

CHAPTER 4: SUB-FUNCTIONS AND COMPONENTS

SECTION 4: SUB-FUNCTIONS AND COMPONENTS

4-1 MAJOR AREAS OF OPERATION.

For monitoring purposes, finance and budget activities have been separated into major areas of operation that are called "Sub-functions". These Sub-functions are further divided into "Components" that represent activities within the Sub-function. Each of the Sub-functions and Components are linked and as a result PHA performance in one area will affect the success or failure in others.

4-2 PHA SUB-FUNCTIONS.

The success of a PHA depends on how it deals with Sub-functions in its daily operations. The major Sub-functions are as follows:

- 1.Establishing policies, procedures and/or systems
- 2.Maintaining budget and financial controls
- 3.Maintaining accounting books and records in accordance with HUD policy
- 4.Implementing internal controls
- 5.Financial reporting

4-3 PHA COMPONENTS.

For each of the Sub-functions there are Components that the PHA is responsible for carrying out in an effective manner. The following paragraphs offer a brief description of each of the Components.

1.Budget and Financial Controls

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24 CFR 85.20
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a.All PHAs are required to effectively manage Federal funds. Budget and financial management controls must be established to

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adequately monitor income and expenses.

b.Budgeting is a major function of a PHA. A budget is a

realistic projection of operating receipts and expenditures for a given period of time to be used as a plan of operation. It is also used to measure an agency's performance. The purpose of the budget, as a financial summary is to provide the PHA with an effective instrument to control operations and achieve operating objectives in a balanced business-like manner. PHAs should have procedures in place to monitor financial performance. The establishment of financial controls is essential in order to identify unusual or negative financial trends applicable to specific budget components. By conducting interval reviews of financial controls PHAs can ensure that adequate funds have been budgeted to meet current needs.

2. Internal Controls

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24 CFR 85.20
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a. All PHAs are required to establish internal controls. Internal control includes but is not limited to documenting procedures, separation of duties and maintaining adequate records. Internal controls are the plans, methods, and procedures adopted by management to help PHAs manage financial assets and adhere to an approved budget. Internal controls ensure that:

(1) Resource use is consistent with laws, regulations, and policies.

(2) Resources are safeguarded against waste, loss, and misuse.

(3) Reliable data is obtained, maintained, and fairly disclosed in reports.

b. Internal controls help to prevent and detect loss of funds that the PHA could otherwise

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use for housing. HUD monitors PHA compliance with internal control requirements through on-site reviews and annual independent auditor (IA) audits.

c. Financial Management as related to internal controls is divided into six basic functions. Each of these financial functions must have adequate internal

controls in place to ensure: adequate supervision of employees responsible for activities, safeguarding of PHA assets, and adequate separation of duties with regard to the financial functions.

This is accomplished through implementation of PHA policies and procedures, monitoring of activities, and internal control reviews to ensure that the policies and procedures are practiced by PHA employees. The six basic functions are as follows:

- (1) Payroll
- (2) Revenue
- (3) Expenditure
- (4) Property
- (5) Treasury/Cash Management
- (6) Financial Reporting

d. During the on-site review, Area Office staff must make a judgment as to whether or not the PHA internal controls are effective in preventing unauthorized transactions. Also, the Area Office must be able to detect errors or irregularities during the processing of transactions.

e. Interviews with key staff assigned responsibility of the financial functions in addition to a review of the financial records is necessary to complete a review of PHA internal controls.

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3. Accounting Records

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24 CFR 85.20
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PHAs are required to maintain records that adequately identify the source and application of funds provided for financially assisted activities. Accounting records are to be established and maintained in a manner that permits the preparation of required statements and reports and must be supported by source documents such as canceled checks, paid bills, payrolls, time and attendance records, contract and sub-contract award documents.

4. Operating Subsidy Calculations

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24 CFR 990.110 (e)
Performance Funding System Handbook,
7475.13 REV
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PHAs eligible to receive operating subsidy are required to submit applicable Performance Funding System forms. Operating subsidy is requested by the PHA by incorporating its operating subsidy eligibility in its annual operating budget. Operating subsidy is based on an Allowable Expense Level and Allowable Utilities Expense Level minus projected operating income. HUD may at any time make an upward or downward adjustment in the amount of a PHA's operating subsidy as a result of data subsequently available to HUD which alters projections upon which operating subsidy eligibility was based.

5. Memorandum Of Agreement/Improvement Plan

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24 CFR 901.140(a)
24 CFR 901.145(a)
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a. All PHAs that have been designated as "troubled" under the PHMAP are required to enter into a Memorandum of Agreement (MOA). The MOA will address major problems in key

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management performance areas setting forth goals and improvement strategies. Both HUD and the PHA have a responsibility to monitor MOA implementation to ensure that quarterly and annual performance targets are being met. The Area Office shall monitor PHA performance remotely and on-site.

b. As a result of findings, that cannot be cleared within 90 days, the Area Office will assist the PHA in a cooperative problem-solving effort. As part of this effort the PHA will be required, with the assistance of the Area Office, to develop an Improvement Plan (IP). The IP establishes goals and strategies to effectively implement and carry out the goals. As with the MOA, the PHA and HUD shall monitor IP implementation and progress.

6. Rent Collections

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24 CFR 966.4 (c)
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PHAs are required to establish effective rent collection policies and conduct annual re-examinations.

7. Insurance

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ACC
Low Income Public Housing Insurance
Guide, 7401.5 REV].
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PHAs are required to maintain adequate insurance coverage in accordance with HUD regulations and the ACC. PHAs must procure adequate insurance from financially sound and responsible insurance companies to protect them from financial loss resulting from hazards.

8. Staffing and Salaries

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24 CFR 85.22
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PHAs are required to establish administrative policies relating to staffing and salaries. Cost principles must be followed when determining the allocation of costs. The allocation of costs between programs identified in policies should be verifiable.

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4-6