

CHAPTER 3. INDICATOR #2. MODERNIZATION

3-1 GENERAL. This is the only indicator out of the eight PHMAP indicators to which the PHA does not certify. Onsite confirmation of this indicator will consist of an examination of source documentation to support the in-house information that was used by the State/Area Office to compute the scoring for the indicator. This indicator is automatically excluded by the State/Area Office if a PHA did not have an active modernization program during the assessed fiscal year.

A. The modernization indicator is comprised of five components that are used to evaluate a PHA's ability to administer the Department's modernization programs: the Comprehensive Grant Program (CGP), the Comprehensive Improvement Assistance Program (CIAP), and the Lead Based Paint Risk Assessment Program (LBPRA). In addition to these programs, components #3, #4 and #5 of this indicator apply to any other capital improvement funding program, such as the HOPE VI Program and the Vacancy Reduction Program (VRP).

1. The components are as follows:
 - a. Component #1, unexpended funds;
 - b. Component #2, timeliness of fund obligation;
 - c. Component #3, adequacy of contract administration;
 - d. Component #4, quality of physical work; and
 - e. Component #5, adequacy of budget controls.
2. A new feature in component #1, expenditure of funds, and component #2, fund obligation, requires for grade A that PHAs that are not on schedule to have issued a time extension within 30 calendar days after the expenditure or obligation deadline. For the PHA to extend the deadline, the extension must be based on reasons outside of the PHA's control. The only possible grades for these two components are A and F.
3. For component #3, contract administration, and component #4, quality of the physical work, the number of possible grades has been reduced from six to three: A, C and F. Component

#5, budget controls, has been changed to reflect the final CGP rule which permits CGP agencies to

move work items between approved CGP annual statements or CIAP budgets and the latest approved five-year action plan.

4. Sources. The data used to confirm information on this indicator are found primarily in State/ Area Office records, but also in PHA records to verify the accuracy of State/Area Office in-house data used to evaluate a PHA's performance.

B. Identification of programs.

1. The first action required for conducting a confirmatory review on this indicator is to list all capital improvement programs administered by the PHA. Such programs may include any of the following:
 - a. CGP and any successor program;
 - b. CIAP and any successor program;
 - c. LBPRRA, funded from 1992 to 1995;
 - d. HOPE VI Program; and
 - e. VRP.
2. HOPE VI and the VRP shall be rated only on components #3, #4 and #5. These particular programs are not assessed under components #1 or #2. For this reason, when listing all programs, it is important to identify those that are not CGP, CIAP or LBPRRA to avoid confirming inapplicable information.
3. In cases where a PHA has multiple programs in the same program area, such as CGP, each program should be listed separately and identified by grant number.
4. Every program that does not have a Pre-Audit End Date or every program that received a Pre-Audit End Date during the assessed fiscal year should be confirmed. A program is considered "not closed out" when a Post-Audit End Date has not been entered into the Line of Credit Control System (LOCCS).

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3-2 COMPONENT #1, UNEXPENDED FUNDS OVER THREE FEDERAL FISCAL YEARS (FFY) OLD. This component measures unexpended funds over three FFYs old, and not PHA fiscal years (FYs); the FFY runs from October 1 to September 30. State/Area offices may verify conditions beyond a PHA's control in accordance with

The Public Housing Comprehensive Improvement Assistance Program (CIAP) Handbook 7485.1, as revised, and The Public Housing Comprehensive Grant Program Guidebook 7485.3, as revised. For purposes of this component, the time calculated will be based upon a FFY that ended during the PHA's FY, as shown in the following example:

PHA Fiscal Year End (FYE)	Federal Fiscal Year End (FFYE)
3/31/96	9/30/95
6/30/96	9/30/95
9/30/96	9/30/96
12/31/96	9/30/96

A. A FFY must be completed before it can be used for calculating this component. Do not use the year in which funds were awarded. For example, the Anywhere PHA received a CIAP funding award in September 1993 in the amount of \$200,000. To expend funds within three FFYS, the PHA would have to expend all funds by September 30, 1996.

Year awarded: September 1993	\$200,000 awarded
1st FFY 1992 (10/01/93 - 09/30/94)	
2nd FFY 1993 (10/01/94 - 09/30/95)	
3rd FFY 1994 (10/01/95 - 09/30/96)	<200,000> expended
Balance of unexpended funds:	-0-

B. In the preceding example, the Anywhere PHA has no unexpended funds over three FFYs old, thus resulting in a grade of A for this component. If the grant award is less than three FFYs old, the PHA also would receive a grade of A for this component.

C. Once a year, a freeze file is extracted from LOCCS and loaded into the IBS for the latest FFY ending September 30. The LOCCS freeze file is used for the initial scoring of this component by pulling all programs over three FFYs old and no Post-Audit End

Date. If there are unexpended funds over three FFYs old, the State/Area Office may enter data regarding any one of the following three exceptions. If all unexpended funds over three FFYs old are accounted for by the exceptions, the PHA would receive a grade of A for this component.

1. The unexpended funds are leftover funds and will

be recaptured after audit. Sources include:

- a. Form HUD-52825, CIAP Budget/Progress Report;
 - b. Form HUD-52837, CGP Annual Statement/Performance and Evaluation Report;
 - c. Form HUD-53001, Actual Modernization Cost Certificate; or
 - d. Pre-Audit End Date entered in LOCCS.
2. The HUD-approved original implementation schedule allows longer than three FFYs to expend all funds. Sources include:
- a. Form HUD-52825, CIAP Budget/Progress Report, Part III; or
 - b. Form HUD-52837, Annual Statement/Performance and Evaluation Report, Part III.
3. The PHA extended the expenditure deadline within 30 calendar days after the expenditure deadline occurred and the time extension was based on reasons outside the PHA's control, such as the need to use leftover funds, unforeseen delays in contracting or contract administration, litigation, material shortages or other non-PHA institutional delays. Sources include:
- a. Form HUD-52825, CIAP Budget/Progress Report, Revised Part III;
 - b. Form HUD-52387, CGP Annual Statement/Performance and Evaluation Report, Revised Part III;
 - c. PHA letter or telephone call to State/Area Office;

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- d. Internal PHA memoranda or documentation.
- D. Where a PHA administers only one modernization program, the score for that program becomes the score for the component. Where a PHA administers multiple modernization programs, each program shall be evaluated and a cumulative assessment of all scores shall determine the score for the component. A grade of F for any one program will result in a grade of F for this component. For example, a PHA administers three CIAPs and one CGP. When confirming these four programs, it was discovered that one CIAP has unexpended funds over three FFYs old, and that there is

no documentation showing that:

1. The unexpended funds are leftover funds and will be recaptured after audit;
2. The HUD-approved original implementation schedule allows longer than three FFYs to expend all funds; or
3. The PHA extended the expenditure deadline within 30 calendar days after the expenditure deadline and the time extension was based on reasons outside the control of the PHA.

E. In this example, the PHA would receive a grade of F for the component, as shown below.

Year awarded: 1993	\$200,000 awarded
1st FFY 1992 (10/01/93 - 09/30/94)	
2nd FFY 1993 (10-01-94 - 09-30-95)	
3rd FFY 1994 (10-01-95 - 09-30-96)	<180,000> expended
Balance of unexpended funds:	\$ 20,000

F. The Anywhere PHA has \$20,000 of unexpended funds that are over three FFYs old. However, further research is necessary to determine if any of the three items listed in subparagraph D apply to the PHA. In reviewing State/Area Office in-house data, it was noted that the PHA extended the expenditure deadline within 30 calendar days after the expenditure deadline due to litigation. In this example, the PHA would receive a grade of A for this component.

G. The State/Area office may not have in-house data to support any of the three exceptions. Therefore, when the PHMAP score is

transmitted to the PHA, the PHA may provide documentation in support of any of the three exceptions. Where the State/Area Office accepts the PHA's documentation, it may change the score for this component from a grade of F to a grade of A.

3-3 COMPONENT #2. TIMELINESS OF FUND OBLIGATION. This component is similar, in several aspects, to component #1 in that fund obligation is measured by FFYs and not by PHA FYs. State/Area Offices may verify conditions beyond a PHA's control in accordance with The Public Housing Comprehensive Improvement Assistance Program (CIAP) Handbook 7485.1, as revised, and The Public Housing Comprehensive Grant Program Guidebook 7485.3, as revised. Additionally, for purposes of this component, the time calculated will be based upon a FFY

that ended during the PHA's FY, as shown in the following example:

PHA Fiscal Year End	Federal Fiscal Year End
3/31/96	9/30/95
6/30/96	9/30/95
9/30/96	9/30/96
12/31/96	9/30/96

- A. A FFY must be completed before it can be used for calculating this component. Do not use the year in which funds were awarded. For example, the Anywhere PHA received a CIAP funding award in September 1994 in the amount of \$100,000. To obligate funds within two FFYS, the PHA would have to obligate all funds by September 30, 1996.

Awarded: September 1994	\$100,000 awarded
1st FFY (10/01/94 - 09/30/95)	
2nd FFY (10/01/95 - 09/30/96)	<100,000> funds obligated
Balance of unobligated funds:	-0-

- B. In the preceding example, the Anywhere PHA has no unobligated funds over two FFYs old, thus resulting in a grade of A for this component. Similar to component #1, if the grant award is less than two FFYs old, the PHA also would receive a grade of A for this component.

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- C. Once a year, a freeze file is extracted from LOCCS and loaded into the IBS for the latest FFY ending September 30. The LOCCS freeze file is used for the initial scoring of this component by pulling all programs over two FFYs old and no Post-Audit End Date. If there are unobligated funds over two FFYs old, the State/Area Office may enter data regarding any one of the following two exceptions. If all unobligated funds over two FFYs are accounted for by the exceptions, the PHA would receive a grade of A for this component. Sources include the revised implementation schedule, in-house documentation, and/or PHA-submitted documentation.

1. The HUD-approved original implementation schedule (form HUD-52585, Part III, for CIAP or LBPR, or form HUD-52837, Part III, for CGP) allows longer than two FFYs to obligate all funds; or
2. The PHA extended the obligation deadline within 30 calendar days after the obligation deadline occurred and the time extension was based on

reasons outside the PHA's control.

D. Where a PHA administers only one modernization program, the score for that program becomes the score for the component. Where a PHA administers multiple modernization programs, each program shall be evaluated and a cumulative assessment of all scores shall determine the score for the component. A grade of F for any one program will result in a grade of F for this component. For example, a PHA administers two CGPs and one CIAP. When confirming these three programs, it was discovered that the CIAP has unobligated funds over two FFYs old, and that there is no documentation showing that:

1. The HUD-approved original implementation schedule allows longer than two FFYs to obligate all funds; or
2. The PHA extended the expenditure deadline within 30 calendar days after the expenditure deadline and the time extension was based on reasons outside the control of the PHA.

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E. In this example, the PHA would receive a grade of F for the component, as shown below.

Year awarded: 1994	\$175,000 awarded
1st FFY 1993 (10-01-94 - 09-30-95)	
2nd FFY 1994 (10-01-95 - 09-30-96)	<150,000> obligated
Balance of unobligated funds:	\$ 25,000

F. The Anywhere PHA has \$25,000 of unobligated funds that are over two FFYs old. However, further research is necessary to determine if either of the two items listed in subparagraph D apply to the PHA. In reviewing State/Area Office in-house data, it was noted that the PHA extended the obligation deadline within 30 calendar days after the obligation deadline due to no bids received, which is a reason outside of its control. In this example, the PHA would receive a grade of A for this component.

G. The State/Area Office may not have in-house data to support either of the two exceptions. Therefore, when the PHMAP score is transmitted to the PHA, the PHA may provide documentation in support of any of the two exceptions. Where the State/Area Office accepts the PHA's documentation, it may change the score for this component from a grade of F to a grade of A.

3-4 COMPONENT #3. ADEQUACY OF CONTRACT ADMINISTRATION. This component evaluates a PHA's ability to adequately manage contract administration for funded program(s). This component applies to the following programs: CGP; CIAP; LBPR; HOPE VI; and VRP. This component measures performance based on the PHA's FYE, rather than on the FFY that was used in components #1 and #2.

A. On-Site inspection written report. The information used to evaluate this component is HUD's latest onsite inspection and/or audit, with a written report relating to contract administration. For assessment purposes, modernization inspection reports resulting from inspections conducted by the Army Corps of Engineers (COE) under contract with HUD, are considered as HUD reports. This report to the PHA must be written, signed and dated at least 75 days prior to the PHA's FYE to be used in this evaluation. If the report was not written, signed and dated 75 days prior to the PHA's FYE, the confirmatory data used

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shall be the previous on-site inspection and/or audit report sent to the PHA.

1. For example, the Anywhere PHA, with a FYE June 30, 1997, had on-site reviews relating to contract administration by the State/Area Office (or the COE) every year for the past three years. The written reports are dated April 23, 1997, August 14, 1996, and June 18, 1995. Each written report contained findings.
2. In this case, the information used to evaluate/confirm this component for the PHA's FYE of June 30, 1997, would be the August 14, 1996, report. The April 23, 1997, report could not be used because the date of the report is less than 75 days prior to the PHA's FYE of June 30, 1997.

B. Finding. For purposes of this component, the term "finding" refers to a violation of a statute, regulation, ACC, Corrective Action Order or other HUD requirements relating to the adequacy of contract administration. This does not include observations, recommendations or suggestions for improvement that are contained in the written report.

C. PHA status on findings. If the PHA has no findings, the PHA would receive a grade of A. If the PHA has findings, the progress a PHA has made on correcting findings determines the appropriate grade for this component.

1. This information is obtained from PHA response

documentation relating to the corrective action on the findings and on-site confirmation that the corrective action is actually occurring, has occurred, or has not occurred. Additionally, the corrective action taken by the PHA must result in progress toward the correction of the findings.

2. By applying the collected information from PHA documentation and the on-site assessment, a final grade for this component can be determined. If PHA documentation varies from the onsite assessment, the on-site assessment information shall be used in scoring this component.

- D. Final scoring. only findings that are corrected prior to a PHA's assessed FYE, count as corrected findings for scoring this component.

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1. If the on-site confirmatory review process indicates that the PHA has no findings or has corrected all findings prior to the PHA's FYE, the PHA shall receive a grade of A for this component.
2. If the on-site confirmatory review process indicates that the PHA is in the process of correcting all findings, the PHA shall receive a grade of C for this component.
3. If the on-site confirmatory review process indicates that the PHA has failed to initiate corrective action for all findings or if the PHA's actions that have been initiated have not resulted in progress toward correcting the findings, the PHA shall receive a grade of F for this component.

- E. Examples. The following examples are offered for guidance.

1. The Anywhere PHA is undergoing an on-site confirmatory review, and based on the August 14, 1996, written report concerning contract administration, the PHA has four findings. The PHA response letter indicates that all four findings have been corrected, and consequently the PHA received a grade of A for this component. However, the on-site confirmatory review indicates that three findings have actually been corrected, but the fourth finding is in the process of being corrected. In this example, the PHA would receive a grade of C for this component because all findings have not been corrected.
2. The Anywhere PHA is undergoing an on-site

confirmatory review, and based on the August 14, 1996, written report concerning contract administration, the PHA has four findings. The PHA response letter indicates that corrective action has been initiated and progress is being made toward the correction of the findings. As a result, the PHA received a grade of C for this component. However, the on-site confirmatory review indicates that corrective action initiated by the PHA has not resulted in any progress toward the correction of the findings. In this example, the PHA would receive a grade of F for this component because the corrective action initiated by the PHA is not resulting in the correction of the findings.

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F. Sources. Sources include HUD's on-site inspection and/or audit reports and PHA documentation.

3-5 COMPONENT #4. QUALITY OF THE PHYSICAL WORK. This component evaluates the quality of physical work for funded program(s). This component applies to the following programs: CGP; CIAP; LBPRA; HOPE VI; and VRP. This component measures performance based on the PHA's FYE, rather than on the FFY that was used in components 11 and 12.

A. On-Site inspection written report. The information used to evaluate this component is HUD's (or COE'S) latest on-site inspection and/or audit, with a written report relating to the quality of physical work. This report to the PHA must be written, signed and dated at least 75 days prior to the PHA's FYE to be used in this evaluation. If the report was not written, signed and dated 75 days prior to the PHA's FYE, the confirmatory data used shall be the previous on-site inspection and/or audit performed on the PHA.

1. For example, the Anywhere PHA, with a FYE June 30, 1996, had on-site reviews relating to the quality of the physical work by the State/Area Office (or the COE) every year for the past three years. The written reports are dated April 23, 1997, August 14, 1996, and June 18, 1995. Each written report contained findings.

2. In this case, the information used to evaluate/-confirm this component for the PHA's FYE of June 30, 1996, would be the August 14, 1996, report. The April 23, 1997, could not be used because the date of the report is less than 75 days prior to the PHA's FYE of June 30, 1996.

B. Finding. For the purposes of this component, the term

"finding" refers to a violation of a statute, regulation, ACC, Corrective Action Order or other HUD requirements relating to the quality of the physical work. This does not include observations, recommendations or suggestions for improvement that are contained in the written report.

- C. PHA status on findings. If the PHA has no findings, the PHA would receive a grade of A. If the PHA has findings, the progress a PHA has made on correcting findings determines the appropriate grade for this component.

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1. This information is obtained from PHA response documentation to the State/Area office relating to the corrective action on the findings and onsite confirmation that the corrective action is actually occurring, has occurred, or has not occurred. Additionally, the corrective actions taken by the PHA must result in progress toward the correction of the findings.
 2. By applying the collected information from PHA documentation and the on-site assessment, a final grade for this component can be determined. If PHA documentation varies from the onsite assessment, the on-site assessment information shall be used in scoring this component.
- D. Final scoring. Only findings that are corrected prior to a PHA's assessed FYE, count as corrected findings for scoring this component.
1. If the on-site confirmatory review process indicates that the PHA has no findings or the PHA has corrected all findings prior to the PHA's FYE, the PHA shall receive a grade of A for this component.
 2. If the on-site confirmatory review process indicates that the PHA is in the process of correcting all findings, the PHA shall receive a grade of C for this component.
 3. If the on-site confirmatory review process indicates that the PHA has failed to initiate corrective action for all findings or if the PHA's actions that have been initiated have not resulted in progress toward correcting the findings, the PHA shall receive a grade of F for this component.
- E. Examples. The following examples are offered for guidance.

1. The Anywhere PHA is undergoing an on-site confirmatory review, and based on the August 14, 1996, written report concerning the quality of the physical work, the PHA has four findings. The PHA response letter indicates that all four findings have been corrected and consequently,

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the PHA received a grade of A for this component. However, the on-site confirmatory review indicates that three findings have actually been corrected, but the fourth finding in the process of being corrected. In this example, the PHA would receive a grade of C for this component because all findings have not been corrected.

2. The Anywhere PHA is undergoing an on-site confirmatory review, and based on the August 14, 1996, written report concerning the quality of the physical work, the PHA has four findings. The PHA response letter indicates that corrective action has been initiated and progress was being made toward the correction of the findings. As a result, the PHA received a grade of C for this component. However, the on-site confirmatory review indicates that corrective action initiated by the PHA has not resulted in any progress toward the correction of the findings. This PHA would receive a grade of F for this component because the corrective action initiated by the PHA is not resulting in the correction of the findings.

F. Sources. Sources include HUD's on-site inspection and/or audit reports and PHA documentation.

3-6 COMPONENT #5. BUDGET CONTROLS. This component evaluates the adequacy of a PHA's budget controls for funded programs. This component applies to the following programs: CGP; CIAP; LBPR; HOPE VI; and VRP. This component measures performance based on the PHA's FYE, rather than on the FFY that was used in components #1 and #2.

A. CGP PHA. CGP PHAs shall expend modernization funds only on work identified in HUD-approved CIAP budgets, CGP annual statements, or HUD-approved CGP five-year action plan, excluding emergencies, or obtain prior HUD approval for required budget revisions.

1. If a CGP PHA expended modernization funds only on work items that were identified in HUD-approved CIAP budgets, CGP annual statements, or CGP five year action plan, excluding emergencies, or obtained prior HUD-approval for required budget revisions, the PHA would receive a grade of A.

2. If a CGP PHA expended modernization funds on work items that were not identified in HUD-approved CIAP budgets, CGP annual

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statements, or CGP five year action plan, excluding emergencies, the State/Area Office must determine whether the PHA submitted the required budget revisions for prior HUD approval. If the PHA submitted the required budget revisions, the PHA would receive a grade of A. If the PHA did not submit the required budget revisions, the PHA would receive a grade of F.

3. Sources include: form HUD-52825, CIAP Budget/Progress Report; form HUD-52837, CGP Annual Statement/Performance and Evaluation Report; form HUD-52834, Five-Year Action Plan; and inspection and audit reports.

B. CIAP PHA. CIAP PHAs shall expend modernization funds only on work identified in HUD-approved CIAP budgets or related to originally approved work or obtain prior HUD approval for required budget revisions.

1. If a CIAP PHA expended modernization funds only on work items that were identified in HUD-approved CIAP budgets or related to originally approved work, the PHA would receive a grade of A.
2. If a CIAP PHA expended modernization funds on work items that were not identified in HUD-approved CIAP budgets or related to originally approved work, the State/Area Office must determine whether the PHA submitted the required budget revisions for prior HUD approval. If the PHA submitted the required budget revisions, the PHA would receive a grade of A. If the PHA did not submit the required budget revisions, the PHA would receive a grade of F.
3. Sources include: form HUD-52825, CIAP Budget/Progress Report; and inspection and audit reports.

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