



Accounting Policy

Adopted by Resolution 2022-11
03-28-2022

Introduction

This document has been prepared to demonstrate the internal accounting procedures for the Lawrence-Douglas County Housing Authority (LDCHA). Its purpose is to ensure that assets are safeguarded, financial statements are in conformity with generally accepted accounting principles, and finances are managed with responsible stewardship.

This Accounting Policy has been presented, reviewed and approved by the LDCHA Board of Commissioners.

This policy serves the public housing authority (PHA) by helping to identify and reduce risks and ensuring that policies, procedures, laws and regulations are followed and that established standards are met. It is the intention that PHA objectives are achieved and that resources are used efficiently and effectively. The finance department operates under the general direction of LDCHA's Executive Director with a direct reporting relationship to the Board of Commissioners.

Compliance

Department of Housing & Urban Development (HUD)

The mission of LDCHA is "To preserve and expand affordable housing, and provide opportunities for participants to thrive through services and partnerships." This is accomplished through various funding sources, most notably the Department of Housing and Urban Development (HUD). LDCHA policies and procedures are guided to meet the requirements of the regulations of the funding source provided in the awards of our grants from both HUD and the regulations of the State of Kansas. This Accounting Policy addresses and considers both the guidelines set by HUD and State of Kansas requirements for reporting and fiduciary responsibilities.

In order to abide by the relevant regulations, LDCHA follows the rule of the stricter of the two policies.

HUD Financial Assessment

LDCHA follows the Basic UFRS Rule Requirements (Uniform Financial Reporting Standards) as recommended by HUD. HUD developed the Financial Assessment Subsystem (FASS) specifically to facilitate the PHA metric as the financial health portion of the overall assessment. Financial and other information must be submitted to the HUD Real Estate Assessment Center (REAC) electronically by the PHA.

The Public Housing Assessment System (PHAS) rule establishes procedures for the assessment of:

1. Physical condition
2. **Financial condition**
3. Management operations
4. Resident service and satisfaction

The PHAS indicators listed above act as an annual “report card” to indicate how the agency is performing based on HUD standards. For the 2) Financial condition listed above, information must be submitted to REAC electronically by the PHA through the FASS using a template known as the Financial Data Schedule (FDS).

Financial Compliance

The LDCHA annual financial reports are completed and audited by an independent audit firm. The audit is submitted to the City of Lawrence annually.

The annual FDS is prepared by the LDCHA and the LDCHA’s fee accountants using Generally Accepted Accounting Principles (GAAP) standards for state and local governments and is reported on by the independent auditor as to its fair presentation in relation to the audited financial statements. The Government Accounting Standards Board (GASB) issues relative accounting practices on an annual basis. As these documents are released, LDCHA modifies the procedures to conform to the new GASB standards, if applicable.

GASB provides for two bases of accounting depending on the activities of the governmental entity - “enterprise fund” or “governmental fund” accounting. Since the overwhelming majority of PHAs possess the characteristics of enterprise funds, they follow GASB enterprise fund accounting principles.

GASB issued Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments, which mandates government-wide or other financial statements using full accrual accounting like that utilized by enterprise funds.

Compliance with External Policies

Housing Authority accounting policies and procedures are compliant with GAAP accounting principles as established by the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB) to maintain U.S. Department of Housing and Urban Development (HUD) regulations. The policies are provided through:

- **OMB Directives** – *The audit of an entity’s basic financial statements, Grant compliance and internal controls.*
- **Uniform Financial Reporting Standards (UFRS)** – *Rule implementing requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to REAC by entities receiving HUD financial assistance.*
- **GASB Statements**
- **Statement on Auditing Standards** – (SAS) No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*
- **AICPA Statement on Standards for Attestation Engagements** – (SSAE) No. 10, *Attestation Standards: Revision and Recodification, where the auditor compares the electronically submitted data in REAC and is prepared by the auditor.*

Board Authority

Board of Housing Commissioners

The Lawrence-Douglas County Housing Authority Board of Commissioners was created by joint resolution of the City of Lawrence (Resolution 6240) and Douglas County (Resolution 00-26). Three LDCHA Board of Commissioners are appointed by the Mayor and two by the Douglas County Commission. The LDCHA Board of Commissioners is the governing body to LDCHA.

The LDCHA encourages community members to stay informed on current issues and business actions pertaining to its housing programs and policies. All meetings of the Board are open to the public unless, for a specifically named and limited purpose as outlined in the State of Kansas Open Meetings Act (KOMA), K.S.A. 75-4317 *et seq.*, a meeting is scheduled as a closed meeting or an open meeting is called into a closed session.

Board Meetings

Regular Meetings are held on the 4th Monday of each month, at 5:30 pm, unless otherwise posted.

Notice of meetings shall be in accordance with the KOMA.

Board Responsibilities

The Board of Housing Commissioners has a role of oversight to the LDCHA. The Board is responsible for electing Board Member roles and officers, and setting policy for the LDCHA.

The Commissioners provide leadership, set policy, approve budgets, and earn support in the community for housing programs. The role of the Board Members is that of policy maker, while the responsibility of the Authority's administration belongs to the Executive Director (E.D.). The E.D. is considered the Chief Executive Officer who manages the operations and reports to the board.

Additionally the E.D. holds a role on the Board as Secretary and reports to the Board monthly. The Board of Commissioners and the E.D. work together in a positive working relationship in order to have the balanced and effective agency for the community.

1. Executive Director acts as signatory on all disbursements and the Chair and/or another designated LDCHA Member act as back up signatory.
2. Dual signature is required to authorize expenditures in accordance with LDCHA Resolution 276 and 979.
3. The E.D. reviews purchase orders and invoices for all checks.

The Accounting Function

To ensure compliance on a daily basis with regards to all accounting functions, this policy is a regulatory guide to the various functions including but not limited to; cash management, receipts, disbursements, accounting, funding, purchasing and grant or contract management. The finance department has evaluated the process and procedures that staff follows to ensure all industry regulations are being followed. Desktop procedures exist and are reviewed annually to ensure consistent and compliant practice.

Prevention and detection of fraud and mismanagement is another factor in considering process and procedures. HUD's Office of the Inspector General (OIG) recommends the implementation of strong internal controls, through accounting policies and procedures, in order to help mitigate the potential for fraud. The most effective internal control concept is separation of duties.

An ideal system of internal controls will separate the below functions:

- Authorizing transactions
- Keeping books
- Handling funds

All transactions require a Purchase Order (PO) and invoice. It must be verified and signed by the director of the department submitting the PO and the Executive Director. The purchasing agent codes the PO and the code is provided or verified by the Finance Director. The checks are electronically signed by the Board Chair and physically signed by the E.D. All HAP checks are electronically dually signed.

The Finance Department recognizes this role and is responsible in communicating the education of the current state of affairs to the Board of Commissioners and the E.D. who hold direct responsibility for ensuring that the LDCHA's housing programs are carried out in an honest, efficient, and effective manner.

Fraud Prevention & Cash Management

Education and strict adherence to the roles and procedures of daily cash management is the first step to fraud prevention. This begins by hiring and educating staff on the importance of cash management handling, which includes reviewing all preventative measures as well as ensuring all LDCHA procedures are being followed.

Cash Management & Investment Policy

The Annual Contributions Contract (ACC) requires the PHA to deposit and invest all program funds for projects under an ACC in accordance with the terms of a General Depository Agreement. The General Depository Agreement must be in a form approved by HUD and is executed between the PHA and the depository. In addition, the ACC requires the PHA to invest General Fund (program) monies only in HUD approved investments.

Cash management is the process of managing the cash flow of a PHA to optimize its use of funds. This process involves the timing of receipts and disbursements to assure the availability of funds to meet expenditures and to maximize the yield from the investment of temporarily surplus funds. Effective cash management calls for organized planning. Good relations between the PHA and the financial institution can improve the effectiveness of a cash management program.

- A General Depository Agreement is signed Form HUD 51999
- Collateralization of deposits shall be fully secured (100%) that are in excess of the insured amount (FDIC)

Investment Policy is published as an additional document but the policy shall adhere to the following; LDCHA shall implement the following internal controls to assist in controlling investments and preventing loss or misuse:

1. Investment transactions shall be reported to the LDCHA governing board and documented in the board minutes.
2. Investment documents shall be kept in a safe fire-resistant locked file cabinet, safe deposit box, or other similarly secured location.
3. Individuals responsible for custody of securities shall be someone other than an individual maintaining the accounting records.
4. Investments shall be maintained in a custodian or trust account.
5. Investments shall be in the name of the LDCHA or affiliated non-profit.
6. Investments shall be recorded in detail.
7. A system shall be in place to ensure that all interest earned is collected and credited to the appropriate LDCHA records.
8. Investments shall be reconciled periodically to the detailed record.

Cash Disbursements Process

In the disbursement process, there are two independent verification steps to be taken before the payments are sent. It is performed by a person removed from custodial, recording and approval duties. This control step addresses the issue of fraudulent supporting documents, which can easily be produced and inserted into the invoice processing and check preparation stages.

Payments to Vendors

1. All Purchase Orders (POs) are supported by an invoice, approved and coded by program and account type by a department director for payment.
2. POs are reviewed and approved by the department director then submitted to the Business Office Assistant.
3. Business Office Assistant sorts the POs by program type for payment.
4. POs are reviewed for final approval and signature by the Executive Director and returned to Business Office Assistant for processing of the payment.
5. Invoices are entered into the system by the Business Office Assistant.
6. POs and invoice listing for accounts payable check run are reviewed by Finance

Director.

7. Check stock is controlled and disbursed by the Business Office Assistant.
8. Checks are printed by the Business Office Assistant which include check number, payee, check date, general ledger account, and amount of check.
9. Accounts Payable checks are printed twice monthly. The run includes the check number, amount and quantity to verify against the check listing report.
10. Checks are distributed. Business Office Assistant records check numbers, date, account number and program type.
11. Disbursements are reconciled during the monthly bank reconciliation process performed by the agency's fee accountant.

HAP Payments to Landlords

1. All HAP payments are supported by family listing or requisition for payment approved by the Director of General Housing.
2. Payments are reviewed and approved for payment by the Finance Director.
3. Check printing process is the same as above.

Credit Card Purchases

1. PO for purchase is approved by department director.
2. PO is presented and recorded by Business Office Assistant.
3. Business Office Assistant checks out credit card to purchaser.
4. Following purchase, credit card, PO, and supporting documentation are returned to Business Office Assistant.
5. Business Office Assistant reconciles recorded purchases against credit card statement.
6. Payment of credit card statement follows payments to vendor procedure above.

Cash Receipts Process

There are specific measures when managing cash receipts or disbursements. All cash processes, either manual or automated, meet their objectives to:

1. Safeguard the asset
2. Prevent, deter, and detect errors and fraud

To achieve these objectives LDCHA ensures receipts and disbursements are appropriately directed and recorded. The controls in cash processes are segregation of duties and independent verification. To verify information independently, there is a separation of duties.

The person who performs the verification is not the same person who has access and control over the assets. In performing bank account reconciliations, the verification procedures include:

1. Tracing all cash receipts to the bank record.
2. Supporting all bank debits with approved internal records.

Controls for Rent and Cash Receipts

Segregation of Duties

Segregation of duties is a preventive and detective control. The division of responsibilities serves to cross-check the work of each function, thereby increasing the chance of detection, while reducing the chance of concealment without collusion. The **custodial duties** direct the actual asset flow and must be separated from the cash recording duties.

- End of month – Generate Rent Log and log and deliver to Office Assistant
- Office Assistant logs all checks from drop box, counter, note all items received
- All checks received are logged and placed in envelope and locked in secure box at front desk for processing.
- Rent must be paid by check or money order in the exact amount of the rent and any other charges due the LDCHA.
 - Cash may be accepted for payment of charges in the amount of \$10.00 or less.
 - Where tenant has a history of delinquent rent payment and where management can demonstrate that by not accepting cash the LDCHA may forfeit the payment, the manager may accept cash payment for rent or other delinquent accounts.
 - If cash is received, Office Assistant notifies Program and Property Management Director, who will count cash with witness. Payment will be logged and cash placed in secure and locked box in Program and Property Management Director office. At time of rent posting, cash will be delivered to Management Specialist for posting and then delivered to Finance Director.
- Office Assistant gives the log to Finance Director for document retention at end of each month

Posting / Receipts / Deposits - Property Management Specialist

- All drop box / counter box must be checked and logged by Office Assistant at time of receipt and placed in secure box.
- Management Specialist picks up checks, logs transfer of payments, and posts payments
- Payments and deposit ledger are delivered to Business Office by 3:00 pm on day of posting
- Tenant rent receipts are managed at front desk for tenants to obtain or pick up as needed
- Close out report completed by Finance Director.
- Business Office delivers payment bags to the bank at end of the day on the day of rent posting.

Custodial Duties

Custodial duties include cash counting, check endorsement, bank deposits, blank check stock custody, check printing and check signing. The electronic fund transfer application operator who processes and submits the fund transfer request is a cash custodian.

Custodial Duties:

1. Executive Director – approves outgoing disbursements. Holds signature authority for all disbursements
2. Chairperson of the Board – Holds second signature authority
3. Finance Director – Audits all bank reconciliations, financial transfers and ensures the chain of command. Performs financial reconciliations and audits month end, audits daily cash drawers and deposits and ensures tracking of deposits and original receipts
4. Business Office Assistant –Processes invoices, creates POs, electronic payments and disburses funds, and holds blank check stock
5. Office Assistant – Receives rent, cash deposits and logs daily receipts

The independent verification control in a cash process is verifying internal records of receipts and disbursements against externally sourced records. This is commonly known as the bank account reconciliation. There are accurate and reliable internal records with the recording duties separated from the custodial duties. The bank account reconciliation is a detective control and stop-loss procedure.

Internal Accounting Controls

Internal controls ensure that an organization's objectives can be achieved. An adequate system of internal controls is set to properly safeguard assets through the timely recording, reconciling and summarizing of transactions.

It is the job of the Executive Director and Board of Commissioners to bear ultimate responsibility to ensure that an adequate system of internal controls is in place and operating efficiently and effectively.

The Internal Controls are designed to reach accurate and transparent record keeping. The annual goals of the Finance Department are as follows:

- Conduct financial and financial-related audits.
- Conduct compliance and quality assurance reviews of operating controls and transactions to determine compliance with laws, regulations, and procedures.
- Conduct performance/operational audits to determine efficiency, economy, and effectiveness of all program areas and operations.
- Notify management and the Board of any investigations involving allegations of impropriety, fraud, criminal activities, conflicts of interest, waste, mismanagement, etc.
- Respond to requests from the Board of Commissioners, the Executive Director and the Senior Management team for independent analyses of management or internal

- control systems.
- Coordinate audit efforts between departments for external auditors to avoid duplication of efforts.

Internal Controls in Action

One of the most important characteristics of a good system of internal controls is separation of duties. LDCHA separation of duties is outlined as follows:

- **Mail** – The person responsible for opening the mail is not to be the same person responsible for making deposits, recording receipts or reconciling bank accounts. The mail person is responsible for receiving, sorting and distributing mail to the assigned staff members. For example, all Bank, Investment or Financial documents are delivered to the Finance Department unopened. All Human Resource documents are delivered to HR unopened.
- Two **check signers** are required for all disbursements. All other checks are reviewed and approved for payment by two levels of accounting and the Executive Director or designee prior to being distributed.
- The Finance Director is responsible for **assigning staff** for recording or reconciling responsibility of revenues and expenditures. All processes have at least two levels of review prior to approval for distribution or allocation.
- **Bank reconciliations** are completed and reviewed and approved by the Finance Director. Bank statements are delivered directly to the Finance Director and can be accessed directly online at the bank.
- **Journal Entries (JE)** have two levels of review and approval prior to being posted to the general ledger. Manual JE's are processed through the software, but hard copies of all JE's are maintained to ensure documentation of approval. Automated JE's are not reviewed and approved prior to posting since it is an internal process, but back-up documentation can be provided.
- **Capital Fund projects** are reviewed monthly and reconciled quarterly.
- **Fixed Assets** are identified annually and are posted to the general ledger and depreciated once they have been placed into service.
- **Signature and date line** proof of the preparer and reviewer are provided by each piece of documentation in the internal control chain (e.g., the receipts log, the disbursements journal, check authorizations, and bank reconciliations) have a signature and date line for the preparer and the reviewer.
- **Crime Insurance for the Housing Authority** is obtained since even the best system of internal controls cannot protect against fraud in the case of employee collusion. Specifically, LDCHA possesses crime insurance and public officials liability insurance, which is there to cover LDCHA for employees who have access to the organization's funds and other assets.
- **Decreasing Opportunity** - The goal of internal controls is to minimize opportunity for theft, fraud or error. When a regular accounting employee is on vacation, the assumption of these duties by another employee provides a good opportunity to spot inefficiencies or fraud.

Desktop Procedures

Desktop procedures ensure that the employee is following appropriate measures for Internal Controls and Separation of Duties. In the case of an employee's absence the desktop procedures can be utilized to ensure consistent operational practices are being followed.

Interim Financial Reports

The purpose of the Finance Department is to provide financials to the Board, administration of the PHA and to the public throughout the fiscal year. Generally, interim financial reports are un-audited and do not consist of a complete set of financial statements like those issued at the completion of the year-end audit. Financial reports are submitted monthly to the Board of Commissioners.

The information in these statements can be a useful tool for:

- Monitoring revenue, support, expenses and comparing them to prior periods and budgeted amounts.
- Planning additional programs and services for current or future years.
- Determining if additional cost containment, need for additional funding or budget adjustments are warranted.
- Analyzing the results of a specific program area.

Year End Process & Compliance Plan

An Independent Audit

LDCHA is required by HUD and the City of Lawrence to have an annual financial audit by an Independent Certified Public Accountant. The audit is an examination of the organizations financial statements to ensure that they are presented fairly in all material respects according to GAAP. An audit involves detailed levels of testing.

Selecting an Auditor

A Request for Proposals (RFP) should be prepared to solicit bids for accounting services. The RFP should briefly describe the organization, its accounting system, the type of service requested (e.g., audit of basic financial statements, an A-133 audit, preparation of the 990 tax return, a management letter, and a presentation to the board) and the desired timing of the work and delivery of the reports.

Since the Housing Authority is an agency that expends more than \$750,000 in federal awards in a given year, it is required to have a single audit conducted. Single audit are conducted in accordance with 2 CFR 200 Subpart F, and audits are performed in accordance with Uniform Guidance standards issued by the Government Accountability Office.

- **Financial audits** focus on the financial statement balances and disclosures.
- **Single audit**, (2 CFR 200, Subpart F), uniform administrative requirements, cost

principles, and audit requirements for federal awards.

After the audit is completed, LDCHA is required to submit its financials to the following:

- City of Lawrence - LDCHA is included as a component unit – due May 1st.
- HUD – FDS is due online and at the Regional HUD office on February 28th, and final audited FDS September 30th.

Year End Plan

The Finance Department works on a year-end plan that allows staff to be prepared for the Fiscal Year end on December 31. An overview is provided here but is not limited to the following:

- Year-end Processing check list is followed as well as scheduled staff meetings.
- Revenue schedules for the year are reconciled to the General Ledger.
- Expense by fund – A review of all AP and expense accounts to the budget.
- Escrow accounts – FSS participants and Security and Pet Deposits are reconciled.
- Liability accounts – Reconciled.
- Program and Project Fees are reviewed and closed for the year.
- Capital Fund – Projects, files and reconciliations to the annual Fiscal Year vs. Calendar Year grant.
- Interfund accounts are reconciled, bank transfers completed and journal entries processed.
- Accruals – Vendor accounts audited and obligations to HUD or COA.
- Pre-payments – Insurance, benefits and lease payments.
- Accounts Payable – year end procedures, verify any open PO's, PR's and invoices, reconcile sub-ledger to G/L.
- Purchasing – Manual audit and review of existing purchase orders and commitments.
- Inventory –manual and G/L audit.
- Work Order – Work in conjunction with the Maintenance department to close out.

All documentation is reviewed and prepared for the audit by the Finance Staff. Federal grants are awarded and reconciled on a Calendar Year.

The Budget

LDCHA staff is accountable for the creation of the individual Capital Fund budgets, Five (5) year Budget Plan, MTW Plans and Reports, specific Program and Project budgets, as well as the Annual Financial Budgets for all LDCHA programs. All budgets and master plans for LDCHA are a collaborative process among key staff members, management, the Executive team and the Board of Commissioners. This section discusses the Annual Financial Budget which includes the basic operating fund and includes the vari-

ous agency funding programs utilized by LDCHA. Upon completion and adoption of the budgets, all information is presented and made available to the public. The Board Approved Budget is submitted to HUD.

The development and implementation of the annual financial budgets are an integral part to the daily operating success of the agency.

- It provides comparative monthly reporting to the Board and Executive team.
- It is completed in collaboration with staff members and departments over a series of meetings throughout the year.
- It is a roadmap for utilizing resources and meeting the agency goals.
- It supports LDCHA program success and ensures fiscal viability throughout the year.

The Executive Director and Finance Director are responsible for presenting the budget to the Board of Commissioners. Development of the budget takes into consideration the following ideology:

- **Budget assumptions** are realistic and objective with respect to market conditions (e.g., personnel costs are in line with similar positions in the community or field of expertise).
- **Specific types of revenue or expense** will not jeopardize the organization's tax-exempt status (e.g., unrelated business income, lobbying expenses, and unallowable costs).
- **Relative seasonality** of the organization has been addressed and provisions have been made to manage funds available or short-term borrowings (cash receipts and disbursements seldom occur uniformly over a twelve-month period).
- **Indirect costs** associated with management and general activities can be justified to total program expenses.
- **Budget is prepared in sufficient detail**, including a narrative that clearly explains the magnitude of the projected dollars for both revenue and expense categories.
- **Projected individual expenses** as a percentage of total projected revenues, gains and other resources are reasonable in relation to other non-profit organizations of a similar size and nature of operations.

Every effort is made to combine program, department and agency goals in the budget. Limited resources will be utilized to maximize benefits to the recipients of LDCHA programs. The staff incorporates LDCHA core values to present accountability, compassion, service, integrity and stewardship in applying the approved budget to each department.

Cost Allocation Plan

The purpose of our cost allocation plan is to summarize, in writing, the methods and procedures that the Lawrence-Douglas County Housing Authority (LDCHA), will use to

allocate costs to various programs, grants, contracts and agreements.

2 CFR 200 Subpart E “Cost Principles” establishes the principles for determining costs of grants, contracts and other agreements with the Federal Government. These principles also apply, by reference, to certain contracts.

Lawrence-Douglas County Housing Authority LDCHA Cost Allocation Plan is based on the Allocation method described in the Final OMB Uniform Guidance: Cost principles, Audit and Administrative Requirements for Federal Awards Subpart F and Subpart E – Cost Principles, released in December 2014. The OMB “Super” Circular establishes principles and standards for determining allowable direct and indirect cost for Federal awards. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

1. **Direct costs** are those that can be identified specifically with a particular final cost objective or contract or program.
2. **Indirect costs** are those that have been incurred for common or joint objectives and cannot be readily identified with a particular contract or program.

All costs must be reasonable and allowable. Only costs that are allowable, in accordance with the cost principles, will be allocated to programs or contracts. Staff has been trained in cost allocation and reasonableness determination. The Finance Director is responsible for all reasonableness and allowability final determinations.

Procurement Policy

All purchases shall be made in compliance with the LDCHA Procurement Policy, Resolution 2010-08.

Conflict of Interest

No employee, officer or agent of this LDCHA shall participate directly or indirectly in the selection or in the award or administration of any contract if a conflict, real or apparent, would be involved. Such conflict would arise when a financial or other interest in a firm selected for award is held by:

- An employee, officer or agent involved in making the award;
- his/her relative (including father, mother, son, daughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, or half sister);
- his/her partner; or,
- an organization which employs, is negotiating to employ, or has an arrangement concerning prospective employment of any of the above.