

CHAPTER 2

II. Financial Operations and Accounting

II. Financial Operations and Accounting

Regulatory Standards for Financial Management and Accounting HUD does not provide a specific financial management or accounting system for the HA to follow. The HA has the responsibility to establish such systems that meet basic standards as stipulated by Federal requirements in 24 CFR Part 85 for all grantees. The following are the basic standards the HA must take into consideration when developing its financial management and accounting system:

1. Financial reporting
2. Accounting records
3. Internal control
4. Budget control
5. Allowable cost
6. Source documentation
7. Cash management

A description of each standard listed above is provided on the following pages.

1. Financial Reporting and The HA must provide to HUD accurate, current, complete disclosure of the financial results of HUD-assisted programs. The reports must be made in accordance with the financial reporting requirements of the specific program areas.

PIH Low-Rent Technical Accounting Guide January, 1996

II-1

II. Financial Operations and Accounting

The reports required by HUD are intended to determine if funds expended during the period were used for the program activities authorized by HUD in accordance with approved budgets and program regulations. The financial reporting requirements of HUD are based on recognition of revenues and expenditures on a modified accrual basis of accounting.

The essential financial information needed by HUD program offices to monitor the use of HUD funding by HAs for HA-owned rental/homeownership programs and Section 8 programs is primarily reported by the HA in

the following reports:

- o Statement of Operating Receipts and Expenditures (HUD 52599) for HA-owned/leased rental/homeownership projects, which supports the Balance Sheet Surplus-Operating Reserve accounts, 2820-2823.
- o Year-End Settlement Statement (HUD 52681) for HA Section 8 projects, which is used to calculate and reconcile annual contribution payments and which supports the Balance Sheet Surplus-Program/Operating Reserve accounts 2824-2827.
- o Development and modernization statements which support the Balance Sheet account 1400.2, Development/Modernization Costs, and the Actual Development/Modernization Cost Statements which are used to reconcile financing.
- o Financial Status Report (SF 269A, Short Form) which is used to report on the status of community involvement program grants.

II-2 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

In these areas of financial information, HUD staff uses the HA reports to monitor HA performance and to enter data into HUD computerized systems. Therefore, it is important that the data be reported in the uniform account classifications and in the specific formats required by HUD.

Refer to Chapter III of this Guide, Financial Reports and Supporting Data, for a sample of each of the forms listed above.

Refer to Chapter IV of this Guide, HUD Chart of Accounts, for a complete listing of account classifications and prescribed accounts.

PIH Guidebook, 7460.7, Rev-i (4/25/95), Area Office Monitoring of Public Housing Agencies (PHAs) Guidebook: Finance and Budget - Operating Subsidy Program.

2. Accounting The HA must have records which adequately
 Records identify the
 source and application of funds provided for

HUD-assisted activities. These records must contain information pertaining to program awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

PIH Low-Rent Technical Accounting Guide January, 1996

II-3

II. Financial Operations and Accounting

The HA may maintain its own accounting records or it may contract for accounting services. In either case, it is the responsibility of the HA to maintain financial records which:

- o adequately identify the source and application of all program funds and HUD funds,
- o provide the basis for budgetary control and monitoring of financial activities and the financial position of programs,
- o contain the information necessary to determine compliance with budgetary and legal/contractual requirements,
- o provide supporting documentation for transactions and an adequate audit trail, and
- o provide the basis for preparation of required financial reports on a timely basis.

Books and accounts must be complete and accurate. The books of original entry must be kept current at all times, and postings must be made at least monthly to ledger accounts. All records and files must be stored appropriately and all supporting documentation must be maintained in a safe and accessible location.

3. Internal Control

Internal controls are the methods by which an organization manages its activities to accomplish its intended goals. In addition, effective control and accountability must be maintained for all cash, real and personal property, and other assets. The HA must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

II-4 January, 1996 PIH Low-Rent Technical Accounting Guide

II. Financial Operations and Accounting

Internal control methods utilized by the HA should cover two key areas:

1. Accounting controls: needed to ensure that transactions are properly recorded, financial reporting is accurate, and assets are safeguarded against loss from unauthorized use.
2. Management activities: required to establish controls to monitor operations to ensure that programs are carried out in an efficient and economical manner and to guard against fraud, waste, and abuse.

The level of reliance that outsiders and auditors place on the information generated by the HA depends on the internal controls established to assure the integrity of the program operations and the accuracy of the information reported.

Three key internal controls are:

- o a well-designed management system,
- o effective supervisory review of operations, and
- o audits to monitor operations.

The control techniques used to establish and maintain the system of internal controls include such things as:

- o clearly defined staff responsibilities and job accountability,
- o separation of duties so that no one staff member has complete control over an asset,
- o a management information system which provides an internal flow of data for monitoring, forecasting and policy decisions,

II. Financial Operations and Accounting

- o an effective personnel selection policy so that competent staff are hired,
- o a supervisory review system to assure routine monitoring of employee/contractor compliance with procedures and timeliness/quality of completed work,

- o competitive procurement procedures,
- o accurate inventory systems,
- o security of property and records,
- o well-planned, organized, and supervised maintenance programs, and
- o a timely, annual independent audit of operations.

Detailed, written policies and procedures for internal control are essential for the smooth operation of the HA. Such controls also ensure that all property and assets associated with the HA are safeguarded from unauthorized access.

For additional information on internal controls see the PIH "Internal Controls Desk Reference Guide," September 1992.

4. Budget Control The primary purpose of budgeting is to establish objectives and to allocate available resources for individual programs and for the HA as an organization. Although certain categories of expense may cross HA programmatic and organizational lines, the HA must prepare a separate budget for each HUD-assisted program area.

II-6 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

The program area budget is based on the objectives of the program and the projected availability of funds for program outlays. Since funds provided by HUD for a particular program or purpose must be used only for that program or purpose, the budget constitutes the approved plan for expenditure of those funds.

HUD prescribes standardized categories of revenue and expense for operating budgets and standardized categories of cost for development and modernization budgets. This allows HUD to review and evaluate budget proposals for compliance with regulatory requirements and to monitor actual expenditures against approved budget estimates.

The HA must use the HUD-prescribed categories for the budget estimates and for subsequent financial transactions. The line item

identification of the costs defines the approved use of the HUD funds to be provided, and the approved spending level for the HA in that program area.

Once approved, a budget becomes both a blueprint for action and a control mechanism. It is important that the budget be monitored to measure the actual performance against the plan. At a minimum, the accounting system used by the HA should be able to produce reports that compare actual vs. budget by major account groups on a quarterly basis. The HA analysis of actual performance against the budget will provide assurance that budgetary variances will be identified and investigated before the year-end closing and preparation of financial statements.

The typical causes of variances include:

- o overspending,
- o classification errors between budgeting and accounting data,

PIH Low-Rent Technical Accounting Guide January 1996

II-7

II. Financial Operations and Accounting

- o unrealistic spending targets, and
- o unrealistic income projections.

The HA accounting, budgeting, and program managers should be working together to ensure that funds are spent legally, that budget and accounting terms used to identify revenues, spending, and cash resources are consistent and that complete information is presented on spending to date, future claims on program resources, and the balance of program funds available.

5. Allowable Cost Funds are provided by HUD to the HA for a particular program or purpose. In each instance, the use of those funds is governed by the program regulations, the program budget which constitutes the approved plan for expenditures of those funds, and the applicable cost principles of OMB Circular A-87. In general, to be allowable, costs must meet the following criteria:

- o be necessary and reasonable for administration of the program,

- o be authorized or not prohibited by State or local law,
- o be either a direct cost of the program or an indirect cost (for example, shared administrative costs) which is proper for the program and allocated to the program on an equitable basis,
- o conform to any limitations set forth in the regulations governing that type of cost for the program,
- o be consistent with the policies, regulations, and procedures that apply uniformly to both the HUD program and other activities of the HA, and
- o not be included as a cost of any other Federally financed program.

II-8 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

6. Source The HA must maintain source documents and files that
Documentation support the financial transactions recorded in the books of account, and that provide an adequate audit trail. This includes such items as documents identifying the source of cash receipts, cancelled checks, paid bills, payrolls, time and attendance records, tenant rent rolls, Housing Assistance Payment (HAP) registers, investment registers, insurance policies, inventory records, contracts, grant award documents, and the approved program budgets and revisions.

7. Cash Management Good cash management requires the HA to anticipate cash needs. Federal regulations require all grantees receiving Federal funds to minimize the time elapsing between the drawdown of Federal funds and the disbursement of those funds. An independent auditor's evaluation of the HA's compliance with this Federal requirement is a provision of the Single Audit Act.

To help the HA meet the Federal requirements, HUD has developed special procedures to allow the HA to electronically drawdown HUD funds on either a predetermined schedule or on an as-needed basis.

Predetermined A predetermined schedule is used to requisition
HUD

Schedule operating subsidies because operating subsidies are provided to supplement HA operating receipts, not to provide funds for specific expenditures. A predetermined schedule may provide for equal cash payments by HUD to the HA over a period of time, or for a schedule of varying cash payments based on an HA estimate of fluctuating expenditure requirements.

As-Needed Basis An as-needed basis for advancing funds applies to HUD grant programs for development, modernization, and community involvement. The HA must requisition funds from HUD based on actual HA disbursement needs for specific expenditures.

PIH Low-Rent Technical Accounting Guide January, 1996
II-9

II. Financial Operations and Accounting

For HUD advances requisitioned on an as-needed basis, HUD has established the maximum time between HA drawdown of grant funds and the disbursement of those funds to be generally three working days. The form used to requisition funds on an as-needed basis is Form HUD 50080 (see Exhibit A in this chapter).

Instructions on the HUD procedures for requisitioning funds are included in the various program agreements and/or budget approval forms.

II-10 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

ACCOUNTING FOR CASH

Cash is an asset which is easily converted to improper use in the absence of program controls. Therefore, cash must be properly accounted for and adequately safeguarded. The responsibility for safeguarding and accounting for cash rests primarily with the executive director and the chief accountant or financial manager of the HA and the individuals receiving, recording, depositing, and disbursing cash.

As indicated previously in this chapter, accounting records must identify the source and application of funds, adequate internal controls must be maintained, and cash management steps must be taken to assure a

positive cash flow. This section outlines the particular HUD requirements that an HA must meet with respect to the financial depository used for the General Fund, the investment of General Fund monies, the programmatic accountability for cash, and procedures for pooling of funds.

The General Fund

The General Fund of an HA is derived from five primary sources:

1. rental receipts,
2. development and/or modernization funds from HUD,
3. operating subsidies from HUD for HA-owned units,
4. annual contributions from HUD for Section 8 and Section 23 programs, and
5. special community involvement grants from HUD.

II. Financial Operations and Accounting

All program funds received for projects under an ACC are considered to be part of the General Fund.

More specifically, financial sources for development and operation of public and Indian housing programs are funds received from the following sources:

- o HA Operating Income:
 - . Tenant rent payments, security deposits, and fees for excess utility usage and damage charges.
 - . Rental payments for units used for nondwelling purposes.
 - . Interest income from general fund investments.
 - . Insurance proceeds for losses or damage to insured property.
- o HUD Assistance:
 - . Development funding from HUD for new construction or acquisition of HA-

owned housing.

- . Modernization funding to finance capital improvements under an approved modernization program (CIAP or CompGrant).
- . Annual operating subsidies to supplement HA operating income for HA-owned rental and homeownership units.
- . Annual contribution payments for Section 8 programs for HAP, administrative fees, audit costs, and extraordinary costs as approved by HUD.

II-12 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

- . Annual contributions for rental payments for HA-leased housing under the Section 23 and Section 10 (c) programs, and additional lease adjustment funding as obligated in the approved operating budget.
- . Grants for community involvement programs such as drug elimination and youth development programs.

General Depository The ACC requires the HA to deposit and invest
Agreement all program
 funds for projects under an ACC in accordance
 with the terms of a General Depository
 Agreement.

- o The General Depository Agreement, form HUD-51999 (dated 6/91), is executed between the HA and the depository.
- o The depository must be a financial institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF).
- o The General Depository Agreement requires the depository to fully collateralize all HA funds on deposit in excess of the amount insured by the FDIC or NCUSIF.

Investments The ACC requires the HA to invest only in HUD
 approved investments. A list of HUD approved
 investment instruments is available in PIH

Notice 95-27, issued May 11, 1995, or from the local HUD office.

PIH Low-Rent Technical Accounting Guide January, 1996

II-13

II. Financial Operations and Accounting

Accountability for The HA should establish sufficient controls to ensure

Cash proper accounting for cash and fill identification of audit trails. The controls apply to cash on hand and in the bank, as well as cash receipts and disbursements. Internal control procedures, such as segregation of duties and procedural controls, are established to detect and discourage fraud.

Accounting controls ensure that the accounting system used by the HA accurately identifies the source, use, and remaining balance of individual program cash resources. Good administrative controls, such as operational or cash budgets, allow management to anticipate cash needs and to make sound decisions consistent with the HA program objectives.

The HA receives funds from a variety of HUD program funding sources including management operations, development, modernization, and community involvement grants. The HA also receives locally generated income such as tenant rents and charges. The use of these funds is restricted to the specific purposes authorized in the program budgets. It is the responsibility of the HA to assure that the accounting system used by the HA accurately identifies the source, use, and remaining balances of individual program cash resources.

The HUD accounting classifications for the HA provides a separate series of accounts to identify the source and application of funds by the program groupings required for HUD report purposes. These accounts are outlined in Chapter IV.

II-14 January, 1996 PIH Low-Rent Technical Accounting Guide

II. Financial Operations and Accounting

Pooling of Funds The ACC permits an HA to pool funds from various sources to promote efficiency and to facilitate program operations. Pooling funds provides a convenient method to pay shared expenses for items chargeable to various ACCs/enterprises and for financing prepaid

expenses and inventories of materials, supplies, and equipment used by the HA programs. Pooled funds can also be invested; interest earned is allocated to the individual ACCs/enterprises on the basis of the percent of funds on deposit.

The bank account designated for the pooling of funds must be covered by a General Depository Agreement.

Pooling of funds is accomplished by the use of either a revolving fund or a master account.

- o A revolving fund account is a separate bank account established specifically to handle cash transactions for the various HA ACCs/enterprises. A separate General Ledger is maintained for the revolving fund entity in addition to the books of account maintained for the individual ACCs/enterprises.
- o A master account is the general fund account of a particular ACC which has been designated by the HA as the account into which various program funds will be deposited for the purpose of paying for items chargeable to those programs.

The procedures for using a master account or a revolving fund are the same, except a separate bank account and a separate set of books are not required for a master account.

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|----------|---|
| Deposits | <p>The HA may deposit funds to a revolving fund/master account by any of the following methods:</p> <ul style="list-style-type: none">o a lump-sum transfer of funds from the general fund accounts maintained specifically for each contract with HUD,o deposit of direct revenues or receipts of projects or programs under a contract with HUD, ando a lump-sum transfer of funds from the depositories of enterprises in which HUD has no financial interest, in amounts necessary for current expenditures of those enterprises. |
|----------|---|

Withdrawals	<p>The HA may use pooled funds for any</p>
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expenditures chargeable to the HA programs which have funds on deposit; however, funds shall not be withdrawn for a program in excess of the amount of funds on deposit for that particular program.

"Due To/Due From" will Transactions The use of a revolving fund/master account result in "due to/due from" transactions between the books of account for the revolving fund/ACC of the master account and the books of account for the contributing ACCs/enterprises.

The "due to/due from" accounts in the respective General Ledgers of the revolving fund/master account and the contributing ACCs/enterprises must be reconciled at the end of each reporting period to ensure that they are in balance. The balance of the account represents cash "due from" (debit balance), or cash "due to" (credit balance) the other entity.

The HA should take care to maintain supporting documentation for pooled fund transactions in enough detail to provide an adequate audit trail.

II-16 January, 1996 PIH Low-Rent Technical Accounting Guide
II. Financial Operations and Accounting

Cash Analysis When an analysis of available cash for an ACC which contributes to pooled funds is being performed, the "due from" account balance of the ACC General Ledger must be taken into consideration. A debit balance in the "due from" account of the contributing ACC General Ledger represents additional general fund cash of the ACC programs held by the revolving fund or master account; a credit balance represents cash "due to" the revolving fund or master account from the ACC general fund.

Commingling of Funds Funds provided by HUD are to be used by the HA only for the purposes for which the funds are authorized. Program funds are not fungible and withdrawals should not be made for a specific program in excess of the funds available on deposit for that program.

As generally used, the term "commingling of funds" refers to the use of one program's

funds to pay expenditures for, and in excess of the funds available for, another program. An HA does not "commingle" funds by pooling funds or by making expenditures for various programs from a single account used to pool funds.

Unless there is a specific legal requirement to maintain separate bank accounts for a specific purpose, the prohibition against "commingling of funds" does not mean that the HA is required to physically segregate program funds in multiple bank accounts.

PIH Low-Rent Technical Accounting Guide January, 1996
II-17

II. Financial Operations and Accounting

Notice PIH 95-27, Required HA Cash Management and Investment Policies and Procedures (5/95).

HUD Office of Inspector General Program Integrity Bulletin, Avoiding Embezzlement of PHA Funds, P-88-4 (9/88).

HUD Office of Inspector General Program Integrity Bulletin, Asset Management, P-86-2 (2/86).

II-18 January, 1996 PIH Low-Rent Technical Accounting Guide

II. Financial Operations and Accounting

ANNUAL AUDIT

The HA is required to contract with an independent auditor (IA) for an annual audit. HA audits must conform to the requirements of the Single Audit Act of 1984, Office of Management and Budget (OMB) Circular A-128, and Government Auditing standards issued by the Comptroller General of the United States.

Required Financial Financial statements prepared in accordance
Statements with
 generally accepted accounting principles
 (GAAP) are not a requirement of the Single
 Audit Act, the GAO Government Auditing
 Standards, or HUD. However, HUD does not
 prohibit HAs from using GAAP and accepts
 audited financial statements prepared on the
 GAAP basis. HUD does not prescribe a
 particular format for use in HA audit reports.

The Single Audit Act requires audit reports to contain the normal financial statements used by the entity. Audited financial statements

for an HA would generally include the following:

- o Balance Sheet
- o Statement of Income and Expense
- o Analysis of Surplus

In instances where GAAP statements are required by State law and/or city law, the Analysis of Surplus statement is included as required supplemental financial information in the audit report.

PIH Low-Rent Technical Accounting Guide January, 1996
II-19

II. Financial Operations and Accounting

In addition, the HA should require statements of actual modernization or development costs, certified to by the HA and submitted to HUD during the audit period, to be included in the audit's scope and as required supplemental information in the audit report. The HA is responsible for assuring the auditor has the actual cost statement/certificate for review. Unless the auditor states otherwise in the audit report, the HA-certified cost should be considered acceptable by HUD.

Multi-year
contracts, the HA
contracts

Unless State law prohibits multi-year
may contract with an auditor for the current
audit period and a specified number of
subsequent audits. For example, an audit
contract for three annual audits will take
advantage of the auditor's learning curve, and
will reduce costs associated with the annual
procurement process. HUD does not have a model
form contract for HA audits.

PIH Handbook 7476.1, Rev- 1 (9/2/94), Audits
of Public Housing Agencies and Indian Housing
Authorities by Independent Auditors.

PIH Notice 95-31 (5/25/95): Public and Indian
Housing Compliance Supplement - Interim
Guidance for Annual Audits of Public Housing
Agencies and Indian Housing Authorities by
Independent Auditors (pending issuance in OMB
Compliance Supplement for Single Audits).

Statements on Auditing Standards (SAS) No. 62:
Financial Statements Prepared in Conformity
With a Comprehensive Basis of Accounting Other
Than Generally Accepted Accounting Principles.

HUD Office of Inspector General, Fraud
Information Bulletin: Reviewing Independent
Auditor Reports, August 1989, 89-1.

II-20 January, 1996 PIH Low-Rent Technical Accounting
Guide

II. Financial Operations and Accounting

FEE ACCOUNTANTS

Many HAs find that it is more economical or practical to contract for accounting services. HUD does not prescribe the content and terms of a professional services contract between the HA and an outside accounting service. The HA has the flexibility to negotiate the terms of a contract for accounting services in accordance with the specific management needs and scope of service required by the individual HA. The information provided below reflects HUD policy applicable to HA accounting services contracts.

Scope of Service An HA may contract for a variety of accounting services from an individual or a firm, either to provide all accounting services or to supplement HA staff functions. The scope of the contract services will vary depending on the size of the HA, the availability of qualified local staff, the type of programs the HA has ongoing or planned, and the ability of the HA to afford outside services. Regardless of which accounting functions are performed by the HA or by the accounting service, it is always the responsibility of the HA to ensure that accurate, complete, and up-to-date accounting records are maintained in a manner that will:

- o provide an effective system of internal control,
- o provide budgetary control over the budgets administered by the HA,
- o provide the HA with all the financial data needed for HA management and HUD reporting purposes, and
- o permit a timely and effective audit.

PIH Low-Rent Technical Accounting Guide January, 1996
II-21

II. Financial Operations and Accounting

In developing an accounting services contract

or agreement, the following areas should be considered for inclusion:

- o scope of service,
- o compensation,
- o contract period and options to extend, and
- o method of termination for cause.

The terms of the contract should also identify:

- o the specific accounting functions to be performed by the fee accountant,
- o the information to be provided, reporting methods, and the timeframes to be followed in transmitting information between the HA and accountant, and
- o any reporting forms to be prepared by the accountant and the timeframe for submission to the HA.

When prior HUD approval of the contract is required, the terms and conditions of the contract as negotiated by the HA will be considered to be acceptable unless HUD identifies a statutory or regulatory deficiency in the contract.

Selection of
competition for
Accounting Service

HAs are expected to solicit full and open contracts for professional services in accordance with the provisions of 24 CFR 85.36. HAs may not contract without competition unless the conditions of 24 CFR 85.36(d) (4) are met. When the HA issues a solicitation which will include renewals and/or options, the HA must ensure that the solicitation clearly states that options will be part of the contract.

II-22 January, 1996 PIH Low-Rent Technical
Accounting Guide
II. Financial Operations and Accounting

Generally, the HA may execute or approve any agreement or contract for accounting services with any person or firm without the prior written approval of HUD. However, HUD may require prior HUD review or approval under the provisions of 24 CFR 85.36(g) for sole source contracts, or under the provisions of 24 CFR

950.160 (IHAs only).

HUD Handbook 7460.8, Rev-1 (1/93), Procurement Handbook for Public Housing Agencies and Indian Housing Authorities: Chapter 4, Paragraph 4-27, Legal and Professional Services Contracts.

PIH Low-Rent Technical Accounting Guide January, 1996
II. Financial Operations and Accounting

II-23

ACCOUNTING FOR HOMEOWNERSHIP PROGRAMS

Two HA-owned housing programs that provide homeownership opportunities are covered by the public and Indian housing accounting requirements. They are:

- o The Turnkey III Program (24 CFR Parts 904/950)
- o The Mutual Help Program (24 CFR part 950)

The provisions of the ACC for a homeownership program require the HA to maintain books and records in accordance with the Homeownership Agreement for the applicable program. Except for transactions related to homebuyers, the accounting and reporting requirements for homeownership projects are the same as the requirements for HA-owned rental projects.

Usually, a Turnkey III program is part of a Consolidated ACC that also covers HA-owned rental projects. Both programs are maintained within the same General Ledger. However, the income and expense accounts must be maintained in such a way that a separate Statement of Operating Receipts and Expenditures (HUD-52599) can be prepared, and separate Operating Reserves can be identified (a) for the combined rental projects and (b) for each Turnkey III project.

Under the Mutual Help programs, the HA consolidates the accounting and reporting of income and expense, and the Operating Reserve, for all projects under an ACC.

Under the homeownership programs:

- o Maintenance is the financial responsibility of the occupant.

II-24 January, 1996 PIH Low-Rent Technical

Accounting Guide

II. Financial Operations and Accounting

- o Ownership equity is realized by the occupant through payments as specified by the homeownership agreement and/or by the program regulations.

Generally, the amount credited to equity is a portion of the monthly homebuyer payment due from the occupant. The HUD Chart of Accounts includes account classifications for the homeownership-related accounts specific to each type program.

- o The occupant achieves homeownership either:
 - (a) when equity increases to a point where it is equal to a predetermined purchase price, or
 - (b) when the occupant purchases the dwelling.
- o Termination of the agreement prior to achieving ownership, depending upon the terms of the homeownership agreement, entitles the occupant to a refund of equity after deducting the cost of any repairs to the unit.
- o Unless HUD requires the HA to remit the proceeds from the sale of homeownership units, the HA may retain the proceeds for use in accordance with HUD regulations.

ACCOUNTING FOR PIH COMMUNITY INVOLVEMENT PROGRAM GRANTS

PIH funds HAs for a variety of community program grants that are accounted for separately from the day-to-day operation of public housing. Examples of such programs in recent years include:

- o Family Investment Centers (FIC)
 - o Youth Apprenticeship Program (YAP)
 - o Tenant Opportunity Program (TOP)
 - o Youth Development Initiative (Youth FIC)
 - o Public Housing Drug Elimination Program (PHDEP)
 - o National Youth Sports Program (YSP)
- Reporting requirements for such grants are set out in the grant agreement and consist of both

narrative reports and financial reports. The financial report most often required by HUD for these grant programs is the Financial Status Report (short form) SF-269A. (See Chapter III, Exhibit R.)

The SF-269A is a cumulative summary of:

- o the funds advanced, the expenditures to date, and
- o the exact balance of unexpended funds.

II-26 January, 1996 PIH Low-Rent Technical
Accounting Guide

II. Financial Operations and Accounting

No particular account classifications are prescribed by HUD for these grant programs. However, the following tips may facilitate the recording of costs and the reconciliation of expenditures to advances:

- o The grant transactions may be recorded in the public housing General Ledger. If the HA maintains the grant accounting within the public housing General Ledger, the receipt and expenditure of grant funds must not be recorded in the 3000 or 4000 accounts, or in any accounts that will affect the public housing operating reserve accounts (e.g., Account 2820). Separate subaccounts must be maintained for the grants to distinguish the grant activity from day-to-day public housing activity.
- o As an alternative to maintaining the grant transactions within the public housing General Ledger, the HA may record the transactions in a separate general ledger; a separate general ledger for each program grant will make it easier to account for and report on the individual grants.
- o The drawdown of funds for grants is supported by form HUD-50080 (see Exhibit A in this Chapter). A specific HUD-50080 is used for specific grants, with designated line-item numbers for each program activity. A chart of accounts using the HUD-50080 line item numbers as the account classification numbers for the program grant will allow the HA to reconcile the expenditures with the drawdowns and will provide a good audit trail for tracking grant expenditures.

II. Financial Operations and Accounting

- o Incoming grant funds can be credited in the General Ledger to an account comparable to Account 8029 in the public housing chart of accounts; this will provide the HA with cumulative advances to date for the grant (information needed for the SF-269A report).
- o The grant period may or may not coincide with the HA fiscal year. The close out of the grant depends upon the issuance of the final SF-269A, Status of Funds report, the reconciliation of funds advanced with the approved expenditures, and the adjustment of grant funding to the actual expenditures. Therefore, it will be to the HA's advantage not to close the grant accounts at each fiscal year end, but instead to leave the accounts open until the grant period ends, and all reports have been filed. At that time, the nominal accounts for the grant expenditures can be closed to Account 2810, Unreserved Surplus; the nominal account for grant funds received (e.g., Account 8029) can be closed to Account 2845, Cumulative HUD Contributions for Grant Funds.

Whatever accounting system the HA uses to record the special purpose grant transactions, it should keep in mind that the system should achieve the following objectives:

- o identify the source and use of funds,
- o provide the HA with the information needed to monitor budgeted versus actual expenditures,
- o accumulate the information necessary to meet reporting requirements, and
- o provide an adequate audit trail.