

# the advantage update<sup>tm</sup>



2007  
March

## Monitoring Your Calendar Year 2007 HAP Funding

Recent congressional appropriations will change the methodology in which Housing Assistance Payments (HAP) funding will be calculated for calendar year 2007. This change is the first change since the calculation was based on the May, June & July of 2004, in the Voucher Management Submission (VMS). HUD will calculate HAP funding using the average most recent verifiable HAP expense for a twelve month period, which is January through December of 2006. The HAP expense will be verified using the data submitted in VMS. For example, if an Authority incurred \$147,987,728 in HAP expense during calendar year 2006, then you could expect the amount to be inflated by the annual adjustment factor, (published February 1, 2007 in the federal register) and reduced by the proration factor. To estimate funding, we suggest that you don't apply an inflation factor or a proration factor. This will base your funding on prior year, once the proration factor is released, then you may apply both factors to obtain exact funding.

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Figure 1

### Housing Authority

#### Facts

Baseline Units:	20,500	
Unit Months Available:	246,000	(20,500 x 12 months)
Latest Actual PUC: \$	707	

#### CY 2006 Data Reported to VMS

HAP Paid: \$	147,987,728
Unit Months leased:	218,145
Per Unit Cost: \$	678

#### Calculations

CY 2007 Funding: \$	147,987,728
Estimated UML To Be Leased:	209,318 (CY 2007 Funding / PUC)
Estimated Families To Be Leased:	17,443 (Est. UML/12)

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Based on your latest per unit cost (PUC) you can estimate the number of units you expect to lease each month. For example, in Figure 1 on page 1, the Authority had an estimated PUC of \$707 and funding was based on the \$147,987,728, then the Authority could lease 209,318 unit months which computes to 17,443 units for the year. In this example the baseline units are 20,500, and unit months available are 246,000, funding isn't available to maximize leasing. Approximately 3,057 families will not be able to be housed.

Additionally, administrative fees will remain approximately the same as your letter received on 1/19/07 from HUD.

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## Recent Changes to the FDS

In our prior issue we discussed the expected changes to the Financial Data Schedule (FDS) due to the transition to Project Based Accounting and Management. We will continue our discussion with additional reporting requirements for the Housing Choice Voucher (HCV) program. The changes discussed below were instituted as of September 30, 2006. Congress changed the methodology by which HUD funds housing authorities, HAP subsidy and Administrative Fee subsidy. Therefore, the FDS incorporated new lines for reporting such as HAP Reserve, Administrative Fee Reserve and added a "Details" link for Fraud Recovery, Restricted Investment Income and Unrestricted Investment Income.

Administrative Fee Reserve and HAP Reserve are "Memo" line items on the FDS, lines 1117 and 1118 respectively. The sum of these line items will equal your Unrestricted Net Assets on the FDS, line 512.1. HAP Reserve consists of unused HAP funding starting in calendar year 2005. Administrative Fee Reserves consists of, basically, accumulated profit or loss, not including depreciation expense or interest earned on HAP reserves. The following schedule on page 3 will help you reconcile your ending HAP Reserve and Administrative Fee Reserve balances.

This equity schedule is divided into 3 sections. The first section is an Equity Roll Forward. ① This tickmark represents net revenues and expenses; it must tie to Section 2, Calculation of HAP and Administrative Fee Reserves as well as Section 3, Reconciliation of Equity. ② This tickmark represents the final balance of Unrestricted Net Assets and must tie to Section 3, Reconciliation of the Equity Roll Forward. In Section 2, Calculation of HAP and Administrative Fee Reserve take the amount of HAP funding received from HUD and subtracting the actual HAP payments to landlords to determine the amount of the provision to the HAP Reserve account. Likewise for the Administrative Fee Reserve, we are taking the amount of Administrative Fee funding from HUD subtracting all administrative expenses to determine the amount of the provision to the Administrative Fee reserve. ✓ This tickmark traces the HAP provision to Section 3, Reconciliation Roll Forward. ✗ This tickmark traces the Administrative Fee provision to Section 3, Reconciliation of Roll Forward.

As an additional consideration you may want to take into account any fraud recovery income. *Approximately* half of the income will be allocated to the HAP Reserves and the other half of the income will be allocated to the Administrative Fee Reserves. You will want to add these items to your equity schedule. FDS reporting will require you to report the amounts on line number 714, Fraud Recovery Income. You will be required to separate the income using the "Details" link.

Furthermore, any unrestricted interest earned must be reported on FDS Line 720. The Authority will have to determine the amount of interest earned for excess HAP and interest earned on operating reserves. A "Details"

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**The Housing Authority  
Schedule of Unrestricted Assets  
FY 2006**

**Unrestricted Net Assets Roll Forward**

Beginning Equity, April 1 2005		\$ 628,203.00
Excess of Revenue over Expenditures	190,007.74	①
Ending Equity, March 31, 2006		<u>\$ 818,210.74</u> ②

**Calculation of HAP and Administrative Fee Reserves**

	HAP	Admin	Total
Subsidy	1,162,850.00	121,208.00	1,284,058.00
Expense	<u>(963,540.66)</u>	<u>(130,509.60)</u>	<u>(1,094,050.26)</u>
	<u>199,309.34</u> ✓	<u>(9,301.60)</u> ✗	<u>190,007.74</u> ①

**Reconciliation of Roll Forward**

4/1/2005	\$ -	\$ 628,203.00	\$ 628,203.00
FY 2006	199,309.34 ✓	(9,301.60) ✗	① 190,007.74
3/31/2006	<u>\$ 199,309.34</u>	<u>\$ 618,901.40</u>	<u>\$ 818,210.74</u> ②

link will require you to separate these amounts. You can use the schedule on page 4 to determine the amount of interest earned on excess HAP and earned on operating reserves. In this example the Authority received \$3,000,000 in funding, but only paid \$2,886,000 in HAP expenditures. The Authority can now prorate its calculation of interest to HAP reserves based on the month the Authority incurred excess HAP funding. For example, once you determine the interest rate you received from your bank account in column "E", you can calculate the amount of interest earned on HAP reserves by month. The month of June the Authority received \$250,000 in HAP funding, but the Authority paid only \$245,000, therefore there was excess HAP funding of \$5,000 and interest would be \$83. The remaining interest income will be included in the provision to operating reserves. To calculate:

$$\$5,000 \times 2\% \times (10/12) = \$83$$

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Housing Authority  
IL00xVO  
Interest Calculation  
3/31/2005

Insert Interest Rate

(A)	(B) Annual Contributions Received	(C) HAP Paid	(D) Over/(Under) Requisitioned	(E) Interest	(F)	(G) Interest
April	250,000	245,000	5,000	100.00	12.00	100.00
May	250,000	250,000	-	-	11.00	-
June	250,000	245,000	5,000	100.00	10.00	83.00
July	250,000	260,000	(10,000)	-	9.00	-
August	250,000	280,000	(30,000)	-	8.00	-
September	250,000	225,000	25,000	500.00	7.00	292.00
October	250,000	215,000	35,000	700.00	6.00	350.00
November	250,000	215,000	35,000	700.00	5.00	292.00
December	250,000	212,000	38,000	760.00	4.00	253.00
January	250,000	245,000	5,000	100.00	3.00	25.00
February	250,000	247,000	3,000	60.00	2.00	10.00
March	250,000	247,000	3,000	60.00	1.00	5.00
	<b>3,000,000</b>	<b>2,886,000</b>				<b>1,410.00</b>
<b>Interest on Payable</b>						<b>1,410.00</b>

## Fraud... Is it occurring?

In this day and age more and more fraud is occurring, especially in the public and affordable housing industry. Fraud could appear in tenant receipts, tenant charges and financial reporting. Fraud, according to Black's Law Dictionary, "is a generic term embracing all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get advantage over another false suggestions or by suppression of truth, and includes all surprise, trickery, cunning, dissembling, and any unfair way by which another is cheated." After I read this, I resorted to reading the American Institute of Certified Public Accountants' (AICPA) definition, "Fraud is a broad legal concept that is distinguished from error depending on whether the action is intentional or unintentional. Statement on Auditing Standards (SAS) 99 distinguishes two types of fraud as relevant of financial statement auditor, fraudulent financial reporting and misappropriations of assets."

Misappropriation of assets is, basically, theft of the Authority's assets. Fraudulent financial reporting is intentional misstatements or omissions of amounts and disclosures in the financial statements.

How would you determine if fraud is occurring? Theoretically, if there is no specific allegation of fraud, one way to search for fraud is to thoroughly investigate all aspects of the organization. This option is way too costly and impractical. The specific steps involved in determining if fraud is occurring are a manner of judgment based on certain factors. Factors to identify fraud would include symptoms in exposure areas and pressures and motivations to commit fraud. Once you have identified fraud areas, the next step is to look for symptoms suggesting that fraud is occurring or has occurred in those areas. You can look for analytical systems such as changes in TARs,

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profit and cash balances. You can look for employee systems such as unusual changes in employee's lifestyle and behavior. Furthermore you may receive tips from employees, residents and vendors.

Typically, there are five types of financial analysis that could be completed.

1. Fluctuation or Trend Analysis
2. Ratio Analysis
3. Budgetary Comparisons
4. Comparisons with other PHA's
5. Review of general ledger and journal entries

Fluctuation or Trend Analysis is the most common type of analysis you can do. Basically you are comparing prior year, monthly or quarterly totals to current year. See below. You can see significant changes in certain accounts such as cash, tenant accounts receivable and accounts receivable other. You may want to research various relationships such as increased maintenance costs and reduced unit leasing or increased accounts payable and decreased cash.

**The Housing Authority of XXXXX  
Fiscal Year Ended 6/30/06**

	<b>2006</b>	<b>2005</b>	<b>\$ Variance</b>	<b>% Variance</b>
Unrestricted Cash	1,258,904.00	3,496,714.00	(2,237,810.00)	-178%
Security Deposit Cash	145,000.00	134,678.00	10,322.00	7%
Tenants Accounts Rec.	110,894.00	65,478.00	45,416.00	41%
Allowance for TAR	(27,723.50)	(16,369.50)	(11,354.00)	41%
A/R HUD	1,245,893.00	789,323.00	456,570.00	37%
A/R Other	125,000.00	6,500.00	118,500.00	95%
Prepaid Insurance	55,769.00	51,987.00	3,782.00	7%
Prepaid Contracts	4,723.00	4,765.00	(42.00)	-1%
Materials Inventory	354,789.00	209,834.00	144,955.00	41%
Allowance for Materials Inv.	(35,478.90)	(20,983.40)	(14,495.50)	41%
Land	1,245,476.00	1,245,476.00	-	0%
Buildings	8,673,456.00	8,548,127.00	125,329.00	1%
Dwelling Equipment	863,074.00	799,897.00	63,177.00	7%
Non-Dwelling Equipment	998,274.00	862,651.00	135,623.00	14%
Accumulated Depreciation	(4,591,577.00)	(4,024,232.00)	(567,345.00)	12%

Ratio Analysis can be used as a tool to help monitor your financial information on a monthly basis. Two types of ratio analysis that are typical would be comparison your financial ratios from the Public Housing Assessment and Common Size analysis. When you compare you financial ratios you can compare them to prior years' and you can perform analysis monthly and quarterly. Common Size analysis is taking the percentage of one line item to a total of line items. For example, the chart on page 6 reports unrestricted cash at \$1,258,904 in FY 2006 and \$3,496,714 in FY 2005. In FY 2006 unrestricted cash is 12.07% of total assets. Simply taking (\$1,258,904 / \$10,426,473). This analysis will also help identify unique relationships to help identify relationships resulting from fraud.

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The Housing Authority of XXXXX  
Fiscal Year Ended 6/30/06

	% of Total Assets			
	2006	2005	2006	2005
Unrestricted Cash	\$ 1,258,904	\$ 3,496,714	12.07%	28.77%
Security Deposit Cash	145,000	134,678	1.39%	1.11%
Tenants Accounts Rec.	110,894	65,478	1.06%	0.54%
Allowance for TAR	(27,724)	(16,370)	-0.27%	-0.13%
A/R HUD	1,245,893	789,323	11.95%	6.49%
A/R Other	125,000	6,500	1.20%	0.05%
Prepaid Insurance	55,769	51,987	0.53%	0.43%
Prepaid Contracts	4,723	4,765	0.05%	0.04%
Materials Inventory	354,789	209,834	3.40%	1.73%
Allowance for Materials Inv.	(35,479)	(20,983)	-0.34%	-0.17%
<b>Total Current Assets</b>	<b>3,237,770</b>	<b>4,721,926</b>	<b>31.05%</b>	<b>38.85%</b>
Land	1,245,476	1,245,476	11.95%	10.25%
Buildings	8,673,456	8,548,127	83.19%	70.33%
Dwelling Equipment	863,074	799,897	8.28%	6.58%
Non-Dwelling Equipment	998,274	862,651	9.57%	7.10%
Accumulated Depreciation	(4,591,577)	(4,024,232)	-44.04%	-33.11%
Total Non-Current Assets	7,188,703	7,431,919	68.95%	61.15%
<b>Total Assets</b>	<b>\$ 10,426,473</b>	<b>\$ 12,153,845</b>	<b>100.00%</b>	<b>100.00%</b>

When performing ratio analysis, you must remember unusual fluctuations can be caused by legitimate economic factors or by honest accounting errors. Any fluctuations that cannot substantiate a logical explanation could be fraud.

On a monthly basis you could prepare Budgetary Comparisons for income and expense accounts. This is probably the most important report that is often overlooked. Monthly, when you prepare your profit and loss statement, take that opportunity to compare budget amounts to actual amounts. Comparison of actual results, particularly expenses, with budget may indicate unusual variations that should be investigated. There may be a valid reason for the variation, or the account in question may have been manipulated to conceal fraud.

Each Authority should be able to compare its financial ratios, per unit month calculations with other PHAs of similar size and in the same geographic area.

Finally, a review of the general ledger and journal entries for unusual, unexplained, or unsupported amounts, entries, transactions, or patterns can indicate the possibility of fraud and where it might be occurring.

Unusual journal entries may include inappropriate charges to expenses or write-offs of assets such as inventory or receivables and entries made at month end and year end to conceal any possible fraudulent activity. Fraud could happen any day at your Authority. If you have good internal controls, set an anti-fraud culture, promote management integrity and institute an effective internal audit process you could deter fraud from happening.

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The following is a listing of common fraud risk issues that help you deter and/or identify fraudulent activity:

- Significant internal controls are inadequately monitored by management.
- Lack of established policies and procedures.
- Failure to correct known reportable conditions/weaknesses in internal controls.
- Lack of concern about deficiencies in the accounting system
- Non-qualified individuals for accounting and IT staff.
- Board or Executive Office lacks appropriate knowledge or experience regarding operations.
- Management’s failure to effectively communicate and support policies.
- Use of consultants with lacking positive reputations.
- A staff’s known history of violations with other PHA’s or with other legal issues.
- Staffs personal credit report.
- Frequent disputes with auditors “Opinion Shopping.”
- Failure to respond to specific inquiries.
- Domineering behavior.
- Lack of vacations.
- Lack of follow up on questions about financial results.
- Numerous budget modifications.
- High turnover rate in a specific department.
- Large amounts of inventory are kept on hand.
- Significant amounts of assets susceptible to personal use such as cars.
- Anticipated future employee layoffs.
- Dissatisfied employees.
- Evidence that employees are living beyond their means.
- Lack of adequate recordkeeping.
- Lack of segregation of duties.
- Declining subsidy levels.
- Changes in compliance requirements.
- Declining number of eligible participants.
- Incurring payroll tax fines and penalties.

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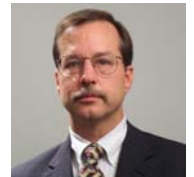
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## Subscription Information

Welcome to the second issue of The Advantage Update newsletter. The Advantage Update is your primary source of HUD financial information published on a monthly basis. The Advantage Update will contain valuable information such as technical guidance to implement the latest regulation from HUD, GAAP and GASB. Expect to see the latest updates for the implementation to Project Based Accounting & Management, audit tips, various Section 8 issues, Capital Fund, tax credits, development of affordable housing and various internal control issues including fraud prevention & detection.

Subscribers to The Advantage Update newsletter will also receive emails as new regulations are published. In the future, the Advantage Update will also provide you with the option to earn CPE credits during the year as well.

To continue receiving monthly issues of this newsletter for the remainder of 2007, there are two easy ways to sign up:

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What main areas are you interested in learning about?

Describe the key challenges you face.

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l to r: Randeel Mellon and Bill Burns of Asher with Lissa Hilsee, President and CEO of Greater Philadelphia Cares.



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