

The Definitive Guide to the Month End Close

Across the United States, BDO Public Housing & Affordable Housing practice performs financial assessments of Public Housing Authorities (PHAs) of all sizes for multiple reasons, including solvency, implementation of policies and procedures, skills assessment of accounting staff, determining the proper staffing of the accounting department, and compliance with regulation. One of the strongest indicators of high functioning accounting departments is an efficient month end close and reporting process. Typically, monthly accurate and timely financial reporting is a good gauge of how well a PHA's accounting department is operating.

WHAT IS A MONTH END CLOSE AND WHY IS IT IMPORTANT?

The month end close provides assurance that the accounting is correct and allows the PHA to deliver timely monthly financials with variance explanations. This will allow the PHA to implement corrective actions, when necessary. Not every account will receive a detailed analysis, but every account will be reviewed for reasonableness.

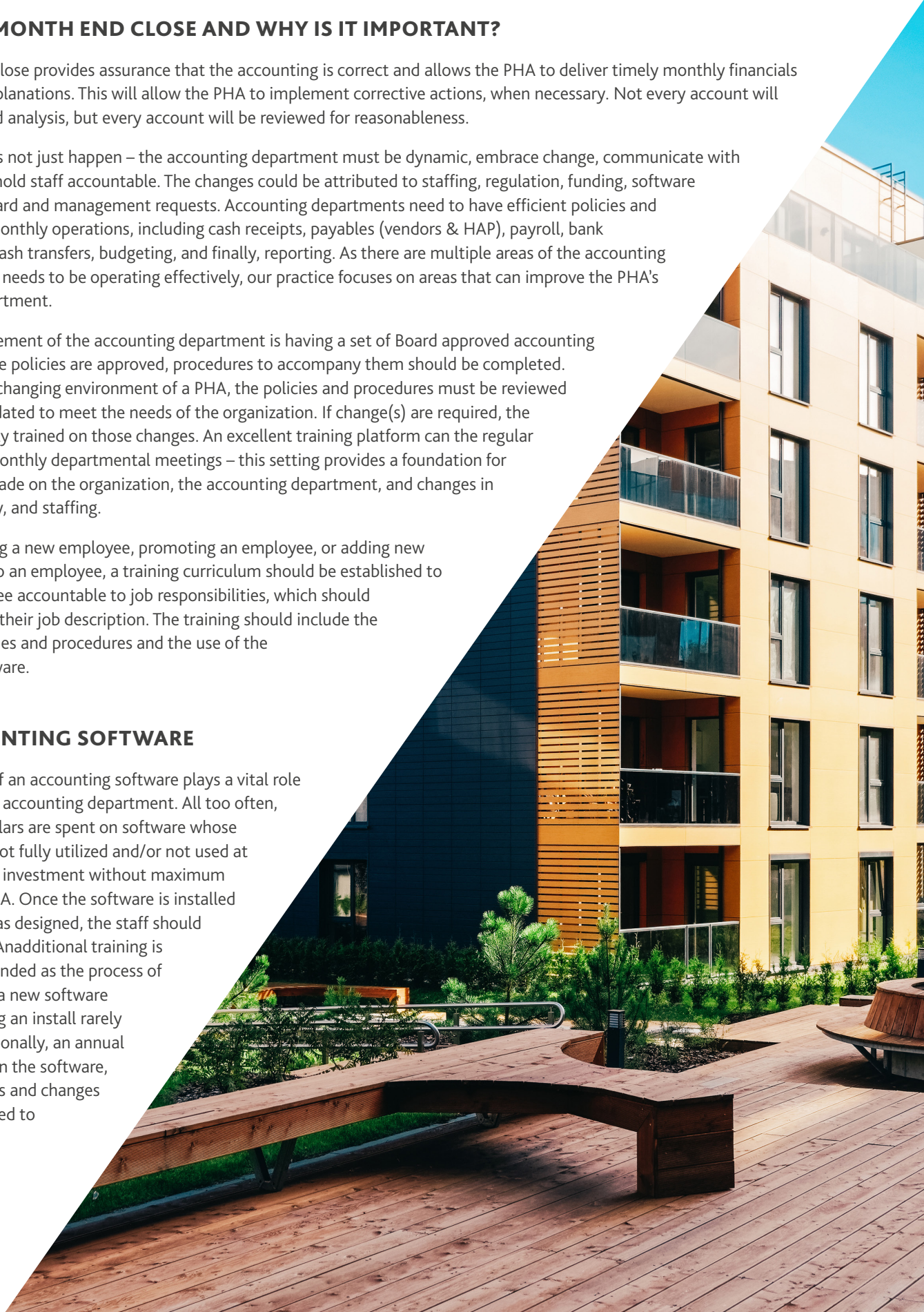
This process does not just happen – the accounting department must be dynamic, embrace change, communicate with each other, and hold staff accountable. The changes could be attributed to staffing, regulation, funding, software systems, and Board and management requests. Accounting departments need to have efficient policies and procedures for monthly operations, including cash receipts, payables (vendors & HAP), payroll, bank reconciliations, cash transfers, budgeting, and finally, reporting. As there are multiple areas of the accounting department that needs to be operating effectively, our practice focuses on areas that can improve the PHA's accounting department.

A primary requirement of the accounting department is having a set of Board approved accounting policies. Once the policies are approved, procedures to accompany them should be completed. Due to the ever-changing environment of a PHA, the policies and procedures must be reviewed annually and updated to meet the needs of the organization. If change(s) are required, the staff must be fully trained on those changes. An excellent training platform can be the regular weekly and/or monthly departmental meetings – this setting provides a foundation for information cascade on the organization, the accounting department, and changes in regulation, policy, and staffing.

When onboarding a new employee, promoting an employee, or adding new responsibilities to an employee, a training curriculum should be established to hold the employee accountable to job responsibilities, which should correspond with their job description. The training should include the accounting policies and procedures and the use of the accounting software.

THE ACCOUNTING SOFTWARE

The proper use of an accounting software plays a vital role in any successful accounting department. All too often, thousands of dollars are spent on software whose capabilities are not fully utilized and/or not used at all – a significant investment without maximum return for the PHA. Once the software is installed and functioning as designed, the staff should be fully trained. An additional training is always recommended as the process of training staff on a new software conversion during an install rarely works out. Additionally, an annual formal training on the software, including updates and changes should be provided to the staff.



THE MONTHLY CLOSE PROCESS

The monthly close starts with reconciling the bank and investment accounts. The reconciliation of the bank statements should begin on the 1st of the month and should be completed by the 5th of the month. A PHA can download the bank statements electronically and begin the process. It is beneficial if the PHA can utilize their purchased software solution to run the agency instead of a separate spreadsheet (e.g., Excel) to complete the bank reconciliations. Separate spreadsheets are inefficient and prone to inherent human errors. An efficient bank reconciliation process begins with an effective accounts payable procedure – visit [BDO's Rethinking Your Payables Process: The Key To Enhancing Your Accounting Department](#) to learn more – **do not fall behind on reconciling your bank statements monthly, this is a very important internal control.**

As you analyze the trial balance, consider going from the top to the bottom for an orderly approach. The next accounts to be reconciled should be significant receivables including tenants accounts receivable (TAR), port-in receivables, notes receivables, and security deposit liability. Since security deposits has a relationship with TAR, this is a related analysis that allows the PHA to easily reconcile another account. Some PHAs may want to accrue grant receivables due to timing, which works, as long as it does not delay the timely closing of the books. If a PHA chooses not to accrue grant receivables, any revenue variance can be easily explained in budget vs. actual variance explanations.

Prepaid items should be analyzed next. Amortizing costs over the applicable periods instead of expensing 100% of costs immediately is a reoccurring adjustment that can easily be completed manually or automated if the software is set up to complete.

Materials inventory can wait till year-end to be reconciled for accuracy. Since PHAs are not in the business of selling maintenance materials, this is viewed as immaterial. Fixed assets can be reviewed for any changes. Our practice has seen multiple PHAs reconcile fixed assets and record depreciation expense at year-end. Depreciation does not affect cash, financial ratios and subsidy, so a monthly adjustment is unnecessary. Fixed assets can be reviewed monthly for reasonableness.

The accounts payable account, if the PHA maintains this account monthly, should also be reviewed. A detailed analysis of this account is not needed, just a check for the reasonableness. Notes payable should match the amortization schedule and the interest expense account can be reconciled during the notes payable review. Payment In Lieu of Taxes (PILOT) is another account that can be accrued monthly since the calculation can be completed without any excessive effort. One last account can be payroll tax liabilities. Since payroll is recorded monthly, the liability piece can be easily reconciled.

Miscellaneous accruals like payroll, compensated absences, pension, and other post-employment benefits (OPEB) can be reconciled at year-end.

As month end close is being completed, other general ledger analysis considerations include:

- ▶ Ensuring that prior year's ending equity equals current year's beginning equity
- ▶ Inter-fund activity is reimbursed timely between all funds
- ▶ Prior year-end accruals are reversed
- ▶ How your accounting can impact the financial ratios for the Public Housing Assessment System (PHAS)
- ▶ Review revenue and expenses for reasonableness

The last item to be completed for the month end close is the financial reports. One report is the budget vs. actual report with variance analysis. It is recommended that the reports are created using the PHA's software rather than a spreadsheet – enabling quicker report generation and elimination of any inherent human error. It is also suggested that parameters are created to determine what variances would require an explanation. A line item should meet a year-to-date percent variance and year-to-date cash variance for it to be explained. Example – if the parameters were set at 5% and \$10,000, then any line item that met both year-to-date variances would need to be explained. If a line item only met the percent variance, but not the dollar variance, then no variance explanation would be required.

Each PHA will operate differently, utilize different software, and have different financial reports. However, if the concepts presented are followed, a significant improvement of the financial operations will be observed and will also help identify issues in various programs before they become findings.

Contact Us

Contact us today to talk about the month end close process for your PHA. BDO's Public Housing & Affordable Housing practice has served over four hundred housing organizations and is a premier provider of industry education to staff, executives, and HUD employees.

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