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## CHAPTER 3. MONTHLY ACCOUNTING REPORTS

### SECTION 1. Managing Monthly Accounting Review Process

#### 3-1. INTRODUCTION

Monthly accounting reports are useful tools for evaluating a project's performance and monitoring compliance. The Asset/Loan Management Branch Chief must ensure that the Asset/Loan Management staff fully uses each accounting report. This means:

- o Requiring the submission of monthly reports, when appropriate (monthly statements are generally required whenever annual financial statement reviews, on-site management reviews or other information indicates that the project is experiencing financial or management difficulties or the owner/agent is suspected of noncompliance)
- o Following-up with the owner/management agent to obtain receipt of monthly reports  
  
Ensuring that monthly reports are reviewed by the Asset/Loan Management staff in a timely and quality manner
- o Following-up to make sure that recommended actions are taken, and
- o Terminating the submission of monthly reports, (whenever continuous review of monthly and annual reports indicates that the project owner/management agent has taken necessary corrective action(s) and the project is no longer experiencing financial or management difficulties).

#### 3-2. MONITOR RECEIPT OF REPORTS

The Branch Chief must establish a system for monitoring the receipt of the monthly accounting reports. The Monthly Accounting Reports Control Log, Form HUD-93483 shown in Appendix 14, may be used for this purpose. The Branch Chief should review the system periodically to ensure that required reports are being received on a current basis. Once the project is financially sound or is no longer experiencing management difficulties, the Field Office should reevaluate the need for

the monthly reports. When the Field Office determines the reports are no longer needed; the Field Office should advise the owner/management agent to terminate submission and annotate the control log accordingly.

### 3-3. SUPERVISORY REVIEW

Supervisory staff should periodically check to see that the Monthly Accounting Reports Control Log is being maintained and that the staff is completing the reviews in a timely and quality fashion. The receipt of monthly accounting reports should not be entered into the control log unless the reports are fully completed. If incomplete forms are received, the owner/management agent should be requested to send completed copies.

## SECTION 2. Analyzing Monthly Reports

### 3-4. INTRODUCTION

This Section provides guidance on how to review monthly accounting reports. Similar to the annual review, the monthly review has three purposes:

- o evaluate compliance,
- o identify potential diversions, and
- o assess project performance.

The review procedures require the Asset/Loan Management staff to review individual transactions and to analyze month-to-month trends in:

- o cash flow,
- o occupancy,
- o rent collections, and
- o liquidity.

### 3-5. COOPERATIVE HOUSING REPORTS

The Board of Directors is responsible for submitting the Monthly Report Of Cooperative, Housing Corporations, Form HUD-93211, each month for the first two full fiscal years following the initial date of project operations.

This report provides the means to analyze the actual revenue and expenses versus budgeted amounts to determine financial trends or areas

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of concern, and to accumulate information for the preparation of the

ensuing year's budget. See Handbook 4370.3, "Uniform System of Accounts for Cooperative Housing Corporations Using Computer and Manual Systems" for a more detail discussion of Form HUD-93211.

3-6. CHECK FOR COMPLETION

Upon receipt of the monthly reports, the Asset/Loan Management staff should check to see if:

- A. Each of the following schedules has been submitted:
  - 1. Schedule A - HUD-93479, Monthly Report for Establishing, Net Income
  - 2. Schedule B - HUD-93480, Schedule of Disbursements
  - 3. Schedule C - HUD-93481, Schedule of Accounts Payable
- B. All lines have been completed for each schedule. If a schedule is missing or is incomplete, the Asset/Loan Management staff should immediately request any missing or corrected schedules from the owner/management agent. Copies of the above schedules are included in Appendices 15A, B and C.

NOTE: If a project has a comprehensive monthly reporting system, field offices may accept the project's monthly reports instead of HUD Schedules A, B and C. The reports must include the essential characteristics of the HUD schedules:

- o cash receipts,
- o cash disbursements,
- o receivables,
- o payables,
- o occupancy, and
- o ending balances.

If the reports are not easily understood, the project owner should be required to use the standard HUD forms; there is no obligation to accept alternate reporting systems.

3-7. CHECK FOR ARITHMETIC ACCURACY

The Asset/Loan Management staff should complete the calculation shown below to check the consistency of reports from one month to the next. Entries are obtained from Schedule A, HUD-93479.

- A. Rent Potential for Revenue Producing Units \$ \_\_\_\_\_
- B. Vacancy Loss \$ \_\_\_\_\_
- C. Cash to be Accounted for (Line A-B) \$ \_\_\_\_\_

D.	Tenant Subsidies and Rents Collected this Month (Lines 2a and 2b of HUD-93479)	\$ _____
E.	Subtotal: Line C - Line D	E. _____
F.	Tenants' Accounts Receivable on Prior Month's HUD-93479 (Line 7)	\$ _____
G.	Tenants' Accounts Receivable on Current Month's HUD-93479 (Line 7)	\$ _____
H.	Net Change in Tenants' Accounts Receivable (Line F - Line G)	H. _____

If the report has been accurately prepared, Line E should equal Line H, except on Section 236 projects where some tenants may be paying above basic rents.

3-8. MONTHLY ACCOUNTING SUMMARY WORKSHEET

After reviewing the monthly accounting reports for completeness and accuracy, the Asset/Loan Management staff should complete Form HUD-93482, Monthly Accounting Summary Worksheet shown in Appendix 16. The worksheet summarizes key items from a series of monthly accounting reports onto one page and enables the staff to determine trends as well as conditions at a particular time.

3-9. REVIEW TRENDS

Activity trends in all categories of the monthly accounting reports should be reviewed. The following are some trends the Asset Management staff should pay particular attention to.

- A. Occupancy. Low or falling occupancy is a sure sign of financial difficulty. In an established project, a drop in occupancy often can be the first warning of trouble.
- B. Collections. Trends in collections (as a percentage of potential collections) are just as important as occupancy. A drop in

collection indicates management or collection problems that may later be reflected in more serious financial or maintenance problems.

- C. Other Income. These amounts, usually minor, should remain relatively constant except for items such as interest income, which may be received less frequently than monthly.
- D. Operating Disbursements. These are cash basis expenses. The total can be reviewed for trends, but to get a true picture of expense patterns, this should only be done in conjunction with the change in the accounts payable balance. Be alert for

expenditures that are not necessary for preserving and operating the project or appear to be unreasonable.

- E. Debt Service. The amount of the payment should be checked to determine if the amount paid is the amount agreed to under the mortgage note, or the workout or modification agreement - whichever document is binding for that month.
- F. Other Disbursements. These items are generally of a nonrecurring nature and should be reviewed individually, using Form HUD-93480. Be particularly alert for payments to owners or related projects. Note expenditures for other than necessary and reasonable operation of the project or for payment of unauthorized distributions to the owner(s).
- G. End of Month Status of Accounts. These are self explanatory indicators of financial conditions. Trends should be reviewed each month. Compare the cash balance with the accounts payable balance. This is a stringent measure of liquidity and should be reviewed carefully each month.
- H. Tenant Accounts Receivable. Significant increase in tenant accounts receivable should be reviewed to determine the cause for the increase. Possible reasons are poor enforcement of collection, poor internal controls, or the inability of tenants to afford a recently implemented rent increase.
- I. Security Deposit Deficiency. Under the regulatory agreement, tenant security deposits must be fully funded. A security deposit deficiency will often indicate a diversion of funds. The diversion could be for payment of project operating costs or for the personal use of the owner or management agent.

- J. Reconcile to Annual Reports. The Asset Management staff should compare the cash balance and the accounts receivable and accounts payable balances shown on the monthly report for the last month of the fiscal year with the corresponding balances shown on the annual financial statements. While receivable and payable balances may differ somewhat since the annual financial statements are prepared using the accrual basis of accounting or because of end of year closing adjustments, the difference should not be significant. If the cash account is being reconciled monthly by the project owner/agent, cash on the last monthly accounting report should agree with the cash account on the annual financial statements.

Schedule A, Form HUD-93479 summarizes cash flows during the month and the project's working capital position as of the end of the month. Details of distributions and payables are shown in Schedules B and C, respectively. The following questions should be asked when reviewing Schedule A.

- A. Is all the revenue reported (e.g., laundry revenue, late charges, advances, commercial revenue, rental subsidy payments, etc.)?
- B. Are MIO Plan Draws from the Project Improvement Account (Account 1380) reported separately under other collections on Line 2c, if applicable?
- C. Is the beginning cash balance (i.e., opening cash) the same amount as Line 4 (cash on hand in bank at end of month) on the previous month's report?
- D. Is the correct monthly gross rent potential shown according to the approved Rent Schedule, Form HUD-92458?
- E. Is the total number of units shown correct? Is the number of non-revenue producing units according to the rental schedule?
- F. Is the tenant security deposit account fully funded (i.e., does the balance in the account (Line 10b) equal or exceed the liability Line 10a )?
- G. Is the cash-on-hand (Line 4) a positive or negative figure?

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5/92

3-6

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4370.1 REV-2

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- H. If the project is under a workout agreement, and if required by the workout agreement, have any excess funds remaining after the payment of operating expenses and the minimum mortgage payment under the workout been submitted to HUD.

3-11. REVIEW HUD-93480, SCHEDULE OF DISBURSEMENTS  
(SCHEDULE B)

This schedule lists all disbursements from the project's operating account for the month covered by the report. Schedule B identifies:

- o the date the check was disbursed,
- o the check number,
- o the payee,
- o the specific purpose of the disbursement, and
- o the amount of the check.

The following questions should be asked when reviewing Schedule B.

- A. Is the total disbursed the same amount as Line 3, on Schedule A?
- B. Are the checks listed consecutively? Any variation in the sequence of check numbers may indicate two or more bank accounts, two or more checkbooks for the same account, "kiting", voided checks that have not been identified, or commingling of funds with other projects.
- C. Is the management fee payment according to the terms of the management agreement? Are any expenses of the management agent being paid from project revenue?
- D. Is repayment of advances being made?
- E. Are distributions being made to the owner in accordance with the Regulatory Agreement and any applicable modified agreements?
- F. Is the full mortgage payment (or agreed-upon workout payment) being made?
- G. Is the priority of the first mortgage being maintained? Are there payments being made on subordinate loans or notes payable to banks, affiliated companies, or other projects owned by the project owner/management agent? If so, check to see if these are authorized expenditures. Regulatory controls dictate there must

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be no commingling of funds with other projects unless specifically authorized by HUD. In cooperatives, funds may be commingled for the various project owners in one cooperative, but not with separate cooperative organizations.

- H. Is the project paying mortgage late charges?
- I. Are construction costs being paid from rental revenue?
- J. Are there any unusual administrative costs, such as consulting, accounting, legal or advertising fees?
- K. Are small, frequent, individual purchases of maintenance supplies and equipment being made when it is reasonable to bulk purchase? If so, this should be brought to the attention of the owner/agent so that savings can be made.
- L. Do amounts paid for items included in Lines 1a through 1c (repairs) and Line 3c (accounts payable) of Part 11, Section C of the MIO Plan appear on the disbursement schedule? The

Field Office may require the owner to annotate the schedules to identify transactions related to the MIO Plan or to submit separate payable or disbursement schedules for MIO Plan items.

3-12. REVIEW HUD-93481, SCHEDULE OF ACCOUNTS PAYABLE  
(SCHEDULE C)

This lists all vendor accounts payable, including amounts delinquent under the mortgage, Schedule C identifies:

- o the date the project incurred the expense,
- o the vendor to whom payment is due,
- o the specific purpose of the obligation, and
- o the amount owed.

Consideration should be given to "anticipated" payables, such as payroll and utilities, which are not technically required for completion of this form since the report is handled on the cash basis. Consideration of this factor is necessary to look realistically at the project's financial picture. The following items should be taken into consideration when reviewing Schedule C.

A. Is the total payable balance the same as Line 11 of Schedule A?

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5/92

3-8

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4370.1 REV-2

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- B. Are accounts payable shown for unpaid items includable on Line C of Part 11, Section C of the MIO Plan?
- C. Are mortgage delinquency amounts shown, if applicable?
- D. Are payables due to other projects?
- E. Are payables due to any lending institutions?
- F. Are payables due to the owners?
- G. Is any amount shown as a management fee payable accurate per the Regulatory Agreement, etc.?
- H. Compare to previous month's Schedule C to see if payables not shown in current month were paid.
- I. Check for age of payables. Test for payment priorities, such as paying a management fee to a related company before paying delinquent utility bills or mortgage payments.

3-13. DEVELOP PROJECT REVIEW PROCEDURES

Not all review procedures will need to be made every month on every project. Asset/Loan Management staff should use acquired knowledge

about the project to determine which areas need special attention. Exhibit 3-1 provides some guidance on this.

3-14. CORRECTIVE OR FOLLOW-UP ACTION

If noncompliance, questionable disbursements or performance problems are noted, the Asset Management staff should follow-up to ensure that necessary clarifications or corrective actions have been taken. Some possible actions that may be needed after reviewing monthly accounting report are shown in Exhibit 3-2.

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3-9

5/92

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4370.1 REV-2

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Exhibit 3-1

Tailoring the Review of Monthly Accounting Reports

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|--|---|
| 1. Preventive Asset Management   | <ul style="list-style-type: none"><li>o Rent-up progress</li><li>o Adequacy of Rental Schedule</li><li>o Familiarity with vendors</li><li>o Section 8 vacancy and debt service payments</li><li>o Payment of construction items with rental revenue</li><li>o AMPO and Supplemental Management Fund Items</li></ul>   |
| <hr/>  |   |
| 2. Seasoned Projects<br>(Projects in operation for 3 or more years and operating financially sound.) | Adverse trends in: <ul style="list-style-type: none"><li>o Occupancy</li><li>o Receivables</li><li>o Payables</li><li>o Cash Flow</li><li>o Operating Expenses</li><li>o Rent Collections</li></ul>   |
| <hr/>  |   |
| 3. Analysis and monitoring of troubled projects  | <ul style="list-style-type: none"><li>o Compliance with minimum payment requirements</li><li>o Compliance with Owner Contribution requirement</li><li>o Expenditures for MIO Plan items (e.g., painting, decorating, grounds, etc.)</li><li>o Progress on MIO Plan goals (e.g., decrease in accounts receivable/payable, improved collections, etc.)</li><li>o Compliance with equity</li></ul> |

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5/92

3-10

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4370.1 REV-2

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Exhibit 3-2: Action Chart

CONDITION	HUD OFFICE ACTION
Minor errors, incomplete forms, noncompliance, questionable disbursements.	<ul style="list-style-type: none"><li>o Written communication with Owner. Copy to Management Agent, if applicable.</li><li>o Enforcement tools, if appropriate.</li></ul>
Diversion of funds.	<ul style="list-style-type: none"><li>o Written request to Owner to repay funds. Copy to Management Agent, if applicable.</li><li>o Request RIGA to determine exact amount diverted, if amount unknown.</li><li>o Pursuit of civil and criminal penalties through recommendation to Regional Counsel.</li></ul>
Report does not show disbursements for MIO Plan Items.	<ul style="list-style-type: none"><li>o Written inquiry to Owner as to progress on MIO Plan items.</li></ul>
Poor rent collection, excessive expenses, increasing payables or receivables.	<ul style="list-style-type: none"><li>o Consider a management review.</li></ul>
Cash flow problems.	<ul style="list-style-type: none"><li>o Determine cause of problem and schedule action accordingly (e.g., rent increase, change in purchasing procedures, etc.)</li></ul>
Failure to provide non-project funds for certain needs of project as part of agreement with HUD in return for mortgage relief, TPA, or Flexible Subsidy	<ul style="list-style-type: none"><li>o Written request to Owner to pay non-project funds. Pursuit of civil penalties through recommendation to</li></ul>

Contract.

Regional Counsel, if  
required.

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3-11

5/92