What to Do with Performance Management Review (PMR) and Agreed Upon Procedures (AUP) Data?

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Wayde Porrovecchio, Director of Finance
AGENDA:
AUP Results
LHA View (to be released soon)
PMR Results
Retained Revenue
AUP Program Overview
What Do We Look at for AUP?

- The eight criteria of the AUP excel tool are:
  - Rent Collection (includes Segregation of Duties for Rent Collection and Tenants Accounts Receivables)
  - Payroll (includes Top 5/Salary, Timesheets, and Tracking/Accounting for Leave)
  - Accounts Payables (includes testing a sample of Operating, Capital, Credit Card and Employee Reimbursements)
  - Inventory (includes maintaining a Fixed Asset Listing as well as a Depreciation Schedule)
  - Procurement (includes following Procurement Law/maintaining Contract Registrar)
  - Cash Management (includes testing bank statements match General Ledger)
  - Operating Subsidy (includes checks on the Accuracy of the ANUEL and Subsidy Worksheet)
  - Rent Re-Determination (includes timeliness of annual rent re-determination, accuracy of rent calculations, and timeliness of notices)
For each procedure, the auditor marks an “E” for an exception or an “NE” for No Exception.

- The AUP excel tool automatically calculates the rating for each of the eight criteria of the AUP.

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<thead>
<tr>
<th>Procedures</th>
<th>Criteria</th>
<th>Category Rating</th>
<th>No Findings</th>
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</thead>
<tbody>
<tr>
<td>A. Wage Reconciliation</td>
<td>0</td>
<td>No Exception Found</td>
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<tr>
<td>B. Payroll/Fringe Benefits</td>
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<td>No Exception Found</td>
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<tr>
<td>C. Obtain a compensated absences liability schedule</td>
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<td>No Exception Found</td>
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### A. Wage Reconciliation
1. Verify analytically (not to exact amount) that FYE-end wages gross payroll reported on the LHA’s General Ledger for all programs and all employees matches actual wage amounts reported on Forms 941 and WR-1 (state and Federal filings).
2. Look at DHCD-approved budget Schedule of All Salaries and Positions “Report” in HAFIS and identify five highest paid salaries from all funding sources. Verify analytically (not to exact amount) that it matches the amount reported at FYE on the Schedule of Positions and Compensation form (LHA should have a copy on file; DHCD refers to this as the Top 5 form). Verify the amount reported on the Schedule of Positions and Compensation (Top 5) form matches the amount reported on Forms 941 and WR-1.

### B. Select a Single Pay Period
1. Trace timesheets/timcards to the payroll register.
2. Test for completeness and accuracy.
3. Proper controls and approvals are in place, i.e. employees sign timesheets, the Executive Director signs off on employee timesheets, and the Executive Director maintains a timesheet.

### C. Obtain a compensated absences liability schedule
1. Test for consistency with personnel policy (personnel policy required per Contract for Financial Assistance (CFA) and Management Plan (112) and reconcile to Balance Sheet (51-2) and General Ledger. Verify analytically future liabilities for employee benefits (particularly GASB 45 and GASB 68) are properly reflected on Operating Statement (51-1) and Balance Sheet (51-2).
2. Proper controls and approvals are in place, i.e. Executive Director approves employee compensated absences.
3. Compensated absences should be tracked apart from the timesheets, and verification with timesheets should be performed.
4. Accrued and Accumulated leave time matches. Time is accruing as it should.
Launch of New Version of AUP and Planning Year!

May 9, 2016

First MassNAHRO Presentation on AUP Common Findings and How to Prevent

May 23, 2016

Second MassNAHRO Presentation on AUP Common Findings and How to Prevent

June

- Dean and IG Deliver Procurement Training
- Mirna and Chris Deliver Rent Redetermination Presentation to NAHRO

October

Sent "AUP Common Findings" to Tom Connelly for Inclusion in Professional Development Training in 2017

November 14, 2016

- Rent Redetermination A to Z Packet Starts to Be Issued to LHAs

December 17, 2016

- Procurement Common Findings Dos and Don’ts PHN Issued to LHAs

December 29, 2016

Follow-up on AUP Begins!

Met with IG’s Office for Coordination around Procurement Findings

October

- Met with IG’s Office for Coordination around Procurement Findings

November 14, 2016

- AUP Tracking System in Place!

December 17, 2016

- Chris and Mirna Deliver Rent Redetermination Training to Internal Staff

December 29, 2016

- New PHN on Publishing Year Version of the AUP Tool + TAR PHN

June 2017
AUP Results
(High Level)
Sample Sizes

- 12/31/15 FYE – 60 LHAs
- 3/31/16 FYE – 40 LHAs (not everyone)
- 6/30/16 FYE – 58 LHAs (not everyone)
Procurement and Rent Re-Determination continue to be top two criteria with exceptions for the AUP.

- Procurement has the highest levels of “Corrective Action,” however the threshold is lower for this criteria, with only two exceptions leading to “Corrective Action” compared to the threshold of three for most other criteria.
- Payroll and Rent Re-Determination have the highest rates of exceptions across various categories within that criteria. Roughly 1 in 10 have exceptions in all three categories of payroll and at least 3 of the 4 categories of rent re-determination.

AUP Results 12/31/15 and 3/31/16 and 6/30/16 Combined

- Procurement has the highest levels of “Corrective Action,” however the threshold is lower for this criteria, with only two exceptions leading to “Corrective Action” compared to the threshold of three for most other criteria.
- Payroll and Rent Re-Determination have the highest rates of exceptions across various categories within that criteria. Roughly 1 in 10 have exceptions in all three categories of payroll and at least 3 of the 4 categories of rent re-determination.
Annual Rent Re-Determination and Procurement top the list, with over half of LHAs with findings in these areas.

- Nearly half also have issues with Rent Collection/TAR and with Fixed Asset/Depreciation Schedules.

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<th>% of LHAs with 1 or more exceptions in AUP Area</th>
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<td>H. Annual Rent Calculation and Compliance</td>
<td>60%</td>
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<td>E. Procurement/Public Bidding for Goods and Services</td>
<td>56%</td>
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<td>A. Rent Collection / Tenant Accounts Receivable / Account Write-Offs</td>
<td>47%</td>
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<td>D. Inventory (Fixed Assets)</td>
<td>46%</td>
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<td>B. Payroll/Fringe Benefits</td>
<td>41%</td>
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<td>C. Accounts Payable/Disbursements</td>
<td>20%</td>
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<td>F. Cash Management and Investment Practices</td>
<td>4%</td>
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<tr>
<td>G. Operating Subsidy</td>
<td>4%</td>
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AUP Results
Detailed
Procurement
The contract register receives the most exceptions in this criteria by far.

• Still, around 1 in 10 LHAs have issues with the accuracy of their procurements.

Criteria: Rent Collection
- Category 1: Process of Rent Collection
- Category 2: Segregation of Duties
- Category 3: Compliance with Rent Collection Policy and Accuracy on Financial Statements
- Category 4: Writing off TAR Procurement

Criteria: Procurement
- Category 1: Procurement Occurred When Should Have
- Category 2: Procurements $10K to $35K – Accuracy (Among those with this type, n=128)
- Category 3: Procurements $35K+ - Accuracy (Among those with this type, n=121)
- Category 4: Contract Register

% with 1+ Exceptions:
- Category 1: 7%
- Category 2: 11%
- Category 3: 9%
- Category 4: 52%
A reduction in findings for the Contract Register is the reason for the drastic improvement in procurement criteria.

- 66% of FYE 6/30/16 AUPs had a previous AUP where they were flagged for this issue, which might explain the large reduction in findings for this area.
Procurement Criteria

How DHCD Will Help:
• Template Contract Register Upon Request
• Procurement Specialist, Dean Harris
• Dean will hold procurement trainings for those who request it

What LHAs Can Do - Common Exceptions for Procurement:
• Board Approval of Contracts (prior to being initiated)
• Posting on Goods and Services Bulletin for Contracts Over $100K
• Newspaper Advertisement 2 weeks prior
Rent Re-Determination
6 in 10 LHAs have an exception in Rent Re-Determination. Most likely, for timeliness of notices.

- Though 1 in 4 had exceptions being timely with annual rent re-determinations and/or calculating rent accurately.

### Rent Redetermination

% with 1+ Exceptions

**Criteria: Rent Re-determination**

- **Category 1: Rent/HAP Roll Match Operating Statements**
  - 1%

- **Category 2: Annual Rent Re-Determination Happens Annually**
  - 25%

- **Category 3: Accuracy of Rent Calculation**
  - 29%

- **Category 4: Timeliness of Notices to Tenants**
  - 43%
Fewer exceptions in this category is mainly driven by the fact more LHAs are timely with their annual rent re-determinations.

- Still, accuracy of rent calculations and timeliness of notices have only seen slight improvements.

Rent Re-Determination Criteria - % with 1+ Exception by FYE over Time

[Bar chart showing exceptions over time for different categories of rent re-determination criteria, with notable improvements in Category 1 and slight improvements in other categories.]
Rent Re-Determination Process

1. **60 days**
   - LHA Notifies Tenant
   - LHA Sends 1) Letter 2) Continued Occupancy Form to Tenant and 3) General Authorization Form
   - See Chapter 3

2. **30 days**
   - Tenant Provides Info to LHA
   - Receive Continued Occupancy Form from Tenant Plus Verification of Income & Deductions
   - See Chapter 4

3. **14 days**
   - LHA Performs Rent Calculation Using Rent Calculation Worksheet. LHA conducts third party verification (wage match, etc.)
   - See Chapter 4

4. **New Rent**
   - LHA Notifies Tenant
   - LHA Issues Either: 1) Notification of Rent Change with Rent Calculation Worksheet Sent to Tenant and Lease Addendum OR 2) Notice of Ineligibility of Continued Occupancy
   - See Chapter 5

   - Tenant Rent In Effect
Rent Re-Determination Criteria

**How DHCD Will Help:**
As of the End of March – Rent Re-Determination packet A to Z is starting to be issued to LHAs. It includes:

- 1) An Overview of the Redetermination Process A to Z
- 2) Helpful Aids/Resources to Help LHAs Calculate Rent More Accurately
- 3) Sample Notices and Explanation of the Regulations around Rent Re-Determination Notification to Tenants

- DHCD to Explore What Software Vendors Have to Offer In The Area of Rent Calculation
  - How Many LHAs are using their software to help them calculate rent?
  - How Can We Partner with Software Vendors in this area?

- Regional Trainings on This Topic by Mirna

**What LHAs Can Do - Common Exceptions for Rent Re-Determination**

- 60 Day Notices to Tenants Were Not Timely
- 14 Day Notices to Tenants Were Not Timely
- Lease Addendums Were Not Properly Executed
- Attend a Rent Calculation Training If Unsure of Rules Around Rent Calculation
Inventory
Exceptions are most likely to be found in one of the various asset listings that are maintained by the LHA.

Criteria: Rent Collection

Category 1: Process of Rent Collection

Category 2: Segregation of Duties

Category 3: Compliance with Rent Collection Policy and Accuracy on Financial Statements

Criteria: Inventory

Category 1: Inventory Listing/Fixed Asset Listing/Depreciation Schedule

Category 2: Capitalization Policy

Category 3: Vehicles

Inventory

% with 1+ Exceptions

Criteria: Inventory

Category 1: 46%

Category 2: 41%

Category 3: 8%

Category 4: 3%
Fewer findings in this category is mainly driven by a drop in findings related to the LHA’s Capitalization Policy.

- The main area of findings continues to be around the LHA’s Inventory Listing and/or Fixed Asset Listing/Depreciation Schedule, and the number of exceptions in this area has not changed much over time.
Policy Implications – Inventory Criteria

How DHCD Will Help:
• Issue PHN with detailed information about keeping track of assets in your:
  • 1) Inventory Listing
  • 2) Fixed Asset Listing
  • 3) Depreciation Schedule

What LHAs Can Do - Common Exceptions for Inventory
• Check your Fixed Asset Listing/Depreciation Schedule To Confirm is Up to Date (if you have purchased new assets or disposed of old assets, make sure to inform your fee accountant)
• Inventory Listing should include both capitalized and non-capitalized assets (stoves, refrigerators, etc.), including a tag with LHA-assigned number
• For vehicles include make/model/year
Rent Collection
Exceptions for this criteria are pretty evenly distributed across categories.

- 1 in 5 have issues with writing off TAR correctly.
The number of findings in rent collection are half of what they were for 6/30/16 FYE vs. 12/31/15 FYE.

Rent Collection Criteria - % with 1+ Exception by FYE over Time

- Rent Collection Criteria
  - 12/31/15: 58%
  - 3/31/16: 50%
  - 6/30/16: 33%

- Category 1: Process of Rent Collection
  - 12/31/15: 23%
  - 3/31/16: 8%
  - 6/30/16: 10%

- Category 2: Segregation of Duties
  - 12/31/15: 27%
  - 3/31/16: 20%
  - 6/30/16: 14%

- Category 3: Compliance with Rent Collection Policy and Accuracy on Financial Statements
  - 12/31/15: 12%
  - 3/31/16: 20%
  - 6/30/16: 7%

- Category 4: Writing off TAR
  - 12/31/15: 24%
  - 3/31/16: 33%
  - 6/30/16: 11%

(Among those who wrote off a balance, $n=99$)
Rent Collection Criteria

How DHCD Will Help:
• A PHN on Tenants Accounts Receivables (TAR) will be released in June which will clarify the rules about writing off uncollected accounts.

What LHAs Can Do - Common Exceptions for Rent Collection/TAR
• For small LHAs, institute mitigating controls and use your fee accountant for an independent check
• Log of Rent lacking information/detail
• Record date of rent received; not date logged in accounting software
• Pre-paid rents should not appear within TAR (talk to your fee accountant)
• Rent Collection efforts not in compliance with LHA Rent Collection Policy, i.e. 14 day notice when tenant hasn’t paid
• All computers must have passwords
• Wait a year for TAR write-offs
• Cash must be deposited daily (or weekly if only one administrative employee)
Payroll
Proper controls around timesheets and proper tracking/accounting for compensated absences are main exceptions for this criteria.

### Payroll

<table>
<thead>
<tr>
<th>Criteria: Payroll</th>
<th>% with 1+ Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1: Wage Reconciliation</td>
<td>15%</td>
</tr>
<tr>
<td>Category 2: Timesheets and Payroll Register</td>
<td>25%</td>
</tr>
<tr>
<td>Category 3: Compensated Absences</td>
<td>27%</td>
</tr>
</tbody>
</table>
However, the number of exceptions for the Payroll criteria are dropping across all three categories.

Payroll Criteria - % with 1+ Exception by FYE over Time

Note: Decision to Not Measure Board Approval of ED Timesheets/Leave Issued in December, affecting 6/30 cohort only
Remaining 3 Criteria
Credit Cards are the most likely to have exceptions.

**Accounts Payables**

% with 1+ Findings

- **Criteria: Accounts Payables**
  - Category 1: Operating Expenditures
    - 6%
  - Category 2: Capital Expenditures
    - 1% (Among those with capital expenditures, n=145)
  - Category 3: Credit/Debit Card Statements
    - 15% (Among those with credit card statements, n=136)
  - Category 4: Employee Reimbursements
    - 7%
The testing of the reconciliation of the General Ledger to Bank Records shows a high rate of compliance.

Criteria: Rent Collection
Category 1: Process of Rent Collection
Category 2: Segregation of Duties

Criteria: Cash Management
Category 1: Bank Reconciliations
Category 2: Investment Products are Insured or Collateralized
## Top 11 Procedures with Exceptions

### Top 11 Procedures with Exceptions (among 158 LHAs)

<table>
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<tr>
<th>Procedure</th>
<th>Exceptions (%)</th>
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<tbody>
<tr>
<td>Contract Register</td>
<td>52%</td>
</tr>
<tr>
<td>14 Day Notice Sent Prior to Rent Re-Determination</td>
<td>32%</td>
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<tr>
<td>Fixed Asset/Depreciation Listing Includes All Necessary Information</td>
<td>28%</td>
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<tr>
<td>Annual Rent Re-Determination Occurs Annually</td>
<td>25%</td>
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<tr>
<td>Controls and Approvals Around Timesheets</td>
<td>23%</td>
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<tr>
<td>60 Day Notice Sent Prior to Rent Re-Determination</td>
<td>20%</td>
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<tr>
<td>Rent Collection – Segregation of Duties</td>
<td>20%</td>
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<tr>
<td>Rent Calculation Accurate</td>
<td>18%</td>
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<tr>
<td>Write Offs Match DHCD Policy</td>
<td>17%</td>
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<tr>
<td>Compensated Absences Tie Correctly to Financial Statements/Are Reflected on Financial Statements</td>
<td>16%</td>
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<tr>
<td>Lease Addendum Was Executed Properly</td>
<td>16%</td>
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</table>
PMR Data Results
Roughly 1 in 5 are timely with reporting.

**Criteria – No Findings:**
- Operating Statements within 45 days of QE
- Vacancy Certs by end of month following QE

**Certs and Submissions Criteria for FYE 12/31/16**

- **Timeliness of Certifications and Submissions** (n=60)
  - 83% No Findings
  - 17% Operational Guidance

- **Timeliness of Operating Statement** (n=60)
  - 65% No Findings
  - 35% Operational Guidance

- **Timeliness of Vacancy Certifications** (n=60)
  - 55% No Findings
  - 45% Operational Guidance

**Note:**
No “Corrective Action” on this criteria
Set Outlook Reminders!

Step 1 – Set Appointment:
Right click here. Select New Appointment or New All Day Event.
Set on days operating statements and vacancy certifications are due.

Step 2 – Set Reminder:
For the reminder field you can set it to remind you anywhere from a few hours ahead to a week or more.
The vast majority of LHAs receive a rating on “No Findings” for the Occupancy criteria of their PMR.

Criteria – No Findings: Adjusted Occupancy Rate is at or above 98%

<table>
<thead>
<tr>
<th>Criteria – No Findings</th>
<th>Occupancy Ratings for FYE 12/31/16</th>
</tr>
</thead>
<tbody>
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<td>No Findings</td>
<td>Operational Guidance</td>
</tr>
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<td>Adjusted Occupancy Rate</td>
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</tbody>
</table>

- **Occupancy (Total)**
  - (n=60)
  - 12% No Findings
  - 88% Adjusted Occupancy Rate

- **Occupancy (667)**
  - (n=60)
  - 2% No Findings
  - 92% Adjusted Occupancy Rate

- **Occupancy (200)**
  - (n=19)
  - 11% No Findings
  - 89% Adjusted Occupancy Rate

- **Occupancy (705)**
  - (n=42)
  - 5% No Findings
  - 88% Adjusted Occupancy Rate
Three-quarters of LHAs received a rating of “No Findings” for the Operating Reserve criteria of their PMR.

Operating Reserve Criteria for FYE 12/31/16
n=60

Criteria – No Findings: Operating Reserves are 20%+

Note:
No “Operational Guidance” on this criteria

Of those with “No Findings”
• Average Reserve Levels are at 105% of Full Reserve
• 13 of 45 are over 100% of Full Reserve

Top 4:
679% (Large)
320% (Small)
301% (Small)
221% (Medium)

25% Corrective Action
75% No Findings

15 with Corrective Action
3 Received It for Being Late
Of 12 With Low OR:
Average Level is 6%

Bottom 4:
-3% (Small)
0% (Small)
1% (Small)
5% (Small)
The vast majority of LHAs received a rating of “Corrective Action” for the Budget to Actual Variance criteria of their PMR.

Criteria – No Findings:
- Within + or − 10% on “Total” line items on Budget/Operating Statement

Exception 1:
- Total Utilities Can Be Less Than -10% Under Budget

Exception 2:
- Total Other Expenses Can Be Greater Than 10% as long as Operating Reserves 20% or greater

Note: No “Operational Guidance” for this criteria

Budget to Actual Variance Criteria for FYE 12/31/16

- Corrective Action: 88%
- No Findings: 12%

n=60
Total Other Expenses, which includes Extraordinary Maintenance, has the highest number out of variance.

- One-third of LHAs do not meet the variance target for their Administrative and Maintenance costs.

Budget To Actual Criteria for FYE 12/31/16

<table>
<thead>
<tr>
<th>Category</th>
<th>Meets Variance Target</th>
<th>Doesn't Meet Variance Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL Revenue</td>
<td>86%</td>
<td>14%</td>
</tr>
<tr>
<td>General</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>Administrative</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Maintenance</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>TOTAL Expenses</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>Other</td>
<td>71%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Of 71%, three-quarters were under in spending.

N=56
Retained Revenue
Eligibility for Retained Revenue Housing Authority

An Eligible LHA is an LHA whose:

- Operating reserve is above the maximum reserve level (above full reserve).
- Does not owe DHCD money, and
- Had retained revenue at the end of the previous fiscal year.

**Note:** Management rating of “acceptable performance” use to be a criteria. DHCD temporarily suspended the LHA rating system, due to the implementation of the Performance Management Review (PMR). All LHAs currently receive a rating of “Unrated.” In the future, management rating may be a condition of retained revenue status.
Retained Revenue - Eligibility

Maintaining Your Reserve as a “Retained Revenue” LHA

• If operating reserve is used for a modernization project, the LHA will not have to comply with the full reserve rule, but
• LHA reserves will need to be at
  o Rebuild their operating reserve:
    o 50% of the operating reserve level in year 2,
    o 70% in year 3,
    o 90% in year 4 and
    o 100% at year 5 to qualify
Any additional taking of reserves starts the process again.
Retained Revenue – Budget Flexibility

Retained Revenue Housing Authority

Allows for Budget Flexibility:

• Ability to add staff positions—Service Coordinators & Family Self Sufficiency Coordinators

• Can budget above the Allowable Non-Utility Expense Level (ANUEL)

• Budget not scrutinized

• Can spend operating reserves

Note: If using operating reserves for operating expenses, must budget the expenses in the appropriate line items, because monitoring for good performance (PMR).
Retained Revenue – Conditions for Budget Flexibility

• **12 Conditions for Budget Flexibility:**

1. Meet the definition of an eligible LHA
2. Submitted a Capital Improvement Plan (CIP) approved by DHCD’s modernization and housing management staffs;
3. Certified that it is, and will remain, in compliance with all state procurement laws;
4. Operate a preventive maintenance plan approved by the Bureau of Housing Management;
5. Has and strictly follows an annual unit and property inspection program;
Retained Revenue – Conditions for Budget Flexibility

• 12 Conditions for Budget Flexibility:

6. Complies with DHCD’s policy limiting the use of state funds for out of state travel;

7. Set up a restricted maintenance reserve account at year’s end for any excess cash generated by state program budgets. Spending from this account will be allowed if it is consistent with the DHCD approved Capital Improvement Plan;

8. Limits Executive Director salary increases in compliance with DHCD budget guidelines;

9. Follows DHCD hiring guidelines for all staff hires;

10. Make appropriate charges to each line item as allowed in DHCD budget guidelines.
Retained Revenue – Conditions for Budget Flexibility

• 12 Conditions for Budget Flexibility:

11. Limits maintenance salaries on state budgets to Department of Labor and Workforce Development (DLWD) rules or as allowed by the Budget Guidelines or existing salaries as approved in existing collective bargaining agreements; and

12. File accurate budgets and operating statements within the required time frame.
Retained Revenue & Budget Guidelines

• FY2010 DHCD Budget Guidelines, allowed LHAs to use Operating Reserves for operating expenses (with operating reserve floor at 20%)

• LHAs required to budget expenses on appropriate line items

• Retained Revenue status gives same budget flexibility, but more restrictive
Retained Revenue

Thank You!