



Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ♦ Karyn E. Polito, Lieutenant Governor ♦ Chrystal Kornegay, Undersecretary

Public Housing Notice 2017-13

To: Local Housing Authorities
From: Amy Stitely, Associate Director, Division of Public Housing & Rental Assistance
Date: 06/23/2017, Being Re-Issued on 10/31/2017
Re: Clarification on Tenants Accounts Receivable (TAR)

The purpose of this PHN is to inform LHAs (particularly LHA Finance Staff) and Fee Accountants of:

- important changes in financial accounting and reporting requirements of uncollected rent,
- how TAR is incorporated in the AUP and PMR programs, and
- detailed TAR reporting that is part of a TAR application coming out later this year (and how certain information from this application will be used to calculate an LHA's PMR TAR rating).
See Section B for two important steps LHAs can take now to prepare for TAR and the PMR.

This PHN is *particularly important* for LHA Finance Staff and Fee Accountants. **However, LHA Executive Directors and other Administrators also need to be informed of these changes.**

New (per this PHN) – Effective Immediately

- Section A - Clarification about what balances should appear within TAR;
- Section B - Why knowing the information in this PHN will help LHAs prepare for the AUP & PMR; reporting requirements for the quarterly TAR application to be released later this year;
- Section C - Changes in accounting practices for **fraud/retroactive** repayment agreements and details about **quarterly** reporting requirements in the TAR application for these agreements;
- Section C - Clarification on accounting for **normal** repayment agreements and details about **quarterly** reporting requirements per the TAR application for these agreements;
- Section D - Change in accounting practice for Allowance for Doubtful Accounts;
- Section E - New rules for writing off uncollected rent

Section A. What is Tenants Accounts Receivable (TAR) and What Balances are In It?

1) Balances from Current Residents

- This includes unpaid rent, damages, late fees and other fees, as well as related charges.
- Includes normal repayment agreements.

2) Balances from Vacated Accounts

- This includes both residents who have been evicted or who vacated, as well as residents who have passed away.
- This includes unpaid rent, damages, late fees and other fees, as well as related charges.

Important Notes about TAR:

Prepaid Rent

- **Prepaid rent should not appear in TAR.** As per the Accounting Manual, prepaid rent should appear in Balance Sheet Account #2240 – Deferred Credits – Tenants Prepaid Rents.

Balances within TAR (all must handle balances within TAR as stated below)

- All balances in TAR should be the full amounts outstanding; not broken out payment by payment. Normal repayment agreements should appear within TAR in the full amounts of the outstanding agreement. Fraud/retroactive agreements should not appear within TAR but should be booked as explained in Section C – page 5.

Section B. What's Coming Up for TAR?

TAR and the Agreed Upon Procedures (AUP)

TAR is currently part of the Agreed Upon Procedures (AUP) financial review. The AUP checks to see if:

- Aging of TAR matches the General Ledger and Balance Sheet
- Uncollected TAR accounts are in compliance with the LHA's Rent Collection policy
- Write-offs are in accordance with DHCD policy
- Documentation of board approval for write-offs

Currently the AUP program remains in the "Planning Year," which includes FYE 12/31/15, 3/31/16, 6/30/16 and 9/30/16. Beginning with "Publishing Year" AUPs with a FYE of 12/31/16 and going forward, a new procedure in the AUP checks that the amount in Allowance for Doubtful Accounts is in compliance with GAAP and is reasonable given the age and type of outstanding receivables.

Also, beginning with the "Publishing Year," there will also be a check within the AUP that repayment agreements properly track to the financial statements. For any changes presented in this PHN, the AUP will not look at these changes until AUPs with FYE 9/30/17. See Section C for more information.

TAR and the Performance Management Review (PMR)

As mentioned above, TAR will be folded into the PMR starting with the “Publishing Year” which begins with LHAs with a FYE of 12/31/17. The TAR metric will appear on your PMR up to four times: once overall, and then once for each program you have (667, 705, and 200).

The TAR formula for the PMR will be:

$$\frac{\text{TAR (Account 1122 from the Balance Sheet) minus Normal Repayment Agreements* (per future TAR application)}}{\text{DIVIDED BY Shelter Rent (account 3110 from the Operating Statement)}}$$

Criteria is:

At or below 2% - No Findings

More than 2%, but less than 5% - Operational Guidance

5% or more – Corrective Action

*Fraud/Retroactive Repayments are not included in the PMR formula; see Section C to understand how to account for/report these types of agreements.

Tenants Accounts Receivables (TAR) Report in HAFIS

The Tenants Accounts Receivables (TAR) report in Housing Authority Financial Information Systems (HAFIS) was disabled last fall (2016). In the meantime, LHAs were expected to continue to keep track of their TAR by utilizing their current software systems (or any other means used to track and monitor TAR). DCHD has meanwhile been working on a new TAR application, to be released later this year.

The new TAR application provides DHCD and the LHA with important information:

- 1) To measure the TAR metric (as you saw earlier, normal repayment agreements reported in the TAR application are part of PMR TAR metric)
- 2) For LHAs to monitor their TAR metric throughout the year to improve their TAR performance (through new PMR system)
- 3) For DHCD to monitor and provide technical assistance to LHAs to help them improve their TAR performance

The TAR application will ask the following (see Appendix A for software reporting requirements):

- TAR broken out by program (667, 705, 200)
- Shelter Rent broken out by program (667, 705, 200)

- TAR broken out by Normal Repayment Agreements vs. No Repayment (overall and by program: 667, 705, 200)
- How Much Has Been Collected from Normal Repayment Agreements
- Detail on Fraud/Retroactive Repayment Agreements (that do not appear within TAR) (overall and by program: 667, 705, 200)
- TAR broken out by Vacated vs. Current Tenant Balances (overall and by program: 667, 705, 200)
- TAR broken out by Aged Receivables Report per the following breakouts: <=30 days, 31 to 60 days, 61 to 90 days, 91 to 180 days, 181 to 274 days, 275 to 365 days, over 1 year
- Write Offs (overall and by program: 667, 705, 200)

Two Steps LHAs and Fee Accountants Should Take Now to Prepare for TAR Application/TAR and the PMR:

1) Measure Your TAR formula Right Now!! (see TAR formula and TAR criteria on page 3). Make sure to calculate it once for your entire LHA, and then once for each program type. Take steps now to reduce your TAR prior to your PMR for the “Publishing Year” which begins with FYE 12/31/17.

2) Talk to your software vendor – many software vendors have or shortly will have the ability to meet the requirements of the TAR application. Others, are still working to implement these changes and are looking for direction from you. Appendix A goes into detailed software reporting requirements that DCHD has provided to all the vendors that DHCD is aware of.

- Reach out to your software vendor to see if they can meet these requirements (Appendix A). If they cannot, ask them to make the changes necessary.
- If they can, ask for trainings or screenshots that would help you understand how to run the reports out of your system to be able to report them through the TAR application. Ask your software vendor how changes in reporting for TAR affect how LHAs input data into the system.
- If you do not use a software vendor, start creating an excel or paper based tracking system to be able to break out your TAR in all the ways the TAR application will require (see pages 3 to 4)

Section C. Reporting and Accounting for Repayment Agreements

Definitions/Terminology

Normal Repayment Agreement - Written agreement between LHA and the tenant providing for pay back of the amounts owed for rent, damage or costs. Normal Repayment Agreements include court-ordered agreements.

Fraud/Retroactive Repayment Agreement - Written agreement between LHA and the tenant providing for pay back of the amounts owed due to unreported income. Retroactive Repayment Agreements include court-ordered agreements.

Reporting for Fraud/Retroactive Repayment Agreements

LHAs should provide information on fraud/retroactive agreements to their Fee Accountant or Internal LHA Finance Staff. This information will also be required to be reported to DHCD as a part of the TAR application quarterly (both in terms of dollars as well as number of these types of agreements). For LHAs who use software to manage Tenants Accounts Receivable (TAR), many of these software vendors have the ability to identify, track and report on balances within TAR, such as amounts under fraud/retroactive repayment agreements. Please reach out to your software vendor for more information. If you don't use a software vendor, please set up a paper or excel based system that will make it easy for you to track and report fraud/retroactive repayment agreements.

Accounting for Fraud/Retroactive Repayment Agreements

- 1) DHCD is going to disable the TAR Contra Balance Sheet Account (1122.1) where some fee accountants have been reporting fraud/retroactive agreement balances.
- 2) Instead, to comply with GAAP, please use the following method to account for fraud/retroactive repayment agreements and report them on the financial statements. Do not include fraud/retroactive agreements within TAR. This will negatively impact an LHA's TAR metric for the PMR.

Note: These changes will not be made in the IT system until DHCD's FY 18; therefore you won't see these changes until quarter ending 9/30/17 financial statements.

Transaction	Debit	Credit
Recording a new balance (not previously booked on the financial statements anywhere) due to a <u>fraud/retroactive</u> repayment agreement		
Transaction 1	New Receivable on Balance Sheet 1124 Called "Accounts Receivables – Fraud/Retroactive"	New Account on Operating Statement 3111 – Shelter Rent – Tenants - Fraud/Retroactive
Transaction 2	New Account on Operating Statement 4571 – Collection Loss – Fraud/Retroactive	New Account on Balance Sheet 1124.1 Called "Fraud/Retroactive Contra"
Recording collection of a balance due to a <u>fraud/retroactive</u> repayment agreement		
Transaction 1	Cash	New Receivable on Balance Sheet 1124 Called "Accounts Receivables – Fraud/Retroactive"
Transaction 2	New Account on Balance Sheet 1124.1 Called "Fraud/Retroactive Contra"	-1/3 in Shelter Rent Account 3110** -2/3 in Retained Revenue Account 3691**

**does not have to be done for non-subsidy LHA.

3) It has been brought to our attention that many LHAs have not been reporting fraud/retroactive repayment agreements on the financial statements. Since reporting these balances reduces subsidy, DHCD is working to adjust the ANUEL and Subsidy Worksheet to exclude any amounts from fraud/retroactive repayment agreements from the subsidy calculation.

a. DHCD is adding a line to the ANUEL and Subsidy Worksheet to back out full balances reported in the 3111 "Shelter Rent – Tenants – Fraud/Retroactive" account.

Reporting for Normal Repayment Agreements

LHAs should provide information on normal repayment agreements to their Fee Accountant or Internal LHA Finance Staff. Information on normal repayment agreements will also be required to be reported to DHCD as a part of the TAR application quarterly (both in terms of dollars as well as number of these types of agreements). For LHAs who use software to manage Tenants Accounts Receivable (TAR), many of these software vendors have the ability to identify, track and report on balances within TAR, such as amounts under normal repayment agreements. Please reach out to your software vendor for more information. If you don't use a software vendor, please set up a paper or excel based system that will make it easy for you to track and report normal repayment agreements. **Normal Repayment Agreements are important for LHAs to track and report as they will help LHAs improve their TAR PMR metric.**

Accounting for Normal Repayment Agreements

Normal repayment agreements should always be reported within uncollected rent in the TAR Account #1122 **in the full balance of the agreement**. The PMR metric backs normal repayment agreements out of TAR. These balances must appear in TAR, otherwise DCHD will be backing out a balance from TAR that was not included in TAR in the first place.

Section D. Using Allowance for Doubtful Accounts to Estimate Future Losses

This PHN changes what was stated in the FY17 Budget Guidelines. LHAs are **no longer required** to move standard percentages over to Allowance for Doubtful Accounts based on the age of their receivables (see table below). However, these aging buckets will still be required for reporting in the TAR application. If LHAs use a software to manage and track TAR balances, they should be able to easily pull an aged receivables report directly from their software. For more information, if applicable, contact your software company and/or Fee Accountant. If you don't use a software vendor, please set up a paper or excel based system that will make it easy for you to provide an aged receivables report of TAR each quarter.

<u>Percentages of Uncollected Rent to Set Aside in Allowance for Doubtful Accounts 1123</u> <u>(all timeframes are from date rent was due)</u>	
<u>Less than or equal to 30 days</u>	<u>0%</u>
<u>31 to 60 days</u>	<u>25%</u>
<u>61 days to 90 days</u>	<u>50%</u>
<u>91 to 180 days</u>	<u>75%</u>
<u>181 to 274 days</u>	<u>100%</u>
<u>275 to 365 days</u>	<u>100%</u>
<u>Over 1 year</u>	<u>100%</u>

Instead, DHCD is leaving it up to LHAs to determine the amount to set aside in Allowance for Doubtful Accounts based on the particular LHA's historical rates of non-collection, which may include some consideration of aged receivables. There will be a reasonable check on the AUP that the amount in Allowance for Doubtful Accounts makes sense given the age and type of outstanding receivables. LHAs with no explainable methodology for the amount reported in Allowance for Doubtful Accounts, or for which the amount does not agree with historical rates of non-collection will receive a finding on their AUP. This process is only required **annually**, but LHAs can choose to do it quarterly.

Allowance for Doubtful Accounts (detailed transactions)

Transaction	Debit	Credit
Moving Percentage of Outstanding TAR to Allowance for Doubtful Accounts QUARTERLY that Results in an <u>Increase</u> to Allowance for Doubtful Accounts		
Transaction 1	Collection Loss Account 4570	Allowance for Doubtful Accounts 1123
Moving Percentage of Outstanding TAR to Allowance for Doubtful Accounts QUARTERLY that Results in an <u>Decrease</u> to Allowance for Doubtful Accounts		
Transaction 1	Allowance for Doubtful Accounts 1123	Collection Loss Account 4570

Section E. Writing Off Accounts

Definitions/Terminology

Vacated Accounts - A tenant has vacated when either the resident no longer lives in the unit (due to eviction or unexpectedly leaving the unit or because the resident has passed away). Balances from vacated tenants that can be written off include unpaid rent, damages, late fees and other fees, as well as related charges.

When Can I Write Off An Account?

Effective immediately, in real time (monthly, quarterly, annually), if a tenant vacates and the account is not expected to be collected and the board has approved the write-off, the LHA may write the account balance off the Balance Sheet.

This transaction would involve a debit to the Allowance for Doubtful Account and a credit to Tenants Accounts Receivable. This is a change from the previous policy that accounts be 12 months stale before being written off. NOTE: No unpaid balances from current residents should be written-off (with the exception of rent abatements).

In the cases where a deceased tenant with a TAR balance that has been prorated for the month and cannot be collected, this balance should be reversed against current year Shelter Rent Account 3110 and not carried as a vacated balance.

Note: the future TAR application will require detailed reporting of write-offs (overall and by program).

Writing off an Account (detailed transactions)

Transaction	Debit	Credit
Writing Off A Balance (already within TAR and with <u>appropriate</u> percentage of account per the age of the receivable already booked within Allowance for Doubtful Accounts)		
Transaction 1	Allowance for Doubtful Accounts 1123	TAR Account 1122
Writing off a Balance (already within TAR but <u>no</u> percentage booked within Allowance for Doubtful Accounts)		
Transaction 1	Collection Loss Account 4570	TAR Account 1122
Unexpected Collection of a Balance Previously Written Off		
Transaction 1	Cash	Retained Revenue Account 3691

Appendix A: New Tenant Account Receivable (TAR) Application

The information below will be required by the new TAR application. You should be able to produce this information in a year-to-date format, as well as a quarter-by-quarter format.

1) Repayment/Retroactive Agreements:

- On an account by account basis, indicate what portion of outstanding balances in TAR are under Normal Repayment vs. Retroactive Repayment Agreements.
- Produce a report that rolls these account by account repayment and fraud/retroactive repayment balances into totals by program and cumulatively (all programs combined); for each type: normal repayment only and fraud/retroactive only.
- Number of normal repayment vs. fraud/retroactive repayment agreements in place.
- How much (\$) has been collected from normal repayment agreements

2) Track and Report on Vacated Account Balances vs. Current Resident Balances:

- Systems need to track what balances within TAR are from vacated accounts and which are from current residents.
- Produce a report of vacated vs. current resident balances cumulatively (all programs combined); and by program (667, 705, 200).

3) Produce a report of your receivables by age (with filters: [with/without vacated balances], [with/without repayment/retroactive agreements]):

- <30 days
- 31 to 60 days
- 61 to 90 days
- 91 to 180 days
- 181 to 274 days
- 275 to 365 days
- Over 1 year

4) Need to Track and Report Write-Offs

- Overall and By Program

5) Need to Track and Report:

- Rent Charged by Program
- TAR by Program

For any questions about these software requirements, please contact Gretchen Haupt at Gretchen.Haupt@MassMail.State.MA.US.