



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 4, 2006

MEMORANDUM FOR All Multifamily Hub Directors
All Multifamily Program Center Directors
All Multifamily Operations Officers

FROM: Beverly J. Miller, Director, Office of Asset Management, HTG

SUBJECT: Reasonable and Necessary Project Operating Account Expenses
Related to Front-Line Management Activities

This memorandum serves to reiterate the U.S. Department of Housing and Urban Development's (HUD) position regarding expenses deemed "reasonable and necessary" that can be paid from the project operating account. Specifically, there have been allegations of inconsistency among HUD field offices when approving payment for training and salary expenses from the project's operating account. HUD Handbook 4381.5, REV-2, Chapter 6 provides guidance regarding front-line management costs charged to the project. However, there appears to be confusion regarding HUD's position of "front-line" activities with respect to salaries of supervisory personnel and training.

Salaries of Supervisory Personnel

As referenced in HUD Handbook 4381.5, REV-2, paragraph 6.38(b), the project's operating account may be billed for "front-line" staff salaries if the following conditions are met:

- (1) *Salaries of an agent's supervisory personnel may not be charged to the project's operating account (with exceptions as outlined in paragraph 6.39)*
- (2) *The agent develops a job description for each generalist position outlining the front-line and non-front-line responsibilities of the position. The non-front-line responsibilities in the generalist description may **not** include supervisory functions.*
- (3) *The agent develops a reasonable hourly rate, which will be used to bill individual projects for time spent on front-line functions. A reasonable hourly rate includes the*

hourly salary for the position and an allocation for overhead expenses, and should not exceed the amount that would be paid to an on-site staff member with similar experience.

- (4) *An agent's generalist staff must document hours spent and duties performed on front-line activities for each project and those spent on the central office functions. Weekly timesheets are an acceptable method of documenting hours spent on front-line tasks.*

Therefore, salaries of management agent personnel (non-supervisory) performing duties that directly impact the front-line operations of the project must be "reasonable and necessary". Some examples are:

- Screening and selecting residents for occupancy
- Rent Collection
- Bookkeeping and associated expenses
- Tenant Certifications/Re-Certifications
- Preparation of Monthly Accounting Reports (if required)

Positions that are inherently management in nature are not considered reasonable and necessary project expenses. Under no circumstances can the salaries of the management agent's supervisory personnel be paid out of the project's operating account. Salaries of supervisory personnel are considered a management agent expense and generally include functions such as:

- Analyzing and solving project problems
- Keeping the owner abreast of project operations
- Overseeing investment of project funds
- Designing procedures/systems to keep the project running smoothly and in conformity with HUD requirements

Training

HUD Handbook 4381.5, REV-2, Chapter 6, paragraph 6.38(c), the project's operating account may be billed for "front-line" training activities if the following conditions are met:

- At a minimum, the budget amount should be sufficient to allow one staff person from each functional area to attend a minimum of one project related training session per year.
- As a rule of thumb for most projects, a reasonable training budget would not exceed the greater of \$5,000 or one half of one percent (0.005) of gross rents.
- Loan/Asset Management staff have the authority to approve training budgets that exceed the guidelines above if the owner/agent can clearly document the conditions that necessitate more extensive training for project staff.

Additional information regarding training costs for board members of resident owned/Cooperative Housing is also provided in HUD Handbook 4381, REV-2, Chapter 6, paragraph 6.38 (d).

Training of front-line staff must clearly demonstrate a benefit to the project. For example, front-line staff participation in a meeting or conference is deemed a necessary and reasonable training expense when:

- The purpose of the conference is educational and beneficial to the project;
- The content is relevant to improving the employee's performance while conducting front-line activities;
- Most of the conference consists of planned, organized exchanges of information related to project operations; and,
- Allows for expansion or enhancement of the employee's current job performance related to front-line duties.

The expenses of training shall not include membership fees except to the extent that such fees are a necessary cost directly related to the training itself or that payment thereof is a condition precedent to undergoing such training.

If you have any questions regarding this guidance, please contact your Desk Officer.

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