



# Public Housing Assessment System (PHAS)- Interim Rule

## Financial Condition Indicator

June 6, 2011



# Financial Assessment Subsystem (FASS): Areas To Be Covered

## Asset Management

A brief overview

## Prior vs. New FASS Sub-Indicators

Compare & Contrast

## New FASS Sub-Indicators

What are they? What do they mean?

## FASS Scoring Process

Tiers: 1, 2, 3



# Asset Management

Implemented for PHAs beginning with FYE of 06/30/2008

PHAs account for activities by projects. PHAs report to FASS-PH on a **project level** as well as on an entity-wide basis

Low Rent and Capital Fund program (CFP) activities are reported at the **project level**

All other programs and activities (entity-wide) are reported on separate columns on the Financial Data Schedule (FDS)



# Asset Management (Cont)

Projects report Low Rent and Capital Fund program activities at a **project level**

**Each project** will be assessed based on the combination of the Capital Fund and Low Rent programs

Each **project** will receive a Financial Condition Indicator score based on the three (3) new sub-indicators (ratios)

PHAs will also receive a weighted average Financial Condition Indicator score **based on the weighted average score for each project**



# Interim PHAS Score by Indicator

Physical Condition

• 40 points

Financial Condition \*

• 25 points

Management Operations

• 25 points

Capital Fund Program

• 10 points

Overall PHAS score

100 points

**\* Threshold score for this indicator must be at least 15 points, or 60% of maximum number of points (25).**



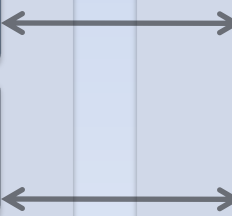
# Prior vs. New Sub-indicators (Ratios)

## Prior PHAS

Current Ratio	9.0
Months Expendable Fund Balance (MEFB)	9.0
Tenant Receivables Outstanding (TRO)	4.5
Occupancy Loss (OL)	4.5
Net Income (NI)	1.5
Expense Management (EM)	1.5
<hr/>	
<b>TOTAL POINTS</b>	<b>30.0</b>

## Interim PHAS

Quick Ratio (QR)	12.0
Months Expendable Net Assets Ratio (MENAR)	11.0
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Debt Service Coverage Ratio (DSCR)	2.0
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<b>TOTAL POINTS</b>	<b>25.0</b>





# New Ratios

## Quick Ratio (QR)

Measures liquidity

Similar to Current Ratio (CR)

Maximum 12 points

## Months Expendable Net Assets Ratio (MENAR)

Measures adequacy of reserves

Similar to Months Expendable Fund Balance (MEFB) Ratio

Maximum 11 points

## Debt Service Coverage Ratio (DSCR)

Measures capacity to cover debt

**New ratio**

Maximum 2 points





# New Ratio Computations: QR

## NUMERATOR

### Cash

FDS 111\*  
Cash-  
Unrestricted

### Cash Equivalent

FDS 114  
Cash Tenant  
Security  
Deposits

FDS 115  
Cash  
Restricted  
for Payment  
of Current  
Liabilities

### Current Receivables

FDS 120  
Total Receivables net of allowance for doubtful accounts

FDS 131  
Investments Unrestricted

FDS 135  
Investments Restricted for payment of current liability

FDS 142  
Prepaid Expenses and Other Assets

FDS 144  
Inter-program-due-from

\* Henceforth,  
FDS##### refers  
to FDS line items

## Current Liabilities

FDS 310  
Total Current Liabilities

[343-010]  
CFFP Current Portion of long-term debt  
capital projects/mortgage revenue bonds

## DENOMINATOR





# How QR is Scored

$QR < 1.0$

0 points

$QR = 1.0$

7.2 points

$1.0 < QR < 2.0$

$7.2 < \text{points} < 12.0$

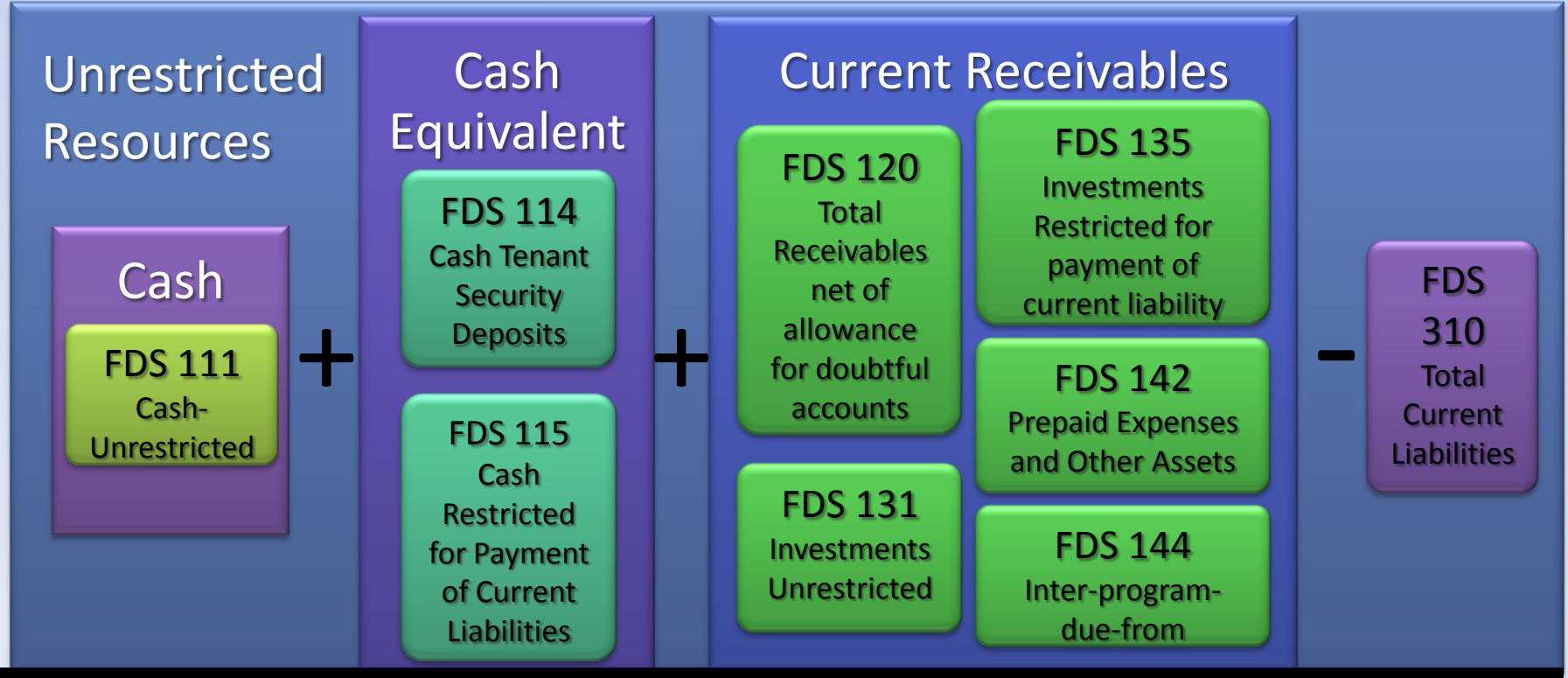
$QR \geq 2.0$

12.0 points



# New Ratio Computations: MENAR

## NUMERATOR



## Average Monthly Operating Expenses

$$\left( \begin{array}{l} \text{FDS 96900} \\ \text{Total Operating Expenses} \end{array} + \begin{array}{l} \text{FDS 97100} \\ \text{Extraordinary Maintenance} \end{array} + \begin{array}{l} \text{FDS 97200} \\ \text{Casualty Loss Non-capitalized} \end{array} + \begin{array}{l} \text{FDS 97800} \\ \text{Dwelling Units Rent Expense} \end{array} \right) \div 12$$

## DENOMINATOR



# How MENAR is Scored

**MENAR < 1.0**

0 points

**MENAR = 1.0**

6.6 points

**1.0 < MENAR < 4.0**

6.6 < points < 11.0

**MENAR ≥ 4.0**

11.0 points



# New Ratio Computations: Debt Service Coverage Ratio (DSCR)

← NUMERATOR →

Adjusted Operating Income

FDS 97000  
Excess Operating  
Revenue over Operating  
Expenses

+

FDS 96700  
Interest Expense and  
Amortization Costs

Annual Debt Service excluding CFFP debt

FDS 96710  
Interest on  
Mortgage (or  
bonds) payable

+

FDS 96720  
Interest on notes  
payable (short-&  
long -term)

+

FDS 11020  
Required Annual  
Debt Principal  
Payments

← DENOMINATOR →



# How DSCR is scored

**DSCR < 1.0**

0 points

**$\geq 1.0$  but  $< 1.25$**

1 point

**DSCR  $\geq 1.25$**

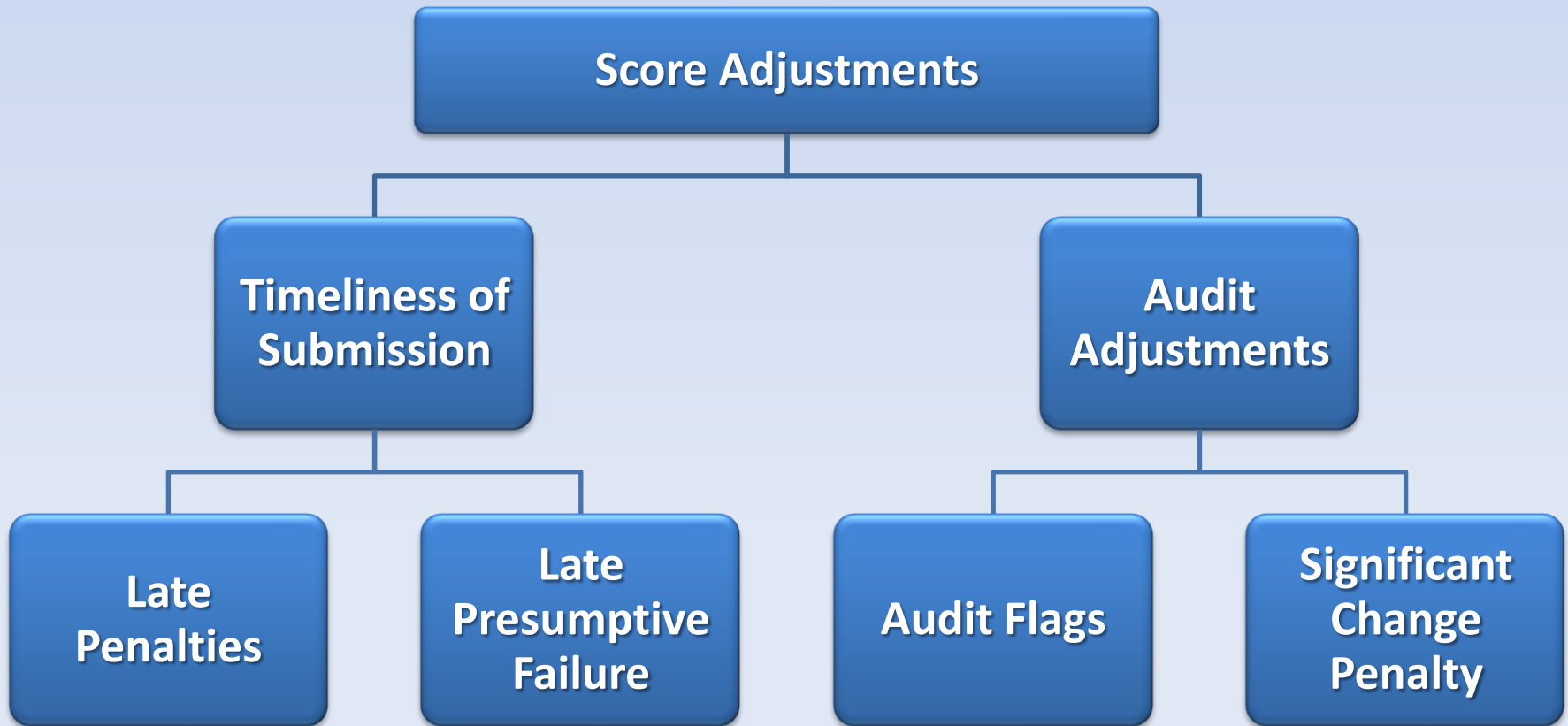
2 points

**NO DEBT AT ALL**

2 points

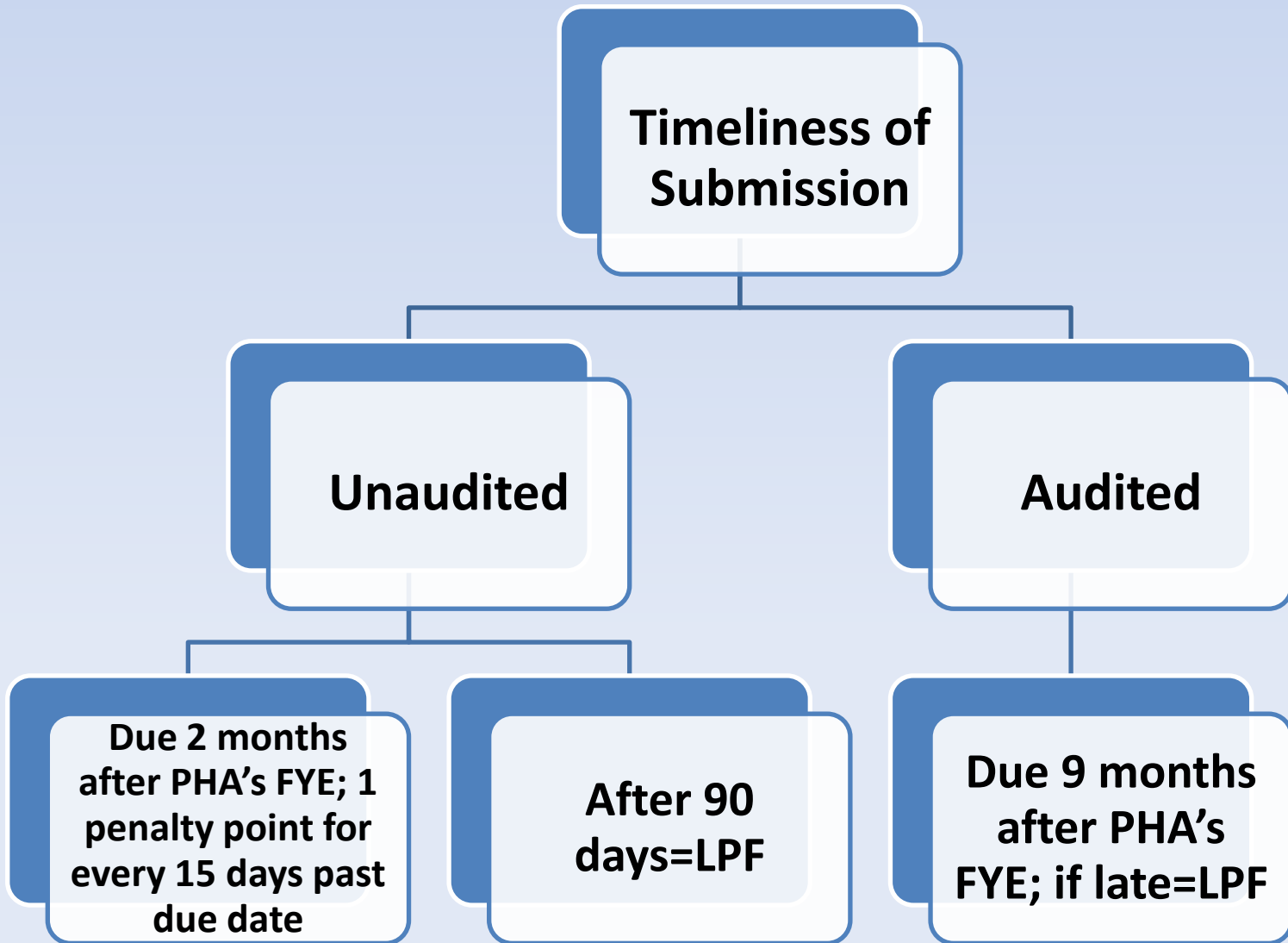


# FASS-PH Scoring Process





# Timeliness of Submission

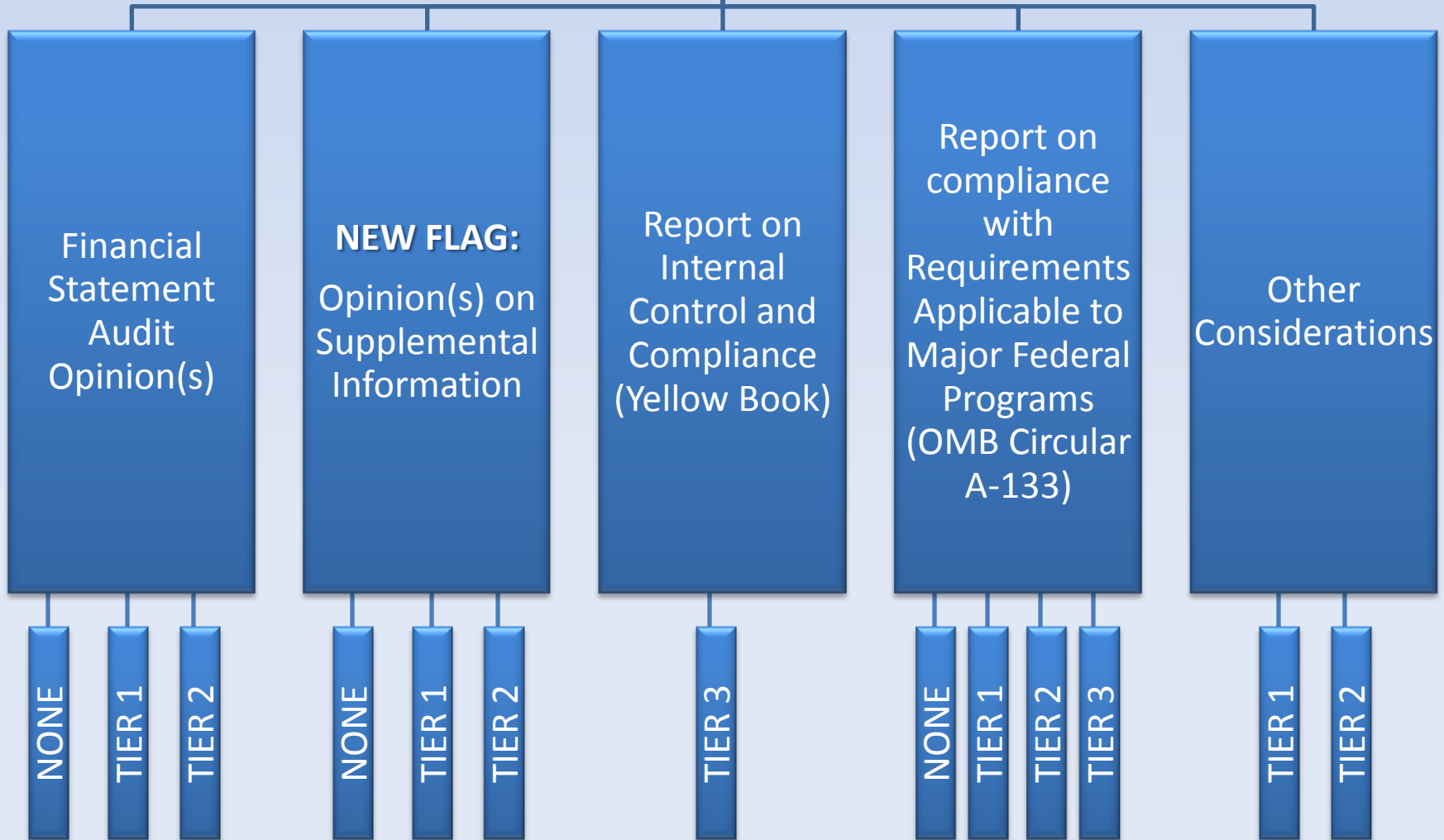






# Types of Audit Flags

## Flags





# Tier Classification

Each tier assesses point deductions of varying severity

## Tier 1

- Any Tier 1 finding assesses a 100 percent deduction of the PHA's financial condition indicator score.

## Tier 2

- Any Tier 2 finding assesses a point deduction equal to 10 percent of the unadjusted financial condition indicator score.

## Tier 3

- Each Tier 3 finding assesses a 0.5 point deduction per occurrence, to a maximum of 4 points of the financial condition indicator score.

Unqualified Opinion (no penalty)



# Audit Flags and Tier Interactions

Financial Statement Audit Opinion(s)	Categories	Tier Classification *
	1. Unqualified Opinion	None
	2. Qualified Opinions <ul style="list-style-type: none"> <li>•Departures from GAAP not significant enough to cause adverse opinion(s)</li> <li>•Limitations on the scope of the audit (regardless of cause) not significant enough to cause a disclaimer of opinion</li> </ul>	Tier 2
	3. Adverse Opinion(s) regardless of reason(s)	Tier 1
	4. Disclaimer of Opinion(s) regardless of reason(s)	Tier 1

\* Deduction only if the departure includes Low Rent or Capital Fund programs



# Audit Flags and Tier Interactions

<b>NEW: Opinion(s) on Supplemental Information [Statement of Auditing Standard (SAS) 117 “in relation to” type of opinion]*</b>	<b>Categories</b>	<b>Tier Classification</b>
	1. Fairly stated	None
	2. Fairly stated except for:	Tier 2
	3. No opinion	Tier 1
	4. Incomplete or missing	Tier 1

\* Applies to the FDS

<b>Report on Internal Control and Compliance and Other Matters Noted in an Audit of the Financial Statement performed in accordance with Government Auditing Standards (GAS) (Yellow Book)**</b>	<b>Categories</b>	<b>Tier Classification</b>
	1. Control Deficiencies <ul style="list-style-type: none"> <li>• Significant Deficiencies</li> <li>• Material Weaknesses</li> </ul>	Tier 3
	2. Material noncompliance	Tier 3
	<b>3. Fraud</b> <small>(new)</small>	<b>Tier 3</b>
	<b>4. Illegal Acts</b> <small>(new)</small>	<b>Tier 3</b>
	<b>5. Abuse</b> <small>(new)</small>	<b>Tier 3</b>

\*\* Deduction applies only if it relates to Low Rent or Capital Fund programs



# Audit Flags and Tier Interactions

<b>Report on compliance with requirements applicable to major federal programs and internal control over compliance with OMB Circular A-133</b>	<b>Categories</b>	<b>Tier Classifications</b>	
	<b><i>Opinion on compliance with each major federal program requirements</i></b>		
	1. Unqualified Opinion(s)*	None	
	2. Qualified Opinion(s)*(regardless of cause)	Tier 2	
	3. Adverse Opinion(s)*(regardless of cause)	Tier 1	
	4. Disclaimer of Opinion(s) *(regardless of cause)	Tier 1	
	<b><i>Internal controls and compliance</i></b>		
	1. Control deficiencies in internal controls <ul style="list-style-type: none"> <li>• Significant deficiencies (over compliance)**</li> <li>• Material weaknesses (over compliance)**</li> </ul>	Tier 3	
	2. Material noncompliance**	Tier 3	

\*On compliance with Low Rent program and Capital Fund program **major federal requirements**

\*\* Regarding Low Rent program and Capital Fund program requirements



# Audit Flags and Tier Interactions

	Categories	Tier Classification
<b>Other Considerations</b>	1. Significant change penalty deduction applies only if the significant change(s) relates to the Low Rent or Capital Fund programs	Tier 2
	2. Going concern	Tier 1
	<b>3. Management Discussion and Analysis and other supplemental information omitted</b> <small>(new)</small>	<b>Tier 2</b>
	4. Financial statements using basis other than GAAP	Tier 1



# Significant Change Penalty

**A penalty will be assessed for significant differences between the unaudited and audited submissions**

**A significant difference is considered to be an overall score decrease of 3+ points from unaudited to audited**

**A Significant Change Penalty is considered a Tier 2 flag; therefore it will result in a 10% audited score reduction**





# Summary: Point Values

## Financial Condition Indicator

- **Up to 25 points**
- Threshold score is at least **15 points**

## 3 New Sub-Indicators (Ratios):

- Quick Ratio (QR) - **12 points**
- Months Expendable Net Assets Ratio (MENAR) - **11 points**
- Debt Service Coverage Ration (DSCR) - **2 points**



# Summary: Subtracting Points

## Late Penalties and Late Presumptive Failure

- Same as prior PHAS

## Audit Flags each based on a 3 tier classification system

- Tier 1: 100% deduction from FASS score
- Tier 2: 10% deduction of unadjusted FASS score
- Tier 3: 0.5 point deduction per occurrence of up to 4 points of the FASS score

## Significant Change Penalty

- Difference between unaudited and audited submissions
- Tier 2 Flag → 10% deduction



# FASS Resources & Contacts

- **Financial Assessment Subsystem-PH webpage**  
<http://www.hud.gov/offices/react/products/prodpha.cfm>
- **FASS-PH team**  
[http://www.hud.gov/offices/react/products/fass/pha\\_team.cfm](http://www.hud.gov/offices/react/products/fass/pha_team.cfm)
- **Technical Assistance Center (TAC)**  
*(7:00 am-8:30 p.m., EST, M-F)*  
**1(888)245-4860**  
[REAC\\_TAC@hud.gov](mailto:REAC_TAC@hud.gov)