

CHAPTER 1. INTRODUCTION

1-1 PROGRAM OVERVIEW. The purpose of this Guidebook is to assist the Department's State/Area Office staff in the performance of an on-site review to confirm the validity of a Public Housing Agency's (PHA) annual Public Housing Management Assessment Program (PHMAP) certification as to its performance during the PHA's preceding fiscal year. It should also be utilized by PHAs as guidance for the types and quality of performance information that they are expected to maintain (for a minimum of three years) in order to support their annual PHMAP certifications.

- A. Because PHMAP scores are the primary basis the Department uses to assign risk priorities, it is crucial that the program is maintained with the utmost integrity.
1. The on-site confirmatory review is the primary method the Department has for ensuring the continuing integrity of the program. Other methods include, but are not limited to, the following:
 - a. Independent auditor audits of a PHA;
 - b. Modernization inspections conducted by the Corps of Engineers (COE);
 - c. Independent assessments conducted in accordance with Sec. 6(j) of the Housing Act of 1937; and/or
 - d. Other technical assistance contracted for by the Department to assist in improving the management performance of a PHA.
 2. There are several methods that a PHA may use to ensure the integrity of its PHMAP process. Such methods include, but are not limited to, the following:
 - a. Monthly reports to the Board of Commissioners that include all aspects of the PHMAP;
 - b. Periodic reports to the appointing authority(s) of the Board of Commissioners that include all aspects of the PHMAP;
 - c. An internal PHA audit team that reviews all aspects of the PHMAP, on a periodic basis;

- d. An audit of all or selected aspects the PHMAP, conducted by various local government departments, of a PHA's operations, focusing on specific aspects of the PHMAP; and/or
 - e. Peer assistance from a neighboring PHA in the conduct of an internal audit of a PHA.
- B. The Department is placing extra emphasis on the importance of a PHA's maintenance of documentation to support the PHMAP certification. Without documentation, an on-site confirmatory review is impossible and a PHA's PHMAP certification is worthless.
- C. Ideally, an on-site confirmatory review should be conducted during the sixty day period between the PHA's annual certification submission and the issuance of the initial notification letter by the State/Area Office. The results of the review can then be included in the initial notification letter. However, on-site confirmatory reviews may be completed by the Department at any other time deemed appropriate by the State/Area Office.
 - 1. It is recommended that an on-site confirmatory review include all of the PHMAP indicators and components.
 - 2. A limited on-site confirmatory review may be conducted by a State/Area Office in cases where:
 - a. An on-site confirmatory review is conducted by the State/Area Office as part of another scheduled review; or
 - b. Only limited and specific problem areas are identified at a PHA.
 - 3. A State/Area office shall not change a PHA's certification without at least one of the following circumstances present:
 - a. The State/Area office has on file documentation that justifies a change in a PHA's PHMAP certification, including a revised certification form submitted by the PHA, as appropriate; and/or
 - b. An on-site confirmatory review is conducted by the State/Area Office.
- D. A PHA's score will be based on all of the developments

covered by the Annual Contributions Contract (ACC), including those with management functions assumed by a resident management corporation (RMC) or an alternative management entity (AME) (pursuant to a court ordered receivership agreement, if applicable). This is necessary because of the limited nature of an RMC/AME's management functions and the regulatory and contractual relationship among the Department, PHAs and RMC/AME's. A PHA may enter into a management contract with an RMC/AME, but a PHA may not contract for assumption by an RMC/AME of the PHA's underlying responsibilities to the Department under the ACC.

- E. This Guidebook is designed to serve as general guidance, and although it presents specific examples for the several indicators and components, it is not intended to mandate exact methods of documenting or confirming performance.
 - 1. The Guidebook should be used as a general framework for State/Area Office personnel to prepare for and conduct an on-site confirmatory review.
 - 2. A State/Area Office should tailor each on-site confirmatory review to fit the specific circumstances of each individual PHA.
 - 3. The Guidebook should also be used as an aid to PHAs in their maintenance of good and reliable documentation of their performance.

1-2 REQUIREMENTS FOR AN ON-SITE CONFIRMATORY REVIEW. State/ Area offices are required to conduct an on-site confirmatory review when it is apparent from the certification that a PHA with 100 or more units under management will score below 60 percent on its overall assessment, or below 60 percent on indicator #2, modernization (mod-troubled designation) before initially designating a PHA as troubled or mod-troubled.

- A. An on-site confirmatory review shall be conducted on a yearly basis of all troubled or mod-troubled PHAS.
- B. An on-site confirmatory review shall also be conducted of a PHA with 100 or more units under management prior to the removal of troubled or mod-troubled designation.

- C. There are several State/Area Offices of Public Housing that do not have any troubled or mod-troubled PHAs within their jurisdictions, or have only one or two PHAs in such categories. Public Housing Offices are required to conduct a minimum of three on-site

confirmatory reviews per year if there are fewer than three troubled or mod-troubled PHAs in the Public Housing Office's jurisdiction.

1. If a Public Housing Office has two troubled or mod-troubled PHAs, on-site confirmatory reviews shall be conducted in the following manner:
 - a. Two PHAs designated as troubled or mod troubled; and
 - b. One PHA designated as standard.
2. If a Public Housing Office has one troubled or mod-troubled PHA, on-site confirmatory reviews shall be conducted in the following manner:
 - a. One PHA designated as troubled or mod troubled;
 - b. One PHA designated as standard; and
 - c. One PHA designated as high performer.
3. If a Public Housing Office has no troubled or mod-troubled PHAs, on-site confirmatory reviews shall be conducted in the following manner:
 - a. Two PHAs designated as standard; and
 - b. One PHA designated as high performer.
4. Furthermore, if resources (travel funding and personnel) permit, a Public Housing office shall conduct a minimum of five on-site confirmatory reviews per year, as follows:
 - a. Three PHAs designated as troubled or mod troubled in accordance with subparagraphs 1-2C1, 1-2C2 and 1-2C3, above, related to the conduct of a minimum of three on-site confirmatory reviews; and in addition
 - b. One PHA designated as standard; and
 - c. One PHA designated as high performer.

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D. With the exception of the categories listed above, the conduct of an on-site confirmatory review is left to the discretion of the State/Area Office.

1. State/Area office discretion should take into consideration such factors as:

- a. PHA PHMAP scores that are just above 60 percentage points;
 - b. Previously submitted inaccurate PHMAP certification;
 - c. Downward trending in a PHA's PHMAP score over the past three to five years;
 - d. Significant increases in PHMAP scores;
 - e. Cases where a PHA does not submit its PHMAP certification; or
 - f. Cases where a PHA cannot provide justifying documentation to the independent auditor for the indicators and/or components that a PHA certified to, as reflected in the audit report.
2. State/Area Offices should also take into consideration those factors detailed in The Field office Monitoring of Public Housing Agencies (PHAS) Handbook 7460.7 REV-2, Chapter 3, dated November 1994.

1-3 STATE/AREA-OFFICE PREPARATION FOR AN ON-SITE CONFIRMATORY REVIEW.

- A. In preparation for completing the on-site confirmatory review, HUD staff should review the following documents from State/Area Office files prior to going on-site.
- 1. Form HUD-50072, PHMAP Certification;
 - 2. Print-outs from the Integrated Business Systems (IBS) PHMAP module (or the PHMAP SMIRPH module, whichever is applicable) detailing how each indicator was scored;
 - 3. overall scoring report indicating overall PHMAP score; and

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- 4. Reviewers should also examine other sources of information such as audit reports, annual financial statements, tenant accounts receivable (TAR) reports, modernization reports and news clippings. The broader and deeper the field of information, the better the context in which to conduct the on-site confirmatory review.

- B. Some PHMAP information, such as that listed above, can be verified using data in HUD files; other data must be

compiled and validated on-site. In some cases, it will be necessary to use PHA data to update HUD's files. Some PHAs may use the optional PHMAP worksheets in order to compile the data for ease in preparing the PHMAP certification. Data collection for other PHAs may be less organized. Ultimately, it is the responsibility of the PHMAP confirmatory review team to be ready for any eventuality.

1-4 ON SITE-METHODOLOGIES. It is essential that prior to visiting the PHA for the review, the PHA be advised in writing of the general process the HUD staff will follow and what is expected of the PHA. In brief, HUD should convey to the PHA that HUD will be reviewing documentation that supports the data on the PHMAP certification form. The letter to the PHA should go to the Executive Director and to the PHA Board Chairperson, at the Chairperson's home address. The steps discussed, below, represent a logical path to take in the review of each indicator.

- A. In accordance with 24 CFR 9 901.100(b)(2), PHAs shall maintain documentation for three years verifying all certified indicators for HUD on-site review. If the data-for any indicators) or components) that a PHA certified to cannot be verified by HUD during the conduct of an on-site confirmatory review, or any other review(s), the State/Area Office shall change a PHA's grade for any indicators) or components(s), and its overall PHMAP score, as appropriate, to reflect the verified data obtained during the conduct of such review (24 CFR Sec 901.100(b)(6)).
- B. Trace data on form HUD-50072 (and/or on other reports submitted to the State/Area Office) back to supporting internal PHA reports, and then still further down to the original source documents.
 - 1. This simply seeks to validate that the numbers in the certification and other reports are in fact supported in documents relating to the actual performance, and that these documents support the calculations that produced the

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numbers entered on the certification. Such a review will sometimes reveal:

- a. Lack of underlying support;
- b. Obvious variations in the quality of supporting documentation; and/or
- c. Wide variations in performance that lead to the need for further validation at various developments or management entities within

the PHA that stand out as exceptions.

2. For example, a review of the TAR indicator (this was a former PHMAP indicator, but the principles are relevant) was undertaken through detailed examination down to rent ledger records at the project level for a representative sample of PHA developments.
 - a. This revealed inconsistencies between report data shown on summary reports (upon which the final TAR reports were based) and the supporting accounting ledgers. This triggered further examination of actual source documents: rent statements, rent receipts, etc.
 - b. What was revealed, in part, was that project level staff communication of data was highly varied qualitatively, and that there were unusually high levels of on-site acceptance of rent at a few developments which resulted in variant and delayed reporting to the accounting division.
 - c. As a result, the accounting division caused the PHA's performance to be understated because, although rent was paid by the end of the month (as validated through bank receipts), the rents uncollected were posted at the beginning of the next month.
 - d. The financial records system dated rent receipt at time of posting rather than actual receipt by the manager on-site, thereby making rents appear as delinquent when they were not. In this case, the PHA's performance was actually better than had been reported by the PHA on form HUD-50072.

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- C. Map out the process that is being measured in the indicator to determine key steps, key players and key points in the process where data is assembled and aggregated into reports that support the certification. Internal control deficiencies at the PHA may result in management being unaware of significant differences between the way the process is actually working and the way the process has been designed to work.
 1. For example, the local code/Housing Quality Standards (HQS) equivalent work order system performance was reviewed to determine the accuracy of the PHA's certification that all local code/HQS deficiencies were corrected within an average of

thirty days. The PHA's inspection work order origination, completion and reporting process was mapped out and key players interviewed. Source documentation was then tested at key high risk points.

2. In this case, the PHA had a centralized inspection function. It was highly,organized and meticulously documented, with an inspection form for each unit filed in project binders. The head of the PHA's inspection unit was interviewed as was an inspector. Local code/HQS equivalent deficiencies were clearly identified on the inspection form and emergency items were highlighted.
3. A copy of the inspection form went to the project manager who was responsible for having staff enter the local code/HQS equivalent item into the work order system, assigning work to maintenance staff and entering completion status when the work was done.
4. In the case of emergencies, the PHA's inspection division would get the manager to sign off on acceptance of the inspection form to verify receipt of an emergency deficiency.
5. Risk of process breakdown is heightened at points of organizational hand-off, i.e., when different sections must coordinate. In this instance, the process of identifying deficiencies and getting those deficiencies into the

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system constituted a hand-off from the inspection section to project level management.

- a. To test the efficacy of this, a substantial sample of inspection forms for a cross section of developments were reviewed.
- b. A sub-sample containing local code/HQS equivalent deficiencies was selected and cross-checked with the PHA's work order printout to determine if project level managers were in fact creating automated work orders in the system from the fail items identified on the inspection forms.
- c. If there is failure at this point, it is because upper-level management is concentrating on the completion of what is in the system, without checking to see that the system is, in fact, capturing the work that

needs to be addressed.

6. The analysis revealed that nearly one-third of the local code/HQS equivalent deficiencies were never entered into the system.
 - a. Interestingly, all emergency work orders were entered because managers had to sign off on receipt of them. While PHA leadership in good faith reported what they believed to be the completion of all work, lack of sufficient internal controls failed to alert them of a breakdown of the process in time for the problem to be corrected.
 - b. In this case, the PHMAP score was lowered to a grade of F because the PHA failed to have a reliable system for tracking the average time it took to complete local code/HQS equivalent work orders.
- D. Review historic or trend data in supporting documentation to detect unusual activity. Where detected, further detail may warrant review to determine the reasons for the variation. This may reveal issues relevant to performance validation.
- E. Communicate thoroughly with those involved in the processes related to the indicator under review.

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1. Focus explicitly on indicator criteria, formulas, and definitions to ensure that PHA staff and leadership have a thorough and common understanding of the indicator, and that they understand the key assumptions and nuances surrounding measurement.
2. As appropriate, on-site confirmatory review team members shall provide technical assistance to a PHA that is focused on correcting identified deficiencies, whether such deficiencies were identified as part of the on-site confirmatory review or prior to the on-site confirmatory review.
3. In some cases, the provision of technical assistance may entail:
 - a. Further visits to the PHA by the review team;
 - b. Assistance from the review team in arranging peer assistance from a neighboring PHA;

- c. Assistance from the review team in issuing a Request for Proposals (RFP) for management improvements;
 - d. Assistance from the review team in the development an Improvement Plan; and/or
 - e. Active participation by the review team and the State/Area Office in the development of a Memorandum of Agreement.
4. During the conduct of the on-site confirmatory review, a PHA shall be given every opportunity by the review team to produce documentation necessary to verify any and all indicators and components.
- F. It is not unusual for PHA staff and leadership to assume an understanding of the indicator criteria, but to later discover key differences or gaps.
1. Ideally, clarity on these issues would have been achieved prior to certification and the on-site confirmatory review, but in reality this often doesn't happen until the time of the on-site confirmatory review. If this must happen during the on-site confirmatory review, it is best to surface them

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- early. If there are disagreements over interpretation, it gives PHA staff and leadership the opportunity for further research.
2. If new information reveals to the PHA a need to recalculate performance, re-research, re-count, etc., it will permit more time to do so. PHAs will particularly benefit if detailed indicator criteria and documentation issues are fully communicated within the PHA to those involved in the processes related to the indicator. It is very common that PHMAP knowledge at the PHA is limited to those who prepare the PHMAP certification and supporting worksheets.
3. Many surprises to upper management during the on-site confirmatory review process can be averted if everyone involved in the performance is intimately familiar with PHMAP. Many PHA personnel do not know the significance of their roles.
- G. Optional check lists to assist the reviewers are contained in the Appendices to this Guidebook. Appendix 1 is a sample scoring report to be used to calculate a.PHA's overall score and a listing of the

indicators by grade. Appendices 2-9 are optional check lists for the respective chapters and the indicators discussed within each chapter.

1-5 DOCUMENTING THE RESULTS OF THE ON-SITE CONFIRMATORY REVIEW.

- A. Results of the on-site confirmatory review shall be documented in a letter to the PHA, including the Executive Director and the Chairperson of the Board of Commissioners. It is recommended that the State/ Area Office also transmit the results of the on-site confirmatory review to the appointing officials of the Board of Commissioners.
1. If the on-site confirmatory review is conducted in the interim between certification and the initial notification letter, the results shall be reported to the PHA in writing as an enclosure to the initial notification letter.
 2. If the on-site confirmatory review is conducted at a time other than during the 60 day period between certification submission and the initial notification letter, the results of the on-site confirmatory review shall be transmitted in

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a letter to the PHA, as an enclosure, and the letter shall contain the revised scoring report and designation.

- B. The on-site confirmatory review final report should be organized by indicator and:
1. State what documentation was reviewed on-site and the methodology used to review the documentation;
 2. State the conclusions drawn from the review, i.e., was the documentation sufficient, lacking, erroneous, etc.;
 3. State the grade for each indicator and component;
 4. State what technical assistance was provided by the on-site confirmatory review team while onsite;
 5. Provide pertinent comments on the PHA's operations and systems; and
 6. Provide guidance/recommendations on what the PHA could do to improve the reliability of its management information system and for improving management performance.

1-6 CONTINUED DEVELOPMENT AND REFINEMENT OF THIS GUIDEBOOK. The

goal of this Guidebook is the achievement of an objective instrument for use by State/Area Offices and PHAs that is capable of accurately determining the quality of a PHA's management performance. As appropriate, this Guidebook will be revised to reflect continued refinement of the procedures outlined in this Guidebook.

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