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Office of Public and Indian Housing,
Real Estate Assessment Center

(PIH-REAC)

FASS-PH Subsystem



Financial Indicator Methodology & Analysis Guide

Effective for FYE 03/31/2011 PHAs & Later

June 2011



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1. Introduction

On February 23, 2011, HUD published the Interim PHAS Rule in the Federal Register. The Interim Rule, which became effective March 25, 2011, makes changes to the Public Housing Assessment Scoring (PHAS) scoring methodology codified in 24 CFR Part 902. Public Housing Authorities (PHAs) with fiscal years ending March 31, 2011 are the first group to be assessed under the Interim Rule. The Interim Rule also establishes a new regulation at 24 CFR Part 907 that provides the criteria and procedures for substantial default, the procedures HUD will take for declaring a PHA in substantial default, the procedures for a PHA to respond to such a determination or finding, and the sanctions available to HUD to address and remedy substantial default.

The *Financial Indicator Methodology & Analysis Guide* (the Guide) provides an overview of the changes to the four PHAS indicators (*Physical Condition, Financial Condition, Management Operations, and Capital Fund program*) under Interim PHAS. However, the main focus of this document is on the assessment and scoring methodology for the new Financial Condition sub-indicators under Interim PHAS. This document provides the following information concerning Interim PHAS and the Financial Condition Indicator:

- A summary of the changes to the four indicators from the prior PHAS to the Interim PHAS.
- Information on the PHAS performance designation that can be assigned to PHAs under Interim PHAS.
- The frequency of a PHA's PHAS and Financial Condition indicator assessment based on the PHA's size and PHAS designation.
- A description of the FASS sub-indicators under prior versus Interim PHAS.
- The area of measurement, calculation methodology, scoring process and applicable FDS line items for each of the three (3) new FASS sub-indicators. An example is provided on the calculation of a project and PHA-wide financial score.
- The application of audit adjustments, assessment of late penalties, and designation of late presumptive failure under the Interim PHAS Financial Condition Indicator.

REAC's assessment of a PHA's financial condition and analysis will be based upon the Financial Data Schedule (FDS) submitted electronically by the PHA using the Financial Assessment Subsystem – Public Housing (FASS-PH). The PHA is required to report this financial data in accordance with generally accepted accounting principles (GAAP), as required by the Uniform Financial Reporting Standards Rule (UFRS) at 24 CFR Part 5. The Interim PHAS Financial Condition sub-indicators will be automatically calculated and scored using data submitted to FASS-PH.

A full reading of the Interim PHAS Rule is available at the following link:

<http://edocket.access.gpo.gov/2011/pdf/2011-2659.pdf>

The Financial Condition Indicator Scoring Notice is available at the following link:

<http://www.hud.gov/offices/reac/products/phas/fass-scoring.pdf>

2. Interim PHAS Rule – Overview

The Interim PHAS Rule replaces the PHAS scoring methodology under Transition Year 2 announced in the Notice published in the Federal Register on January 12, 2010 (75 FR 1632), as extended by the Notice published in the Federal Register on July 23, 2010 (75-FR-43197). The Transition Year 2 Notice and the Transition Year 2 Extended Notice applied the then codified PHAS scoring methodology (hereafter referred to as “Prior PHAS” methodology) for PHAs with fiscal years ending: 1) June 30, 2009; 2) September 30, 2009; 3) December 31, 2009; 4) March 31, 2010; 5) June 30, 2010; and 6) September 30, 2010. By PIH Notice 2011-13: *Implementation of the Public Housing Assessment System (PHAS) Interim Rule* issued February 22, 2011, the Prior PHAS scoring methodology was extended to PHAs with fiscal years ending December 31, 2010.

Again, the Interim PHAS scoring methodology is applicable for PHAs with fiscal years ending March 31, 2011 and later.

2.1 SUMMARY OF CHANGES

Under Interim PHAS, PHAs are scored on the basis of the following four indicators and associated point values.

Interim PHAS Indicator	Maximum Points Available
1. Physical Condition	40
2. Financial Condition	25
3. Management Operations	25
4. Capital Fund Program	10
Overall PHAS Score	100

The Interim PHAS scoring methodology reflects the conversion by PHAs to asset management¹ and includes project-based budgeting, accounting, management and project-based performance evaluation. That is, under Interim PHAS, the performance of each individual *projects* is assessed to determine the PHA’s overall performance and designation.

The changes from the Prior PHAS indicators and scoring process to the Interim PHAS indicators and scoring process are summarized in the table below.

ID	Current Indicator	Description of Changes
1	Physical	<u>Modified:</u> <ul style="list-style-type: none"> • Inspection protocols remain largely unchanged. • The frequency of inspection is determined by the project score or overall PHAS score depending on

¹ The requirements of asset management are found in the Operating Fund program regulations at 24 CFR Part 990, Subpart H.

ID	Current Indicator	Description of Changes
		<p>the size of the PHA (see <i>Section 2.3</i> of this document).</p> <ul style="list-style-type: none"> • Mixed finance properties are inspected and scored. • Physical Condition and Neighborhood Environment (PCNE) adjustment was moved to the Management Operations Indicator. • PASS represents 40 points of the PHAS score, instead of 30.
2	Financial Condition	<p><u>Modified:</u></p> <ul style="list-style-type: none"> • PHAs are scored on the financial condition of each project. A PHA's FASS score consists of the weighted average of the individual project scores. • PHAs will continue to submit a Financial Data Schedule (FDS) that contains financial information for all projects, programs, and business activities. • For purposes of PHAS, each project is assessed only on the basis of the public housing program and not entity-wide (i.e., all programs). • The Financial Condition sub-indicators have been reduced from six sub-indicators to three sub-indicators. • Mixed-finance projects are not scored. • FASS represents 25 points of the PHAS score, instead of 30.
3	Management Operations	<p><u>Modified:</u></p> <ul style="list-style-type: none"> • The Management Operations sub-indicators have been reduced from six to three. Two of the sub-indicators were FASS sub-indicators under Prior PHAS: 1) Tenant accounts receivable and 2) Occupancy rate. The third indicator, Accounts Payable, is new. • The three Management sub-indicators will be calculated based on data contained in the FDS at the project level similar to the Financial Condition Indicator. • Mixed-finance projects are not scored. • The Physical Condition and Neighborhood Environment adjustment is 2 rather than 3 points. The data for this adjustment will come from PIC. When applicable, the points will be added to the project score. • MASS represents 25 points of the PHAS score, instead of 30.
4	Resident Satisfaction	<p><u>Eliminated:</u></p> <ul style="list-style-type: none"> • The resident service and satisfaction indicator and the resident survey have been eliminated.
5	Capital Fund Program Indicator does not exist	<p><u>Added:</u></p> <ul style="list-style-type: none"> • HUD added a new 10 point Capital Fund Program

ID	Current Indicator	Description of Changes
		<p>indicator.</p> <ul style="list-style-type: none"> • The Capital Fund Indicator has two 5-point sub-indicators. • The timeliness of fund obligation sub-indicator is a scoring threshold. Failure to meet this sub-indicator results in 0 points for the indicator. • The occupancy rate computation measures the adjusted occupancy at the PHA level. If the timeliness of fund obligation is scored, the PHA can receive 0, 2 or 5 points for this occupancy measure.
6	PHA Designation	<p><u>Modified:</u></p> <ul style="list-style-type: none"> • Added a <i>Capital Fund Program Troubled Performer</i> designation for a PHA that receives less than 50 percent of the points for the Capital Fund indicator. • To be a <i>High Performer</i> or <i>Standard Performer</i>, a PHA must achieve at least 50 percent of the points under the Capital Fund program indicator. • Added a <i>Substandard Performer</i> designation for PHAs that have an overall PHAS score of at least 60 but less than 60 percent of the total points in one or more of Physical (24), Financial (15), or Management Operations (15) indicators. • A PHA will be designated troubled if the PHA receives an overall PHAS score of less than 60.
7	Assessment Frequency	<p><u>Modified:</u></p> <ul style="list-style-type: none"> • Small PHAs (less than 250 public housing units) will be assessed under PHAS based on their overall PHAS score. • PHAs with 250 or more public housing units will be assessed on an annual basis. • For the Physical Condition Indicator, there is a 3-2-1 inspection schedule. For small PHAs (less than 250 public housing units) the inspection schedule is determined by the overall PHAS score. For the large PHAs the inspection schedule is determined by the project score. • In the baseline year (03/31/2011 to 12/31/2011), every PHA will receive an overall PHAS score based on assessments in all four of the PHAS indicators.

2.2 PHA DESIGNATION

After the score is calculated for each project under the Physical, Financial, and Management Indicators, a weighted average (by number of units) indicator score is calculated and summed with the Capital Fund Program Indicator score to determine the PHA's overall PHAS score and performance designation. The criteria for the performance designations as contained in Section 902.11 of the Interim PHAS Rule are: *High Performer, Standard, Substandard, Troubled, or Capital Fund Troubled.*

1. *High Performer.* A PHA is designated as a High Performer if all of the following conditions are met:
 - PHA achieves a score of at least 60 percent of the points available under the Physical (24), Financial (15), and Management Operations (15) indicators;
 - PHA achieves at least 50 percent (5 points) under the Capital indicator; and
 - PHA achieves an overall PHAS score of 90.

2. *Standard Performer.* A PHA that is not a high performer is designated as a standard performer if:
 - The PHA's overall PHAS score is at least 60; and
 - The PHA does not have a score of less than 60 percent of the total points available for the Physical, Financial and Management Operations indicators and less than 50 percent of the total points for the Capital Fund indicator.

3. *Substandard Performer.* A PHA is designated as a substandard performer if:
 - The PHA's overall PHAS score is at least 60 percent of the total points available; and
 - The PHA achieves a score of less than 60 percent under one or more of the Physical, Financial, or Management Operations indicators. The PHA would be designated as substandard physical, substandard financial, or substandard management, respectively.

4. *Troubled Performer.* A PHA will be designated as troubled if a PHA achieves an overall PHAS score of less than 60.

5. *Capital Fund Troubled Performer.* A PHA will be designated as troubled if it receives less than 50 percent of the points under the Capital Fund program indicator.

2.3 FREQUENCY OF PHAS & FASS ASSESSMENTS

The Interim PHAS Rule also includes guidelines concerning the frequency of a PHA's PHAS assessments determined either by the size of the PHA or its PHAS designation. The following information on the frequency of PHAS assessments can be found in Section 902.13 of the Interim PHAS Rule.

Small PHAs (Less than 250 Public Housing Units)

For PHAs administering fewer than 250 public housing units, the frequency of a PHAS assessment is based on the PHA's PHAS designation.

1. *High Performer.* Small PHAs that are designated as high performer may receive a PHAS assessment every three (3) years.
2. *Standard/Substandard Performer.* Small PHAs that are designated as Standard/Substandard may receive a PHAS assessment every other year.
3. *Troubled/Capital Fund Troubled.* Small PHAs that are designated as Troubled or Capital Fund Troubled will receive a PHAS assessment every year.

In the years when a Small PHA is not assessed under PHAS, all Small PHAs must continue to make financial submissions in the FASS-PH systems. Small PHAs must submit the annual unaudited financial submission in accordance with 24 CFR part, subpart H section 5.801 and 24 CFR part 902.33. Those Small PHAs that are required to submit an annual audited financial submission must do so in accordance with 24 CFR 902.33 and OMB Circular A-133. However, in the years that the Small PHAs are not assessed under PHAS, the required financial submissions will not be scored under the Financial Condition Indicator.

PHAs with 250 or more Public Housing Units

PHAs with 250 or more public housing units will receive an annual PHAS assessment and, therefore, receive an annual Financial Condition Indicator assessment.

For these PHAs, the physical condition score for each project will determine the frequency of the inspections for each project.

- Projects with a PASS score of 90 or higher will be inspected every 3 years.
- Projects with a PASS score of 80 to 89 will be inspected every 2 years.
- Projects with a PASS score of less than 80 will be inspected every year.

To determine the PHA's overall PASS score for each year, each project's physical condition score of 80 or higher will be carried over to the next year and averaged with the scores for the other projects.

Note: In the baseline year of Interim PHAS (fiscal years ending 03/31/2011 through 12/31/2011), every PHA will receive an overall PHAS score based on assessments for all four of the PHAS indicators.

3. Financial Condition Indicator – Financial Ratios

The financial condition of each PHA is evaluated to determine whether the PHA has sufficient financial resources and is managing those resources effectively to support the provision of decent, safe, and sanitary housing in their public housing projects (i.e., the Low Rent and/or Capital Fund program).

As part of the conversion to asset management, PHAs were required to account for activities by projects. With regards to FASS, PHAs with FYE of 6/30/2008 and later were required to report to the FASS-PH system on a **project** level as well as on an **entity-wide** basis. That is, Low Rent and Capital Fund (CFP) activities are reported at the **project** level; and all other program and activities (**entity-wide**) are reported separately from the projects in their own columns on the Financial Data Schedule (FDS).

3.1 FINANCIAL CONDITION INDICATOR – PRIOR PHAS vs. INTERIM PHAS

The following table shows the six FASS sub-indicators that were available under the Prior PHAS and the three new FASS sub-indicators under Interim PHAS and their respective point distribution.

Prior PHAS	Interim PHAS
Current Ratio 9.0	Quick Ratio (QR) 12.0
Months Expendable Fund Balance (MEFB) 9.0	Months Expendable Net Assets Ratio (MENAR) 11.0
Tenant Receivables Outstanding (TRO) 4.5	
Occupancy Loss (OL) 4.5	
Net Income (NI) 1.5	
Expense Management (EM) 1.5	Debt Service Coverage Ratio (DSCR) 2.0
TOTAL POINTS 30.0	TOTAL POINTS 25.0

Under Interim PHAS, a PHA's Financial Condition Indicator score (the score) is assessed as follows:

- The Financial Condition sub-indicators are calculated for each public housing project. Each project will receive its own score based on the combination of the Capital Fund and Low Rent program. In addition, the PHA will also receive an overall financial condition score. **Note:** While other activities such as the Housing Choice Voucher program are reported on a separate column on the FDS, these other activities will not be included in the financial condition assessment for the PHA under Interim PHAS.
- Each project will be scored individually under the Financial Condition Indicator based on the three (3) new sub-indicators. Mixed finance projects are not scored.

- A PHA will receive a weighted average Financial Condition Indicator Score based on the weighted average score for each project. The weighted average score is based on the number of units associated with each project.

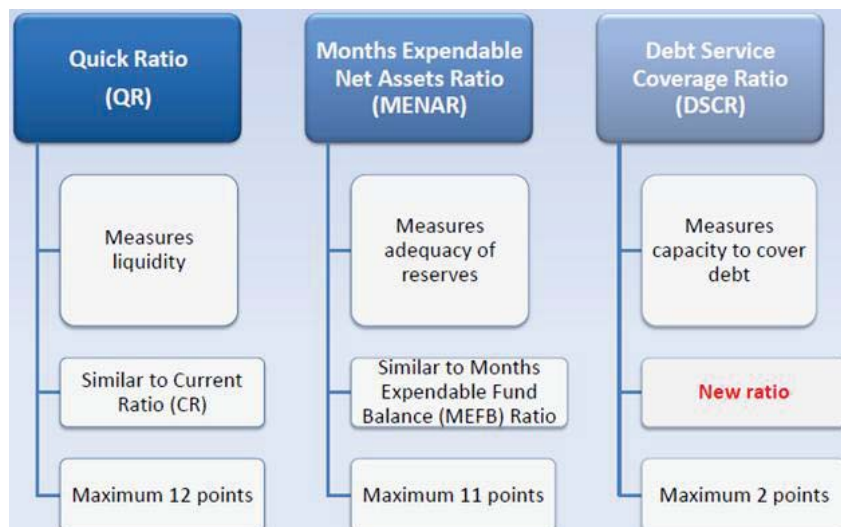
Consequently, the PHA-wide Financial Condition Indicator score is derived only from project data (i.e., the Low Rent and Capital Fund programs), and is an average that reflects the weighted, individual performance of the PHA's projects.

3.2 INTERIM PHAS – FASS SUB-INDICATORS

There are three Financial Condition sub-indicators used to assess the financial condition of a project. These sub-indicators are discussed below.

1. Quick Ratio (QR): A measure of liquidity; measures the PHA's ability to cover its current obligations.
2. Months Expendable Net Assets Ratio (MENAR): A measure of viability; measures the PHA's ability to operate using its net available unrestricted resources without relying on additional funding.
3. Debt Service Coverage Ratio (DSCR): A measure of a PHAs' capability to meet its long-term obligations.

The Quick Ratio and MENAR are similar to the Current Ratio and Months Expendable Fund Balance (MEFB) ratios that were found under the prior PHAS. The Debt Service Coverage Ratio is a new sub-indicator. The table below summarizes the area of measurement of each sub-indicator, whether the sub-indicator existed under prior PHAS, and the maximum points that are available for each sub-indicator.



The section below provides more detail information on each sub-indicator such as: 1) the area of measurement; 2) the calculation methodology; 3) how the sub-indicator values are translated into a sub-indicator score; and 4) the FDS line items and description for each sub-indicator. *Section 3.6* provides an example on the calculation of a project and PHA-wide financial score.

Appendix 1: Summary of New Financial Condition Sub-indicators Formulas and Calculations provides the calculations for all three FASS sub-indicators on a single page.

3.3 FASS SUB-INDICATOR – QUICK RATIO

1. **Area of Measurement:** The Quick Ratio (QR) is a liquidity measure of the project's ability to cover its current obligations. The QR is measured by using the project's available, unrestricted current assets (except inventory and assets held for sale) divided by the project's current liabilities. The QR is designed to indicate if a project could meet all current obligations if the obligations became immediately due and payable. A project should generally have available current resources equal to or greater than their current obligations in order to be considered financially solvent.

The maximum point value for this sub-indicator is 12.0 points. A project with a QR value of less than one will be considered financially unacceptable and will receive zero points for this sub-indicator. If the value for the QR is equal to, or greater than one, the project is evaluated and assigned a score up to a maximum of 12.0 points based on its financial condition.

2. **Calculation:** The calculation methodology and the FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Current Receivables}}{\text{Current Liabilities}}$$

$$\text{FDS Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142+144)}{(310 \text{ minus } 343-010)}$$

3. **Translating the Sub-Indicator Value into Scores:** Under the QR sub-indicator, a PHA's projects are evaluated and assigned a score based on their financial condition.

A project with a QR value of less than one will receive zero points for this sub-indicator. For a QR value of 1 or greater, but less than 2, a project will receive 7.2 points and incrementally receives more points up to a maximum of 12 points. A project achieves the full 12 points when its QR value is equal to or greater than 2.0.

Quick Ratio	
Value	Points
< 1.0	0.0
= 1.0	7.2
>1.0 but < 2.0	> 7.2 but < 12.0
≥ 2.0	12.0

When the QR calculates to a value > 1.0 but < 2.0, the number of points that will be assigned for this ratio can be calculated as follows: $7.2 + ((QR-1) \times 4.80)$.

4. Quick References: FDS Line Item Description for Quick Ratio Sub-indicator.

FDS Line Number	Numerator – Unrestricted Current Asset
111	Cash – unrestricted
114	Cash – tenant security deposits
115	Cash – restricted for payment of current liabilities
120	Total receivables, net of allowances for doubtful accounts
131	Investments – unrestricted
135	Investments – restricted for payment of current liability
142	Prepaid expenses and other assets
144	Inter program – due from

FDS Line Number	Denominator – Current Liabilities
310	Total current liabilities
343-010	CFPP – current portion of long term debt capital projects / mortgage revenue bonds

3.4 FASS SUB-INDICATOR – MONTHS EXPANDABLE NET ASSETS RATIO (MENAR)

1. Area of Measurement: The Months Expendable Net Assets Ratio (MENAR) measures the viability of a project. The MENAR measures the ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding.

This sub-indicator compares the net available unrestricted resources to the average monthly operating expenses. The result of this calculation shows how many months of operating expenses can be covered with currently available, unrestricted resources. Net available, unrestricted resources, includes unrestricted current resources available to the project after subtracting the amount needed by the project to pay current obligations. A project with a MENAR value of less than one will receive zero points and will be considered financially unacceptable.

If the MENAR value is equal to or greater than one, the project is evaluated and assigned a score up to a maximum of 11.0 points based on its financial condition.

2. Calculation: The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Unrestricted Resources}}{\text{Average Monthly Operating and Other Expenses}}$$

$$\text{FDS Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142+144) - (310)}{(96900+97100+97200+97800)/12}$$

The denominator (FDS lines 96900, 97100, 97200, and 97800) is derived from the “Low Rent Column” of the project only and do not include any amounts reported in the “Capital Fund” column for those line items.

3. Translating the Sub-Indicator Value into Scores: Under the MENAR sub-indicator, the projects are evaluated and assigned a score.

A project with a MENAR value of less than one will receive zero points for this sub-indicator. For a MENAR value of 1 or greater, but less than 4, a project will receive 6.6 points and incrementally receive more points up to a maximum of 11.0 points. A project will achieve the full 11.0 points when its MENAR value is equal to or greater than 4.

Months Expendable Net Assets Ratio	
Value	Points
< 1.0	0.0
= 1.0	6.6
>1.0 but < 4.0	> 6.6 but < 11.0
≥ 4.0	11.0

When the MENAR calculates to a value > 1.0 but < 4.0, the number of points that will be assigned for this ratio can be calculated as follows: $6.6 + ((\text{MENAR} - 1) \times 1.46)$

4. Quick References: FDS Line Item Description for MENAR.

FDS Line Number	Numerator – Unrestricted Resources
111	Cash - unrestricted
114	Cash - tenant security deposits
115	Cash - restricted for payment of current liabilities
120	Total receivables, net of allowances for doubtful accounts
131	Investments - unrestricted
135	Investments - restricted for payment of current liability
142	Prepaid expenses and other assets
144	Inter program – due from
310	Total current liabilities

FDS Line Number	Denominator - Total Operating and Other Expenses
96900	Total operating expenses
97100	Extraordinary maintenance
97200	Casualty losses - non-capitalized
97800	Dwelling units rent expense

3.5 FASS SUB-INDICATOR – DEBT SERVICE COVERAGE RATIO

1. Area of measurement: The Debt Service Coverage Ratio (DSCR) is a measure of a project’s ability to meet its regular debt obligations. The DSCR is calculated by dividing adjusted operating income by a project’s annual debt service. The DSCR indicates whether the project has generated enough income from its operations to meet its annual interest and principal payment on long-term debt service obligations. The DSCR ratio excludes debt associated with the Capital Fund Financing Program (CFFP).
2. Calculation: The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\text{Calculation Methodology} = \frac{\text{Adjusted Operating Income}}{\text{Annual Debt Service excluding CFFP Debt}}$$

$$\text{Detail FDS Line Item Calculation} = \frac{97000 + 96700}{96710 + 96720 + 11020}$$

Both the line items used for the numerator and denominator (FDS lines 97000, 96700, 96720, and 11020) are derived from the “Low Rent Column” of the project only and do not include any amounts reported in the “Capital Fund Column” for those line items. Debt activity related to CFFP should be reported in the “Capital Fund Column” of the FDS and not in the “Low Rent Column”.

3. Translating the Sub-Indicator Value into Scores: Under the DSCR sub-indicator, the projects are evaluated and assigned a score.

A project will receive zero points when its DSCR value is less than 1.0. If a project has a DSCR value equal or greater than 1.0 but less than 1.25, it will receive 1 point. If a project has a DSCR value equal to or greater than 1.25 or it has no debt at all, it will receive the full 2 points.

Debt Service Coverage Ratio	
Value	Points
< 1.0	0.0
≥ 1.0 but < 1.25	1.0
≥ 1.25	2.0
No Debt Service	2.0

4. Quick References: FDS Line Item Description for DSCR.

Line	Numerator – Adjusted Operating Income
97000	Excess operating revenue over operating expenses
96700	Total interest expense and amortization cost

Line	Denominator – Annual Debt Service
96710	Interest of mortgage (or bonds) payable
96720	Interest on notes payable (short and long term)
11020	Required annual debt principal payments

3.6 PROJECT AND PHA FINANCIAL SCORE

A PHA's financial condition indicator score will be calculated based on the unaudited submission and then, if needed, adjusted by the results of the audit. The first step in calculating a PHA's financial condition indicator scores for either the unaudited or audited submission is to calculate the unit weighted average project score.

A PHA's financial condition score is based on a unit weighted average project score, excluding mixed finance projects. In order to determine this portion of the score, each project score is multiplied by the respective number of units in the project. The product for each project is then summed, with the total then divided by the total number of units.

The following illustrates how a PHA financial score is generated for an example PHA with four projects. *Table 1* shows the four projects and each of the project's scores based on the three financial ratios.

Table 1. Example PHA Project Scores

Project	Mixed Finance	QR		MENAR		DSCR		Project Score
		Value	Score	Value	Score	Value	Score	
Project 1	No	6.65	12.00	2.31	8.57	N/A	2.00	22.57
Project 2	No	1.22	8.26	1.23	6.95	Negative	0.00	15.21
Project 3	No	3.75	12.00	1.55	7.43	N/A	2.00	21.43
Project 4	Yes	Excluded (Mixed Finance Project)						N/A

Table 2 shows the actual calculation from the projects' scores to a PHA-wide score. Each project score is multiplied by the number of units in the project. This product is known as the weighted value. The weighted value is then summed and divided by the total number of units, resulting in the unit weighted FASS score. The number of units for each project is determined by dividing the number of unit months available as reported in FDS line 11190 by twelve for each project.

Table 2. Calculation of PHA Score

1	2	3	4	5
Project (Table 1)	Unit Months Available (FDS Line 11190)	Units (Col 2 / 12)	Project Score (Table 1)	Weighted Value (Col 3 * Col 4)
Project 1	1,800	150	22.57	3,385.50
Project 2	2,400	200	15.21	3,042.00
Project 3	1,200	100	21.43	2,143.00
PHA Totals		450		8,570.50
PHA Unit Weighted FASS Score (PHA Total Weighted Total / Total Units)				19.05

For the unaudited submission, the PHA unit weighted FASS score is the Financial Condition Indicator score. For the audited submission the unit weighted FASS score is then adjusted by the results of the audit (i.e., audit adjustments) and other score adjustments, such as the significant change penalty.

4. Financial Condition Indicator – Score Adjustments

This section provides information on audit and other adjustments that can be made to a PHA’s Financial Condition Indicator score.

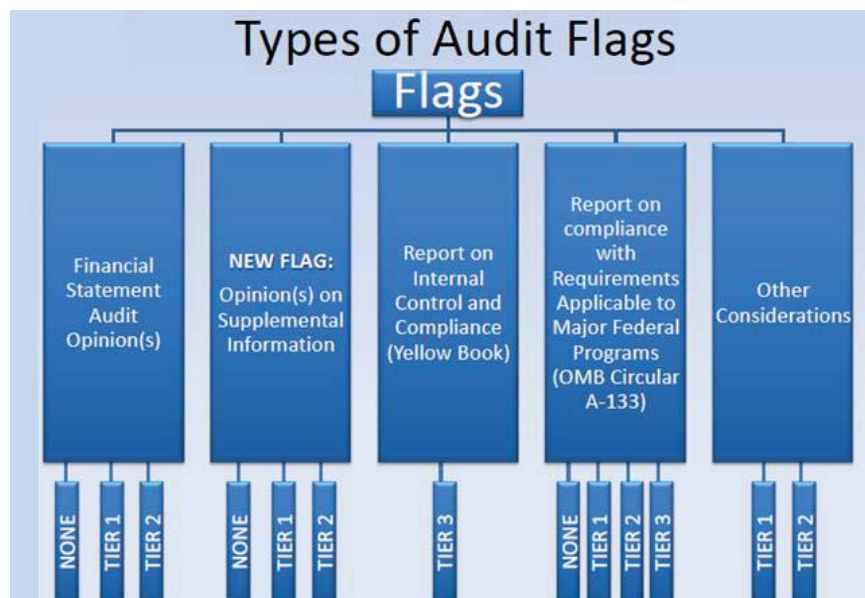
4.1 AUDIT FLAGS AND TIER CLASSIFICATION

For those PHAs that are required to submit audited information, their financial condition score can reflect two types of adjustment.

- The first type of adjustment is based on the results of the audit as communicated in the different auditor reports (e.g., auditor’s opinion on the financial statements, reports on internal control and compliance, audit findings, etc.). These audit reports alert the Department to internal control deficiencies or instances of noncompliance with laws and regulations.
- The second type of adjustment addresses significant differences between the unaudited and audited financial information reported in FASS-PH.

Audit Adjustments. If the auditor’s opinions on the financial statements, major federal programs, or other audit reports are anything other than unqualified, points may be deducted from the PHA’s audited financial score. Audit adjustments will be applied automatically against the PHA’s financial conditional score relative to the seriousness of the audit qualification. If the audit deficiencies have no effect on the financial components of the public housing projects or the overall financial condition of the PHA as it relates to the PHAS assessment, the audited score will not be adjusted. If the audit deficiencies have an impact on the PHA’s or projects’ financial condition, the PHA audited score will be adjusted to reflect the seriousness of the reported findings.

These audit deficiencies are also referred to as audit flags and are mainly collected on the Data Collection Form portion of the audited submission. The diagram below shows the different types of audit flags and the available tiers under each flag type.



If the Data Collection Form indicates that the auditor's opinion will be anything other than unqualified, points can be deducted from the financial condition score. The point deductions have been established using a three-tier system. The tier system gives consideration to the seriousness of the audit qualification and limits the deducted points to a reasonable portion of the PHA's total score. The following table lists the three tiers and provides the points that would be deducted for each type of qualification.

Tier	PHAS Points Deducted
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.

Appendix 2: Audit Flags and Penalties with Data Collection Form Line Items provide a listing of the individual audit flags, associated DCF line item, and tier classification.

Significant Change Penalty. HUD views the transmission of significantly inaccurate unaudited financial data as a serious condition. A significant change penalty will be assessed for significant difference between the unaudited and audited submissions. A significant difference is considered to be an overall financial condition score decrease of three or more points from the unaudited to audited submission. A significant change penalty is considered a Tier 2 audit flag.

4.2 TIMELY SUBMISSIONS AND SCORES

Late points are assessed against the PHAs score if the PHA fails to submit its unaudited submission on time. The unaudited submission is due two months after the PHA's FYE, starting on the 16th day and each 15 day period thereafter, one (1) late point will be assessed (deducted from the PHA's score) up to a maximum of five (5) late points. While the submission is considered late, zero (0) late points will be deducted from the PHA's score for an unaudited submission received between 1 and 15 days late.

A PHA will receive a Late Presumptive Failure (a Tier 1 classification (0 score)) for any unaudited submission not received after 90 days of the due date. A PHA's audited submission, if applicable, is due nine months after a PHA's FYE. The PHA will receive a Late Presumptive Failure (a Tier 1 classification (0 score)) for any audited submission not submitted by the due date.

Point deductions for late submissions are considered a PHAS deduction/penalty.

APPENDIX 1: SUMMARY OF NEW FINANCIAL CONDITION SUB-INDICATOR FORMULAS AND CALCULATIONS
1) Quick Ratio Calculation (maximum 12.0 points):

$$\text{Calculation Methodology} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Current Receivables}}{\text{Current Liabilities}}$$

$$\text{Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142+144)}{(310 \text{ minus } 343-010)}$$

2) Months Expendable Net Asset Ratio Calculation (maximum 11.0 points):

$$\text{Calculation Methodology} = \frac{\text{Unrestricted Resources}}{\text{Average Monthly Operating and Other Expenses}}$$

$$\text{Detail Line Item Calculation} = \frac{(111+114+115+120+131+135+142+144)-(310)}{(96900+97100+97200+97800)/12}$$

3) Debt Service Coverage Ratio Calculation (maximum 2.0 points):

$$\text{Calculation Methodology} = \frac{\text{Adjusted Operating Income}}{\text{Annual Debt Service excluding CFFP Debt}}$$

$$\text{Detail FDS Line Item Calculation} = \frac{97000 + 96700}{96710 + 96720 + 11020}$$

Appendix 2: AUDIT FLAGS AND PENALTIES WITH DATA COLLECTION FORM LINE ITEMS

Audit Flags	DCF Element #	Categories	Tier Classification
Financial Statement Audit Opinions(s)	G3000-010 Details: (G3000-210, G3000-220)	1. Unqualified Opinion	None
		2. Qualified Opinions (Low Rent & Capital Fund Only)	Tier 2
		3. Adverse Opinion(s)	Tier 1
		4. Disclaimer of Opinion(s)	Tier 1
Opinion(s) on Supplemental Information (Statement of Auditing Standard (SAS) 117 "in relation to" type of opinion)*	G3100-040	1. Fairly Stated	None
		2. Fairly Stated except for:	Tier 2
		3. No Opinion	Tier 1
		4. Incomplete or Missing	Tier 1
Report on Internal Control and Compliance and Other Matters Noted in Audit of Financial Statement performed in accordance with GAS (Low Rent and Capital Fund only)	G3000-030 G3000-040 G3000-050 G3000-060 G3000-070 G3000-080	1. Control Deficiencies	Tier 3
		† Significant Deficiencies (G3000-230, G3000-240)	
		† Material Weaknesses (G3000-250, G3000-260)	Tier 3
		2. Material Noncompliance (G3000-270, G3000-280)	
		3. Fraud (G3000-290, G3000-300)	
		4. Illegal Acts (G3000-310, G3000-320)	
5. Abuse (G3000-330, G3000-340)	Tier 3		
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance with OMB Circular A-133 (Opinion on Compliance with each Major Federal Program Requirements)	G4200-050	1. Unqualified opinion(s) on compliance with Low Rent program and Capital Fund program major federal requirements	None
		2. Qualified opinion(s) on compliance with Low Rent Programs and Capital Fund program major federal requirements (regardless of cause)	Tier 2
		3. Adverse opinion(s) on compliance with Low Rent program and Capital Fund program major federal requirements (regardless of cause)	Tier 1
		4. Disclaimer of opinions(s) on compliance with Low Rent Program and Capital Fund program major federal requirements (regardless of cause)	Tier 1
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance with OMB Circular A-133 (Internal Controls and Compliance)	G4200-100/ G4200-110	1. Control Deficiencies: Significant deficiencies in internal controls over compliance with Low Rent programs and Capital Fund program requirements Material weakness in internal controls over compliance with Low Rent program and Capital Fund program requirements	Tier 3
	G4200-120	2. Material noncompliance with Low Rent program and Capital Fund program requirements	Tier 3
Other Considerations:	G3000-020 G3100-050/ G3100-060 G3000-005	1. Significant change penalty deduction applies only if the significant change(s) relate to the Low Rent or Capital Fund programs	Tier 2
		2. Going Concern	Tier 1
		3. Management Discussion and Analysis and other supplemental information omitted	Tier 2
		4. Financial statements using basis other than GAAP	Tier 1

Note: The Significant Change penalty (number 1 under "Other Considerations") will be assessed for significant score changes (i.e., a decrease of three or more points) between the unaudited and audited submission.