Issue Date June 27, 2011	
Audit Report Number 2011-NY- 0002	

TO: Sandra B. Henriquez, Assistant Secretary for Public and Indian Housing

Edgar Moore

FROM: Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: HUD Could Improve Its Financial Reporting Process for Obtaining Information on Public Housing Authorities' Pension and Other Postemployment Benefit Obligations

HIGHLIGHTS

What We Audited and Why

We performed a review of the U.S. Department of Housing and Urban Development's (HUD) controls over public housing authorities' (PHA) reporting and accounting for pension and other postemployment benefit obligations. Our concern was whether HUD needed to take action to reduce benefits or provide additional funding to ensure the continued viability of PHAs. Our objectives were to determine whether HUD verified that PHAs (1) submitted independent public accountant (IPA) reports that complied with HUD and Governmental Accounting Standards Board (GASB) requirements when reporting on accrued pension liability and other postemployment benefit obligations, (2) properly reported supporting information for their computations of the pension and other postemployment liability costs, and (3) reported that they set aside the necessary amount of monetary assets to meet their accrued pension and other postemployment benefit obligations.

What We Found

HUD had procedures to generally ensure that PHAs properly reported and accounted for pension and other postemployment liabilities and reported that they reserved sufficient funds to cover these costs. Specifically, HUD (1) reasonably verified that PHAs submitted financial data schedules and IPA reports that generally complied with HUD and GASB requirements when reporting on accrued pension liabilities and other postemployment benefit obligations, and (2) generally verified that PHAs properly reported supporting information for their computations of pension and other postemployment liability costs. However, although HUD had general procedures to determine whether PHAs reported that they set aside the necessary amount of monetary assets to meet their accrued pension and other postemployment benefit obligations, improvements could be made in the financial reporting process.

What We Recommend

We recommend that the Assistant Secretary for Public and Indian Housing require PHAs to report more information on pension and other postemployment benefit obligations by prescribing a contra-asset line item in the restricted monetary asset section of its financial data schedule template for PHAs to report amounts (such as contributions, earmarks, forfeitures, etc.) that will be used by PHAs to pay their future pension and other postemployment benefit obligations.

Auditee's Response

We discussed the results of our review during the audit and at an exit conference held on June 13, 2011. On June 16, 2011, officials from HUD's Public and Indian Housing Division in headquarters provided their written comments and generally disagreed with the draft report finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report

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BACKGROUND AND OBJECTIVES

There is a national and worldwide financial crisis that has forced governments to adopt austere budgetary measures. Many State and local governments have not funded their pension and postemployment liabilities for many years. There are concerns that many governments will have to either declare bankruptcy or drastically reduce services to pay these liabilities. The U.S. Department of Housing and Urban Development (HUD) funds more than 4,115 public housing authorities (PHAs) that employ many thousands of employees that will receive pensions and/or postemployment benefits. Pensions and postemployment benefits may be funded by Emergency Economic Stabilization Act of 2008 or American Recovery and Reinvestment Act of 2009 funding but are principally funded by operating subsidies, capital funds, and housing choice voucher administrative fees.

Based on housing authority executive summaries in HUD’s Office of Public and Indian Housing Information Center (PIC) system, the entire universe of low-rent and Section 8 units administered by the 4,115 PHAs nationwide amounted to more than 1.18 and 2.24 million units, respectively. The 44 PHAs sampled in our review administered 452,830 or 38 percent of low-rent units and 650,218 or 29 percent of Section 8 units as of March 17, 2011. For fiscal year 2010, the PHAs in our sample were authorized low-rent operating subsidies and Section 8 voucher certificate funding of more than $1.9 and $6.3 billion, respectively.

The U. S. Government Accountability Office (GAO) reported in 2008 that State and local government pension plans are not covered by most of the substantive requirements or the insurance program operated by the Pension Benefit Guaranty Corporation under the Employee Retirement Income Security Act of 1974, which applies to most private employer benefit plans. GAO also found that Federal law generally does not require State and local governments to prefund or report on the funded status of pension plans.

Although HUD has general procedures to ensure that its PHAs nationwide properly reported pension and other postemployment benefit liabilities for their employees and to HUD; PHAs may be underestimating their ability to pay these liabilities, which could result in a potential financial crisis for individual housing authorities including bankruptcy and/or require the diversion of resources from other accounts/programs to pay these liabilities in the future. Thus the benefits promised to employees may not be reasonable and sustainable within the present funding structure. For example, HUD’s Real Estate Assessment Center staff recently sampled 83 PHAs and analyzed their accrued pension and other postemployment benefit costs and determined that the PHAs monetary assets of $1.4 billion may not be enough to cover accrued pension and other postemployment benefit costs of $1.9 billion and other accrued liabilities of $390 million. Accordingly, although not presently required, information regarding PHA funds that have been or should be earmarked for the payment of these liabilities is needed; otherwise HUD may be burdened with large subsidy payments to PHAs in the future.

The objectives of this audit were to determine whether HUD verified that PHAs (1) submitted independent public accountant (IPA) reports that complied with HUD and Governmental Accounting Standards Board (GASB) requirements when reporting on accrued pension liability and other postemployment benefit obligations, (2) properly reported supporting information for their computations of the pension and other postemployment liability costs, and (3) reported that they set aside the necessary amount of monetary assets to meet their accrued pension and other postemployment benefit obligations.

RESULTS OF AUDIT

Finding: HUD Could Improve Its Financial Reporting Process for Obtaining Information on PHAs' Accrued Pension and Other Postemployment Benefit Obligations

HUD had procedures to generally ensure that PHAs properly reported and accounted for pensions and postemployment liabilities and reported that they reserved sufficient funds to cover these costs. Specifically, HUD (1) reasonably verified that PHAs submitted financial data schedules and IPA reports that generally complied with HUD and GASB requirements when reporting on accrued pension liabilities and other postemployment benefit obligations, and (2) generally verified that PHAs properly reported supporting information for their computations of pension and other postemployment liability costs. However, although HUD had general procedures to determine whether PHAs reported that they set aside the necessary amount of monetary assets to meet their accrued pension and other postemployment benefit obligations, improvements could be made in the financial reporting process.

HUD Reasonably Verified That PHAs Submitted Financial Reports That Generally Complied With HUD and GASB Requirements

Interviews with the assessment manager of HUD's Office of Public and Indian Housing, Real Estate Assessment Center and personal observation revealed that the Real Estate Assessment Center had a system of controls to evaluate PHAs audited financial statement information, including pension and other postemployment benefit costs. HUD's procedures provide for commenting and documenting their review concerns in its Financial Assessment Subsystem for Public Housing (FASS-PH) to show that PHA financial statement information was reviewed for validity and compliance with applicable accounting requirements. An examination of the reviews performed by HUD staff revealed that detailed reviews of the financial information and the notes to the financial information had been performed for all the PHAs in our sample and deficiencies noted were communicated and resolved with the PHA's independent public accountants who performed their audits. As a result, the reporting and disclosure of pension and other postemployment benefits for the PHAs in our sample were generally satisfactory. Specifically, 41 of 44 PHAs in our sample generally complied with the pension plan reporting requirements of GASB 27 by calculating, measuring, recognizing, and displaying pension expenditures and related liabilities, assets, and note disclosures in their audited financial statements. For the remaining three housing agencies in our sample (the Massachusetts

Department of Housing and Community Development, New York City Department of Housing Preservation and Development, and New Jersey Department of Community Affairs), the exact amount of pension costs reported could not be easily determined because the PHAs' operations were reported in a consolidated financial statement with another government entity in a blended manner. Nevertheless, we did not take exception because a blended presentation is permitted under GASB 34 and the entity-specific information related to the operations of the PHA is presented in HUD's Financial Assessment Subsystem – Public Housing (FASS-PH).

A total of 23 of the 44 PHAs in our sample reported in their notes to the financial statements that they provided some form of other postemployment benefits to their employees. As a result, we observed that these 23 PHAs satisfactorily reported other postemployment benefit transactions on a systematic, accrual basis of measurement. These PHAs also reported and recognized other postemployment benefit costs over a period that approximated employee's average years of service and provided information about the actuarial accrued liabilities associated with other postemployment benefits and the extent of funding as required by GASB Statement 45. For the other 21 of 44 PHAs, we confirmed with the independent public accountants who prepared their financial statements, that they do not offer post employment benefits to their employees. Accordingly, we believe that HUD reasonably verified that PHAs submitted financial data schedules and IPA reports that generally complied with HUD and GASB requirements when reporting on accrued pension liability and other postemployment benefits.

HUD Generally Verified That PHAs Properly Reported Supporting Information for Their Computations of Pension and Other Postemployment Liability Costs

HUD's Real Estate Assessment Center staff generally verified that PHAs properly reported supporting information for their computations of pension and other postemployment liability costs. The data in the notes to PHAs' financial statements as well as their supporting schedules were properly supported by the financial data schedules evaluated by the Real Estate Assessment Center through FASS-PH and IPA reports. Disclosures for pension and other postemployment benefit transactions were generally reported in accordance with GASB Statements 27 and 45, and the PHAs tested in our sample properly reported the computations and assertions concerning their pension and other postemployment benefit obligations. As mentioned earlier Real Estate Assessment Center officials established procedures where financial information is reviewed by automated and manual procedures. Real Estate Assessment Center procedures generally ensure that the reported notes to the financial statements include all the required disclosures including the actuarial assumptions, funding and benefits policy, amount of the actuarially computed required contribution, actual payment for pension expense, and unfunded liability for these benefits. For example Real Estate Assessment officials determined that the audited financial statement for a housing authority had not disclosed all the information required by GASB 45 and that the information required to be reported related to the computation of the PHAs pension liability was not available. Therefore, HUD's Real Estate Assessment Center officials advised the PHA and their independent public accountant to separately report restricted and unrestricted cash and investments and provide information on the funding status of the other post employment benefit plan including the unfunded liability and required annual contribution. Real Estate Assessment Center officials had detailed notes for their reviews conducted for all the audited financial statements for the PHAs in our sample that indicated that they reconciled the reported amounts related to pensions and other post employment benefit costs and followed up on discrepancies with the independent public accountants who had performed the audits. Therefore, the PHAs properly reported supporting information for their computations of their retirement plan costs as required by GASB.

HUD Could Improve Its Financial Reporting Process

Although the audited financial information including the notes to the financial statements submitted by PHAs generally provided adequate disclosures, HUD officials' ability to monitor PHAs would be enhanced by having additional information available. For example, the total amount of monetary assets (cash and investments unrestricted/restricted) reported by the PHAs in the sample selection amounted to approximately $5 billion. Contrastingly, accrued pension and other postemployment benefit liabilities amounted to more than $2.1 billion. Therefore, it would appear that the PHAs in our sample would have post or net monetary assets of more than $2.9 billion after applying their liquid cash and investment assets to meet their accrued pension and other postemployment benefit liabilities. However, it was not certain whether the monetary assets for these PHAs were entirely available because they may have been earmarked for other purposes.

We noted that the template on which PHAs reported their financial information to HUD did not have the appropriate accounts to identify those monetary assets that were to be used to pay pension and other postemployment liabilities. Generally accepted accounting principles require that to be useful, financial information must be relevant, reliable, and prepared in a consistent manner. Therefore, it would be more appropriate to identify the monetary assets that would be used to pay pension liabilities and other postemployment benefits.

Analysis of the asset section of the financial data schedules submitted to HUD in FASS-PH by the 44 PHAs in our sample disclosed that 42 PHAs reported significant amounts in the “unrestricted/restricted” cash and investment line items which would be available to cover their obligations and debts. However, the remaining two PHAs, the housing authorities of Baltimore and Seattle, did not have current financial data in FASS-PH but did have information in current IPA audit reports. Therefore, for these two PHAs, it was not possible by reviewing FASS-PH data to determine which of the cited asset accounts were used to reserve/provide monetary assets to pay pension and other postemployment benefit obligations because they did not clearly identify the assests that were restricted or reserved for the payment of these liablities. As a result, based on the data submitted through FASS-PH, HUD could not readily determine whether all PHAs set aside sufficient amounts of cash and investments to meet their accrued pension and other postemployment benefit obligations.

Real Estate Assessment Center officials indicated that it was the PHAs’ responsiblity to adequately determine their operating costs/obligations and pay for such items with the current level of operating subsidies and funds received from HUD. Although this position is reasonable because of foreseeable congressional budgetary constraints, it is our opinion that HUD should play a more active and innovative role in assisting PHAs in addressing their rising pension and other postemployment benefit costs. Although Federal laws generally do not require State and local governments to prefund or report on the funded status of pension plans, generally accepted accouting principles require that for financial information to be useful, it must be relevant, reliable, and prepared in a consistent manner. Therefore, we believe that HUD should be proactive by prescribing a contra-asset line item in the asset section of its financial data schedule template for PHAs to report the amounts (such as contributions, earmarks, forfeitures, etc.) that will be used by PHAs to pay their future pension and other postemployment benefit obligations.

Adding this requirement for PHAs would result in financial reporting that is more relevant, reliable, and consitently prepared. Also, this measure could result in improving the accuracy of financial reporting by PHAs and improve the ability of HUD officials and other interested parties to determine whether PHAs have the ability to pay their pension and other employment benefit obligations going forward.

Conclusion

HUD had procedures to generally ensure that PHAs properly reported and accounted for pensions and postemployment liabilities and reserved sufficient funds to cover these costs. Specifically, HUD (1) reasonably verified that PHAs submitted financial data schedules and IPA reports that generally complied with HUD and GASB requirements when reporting on accrued pension liability and other postemployment benefit obligations, and (2) adequately verified that PHAs properly reported supporting information for their computations of pension and other postemployment liability costs. However, although HUD had general procedures to determine whether the PHAs reported that they set aside the necessary amount of monetary assets to meet their accrued pension and other postemployment benefit obligations, improvements could be made in the financial reporting process. The HUD-prescribed asset line items in the financial data schedule template did not facilitate disclosure of funds reserved for the payment of pension and other postemployment benefit obligations.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing

A. Prescribe a contra-asset line item in the restricted asset section of its financial data schedule template within FASS-PH for PHAs to report amounts (such as contributions, earmarks, forfeitures, etc.) that will be used by PHAs to pay their future pension and other postemployment benefit obligations.

SCOPE AND METHODOLOGY

The audit focused on determining whether HUD had procedures in place to ensure that PHAs nationwide properly recorded and accounted for pension and postemployment liabilities for their employees and reported that they reserved sufficient monetary assets to cover these costs. To accomplish our objectives, we

- Reviewed relevant GASB statements and applicable Federal regulations.

- Interviewed staff from the HUD, Office of Public and Indian Housing, Real Estate Assessment Center, and corresponded with staff from the Office of Inspector General for Audit.

- Obtained an understanding of the HUD's management controls and procedures through analyzing its internal control structure.

- Acquired a nonstatistical sample of 44 PHAs for detailed testing by importing the fiscal year 2009 management planning risk assessment scores into Audit Command Language (ACL) and selecting a sample based on PHAs that had a "combined size category" of extra large (10,000-plus Section 8 and low-rent housing units). Thus, the results apply only to the items selected and cannot be projected to the universe or population.

- Analyzed reports from HUD's computer systems, including the financial data schedule submitted to HUD through FASS-PH and evaluated the information with the audited financial statements and reconciled the reported amounts. Determined that the data used for the PHAs in our sample was sufficiently reliable in relation to the objectives of the audit. However, the data related to all other PHAs in HUD's universe is presented for background purposes only.

- Downloaded IPA reports from FASS-PH and the Federal Audit Clearing House.

- Reviewed the sampled PHAs' financial statements such as their balance sheets, income statements, and notes to the financial statements and determined that all of the reviews performed by the Real Estate Assessment Center staff had been properly documented and deficiencies communicated to the independent public accountants and/or PHAs.

- Identified and tested the amounts reported by PHAs for accrued pension and other postemployment benefit liabilities (line item 357 of the FASS-PH financial data schedule) and evaluated the amounts reported for unrestricted cash, unrestricted investments, restricted cash, and restricted investments.

- Reviewed the executive summaries in HUD's Public and Indian Housing Center (PIC) system for the 44 PHAs in our sample to determine the number of apartment units that were applicable to our sample and the applicable PHA funding (see background section).

- Analyzed the total amount of monetary assets (cash and investments unrestricted/restricted) reported by the PHAs in the sample selection, which amounted to approximately $5 billion. Contrastingly, accrued pension and other postemployment benefit liabilities amounted to more than $2.1 billion.

The audit generally covered the period January 1, 2008, through December 31, 2010. We performed our audit fieldwork from September 2010 through February 2011 at the HUD OIG Office of Audit in Newark, NJ.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

We evaluated the internal controls relevant to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of HUD's internal controls as a whole. Accordingly, we do not express an opinion on the effectiveness of HUD's internal controls.

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING
REAL ESTATE ASSESSMENT CENTER

JUN 1 6 2011

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, New York/New Jersey, 2AGA

FROM: David A. Vargas, Deputy Assistant Secretary, Real Estate Assessment Center, PX

SUBJECT: Response to Draft Audit Report titled "HUD Could Improve Its Financial Process for Obtaining Information on Public Housing Authorities' Pension and Other Postemployment Benefit Obligations."

As per your request, this is in response to the Draft Audit Report issued to Assistant Secretary Sandra B. Henriquez, titled "HUD Could Improve Its Financial Process for Obtaining Information on Public Housing Authorities' Pension and Other Postemployment Benefit Obligations." Specifically, we are addressing the following recommendation:

The Inspector General (IG) recommends that the Office of Public and Indian Housing (PIH) require Public Housing Agencies (PHAs) to report more information on pension and other postemployment benefit (OPEB) obligations by prescribing a contra-asset line item in the restricted monetary asset section of its financial data schedule (FDS) template for PHAs to report amounts (such as contributions, earmarks, forfeitures, etc.) that will be used by PHAs to pay their future pension and other postemployment benefit obligations.

Comment 1

The IG appears to be basing this recommendation on their audit sample that showed PHAs have restricted and unrestricted cash and investments in excess of pension and other postemployment benefit liabilities.

PIH Response.

Comment 2

As explained below, we do not concur with the recommendation to add a line item in the restricted monetary asset section of the financial data schedule (FDS) template as per the Draft Audit's suggestion. We believe the current measures we take to collect information on pension and other postemployment benefits (OPEB), as well as the other information OIG refernces, are sufficient. Moreover, the current template complies with the procedures recommended by the Government Accounting Standards Board (GASB) and the business rules of the FDS.

The Operating Fund formula adopted through negotiated rule making and based on the Harvard Cost Study already incorporates the reasonable and necessary costs to operate and

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maintain public housing units consistent with the multifamily industry. To properly manage its financial resources, a PHA needs to develop a plan to manage its pension liability such as securing other resources to fund benefits beyond the funding provided by the Operating Fund program and/or consider changing the plan structure. As an example, a PHA that determines that it does not have sufficient resources to plan for and meet its long-term OPEBs could make the business decision to change the number of years for which a retiree is eligible to receive health care coverage to manage its program costs. This approach is consistent with the transition to Asset Management.

As an additional control, the Financial Assessment Subsystem (FASS) scoring ratios, Current Ratio (CR) and Months Expendable Fund Balance (MEFB) ratio for prior Public Housing Assessment System (PHAS) and Quick Ratio (QR) and Months Expendable Net Assets Ratio (MENAR) for Interim PHAS take into consideration the current portion of the pension and OPEB liability. Specifically, the current portion of the pension and OPEB liability is considered a current liability. Depending on the amount of the pension and OPEB liability, the Financial Condition Indicator score under PHAS may be affected. If current liabilities are greater than current assets, the PHA will receive a zero score for the CR/QR and MEFB/MENAR.

The CR/QR are liquidity measures of the PHA's ability to cover its current obligations. The MEFB/MENAR is a viability measure of the PHA's ability to operate using primarily its net available, unrestricted resources without reliance on additional funding. Accordingly, large current pension and OPEB liabilities can negatively affect the Financial Condition Indicator score of PHAS.

Comment 2

The IG recommendation of PHA identification of restricted current assets, restricted cash and investments, that will be used to pay future pension and other postemployment benefit obligations, is contrary to Government Accounting Standards Board (GASB) and the business rules of the FDS for the following reason: GASB 34 defines restricted Net Assets as follows:

- Net assets should be reported as restricted when constraints placed on net asset use are either:
  a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
  b. Imposed by law through constitutional provisions.

The intent of that guidance is that recognizing restricted cash and investments in the PHA's balance sheet is not valid when there is no legal stipulation on the use of the funds. If we were to allow a PHA Board to make such restrictions there would be nothing that would then preclude the PHA from using such funds when an unrelated need arises since their management would have the ability to use the funds for other needs. .

Comment 3

Lastly, the Department conducted an assessment of amounts available in PHA Operating Reserves and determined that many PHAs accumulated significant operating reserves over the years. Operating Reserves are fundamentally defined as the amount of unrestricted liquid assets the PHA has available in excess of current liabilities.

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Comment 3	Presently, PHAs with significant reserves are being considered for a $1 billion Operating Fund offset in FY 2012. Restricting cash for liabilities that are long term and not due yet decreases operating reserves which impacts not only the proposed reallocation adjustment but also a PHA's ability to use these reserves for program operations.
Comment 4	We would like to take this opportunity to mention that we do agree with OIG's earlier suggestion that HUD should develop policy that addresses the reasonableness of OPEBs and perhaps set limits on what can be paid out of program funds.

OIG Evaluation of Auditee Comments

Comment 1 The 44 PHAs in the OIG sample did have significant monetary assets in excess of their liabilities for pensions and other post employment benefit liabilities. However, a recent review by the HUD REAC staff revealed that the monetary assets for 83 PHA's in their sample may not be enough to cover the accrued liabilities for pension and other post employment benefits. Therefore, the report recommendation to prescribe a contra-asset line item in the restricted asset section of the reporting template is intended to facilitate the disclosure of the monetary assets that are available for the payment of pension and other post employment benefit liabilities, which would facilitate identifying those PHAs with and without significant monetary assets/reserves available to fund these liabilities.

Comment 2 OIG's report does indicate that HUD's procedures generally comply with GASB requirements; however, to prevent excessive requests for operating subsidies in the future, to be used for pension and other post employment benefit obligations HUD should be proactive and consider seeking legislation and/or establishing administrative requirements that would require restricting the amount of funds PHAs have available for the strict purpose of paying future pension and other post employment benefits. While current GASB requirements do not require PHAs to disclose the monetary assets that will be used to satisfy pension and other post employment benefit liabilities, GASB does not prohibit reporting this information. Therefore if HUD established procedures to require this type of disclosure, HUD's procedures would still be in compliance with GASB standards and this information would result in more accurate financial reporting by PHAs and improve the ability of HUD officials and other interested parties to determine whether PHAs have the ability to pay their pension and other employment benefit obligations going forward.

Comment 3 The reallocation and/or offset of funds that HUD is proposing will also affect the ability of a PHA to use reserves for program operations; however, our recommendation will not prevent funds from being used, but will only restrict fund usage to pay for future pension and other post employment benefits. Further, implementing the audit recommendation would reinforce determining whether PHAs will have sufficient monetary assets available for the future payment of pension and other post employment benefit liabilities, an issue that is significant given the current budget environment.

Comment 4 HUD's agreement is responsive to our suggestion and would be a starting point to ensuring that PHAs begin to consider the monetary impact of benefits provided; however, as part of the audit resolution process, HUD officials should conduct an analysis to determine whether it is more feasible to offset/recapture operating reserves or ensure that PHAs properly disclose whether funding for employee pension and other post employment benefit liabilities are restricted and secure for payment when due in the future.