75)	$0
91300	Management Fee Expense	$75		($75)	$0

Property Level Asset Management FDS:						
FDS Line Item	Description	Project 1	Project 2	Project 3	Other Project	Total
91300	Management Fee Expense	$40	$20	$10	$5	$75

COCC:		
FDS Line Item	Description	COCC
70710	Management Fee Revenue	$75

28. In terms of FDS filing for small housing authorities, what reports are needed?

Reporting requirements are the same for all PHAs regardless of size. However, the number of projects for which small PHAs must report financial data will be limited in comparison with larger PHAs with many more projects. In addition, small PHAs not implementing asset management will not be required to enter data for the COCC and Elimination columns.

29. A PHA is a sub-contractor and administers vouchers on behalf of a state PHA. (The PHA also has its own vouchers.) Are expenses and revenues reported in Business Activities?

Yes, the PHA administering the vouchers on behalf of the state agencies should report fee revenue and administrative expenses in a business activities column. The state PHA will report its activity in the Housing Choice Voucher Program column.

30. Where will HOPE VI program activity be reported?

The Revitalization of Severely Distressed Public Housing Program (Hope VI) is reported in the program section of the FASS-PH system.

Capital Fund Program

31. Will Capital Fund Memo line items (11610-13510) match what a PHA draws down in eLOCCS for the reporting period?

Not necessarily. The memo accounts track the Capital Funds that were drawn down and not reported as operating expenses. However, if one includes reported Capital Fund operating expenses, along with the Capital Fund memo accounts, these combined amounts should generally match what was drawn down in eLOCCS for the reporting period. Any discrepancies may be attributed to timing.

32. In eLOCCS, as well as the Performance and Evaluation Reports, which Budget Line Item (BLI) should PHAs report the "Capital Fund Management Fee?"

For PHAs implementing the fee for service approach, beginning in FY 2007, they should use BLI 1410 (Admin Expenses) to record their Capital Fund Management Fee.

33. Is it true that there will not be a column in the Entity Wide FDS for the CFP?

Yes. Capital Fund program data is now reported in multiple columns at the project level and, if applicable, at the COCC. At the entity-wide level, the Capital Fund program will be reported in the Total Projects column, and, if applicable, the COCC column. (While Capital Funds may not be used to support COCC operating expenses, other than through the Capital Fund Management Fee, they may be used to pay for the purchase or modernization of real public housing property assigned to the COCC.)

34. Should the Capital Fund Memo Accounts also report "Construction in Progress?"

Yes. Any construction in progress will be included with the respective Capital Fund Memo Account. For example, if Capital Funds were drawn down in the reporting period to support a roof replacement that has not been completed, the amount of that work in progress would be reported in the Capital Fund Memo Account, 11650, Building Purchases. However, the PHA would also include the amount of work in progress on the balance sheet, FDS Line Item 167.

35. Should Capital Fund Memo Accounts also be reported for the Operating Fund column?

No. The memo accounts are only applicable to the Capital Fund Program. (and, hence, the Capital Fund column of the project)

36. How are Capital Fund Program costs reported at the Project Level and COCC?

Capital fund costs will be reported on the income statements of the Capital fund column for project and COCC.

37. On the FDS, where should CFP BLI 1406, Management Improvements, be reported?

For purposes of the FDS, Capital Fund Management Improvements should be treated similar to a Transfer to Operations. Management Improvements should only be used for the support of projects, not the COCC. The project reports this funding initially in its CFP column as Operating Grant Revenue.

38. On the project level, will the CFP activity be reported by grant year or in total?

The CFP activity will not be reported by grant year. It will be reported in total.

39. Prior to asset management Capital Fund grants were approved by developments, they are presently reported at the project level. What problems might this create?

This is not an issue because PHAs should report these grants at the appropriate project where the capital assets are located.

40. How should we record central office costs for pre-2007 Capital Fund grants?

PHAs can only begin to use fee-for-service (Capital Fund Management Fee) for 2007 and beyond Capital Fund grants. For prior grants, the PHA should continue to charge actual, direct administrative costs. Please refer to the Financial Management Handbook for more information. The Financial Management Handbook can be found at:
http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf

41. What does the 10% Capital Fund Management Fee represent?

The Capital Fund Management Fee is a program management fee for management services provided to the Capital Fund Program. These management services may include some of the following activities:

(I) Long Term Capital Planning
(II) Capital Budgeting
(III) Construction Monitoring
(1) Compliance and Reporting

Please refer to the Financial Management Handbook for more information. The Financial Management Handbook can be found at:
http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf

42. Does the PHA have to prepare balance sheets for each project for the Capital Fund Program?

The balance sheet will only be for the project as a whole – there will not be a separate balance sheet for the Operating Fund and Capital Fund at the project level.

43. A PHA has several "old" (not closed) Capital Fund Replacement Reserve balances. How should the balance be reported?

PHAs can allocate replacement reserve balances in any reasonable manner. As a reminder, PHAs can no longer accumulate Capital Fund grants in a replacement reserve account, budget line item (BLI) 1490. PHAs that have funds in BLI 1490, replacement reserve, must move expediently to obligate and expend these funds.

44. Under the financial reporting requirements for asset management, inspection staff for the Capital Fund Program are considered a "direct" expense and not part of the 10% management fee. How should a PHA handle vacation or sick time of an inspector, which is not related to any project?

PHAs may charge a burden rate, which includes benefits, including leave accrual. As a result, to the extent the employee is assigned to a CFP funded project, PHA charges that particular project, including earned leave. If the aforementioned action is taken, the funds should be available when the employee actually takes the leave. OMB Circular A-87 limits leave funding from a federal program at any particular time to the lesser of the amount accrued, or paid. Therefore, PHAs should not charge, say, a Capital Fund project for the week an employee takes vacation, as that leave obligation was already charged incrementally (accrued) as it was earned. Regarding holiday pay, this would be treated like a regular work day in that the cost center (project, COCC, etc) is charged for that employee, again at the burden rate.

45. For PHAs implementing asset management, will HUD continue to require submission of the Capital Fund Performance and Evaluation Reports (PERs)? Further, will these PER BLIs be modified to match the FDS?

PHAs will continue to complete the Capital Fund PERs. However, in the future, HUD anticipates modifying/simplifying the BLI structure to match the FDS, and is considering electronic submission of these documents.

46. If a Replacement Housing Factor (RHF) grant does not yet have a project number assigned, where should the expenses be recorded on the FDS?

If a project number has not yet been assigned, RHF should be reported in the Other Project column in the FDS.

Fee For Service

More information regarding the Fee for Service approach can be found at:
http://www.hud.gov/offices/pih/programs/ph/am/accounting.cfm

47. Can PHAs charge an asset management fee for "mixed finance" projects?

Yes. Subject to excess cash requirements, a PHA may charge a management fee to mixed finance projects. (A mixed finance project is a project that is developed pursuant to 24 CFR Part 941, Subpart F. In general terms, a mixed finance project is a project that was developed through the use of both public and private funds and often contains a mix of public housing units and market rate units.)

48. Should a ROSS grant be reported at the project or within its own column of the FDS?

All Ross expenses and revenue should be reported in the ROSS program column. Grant revenue should remain at the program and not be transferred to projects.

49. What is an example of an asset management fee as distinguished from a bookkeeping fee?

The Asset Management Fee is a fee charged for asset management services provided to the project by the COCC. Asset management services are best defined as responsibilities undertaken by an owner. Asset management functions may include

(I) Providing long-term capital planning and allocation of resources
(II) Setting ceiling or flat rents
(III) Reviewing information on physical stock.
(IV) Assessing property management performance
(V) Assessing the long-term viability of projects
(VI) Determining project repositioning and replacement strategies
(VII) Providing risk management responsibilities related to compliance

The Bookkeeping Fee is a fee charged for centralized accounting functions provided to a project by the COCC. The bookkeeping fee is earned for each occupied unit and HUD-approved vacancy, as described under §990.145. In other words, bookkeeping fees are to be earned monthly for each occupied unit or approved vacancy

50. Is an asset management fee chargeable the first year regardless of excess cash?

Yes. Under Asset Management, a PHA can charge an asset management fee up to $10 PUM in the first year of project-based budgeting/accounting.

51. If a central office has made use of services from a project for maintenance (e.g., snow removal or general maintenance of the building) how should it be reported?

If a project provides services to a central office, the COCC should reimburse the project accordingly. The project can charge actual costs or market rates.

52. Must a PHA use fee-for-service for central maintenance services provided to projects?

Yes. Central maintenance must be charged using a fee-for-service; however, the PHA may choose to charge a rate less than market (for example, actual costs.

53. We have front-line expenses for the intake/occupancy dept. We pro-rate the expenses to the project but do not record any related revenue/expense in the COCC. Is this the correct accounting?

Yes. Such expenses are front-line, but can be pro-rated.

54. HUD allows a PHA to establish a working capital fund for the COCC, equal to six months of management fees, bookkeeping fees, and asset management fees. Can a PHA also charge projects a full 12 months of fees during the first year of project-based budgeting and accounting?

Yes. The initial working capital for the COCC is in addition to the normal fees charged in the first year.

55. Is there a new CFDA number for the Low Rent Public Housing and Capital Fund Program?

No. The CFDA numbers for Low Rent Public Housing and the Capital Fund Program remain the same.

56. In calculating excess cash for the asset management fee, will the formula take into account the fact that PHAs are funded at 88.96% of eligibility in CY 2008?

No. The calculation will not be changed to account for appropriations.

57. Is there a limit or maximum that a project can generate in excess cash?

No. There are no rules determining how much excess cash a project can generate.

58. Will PIC populate available and occupied unit count numbers on the FDS?

No. The user will need to manually input line item 11190 (Unit Months Available) and line item 11210 (Unit Months Leased).

59. How/where are sale proceeds and/or interest income from sale proceeds reported for a PHA that has sold of all the units in a project or its entire inventory?

If a project contains financial activity it must be reported in the appropriate project column on the FDS. If the project does not appear in the project selection list, then the activity should be reported in the "Other Project" column. Sale proceeds should be reported at the project where they are incurred.

60. A PHA has 284 units and 2 projects, but is not implementing asset management for another year. Does the PHA have to submit for both projects for 3/31/09? (The PHA does not plan to combine the projects into one project but wants to report as one project for 2009?)

If a PHA does not implement asset management in FY 2009, it should report its Operating Fund and Capital Fund activities under on project.

61. Since Asset Management aims to have projects emulate multi-family, why do we need a separate FDS account numbering system when multi-family already has an established account numbering system? Where is the loss rent reported?

To ease the conversion to asset management for PHAs, HUD decided not to adopt an entirely new accounting standard. PHAs are required to report unit month available and unit months leased, from which the vacancy percentage can be calculated. However, lost rent (vacancy loss) is not a required FDS line item.

62. When will guidance be available for auditors on how to do audits under asset management?

Auditors should complete audits based on professional standards as determined by GAGAS. In addition, auditors should make use of the 2008 A-133 Compliance Supplement as it relates to each of the programs reported in a PHA's FDS. The Supplement is available at the following URL:
http://www.whitehouse.gov/omb/circulars/a133_compliance/04/hud.pdf

63. At the Total Project Level reporting, there will be one income statement and one balance sheet needed for all Projects, with all Operating Funds and Capital Funds combined. Please confirm. In addition, will this combined statement be done automatically by the system, or will this need a separate entry into the system by the Agency?

As long as users enter the project-level balance sheet and income statement properly, the balance sheet and income statement for Total Projects will be automatically generated without additional entries.

64. Will FDS data be required to be audited?

The FDS is supplemental information; therefore, it is not audited. However, it should receive a SAS 29 “In relation to” opinion.

65. The COCC is conducting inspections on a fee-for service basis. How should this be charged for Section 8 and Public Housing? Should the revenue code be 70740 or 70750? Where the expense should be charged in the projects?

In this case, the inspections are considered a front line cost. The COCC should recognize fee revenue in line 70740 and the projects should reflect the expense in line 94300.

66. For Moving To Work agencies, how should they handle reporting under the new FDS model?

Please refer to the PHA’s specific “Moving to Work” agreement. If the PHA is required to submit financial data in the form of an FDS to HUD, then all project data must be submitted in the FDS.