

### CHAPTER 3. RISK MANAGEMENT

3-1 OBJECTIVE. The objective of this Chapter is to provide guidance to Field Offices on conducting risk assessments.

#### 3-2 RISK MANAGEMENT.

A. Monitoring. The mission of PHAs is to provide residents with decent, safe, and affordable housing. PHAs should strive to achieve this mission through their professional efforts and the involvement of their residents, as well as local government, public and private sectors. The primary mission of HUD's Field Office staff is to ensure that PHAs meet these performance requirements and to facilitate the provision of technical assistance, thus safeguarding both public investment and resident quality of life.

B. Key principles. This Handbook presents an approach to performance monitoring that emphasizes the quality of PHA services and results. This approach is based on four key principles:

1. Field Offices will use risk analysis to determine priorities for both on-site reviews and intensified remote monitoring;

2. Field Offices will focus their oversight resources on PHAs that are in the greatest need of attention;

3. Field Offices will seek a cooperative problem-solving approach with PHAs and local leadership; and

4. Field Offices will recommend targeted interventions to improve PHA performance if the PHA or local leadership proves unable or unwilling to correct identified deficiencies.

#### 3-3 EVALUATING PHAS USING A RISK MANAGEMENT APPROACH.

A. Risk management requires Field Office personnel to assess and rank the relative risk represented by individual PHAs. Risk may be viewed in the following context:

1. The performance of each PHA in carrying out the key aspects of its public housing program and the extent of its compliance with HUD requirements; and

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2. The magnitude of the impact of a PHA's failure to achieve its mission. Impact reflects the number of residents, housing units, and financial investment affected by deficiencies in performance and/or compliance. Larger agencies represent a greater risk than smaller agencies.

B. Focusing on PHAs with the greatest needs.

1. Field Offices should take a risk-based approach to PHA oversight. Bringing about change and addressing critical problems requires the Field Office to focus scarce resources where they will address the greatest need and have the most significant results. Such an approach ensures that poor performers will get the sustained attention they need to improve and that high performers are not subject to unnecessary HUD oversight.

2. At the heart of the risk-based oversight approach is the risk assessment model under which Field Offices rank PHAs based on PHMAP performance, compliance-related information and other indicators, as may be appropriate. This ranking helps Field Offices prepare their annual review schedules and tailor technical assistance to the particular needs of the PHAs in their jurisdiction. Risk analysis requires Field Offices to use specific indicators to determine which PHAs are most in need of on-site reviews or intensified remote monitoring. The approach provides indicators to be considered by Field Offices in assessing a PHA's need for review.

3-4 Step 1 - RISK ASSESSMENT MODEL.

A. The initial cut of those PHAs determined to be in the greatest need of attention will be based on each PHA's score using the risk factors and related point values outlined in steps 1 and 2.

<u>Risk Factor</u>	<u>Point Value</u>
1. Performance -- The PHA's most recent overall PHMAP assessment score. All PHAs in the Field Office's jurisdiction must be ranked, by PHMAP score, in ascending order.	60

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<u>Risk Factor</u>	<u>Point Value</u>
2. Compliance -- Significant audit (e.g., IA, IG, GAO, etc.) findings. The Field Office will determine if any of the PHAs in its jurisdiction have significant audit findings, including deviations from statutes and/or regulations. The following criteria are intended to be used as general guidance by the Field Office to identify	20

conditions that indicate a significant finding:

- a. The problem involves a program violation, legal violation, or personnel misconduct which is so serious that it should be brought to the attention of the Office of Inspector General and/or top HUD management.
- b. A potential large dollar loss or savings to the Government exists, such as ineligible costs or unsupported costs in a single finding totalling \$300,000 or more; or ineligible costs and/or unsupported costs in an audit report total at least \$100,000 and equal to or exceeding 10% of HUD's funding.
- c. The problem involves a court decision or an Office of Fair Housing and Equal Opportunity finding of a violation of the Fair Housing Act, Title VI, the Americans with Disabilities Act, the Age Discrimination Act, 504 or 3.

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B. Those PHAs with the lowest PHMAP scores and/or significant audit findings will be subject to a second level (step 2) application of risk indicators. The Field Office Public Housing Director will determine what the cut-off point (how many PHAs are on the list) will be. However, at a minimum, this list must include all PHAs with PHMAP scores of less than 60%.

3-5 STEP 2 - RISK ASSESSMENT MODEL.

A. The final determination regarding which PHAs are in need of a Field Office review is further refined by applying the following factors:

Risk Factor	Point Value
1. Federal Financial investment - This includes the amount of operating subsidy, modernization, development and other grant (e.g., drug-elimination, etc.) funds the PHA receives.	10

## 2.Uncertainty about local capacity

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This involves, but is not limited to, the amount of time since last on-site review, physical deterioration, staff turnover, new programs initiated, experience level of PHA staff, accuracy/timeliness of reporting, etc. Negative trends in a PHA's PHMAP score must also be considered in determining the need for HUD involvement.

B.Once the two factors outlined above are applied to each of the PHAs on the list established pursuant to step 1, Field Office staff must develop a final risk ranking of PHAs.

### 3-6 STEP 3 - RISK ASSESSMENT MODEL.

A.After determining which PHAs are in need of attention, Field Office staff must determine where to focus reviews. Individual PHMAP indicator scores should be the primary basis upon which this determination is made along with information obtained via remote monitoring. Generally, reviews should be focused on those program and/or functional areas where the PHA has

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failed (received a grade of F) or has serious deficiencies (received a grade of D or E) on the individual PHMAP indicator/component.

B.Other factors, not directly related to PHMAP (e.g., compliance problems) will also affect the decision on where to focus the Field Office's review.

### 3-7 STEP 4 - RISK ASSESSMENT MODEL.

A.Based on steps 1 through 3 above, the Field Office Public Housing Director will make an annual determination regarding which PHAs will be reviewed during the fiscal year. This determination should be made not later than 30 days prior to the beginning of the Federal Fiscal Year. The results of the risk analysis shall be recorded and used for determining PHAs where on-site reviews should take place and which PHAs will be the focus of intensified remote monitoring.

B.With respect to the Comprehensive Improvement Assistance Program and Comprehensive Grant Program, there are minimum mandatory review requirements. For details, see the Comprehensive Grant Program Handbook, 7485.3 as revised; and the Comprehensive Improvement Assistance Program Handbook 7485.1, as revised.

### 3-8 APPLICATION OF MODEL.

A.The Field Office is expected to exercise judgment when applying

the risk assessment model. Those PHAs that rank highest are the most likely candidates for review. However, a Field Office may have other legitimate reasons to review a PHA that ranks comparatively lower in degree of risk. The Field Office must apply the chosen approach consistently to all PHAs within its jurisdiction. The Field Office must also document in its files the reason(s) a PHA was chosen for review and/or technical assistance, and the rationale for the selection of the specific area(s) to be reviewed. If a PHA ranks high in the risk analysis process, but is not selected for review, while other lower ranked PHAs are selected, the reason(s) for not reviewing the PHA with the higher rank must be documented.

B. Assignment of point values. The Field Office has the discretion to adjust point values for the risk factors - performance, compliance, Federal financial investment and local capacity/uncertainty. However, under no circumstances shall the point value for performance be adjusted below 50 points. In addition, point values must be used consistently for all PHAs in the Field Office's jurisdiction. Where Field Offices adjust point values, Headquarters (Attention: Director, General Management Division) shall be advised.

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C. Periodic adjustments. Changing circumstances during the course of the fiscal year; e.g., post-PHMAP change in performance, significant changes in PHA's key staff/Board, new PHMAP scores, remote monitoring information, pending litigation or other exceptional circumstances may necessitate the Field Office reassessing the ranking of PHAs and its monitoring schedule during the year. The ranking should be reviewed at least semiannually to determine whether it is still appropriate. The reason(s) for all adjustments should be clearly documented.

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