

CHAPTER 1

I. Introduction

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INTRODUCTION

Background The U.S. Housing Act of 1937, as amended, authorizes the Department of Housing and Urban Development (HUD) to assist Public Housing Agencies and Indian Housing Authorities (HAs) in the development and operation of lower income housing projects and to provide financial assistance in the form of grants and annual contributions. The Code of Federal Regulations Title 24 implements the Housing Act of 1937, as amended. To effectively implement the Housing Act of 1937, HUD must have certain accounting information. The Annual Contributions Contract (ACC) provides that an HA maintain current, complete, and accurate books of account in such a manner as to permit preparation of statements and reports required by HUD, and to permit timely and effective audit.

Purpose The purpose of this Guide is to:

- . provide general information and guidance on financial operations and accounting,
- . identify the types of information the HA needs to report to HUD, and
- . prescribe the uniform chart of accounts the HA must use to ensure consistency in reporting.

The accounts described in this Guide are the minimum requirements for an HA and may be supplemented by additional accounts as needed. If the HA establishes additional accounts, the accounts must be established as subdivisions of prescribed accounts and must be maintained in such manner that they can readily be combined into the prescribed classifications for uniform reporting purposes.

The Guide does not attempt to provide advisory material on the establishment and maintenance of an accounting system.

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Scope This Guide is applicable to all HAs that administer projects/programs under the terms of an ACC with HUD.

Note: The term HA is used throughout the Guide to include both Public Housing Agencies and Indian Housing Authorities because the accounts and procedures generally apply to both types of organizations. In the instances where the accounts and procedures apply to only one type of organization, the text will identify the organization.

The following are examples of programs which an HA administers, using the chart of accounts in Chapter IV of this Guide.

- o HA-owned rental
 - o Development
 - o Management
 - o Modernization
- o HA-leased rental (Section 23/10(c) programs)
- o HA-owned homeownership
 - o Turnkey III
 - o Mutual Help
- o PIH Section 8

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For additional information on Section 23/10(c) see "Low-Rent Housing Leased Housing Handbook, 7430.1."

For more information on Section 8 accounting see "Housing Assistance Payments Program Accounting Handbook, 7420.6."

HA
Responsibilities

It is the responsibility of an HA to maintain complete and accurate records of all financial management functions. These records must be maintained in such a way that will:

- . provide an effective system of internal control to safeguard cash and other assets,
- . provide budgetary control over the various programs,
- . provide timely, accurate, and complete

financial information for management decision making,

- . provide the HA with financial data needed to prepare required HUD reports, and
- . permit a timely and effective audit.

Empowerment

The government-wide effort to streamline practices has resulted in the empowerment of the HA. Policies are less prescriptive in nature and allow the HA to establish its own procedures.

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An HA is empowered to prescribe its own systems for financial management and record keeping. An HA has flexibility as long as it:

- o provides HUD with required information,
- o maintains adequate records, and
- o has internal controls in place.

The focus of this Guide is to identify the financial information that the HA must maintain in order to report to HUD, and the financial management standards the HA must meet to comply with statutory and regulatory requirements. The HA has the flexibility to select and use any financial management system that meets those requirements.

The material in this Guide may be used without change by the HA to meet the reporting requirements of HUD, or may be expanded by the HA to meet additional State or local reporting requirements.

Contracts for

Outside

Management

Housing Authorities may enter into management contracts with outside entities to manage individual projects, or groups of projects, owned by the HA. These entities may be either private management companies or tenant organizations, such as Resident Management Corporations. Although the day-to-day management of the project is performed by outside management, the HA still maintains its responsibilities for the project under the terms of the ACC.

The HA must monitor the entity's performance under the contract to ensure that the

overall operation of the project is in compliance with applicable Federal, State, and local requirements, and that expenditures are consistent with program authorizations.

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The management contract must clearly indicate the duties and responsibilities of each party in the day-to-day operation of the project, including any division in the responsibilities for accounting and financial management. The contract must also include specific reporting formats and timeframes to be adhered to in transmitting information between the entity and the HA. The contract should state that the HA is permitted access to financial and accounting records, including the audit report and audit working papers, pertaining to the managed project.

The managed project must be audited annually under the provisions of the Single Audit Act, OMB Circular A-128, even though the management entity itself may not be subject to A-128. The management contract should provide for audit of the project either (a) as part of the HA audit, or (b) as part of the entity audit with specific provision for a compliance audit and internal control review in accordance with A-128. In the latter case, the HA auditor will review/test the entity's audit report and working papers and will either rely on the entity audit, or if not satisfied with the audit, will expand the HA audit to include the project managed by the entity.

For additional information on Resident Management Corporations see "A Guide to Financial Management for RMCs, Part One: Budgeting and Operating Subsidy; and Part Two: Accounting Systems and internal Controls," November, 1991. (Hud User-1322-PDR)