U.S. Department of Housing and Urban Development



Public and Indian Housing

Special Attention:

Public Housing Field Office Directors, Public Housing Program Directors, Public Housing Hub Directors, Public Housing Agencies, Financial Management Center Notice PIH 2006-03 (HA)

Issued: January 11, 2006

Expires: January 31, 2007

Cross References: Notice PIH 2005-1;

Notice PIH 2005-9; Notice PIH 2005-17; 24 CFR Part

982 and 792; 24 CFR Part 5

Subject: Reduction of Annual Contributions Contract (ACC) Reserves, Rescission of Requirements Under form HUD-52681 for Most Housing Choice Voucher Program Units, and Sanctions for Failure to Submit Required Financial Reports Pursuant to 24 CFR 5.801.

1. <u>Purpose.</u> Through this Notice HUD is notifying Public Housing Agencies of the reduction and recapture of any remaining program reserve balances (ACC reserves) previously maintained pursuant to 24 CFR 982.154(b). PIH Notice 2005-01 established that the ACC reserve account would be reduced to an amount not to exceed one week of program reserves. This Notice provides that any unused ACC reserves remaining after December 31, 2005 will be reduced to zero. Additionally, this notice provides that any budget authority provided to PHAs in calendar year 2005 that exceeds actual program expenses for the same period must be maintained in a PHA's undesignated fund balance account in accordance with Generally Accepted Accounting Principles.

This Notice supersedes PIH Notice 2005-09 section 3(d) sentence 1. This Notice also rescinds the requirements for PHAs to complete and submit form HUD-52681 as those requirements relate to the on-going Housing Choice Voucher (HCV) program with the exception of units under the Moderate Rehabilitation Program, the Single Room Occupancy Program and certain Section 811 Mainstream vouchers (see paragraph 5 below).

Through this Notice, PHAs are also reminded of their responsibility to report financial information pursuant to the Uniform Financial Reporting Standards (UFRS) Rule of 1998 codified at 24 CFR Section 5.801. This Notice provides for the imposition of penalties for failure to submit in accordance with the UFRS and for failure to adhere to other reporting timeframes.

- **2. Applicability.** This Notice applies to all PHAs administering the HCV program.
- **3.** <u>Background.</u> Program regulations governing the HCV program give HUD the authority to establish and maintain an unfunded reserve account for PHAs' HCV program

from available budget authority under the consolidated ACC. The amount in the ACC reserve account is determined by HUD. HUD may approve payments for the PHA program, in accordance with the PHA's approved budget, from available amounts in the ACC reserve.

Form HUD-52681 is used to complete the PHA year-end settlement for all Section 8 Housing Assistance Payments Programs where an ACC is executed between HUD and the PHA including the HCV program. PHAs, prior to the issuance date of this Notice, were required to prepare Form HUD-52681 after each fiscal year end and submit it to the Financial Management Center (FMC) no later than 60 calendar days following the PHA fiscal year.

The UFRS requires PHAs that administer the HCV to submit an un-audited financial data schedule to HUD electronically no later than 2 months following a PHA's fiscal year end. PHAs that are required to submit audited financial data must submit an audited financial data schedule and an Independent Public Accountant's report no later than 9 months following a PHA's fiscal year end. The financial information must be submitted via the Financial Assessment Sub-System (FASS) in accordance with Generally Accepted Accounting Principles (GAAP).

- **4.** <u>ACC Reserve Account and Recapture.</u> Pursuant to the FY 2005 Consolidated Appropriations Act (Pub. L. No. 108-447) and the Conference Committee Report (HR 4818-H. Rept .108-792), HUD reduced the amount of ACC reserves to no more than one week of program expenses. If there are any unused funds in the ACC Reserve Account as of December 31, 2005, HUD will recapture those amounts and will not restore them.
- **5.** Form HUD-52681. Since the data HUD currently collects through form HUD-52681 (OMB Approval No. 2577-0169) is captured electronically in the Voucher Management Subsystem (VMS) and the Financial Assessment Sub-system (FASS), it is unnecessary for PHAs administering the HCV program to continue to report under the HUD-52681. Therefore, beginning with PHAs with fiscal years ending on or after December 31, 2004, the requirement to submit the Form HUD-52681 for the HCV program is rescinded. Forms received for calendar year 2005 will not be processed.

The requirements of Form HUD-52681 are not affected by this Notice for the Moderate Rehabilitation Program, Moderate Rehabilitation Single Room Occupancy Program and Section 811 Mainstream vouchers originally funded with Section 811 five-year budget authority and subsequently renewed using Section 811 one-year budget authority.

6. <u>Use of Voucher Management System Data.</u> HUD collects leasing and cost information from PHAs through VMS. In calendar year 2005 and for calendar year 2006, the Department will use VMS for funding decisions, monitoring and funding related factors under the Section Eight Management Assessment Program (SEMAP). Therefore, it is imperative that PHAs comply with reporting requirements and timelines for reporting through VMS and ensure that the information submitted is both timely and accurate.

PHAs are reminded that the data provided in VMS is always subject to verification and review by HUD's Quality Assurance Division.

Effective for reporting periods following the issuance date of this Notice, the Department will impose a 10 percent penalty against a PHA's monthly administrative fees for failure to comply with VMS reporting requirements until such time that the PHA complies with the reporting requirements. The imposition of such penalties represents a permanent reduction for the current calendar year that shall not be reversed (however, this will not impact the baseline calculations).

- 7. <u>Uniform Financial Reporting Standards.</u> PHAs are reminded of their responsibility to submit financial reports in accordance with UFRS codified at 24 CFR section 5.801. As of the issuance date of this Notice, PHAs with fiscal years ending December 31, 2005 and later, that fail to file pursuant to Section 5.801 will be sanctioned. As in the case of a PHA's failure to comply with the reporting requirements under VMS, the Department will also impose a 10 percent penalty against a PHA's monthly administrative fees for failure to file by the deadline in accordance with UFRS until such time that the PHA complies with the filing requirement. The imposition of such penalties represents a permanent reduction for the current calendar year that shall not be reversed.
- **8.** <u>Use of Public Housing Information Center (PIC) Data for Enhanced Vouchers.</u> Information required for any funding adjustment decisions for enhanced vouchers as a result of higher costs will be extracted from PIC. PHAs must therefore ensure timely and accurate reporting in PIC to make certain such funding actions can be processed accurately and timely. Failure to adhere to PIC reporting requirements in accordance with Notice PIH 2005-17 may result in imposition of sanctions as required by that Notice and may have adverse effects on a PHA's annual funding amounts.
- 9. <u>Undesignated Fund Balance Account.</u> Starting January 1, 2005, excess budget authority disbursed to PHAs that is not utilized to pay Housing Assistance Payments (HAP) will become part of the undesignated fund balance account in accordance with GAAP and may only be used to assist additional families up to the number of units under contract. HUD will closely monitor both overutilization and underutilization of funds and will take appropriate action to assure appropriated funds are being used to serve as many families up to the number of vouchers authorized under the program.

Administrative fees in excess of administrative expenses in calendar year 2005 are also part of the undesignated fund balance account. These funds are still considered to be administrative fee reserves, and are subject to all requirements applicable to administrative fee reserves including, but not limited to, 24 CFR 982.155. For calendar year 2005, these funds must be used for activities related to the provision of tenant-based rental assistance authorized under Ssection 8 of the United States Housing Act of 1937, including related development activities.

The undesignated fund balance account also includes monies previously maintained in the ACC Reserve account including, but not limited to, interest income on HAP investments, Family Self-Sufficiency Escrow forfeitures and fraud recoveries (see paragraph 10 below for more information on fraud recoveries).

A PHA must be able to differentiate HAP equity (budget authority in excess of HAP expenses) from Administrative Fee equity (Administrative Fees earned in excess of administrative costs)

- a. **ACC Reserve Deficits** ACC Reserve account deficits from 2004 and prior years shall not be paid from the Undesignated Fund Balance Account and will not be funded by HUD.
- **10.** <u>Fraud Recoveries.</u> Program regulations at 24 CFR Part 792 govern tenant or owner fraud recoveries under the HCV program, and authorizes PHAs to retain a portion of the fraud recoveries for use in support of the HCV program. In the past, the portion of the recoveries that PHAs were not authorized to retain was maintained by HUD in the PHA's ACC reserve account.

Through this Notice, HUD clarifies that the PHA portion of the fraud recovery (i.e., the higher of 50 percent of the amount collected or the reasonable and necessary costs the PHA incurred related to the collection) from the HCV program must continue to be used for activities related to the provision of voucher assistance authorized under Section 8 of the United States Housing Act of 1937. Any unused amounts must be maintained in the Undesignated Fund Balance Account as excess administrative fees. The balance of the recovery amount must be maintained in the Undesignated Fund Balance Account as excess HAP.

11. <u>Additional Information.</u> For questions concerning this Notice, please contact Miguel Fontánez, Director, Financial Management Division at (202) 708-2934.

Orlando J. Cabrera, Assistant Secretary for Public and Indian Housing