

# Financial Data and Audits – What You Need To Know

GAHRA 2021 Annual Conference

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# Extended Audit Due Dates

<b>Year End</b>		<b>Normal Due Date</b>		<b>HUD &amp; OMB COVID Extended</b>
6/30/2020		3/31/2021		9/30/2021
9/30/2020		6/30/2020		12/31/2021
12/31/2020		9/30/2021		3/31/2022
3/31/2021		12/31/2021		6/30/2022
6/30/2021		3/31/2022		9/30/2022

# Remote and “Hybrid” Audits

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# Remote and “Hybrid” Audits

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## Portal – safe and secure

- Regulations in some cases require secure portal delivery
- Nowadays this is a business best practice for the Auditor-Client relationship
- Emails can be cumbersome, making communication difficult

# Remote and “Hybrid” Audits

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## PBC Requests Received in Advance

- Much of the audit planning can be done in advance of fieldwork / remote fieldwork
- Many audit regulations require a significant amount of planning prior to audit procedures
- Historical auditor/client correspondence is created

# Remote and “Hybrid” Audits

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## Allows preparation on your schedule

- You, as the client, receive audit request in adequate time to prepare
- Portal system allows for uploads, questions, and comments
- Continuous organized correspondence throughout the audit / remote audit

# Current Accounting and Auditing Issues

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# Current Accounting and Auditing Issues

## Capital Fund Cost Certificates

- Audit versus Supplemental Information
- Sequence of Completion
  - PHA
  - HUD
  - Auditor



# Current Accounting and Auditing Issues

## FASS Data is materially different than other Independent Data Sets

- Voucher Management System (VMS) examples include:
  - Housing Assistance Payments
  - Vouchers Leased
  - Interest Income
  - Port-in Information
  - NRP, UNA, and Cash Balances
  - Fraud
  - FSS Escrow Forfeitures

# Current Accounting and Auditing Issues

## Other Reporting Areas

- PHA failed to report programs or programs are comingled with other programs
- Interfund amounts are incorrect or may represent noncompliance
- Cares Act Amounts not properly presented, including capital additions
- Restricted Cash versus Unrestricted Cash
- Management Fee Calculations
- Memo fields, including capital assets
- Data Collection Form differences
- Prior Period Adjustments

# Current Accounting and Auditing Issues

## Areas Sometimes Noted as Deficient

- Allowability of Costs
- Support of Disbursements
- Following Check Signing Policies
- Bad Debt Expense Approval

# Current Accounting and Auditing Issues

## Core Internal Controls - Suggestions

- Segregation of Duties
- Bank Reconciliations
- Supporting Documents
- Safeguarding Assets

# Your Financial Statements: What Really Matters

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## Cash basis income and the 'trend'

- Understanding what net income truly is
- Cash basis versus accrual basis

# Your Financial Statements: What Really Matters

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## Depreciation and other non-cash expenses

- What effect does depreciation really have
- Estimates versus actual amounts
- Increased importance of capital assets net value

# Your Financial Statements: What Really Matters

## Short term versus long term for assets and liabilities

- Compensated absences
- Debt



# Your Financial Statements: What Really Matters

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## Pension liability: Long term

- Not an immediate effect on reserves
- Pension Assets
- Pension Liabilities
- Deferred Outflows of Resources
- Deferred Inflows of Resources

# Fundamental Concepts of Internal Control

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# Definition of Internal Control

- ❖ Internal Control is a process effected by an entity's oversight body, management and other personnel, that provides reasonable assurance that the objectives of an entity will be achieved.
- ❖ These objectives and related risks can be broadly classified into one or more of these 3 categories:
  - Operations - Effectiveness and efficiency of operations
  - Reporting - Reliability of reporting for internal and external use
  - Compliance - Compliance with applicable laws and regulations
- ❖ These are distinct but overlapping categories. However, a particular objective can fall under more than one category.
- ❖ Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.
- ❖ Internal control serves as the first line of defense in safeguarding assets.

# Definition of an Internal Control System

- ❖ An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance that an entity's objectives will be achieved.
- ❖ Internal control is not one event, but a series of actions that occur throughout an entity's operations.
- ❖ Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than a separate system within an entity.
- ❖ People are what make internal control work. Management sets the objectives, implements controls and evaluates the internal control system, but personnel play important roles throughout the process.
- ❖ No matter how well designed, implemented, or operated, an internal control system cannot provide absolute assurance that all of an organization's objectives will be met.

# The Five Components and 17 Principles of Internal Control

## Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

## Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

## Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

## Information and Communication

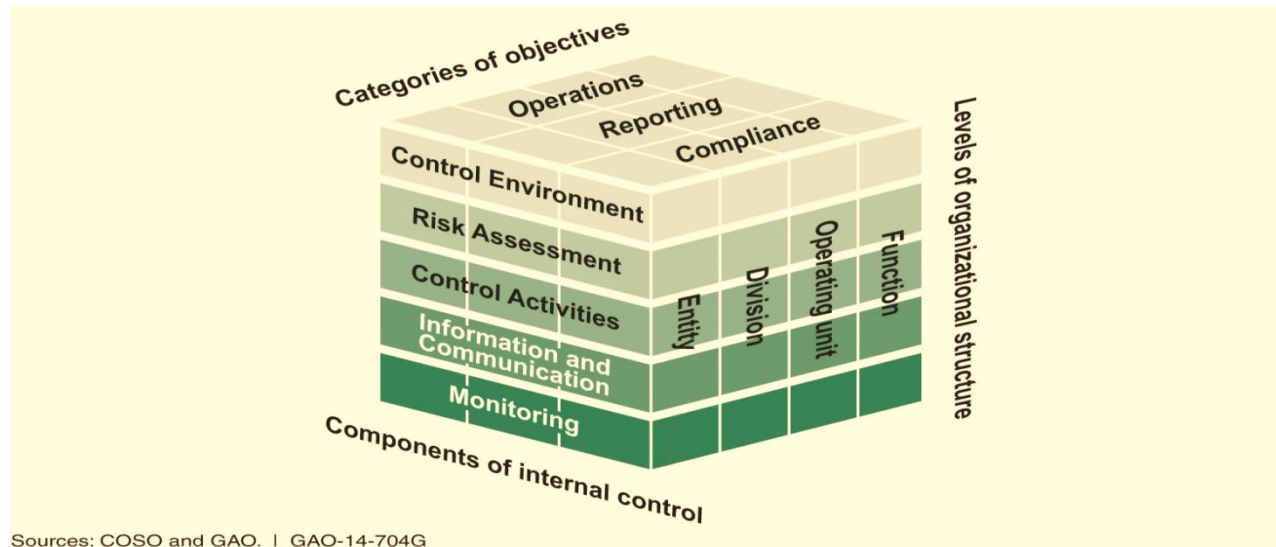
13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

## Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

# The Components, Objectives, and Organizational Structure of Internal Control



- The three categories into which an entity's objectives can be classified are represented by the columns labeled on top of the cube.
- The five components of internal control are represented by the rows.
- The organizational structure is represented by the third dimension of the cube.

# The Components, Objectives, and Organizational Structure of Internal Control



- Each component of internal control applies to all three categories of objectives and the organizational structure.
- The principles support the components of internal control.
- Internal control is a dynamic, iterative, and integrated process in which components impact the design, implementation, and operating effectiveness of each other.
- No two entities will have an identical internal control system because of differences in factors such as mission, regulatory environment, strategic plan, entity size, risk tolerance, and information technology, and the judgment needed in responding to these differing factors.

# Roles in an Internal Control System

- ❖ Oversight body
  - Responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.
  - Includes overseeing management's design, implementation, and operation of an internal control system.
  - For the purpose of the Green Book, oversight by an oversight body is implicit in each component and principle.
- ❖ Management
  - Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system.
  - Managers' responsibilities vary depending on their functions in the organizational structure.
- ❖ Personnel
  - Managers' responsibilities vary depending on their functions in the organizational structure.
- ❖ External auditors are not considered a part of an entity's internal control system.
- ❖ While management may evaluate and incorporate recommendations by external auditors, responsibility for an entity's internal control system resides with management.



# Objectives of an Entity

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- Management, with oversight by an oversight body, sets objectives to meet the entity's mission, strategic plan, and goals and requirements of applicable laws and regulations.
- Management sets objectives before designing an entity's internal control system.
- Management may include setting objectives as part of the strategic planning process.

## Objectives of an Entity (Cont.)

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### ❖ Categories of Objectives –

Management groups objectives into one or more of the three categories of objectives

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations

# Objectives of an Entity (Cont.)

## ❖ Operations Objectives

- Operations objectives relate to program operations that achieve an entity's mission.
- An entity's mission may be defined in a strategic plan. Such plans set the goals and objectives for an entity along with the effective and efficient operations necessary to fulfill those objectives.
- Effective operations produce the intended results from operational processes, while efficient operations do so in a manner that minimizes the waste of resources.
- Management can set, from the objectives, related sub objectives for units within the organizational structure.
- By linking objectives throughout the entity to the mission, management improves the effectiveness and efficiency of program operations in achieving the mission.

# Objectives of an Entity (Cont.)

## ❖ Reporting Objectives

- Reporting objectives relate to the preparation of reports for use by the entity, its stakeholders, or other external parties.
- Reporting objectives may be grouped further into the following subcategories -
  - ✓ External financial reporting objectives - Objectives related to the release of the entity's financial performance in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders.
  - ✓ External nonfinancial reporting objectives - Objectives related to the release of nonfinancial information in accordance with appropriate standards, applicable laws and regulations, as well as expectations of stakeholders.
  - ✓ **Internal financial reporting objectives and nonfinancial reporting objectives** - Objectives related to gathering and communicating information needed by management to support decision making and evaluation of the entity's performance.

# Objectives of an Entity (Cont.)

## ❖ Compliance Objectives

- In the government sector, objectives related to compliance with applicable laws and regulations are very significant.
- Laws and regulations often prescribe a government entity's objectives, structure, methods to achieve objectives, and reporting of performance relative to achieving objectives.
- Management considers objectives in the category of compliance comprehensively for the entity and determines what controls are necessary to design, implement, and operate for the entity to achieve these objectives effectively.
- As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity.
- Management is expected to set objectives that incorporate these requirements.
- In setting those objectives, management is able to exercise discretion relative to the performance of the entity.

# Objectives of an Entity (Cont.)

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## ❖ Safeguarding of Assets

- A subset of the three categories of objectives is the safeguarding of assets.
- Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

# Objectives of an Entity (Cont.)

## ❖ Setting Subobjectives

- Management can develop from objectives more specific subobjectives throughout the organizational structure.
- Management defines subobjectives in specific and measurable terms that can be communicated to the personnel who are assigned responsibility to achieve these subobjectives.
- Both management and personnel require an understanding of an objective, its subobjectives, and defined levels of performance for accountability in an internal control system.

# Auditor Communication with Board of Governance

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# Those Charged with Governance

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## Communication with The Audit Committee or Other Subgroup of Those Charged with Governance

- Who does Auditor communicate with?
  - Board of Commissioners
  - Audit Committees
  - Group Audits

## When all of those Charged with Governance are Involved in Managing the Entity

- Auditor satisfaction that correct communication is made
- Unlikely scenario

# Matters to Be Communicated

## The Auditor's Responsibilities with Regard to the Financial Statement Audit

- Financial Statement Opinion
- Board and Management remain responsible for the financial statements
- Documentation in Engagement Letter or other written agreement
- Perform audit in accordance with applicable standards
- Consideration of Internal Control
- Relay Significant Matters (Auditor Judgement)
- Other Matters required by Law, Regulation or Agreement
- Independence

# GASB 87 - Leases

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# GASB 87 - Leases

## Summary

- Long Term Liabilities that were not being reported on statement of financial position
- Early Implementation encouraged, starts June 30, 2022 (COVID extended)
- PHA's converting to RAD and entering into a Ground Lease or Building Improvement Lease will be affected
- Will affect lease related transactions in the financial statements and increase footnote disclosure requirements

# GASB 87 – Lease Accounting

- PHA should recognize a lease receivable and a deferred inflow of resources at start of lease
- PHA should NOT derecognize the leased asset
- Receivable measured at net present value of expected lease payments
- Deferred inflow measured at value of lease receivable, plus any payments received at or before the start of lease term that relate to prior periods
- Revenue is recognized on the lease receivable from the deferred inflows in a systematic and rational manner over lease term
- Notes should include a description of leasing arrangements and the total amounts of inflows recognized from leases.

# RAD and the Financial Statement Effects

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# RAD and the Financial Statement Effects

## RAD with PBRA

- If the PHA still owns the property, financials are required in the Primary Government column
- If the property is transferred to a Component Unit, they the Component Unit (Not-for-Profit) column presents the financial statements

# RAD and the Financial Statement Effects

## RAD with PBV

- Asset management fees could be gained
- Reported as a Business Activity or a Component Unit



# RAD and the Financial Statement Effects

## RAD with PBRA and Tax Credits

- Converting to RAD and doing a tax audit deal simultaneously can be difficult
- Tax Credits can be complex but have some significant financial advantages
- Tax Credits create the need for several outside parties and require a LP and an NFP

# Business Activities: What are these and why are they important

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# Business Activities: What are these and why are they important

## Difference between Business Activities and Not-for-Profit

- A Business Activity is not necessarily a legal entity
- A Not-for-Profit is set up as a legal entity with a benevolent mission statement

# Business Activities: What are these and why are they important

## COCC equivalent

- Under asset management, we had the Central Office Cost Center
- Under RAD/PBRA, we need a “new place”

# Business Activities: What are these and why are they important

## Home for defederalized funds

- Monies that do not or no longer have HUD restrictions, may be transferred here

# Business Activities: What are these and why are they important

## Home for project generated excess cash

- Once the audit is completed and you have excess cash generated by the project(s), you can move selected cash amounts to the business activity
- From the Business Activity, money can be spent

# Component Units: What are these and why are they important

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# Component Units: What are these and why are they important

## Defining blended

- Activities are intertwined with the Housing Authority
- Similar Board Members
- Ability for the PHA to impose its will
- External financial statements are combined
- GASB 61, et al.
- HUD Accounting Brief #22



# Component Units: What are these and why are they important

## Defining discrete

- Separate columns in the financial statements
- Separate Board Members
- More conservative approach to reporting your Not-for-Profit
- GASB 61, et al.
- HUD Accounting Brief #22

# Component Units: What are these and why are they important

## Affiliated Organizations

- Sometimes the component unit definition is not met
- Multiple housing authorities managed under one office, could be examples of affiliated organizations

# Component Units: What are these and why are they important

## Misleading to exclude

- An entity with HUD “ties” may need to be separated in the PHA report
- In some cases, disclosing the limited partnerships’ financial statements from a tax credit deal, may give the reader of the financial statements a better understanding
- Footnote disclosures are important in any case
- Very much of a gray area with the AICPA

# Component Units: What are these and why are they important

## Tax Credit Entity Effect

- May make the financial statements more clear and “stronger”
- Year-end differences between a Limited Partnership and the PHA can be disclosed to lessen confusion and workload

# Component Units: What are these and why are they important

## Component Auditors

- Sometimes different parts of the financial statements are audited by different auditors
- This matter must be disclosed in the audit opinion
- These auditors must communicate with each other
- AU-C 600

# Tax and Compliance Effects of a RAD Conversion

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# Tax and Compliance Effects of a Conversion

## Not-for-Profit organization and Form 990

- If you have a not-for-profit incorporated, Form 990 or alternate must be filed

# Tax and Compliance Effects of a Conversion

## Ensuring tax exempt status timely

- If you have established a NFP for PBRA, and have transferred the property, you must ensure tax exempt status is completed or in progress, or the tax exempt advantages go away



# Tax and Compliance Effects of a Conversion

## Limited Liability Corporation and Form 1120

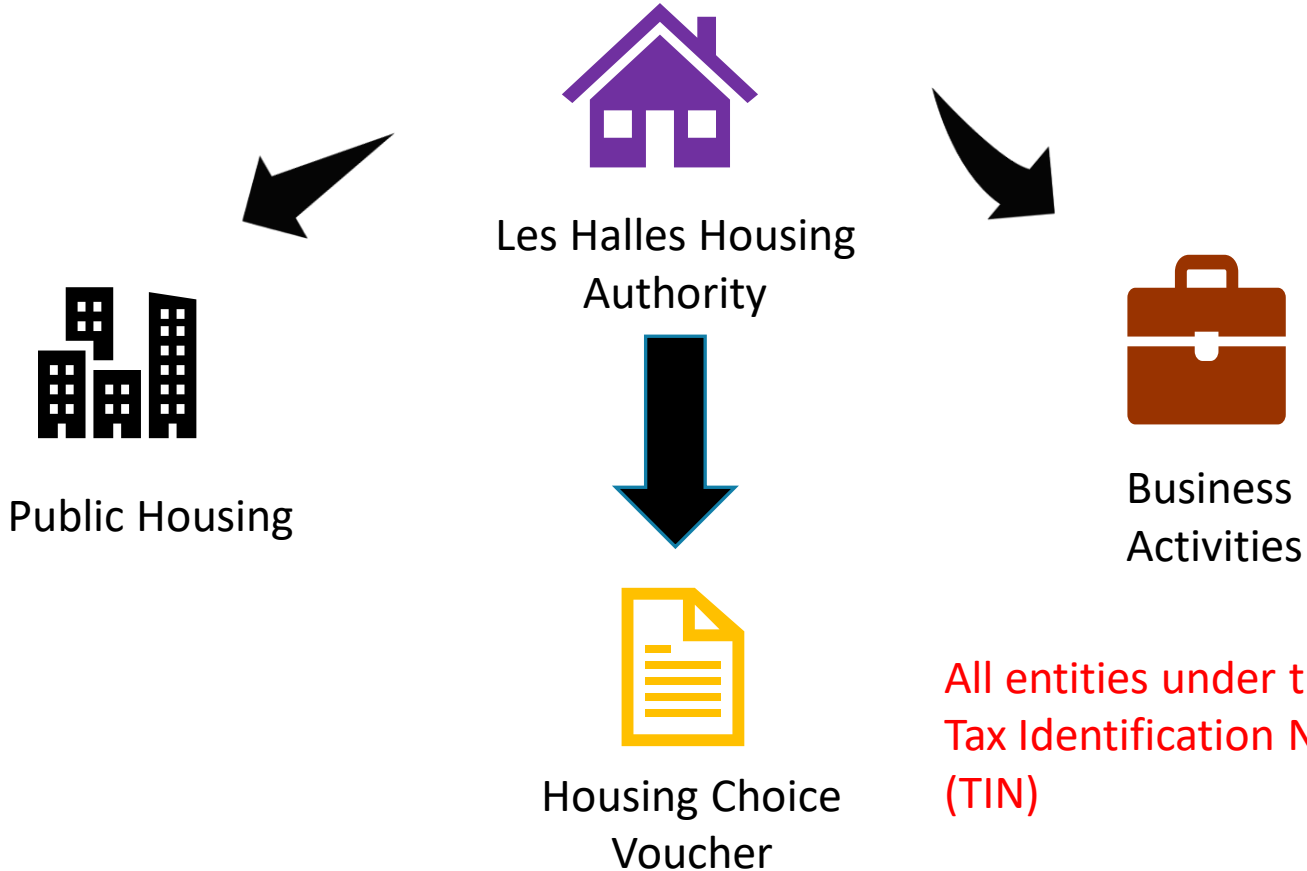
- If you have an incorporated Limited Liability Company (LLC), Form 1120 or alternate must be filed

# Tax and Compliance Effects of a Conversion

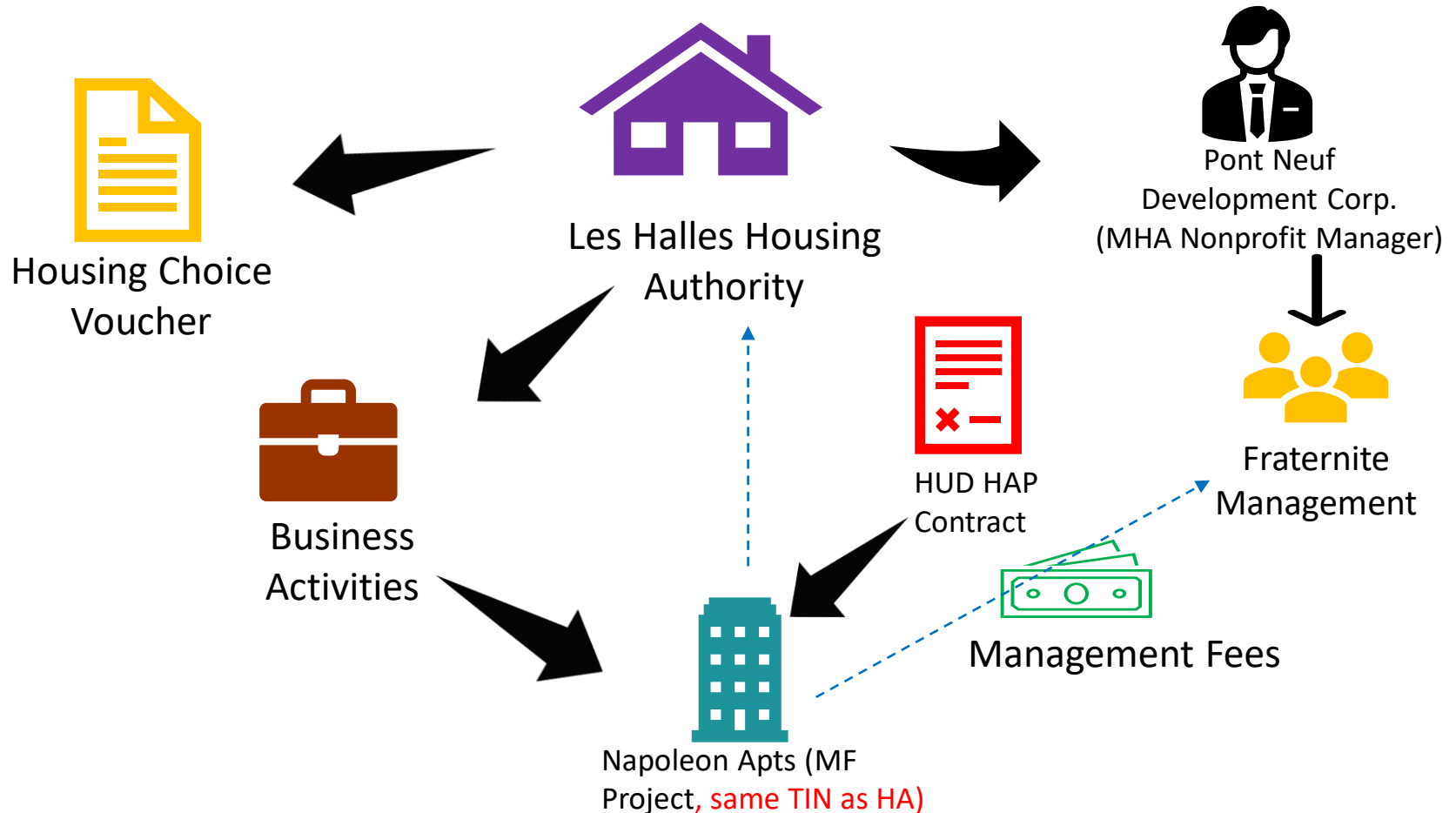
## Considering both Multi-Family and LRPH effects

- The “Old” Public Housing may still have remaining requirements
- Still may have some Public Housing year-end reporting requirements
- Consider the auditors’ knowledge of both sides in an auditor selection process

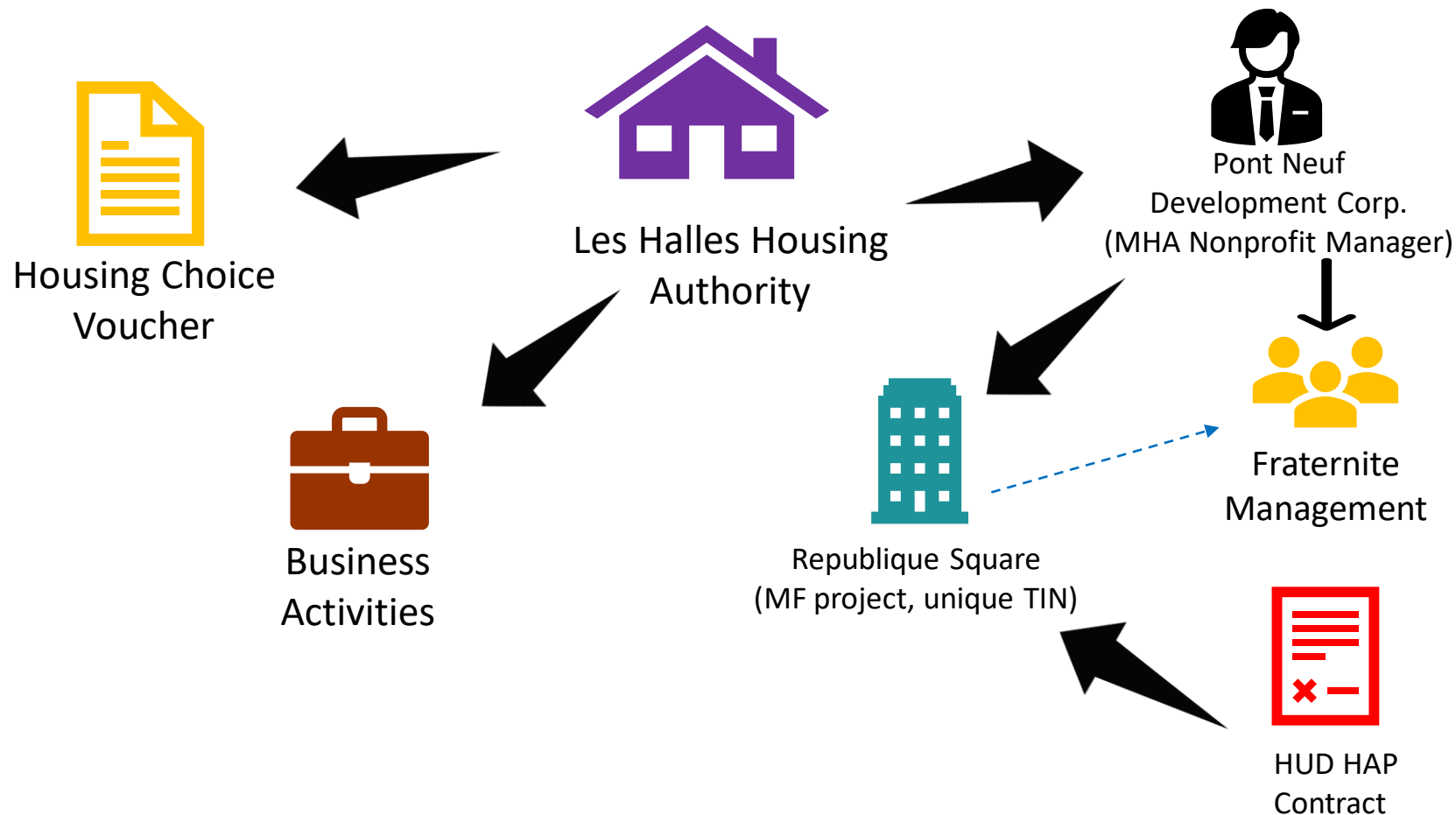
# Initial PHA



# Simple PBRA Conversion



# Simple PBRA Conversion, Type 2



# RAD Entities Audit and Accounting Issues

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# RAD Entities Audit and Accounting Issues

- Remain under Uniform Guidance, just a different Grant
- HUD Accounting Brief 22 is still Authoritative
- Surplus Cash is Fungible and Distributable to Owner after audit period
- If Other Entities created, same year-end is best
- Restricted versus Unrestricted Cash
- Knowledge of Entity Structure and Financials
- Reserve for Replacement Funds Authorization Form

# RAD Entities Audit and Accounting Issues (continued)

- Critical and Non-Critical Repairs overages
- Security Deposit Accounts – Interest Bearing Accounts, include in Annual Financial Submission (AFS)
- PBRA Multi-Family Owner Certified AFS, at a minimum, must be submitted by 90 days after year-end
- Utilize the RAD Resource Desk to ensure information for Auditor is gathered



# Consulting Your CPA about a RAD Conversion

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# Consulting Your CPA about a RAD Conversion

## Your CPA needs to be at the table

- Assists in looking into the future from a financial standpoint
- Can foresee compliance issues coming in the future

# Consulting Your CPA about a RAD Conversion

## Keep your CPA in the loop early in the process

- Sometimes audit time is too late and problems could have been prevented
- Can assist with old to new effects you may not think applies (LRPH to Multifamily, for example)

# Consulting Your CPA about a RAD Conversion

## Keep your CPA informed as major decisions occur

- Financial advice may be coming from a non-financial professional
- Some decisions may have a larger financial and/or compliance effect than you realize

# Consulting Your CPA about a RAD Conversion

## Consultants, Developers, and the Future

- Consultants and developers can be very wise in getting the deal done
- Do the consultants and developers understand the past
- Do the consultants and developers understand the future
- Now more than ever, references are obtainable because there is historical information

# Consulting Your CPA about a RAD Conversion

## Attorneys and the closing

- You as the client, do need to understand all of your agreements
- The fine print does matter
- Attorneys will need to understand entity structure and other non-legal details