

Financial Reporting

Lead Office: USDA-RD (Short term alignment), HUD-MF (Long term alignment)

Participating Offices: HUD-MF, USDA-RD, Treasury-IRS, HUD-PIH, HUD-CPD

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Issue Statement:

Properties with funding from different Federal programs may have to submit duplicative financial statements and have multiple audits prepared according to different audit standards. Owners with large portfolios, including high-capacity mission-driven owners, also incur significant and unnecessary staff and infrastructure costs when properties across their portfolio are required to file financial reports in different formats and submit audits according to different guidelines.

Proposed Alignment(s):

Alignment(s) summary:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

Approximately 1,200 properties representing 28,000 units are jointly subsidized by USDA and HUD-MF, and are currently subject to duplicative and overlapping financial reporting requirements. These properties were constructed using USDA Section 515 (of the Housing Act of 1949) financing, but the ongoing project-based rental assistance subsidy is provided by HUD-MF in the form of a Housing Assistance Payment (HAP). The Team proposes to align the majority of conflicting and/or overlapping requirements for this select group of properties through specific actions taken by USDA-RD and HUD-MF to modify requirements or exempt these properties from certain requirements. This proposal is a 'quick win' in that it is comparatively simple, straightforward, and inexpensive to implement, but it provides limited impact.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

Currently, HUD-MF, USDA-RD, and the State HFAs that administer Treasury's Low Income Housing Tax Credit (LIHTC) program all require owners to submit financial statements using some type of agency-specified chart of accounts (or specific line items).¹ Each funding agency also requires many (although not all) owners to obtain an audit of their financial statements that has been prepared according to agency-specified audit guidelines. The Team proposes to (a) create a unified chart of accounts acceptable to both HUD-MF and USDA-RD; (b) create a unified set of audit guidelines acceptable to both HUD-MF and USDA-

¹ The decision was made to exclude HUD-PIH from alignment implementation because (1) public housing is operated and regulated significantly differently from other types of federally-subsidized housing, (2) the universe of entities that operate both public housing and other types of federally-subsidized housing is comparatively small, (3) those entities that do operate both public housing and other types of federally-subsidized housing do so in a very 'siloed' fashion, and (4) stakeholders did not express significant complaints over lack of harmonization between public housing and other programs. The decision was made to exclude HUD-CPD from alignment implementation because HUD-CPD does not require submission of financial statements under its HOME program, and stakeholders had few complaints about harmonization between HOME and other programs, reporting that the local jurisdictions that administer the HOME program are primarily concerned with financial reporting during construction rather than ongoing financial reporting.

RD; and (c) actively encourage State HFAs to adopt the new Federal standards for chart of accounts and audit guidelines. This proposal is significantly more ambitious and will require more time and resources than Proposal 1; however, it is believed to be accomplishable and would produce significant cost savings to owners.

Specific actions to effect alignment:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

a. *Align eligibility for exemption from audited financial statements requirement*

USDA-RD currently exempts properties with less than 24 units from submitting audited financial statements (owners submit owner-certified financial statements instead). HUD-MF is in the process of developing a policy to exempt properties with less than 20 units from submitting audited financials. The Team proposes that HUD-MF modify its pending policy to exempt properties with less than 24 units in lieu of the currently-planned 20 unit standard. This will benefit not only the owners of jointly-subsidized properties by eliminating the special class of properties with 20-23 units, but also owners that manage portfolios with different properties subsidized by the two agencies will no longer have to keep track of two different standards. HUD-MF has tentatively agreed to this policy change. This policy change will actually produce alignment on this specific issue across the entire HUD-MF and USDA-RD portfolio, not just the jointly subsidized properties.

b. *USDA defers to HUD-MF on audit guidelines*

For those properties that must submit audited financials, HUD-MF currently has one set of audit guidelines, whereas USDA-RD has a different set of audit guidelines. Specifically, USDA-RD requires submission of their “Agreed Upon Procedure” (AUP) – a specific set of criteria a CPA must investigate and opine on – for all properties with 16 or more units.² For properties with 16-23 units, the AUP serves as a “light” audit. For properties with 24 or more units, which are required to submit fully audited financial statements, the AUP is required as a supplement to standard audit procedures. In light of the fact that HUD-MF is providing the ongoing rental assistance/operating subsidy on these properties, the Team recommends USDA-RD exempt jointly-subsidized properties from their AUP requirement and from any USDA-specified audit requirements. USDA-RD would either exempt these properties from submitting audited financials to USDA entirely, or will agree to accept a copy of the HUD-specified audited financials.

c. *Financial statement format requirements remain the same*

Because both HUD and USDA collect financial statements (whether audited or unaudited) in an electronic format, it is not presently possible for either USDA or HUD to accept financial statements in a format other than the agency’s specified format. Therefore, USDA will continue to request that jointly subsidized properties submit financial statement information to their electronic system in their format, even though USDA is not requiring jointly subsidized properties to obtain an audit or AUP on this submission. (If properties did not submit unaudited financial

² Non profit or local government-owned properties receiving more than \$500,000 in combined federal assistance must submit an audit to OMB in compliance with the Single Audit Act, OMB circular A133. Those properties are exempt from USDA’s AUP requirement, and instead submit a copy of their OMB A-133 audit plus the HUD Uniform Chart of Accounts as a supplement to HUD, and a copy of the OMB A-133 audit to USDA-RD. This policy would remain unchanged under Proposal 1.

statements to USDA in USDA's format, USDA would have no data on them whatsoever). This continued duplication underscores the need to agree on a common format as outlined in Proposal 2. However, the team still believes that despite this remaining duplication, removing the additional audit requirements as outlined in Proposal 1-a and 1-b is of significant benefit to owners and should be implemented regardless of whether Proposal 2 is implemented.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

Upon implementation, Proposal 1-a will provide a uniform set of rules across HUD-MF and USDA-RD for determining which properties are exempted from the audited financial statements requirement. Proposal 2 seeks to move beyond the limited-impact of Proposal 1-b (in which USDA simply agrees to defer to HUD-MF on audit guidelines for the small subset of 1200 jointly subsidized properties) and address the remaining duplication noted in Proposal 1-c. To accomplish this, the team proposes to create cross-agency standardization on both (a) the format of financial statements (also known as chart of accounts or supplemental schedules) and (b) the audit guidelines governing the preparation of audited financial statements (for those properties that must submit audited financials). (See Appendix 1 for a summary of program requirements.)

Although HFAs are a significant source of conflicting requirements and owner frustration, the team recommends concentrating on producing a Federal standard acceptable to both HUD-MF and USDA-RD, with consultation from key HFAs and/or the National Council of State Housing Agencies (NCSHA) to ensure that the Federal standard has a good chance of being adopted by HFAs. Similarly, it would be ideal if the Federal standards for financial statement format and audit guidelines were also acceptable to major investors, lenders, and syndicators so that properties would only have to submit *one* audit. The interagency working groups established under this Proposal should also consult with key members of these industries early on in the process to assess whether these private sector partners would be amenable to accepting this Federal standard, and what key features the Federal standard would need to include in order to facilitate adoption by the private sector.

a. *Convene an inter-agency working group to agree upon a standardized format for financial statement submissions*

This working group needs to have representatives from HUD-MF and USDA-RD that have deep expertise in the detailed definitions of the line-items currently used in the existing financial statement submission formats. It should have representatives of units within HUD-MF and USDA-RD that review submissions and make decisions based on those submissions, as well as representatives of units that have a stake in changes to those line items or definitions (e.g., HUD-REAC, HUD-OGC, USDA-RD-IT, USDA-OGC). Appendix 2 includes an initial list of offices that should probably be included. The task of the group would be to design a prototype of a new format that is acceptable to both agencies.

b. *Convene an inter-agency working group to agree upon standardized audit guidelines*

This working group needs to have representatives from HUD-MF and USDA-RD that have deep expertise in the audit guidelines currently in place in each agency. It should have representatives of units within HUD-MF and USDA-RD that review audited financial statements and make decisions on the basis of those audits, as well as representatives of units that have a stake in changes to the audit guidelines (e.g., HUD-REAC, HUD-OGC, HUD-OIG, USDA-RD-IT, USDA-OGC, USDA-OIG). Appendix 2 includes an initial list of offices that should probably be included. The task of the group would be to design a prototype of a new audit guide that is acceptable to both agencies.

Resource estimate for implementation:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

No additional resources should be necessary. The program staff from USDA and HUD-MF should be able to implement the policy changes in the course of their regular duties. Co-project leads (one from HUD-MF, one from USDA) should be appointed to keep each other up to date on their respective agency's project and coordinate public release of information.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

This proposal will require significant staff time and a modest amount of travel funding to bring the relevant stakeholders together for in-person meetings. Each working group (financial statement formats, audit guidelines) will require a facilitator or project lead. In order to produce results quickly, that project lead should be given temporary relief from his/her regular duties to focus on the project full-time or nearly full-time. Other working group members should be given partial relief of their regular duties so as to give the project the deep and focused attention it will require.

The proposal would require IT funding to make the necessary adjustments to the databases. The IT staff in HUD-REAC estimates that making the required changes to its outdated database could cost in the vicinity of \$400,000 to \$500,000. The IT staff at USDA-RD has suggested that depending on how extensive the changes are, the cost could be as little as \$200,000 or as much as \$800,000.

Estimated cost savings for owners, operators, developers, investors and/or lenders:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

The owners of approximately 1,100 jointly subsidized projects with 16 units or more should save approximately \$3000 each from not having to do the USDA audit and/or AUP. This would amount to around \$3.3 million per year. Approximately 300 projects with 23 units or less could save as much as \$10,000 each, or as much as \$3 million total, from not having to complete a HUD audit. Total savings from the two parts of the proposal could total as much as \$6.3 million per year.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

With HFA participation, standardization of audit guides could save approximately 4,800 properties as much as \$3,000 each, or as much as \$14.5 million per year.

Stakeholders suggest that, particularly for high-capacity owners, the dollar savings in staff costs of standardization on both audit guides and financial statement submission formats could exceed the dollar savings on audit costs.

Estimated cost savings for state, local, and Federal government:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

Savings from this alignment primarily accrue to owners.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

Savings to the Federal government from standardization will be somewhat difficult to pinpoint, but there may be staff efficiencies and administration efficiencies when separate entities of the Federal government act in tandem. As HFAs sign up, the savings to them could be considerable as they will not need to expend staff resources on maintaining their own standards.

Schedule for alignment implementation:

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

Action	Timing (Start – End)
Decision to proceed	May 2011
MOU executed with USDA exempting HUD-subsidized properties from AUP	June – August 2011
MF policy issued changing audit exemption threshold to 24 units	June 2011 – late 2011 to early 2012
Implementation of new audit guidelines	November 2011 – mid to late 2012
Implementation of new financial submission formats	Will depend on completion of Electronic Systems Alignment

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

Action	Timing (Start – End)
Decision to proceed	May 2011
Convening of financial statement format and audit guideline work groups	June – August 2011
Approval of prototypes created by work groups	September – October 2011
Implementation of new audit guidelines	November 2011 – mid to late 2012
Implementation of new financial submission formats	Will depend on completion of Electronic Systems Alignment

Challenges to effecting proposed solution(s):

1. USDA-RD & HUD-MULTIFAMILY ALIGNMENT ON JOINTLY SUBSIDIZED PROPERTIES

- a. The USDA OIG may need to opine on whether or not USDA-RD is allowed to agree to exempt jointly subsidized properties from the AUP and USDA-specific audit procedures.

2. MULTI-PROGRAM STANDARDIZATION OF FINANCIAL REPORTING REQUIREMENTS

- a. Each program has invested time and effort in developing its requirements and may be reluctant to relinquish them.
- b. Programs must be truly committed to the principles of harmonization. It is not advantageous to align requirements only to have one program later decide that it is going to require supplemental forms in order to meet its needs.
- c. While standardization between HUD-MF and USDA-RD will be beneficial to owners, to achieve the full potential of this effort the Team must coordinate with HFAs. However, negotiating with all 50+ HFAs as full stakeholders from the beginning would be challenging. Thus, the Team must proceed with HUD-MF and USDA-RD standardization in such a manner as to encourage the eventual adoption of our standard by the HFAs, through pilot implementation and working with industry groups such as NCSHA.

- d. Syndicators and lenders may already be imposing financial reporting or auditing requirements. The working groups need to determine how to take these requirements into consideration.

Appendix 1: Summary of financial reporting requirements

HUD-MF

Format

1. HUD-MF requires all owners to submit financial statements using the HUD Uniform Chart of Accounts. The Uniform Chart of Accounts is a standardized format for the submission of owner-certified and audited financials that requires certain line items specific to the operation of rental housing, which provides a greater level of detail and disaggregation than would be found in a typical financial statement or the OMB A-133 single audit standard.
2. Entities that are subject to OMB A-133³ must also submit the HUD Uniform Chart of Accounts to HUD as a supplement.
3. Submissions are collected electronically using REAC's FASS (Financial Assessment Sub-System) database and web portal. Manual entry into FASS is required (XML upload capability is not available).

Audit

1. Audited financials are required for all for-profit owners.
2. Non-profit owners with less than \$500k in Federal awards may submit owner-certified financials, those with \$500k must submit an OMB A-133 audit with supplemental schedules in the HUD chart of accounts format.
3. New policy (2005) requires audited financials from all owners upon transfer of ownership, even if the original owner was not required to submit audited financials.
4. Policy in development will exempt all owners with less than 24 units from the audit requirement (will accept owner-certified financials in lieu of audited financials).
5. HUD's audit guide specifies detailed requirements for the preparation of audits.

³ Non-profit or governmental entities that receive more than \$500,000 per year in combined federal assistance are subject to OMB A-133 Single Audit. Non-profit or governmental entities that receive less than \$500,000 per year in combined federal assistance, and all for-profit entities, are not subject to OMB A-133.

Format

1. All owners must use USDA-RD's standardized forms 3560-7 (detailed cash flow and expense statement) and 3560-10 (balance sheet).
2. Owners that are subject to OMB A-133 may submit their OMB A-133 audit to USDA, but would still need to submit the forms 3560-7 and 3560-10 as a supplement.
3. Submissions are collected electronically using USDA's MFIS (Multi-Family Information System) database and web portal. MFIS allows for XML upload capability.

Audit

1. Properties with 24 units or more are required to submit audited financial statements, while properties with less than 24 units may submit owner-certified financial statements.
2. Owners that are subject to OMB A-133 may submit their OMB A-133 audit to USDA, but would still need to submit the forms 3560-7 and 3560-10 as a supplement.
3. If the entity is required to submit an audit but is not subject to OMB A-133, the audit is required to be prepared to GAGAS (Generally Accepted Government Accounting Standards), also known as "Yellow Book Standards."
4. USDA-RD also imposes an additional audit requirement called the Agreed Upon Procedures (AUP), which functions both as a supplement to the audit for those properties (24+ units) required to submit audited financials, and a requirement in lieu of audit for some properties (16-24 units) not required to submit audited financials. The AUP is not required for properties less than 16 units. The AUP is a limited scope of work performed by a CPA requiring the CPA to examine specific financial records of interest to USDA-RD.

Appendix 2: Offices to be included in working groups for proposal 2

HUD

Multifamily Asset Management Division

Multifamily Office of Evaluation & Risk Management

REAC FASS-Multifamily Division

HUD Inspector General

HUD Office of General Counsel, Multifamily Program Counsel

Department Enforcement Center

Multifamily Field Staff -- HUB directors and/or Program Staff

REAC

USDA

Portfolio Management Division – National Office

Deputy Administrator, MFH

Administrator, RHS

USDA Inspector General

USDA Field Staff

External Subject Matter Expert

Purpose

This document is part of an ongoing effort to better align Federal rental policy across the Administration and is sponsored by the Rental Policy Working Group. The Rental Policy Working Group is composed of the White House Domestic Policy Council (DPC), National Economic Council (NEC), Office of Management and Budget (OMB), and the U.S. Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Treasury.

The specific areas of concern identified herein emerged from July 2010 stakeholders gathering at the White House on areas of Federal rental policy inconsistency across the administration. The revised conceptual proposals for alignment articulated within this report are preliminary in nature and have not been endorsed by any Federal agency or office.

With any questions, please contact the Rental Policy Working Group Agency Alignment Leads: Larry Anderson, Director of Multi-Family Housing Preservation and Direct Loans at USDA-Rural Development, Ben Metcalf, Senior Advisor at HUD's Office of Multifamily Housing Programs; or Michael Novey, Associate Tax Legislative Counsel in Treasury's Office of Tax Policy.