



Central Office Cost Center (COCC) Listening Session - Handouts

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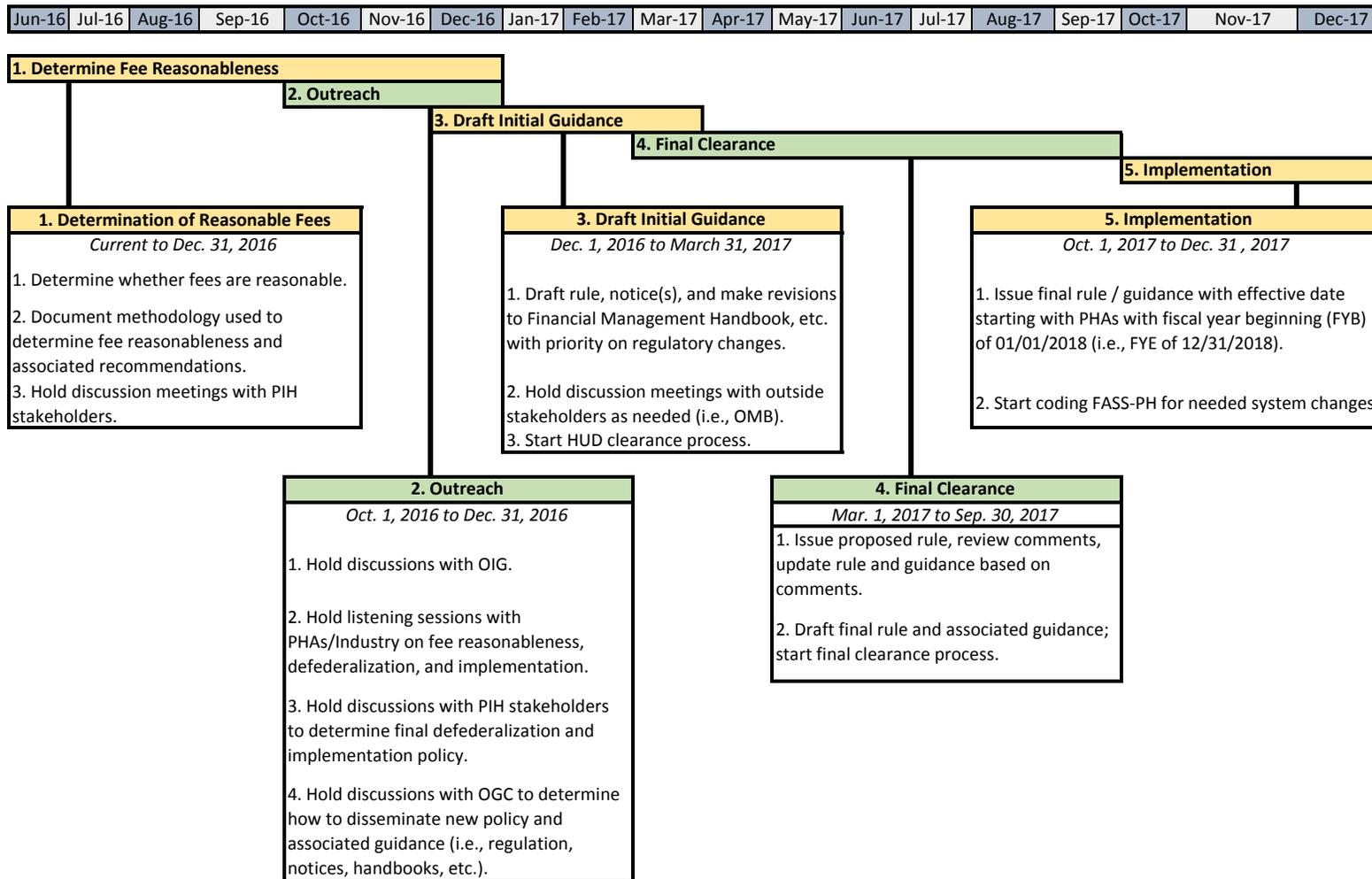
Tab 1.

Proposed Implementation Timeline for Changes to COCC

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Below is HUD’s proposed timeline for implementing HUD’s resolution of the HUD Inspector General’s recommendations to: 1) issue new guidance to revise the asset management policy to re-federalize Section 8 and 9 (HCV, Operating Fund, and Capital Fund) program fees paid to the central office cost center (COCC), and 2) review whether the allowed fee rates established by HUD are reasonable.

Timeline and Major Task Items Associated with Review of Fee Reasonableness and Changes to COCC Guidance



Note: The development of policies and procedures to improve the assessment and monitoring of the fees permitted to be charged by the COCC are not included in the above timeline. We anticipate concurrent development by the program office and field operations.

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Tab 2.

24 CFR 990, Part H – Asset Management Regulation

(published September 19, 2005)

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Federal Register

**Monday,
September 19, 2005**

Part II

**Department of
Housing and Urban
Development**

**24 CFR Part 990
Revisions to the Public Housing
Operating Fund Program; Final Rule**

(f)(1) For purposes of this section, compliance with the asset management requirements of subpart H of this part will be based on an independent assessment conducted by a HUD-approved professional familiar with property management practices in the region or state in which the PHA is located.

(2) A PHA must select from a list of HUD-approved professionals to conduct the independent assessment. The professional review and recommendation will then be forwarded to the Assistant Secretary for Public and Indian Housing (or designee) for final determination of compliance with the asset management requirements of subpart H of this part.

(3) Upon completion of the independent assessment, the assessor shall conduct an exit conference with the PHA. In response to the exit conference, the PHA may submit a management response and other pertinent information (including, but not limited to, an additional assessment procured at the PHAs' own expense) within ten working days of the exit conference to be included in the report submitted to HUD.

(4) In the event that HUD is unable to produce a list of independent assessors on a timely basis, the PHA may submit its own demonstration of a successful conversion to asset management directly to HUD for determination of compliance.

(5) The Assistant Secretary for Public and Indian Housing (or designee) shall consider all information submitted and respond with a final determination of compliance within 60 days of the independent assessor's report being submitted to HUD.

§ 990.235 PHAs that will experience a subsidy increase.

(a) For PHAs that will experience a gain in their operating subsidy, as determined in § 990.225, such increases will have a limit of 50 percent of the difference between the two funding levels in the first year following November 18, 2005.

(b) The full amount of the increase in the operating subsidy level shall be realized in the second year following November 18, 2005.

(c) For example, a PHA's subsidy increased from \$900,000 under the formula in effect prior to November 18, 2005 to \$1 million under the formula used to calculate operating subsidy under this part using FY 2004 data. The difference would be calculated at \$100,000 (\$1 million - \$900,000 = \$100,000). In the first year, the subsidy increase would be limited to \$50,000

(50 percent of the difference). Thus, in this example the PHA will receive the operating subsidy amount of this rule minus a transition-funding amount of \$50,000 (the \$100,000 difference between the two subsidy amounts minus the \$50,000 transition amount).

(d) The schedule for a PHA whose subsidy would be increased is reflected in the table below.

Funding period	Increase limited to
Year 1	50 percent of the difference.
Year 2	Full increase reached.

Subpart G—Appeals

§ 990.240 General.

(a) PHAs will be provided opportunities for appeals. HUD will provide up to a two percent hold-back of the Operating Fund appropriation for FY 2006 and FY 2007. HUD will use the hold-back amount to fund appeals that are filed during each of these fiscal years. Hold-back funds not utilized will be added back to the formula within each of the affected fiscal years.

(b) Appeals are voluntary and must cover an entire portfolio, not single projects. However, the Assistant Secretary for Public and Indian Housing (or designee) has the discretion to accept appeals of less than an entire portfolio for PHAs with greater than 5,000 public housing units.

§ 990.245 Types of appeals.

(a) *Streamlined appeal.* This appeal would demonstrate that the application of a specific Operating Fund formula component has a blatant and objective flaw.

(b) *Appeal of formula income for economic hardship.* After a PHA's formula income has been frozen, the PHA can appeal to have its formula income adjusted to reflect a severe local economic hardship that is impacting the PHA's ability to maintain rental and other revenue.

(c) *Appeal for specific local conditions.* This appeal would be based on demonstrations that the model's predictions are not reliable because of specific local conditions. To be eligible, the affected PHA must demonstrate a variance of ten percent or greater in its PEL.

(d) *Appeal for changing market conditions.* A PHA may appeal to receive operating subsidy for vacant units due to changing market conditions, after a PHA has taken aggressive marketing and outreach measures to rent these units. For example, a PHA could appeal if it is

located in an area experiencing population loss or economic dislocations that faces a lack of demand for housing in the foreseeable future.

(e) *Appeal to substitute actual project cost data.* A PHA may appeal its PEL if it can produce actual project cost data derived from actual asset management, as outlined in subpart H of this part, for a period of at least two years.

§ 990.250 Requirements for certain appeals.

(a) Appeals under § 990.245 (a) and (c) must be submitted once annually. Appeals under § 990.245 (a) and (c) must be submitted for new projects entering a PHA's inventory within one year of the applicable Date of Full Availability (DOFA).

(b) Appeals under § 990.245 (c) and (e) are subject to the following requirements:

(1) The PHA is required to acquire an independent cost assessment of its projects;

(2) The cost of services for the independent cost assessment is to be paid by the appellant PHA;

(3) The assessment is to be reviewed by a professional familiar with property management practices and costs in the region or state in which the appealing PHA is located. This professional is to be procured by HUD. The professional review and recommendation will then be forwarded to the Assistant Secretary for Public and Indian Housing (or designee) for final determination; and

(4) If the appeal is granted, the PHA agrees to be bound to the independent cost assessment regardless of new funding levels.

Subpart H—Asset Management

§ 990.255 Overview.

(a) PHAs shall manage their properties according to an asset management model, consistent with the management norms in the broader multi-family management industry. PHAs shall also implement project-based management, project-based budgeting, and project-based accounting, which are essential components of asset management. The goals of asset management are to:

(1) Improve the operational efficiency and effectiveness of managing public housing assets;

(2) Better preserve and protect each asset;

(3) Provide appropriate mechanisms for monitoring performance at the property level; and

(4) Facilitate future investment and reinvestment in public housing by public and private sector entities.

(b) HUD recognizes that appropriate changes in its regulatory and monitoring programs may be needed to support PHAs to undertake the goals identified in paragraph (a) of this section.

§ 990.260 Applicability.

(a) PHAs that own and operate 250 or more dwelling rental units under title I of the 1937 Act, including units managed by a third-party entity (for example, a resident management corporation) but excluding section 8 units, are required to operate using an asset management model consistent with this subpart.

(b) PHAs that own and operate fewer than 250 dwelling rental units may treat their entire portfolio as a single project. However, if a PHA selects this option, it will not receive the add-on for the asset management fee described in § 990.190(f).

§ 990.265 Identification of projects.

For purposes of this subpart, project means a public housing building or set of buildings grouped for the purpose of management. A project may be as identified under the ACC or may be a reasonable grouping of projects or portions of a project under the ACC. HUD shall retain the right to disapprove of a PHA's designation of a project. PHAs may group up to 250 scattered-site dwelling rental units into a single project.

§ 990.270 Asset management.

As owners, PHAs have asset management responsibilities that are above and beyond property management activities. These responsibilities include decision-making on topics such as long-term capital planning and allocation, the setting of ceiling or flat rents, review of financial information and physical stock, property management performance, long-term viability of properties, property repositioning and replacement strategies, risk management responsibilities pertaining to regulatory compliance, and those decisions otherwise consistent with the PHA's ACC responsibilities, as appropriate.

§ 990.275 Project-based management (PBM).

PBM is the provision of property-based management services that is tailored to the unique needs of each property, given the resources available to that property. These property management services include, but are not limited to, marketing, leasing, resident services, routine and preventive maintenance, lease enforcement, protective services, and other tasks associated with the day-to-day operation of rental housing at the

project level. Under PBM, these property management services are arranged, coordinated, or overseen by management personnel who have been assigned responsibility for the day-to-day operation of that property and who are charged with direct oversight of operations of that property. Property management services may be arranged or provided centrally; however, in those cases in which property management services are arranged or provided centrally, the arrangement or provision of these services must be done in the best interests of the property, considering such factors as cost and responsiveness.

§ 990.280 Project-based budgeting and accounting.

(a) All PHAs covered by this subpart shall develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of the actual revenues and expenses associated with each property. Project-based budgeting and accounting will be applied to all programs and revenue sources that support projects under an ACC (e.g., the Operating Fund, the Capital Fund, etc.).

(b)(1) Financial information to be budgeted and accounted for at a project level shall include all data needed to complete project-based financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP), including revenues, expenses, assets, liabilities, and equity data. The PHA shall also maintain all records to support those financial transactions. At the time of conversion to project-based accounting, a PHA shall apportion its assets, liabilities, and equity to its respective projects and HUD-accepted central office cost centers.

(2) Provided that the PHA complies with GAAP and other associated laws and regulations pertaining to financial management (e.g., OMB Circulars), it shall have the maximum amount of responsibility and flexibility in implementing project-based accounting.

(3) Project-specific operating income shall include, but is not limited to, such items as project-specific operating subsidy, dwelling and non-dwelling rental income, excess utilities income, and other PHA or HUD-identified income that is project-specific for management purposes.

(4) Project-specific operating expenses shall include, but are not limited to, direct administrative costs, utilities costs, maintenance costs, tenant services, protective services, general expenses, non-routine or capital

expenses, and other PHA or HUD-identified costs which are project-specific for management purposes. Project-specific operating costs also shall include a property management fee charged to each project that is used to fund operations of the central office. Amounts that can be charged to each project for the property management fee must be reasonable. If the PHA contracts with a private management company to manage a project, the PHA may use the difference between the property management fee paid to the private management company and the fee that is reasonable to fund operations of the central office and other eligible purposes.

(5) If the project has excess cash flow available after meeting all reasonable operating needs of the property, the PHA may use this excess cash flow for the following purposes:

(i) Fungibility between projects as provided for in § 990.205.

(ii) Charging each project a reasonable asset management fee that may also be used to fund operations of the central office. However, this asset management fee may be charged only if the PHA performs all asset management activities described in this subpart (including project-based management, budgeting, and accounting). Asset management fees are considered a direct expense.

(iii) Other eligible purposes.

(c) In addition to project-specific records, PHAs may establish central office cost centers to account for non-project specific costs (e.g., human resources, Executive Director's office, etc.). These costs shall be funded from the property-management fees received from each property, and from the asset management fees to the extent these are available.

(d) In the case where a PHA chooses to centralize functions that directly support a project (e.g., central maintenance), it must charge each project using a fee-for-service approach. Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable.

§ 990.285 Records and reports.

(a) Each PHA shall maintain project-based budgets and fiscal year-end financial statements prepared in accordance with GAAP and shall make these budgets and financial statements available for review upon request by interested members of the public.

(b) Each PHA shall distribute the project-based budgets and year-end financial statements to the Chairman and to each member of the PHA Board of Commissioners, and to such other

state and local public officials as HUD may specify.

(c) Some or all of the project-based budgets and financial statements and information shall be required to be submitted to HUD in a manner and time prescribed by HUD.

§ 990.290 Compliance with asset management requirements.

(a) A PHA is considered in compliance with asset management requirements if it can demonstrate substantially, as described in paragraph (b) of this section, that it is managing according to this subpart.

(b) Demonstration of compliance with asset management will be based on an independent assessment.

(1) The assessment is to be conducted by a professional familiar with property management practices and costs in the region or state in which the PHA is located. This professional is to be procured by HUD.

(2) The professional review and recommendation will then be forwarded to the Assistant Secretary for Public and Indian Housing (or designee) for final determination of compliance to asset management.

(c) Upon HUD's determination of successful compliance with asset management, PHAs will then be funded based on this information pursuant to § 990.165(i).

(d) PHAs must be in compliance with the project-based accounting and budgeting requirements in this subpart by FY 2007. PHAs must be in compliance with the remainder of the components of asset management by FY 2011.

Subpart I—Operating Subsidy for Properties Managed by Resident Management Corporations (RMCs)

§ 990.295 Resident Management Corporation operating subsidy.

(a) *General.* This part applies to all projects managed by a Resident Management Corporation (RMC), including a direct funded RMC.

(b) *Operating subsidy.* Subject to paragraphs (c) and (d) of this section, the amount of operating subsidy that a PHA or HUD provides a project managed by an RMC shall not be reduced during the three-year period beginning on the date the RMC first assumes management responsibility for the project.

(c) *Change factors.* The operating subsidy for an RMC-managed project shall reflect changes in inflation, utility rates, and consumption, as well as changes in the number of units in the resident managed project.

(d) *Exclusion of increased income.*

Any increased income directly generated by activities by the RMC or facilities operated by the RMC shall be excluded from the calculation of the operating subsidy.

(e) *Exclusion of technical assistance.*

Any technical assistance the PHA provides to the RMC will not be included for purposes of determining the amount of funds provided to a project under paragraph (b) of this section.

(f) The following conditions may not affect the amounts to be provided under this part to a project managed by an RMC:

(1) *Income reduction.* Any reduction in the subsidy or total income of a PHA that occurs as a result of fraud, waste, or mismanagement by the PHA; and

(2) *Change in total income.* Any change in the total income of a PHA that occurs as a result of project-specific characteristics when these characteristics are not shared by the project managed by the RMC.

(g) *Other project income.* In addition to the operating subsidy calculated in accordance with this part and the amount of income derived from the project (from sources such as rents and charges), the management contract between the PHA and the RMC may specify that income be provided to the project from other legally available sources of PHA income.

§ 990.300 Preparation of operating budget.

(a) The RMC and the PHA must submit operating budgets and calculations of operating subsidy to HUD for approval in accordance with § 990.200. The budget will reflect all project expenditures and will identify the expenditures related to the responsibilities of the RMC and the expenditures that are related to the functions that the PHA will continue to perform.

(b) For each project or part of a project that is operating in accordance with the ACC amendment relating to this subpart and in accordance with a contract vesting maintenance responsibilities in the RMC, the PHA will transfer into a sub-account of the operating reserve of the PHA an operating reserve for the RMC project. When all maintenance responsibilities for a resident-managed project are the responsibility of the RMC, the amount of the reserve made available to a project under this subpart will be the per-unit cost amount available to the PHA operating reserve, excluding all inventories, prepaids, and receivables at the end of the PHA fiscal year preceding implementation, multiplied by the number of units in the

project operated. When some, but not all, maintenance responsibilities are vested in the RMC, the management contract between the PHA and RMC may provide for an appropriately reduced portion of the operating reserve to be transferred into the RMC's sub-account.

(c) The RMC's use of the operating reserve is subject to all administrative procedures applicable to the conventionally owned public housing program. Any expenditure of funds from the reserve must be for eligible expenditures that are incorporated into an operating budget subject to approval by HUD.

(d) Investment of funds held in the reserve will be in accordance with HUD regulations and guidance.

§ 990.305 Retention of excess revenues.

(a) Any income generated by an RMC that exceeds the income estimated for the income categories specified in the RMC's management contract must be excluded in subsequent years in calculating:

(1) The operating subsidy provided to a PHA under this part; and

(2) The funds the PHA provides to the RMC.

(b) The RMC's management contract must specify the amount of income that is expected to be derived from the project (from sources such as rents and charges) and the amount of income to be provided to the project from the other sources of income of the PHA (such as operating subsidy under this part, interest income, administrative fees, and rents). These income estimates must be calculated consistent with HUD's administrative instructions. Income estimates may provide for adjustment of anticipated project income between the RMC and the PHA, based upon the management and other project-associated responsibilities (if any) that are to be retained by the PHA under the management contract.

(c) Any revenues retained by an RMC under this section may be used only for purposes of improving the maintenance and operation of the project, establishing business enterprises that employ residents of public housing, or acquiring additional dwelling units for lower income families. Units acquired by the RMC will not be eligible for payment of operating subsidy.

Subpart J—Financial Management Systems, Monitoring, and Reporting

§ 990.310 Purpose—General policy on financial management, monitoring and reporting.

All PHA financial management systems, reporting, and monitoring of

Tab 3.

Federal Register Notice – Guidance on Implementation of Asset
Management

(published September 6, 2006)

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Federal Register

Wednesday,
September 6, 2006

Part IV

Department of Housing and Urban Development

Public Housing Operating Fund Program;
Guidance on Implementation of Asset
Management; Notice

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket Number FR-5099-N-01]

Public Housing Operating Fund Program; Guidance on Implementation of Asset Management

AGENCY: Office of the Assistant Secretary for Public and Indian Housing; HUD.

ACTION: Notice.

SUMMARY: On September 19, 2005, HUD published a final rule entitled, "Revisions to the Public Housing Operating Fund Program," which established a new formula for determining operating subsidies for public housing agencies (PHAs) and requiring that PHAs with 250 or more units convert to asset management. This notice clarifies and provides interim guidance pertaining to various aspects of public housing's conversion to asset management. The interim guidance provided in this notice is intended to assist all PHAs that operate federal public housing. Special provisions are included in the notice to assist small PHAs with less than 250 public housing units that are not subject to asset management conversion. HUD is soliciting public comment on this interim guidance and, based on the comments received, will issue final guidance and commence rulemaking, as appropriate, on the asset-based management requirements. Until such time as final guidance is issued or rulemaking commenced, PHAs should refer to the interim guidance provided by this notice to assist in their conversion to asset-based management.

DATES: *Effective Date:* This notice is effective upon publication.

Comment Due Date: November 6, 2006.

ADDRESSES: Interested persons are invited to submit comments regarding this notice to the Office of the General Counsel, Rules Docket Clerk, Department of Housing and Urban Development, 451 Seventh Street, SW., Room 10276, Washington, DC 20410-0001. Communications should refer to the above docket number and title and should contain the information specified in the "Request for Comments" section.

Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the

commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the <http://www.regulations.gov> Web site can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable. In all cases, communications must refer to the docket number and title.

Public Inspection of Public Comments. All comments and communications submitted to HUD will be available, without charge, for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at (202) 708-3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339. Copies of all comments submitted are available for inspection and downloading at <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: Elizabeth Hanson, Deputy Assistant Secretary, Departmental Real Estate Assessment Center, Office of Public and Indian Housing, Department of Housing and Urban Development, 451 Seventh Street, SW., Room 2000, Washington, DC 20410; telephone 202-475-7949 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339.

SUPPLEMENTARY INFORMATION:

I. Background

On September 19, 2005, (70 FR 54983), HUD published a final rule amending the regulations of the Public Housing Operating Fund Program at 24 CFR part 990, to provide a new formula for distributing operating subsidy to public housing agencies (PHAs) and to establish requirements for PHAs to convert to asset management. On October 24, 2005 (70 FR 61366), HUD published a correction to the September 19, 2005, final rule to clarify that the revised allocation formula will be implemented for calendar year 2007, and adjusting the related dates specified

in the final rule to reflect the corrected implementation date. The final rule, developed through negotiated rulemaking conducted in 2004, became effective on November 18, 2005.

Subpart H of the revised part 990 regulations (§§ 990.255 to 990.290) establishes the requirements regarding asset management. Under § 990.260(a), PHAs that own and operate 250 or more dwelling rental units must operate using an asset management model consistent with the subpart H regulations. PHAs with fewer than 250 dwelling rental units may elect to transition to asset management, but are not required to do so. PHAs are required to implement property-based management, property-based budgeting, and property-based accounting, which are all defined in the subpart H regulations, which are essential components of asset management.

Additionally, to facilitate and clarify the process of conversion to asset management, the office of Public and Indian Housing (PIH) will be issuing a notice that contains more detailed financial reporting information and guidance to assist PHAs in the near future.

II. This Notice

This notice clarifies and provides interim guidance pertaining to various aspects of public housing's conversion to asset management. The interim guidance provided in this notice is intended to assist all PHAs that operate public housing. Special provisions are included in the notice to assist small PHAs with less than 250 public housing units that are not subject to asset management conversion. Specifically, the notice provides elaboration on the collection and use of fees in the operation and management of properties, the effect of transitioning to asset management on the Public Housing Assessment System (PHAS), property identification, and the connection between asset management and the Capital Fund.

As part of the requirement to convert to asset management, PHAs of 250 or more units must charge a property management fee for the operation of the central office. In addition, PHAs may charge a "fee-for-service" for certain centralized property management services and must prepare property-level financial statements. These and other requirements introduce new financial reporting models; affect the scoring under the PHAS; and raise issues regarding treatment of such fees as "program income." This notice clarifies and provides guidance on key

business decisions related to the implementation of asset management.

HUD is soliciting comments on this notice. Based upon the comments that are received and the experience of PHAs as they begin the conversion to asset management, HUD will issue final guidance and may initiate rulemaking, as may be necessary, to establish more specific requirements. The rulemaking will provide PHAs and the public with an opportunity to comment on any proposed requirements prior to their issuance for effect. Until such time, this notice serves as interim guidance, providing PHAs with an operational framework to assist with their conversion to asset management.

III. Treatment of Fee Income as Non-Program Income

HUD wishes to clarify that reasonable fees charged to properties and programs, as part of the fee-for-service approach, are not considered federal program income for the purposes of 24 CFR part 85. Rather, this fee income is considered local revenue and control over its use is subject only to state or local requirements imposed on individual PHAs.

IV. Excess Cash

The Operating Fund program regulations at § 990.280 establish certain limitations, as well as certain freedoms, on the use of property revenues by PHAs depending on whether a property generates "excess cash." Section 990.255(a) provides that PHAs must manage their properties using an asset management model consistent with management norms of the multifamily management industry. As such, excess cash should be computed using essentially the same method as performed under HUD's multifamily housing programs. The determination of excess cash is based on year-end financial statements using a balance sheet approach.

However, solely for the purposes of the provisions affecting property fungibility (see § 990.280(b)(5)(i)) and payment of an asset management fee (see § 990.280(b)(5)(ii)), a property's excess cash should not be less than one month's operating expenses.

V. Restrictions on Use of Excess Cash for Payment of Central Office Costs

The part 990 regulations establish certain parameters around the use of a property's excess cash (beyond the minimum levels described above). Consistent with § 990.280(c), excess cash may not be used to pay for the operations of the central office cost center. To allow excess cash to fund the

operations of the central office cost center would be inconsistent with § 990.280(c), which states that "central office cost centers shall be funded from the property-management fees received from each project, and from the asset management fees to the extent that they are available." It would also contravene a goal of the September 19, 2005, Operating Fund final rule that PHAs should only be permitted to charge a reasonable fee for the operations of the central office.

VI. Reasonableness of Property Management Fees and Asset Management Fees

Section 990.280 provides for the establishment of "reasonable" property management and asset management fees. Accordingly, fees must be reasonable to be considered as excess cash and not treated as program income. Property management fees, which may include a bookkeeping fee, are to be earned monthly for each occupied unit or approved vacancy, as per 24 CFR 990.140 and 990.145, respectively. In accordance with § 990.140, asset management fees are to be earned based on the total number of units under the Annual Contributions Contract (ACC) for each project.

The following guidelines are offered to assist PHAs in determining whether their fees are reasonable. However, PHAs may establish higher fees other than those provided in these guidelines, as provided in section IX of this notice.

A. Property Management Fee

A PHA may charge a reasonable property management fee based on any of the following:

1. The property management fee schedules established for each HUD Multifamily Field Office. Generally, the Office of Multifamily Housing establishes fee ranges for federally subsidized properties that reflect 120 percent of the mean property management fee for profit-motivated properties that are well managed, in good physical condition, and are managed by independent agents with no identity of interest with the owners; or
2. The 80th percentile property management fee paid by all for-profit and unlimited dividend Federal Housing Administration (FHA) properties, by HUD Field Office, excluding such programs as cooperatives and nursing homes.

The property management fee may include a reasonable bookkeeping fee for the property accounting function. The average bookkeeping fee in HUD's multifamily housing programs is about \$3.50 per unit per month (PUM) (2004

data). Generally, HUD will consider \$7.50 PUM to be a reasonable fee. A higher bookkeeping fee for PHAs reflects higher centralized information technology and human resource costs present in public housing. For financial reporting purposes, this bookkeeping fee, as is standard business practice, is to be presented separately from the property management fee on the PHA's financial statements.

B. Asset Management Fee

HUD will generally consider an asset management fee charged to each property of \$10 PUM as reasonable. Asset management fees are based on all units under an ACC. In multifamily housing, the asset management functions of owners are primarily funded through cash flows. This fee amount was determined based on an examination of cash flows in HUD's multifamily properties and the consideration that certain asset management activities in public housing are also recovered through the Capital Fund management fee.

VII. Assignment of Assets to the Central Office Cost Center and Determination of Initial Working Capital

Section 990.280(b) of the final rule requires PHAs to separate all assets and liabilities between the properties and the central office cost center.

A PHA's central office cost center will operate off of fees and other allowable charge-backs (as well as other revenue sources outside the public housing program). Like any other business area, the PHA's central office cost center will need a reasonable amount of working capital in order to perform its functions properly. As such, PHAs, when assigning assets between properties and the central office cost center, may assign to the central office cost center an amount equal to six months of property management fees, including bookkeeping fees, and asset management fees based on all units under ACC, regardless of unit status. This assignment may take place at the time the PHA assigns its initial balance sheet data, when first converting to property-based accounting. To the extent that a PHA does not have sufficient reserves to make such an assignment, a PHA may accrue these amounts. This working capital, like the fees themselves, will not be considered program income.

VIII. Management Fees for Capital Fund, Housing Choice Voucher and Other Public Housing Grant Programs

In programs where it applies, OMB Circular A-87 allows PHAs to use a fee-

for-service in lieu of allocation systems for the reimbursement of overhead costs. HUD encourages this approach for several reasons. First, it simplifies a PHA's accounting systems. Second, it relieves HUD from the requirement to review overhead allocations and to monitor the spending of such funds. Third, it encourages PHAs to become more businesslike, in that any revenue in excess of expenses can be used to support the mission of the PHA (*i.e.*, retained earnings of the central office cost center are not considered program income). The following guidelines are designed to assist PHAs intending to implement a fee-for-service approach in establishing appropriate management fees.

A. Capital Fund Program

A PHA may charge up to a maximum 10 percent of the annual Capital Fund grant as a management fee. While current program rules (§ 968.112) allow PHAs to charge up to 10 percent of the Capital Fund grant for "Administration," these administrative costs must be specifically apportioned and/or documented. Under a fee-for-service system, the PHA may charge a management fee of 10 percent, regardless of actual costs.

B. Housing Choice Voucher Program

HUD encourages the adoption of a fee-for-service methodology for the Housing Choice Voucher Program (HCV). Existing appropriations language restricts the use of administrative fees to activities related to the provision of tenant-based rental activity authorized under Section 8. Costs directly related to the day-to-day operations of the Section 8 program such as salaries of occupancy specialists or rented space for intake activities clearly qualify under this definition while overhead costs require more stringent documentation. For PHAs that elect to use a fee-for-service methodology for its HCV program, HUD will consider a management fee of up to 20% of the administrative fee or up to \$12 PUM per voucher leased, whichever is higher, as meeting the requirements of the appropriations act. Under this methodology, PHAs can also charge the HCV program a \$7.50 PUM bookkeeping fee for the program accounting function.

PHAs that elect to maintain an allocation system for the recovery of overhead costs under the HCV program cannot charge the HCV program more than the allocated amount and must maintain auditable documentation to support its allocation of costs and their relationship to the provision of tenant-

based rental activity authorized under section 8.

C. PHA Administrative Fee for Mixed Finance Development

A reasonable administrative fee amount paid with Public Housing Funds for the mixed finance development is 3% of the total property budget. This amount is intended to cover PHA administrative costs. Alternatively, an administrative fee of up to 6% is considered reasonable provided the housing authority is able to support that the fee is appropriate in accordance with section IX of this notice.

D. Other Public and Indian Housing Grants

If a fee rate has not been established for a grant, a PHA should charge no more than 15 percent of the grant amount as a management fee for other Public Housing grants. Where administrative cost are set through other notices, regulations and existing grant agreements, for example the ROSS program and the annual NOFA requirements, these policies and agreements are controlling.

IX. Demonstrating Fee Reasonableness

If a PHA considers the fees in this notice to be inadequate to address their individual circumstances, a PHA may use data that reflects conditions of the local or national market. HUD is aware that PHAs are diverse, having different resources and constraints. During this period of interim guidance and prior to any rulemaking that may be initiated on fees, PHAs may document, as support, that a fee charged is appropriate for the scope of work, specific circumstances of the property, and local or national market for the services provided. The data used may include fees paid by the PHA for private management of public housing through effective competition. PHAs should be ready to justify the departure from fees in these guidelines upon inquiry from HUD or other interested parties.

In conformity with standard business practices, PHAs are encouraged to maintain supporting documentation explaining the basis of its fees. PHAs are also encouraged to consult with HUD on fees that may depart from this guidance prior to charging the fees. HUD will provide a PHA with its views on the reasonableness of the fees intended to be charged.

X. PHAS Transition Rules

The move to asset management will require HUD to revise the PHAS. Currently, PHAS is an entity-wide

assessment system whereas asset management utilizes a property-specific focus. As a result, for the first year of compliance with property-based budgeting and accounting, during which time that PHAs are making organizational changes, the PHA will receive a transition score under the revised PHAS. Incentive awards under the Capital Fund during the time that PHAs receive transition PHAS scores will be based on the PHA's latest PHAS score prior to conversion to asset management.

All PHAs that are or will be classified as troubled will continue to be governed by their memorandum of agreements and other pertinent program rules. Moreover, although PHAs will only receive transition scores, PHAs must continue to comply with all rules associated with the public housing program and must continue to manage with economy and efficiency.

XI. Property Identifications

Under § 990.265, PHAs must identify their property for purposes of asset management. Guidance regarding this exercise was contained in PIH Notice 2006-10 (issued February 3, 2006), entitled "Identification of Projects for Asset Management." These new property identifications will become the new measurement and funding focus of HUD. It is not necessary to revise the property numbers on the ACC. A copy of PIH Notice 2006-10 may be downloaded from <http://www.hudclips.org>.

XII. Inter-Relationship With Capital Fund

Section 990.280(a) provides that property-based budgeting and accounting will be applied to all programs and revenues sources that support properties under the ACC, including the Capital Fund. When a PHA transfers funds from the Capital Fund to the Operating Fund, these funds lose their Capital Fund Program identity and are then governed by all Operating Fund rules. All other Capital Fund eligible activities are bound by the Capital Fund Program rules and the Annual PHA Plan requirements. Additionally, where a PHA may use Capital Funds for "management improvements" and "operations," it may only use those amounts to fund "property" expenses and not expenses of the central office cost center.

XIII. PHAS With Fewer Than 250 Units

For PHAs with fewer than 250 units of public housing and which have not elected to convert to asset management, only Sections X, XI, and XII of this

notice are applicable. HUD included in the September 19, 2005, Operating Fund final rule accommodations to enable PHAs with fewer than 250 units to more easily convert to asset management, such as allowing small PHAs to treat all of their units as one property. Section 990.280 of the Operating Fund program regulations provides for the establishment a "HUD-accepted central office cost center" by PHAs converting to asset management. In the case of a small PHA operating as a single property, the establishment of a separate cost center would be contradictory to the streamlining and cost-efficiency goals of the September 19, 2005, final rule. The establishment of a separate cost center would impose financial and administrative burden on the PHA that, because it is operating as a single property, would not stand to benefit from the coordination and centralization of multiple properties. Accordingly, those PHAs with fewer than 250 units choosing to operate as one property

need not establish a central office cost center that is separate from other PHA functions. Those small PHAs with fewer than 250 units that operate as more than one property and choose to convert to asset management, and that believe the establishment of a separate cost center would impose an undue financial or administrative burden, may seek regulatory relief from HUD from the central office cost center requirement; however, during the first two years of property-based budgeting and accounting, these PHAs need not establish a central office cost center.

XIV. Findings and Certifications

Paperwork Reduction Act

The information collection requirements for the Operating Fund Program have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2577-

0029. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Environmental Impact

This Notice provides operating instructions and procedures in connection with activities under a **Federal Register** document that has previously been subject to a required environmental review. Accordingly, under 24 CFR 50.19(c)(4), this Notice is categorically excluded from environmental review under the National Environmental Policy Act (42 U.S.C. 4321).

Dated: August 30, 2006.

Paula O. Blunt,

General Deputy Assistant, Secretary for Public and Indian Housing.

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Tab 4.

Chapter 7 – Fee Income and Assignment of Costs
(revised Financial Management Handbook, April 2007)

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7. Fee Income and Assignment of Costs

7.1 INTRODUCTION

There are several types of fees the COCC can charge AMPs or programs. These fees include the following:

- Property (project) management fees, including bookkeeping fees;
- Fees for centrally provided direct services (front-line expenses);
- Asset management fees;
- Capital Fund Program management fees; and
- Management fees for other programs.

A detailed explanation of these fees follows, including amounts, how reasonableness will be determined, limitations on their application, and the assignment of costs as either a front-line expense or an expense covered by management fees.

From time to time, HUD may revise both the schedule of fees and the classification/assignment of costs between the COCC and projects.

7.2 TREATMENT OF FEE INCOME UNDER OMB CIRCULAR A-87 AND 24 CFR PART 85

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (also at 2 CFR Part 225), as well as 24 CFR part 85, *Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments*, establish the basic requirements on the use of federal program funds. For PHAs that convert to asset management (required of PHAs with 250 or more units), any internal fee-for-service charges to AMPs or programs (property management fees, asset management fees, etc.) are used to reimburse the PHAs for its claim of the overhead costs related to these programs (these overhead costs are previously claimed through the cost allocation process under OMB Circular A-87). The fee-for-service amounts are considered non-program income for purposes of A-87 and 24 CFR part 85; however, other state and local restrictions may still apply. Consequently, any reasonable fees earned by the PHA/COCC will be treated as local revenue subject only to the controls and limitations imposed by the PHA's management, Board or other authorized governing body.

Only the fee-for-service amounts are considered non-program income and not other program funds. For example, assume that a project receives revenue from leasing its rooftop to a cellular phone company. That rooftop revenue would be considered program income in that the income was generated by a program asset. On the other hand, the management fee (or fee-for-service) charged to the project, and received by the COCC, would not be considered program income. The PHA has "earned" the management fee

and the PHA may use such funds in accordance with its mission, subject only to any local, but not federal, restrictions.

The PHA is not required to document or demonstrate actual costs to earn management fees. Additionally, the PHA is not required to distinguish or separately account for the expenses or costs associated with the fee income from its public housing programs vis-à-vis its other business activities. Collectively, the PHA/COCC can use all fees earned to fund the operations of the COCC.

7.3 MANDATORY VS. VOLUNTARY ADOPTION OF MANAGEMENT FEES

Under the Operating Fund Program final rule, PHAs with 250 or more units must utilize a management fee in lieu of allocations for the Operating Fund and Capital Fund Programs. As discussed more fully in this chapter, the change to a management fee approach for the reimbursement of overhead in the Section 8 HCV Program is currently voluntary; however, if a PHA maintains an allocation system for the recovery of overhead costs under the HCV Program, the PHA cannot charge the HCV Program more than the allocated amount.

7.4 DEMONSTRATING FEE REASONABLENESS

Section 990.280 of the final rule provides for the establishment of “reasonable” property management fees and asset management fees. PHAs may use the following guidelines to determine the reasonableness of fees for sections 7.5 through 7.9 of this document, as well as the establishment of the initial working capital of the COCC (see section 4.3). HUD will review and update these guidelines and associated referenced schedules annually.

HUD will presume that fees established pursuant to these guidelines are “reasonable.” PHAs are not required to comply with the reasonableness requirements of § 990.280 until the second year of project-based budgeting and accounting. A PHA may consult with HUD regarding its fees. HUD will provide its views on the reasonableness of the PHA fees, and work with the PHA to develop a fee schedule. As part of the consultation, HUD may request that a PHA provide documentation on the actual costs in the jurisdiction and explain the factors causing any differences between actual costs and the PHA fee schedule. Generally, HUD will consider a schedule with an additional two-year phase-in for compliance to be reasonable, based on the review of such documentation/explaining factors. A fee schedule agreed upon by the PHA and HUD meets the reasonableness standard for fees under the Operating Fund Program regulations.

If a PHA considers the fees in this document to be inadequate to address their individual circumstances, a PHA may use data that reflects conditions of the local market. HUD is aware that PHAs are diverse, having different resources and constraints. During this period of interim guidance and prior to any rulemaking that may be initiated on fees, PHAs may document, as support, that a fee charged is appropriate for the scope of work,

specific circumstances of the property, and local market for the services provided. The data used may include fees paid by the PHA for private management of public housing through effective competition. PHAs should be ready to justify the departure from fees in these guidelines upon inquiry from HUD or other interested parties.

PHAs should consult with HUD on fees that may depart from this guidance prior to charging such fees. HUD will provide a PHA with its view on the reasonableness of the fees intended to be charged.

7.5 PROPERTY MANAGEMENT FEES

Reasonableness. A PHA may charge a reasonable management fee based on any of the following:

- The property management fee schedules established for each HUD Multifamily Field Office. Generally, the Office of Multifamily Housing establishes fee ranges for federally subsidized properties that reflect 120 percent of the mean property management fee for profit-motivated properties that are well managed, in good physical condition, and are managed by independent agents with no identity-of-interest involvement; or
- The 80th percentile property management fee paid by all unlimited dividend, limited dividend, and non-profit Federal Housing Administration (FHA) properties, by HUD Field Office, excluding such programs as cooperatives and nursing homes. These amounts are included as Attachment A.²⁴

Amount Earned. The property management fee is calculated as a per-unit-month (PUM) fee and earned for each occupied unit and HUD-approved vacancy, as described under the final rule. In other words, management fees are to be earned monthly for each occupied unit or approved vacancy, as per §§ 990.140 and 990.145, respectively. PHAs **will not** earn a property management fee on units defined as “limited vacancies” pursuant to § 990.150. New units that come on line during the PHA’s fiscal year begin to earn the property management fee in the month the units first become occupied. Once initially leased, new units are also eligible to earn the property management fee for HUD-approved vacancies as described in § 990.145.

Privately Managed Public Housing. For those AMPs that are privately managed, the COCC can retain the difference between a reasonable property management fee as defined in this chapter and the actual cost of the property management fees paid to the private management company, including any Mixed Finance projects.

Mixed-Finance Public Housing. The COCC will not earn a property management fee for a Mixed Finance project unless the COCC is managing the day-to-day activity (i.e., is the management company of the respective project). However, if the project is privately

²⁴ Amounts based on 2005 Annual Financial Statements submitted to the REAC (most recent data). HUD will publish revised schedules annually.

managed, then the COCC may retain a portion of the fee as described in the preceding paragraph.

Management Fees for Units Undergoing Demolition. The COCC may earn a property management fee for units undergoing demolition for three years at the following amounts:

- Year 1, 75 percent of the PUM property management fee for all ACC units associated with the demolition.
- Year 2, 50 percent of the PUM property management fee for all ACC units associated with the demolition.
- Year 3, 25 percent of the PUM property management fee for all ACC units associated with the demolition.

Management Fees for Units Undergoing Disposition. The COCC may earn a property management fee for units undergoing disposition for two years at the following amounts:

- Year 1, 75 percent of the PUM property management fee for all ACC units associated with the disposition.
- Year 2, 50 percent of the PUM property management fee for all ACC units associated with the disposition.

Bookkeeping Fee. The property management fee may include a reasonable bookkeeping fee for the property accounting function. The average bookkeeping fee in HUD's multifamily housing programs is about \$3.73 per unit monthly (PUM) (2005 data). Generally, HUD will consider \$7.50 PUM to be a reasonable fee. A higher bookkeeping fee for PHAs reflects higher centralized information technology and human resource costs present in public housing. For financial reporting purposes, this bookkeeping fee, as is standard business practice, is to be presented separately from the property management fee on the PHA's financial statements. The bookkeeping fee is earned for each occupied unit and HUD-approved vacancy, as described under § 990.145. In other words, bookkeeping fees are to be earned monthly for each occupied unit or approved vacancy, as per §§ 990.140 and 990.145, respectively. PHAs **will not** earn a bookkeeping fee on units defined as "limited vacancies" pursuant to § 990.150. New units that come on line during the PHA's fiscal year begin to earn the bookkeeping fee in the month the units first become occupied. Once initially leased, new units are also eligible to earn the bookkeeping fee for HUD-approved vacancies as described in § 990.145. A PHA cannot charge a project a bookkeeping fee if project accounting functions are also performed on-site and charged as a front-line cost. All PHAs with 250 or more units can charge each project a bookkeeping fee. PHAs with fewer than 250 units can charge each project a bookkeeping fee if they convert to asset management and establish a separate COCC. PHAs with fewer than 250 units that do not establish a COCC, or do not convert to asset management, cannot charge a bookkeeping fee (for more information see Chapter 9 – Small PHAs).

7.6 ASSET MANAGEMENT FEES

Reasonableness. The COCC may earn an asset management fee. HUD will generally consider an asset management fee charged to each project of \$10 PUM as reasonable. Asset management fees shall be based on all units under an ACC. In multifamily housing, the asset management functions of owners are primarily funded through cash flows. This \$10 PUM asset management fee was determined based on an examination of cash flows in HUD's multifamily projects and the consideration that certain asset management activities in public housing are also recovered through the Capital Fund Program management fee.

Amount Earned. The asset management fee is calculated as a PUM fee and earned for all units under ACC (including Mixed Finance ACC units), regardless of occupancy status or ownership/management. In other words, asset management fees are to be earned based on the total number of units under the ACC for each project. New units that come on line during the PHA's fiscal year begin to earn the asset management fee in the month the units first become occupied. The COCC is eligible to earn the asset management fee on an ACC unit until the unit becomes vacant after a HUD-approved demolition or disposition plan.

Eligibility. All PHAs with 250 units or more can charge each AMP a reasonable asset management fee. PHAs with fewer than 250 units can charge an asset management fee if they convert to asset management, have more than one AMP, and have established a separate COCC (for more information see Chapter 9 – Small PHAs).

Restrictions. Payment of asset management fees to the COCC can be made throughout the PHA's fiscal year, but only up to the amount of excess cash as calculated from the prior year's FDS. Asset management fees *may not* be accrued by the COCC if in any fiscal year the AMP lacks sufficient excess cash to pay the fee or is otherwise non-compliant with the guidelines described in Chapter 6.

7.7 CAPITAL FUND PROGRAM MANAGEMENT FEE

The COCC may charge a Capital Fund Program management fee to each AMP receiving Capital Fund Program funds, as described in Chapter 5.

7.8 HOUSING CHOICE VOUCHER PROGRAM FEE

HUD encourages the adoption of a fee-for-service methodology for the HCV Program for the treatment of overhead costs.

Today, PHAs are paid an "administrative fee" for the operation of the HCV Programs. This administrative fee covers both direct costs, e.g., the salaries of the staff administering the HCV waiting list or conducting HCV unit inspections, and indirect costs, e.g., a portion of the executive director's salary allocated to the HCV Program. Under fee-for-service, PHAs may, in lieu of overhead allocations, charge the HCV

Program a management fee for these indirect or overhead costs, as outlined in the paragraphs, below.

Existing appropriations language restricts the use of HCV administrative fees to activities related to the provision of tenant-based rental activity authorized under section 8. Costs directly related to the day-to-day operations of the HCV Program, such as salaries of occupancy specialists or rented space for intake activities, clearly qualify under this definition while overhead costs require more stringent documentation. For PHAs that elect to use a fee-for-service methodology for its HCV Program for overhead/indirect costs, HUD will consider a management fee of up to 20 percent of the administrative fee or up to \$12 PUM per voucher leased, whichever is higher, as meeting the requirements of the appropriations act. See Table 7.1 for determining which costs are to be paid from the HCV management fee and which are to be front-line costs. Under this methodology, PHAs can also charge the HCV Program a \$7.50 PUM bookkeeping fee for the program accounting function in addition to the management fee.

PHAs that elect to maintain an allocation system for the recovery of overhead costs under the HCV Program cannot charge the HCV Program more than the allocated amount and must maintain auditable documentation to support its allocation of costs and their relationship to the provision of tenant-based rental activity authorized under section 8.

7.9 OTHER FEES

PHA Administrative Fee Development. Development includes activities approved under 24 CFR part 941 that can involve the use of Capital Fund Program funds, HOPE VI funds, or other public housing capital assistance eligible to be used for development. Eligible costs include administrative costs incurred for development. A PHA may use these public housing funds to pay for its administrative costs in connection with the development. A reasonable amount for administration would be 3 percent of the total project budget. The total project budget includes all hard and soft development costs paid with both public and private financing. The total project budget should exclude Community and Supportive Services for purposes of calculating the administrative fee. If a development is at or below the safe harbor fee, no further review is required. Alternatively, the PHA may charge up to a 6 percent administrative fee for the costs of development administration provided the housing authority demonstrates to HUD, in writing, that the fee is appropriate for the scope of work, specific circumstances of the project, and local or national market for the services provided. This paragraph also applies to Capital Fund Financing and RHF grants.

A PHA may use the administrative fee to pay for the development project manager or hire outside consultants, including a program manager or development and financial advisors. The administrative fees or costs incurred must be within the applicable administrative fee limits.

The PHA administrative fee for Development activities outlined above is considered a special administrative cost.²⁵ As such, it may be charged to the Capital Fund Program in addition to the Capital Fund Program fee of ten percent for administration.

This supplement is intended to allow PHAs to use a fee-based structure in lieu of cost allocation systems. The Cost Control and Safe Harbor Standards for Rental Mixed-Finance Development, Revised April 9, 2003, currently require actual documented expenditures for administration. This notice supersedes that requirement, but does not alter or eliminate any other criteria for the evaluation of Mixed Finance development as outlined in that document.

Other PIH and HUD Grants. If a fee rate has not been established for a grant, a PHA should charge no more than 15 percent of the grant amount as a management fee for other public housing grants. Where administrative cost are set through other notices, regulations and existing grant agreements, for example, the ROSS program and its annual NOFA requirements, these policies and agreements are controlling.

Non-Federal Programs. HUD cannot dictate to the PHA that a fee-for-service methodology be used in State-funded or other business activities the PHA may administer. However, HUD believes such a policy makes good business sense for the following reasons:

- It provides relief from maintaining a dual system to recover indirect costs;
- It simplifies budgeting for indirect cost recovery; and
- It provides relief from having to verify to auditors that a dual system is treating all programs fairly and consistently with regard to how indirect costs are recovered.

In setting a management fee for non-federal programs, the PHA may wish to develop a fee structure in line with those authorized for its federal programs. In the process of establishing this policy, the PHA must consider any contractual limitations dictated by the granting agency.

7.10 ASSIGNMENT OF COSTS

For the Operating Fund Program, PHAs should refer to Table 7.2 for classifying costs as either a front-line expense (an expense of the project) versus a fee expense (an expense of the management company, i.e., the COCC). PHAs may also refer to Chapter 6 of the Multifamily Management Agent Handbook, HUD 4381.5, for additional guidance on determining which expenses should be paid from fees.

Prorating Front-Line Administrative Costs. HUD recognizes that, from time to time, there are certain front-line administrative services required by AMPs that may be more cost-effective to perform centrally. Where a clear market price can be established for this centralized activity, the PHA may utilize a fee-for-service, providing the PHA maintain

²⁵ Special administrative costs in excess of the 10 percent administrative expense limit are permitted pursuant to § 968.112.

adequate documentation and the price/service is in the best interests of the project.²⁶ Otherwise, the PHA may prorate the costs using a reasonable methodology, as discussed below. The methods used by the PHA to prorate centrally provided front-line costs should be in writing. PHAs may update the proration rate throughout the year as circumstances warrant. At a minimum, at the end of the PHA's fiscal year, the PHA will need to adjust to actual costs.

A prorated front-line administrative function must not cost more than what the project would incur if performed on-site. In all instances, front-line prorated costs must be reasonable, necessary, and based on services provided. AMPs with on-site staff that can provide these functions for themselves may not also be charged these services. With the exception of a central waiting list, resident service, and security/protective services a project may not pay for the cost of a supervisor overseeing a front-line task that is performed centrally.

Pro-rated costs include direct labor, supplies, and equipment. Equipment purchased to support these frontline administrative costs may be purchased with Capital Funds if within the program regulatory requirements for eligible costs (currently at 24 CFR § 968.112) or operating funds to the extent reasonable and necessary. These equipment purchases remain as program assets and reflected on the books of each project.

The following is a discussion of certain front-line tasks that could be performed centrally and prorated back to projects. Centralized maintenance services, as explained below, cannot be prorated but must be charged using a fee-for-service. In the future, as more information becomes available, HUD may issue fee rates for some of the following activities.

- Rent Collection. A PHA that chooses to centralize rent collections may charge the personnel costs of rent collection clerks (with the exception of supervisory personnel) as a front-line prorated cost to its AMPs. The PHA's job description for employees engaged in rent collection must specifically list this function as a responsibility of the employee. In addition, if the employee's job duties include activities other than rent collection, the PHA must separately determine the percent of time spent on rent collection activities from other general tenant accounting duties and prorate the individual's time accordingly. Note: General tenant accounting costs are recovered through the bookkeeping fee and are not considered front-line expenses.
- Resident Services. It is the preference of HUD that all resident services, to the extent practical, be site-based. In such instances, the cost of the services provided should be easily tracked to an AMP. Where PHAs cannot reasonably track personnel costs for resident services, including supervisory personnel costs, to an AMP, PHAs are permitted to prorate these costs to AMPs.
- Security/Protective Services. The same requirements as for resident services apply. In addition, HUD may require PHAs with extensive centralized

²⁶ For example, a COCC may perform computer repair work for AMPs that would otherwise be handled by contract and charged as a front-line cost. The COCC could charge the market price for that work.

security/protective service operations that cannot readily be tracked to an AMP to submit a plan to provide for more direct deployment of these expenses in the future.

- **Waiting List, Screening, Leasing, and Occupancy.** PHAs have only recently been permitted to establish site-based waiting lists. PHAs that centralize these functions may prorate the direct costs of this function, including supervisory personnel, to the AMPs. Such prorations may be based on the number of units, average turnover, or another reasonable allocation method.
- **Work Order Processing.** The norm in multifamily housing is that work order processing is a function handled on-site. A PHA may charge the cost of centralized work order processing only if the PHA documents/justifies that the cost is reasonable and necessary.

As circumstances warrant, HUD may determine the need to modify the list of front-line costs that can be prorated.

Shared Resource Costs. Where it is not economical to have full-time personnel dedicated to a specific AMP, the PHA may establish a reasonable method to spread these personnel costs to the AMPs receiving the service. Shared resource costs are distinguished from front-line prorated costs in that the services being shared are limited to a few AMPs as opposed to being prorated across all AMPs. The method used to spread these costs to the AMPs receiving the service must follow the guidelines established for front-line prorated costs.

For personnel who provide both shared resources to AMPs and the COCC, the PHA will need to separate the amount of time spent on providing services to AMPs and the COCC based on a reasonable methodology. Where salary rates for personnel providing the shared service to an AMP are not reasonable, the rate used must not exceed what would be considered a reasonable rate. For example, assume that the Executive Director of a small PHA that converts to asset management utilizing the COCC model is paid \$35 per hour. If that Executive Director were to provide a shared service to an AMP, the COCC could not charge the AMP at \$35 per hour if a reasonable rate for that service (what a housing manager would normally earn) were \$20 per hour. In this case, the \$15 difference would have to be recovered by fees earned.

As with front-line prorated costs, in all instances shared resource costs must be reasonable, necessary, and based on services provided to the AMP.

Centrally Provided Maintenance Services. Where a PHA chooses to centralize a maintenance service, including centralized inspections, to a project, it must use a fee-for-service.²⁷ The fee-for-service must not exceed what the project would incur for the service if obtained through the market. For example, if the market price is \$100 for an electrician to replace a faulty outlet, the PHA could perform that task centrally and charge the project up to \$100, regardless of the actual time/costs incurred by the PHA to

²⁷ Projects should pay only for normal unit/preventive maintenance inspections and not quality control inspections that are a responsibility of the COCC.

replace the outlet. If the PHA elects to provide centralized services to an AMP for a fee, the AMP may only be charged for the actual services provided and only to the extent that such amounts are reasonable. If, during the year, the COCC was unable to recover its direct personnel costs for centralized maintenance services, due to under-utilization or due to a determination that rates charged to the AMPs were unreasonable, the balance of the cost must be covered by the COCC's other fees. The PHA will not be allowed to prorate un-recovered centrally provided maintenance service costs to AMPs. PHAs may also charge the project for actual materials used. For example, if a centralized electrician repaired a faulty outlet at a project, the project could be charged the fee for labor plus the costs of the outlet at market cost (assuming both were reasonable). Documents supporting the established rate should be retained for review by HUD, the PHA's auditor or other authorized individuals.

The requirement to use a fee-for-service for all centrally provided maintenance services, whether technical or routine, shall begin no later than the PHA's second year of project-based budgeting and accounting. In the first year of implementation, a PHA must charge a project based on actual usage but may include with that charge any reasonable method of assessing other indirect costs associated with performing that work.²⁸ A PHA cannot charge a project for the costs of a centralized supervisor or administrative assistants.

Labor Costs. The following list provides guidance on the costs that are to be included when determining overall labor cost for front-line and COCC personnel.

- Gross salary;
- Employer FICA contributions;
- Federal unemployment tax;
- State unemployment tax;
- Worker's compensation insurance;
- Health insurance premiums;
- Cost of fidelity or comparable insurance;
- Performance incentives, and or annual bonuses; and
- Retirement benefits (pre and post retirement).

7.11 METHOD OF PAYMENT AND SUPPORTING DOCUMENTATION

The preferred method of assessing fees to AMPs and programs is via an invoice. However, the COCC may use a more informal method of billing. Regardless of the method the COCC uses for assessing fees to AMPs and programs, supporting documentation of how each fee was earned must be maintained and available. For example, to document the property management and bookkeeping fee the PHA must be able to support the number of leased units as well as HUD-approved vacancies (type of approval, unit number, category, etc.) that were used to make the calculation. In addition,

²⁸ For this purpose, "indirect costs associated with performing that work" include material, and equipments used on the work order but not general overhead costs.

the PHA will need to document how it determined that the fee rate was reasonable (i.e., it was based on a local multifamily management fee letter or the fee schedule provided by PIH).

Table 7.1: Front-Line Costs and Fee Costs under the HCV Program

Fee Expenses²⁹	Front-Line Expenses
<ul style="list-style-type: none"> • A share of the personnel costs (indirect personnel) for permanent and part-time staff assigned to the COCC. Indirect personnel costs include gross salary, federal and state payroll taxes and all employee benefits. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting supervision responsibilities over the HCV Program. • General maintenance of HCV books and records (general ledger, accounts payable and receivable, payroll, etc.). • Supervision by COCC management staff of overall HCV Program operations. • Procurement of supplies, equipment and contract services for HCV Program activities. • Preparation of monitoring reports for internal staff and external reporting to HUD, other governmental agencies and other interested parties. • Preparation, approval, and distribution of HCV Program disbursements other than HAP. • COCC staff training, and ongoing certifications related to HCV Program activities. • Travel of COCC staff for training, or supervision related to HVC Program activities. • Attendance of COCC staff at meetings (including travel), with landlords, tenants, HUD, or other interested parties regarding HCV planning, budgeting, and review of general HCV Program activities. • Work with auditors for audit preparation and review. • Indirect cost allocations imposed on the HCV Program by a higher level of local government. • Hiring, supervision, and termination of front-line HCV staff. • Preparation and submission of HCV Program budgets, financial reports and year-end financial reports to HUD and other interested parties. • Monitoring and reporting on abandoned property as required by states. • Investment and reporting on HCV proceeds. • Storage of HCV records and adherence to federal and or state records retention requirements. • Development and oversight of office furniture, equipment and vehicle replacement plans. • Insurance costs for fidelity or crime and dishonesty coverage for COCC employees based on a reasonable allocation method. • The costs of board member stipends and non-training travel. • The costs of board member training that exceed HUD standards. 	<ul style="list-style-type: none"> • Actual costs for direct personnel permanent and part-time staff, assigned directly to the HCV Program. Direct personnel costs include gross salary, federal and state payroll taxes and employee benefits. • Travel and training for personnel assigned directly to the HCV Program. • Preparation, approval, and distribution of HCV Program HAP disbursements. • Legal fees directly rated to the operation and management of the HCV Program, including tenant and landlord enforcement actions, and other HCV Program related matters. • The cost of obtaining and receiving background reports on tenants, verification of landlord ownership and other checks related to tenant and landlord selection and participation in the program. • All bank charges related to the HCV Program. • Costs of telephone, including basic services, directory listings, and long distance charges related to direct delivery of the HCV Program. • All advertising costs related specifically to the operations of the HCV Program to include but not limited to advertising for applicants, landlords and employees in newspapers, newsletters, radio, cable TV, and telephone books. • Postage and delivery costs for HAP checks, disbursements and other mailings required to support the activities of the HCV Program. • HCV office furniture, equipment, computers and vehicles. • Service agreements and warranties to support HCV office furniture, equipment, computers, and vehicles. • Insurance costs related to auto coverage for HCV vehicles and other equipment and assets of the HCV Program. • Insurance costs for fidelity or crime and dishonesty coverage for front-line (direct cost) employees based on a reasonable allocation method. • Direct costs of collection activities related to fraud recovery. (Regulations allow the direct costs of fraud recovery to be offset against fraud collections, but indirect costs may not be offset against fraud collections. Indirect costs of fraud collection activities must be born by the HCV management fee.) • Costs of preparing and maintaining tenant and landlord files and processing tenant applications, determining eligibility, tenant rent, tenant certifications, tenant re-certifications and unit inspections. • Public relations expenses related to maintaining positive relationships between the local community, landlords and tenants. • Professional service contracts related to direct services performed for the HCV Program. • Board member training and related expenses up to a limited amount as provided by HUD³⁰.

²⁹ Fees include management and bookkeeping fees

³⁰ Board training and related expenses must be reasonable and approved by the Board before being incurred. Training expenses incurred by COCC staff are management fee expenses and may not be charged to programs.

Table 7.2: Front-Line Costs and Fee Costs under the Operating Fund Program

Fee Expenses³¹	Front-Line Expenses
<ul style="list-style-type: none"> • Actual personnel costs for individuals assigned to the following positions: <ul style="list-style-type: none"> – Executive Director and support staff; – Human resource staff; – Regional managers; – Corporate legal staff; – Finance, accounting and payroll staff; – Information Technology staff including “help desk”; – Risk management staff; – Centralized procurement staff; and – Quality control staff, including quality control inspections. • Purchase and maintenance of COCC arrangements, equipment, furniture, and services necessary to sustain the COCC. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting and bookkeeping services for the AMPs. • Office expense including office supplies, computer expense, bank charges, telephone, postage, utilities, fax and office rent related to the general maintenance and support of the COCC. • The cost of insurance related to COCC buildings, equipment and personnel to include property, auto, liability, errors and omissions and casualty. • Work with auditors for audit preparation and review of audit costs associated with the COCC. • Central servers and software that support the COCC (not projects). • The costs of Board member stipends and non-training travel • The costs of Board member training that exceed HUD standards. • The cost of a central warehouse, unless, with HUD approval, the PHA can demonstrate that the costs of maintaining this warehouse operation, if included with the cost of the goods purchased, are less than what the project would otherwise incur if the goods were obtained by on-site staff. 	<ul style="list-style-type: none"> • Actual personnel costs for individuals (permanent and part-time) assigned directly to AMP sites, including project managers, site-based maintenance staff, and temporary help. • All repair and maintenance costs for the AMP, including: <ul style="list-style-type: none"> – Centralized maintenance provided under a fee-for-service arrangement, provided costs are reasonable and necessary; – Maintenance supplies; – Contract repairs including but not limited to heating and air conditioning, painting, roofing, elevators, and other systems located on a project; – Make ready expenses, including painting and repairs, cleaning, flooring replacements, and appliance replacements; – Preventive maintenance expenses, including occupied units’ repairs and maintenance, as well as common area systems repairs and maintenance; – Maintenance contracts for elevators, boilers and other project systems; and – Other related maintenance expenses such as snow removal, lawn care, Section 504 compliance, pest control and landscaping. • Utility costs. • Costs related to maintaining a site-based office, including telephone, office supplies, computer expense, postage, copier expense, cell phones, office utilities, office equipment and furniture, equipment service agreements, software license agreements, office equipment and computer repairs and other related office expenses. (If the cost of software license agreements and equipment maintenance service agreements cannot be identified to specific AMP equipment, the cost may be allocated to AMPs using a reasonable allocation methodology.) • Advertising costs such as an AMP specific procurement action, solicitation for employees and other project specific advertising actions. • PILOT. • All costs of insurance for the AMP, including property liability and casualty, auto, as well as fidelity or crime and dishonesty coverage for onsite employees. (If the cost of insurance cannot be identified to the AMP, the cost may be prorated to each AMP using a reasonable allocation methodology.) • Professional service contracts for audits, energy audits, rehabilitation, and inspection contracts and other professional service contracts specific to a project. • Property management fees, bookkeeping fees, and asset management fees. • Subject to 24 CFR part 85, the HUD Litigation Handbook 1530.1 REV-5, PIH Notice 2006-9, legal fees must be directly related to the operation and management of the AMP, including tenant lease enforcement actions, landlord-tenant disputes, and other AMP-related legal matters. Without HUD approval, legal fees may not be

³¹ Fees include property management, bookkeeping and asset management fees.

Fee Expenses³¹	Front-Line Expenses
	<p>incurred to represent any officer or employee of PHA, in her/his individual capacity, in connection with potential civil liability or criminal conduct issues related to PHA operations. AMPs cannot be charged retainers. Any charges to a project conducted by COCC legal staff must be based on services received by the project and documented by time records.</p> <ul style="list-style-type: none"> • Audit costs (if the cost of agency’s overall audit is not identified to the AMP level, the cost may be prorated using a reasonable proration methodology). • Vehicle expense (maintenance, gasoline and repairs) for site-based vehicles. • Staff recruiting and background check costs such as advertising, employment agency fees, drug testing costs and other direct costs to recruit project staff. • Family self-sufficiency staff and program costs. • Board member training and related expenses up to a limited amount as provided by HUD³².

³² Board Training and Related Expenses. Board training and related expenses must be reasonable, included in a project’s budget, and approved by the Board before being incurred. Training expenses related to Board training may be prorated to projects using a reasonable methodology. Training expenses incurred by COCC staff are management fee expenses and may not be charged to projects.

Tab 5.

Chapter 5 – Capital Fund Program Reporting (CFP Management Fee)
(revised Financial Management Handbook, April 2007)

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5. Capital Fund Program Reporting

5.1 APPLICABILITY OF ASSET MANAGEMENT REQUIREMENTS TO THE CAPITAL FUND PROGRAM

As determined in the Operating Fund Program final rule, a fee-for-service method will be put into practice as part of the conversion to asset management, which includes the Capital Fund Program. Beyond the Capital Fund management fee, Capital Fund Program funds can only be used to directly support the projects and its residents. **Except for certain exceptions noted in this section, and other than through use of management fees, Capital Fund Program funds cannot be used to directly support the COCC.**

Current requirements and restrictions for the Replacement Housing Factor (RHF) grants, Emergency Grants and Natural Disaster grants are unchanged at this time, unless otherwise noted below. HUD will provide further guidance on how and if these funds are affected by asset management in the near future.

5.2 CAPITAL FUND PROGRAM MANAGEMENT FEE

Asset management requires that a fee-for-service approach be implemented for the Public Housing Program. HUD recognizes that the COCC will perform management and owner functions related to long-term capital planning, budgeting, oversight, monitoring, and reporting of the Capital Fund Program. Capital Fund Program management fees will be generated from the AMPs to fund costs incurred by the COCC for these functions.

The Capital Fund Program management fee covers costs associated with the COCC's oversight and management of the Capital Fund Program. These costs include duties related to general capital planning, preparation of the Annual Plan, processing of e-LOCCS, preparation of reports, drawing of funds, budgeting, accounting, and procurement of construction and other miscellaneous contracts.

This fee is **not** intended to cover costs associated with the physical needs assessments (PNAs), and the construction supervisory and inspection functions, since these are considered a front-line cost of the project.

The PHA may charge a management fee of up to 10 percent of the Capital Fund Program formula grant(s) amount, excluding RHF grants and Emergency and Disaster grants. Management fees for RHF grants are described in section 7.9. The Capital Fund Program management fee is considered part of the Capital Fund Program Budget Line Item (BLI) 1410, Administration, subject to the regulatory limitation of 10 percent of the Capital Fund grant. HUD will periodically review the Capital Fund Program management fee amounts to determine if any adjustments are warranted.

Prior to the implementation of asset management, and beginning with Federal Fiscal Year (FFY) 2007 grants, PHAs are not permitted to draw down any unobligated funds

pertaining to Administrative Costs (BLI 1410) of open Capital Fund Program grants as Capital Fund Program management fee.

For the Capital Fund and RHF Programs (see section 7.9 for fees for RHF grants), management fees will become effective beginning with FFY 2007 grants. For FFY 2006 and prior year grants, a PHA should continue to charge actual expenses. For FFY 2007 and subsequent year grants, the PHA shall charge management fees commencing the start of its first year under project-based budgeting and accounting. For example, assume a PHA's fiscal year starts October 1. This PHA is awarded its FFY 2007 Capital Fund grant in June of 2007. It can charge actual administrative costs from June through September. Beginning in October, it would switch to a management fee approach.

The Capital Fund Program management fee is available to be earned (drawn down) upon the awarding and availability of the Capital Fund Program grant at any time during the grant period and in any amount up to the 10 percent limit.

5.3 CONSTRUCTION SUPERVISORY AND INSPECTION COSTS

Construction supervisory and inspection costs incurred during construction are considered front-line costs of the AMP. These expenses consist of documented costs incurred during the **construction phase** of the project. For those PHAs that use their own personnel to carry out this function, a time sheet will be required to substantiate the construction supervisor's time. Only actual, documented costs pertaining to construction supervision activities, such as inspections, incurred during the construction phase, can be charged directly to the AMP. Until current regulations are changed, these costs will be drawn down through the Dwelling Structures Budget Line Item (BLI 1460 or BLI 1430).

Front-Line Costs vs. Management Fees. Front-line costs are those that can be directly identified to an AMP. Such costs are typically items directly attributable to the AMP and include architectural and engineering fees related directly to a specific construction project, equipment purchases at the AMP level, and force account activities directly related to a specific construction project. Architectural, engineering and other like costs that are not directly related to an AMP or substantiated by time sheets are recovered through the Capital Fund Program management fee, including general capital planning activities, even if AMP-specific. Under asset management PNAs are considered AMP-specific, front-line costs.

For Example:

An architect designs plans for an improvement project for AMP 1. The expense for this service is considered a front-line cost and charged directly to the Capital Fund Program of AMP 1 and not covered by the Capital Fund management fee. The architect also assists the PHA in the preparation of the Annual Plan. As these costs are directly related to the planning, and reporting functions, they are considered COCC expenses and are recovered through the Capital Fund Program management fee.

Tab 6.

2015 Public Housing Management Fee Schedule

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HUD Releases 2015 Public Housing Management Fee Table

The Financial Management Division (FMD) has released the Calendar Year 2015 80th percentile management fees for public housing. **Table 1** represents the 80th percentile of management fee paid in HUD's multifamily housing programs based on the most recently filed (2013/2014) Annual Financial Statements (AFS). Nationally, the 80th percentile management fee average is \$55.84 per unit month (PUM).

In accordance with PIH Notice 2007-9, PHAs may use the amounts from this table to establish the "reasonable" fee charged to each project. In some field offices, the fee decreased from 2014 schedule. These field offices are identified in Note 2 of Table 1. However, Table 1 has been adjusted to reflect the highest of the 2014 or 2015 fee schedules resulting in an average management fee of \$56.69 PUM.

The amounts in the fee table have already been adjusted for occupancy. In other words, the amounts published represent fees paid for each occupied unit/allowable vacancy.

Small PHAs that elect to implement asset management without a Central Office Cost Center (COCC) are governed by "reasonable" total administrative costs¹. **Table 2** represents the 80th percentile of administrative costs paid in HUD's multifamily housing programs based on the 2013/2014 AFS. In some field offices, the administrative costs dropped from 2014 actual schedule. These field offices are identified in Note 1 of Table 2. However, Table 2 has been adjusted to reflect the higher of the 2014 or 2015 cost schedules.

These fee tables are effective from January 1, 2015.

¹ Section 9.2, *Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR Part 990); Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook*

TABLE 1: 2015 Schedule of 80th Percentile of Property Management Fees in FHA Housing by Field Office, for Unlimited Dividend, Limited Dividend and Non-Profit Ownership Types (Effective 1/1/2015)

Field Office	Property Management Fee (PUM)	Field Office	Property Management Fee (PUM)
Albuquerque ²	\$45.39	Little Rock	\$53.93
Anchorage	\$61.22	Los Angeles	\$75.81
Atlanta	\$57.68	Louisville	\$56.62
Baltimore	\$60.72	Manchester ²	\$64.62
Birmingham ²	\$53.93	Miami	\$59.91
Boston	\$74.03	Milwaukee	\$50.95
Buffalo	\$58.26	Minneapolis	\$58.54
Caribbean	\$56.31	Nashville	\$50.58
Charleston	\$47.66	New Orleans ²	\$50.72
Chicago ²	\$71.01	New York ²	\$66.70
Cincinnati	\$51.94	Newark ²	\$68.31
Cleveland ²	\$51.94	Oklahoma City	\$53.37
Columbia ²	\$54.44	Omaha	\$46.85
Columbus	\$54.97	Philadelphia	\$53.61
Denver ²	\$57.73	Phoenix ²	\$50.36
Des Moines	\$51.24	Pittsburgh	\$61.30
Detroit	\$49.17	Portland	\$54.23
Fort Worth	\$49.81	Providence ²	\$71.46
Grand Rapids	\$49.17	Richmond	\$60.62
Greensboro ²	\$53.20	Sacramento	\$67.91
Hartford	\$78.78	San Antonio	\$50.05
Honolulu	\$69.02	San Diego	\$67.91
Houston	\$43.72	San Francisco	\$67.91
Indianapolis	\$58.56	Seattle	\$51.10
Jackson	\$57.24	Shreveport ²	\$38.44
Jacksonville ²	\$58.42	St. Louis ²	\$45.49
Kansas City	\$46.77	Tampa ²	\$59.91
Knoxville	\$47.62	Tulsa ²	\$44.87
Las Vegas	\$63.07	Washington, DC	\$61.76

Notes:

1. The above fees have been adjusted to reflect the average vacancy loss for each market, i.e., the rates shown reflect the fees paid for occupied units.
2. In the field offices where the fee decrease from the 2015 actual schedule, the PHA may use the amount from the 2014 schedule. The chart above shows the higher of the two schedules. Using the actual non-substitute schedule 2015 schedule, the management fee for these field offices would have been as follows: Albuquerque (\$42.29), Anchorage (50.74), Charleston (47.53), Cleveland (\$51.74), Columbia (\$54.82), Denver (\$57.45), Fort Worth (\$49.62), Indianapolis (\$57.13), Las Vegas (\$61.52), Little Rock (\$49.01), Omaha (\$36.74), Shreveport (\$36.79), St. Louis (\$44.49) and Tulsa (\$43.36).
3. In previous years distinct basic fees were issued for Cincinnati, Grand Rapids, Sacramento, San Diego, and Tampa

field offices.

Given available data, these field offices basic fees are issued using other field offices in the state in accordance with the follow crosswalk: Cincinnati uses Cleveland fees; Grand Rapids uses Detroit fees; Sacramento and San Diego use San Francisco fees; and Tampa uses Miami fees. PHAs subject to this consolidated fee structure listed in this Note 3 may use field office approved alternative fees by utilizing the guidance in the “Supplement to HUD Handbook 7475.1 REV.CHG-1, Financial Management Handbook,” “7.4, Demonstrating Fee Reasonableness,” “7.6, Property Management Fee Reasonableness,” and 7.9. “Other Fees”, available at http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_9191.pdf

Field Office	Admin. Fee Range (PUM)	Field Office	Admin. Fee Range (PUM)
Albuquerque	\$180.36	Little Rock	\$171.26
Anchorage ¹	\$181.15	Los Angeles	\$222.15
Atlanta	\$170.24	Louisville	\$172.18
Baltimore	\$205.73	Manchester ¹	\$189.99
Birmingham	\$155.35	Miami	\$175.61
Boston	\$255.38	Milwaukee	\$175.76
Buffalo	\$197.47	Minneapolis ¹	\$165.11
Caribbean	\$187.84	Nashville	\$155.26
Charleston ¹	\$148.97	New Orleans	\$168.51
Chicago	\$239.16	New York	\$239.03
Cincinnati ¹	\$176.13	Newark	\$253.45
Cleveland	\$176.13	Oklahoma City	\$173.00
Columbia	\$175.74	Omaha ¹	\$192.34
Columbus	\$161.67	Philadelphia	\$207.07
Denver	\$182.36	Phoenix ¹	\$174.63
Des Moines	\$140.66	Pittsburgh	\$176.77
Detroit	\$167.65	Portland	\$188.00
Fort Worth	\$165.08	Providence ¹	\$259.39
Grand Rapids ¹	\$167.65	Richmond	\$164.56
Greensboro	\$137.80	Sacramento	\$266.71
Hartford	\$246.87	San Antonio	\$166.20
Honolulu	\$236.83	San Diego	\$266.71
Houston ¹	\$157.21	San Francisco	\$266.71
Indianapolis	\$144.78	Seattle	\$204.15
Jackson	\$165.81	Shreveport	\$131.23
Jacksonville	\$174.68	St. Louis	\$154.79
Kansas City	\$148.74	Tampa	\$175.61
Knoxville	\$135.03	Tulsa ¹	\$129.76
Las Vegas	\$179.31	Washington, DC	\$221.89

Notes:

1. In the field offices where the fees decrease from the 2015 actual schedule, the PHA may use the amount from the 2014 schedule. The chart above shows the higher of the two schedules. Using the 2015 actual schedule, the administrative fee for these field offices would have been as follows: Anchorage (\$177.81), Columbia (\$173.40), Fort Worth (\$165.08), Manchester (\$187.10) Phoenix (\$174.33), , San Francisco (\$259.68), Shreveport (\$127.81), and St. Louis (\$147.23).

2. The amounts included in the above table are based on the 80th percentile administrative costs for all non-profit, limited dividend and unlimited dividend FHA properties, by field office, excluding such programs as cooperatives and nursing homes. This information is based on 2012 Annual Financial Statements (the most recent available data) and includes the following line items: 6203-Conventions and Meetings, 6204-Management Consultants, 6210-Advertising and Marketing, 6235-Apartment Resale Expense (Coops), 6250-Other Renting Expenses, 6310-Office Salaries, 6311-Office Expenses, 6312-Office or Model Rent, 6320-Management Fee, 6330-Manager or Superintendent Salaries, 6331-Administrative Rent Free Unit, 6340-Legal Expense-Project, 6351-Bookkeeping Fees/Accounting Services, 6390-Miscellaneous Administrative Expenses, 6711-Payroll Taxes (Administrative Share), and 6723-Health Insurance and Other Employee Benefits (Administrative Share). HUD will review and update this table as needed.

3. In previous years distinct basic fees were issued for Cincinnati, Grand Rapids, Sacramento, San Diego, and Tampa field offices. Given available data, these field offices basic fees are issued using other field offices in the state in accordance with the follow crosswalk: Cincinnati uses Cleveland fees; Grand Rapids uses Detroit fees; Sacramento and San Diego use San Francisco fees; and Tampa uses Miami fees. PHAs subject to this consolidated fee structure listed in this Note 3 may use field office approved alternative fees by utilizing the guidance in the “Supplement to HUD Handbook 7475.1 REV.CHG-1, Financial Management Handbook,” “7.4, Demonstrating Fee Reasonableness”, “7.6, Property Management Fee Reasonableness,” and 7.9, “Other Fees”, available at http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_9191.pdf

Tab 7.

2 CFR 200 – Select Definitions and Sections (e.g., reasonable costs, etc.)

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Title 2 - Grants and Agreements
Subtitle A - Office of Management and Budget Guidance for Grants and Agreements
Chapter II - Office of Management and Budget Guidance E
Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

§200.4 Allocation.

Allocation means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

§200.400 Policy guide.

The application of these cost principles is based on the fundamental premises that:

(a) The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.

(b) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(c) The non-Federal entity, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.

(d) The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award.

(e) In reviewing, negotiating and approving cost allocation plans or indirect cost proposals, the cognizant agency for indirect costs should generally assure that the non-Federal entity is applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item by the non-Federal entity, the reasonableness and equity of such treatments should be fully considered. See §200.56 Indirect (facilities & administrative (F&A)) costs.

(f) For non-Federal entities that educate and engage students in research, the dual role of students as both trainees and employees (including pre- and post-doctoral staff) contributing to the completion of Federal awards for research must be recognized in the application of these principles.

(g) The non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award. See also §200.307 Program income.

§200.403 Factors affecting allowability of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
 - (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
 - (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
 - (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
 - (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
 - (g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.
-

§200.404 Reasonable costs.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Tab 8.

2014 OIG Report (PH Operating and Capital Fund COCC Fees) –
Results of Audit
(issued June 30, 2014)

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**Office of Public and Indian Housing
Washington, DC**

**Public Housing Operating and Capital Fund
Program Central Office Cost Center Fees**



Issue Date: June 30, 2014

Audit Report Number: 2014-LA-0004

TO: Milan Ozdinec, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE
D. J. Lavoy, Deputy Assistant Secretary for Real Estate Assessment Center, PX
Lindsey Reames, Acting Deputy Assistant Secretary for Field Operations, PQ
//SIGNED//

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of HUD's Public Housing Operating and Capital Fund program asset management safe harbor fees and HUD's monitoring of central office cost centers.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



June 30, 2014

HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers

Highlights

Audit Report 2014-LA-0004

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) methodology and monitoring regarding the Office of Public Housing's asset management fees and central office cost centers due to our concerns over potential misspending by public housing authorities and the lack of restrictions in the use of such funds. Our objective was to determine how HUD arrived at the asset management fee limits in its Public Housing Operating and Capital Fund programs and whether its methodology for setting these limits and its monitoring of these fees were reasonable.

What We Recommend

We recommend that HUD (1) revise its asset management fee policy to refederalize the Operating and Capital Fund programs' fee revenue, (2) eliminate the asset management fee, (3) require the San Francisco Housing Authority to support or repay \$6.1 million in fees, (4) require the City of Los Angeles and Southern Nevada Regional Housing Authorities to repay \$751,860 in excessive fee charges, and (5) establish and implement policies and procedures for the assessment and monitoring of the fees.

What We Found

HUD could not adequately support the reasonableness of the Operating Fund management, bookkeeping, and asset management fees and Capital Fund management fee limits. In addition, HUD lacked adequate justification for allowing housing authorities to charge an asset management fee, resulting in more than \$81 million in operating funds being unnecessarily defederalized annually. HUD also did not adequately monitor housing authorities' central office cost center fee charges. Among five housing authorities reviewed, four inappropriately overcharged or transferred \$2.3 million in excessive operating program funds from their asset management projects to their central office cost centers. Two of the housing authorities were unable to support \$6.7 million in management, bookkeeping, and asset management fees charged. Since central office cost center funds are considered non-Federal funds and no longer subject to HUD requirements, there is a greater potential for fraud, waste, and abuse. Consequently, two housing authorities used approximately \$4.3 million in central office cost center fee revenue for questionable costs.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development (HUD) published the final rule on the Public Housing Operating Fund program, 24 CFR (Code of Federal Regulations) Part 990, which included two major provisions: to provide a new formula for determining operating subsidies to public housing agencies and to establish requirements for housing authorities to convert to a new business model, called asset management, which was implemented in calendar year 2007. HUD issued a supplement to address the changes in financial management and reporting for housing authorities. The supplement established that housing agencies must be required to replace cost allocation systems with a series of fees for the Public Housing Operating and Capital Fund programs.

Under the Operating Fund rule, housing authorities with 250 or more units must convert to asset management, while housing authorities with fewer than 250 units may voluntarily convert to asset management. The change to asset management was to give greater attention to the performance of each public housing project. A public housing authority can demonstrate successful conversion to the asset management model by implementing five major elements: (1) project-based funding, (2) project-based budgeting, (3) project-based accounting, (4) project-based management, and (5) project-based performance assessment. The public housing authority has the option of contracting with a private management company to manage its projects or it can manage its projects itself. By providing management services to the projects, a public housing authority will pay the private management company or pay itself a fee, which is collected by its central office cost center, the business unit within the housing authority that earns income from fees or revenue from other business activity and charged to its projects.

HUD established the types and amount of fees that housing authorities may charge to their asset management projects.

- (1) Housing authorities could charge each project a reasonable management fee to fund the operation of their central office cost centers. HUD published an annual management fee schedule, which represented the 80th percentile of management fees paid in HUD's multifamily housing programs based on the most recently filed annual financial statements. HUD allowed housing authorities to use the amounts from this schedule to establish the "reasonable" fee charged to each project.
- (2) In addition, housing authorities were permitted to charge a bookkeeping fee for the project accounting functions, which was determined to be \$7.50 per unit month.
- (3) HUD also allowed housing authorities to charge an asset management fee at a rate of \$10 per unit month based on all units under the annual contributions contract as long as the project had excess cash in an amount sufficient to cover 1 month of operating expenses in the prior year.
- (4) Housing authorities could charge up to a maximum of 10 percent of their annual Capital Fund grant as a management fee.

Although HUD limits the fees charged, housing authorities may depart from the guidance as long as they consult with HUD and obtain its view on the reasonableness of the fees intended to be charged.

According to Supplement to HUD Handbook 7475.1, REV, CHG-1, Financial Management Handbook, these fees are considered nonprogram income for purposes of 2 CFR Part 225 and 24 CFR Part 85; however, State and local restrictions may still apply. Consequently, any reasonable fees earned by the central office cost center will be treated as local revenue, and the housing authority may use such fees in accordance with its mission, subject only to any local, but not Federal, restrictions.

Our objective was to determine how HUD arrived at the asset management fee limits in its Public Housing Operating and Capital Fund programs and whether its methodology for setting these limits and its monitoring of these fees was reasonable.

RESULTS OF AUDIT

Finding: HUD Could Not Support the Reasonableness of Its Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers

HUD could not adequately support the reasonableness of its Operating Fund program's management, bookkeeping, and asset management fees and Capital Fund management fee limits, and it did not adequately justify the need for the asset management fee. In addition, HUD generally did not adequately monitor the housing authorities' central office cost center fee charges. This condition occurred because HUD did not retain the complete working documents used to determine the reasonableness or the basis of the fees of the central office cost centers, nor had it reassessed the reasonableness of the rates since their inception. It also did not monitor charges to its housing authorities' central office cost center because those fees were considered defederalized and no longer subject to HUD's requirements. Therefore, approximately \$353 million in public housing operating funds was defederalized annually as management, bookkeeping, and asset management fees between January 2009 and December 2011, without assurance that the amounts being charged were reasonable. Of this amount, approximately \$81.6 million in asset management fees was unnecessarily charged to the public housing agencies' asset management projects, annually. Among five housing authorities reviewed, four inappropriately overcharged or transferred \$2.3 million in excessive operating program funds from their asset management projects to their central office cost centers. Two of the housing authorities were unable to support \$6.7 million in management, bookkeeping, and asset management fees charged. Since central office cost center funds are considered non-Federal funds and no longer subject to HUD requirements, there is a greater potential for fraud, waste, and abuse. Consequently, two housing authorities used approximately \$4.3 million in central office cost center fee revenue for questionable charges.

HUD Did Not Retain a Basis for Central Office Cost Center Fees

HUD could not adequately support the reasonableness of its Operating Fund program's fee limits. HUD did not retain the complete working documents used to determine the reasonableness of the central office cost center fee rates, nor had it reassessed the reasonableness of the rates since their inception.

Management Fees

HUD provided the data set and methodology it used to derive the 2013 management fees that were published in the annual management fee schedules. However, it could not adequately support the basis for taking the 80th percentile of the management fees paid in HUD's multifamily housing programs. HUD stated

that the 80th percentile was determined by a panel that discussed what was reasonable to set as management fees. This percentage had not been reevaluated since its inception. Some working documents were retained and provided by HUD, but they were incomplete and did not adequately explain the basis for the management fees. As of 2013, HUD still used the data from the multifamily housing program to establish the fees, although it had about 6 years of historical data from housing authorities. HUD stated that it had discussed and considered using housing authority rather than multifamily housing program data; however, a decision had not been made to transition to that approach. On average, approximately \$205.3 million in management fees were defederalized annually by public housing authorities nationwide.¹

Bookkeeping Fees

HUD provided a working document regarding the bookkeeping fees, but a review of the document did not adequately justify the reason for setting the bookkeeping fee rate at \$7.50. HUD stated that at the time the bookkeeping fee rate of \$7.50 was set, the average bookkeeping fee rate for multifamily housing was about \$3.50 per unit month. The higher bookkeeping fee for housing authorities reflected higher centralized information technology and human resources costs in public housing. However, there was no support for the analysis to show how HUD determined that the \$4.00 difference was reasonable. HUD had not considered increasing the fee for public housing. HUD stated that it had not reassessed this rate because housing authorities could exceed the rate as long as they consulted with HUD on fees that might depart from established guidance before charging the fees. On average, approximately \$66.2 million in bookkeeping fees were defederalized annually by public housing authorities nationwide.

Asset Management Fees

HUD had not provided an explanation or methodology in describing how it arrived at its asset management fee rate of \$10 and the basis for allowing the fee. This rate had not been reassessed since its inception. According to HUD, asset management fees are similar in nature to distributions allowed under the multifamily program, since a housing authority may not take an asset management fee unless the project has excess cash. HUD explained that these fees were an “incentive” to the housing authority to both operate its public housing projects and its central offices in a financially prudent manner. However, based on HUD Handbook 4370.2, chapter 2-8 (C), the multifamily program generally did not permit nonprofit entity owners distributions or cash withdrawals, other than for the payment of reasonable expenses necessary to the operation and maintenance of the project, from surplus cash. Surplus cash must be deposited into the residual receipts account and may be released only with prior written approval from HUD (see appendix C).

¹ Capital fund management fees were included in the overall management fees reported in the Subsystem and cannot be separated unless a review is conducted at each housing authority.

HUD denied that asset management fees represented a profit for the housing authorities. However, this fee did not cover additional charges necessary for the operation and maintenance of the projects. As a result, asset management fees did not serve any purpose other than to allow a housing authority to defederalize additional funds from its projects to retain as profit in its central office cost center. Housing authorities are not profit-motivated entities and should always operate in a financially prudent manner. Therefore, we believe that asset management fees should be disallowed in future assessments of central office cost center fees. On average, approximately \$81.6 million in asset management fees were defederalized annually by public housing authorities nationwide.

Capital Fund Management Fees

HUD stated that the 10 percent management fee was statutory and derived from section 9(d) of the U.S. Housing Act of 1937, which allows a housing authority to charge up to 10 percent of the Capital Fund grant for “administration.” These administrative costs must be specifically apportioned and documented. Under a fee-for-service system, the housing authority may charge a management fee of 10 percent, regardless of actual cost. HUD explained that the fee rate had not changed but the treatment of the fee income changed under the asset management model, as it is now considered non-Federal funds. The HUD handbook stated that HUD would periodically review the Capital Fund program management fee amounts to determine whether adjustments were warranted (see appendix C). The 10 percent rate had not been revised since its inception. HUD did not provide its basis for allowing the housing authorities to charge the entire 10 percent of their Capital Fund grant as a management fee or show that this rate was reasonable.

HUD Did Not Adequately Monitor Central Office Cost Center Accounts

HUD headquarters did not have a policy in place to monitor its housing authorities’ central office cost center accounts unless they were deemed to be troubled, standard, or high-moderate risk or if the housing authorities’ asset management projects were having cash flow problems or some other ad hoc event that occurred to raise a question regarding the central office cost center accounts. Because HUD was concerned with the performance of the developments under an asset management model, it would not look at a housing authority’s central office cost center account unless the housing authority was experiencing financial issues or one or more of its asset management projects had limited cash flow. HUD relied on the housing authorities’ compliance with the Office of Management and Budget Circular A-133 Compliance Supplement as determined by audited financial statements and notification edits of the housing authorities’ electronic submissions to the Financial Assessment Subsystem for Public Housing

(Subsystem)² conducted by the Real Estate Assessment Center (Center). Further, HUD stated that the independent public auditor should review the fee structure and if the audit identified a problem, HUD would take appropriate action.

The Los Angeles, San Francisco, Cleveland, and Hartford public housing field offices did not review the central office cost center accounts of their respective housing authorities because they considered those funds as non-Federal and not subject to the public housing rules. They generally stated that their monitoring of housing authorities was triggered by a fee alert letter from the Center, a review of information in the electronic submissions and the independent public audit reports, or a request from HUD headquarters. They would monitor the fees that were charged to the asset management projects to ensure that they were calculated correctly; however, they would not monitor how the fee revenue was used and expended from the central office cost center.

The Center implemented the fee alert letters to identify potential noncompliance with HUD-established limits to its public housing authorities' central office cost center fees in January of 2013. The fee alert letters were designed to assist HUD's field offices and the program office in their monitoring activities. When a public housing authority entered its annual financial information into the Subsystem, it would check for anomalies with the fees charged to the projects. An anomaly would generate a fee alert letter, which would be sent to the HUD field office responsible for the particular public housing authority. This letter would prompt the field office to check into the particular issue identified. Although the asset management model took effect in 2007, the fee alert letters were not implemented until early 2013 due to HUD's resource limitations. In addition, the computation logic to test the asset management fees malfunctioned. As a result, the Center inactivated the letters³ to correct the problem. The Center's program manager did not know when the errors were identified. The computation logic was corrected, and the letters were reactivated in December 2013. However, local field offices notified the Center that the logic was still incorrect. The Center inactivated the letters a second time and planned to reactivate them but HUD local field offices will not receive fee alert notices for asset management until May 2014.

Housing Authorities Had Excessive and Unsupported Charges

We found indications that the housing authorities in our review (1) charged fees in excess of HUD's established limits, (2) lacked supporting documentation when defederalizing fees, (3) transferred public housing operating funds to the central

² The Real Estate Assessment Center receives and analyzes the annual financial statements of the nation's public housing authorities from their submissions to the Financial Assessment Subsystem for Public Housing.

³ The letters for management and bookkeeping fees remained active.

office cost centers in excess of what they earned to cover fund deficits, (4) overcharged projects for cost center type charges with or without supporting documentation, and (5) transferred funds between projects without excess cash in the previous fiscal year. We performed our analysis at the San Francisco, City of Los Angeles, and Nevada housing authorities. We also included the results of Bridgeport and Stark housing authorities, which we audited separately.

San Francisco Housing Authority

According to a Center report, issued on August 16, 2011, the San Francisco Housing Authority failed to demonstrate full compliance with the “stop loss”⁴ criteria. Specifically, the Center cited that San Francisco’s management fee of \$78 per unit month was higher than the 2010 management fee table published rate of \$65, which was \$13 per unit month higher than HUD deemed reasonable and, therefore, an overcharge of almost \$900,000. We attempted to validate whether San Francisco had corrected the use of this rate by reviewing its fiscal year 2010 general ledger and management and bookkeeping fee calculations. However, San Francisco did not provide the necessary supporting documents. Since San Francisco was unable to provide support for its general ledger entries for both management and bookkeeping fees, we determined the \$5.8 million⁵ to be unsupported for fiscal year 2010.

We compared San Francisco’s internal records with the electronic submission to the Subsystem and noted a disparity of \$332,246. The internal records showed an asset management fee calculation of \$418,320, while the electronic submission showed \$750,566 for fiscal year 2009. We asked San Francisco for the fiscal year 2009 general ledger and an explanation of the variance; however, San Francisco did not provide the general ledger or explain the variance. Based on our analysis, San Francisco should have charged only \$418,320 to its asset management projects. Therefore, asset management fees charged in excess of \$418,320 would not be eligible. Since we could not verify whether the \$332,246 was an asset management fee or another fee that was categorized incorrectly, we determined this amount to be unsupported.

San Francisco was designated troubled by HUD, based on the Public Housing Assessment System score for the fiscal yearend September 30, 2011. Coupled with the Center report, San Francisco executed a stop loss corrective action plan with HUD in July 2013, which required demonstration of compliance with the stop loss criteria as outlined in a Center report within 180 days of plan execution. San Francisco received conditional approval for stop loss funding in fiscal year 2013. Also, the HUD San Francisco field office performed a stop loss onsite review in January 2014 and determined that San Francisco had demonstrated successful conversion to asset management. As part of the review, the HUD San

⁴ Under the new operating rule, public housing authorities that will experience a decline in funding can have their losses “stopped” by demonstrating a successful conversion to asset management.

⁵ Management (\$5,398,225) and bookkeeping (\$460,850) fees identified in San Francisco’s fiscal year 2010 audited financial statements

Francisco field office used San Francisco's responses and supporting documents as outlined in its stop loss corrective action plan agreement, which included reviewing the management and asset management fees. Given the issues identified above, we requested that HUD and the San Francisco field office provide documentation used to lift the corrective action plan or input related to the management and asset management fees, but we received nothing.

Housing Authority of the City of Los Angeles

The City of Los Angeles inappropriately overcharged its asset management projects \$714,000 in asset management fees in fiscal years 2009 and 2010 because it misapplied HUD's 3-year implementation criteria, which sets guidelines that would allow a housing authority to charge asset management fees. The City of Los Angeles should not have charged an asset management fee for four asset management projects in fiscal year 2009 and 11 projects in fiscal year 2010.

The July 2007 criteria, Table of Fees Under Asset Management, was posted on the HUD Office of Public Housing's Web site as a supplement to HUD Handbook 7475.1, REV, CHG-1, Financial Management Handbook (see appendix C). Although the criteria were not published in a public and Indian housing notice or incorporated into a handbook, HUD confirmed the criteria to be official and effective. The criteria apply only to the first 3 years of asset management implementation.

HUD clarified that for the second and third year of implementation, the prior year's financial information should be reviewed to determine eligibility for an asset management fee. The City of Los Angeles commented that the criteria did not specifically state that prior-year data should be reviewed and the only mention of looking at excess cash from the prior year applied in the fourth year of asset management implementation and onward. We agree that the criteria could be easily misinterpreted, which raised the concern that other housing authorities may have also misapplied the criteria.

During the HUD Los Angeles field office limited financial management review conducted between December 2011 and February 2012, the field office concluded that the asset management fee calculation, based on review of the Center's financial data schedules from 2009 and 2010, proved to be reasonable under HUD-published limits. This review was in draft form and had not been issued by the field office. Although the report stated, "HUD Financial Analysts reviewed fee-for-service expenses from HCV [the Housing Choice Voucher program] and PH [public housing] to ensure these programs were not overcharged," HUD stated that the field office did not verify the excess cash computations but was limited to verifying that the City of Los Angeles used the correct number of units to calculate the asset management fee rates and that the per unit rates were reasonable. To demonstrate that asset management fees were not overcharged in fiscal years 2009 and 2010, the field office should have tested whether the asset

management project met the 3-year implementation criteria, and its failure to do so left the overcharges undetected.

Southern Nevada Regional Housing Authority

The Nevada housing authority inappropriately charged asset management fees of \$37,860 to three asset management properties in fiscal year 2011, although those properties reported cash deficiencies in the prior year. The Nevada housing authority stated that excess cash was low in this fiscal year because it was the first year of their agency's regionalization. The financial analyst responsible for monitoring this agency did not receive a fee alert letter from the Center; therefore, the issue was not identified. Because this issue occurred before the implementation of the asset management fee letters in January 2013, the HUD field office would not have caught the inappropriate charges unless it actively monitored the Nevada housing authority's asset management fee calculations.

Bridgeport Housing Authority

The Bridgeport Housing Authority (OIG audit report number 2014-BO-1001, issued January 23, 2014) overcharged its projects \$281,611, including management (\$108,193), bookkeeping (\$14,538), and asset management (\$158,880) fees, between October 2009 and April 2013. In addition, Bridgeport paid \$297,083 in charges with its asset management projects that should have been charged directly to its central office cost center. It also improperly transferred \$225,000 in funds between asset management projects in fiscal year 2012 when the projects did not have the required excess cash. Finally, Bridgeport did not provide adequate documentation to support charges of \$584,119 and as a result, may have overcharged its asset management projects and undercharged its central office cost center.

Stark Metropolitan Housing Authority

Stark Metropolitan Housing Authority (OIG audit report number 2013-CH-1003, issued July 15, 2013) made ineligible transfers of \$773,049 in public housing operating funds from its asset management projects to its central office cost center in excess of what it earned.

Charges From Central Office Cost Centers Were Questionable

Fees earned by and transferred into the central office cost center are defederalized and no longer subject to HUD requirements. Therefore, the charges paid from the central office cost center are not transparent to the public, and housing authorities cannot be held accountable to HUD for inappropriate uses of central office cost center funds. Since there is no Federal oversight with respect to the use of these funds, there is a much greater potential for fraud, waste, and abuse. Because HUD was unable to demonstrate the reasonableness of the fees, public housing agencies nationwide may have defederalized excessive amounts of taxpayer

dollars for use on questionable expenses that did not agree with HUD's mission and goals.

To illustrate our concerns with HUD's policy of defederalizing fees, we performed a limited review of our sample housing authorities' central office cost centers and identified more than \$4.3 million⁶ in expenses from the City of Los Angeles' and San Francisco Housing Authority's central office cost centers that would appear excessive or questionable if charged to restricted HUD program funds (see chart below). For instance, the former executive director of the City of Los Angeles earned a six-figure salary, benefits, and generous "perks," including a bonus, housing allowance, and surveillance system installed at his home. Media reports of his salary contributed to HUD implementing a \$155,500 limit⁷ on executive salaries. He also negotiated and received a seven-figure severance package for a wrongful termination settlement with the City of Los Angeles. The funds used to pay for these expenses came from the central office cost center. They were primarily funded by defederalized HUD fees and were, therefore, beyond HUD's control. In another instance, the former executive director of the San Francisco Housing Authority was on medical leave from January 29 to March 29, 2013, yet his six-figure salary in excess of the \$155,500 limit HUD instituted, was paid out of the central office cost center with de-federalized HUD fees. Media reports indicated that he led the San Francisco Housing Authority to the brink of financial ruin as a result of ongoing deficits in the past three or four years, while receiving a paycheck even though he was on medical leave for two months. Another media article stated that while the former executive director was on medical leave, he was setting up a restaurant in Berkeley, which was slated to open on May 1, 2013. These matters were covered extensively in the local media, portraying both housing authorities primarily funded by HUD in a negative light.

⁶ The \$4.3 million in questionable expenses for the City of Los Angeles and San Francisco Housing Authorities (\$3,911,651 and \$456,601, respectively) were spent with defederalized funds and therefore, were not included in our questioned costs and funds to be put to better use totals.

⁷ Public and Indian Housing Notice 2012-14 limits the salary a housing authority is allowed to charge to the fiscal yearend 2012 Section 8 and Section 9 funds for a chief executive office or other officials to \$155,500 (see appendix C).