

CHAPTER 7. INDICATOR #6. FINANCIAL MANAGEMENT

7-1 GENERAL. Component #1, cash reserves, of this indicator examines the amount of cash reserves available to a PHA for operations. If a PHA fails to maintain a cash reserve percentage of at least 10%, the PHA shall then be assessed under component #2, energy consumption. Component #2 is one of the largest areas of controllable expenses. It assesses the extent to which a PHA can demonstrate under option A, annual energy/utility consumption expenses, whether any increase in energy/utility consumption expenses as compared to the average of the prior three years' rolling base consumption has occurred; or, under option B, energy audits, how a PHA has minimized utility expenses through the implementation of cost effective energy conservation measures (ECMS) identified in energy audits. A PHA may choose which of the two utility performance options in component #2 to be assessed under.

7-2 COMPONENT #1. CASH RESERVES. Maintaining a minimum level of liquidity is a basic requirement for financial management. In order to function in a financially responsible manner, a PHA must have a minimum amount of cash on hand to cover day-to-day routine expenditures.

- A. Calculation of component #1, cash reserves. The PHMAP software makes all calculations relating to this component. Even though the calculation is automated, the reviewer should still have a thorough understanding of how these calculations are made and of the exemptions that may be taken by the PHA. Changes resulting from an on-site confirmatory review must be made by the local State/Area office after the conclusion of the on-site confirmatory review by inserting revised data into the PHMAP module, in the appropriate iteration, for automated calculation and re-scoring.
- B. This component measures cash reserves available for operations as a percentage of total actual routine expenditures after all necessary expenses of a PHA for development have been paid, or funds have been set aside for such payment. This component is a measure of liquidity, i.e., of the ability of a PHA to sustain itself over a period of time on available cash. The calculation of cash reserves available for operations takes into consideration both short-term accounts receivable and accounts payable.

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1. A PHA receives program funds from a variety of sources, including locally generated income, such

as tenant rent and charges; and HUD assistance, such as operating subsidy, development and modernization funds, resident initiative grants, etc. The use of these funds is restricted to the purposes authorized by program regulations and approved budgets.

2. For the purposes of this indicator, a PHA must identify the portion of the General Fund that represents cash available for operations, i.e., the cash that is affected by transactions that appear on form HUD-52599, Statement of operating Receipts and Expenditures. This means that a PHA must exclude from consideration those funds held in the General Fund for other purposes, i.e., security deposits, trust account funds, self-insurance reserve funds, development funds, modernization funds, resident initiative grants etc. In other words, any funds that can't be spent for purposes that would be approved on a low-rent operating budget.
3. Once the PHA has identified the portion of the Balance Sheet (FYE) General Fund amount that is cash available for operations, that amount is then adjusted for accounts receivable or accounts payable (on the FYE Balance Sheet) that they expect to receive or to disburse within the next 30 days following the end of the assessed FY for the account classifications that appear on form HUD-52599. The General Fund amount is also adjusted, when applicable, for any interfund amounts that would affect the cash available for low-rent operations (the interfund amounts are reflected on the Balance Sheet as advances or accounts receivable/payable).
 - a. Short-term accounts payable are funds a PHA is obligated to pay out in the near future or are set-aside for payment, i.e., payment due by a PHA within 30 days of the end of the PHA FY. They are not considered part of current assets and are not taken into consideration as cash reserves available for operations.
 - b. Short-term accounts receivable are funds .due into a PHA in the near future, i.e., expected to be paid to a PHA within 30 days of the end of the PHA FY. They are

considered part of current assets and are taken into consideration as cash reserves available.

4. Once the cash available for operations has been adjusted for the short-term accounts receivable/ payable, that adjusted total is compared to the total actual routine operating expenditures for the assessed FY (Line 520 of form HUD-52599) to determine the percentage used for the indicator.

Calculation of Cash Reserves Available for Operations

Cash reserves available	\$10,000
Short-term accounts receivable	+ 2,000
	\$12,000
Short-term accounts payable	- 1,500
	\$10,500

10,500 cash reserves = 11.66% cash reserves
 9,000 total actual routine available for
 expenditures operations

5. In this example, the PHA would score a grade of C for this component since cash reserves available for operations are greater than 10% but less than 12.5% of total actual routine expenditures.

C. Verification of component #1. cash reserves.

1. Examine the supporting worksheets for the PHA's calculations and identify sources of the data that can be verified.
2. Determine if the cash reserves appropriately excluded accounts payable:
 - a. Determine the amount of security deposits, as identified in the balance of Account 2114, Tenant Security Deposits. Determine where these funds are maintained, and whether they have been excluded in the PHA's calculations;
 - b. Escrow accounts; and
 - c. Homebuyer reserves for a PHA with the Turnkey III Homeownership Program.

3. Determine if accounts payable that were not classified as short-term by the PHA have, in fact, been paid within 30 days of the FYE. if they have been paid, they should have been considered short-term and included in the calculation for this component.
4. Determine if other accounts payable have been

taken into consideration. These accounts may contain balances not otherwise excluded in the calculation of short-term accounts payable, indicating that these balances are on hand in cash or investments. Determine if the PHA has excluded them from cash and investments for PHMAP purposes. Such accounts payable include, but are not limited to:

- a. Account 2112, Contract Retention;
 - b. Account 2113, Performance Deposits;
 - c. Account 2117, Payroll Deduction and Contributions.
5. Determine if modernization, development and resident initiative funding drawn down through LOCCS and not disbursed at FYE was erroneously included in cash or investments. Since LOCCS drawdowns are to be disbursed promptly, a review of historic LOCCS drawdown reports may be useful to identify year end drawdowns which may be on hand.
 6. Determine if accounts receivable included in the calculation are in fact short-term, i.e., collectable within 30 days. This information can be easily tested since accounts receivable should have been received by the PHA prior to the submission of its PHMAP certification and the conduct of the on-site confirmatory review. Review a sample of accounts receivable to determine if they have actually been paid to the PHA.
 7. Inquire about the state of year end interfund accounts payable and accounts receivable to determine if adjustments are needed between programs.
 8. Determine if routine expenses are the same as Line,520 of form HUD-52599. If not, determine why there is a difference.
 9. Determine if significant prior year expenditures entered on Line 620 of form HUD-52599 from Account 6010 are in fact properly originated in the prior year and not the FY being assessed.
 10. Examine trend data to determine if there are significant changes in expenses that may indicate a need to determine if expenses are properly classified, and to determine if significant

non-maintenance expenses are really nonroutine in nature.

11. Ensure that non-routine and routine maintenance expenditures were properly classified.
12. If the PHA has used its discretion to pay operating expenditures with modernization funds, determine that this amount has not exceeded the 10 percent limit for modernization and has been properly budgeted and authorized.
13. Determine if posting is timely and has, therefore, properly been included in the appropriate FY.
14. Review the most recent independent auditor's audit and determine if there are relevant findings that would reflect on the accuracy of the records supporting the PHMAP calculations.
15. Determine if the cost allocation plan is current and satisfactory. Improper cost allocations will skew program costs and could impact on the -PHMAP score.

7-3 COMPONENT #2. ENERGY CONSUMPTION. Only those PHAs that score a grade of D, E or F for component #1, cash reserves, will be scored on this component. Although PHAs that score a grade of C or above on component #1, cash reserves, would not be scored on component #2, energy consumption, all PHAs are required to certify to either option A, annual energy/utility consumption expenses, or option B, annual energy audit. Regardless of a PHA's score on component #1, it will not be scored on component #2 if all its units have tenant paid utilities.

- A. Opportunities to reduce utility costs. Opportunities for reducing utility costs continue to exist and are cost effective, in many instances, due to ongoing improvements in technology. PHA managers need to be aware of, evaluate, and give maximum consideration to these ongoing and new opportunities when

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managing their utility costs. Due to improvements in technology, managing utilities is a continuous process that requires an ongoing energy management program. Because energy management programs differ between PHAs, they are given a choice of two methods in the calculation of this component.

- B. Calculation of component #2, energy consumption. The PHMAP software makes all calculations relating to this component. Even though the calculation is automated, the reviewer should still have a thorough understanding

of how these calculations are made and of the exemptions that may be taken by the PHA. Changes resulting from an on-site confirmatory review must be made by the local State/Area office after the conclusion of the on-site confirmatory review by inserting revised data into the PHMAP module, in the appropriate iteration, for automated calculation and re-scoring.

C. Option A, annual energy/utility consumption expenses. This option examines annual energy/utility consumption expenses as compared to the three years' rolling base consumption expenses. This option measures energy/utility consumption rather than dollars because it compares a PHA's current consumption to its rolling base period consumption. In comparing Line 17 to Line 13 of form HUD-52722B, Adjustment for Utilities Consumption and Rates, the rolling base period consumption is adjusted prior to the comparison with the current year's rates. Since the same rates are used, the only difference in the amounts compared is due to consumption. This option varies from the initial PHMAP utility consumption indicator in two ways:

1. This option now includes water/sewage usage; and
2. This option no longer includes an adjustment for heating degree days.
3. Information regarding this option is derived from form HUD-52722B submitted by a PHA to the local State/Area office within 45 days of the PHA's FYE. Although State/Area offices will calculate this option, the review should verify the PHA's data submitted on form HUD-52722B and verify the data used to complete form HUD-52722B. This option is calculated by the State/Area Office as follows:

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Calculation of Option A, Annual Energy/Utility
Consumption Expenses

- | | | |
|----|--|----------|
| 1. | Total energy/utility cost in FY for which adjustment is requested (form HUD-52722B, Line 13, Column 3): | \$51,000 |
| 2. | Cost of estimated energy/utility consumption at average rate (form HUD-52722B, Line 17, Column 3): | \$50,000 |
| 3. | Costs of actual energy/utility consumption divided by costs of estimated energy/ utility consumption (line 1 divided by line 2): | 1.02 |

4. Subtract 1.00 from line 3 and multiply by 100 to calculate the percentage of increase or decrease (1.02 minus 100 equals .02 x 100 equals an increase of): + 2%

4. In this example, a PHA would score a grade of B since annual energy/utility consumption expenses, as compared to the average three years' rolling base consumption, have not increased by more than three percent.

5. Verification of option A, annual energy/utility consumption expenses.

a. Determine if energy/utility consumption expenses are consistent with those shown on form HUD-52599 for the current year.

b. Determine how the PHA documents utility expenses as reported on form HUD-52722B and test, through sampling, whether source documents support summary reports and accounting records that serve as the source of a PHA's PHMAP calculation.

c. The reviewer should be attentive to any modification possibilities that are apparent but unsought, i.e., large consumption increases due to new units, additional nondwelling space usage, etc.

D. Option B, energy audit. This option examines whether a PHA has completed or updated its energy audit within the past five years and implemented recommendations that were cost effective. For

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grade C, the PHA has not implemented all of cost effective ECMS, but has developed an implementation plan for ECM implementation, and is on schedule with the implementation plan, based on available funds.

1. PHAs have the flexibility to determine what is cost effective. Otherwise cost effective ECMS may be eliminated by a PHA if the existing design would render the measure hazardous. A PHA should have given consideration to the cost of the work necessary to make the ECM safe. If all costs were considered, including the additional hazard, the ECM would most likely not have been cost effective. Issues such as this should have been a consideration during the audit itself and reviewed during the on-site confirmatory review.

2. Verification of option B, energy audit.
 - a. Review PHA worksheets supporting the PHMAP certification to determine the source documents that can be validated.
 - b. Determine if the PHA has energy audits on file for each development which have either been originated or updated within the last five years.
 - c. Determine whether cost effective ECMs have been identified by the PHA.
 - d. Obtain an explanation of the PHA's ECMs and how the ECMs have been applied by the PHA, including those ECMs that were determined to be hazardous.
 - e. Review a sample of energy audits and determine for the sample the application of the PHA's cost effective ECMS.
 - f. Determine whether all cost effective ECMs were identified by the PHA in its implementation plan, including all ECMs that were to have been completed or scheduled.
 - g. Determine if the PHA can document that all cost effective ECMs have either been completed or scheduled to be completed and the implementation plan is being followed.