



**U.S. Department of Housing and Urban Development
Office of Public and Indian Housing**

Special Attention of
Public Housing Agencies with HCV Programs
Public Housing Hub Office Directors
Public Housing Program Center Directors
Regional and Field Office Directors
Financial Management Center
State and Area Coordinators

Notice: PIH-2015-17
Issued: October 6, 2015
Expires: Effective until revoked,
superseded, or amended

Cross References:
PIH Notice 2011-59 (HA)
PIH Notice 2010-7 (HA)
PIH Notice 2010-16 (HA)

SUBJECT: Use and Reporting of Administrative Fee Reserves

1. Purpose: This Notice reissues, with a few minor additions, PIH Notice 2010-7 (HA), provides specific guidance to Public Housing Agencies (PHAs) on the use of the administrative fee reserves and reiterates guidance on PHA cash management and approved investment instruments. Further, this Notice provides updated guidance on the reporting of administrative fee reserves and use of reserves when faced with insufficient funding. This Notice responds to recommendations by the Office of the Inspector General to implement controls and requires reconciliation of unrestricted net position (administrative fee reserves).

Note: Consistent with Governmental Accounting Standards Board (GASB) guidance, reserve accounts formerly identified by HUD as Unrestricted Net Assets (UNA) and Net Restricted Assets (NRA), are now identified as Unrestricted Net Position (UNP) and Restricted Net Position (RNP), respectively.^{1,2}

¹ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position became effective for fiscal years 12/31/2013 and after. Part of this new statement requires the use of different titles for certain equity accounts. Specifically, unrestricted net assets will now be referred to as Unrestricted Net Position (UNP), while net restricted assets is now referred to as Restricted Net Position (RNP).

² In places this notice refers to Governmental Accounting Standards Board (GASB) equity accounts which apply to PHAs reporting under full accrual accounting (e.g., unrestricted net position (UNP)). For PHAs using modified accrual accounting, all sections of this notice are applicable. The PHAs using modified accrual accounting are to comply with the intent of this notice by inserting the applicable modified accrual equity account for the referenced full accrual account.

2. Background: Pursuant to 24 CFR 982.155, PHAs maintain a UNP, which is a single administrative fee reserve account for the Housing Choice Voucher (HCV) program. On an annual basis, PHAs credit to the UNP the total of:

(1) the difference between program administrative fees (paid by HUD for a PHA fiscal year) and PHA program administrative expenses for the fiscal year; **plus**

(2) the net of revenue (admin fee payments and HAP reimbursements received from Initial PHAs) and expenses (HAP paid) related to the administration of unabsorbed portability units administered (Port-Ins)³; **plus**

(3) interest and other income earned on the investment of administrative fee reserves (and up to \$500 per calendar year in interest and investment income earned on HAP and RNP funds)⁴; **plus**

(4) the portion of fraud recoveries actually collected that flows to the administrative fee reserves (usually 50% of total collected)⁵; **plus**

(5) any other miscellaneous administrative revenues or equity transfers to the HCV administrative fee reserve; **minus**

(6) any expenditures from the reserve account to cover excess HAP costs not covered by HAP funding and HAP reserves (RNP account) or other allowed uses of administrative reserves.

The Voucher Management System (VMS) still uses the terms UNA and NRA, but will be updated with the next revision to include the correct terminology. (Note that the “Administrative Fee Equity” included in the memo accounts on the FDS Income Statement is not the same as the Administrative Fee Reserve/UNP discussed in this notice. The Administrative Fee Equity on the Income Statement may include Net Investments in Capital Assets depending on the PHA’s situation, whereas the UNP, or Administrative Fee Reserve, discussed here does **not** include capital assets.)

Beginning with the enactment of the 2004 Appropriations Act, the use of administrative fee reserves is restricted to activities related to the provision of Section 8 tenant based assistance,

³ Both HAP and Admin Fee reimbursements for unabsorbed Port-Ins run through the UNP account because the management of unabsorbed Port-Ins constitutes an administrative contract between the receiving agency and the initial agency from which the participant ported. As such, HAP and utility expenses for unabsorbed Port-Ins also run through the UNP account. If a Port-In is absorbed into the receiving agency’s own HCV Program, they should be treated as a regular voucher that affects the RNP, rather than the UNP.

⁴ See 2 CFR §200.305(b)(9), which states, “Interest earned amounts up to \$500 per year may be retained by the non-Federal entity for administrative expense. Any additional interest earned on Federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services Payment Management System (PMS) through an electronic medium using either Automated Clearing House (ACH) network or a Fedwire Funds Service payment.” In the case of the HCV Program, this provision allows up to \$500 in interest earned on HAP and RNP to be kept per calendar year and applied to the UNP balance.

⁵ See 24 CFR §792.202 for more information on the amounts of fraud recovery a PHA may retain in its UNP and the portion of fraud recovery that must be returned to the HCV Program by inclusion in the RNP balance.

including related development activities. Accordingly, administrative fee reserves from FFY 2004 and subsequent funding periods (referred to as “post-2003” funds) are restricted to HCV activities even though under GAAP they are referred to as unrestricted net position accounts. Administrative fee reserves remaining from funding periods prior to the FFY 2004 Appropriations Act (referred to as “pre-2004” funds) are restricted in use pursuant to 24 CFR 982.155(b)(1). Provisions for post-2003 and pre-2004 reserves are discussed in more detail below.

This Notice does not apply to PHAs approved for fungibility under a Moving to Work (MTW) agreement or under an agreement for Section 901 Disaster Assistance.

3. Use of Administrative Fees. The HCV program regulations at 24 CFR 982.152 provide that PHA administrative fees may only be used to cover costs incurred to perform PHA administrative responsibilities for the program in accordance with HUD regulations and requirements. During the PHA’s current fiscal year, any administrative fees received in that PHA fiscal year may only be used for this purpose. If a surplus of administrative fees remains at the end of the PHA’s fiscal year, the amount by which the program administrative fees paid by HUD for the PHA fiscal year exceeded the PHA’s HCV administrative expenses for the fiscal year is added to the administrative fee reserves. The eligible uses of the PHA’s Administrative Fee Reserve are described in sections 4 and 5 below.

Note that if a PHA lacks administrative fee reserves and needs to temporarily supplement the administrative fee provided by HUD with non-Federal, non-restricted funds in order to cover eligible HCV program administrative expenses, the PHA may use subsequent administrative fees to reimburse the source of the non-Federal, non-restricted funding used as the temporary bridge to cover the HCV program administrative expenses. However, HCV administrative fees may never be loaned to another program in order to cover that program’s expenses, regardless of whether the PHA intends to reimburse the HCV program at a later date.

4. Pre-2004 Administrative Fee Reserves: Any administrative fees funded prior to the FFY 2004 Appropriations Act remain subject to the regulatory requirements at 24 CFR 982.155(b)(1), which states:

*The PHA must use funds in the administrative fee reserve to pay program administrative expenses in excess of administrative fees paid by HUD for a PHA fiscal year. If funds in the administrative fee reserve are not needed to cover PHA administrative expenses (to the end of the last expiring funding increment under the consolidated ACC), **the PHA may use these funds for other housing purposes permitted by State and local law. However, HUD may prohibit use of the funds for certain purposes.***

Due to the restrictions imposed by the FFY 2004 and subsequent appropriations, the use of administrative fee reserves for “other housing purposes permitted by State and local law” only applies to pre-2004 administrative fee reserves.

5. Post-2003 Administrative Fee Reserves: The FFY 2004 Appropriations Act and subsequent appropriations require that administrative fee reserves provided from these appropriations shall only be used for activities related to the HCV Program, including related development activities. Examples of related development activities could include: modifications to HCV units to provide accessibility features or project-based voucher development costs. Any post-2003 administrative fees moved into the administrative fee reserve account at year end may **not** be used for “other housing purposes permitted by state and local law.”

As provided in 24 CFR 982.155 b(3), if the PHA has not adequately administered the HCV program according to HUD requirements, HUD may prohibit use of funds in the administrative fee reserve, and may direct the PHA to use funds in the reserve to improve administration of the HCV program or to reimburse ineligible expenses. Post-2003 administrative fee reserves may **not** be used for Low Rent Public Housing (PH) development activities, PH maintenance, or PH funding shortfalls, nor may they be loaned to other PHA programs.

6. General Depository Agreement: Consistent with the Annual Contributions Contract (ACC), PHAs must deposit all program funds in accordance with the terms of a General Depository Agreement. The General Depository Agreement form HUD 51999 must be executed between the PHA and the depository. The PHA may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.

The agreement with the depository institution must provide that if required under a written notice from HUD to the depository: (1) The depository institution must not permit any withdrawal of deposited funds by the PHA unless withdrawals by the PHA are expressly authorized by written notice from HUD to the depository, and (2) The depository institution must permit withdrawals of deposited funds by HUD. If approved by HUD, the PHA may deposit under the depository agreement monies received or held by the PHA in connection with any contract between the PHA and HUD. The executed General Depository Agreement must include all deposit account numbers in which Housing Choice Voucher Program funds are held.

7. Reporting Requirements: HUD requires PHAs to report any unused administrative fee reserves as UNP in the Financial Assessment Subsystem (FASS) on the Financial Data Schedule (FDS) Balance Sheet on line 512.4 - Unrestricted Net Position. The associated assets, net of related liabilities, (line 111 Cash; line 131 Investments) should be reported on the FDS as unrestricted. Previously, there was no requirement for PHAs to segregate administrative fee reserves as pre-2004 and post-2003. As noted earlier, a PHA may use pre-2004 administrative fee reserves for other housing purposes permitted by state and local law; while post-2003 fees are limited to HCV- related purposes. As a result, this separation requires reconciliation to ensure the proper accounting and use of administrative fees.

In order to track these reserves annually, beginning with the reporting period ending December 31, 2009, PHAs must report post-2003 administrative fee reserves separately from pre-2004 reserves on the FDS Income Statement in the details of the line 11170 memo account, titled Administrative Fee Equity. Specifically, the following FDS detail lines have been added to the FASS-PH system for the HCV program (CFDA #14.871) so the PHAs can report pre-2003 and post-2004 administrative fee reserves:

FDS line 11170-005 (Pre-2004 Administrative Fee Reserves)
 FDS line 11170-006 (Post-2003 Administrative Fee Reserves)

These line items must be completed and can be found in the detail link of FDS Line 11170 – Administrative Fee Equity on the income statement tab of the HCV program. However, as currently programmed, FDS lines 11170-005 and 11170-006 must also include amounts associated with FDS line 508.4 Net Investments in Capital Assets⁶. In a future FASS-PH system release, FDS line 11170 will distinguish administrative fee reserves and net investment in capital assets that will reconcile to FDS line 512.4, UNP.

UNP must also be reported in the Voucher Management System (VMS) on a monthly basis in the field currently titled **Unrestricted Net Assets (UNA) as of the Last Day of the Month**, which will be changed in a coming VMS release to reflect the proper Unrestricted Net Position terminology. The UNP is the amount reported on the balance sheet at line 512.4. The UNP reported in the VMS must be updated through the end of each reporting month.

Note that the UNP as reported in the VMS should consist of the following:

- Prior month's ending UNP balance **plus (+)**
- Portion of fraud recovery actually collected that goes to the UNP account **plus (+)**
- Interest and other income earned on the investment of Admin and UNP funds (plus any interest earned on RNP and HAP funds before reaching the allowed maximum of \$500 per calendar year) **plus (+)**
- Unabsorbed Port-In revenues **minus (-)**
- Unabsorbed Port-In HAP expenses **minus (-)**
- Any expenditures from the UNP account used to cover cumulative excess administrative costs that exceed admin fee funding disbursed by HUD for the current fiscal year, excess HAP costs not covered by HAP funding and RNP, etc.

For the month to month UNP [UNA] balance, note that excess administrative fee disbursements from HUD (that occur when cumulative AF disbursements exceed administrative expenses for the current fiscal year) are not added into the UNP [UNA] on a monthly basis. These amounts are not added in each month because excess administrative fees do not become “unrestricted” reserves until the end of the PHA fiscal year. During the fiscal year, administrative fee disbursements from HUD may only be used to cover current year administrative expenses. If cumulative excess administrative fee funds remain at the end of the fiscal year, they should be added into the UNP [UNA] balance at the end of the last month of the fiscal year for VMS reporting. This aspect of the calculation also prohibits replenishing the UNP during the PHA's fiscal year if excess AF funding in the current month cures an administrative fee deficit from a previous month. Thus, if a PHA has to dip into the UNP to cover excess administrative expenses, it still may not increase the UNP during the fiscal year by adding in excess current year admin

⁶ When comparing VMS UNP to FDS reported administrative fee reserves information, HUD reduces the amount of FDS administrative fee reserves by FDS line 508.4.

fees in later months, even if the UNP balance remains below the previous fiscal year-end balance.

Overall, excess administrative expenses may decrease the UNP from month to month during the fiscal year (FY), but excess administrative fee disbursements from HUD should not generally increase the UNP from month to month during the FY. Only fraud recovery, Port-In, interest, or other non-HUD revenue may increase the UNP from month to month during the fiscal year. The one exception to this rule occurs when the UNP balance is negative (deficit). As long as the UNP remains negative, the PHA may add current year excess Admin Fee disbursements back into the UNP balance, thereby making the balance less negative if the PHA is remitting the excess admin fees back to the Central Office Cost Center (COCC) or other fund that loaned the HCV Program the money needed to cover the admin deficit that caused the negative UNP.⁷

It will be extremely important that PHAs reconcile these accounts with their internal records. HUD will be using this information in assessing the use of the administrative fee reserves in order to ensure that PHAs are complying with the statutory and regulatory requirements concerning the use of administrative fee reserves.

8. Use of HAP funds: HAP funding, which includes RNP accounts, may only be used within the HCV Program for eligible expenses related to HAP (PHA's share of the rent), family self-sufficiency escrow payments, and utility reimbursements. HAP shall not, under any circumstances, be used for any other purpose such as to cover administrative expenses or to be loaned, advanced or transferred (referred to as operating transfers due to/due from) to other component units or other programs (housing or non-housing) such as Low Rent Public Housing. Use of HAP for any purpose other than eligible HAP needs is a violation of law, and such illegal uses or transfers will result in administrative fee sanctions and possible breach of the ACC.

In instances where a PHA is found to have misappropriated HAP funds by using the funds for any purpose other than valid HAP expenses for units up to the baseline, HUD will require the immediate return of the funds to the RNP account. HUD may take action against a PHA or any party that has used HAP or RNP funds for non-HAP purposes.

Requirements for accounting controls and cash management dictate separate accounting of HCV from public housing funds to avoid co-mingling or improper use of program funds.

⁷ These VMS reporting instructions differ from the Generally Accepted Accounting Principles (GAAP)-based definition PHAs use in the financial statement reporting of UNP. Specifically, during the PHA's fiscal year, UNP reported in VMS could, and will likely, differ from UNP as reported in the PHA's accounting system. However, at the end of the PHA's fiscal year, these two amounts (VMS UNP and FDS line 512.4) should agree, or materially agree, as most reconciling differences will be added into the VMS UNP at the end of the last month of the fiscal year. HUD recognizes that certain differences between VMS UNP and FDS line 512.4 may still occur because the reporting instructions for fraud recoveries are different between the two systems and for other specific PHA situations.

RNP is reported in the VMS in the field currently titled **Net Restricted Assets as of the Last Day of the Month**, which will be updated with the correct RNP terminology upon the next system release. RNP is the amount reported on the FDS Balance Sheet at line 511.4 Restricted Net Position. The RNP[NRA] reported in the VMS must be updated through the end of each reporting month. RNP[NRA] as reported in the VMS should consist of the following:

- Prior month's ending RNP balance **plus (+)**
- HAP revenues for the month from HUD disbursements and landlord reimbursements for previous overpayment of HAP (does not include fraud or Port-In revenues) **plus (+)**
- Portion of fraud recovery actually collected that goes to the RNP account (usually 50% of the total collected) **plus (+)**
- FSS escrow forfeitures **minus (-)**
- HAP expenses for the month (does not include Port-In HAP Expenses)

Note that as of January 1, 2012 interest earned on HAP and HAP investments was no longer a part of the RNP. As of January 1, 2014 the PHA may retain up to \$500 in interest earned on HAP and HAP investments, but those funds shall be recorded and reported as administrative revenue flowing to the UNP.

9. Sanctions: Improper use of HAP/RNP funds, administrative fees or administrative fee reserves is a non-compliance action that may be subject to administrative sanctions, possible breach of the ACC or other authorized corrective action.

10. The Office of Housing Voucher Programs, Quality Assurance Division (QAD) shall continue to conduct on-site and remote reviews of PHA financial reporting and recording. Incorrect reporting and recording shall result in review concerns or findings for which corrective action plans must be developed by the PHA.

11. Paperwork Reduction Act: The information collection requirements contained in this Notice are approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. §§ 3501-3520), and assigned the OMB control numbers 2577-0169 for the Voucher Management System and 2535-0107 for the Financial Assessment Subsystem.

12. Further information: Refer questions to the Housing Voucher Financial Management Division at (202) 708-2934 or email to PIH_Financial_Management_Division@hud.gov.

/s/

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