Board Commissioner Training Module 5: Performance Monitoring and Risk Management

Transcript

00:00:00 Margaret McGilvray: Welcome to an Overview of Public Housing Performance Monitoring and Risk Management for Commissioners. This is one of a series of live and recorded trainings for public housing Commissioners. The training modules include four other live virtual trainings: module one, Roles and Responsibilities; module two, PHA Budgeting and Finance, which I believe a number of you who are attending today also attended; module three, which is on the PHA Plan, Capital Fund, and Strategic Planning; and module four, which is on Procurement.

There will also be three recorded training modules, which we hope to make available to you later on in September, either through your Executive Director or perhaps through the field offices. And these include the Low-Income Public Housing Program Overview and ACOP, which is Admissions and Continuous Occupancy Plan; a second one on the Housing Choice Voucher Program and the Administrative Plan; and then a final one on North Carolina and South Carolina State Public Housing Laws Basics. And we encourage you to take any and all of these trainings.

My name is Margaret McGilvray and I'm from Econometrica, an organization that provides technical assistance and training to public housing agencies around the country, and who has been hired by HUD to provide this training to all of you. You will hear some specific references to North Carolina and South Carolina, and that's because those are the field offices which specifically requested this training. However, we're delighted that they've opened it up to the entire region and we're getting folks from Tennessee, Kentucky, Florida, Alabama, and Georgia, I think I saw today, as well.

So, I myself have been working in the field for 25 years. And I'm joined by my colleague, Paul Watkins, who has his own consulting firm, which is called PMW & Associates, that's located in your region in Mobile, Alabama. And he's been working with public housing authorities for over 10 years, particularly some of the more challenged ones across the country. So, welcome to my colleague, Paul, as well.

So, let's go on to our learning objectives for the day. This really is a slide more for your benefit to see what we will be covering and what we hope you'll understand and be able to discuss when you're done with this training. But it's also a good cross-check for us to make sure that we're teaching you what we intend to. And at large, we'd like you to walk away from this session being able to describe the importance of the program, and PHA performance and assessment, and how best you as Board members can keep your eye on that.

Let's look at our agenda for the day. So, today, we'll give you a quick recap of some of the key elements of low-income public housing and the Section 8 programs. For those of you who have attended some of our other sessions, this may be a little bit of a repeat, but we like to make sure that everybody is on the same playing field and coming in with the same sort of foundation as we talk about performance. Then we'll go into ways that you can monitor your PHA and make sure that it's healthy and compliant and operating well. Also, as a companion to monitoring, we'll discuss the ways in which HUD—and then, ultimately, yourselves as Board members—can assess your PHA and keep your eye on its progress. We'll walk through risk management and how that pertains to PHA, and how best to monitor and manage the considerable amount of risk that PHAs are subject to. And then we'll end up with a little discussion about the role of HUD's Office of Inspector General and fraud management.

So, first of all, I'd just like to take this opportunity to thank you all, not only for participating today and in subsequent or previous trainings that you've attended with us, but also, more importantly, for your service that you are providing to the community and to your PHA. We recognize that this is voluntary, that it is a very difficult job, and we want to make sure that we commend you for all the time and effort that you put into that. So, thank you very much.

And then, we'd also like to bring up a poll so that we can get a little bit more of a sense of who's in the room with us. So, we have two questions—let me see, we may have three questions for you. Yes, so you can scroll down to see all three questions, but we have three for you. One is, "Pick the description of your PHA that fits best." Two is, "Do you know whether your PHA is scored by HUD to be a High Performer, a standard performer, or a Troubled performer?" And then, finally, "Have you already taken a module that included our Public Housing Basics section?" So, we'll give you a few moments to take a look at those and answer.

00:06:20 Rose Turner: I see some of you are still answering the question, so I'll give an extra 10 seconds before I end the poll.

Okay.

00:06:45 Margaret McGilvray: Alright. So, it looks like most of you are from PHAs that have public housing and Section 8 that are over 250 units, so that's great. But we do still have some that are from public housing- or Section 8-only. So, that's useful for us to know, that we have a wide range. Great, that some of you—that many of you 83 percent—know your PHA's PHAS score, or maybe PHAS and SEMAP scores. So, that will not be necessarily new information, but we may be able to provide you with a little bit more insight. And then, we do have a number of folks who are returning, but we have about 60 percent of you who have not done one of our other sessions with us. So, we are going to go through that recap section. We're not going to shorten it any, which we would have done had there been more of you who have been with us before.

So, let's move on to that, and we're going to give you just a brief overview of public housing in general, as well as the Section 8 program. And if you can go one more, Rose. Thank you. And we'll go into those, and then just talk a little bit about some of the documents that are most important for Commissioners to have.

So, quickly, public housing has been around since the 1930s, and actually began with the 1937 Housing Act. And it was established to basically provide decent, safe, and sanitary rental housing for low-income families. That is still its purpose today, and although it has changed a lot programmatically from the 1930s, that core mission is still there. There are actually approximately 1.2 million public housing units, administered by over 3,000 public housing authorities. So, you have a lot of good company, with many other Commissioners around the country working with the same questions and learning curve that you all are experiencing.

Over the years, public housing has experienced many challenges, and lessons learned have led to a variety of changes in the legislation, including the establishment of the Quality Housing and Work Responsibility Act, otherwise known as QHWRA, and the Housing and Urban Development Act, and the Section 8 Housing Choice Voucher Program. So, there have been a number of changes. But overall, as I mentioned, its approach is for bringing decent, safe, and sanitary rental housing to low-income housing families, the elderly, and persons with disabilities.

Public housing comes in all different kinds of shapes and sizes, from scattered-site single-family homes to high-rise apartments, and it also has an ownership structure that's a little bit confusing at times. The property is owned by the public housing authority but is funded through money from HUD, and of course tenant rents, and the PHA is established by State law and statute. And HUD does control the PHA's use of that property through the Annual Contributions Contract, which we'll talk about in a little bit. So, that ownership structure has a lot of different hands in the mix in a lot of different ways.

As I mentioned, eligibility for public housing is determined by the family's annual gross income and, of course, whether or not they are elderly or disabled, as well as U.S. citizenship. HUD will deny admission for a variety of reasons, mostly around criminal activity, particularly drug use. HUD does set that low-income status at 80 percent of median income or less, and also concentrates on 50 percent of median income. Housing authorities don't pay taxes, but they do pay something called PILOT, which is Payment In Lieu Of Taxes. And that's an agreement between the city or county, or whatever taxing authority there is, and the housing authority to pay some sort of payment, as it describes, in lieu of taxes.

Rent is referred to as the total tenant payment, and that is based on, generally, around 30 percent of the family's adjusted gross income. There is something called minimum rents, which is set at $25 or higher, and that is set by the housing authority. PHAs also are required to have a Resident Advisory Board and, to the extent possible, to support resident services. They also can get separate funding for the Family Self-Sufficiency Program, the Resident Opportunities and Self-Sufficiency (ROSS) grants, as well as they're required to support something called the Section 3 program, which is in support of resident businesses and resident employment.

So, let's talk a little bit about the Section 8 program. The Section 8 program is also for low-income families, elderly, or disabled, and is designed to provide affordable decent, safe, and sanitary rental housing. However, this is in the private marketplace, and not property that is actually owned by the housing authority. Housing Choice Vouchers are, in fact, administered by the PHA, and again, the PHA receives Federal funding from HUD to administer that voucher program. Families receive a voucher, which they then take out into the private sector and find an apartment that will accept the voucher, and that meets the other standards. And then they use that voucher to pay a portion of the rent. The housing subsidy is paid by the housing authority to the landlord directly, on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

A housing voucher holder is advised of the unit size for which they are eligible, and that is based on the family size and composition. The housing authority also establishes payment standards, which are based on, generally speaking, the amount of rent needed for renting a moderately sized similar unit in the local market. And then that is used by the PHA to calculate the amount of housing assistance a family will receive. The PHA then calculates the maximum amount of housing assistance allowable based on the lesser of the payment standard minus 30 percent of the family's monthly adjusted income.

The PHA receives their HCV budget authority annually, which is the amount of money that HUD calculates they will need in order to fund the number of vouchers that are anticipated, based on what is called budget authority. So, that PHA receives a dollar amount—the budget authority—with an assumed number of vouchers that that will pay for. However, if the PHA ends up having to pay more in rent subsidies, based on the tenant portions of the rent, then they may not be able to fund as many vouchers as anticipated. So, for instance, if you hear, "Our housing authority has $100,000 in budget authority for the Housing Choice Voucher Program, and that should fund 100 vouchers. But, in fact, we have fully utilized our budget authority, but we've only funded 90 vouchers." That's probably because either the rents are set very high, or the payment standards are set very high, and the tenant portions are lower than anticipated. So, that's some of where that language may come in.

So, let's go on to our next slide. And this is just a listing of some key documents that are important for Commissioners to either have or, at a minimum, to be familiar with. You heard me mention earlier the Annual Contributions Contract, that is basically the contract between—it's a cooperative agreement, technically—but it's a legally binding contract between the PHA and HUD. And that is basically the mechanism through which the PHA receives their funding, and it's how HUD defines the agency's obligations and outlines remedies for breaches in the contract. So, it lists some of the obligations, such as how the housing authority needs to submit their budgets, how they need to submit their financial reports, how they should set up their financial records. And, as I mentioned, it also speaks to what HUD may do if there is a noncompliance issue, and that can range from withholding funds, to consolidating housing authorities, all the way to potentially taking over the housing authority. So that's all within your Annual Contributions Contract, and you should most certainly have a copy of that and be very familiar with it, as you would with any contract that you might have for your own personal reasons.

Some of the other documents include ones that you may not have copies of. But your PHA Plan, your Capital Fund Budget and Plan, those are basically the two core planning documents that are a roadmap for what the housing authority wants to accomplish and what it wants, what goals it may have over the next year, as well as 5 years. And you certainly are a part of that process, so therefore you should be pretty familiar with those.

Then, your core programmatic policies are your Admissions and Continuous Occupancy Policy, and that's for the public housing program, and your Administrative Plan for your HCV. Those are huge documents, and I certainly would not expect you to have a copy of them, but be familiar with just generally what's contained in there and the policy decisions behind those two voluminous sorts of roadmaps to both of those programs. And then your operational policies which, at a minimum, should include procurement, personnel, and financial. It may also include some others, such as inventory, or real property, or something like that. But those are your core operating policies that you also have oversight of and vote on. But you should be familiar, at a minimum, with what's contained in there. And then, finally, your bylaws, which really is how your Board operates in general, so your structure, your meeting structure, and what ethics you're being held to. And I would advise that you have a copy of that as well and be very familiar.

So, that's our little bit of overview. And I'll hand it off to Paul to start us on a little discussion of monitoring your PHA.

00:20:05 Paul Watkins: Great, good to be with everybody this afternoon. We do have a question, I was actually just about to say that, so let's read the question. It says, "How old is the RAD program? And what is the PHA's responsibility after a property has converted under the RAD program?"

So, this is a great question. And there's a lot that we could say about this. So, I'll open it up, if Margaret wants to jump in on this. Let me just say that the RAD program is approximately 7 years old. And effectively, the PHA's responsibility after conversion is in many ways the same as it was prior to conversion. It certainly depends on how you converted into RAD. Some agencies elected to keep their properties exactly the same, they did not need any additional capital to be invested. And so, they simply converted them into RAD. Some properties actually needed lots of investment. And so, depending upon that structure, it might have been a low-income tax credit RAD conversion, which certainly impacts who and what and how operations are maintained. But regardless, if the housing authority has an interest in the property, overall—especially at a Commissioner level—you're certainly responsible for monitoring and providing governance and oversight of those properties.

So, it really depends upon the type of conversion you did after you went through RAD, as part of going through RAD. Did you go PBRA, for instance, or was it a PBV conversion? So, there's a lot of questions in there to answer first, and then determine what level of responsibility you have. But ultimately, a lot of the things that we discuss today will be very good god post for you to understand what your responsibility is overall, whether for properties through RAD or strictly public housing.

So, let's go ahead and—go ahead, Margaret.

00:22:30 Margaret McGilvray: I was just going to comment, I believe the RAD program is a about 8 years old, or maybe 10 years old, just to answer that portion of the question. But otherwise that was a great response, Paul.

00:20:05 Paul Watkins: Alright, so let's go ahead: Monitoring Your PHA. So, of course, as the Commissioners, this is the first section of our presentation today, Monitoring Your PHA. And it's so important that you understand some of the mechanisms and tools that you'll need to be aware of, and certainly information that you want to be capturing on a regular basis as a part of providing good monitoring of your agency. So, let's look at some of these.

The very first thing is, of course, knowing your PHA, right? Knowing what the performance and the resident satisfaction and the finances. And that really starts at the top with, what is your agency's mission? And what are the agency's plans? And HUD captures this information through three documents, primarily. It's the Annual Plan, which is a piggyback to the 5-Year Plan. So, the agency does a 5-Year Plan that maps out all the things that the agency wants to accomplish over the next 5 years. And then every year, your PHA submits to HUD an Annual Plan, which is simply an update of what has happened over that past year. So, maybe you decided to do a demolition or disposition, as an example. So, you've put that in your 5-Year Plan; in your Annual Plan, you would state where you are in that process. And so, that is a starting document for all Commissioners to review. What's our 5-Year Plan, and then how are we doing every year over year in accordance to what we said in our initial 5-Year Plan? That third document is a Capital Plan, and that really discusses, what do we do with the capital funds that we have received as an agency? How are we utilizing those funds? What are our plans for those funds?

And so, those are three critical documents that, as a Commissioner, you'll want to start there. And then, once you have a good sense of what those plans are, how you've been progressing within the 5-Year Plan—by reviewing the Annual Plan, you understand where you're spending your capital funds and how you've been doing that—then, on a monthly basis, you can begin to look at the financial performance of the agency, and then the programmatic performance of the agency. And those are generally delivered as part of your Board package, but you want to closely review those. And then, be sure to ask questions to your Executive Director if there's anything in those financial documents, financial updates, program updates that you're not clear on or that you don't understand.

Certainly, a third document which is pretty basic is an audit. Every year, your agency is required to conduct an audit of its finances and programs. And so, reviewing the audit is very important, because now that's a third party that's coming in to assess, really, how you're doing. And so, being able to review that audit and then, again, ask questions. Sometimes, agencies will actually provide a time that the Board of Commissioners can ask questions directly to the auditor, so that can be helpful, as well.

And then, it's important for you to understand how HUD monitors and evaluates your agency's performance. And that is through two documents or through two systems, what we call assessment systems, which is the PHAS and SEMAP, the Public Housing Assessment System and the Section 8 Management Assessment Program. And those are the two monitoring vehicles, if you will, that HUD uses to determine the performance of your agency. And so, being able to review your PHAS scores and your SEMAP scores, so then you can understand, as a Commissioner, what does HUD think of your agency, right?

And then, certainly, direct contact with residents and landlords. Being able to get out and communicate with your residence. Being able to listen, understand what their input is. Sometimes that's done through Resident Advisory Boards at the public housing level; being able to go and attend those meetings and get that feedback is critical. And then, lastly, your own experience. You certainly have particular education or experience in the marketplace. And then, just generally speaking, what you know about business and how business should be conducted—a lot of those are very good inputs. And you've been selected, typically, because of your diverse background as Board members, to be able to contribute and bring from the private sector, or other government sector experience, insight and understanding that might be very good and utilized for your housing authority. So, let's go to the next slide.

So, what should the Board review on a monthly basis? So, I mentioned this is a snapshot. But now, let's get more into it. So, on a monthly basis, these are some of the basics that you should have as a part of your Board package for your ability to review prior to Board meetings or executive sessions, and then be able to discuss that and ask questions, either at the Board meeting or during an executive session, so that you can get a better understanding of where your authority is. And then, certain things that you might have insight on recommending be done to help improve.

So, first off is financial reports, right? Financial reports are very important. They discuss and describe how your agency is doing in regards to rent collection, on the public housing side. And certainly, on the HCV side, are we expending the budget authority that HUD has provided? Are we utilizing the vouchers, right? So, those financial reports all reflect back to how our money is being spent, how our money is being collected.

You can also look at asset management reports. So, specifically, asset management reports cover the public housing side of your agency. These are properties that you manage on a day-to-day basis. So, certain basic questions that we want to review when we're looking at how our public housing is being run is, number one, what is the occupancy rate? You could also ask the vacancy rate, right? But what is the occupancy rate of our public housing? Tenant accounts receivables—that's a fancy way of saying, how are we collecting rents? Are we collecting all the rent that is due to us, or do we have a growing or large accounts receivables that we're not collecting rent on, so it's just accruing from month to month to month? So, these are basic things that we should be examining—and certainly HUD examines—when we begin to look at our public housing.

HCV reports, on the HCV side. Our voucher utilization rate. Margaret used an example earlier, if we have 100 vouchers, voucher utilization is simply how many of those vouchers are actually leased in the marketplace. And, of course, we want to maximize the amount of vouchers, because that's how we help families with housing, by issuing vouchers and having them leased. So, what is our voucher utilization rate?

One of the requirements in the HCV program is that the housing authority perform a Housing Quality Standard inspection on every unit that is leased. And so, really, the question is, how are we doing in regards to our inspections? Are units passing inspections, or are they failing inspections? And what's the pass-fail rate? For every unit that is inspected, is it passing or failing? We do that, not only in the initial lease-up, but we also do that on an annual basis—or, in fact, maybe even a biannual basis. So, every year, or every 2 years—and in some cases, every 3 years—we're reviewing and examining those properties. We're inspecting those properties to make sure that they're still safe, quality properties for our families to live in.

The percentage of late annual recertification of income—we call these re-certs in the industry, annual recertifications. And what is that, and why is that so important? First off, it is a review, on an annual basis, of a family's income to determine whether or not: one, they're still eligible for our program; and two, if they are eligible for our program, are we properly sharing in the amount of rent that each party should pay? Are we overpaying in subsidy, because a family's income has increased significantly? Or are we, in fact, underpaying in subsidy, because a family's income has decreased from a year prior, right? So, that's very important, because if we are not conducting those recertifications on a timely basis, then we might be overpaying what we should for a family to be living and receiving subsidy. Or maybe they're not even eligible to be in our program at all. They really are self-sufficient, and that voucher and those resources could go to another family in need. So, it's important to stay on top of our annual re-certifications, and as a Board member, you'd want to ask that question. What's the percentage of late re-exams we currently have?

And then the last thing is the Housing Assistance Payment utilization. Margaret mentioned, if you have $1 million dollars of budget authority that HUD has provided to support the vouchers that you have, how are you utilizing that voucher or that that budget authority? Is it underutilized? Do you have $100,000, $200,000, $300,000 of money just sitting on the sidelines, not actually being utilized to help families? Or have you spent too much? The demand in your community is great, you've leased up all the vouchers, and guess what? You've run out of money. And you've entered into what HUD calls shortfall, meaning you don't have enough budget authority to provide payment to the landlords for the amount of vouchers that you actually have leased. That's a problem, right? And so, for you to be aware, on a monthly basis—not just once a year, but on a monthly basis—what is our utilization of our budget that HUD has provided?

And then, if we move back over to the public housing side, we're looking again at our Capital Fund Report. Are we spending the money that HUD has provided to improve the capital condition of our property, or the condition of our properties—are we utilizing that in a proper way? Are we contracting and conducting procurements for the things that we need to meet at the housing authority? Are we doing that properly? Are we doing that regularly? How are we administering those contracts, once they've been procured? So, those are going to be found in a contracting and procurement report.

And then, certainly, a human resources update, a compliance report. How are we doing along the lines of compliance? And then an Executive Director dashboard, which is where a lot of this information in succinct fashion can be found. So, these are items that we should be looking for as part of our normal monthly Board reporting, and as Commissioners you should have access to, to get a clear and thorough understanding of where your agency is. So, let's go to the next slide.

We have a knowledge check. Question one: "Which of these are reasons to review data-driven management reports monthly?" So, you can select all that apply. I'll read the question again. "Which of these are reasons to review data-driven management reports on a monthly basis?"

We'll give you another 10 seconds to provide an answer.

Alright, Rose, let's see what we got.

Great. Well, one reason is to identify how the actual PHA expenses and income compared to budget. Excellent, absolutely. Through occupancy and rent receivables, determine whether a property is performing as it should be—absolutely. Find out what the annual auditor thought of your PHA financials—certainly. And to verify whether you are utilizing all of your HCV vouchers. So, obviously, all the answers apply here. And so, that's a very good reason to be reviewing on a monthly basis. No wrong answer there. Let's go to the next slide.

Ok, so here is a way, as a Commissioner, for you to rate what we call AMPs. AMPs are Asset Management Projects, which are in the public housing domain, ok? And it's a way for you to get a quick assessment of how your authority is doing, just at a glance, with green, yellow, and red. And each AMP is scored individually. And in this example, we're looking at financial indicators, but you could certainly do this with asset management indicators, as well. And so, the financial indicators, it's really to establish, "Hey, where are we, 'Thumbs up, we're good?' And where are we, 'We might need to improve or pay attention?' And where we really struggling?"

So, Quick Ratio, cash balance. Our cash balance trend, what are we looking like over a period of time? Bank overdrafts. Percent of arrears. And the idea is that if we're in red, we're in trouble. But if we're in green, then we're in good shape. So, this is a simple way for you to utilize color-coding and the rating of your authority. What you need to make sure of is that you have a good understanding of, for instance, what's a good Quick Ratio, right, versus a bad Quick Ratio? What's a good Debt Service Coverage Ratio, versus a bad one? So that you understand, at what point do we cross over from poor, to average, to really good? Ok, so let's go to the next slide.

So, Maintaining Financial Viability: This is a great slide, and obviously very important, especially as Commissioners, to understand what it takes to maintain financial viability. And it's really verifying that your PHA has strong financial internal controls. Really, it starts there. The success, financially, of your authority in terms of how we manage our finances is really in the internal controls. Remember this: that the finance department and the finances really tell a lagging story. In other words, if I'm performing, if I'm not collecting rents one month, I'm really not going to see that until the end of the month. So, by the time I get a financial report, it's really reflecting what's already happened in the previous month, ok? So, keep that in mind, because it really is a lagging indicator, if you will.

But it's a very good indicator. And what you want to make sure of is that in your agency, there are strong financial internal controls. What does that mean? We review and understand the financial management policies, right? Monitor obligations and drawdown of grant funds in HUD's LOCCS system, is what we call it, and establish access authority for the system. We don't want everybody being able to access the monies that HUD has made available to the agency. We don't want the folks who are accessing the money to also be writing checks, as an example, right? And we don't want the people who are writing the checks to be signing the checks. Those are not good financial internal controls. And so, you want to make sure that you have financial internal controls, that you understand what they are, that they protect the agency and protect individuals who have responsibility over those funds.

So, we have ensuring that the internal controls are up to date. Oftentimes, we'll find internal controls that are dated, very old, and not really in line with what's going on in today's marketplace, if you will. Addressing transfers of funds between accounts and programs—very, very important. The public housing money is for public housing. It's not for the Housing Choice Voucher Program. It's for the care and the maintenance and the operations of the properties. It's not even for the central control, or what we call the COCC, executive management offices. It's specifically for public housing and should only be spent on public housing. And the same thing for the Housing Choice Voucher monies.

And there are ways, through administrative funds and so forth, for everyone, of course, who is in the central office environment, if you will, to get funds. And HUD has clear ways of doing that. But making sure that those are being adhered to. And then monitoring appropriate credit card use. These are simple things just that we would say, anecdotally, that you want to have as part of a sound, and you want to see as part of sound and strong financial internal controls. Let's go to the next slide.

So, Strategies for Improving Financial Performance. You know, from basic business, and even your own household budget, right? Increase revenue, decrease expenses. It all starts there. And, of course, how do we do that? So, evaluating lease enforcement and rent collections policies. Looking at how we're saying we're going to handle that, and then are we implementing those policies? Raising the minimum rents within HUD guidelines. Consider property repositioning or the sale of non-public housing property, right? How do we, again, all increase revenue here? Assess whether portability revenue is fully collected. If someone is porting into our agency, a resident or participant is coming into our agency from another jurisdiction, are we collecting the administrative fee that we should in a timely and regular basis? Obtaining additional grants or supplemental funding, right?

And then on the expense side of the house, decreasing expenses. Looking at ways to improve energy conservation, right, so that our energy bills aren't as high. Evaluating existing contracts for costs and value. If you've had a long-standing relationship with a vendor, well, maybe that vendor has incrementally increased their costs, and they're really not in competitive place with the rest of the market. So, going back out every few years to determine whether or not, hey, we're getting the best bang for our buck. Evaluating and repricing insurance costs, right? Certain basic things that we do on our own financial budgets, right? See where we can save money. Contract proper property management or maintenance to an outside entity or other PHA. That's an option, right? Evaluate staffing levels and organizational structure.

So, these are all things that we want to find out. Are we effective and efficient within our operations? And anything that we can do to become more effective and more efficient—and obviously, defining what that means, to be more effective and more efficient—then we want to see if we can do that in order to increase revenue and decrease expenses.

So, I think here, I'll turn it back over to Margaret. And I think we have a couple of questions, as well, so we might want to field those.

00:45:55 Margaret McGilvray: Yes, I think I see one. "Can a Board member be the contracting officer?" They cannot. The contracting officer needs to—there needs to be a very good, strong separation from the procurement process, versus the approvals of an award. And so, you definitely don't want Board members as contracting officers. That should generally be the Executive Director; if not, a delegated staff person.

Alright, so Paul talked a little bit about the financial monitoring and oversight of your housing authority. So, let's look at a little bit of a case study to help cement some of those methods. So, we're using a fictional place called Denton County. And this is a beautiful community. It's vibrant and has a growing tech industry. However, it has had decades of declining manufacturing and agriculture, and that has left some families underemployed.

The authority is a well-run authority and makes the most of its organization and its limited resources. They have a very large Housing Choice Voucher Program, and some mixed-income properties. The CEO, Constance Medina, has been a very strong director and has led the agency for some time and has a very good relationship with the Board. And historically, the housing authority has been a high performer. However, recently, their scores have been slipping, and the authority is teetering dangerously on that troubled designation. Their budget has also been in the red for a number of months, and something has to happen soon to turn things around.

So, let's go to our first poll. And see, given the information that I've just provided, what strategy can the Denton Housing Authority employ to increase its revenues? So, take a look at those three options and pick which one you think would be the most effective.

Okay, Rose, if you want to share our choices.

So, those of you who selected "A," which is all of you—so that's pretty awesome, Paul must have done a great job—that is correct. Evaluating your rent collection process and making sure that you're obtaining the maximum number of rent payments is your best bet for trying to address that.

Alright, let's go on to asset management. So, one of the other areas of monitoring is your asset management. And for the individual that asked about the RAD program, asset management would apply, conceptually, to your RAD properties, your tax credit properties, as well as your public housing properties. Some of the indicators and the metrics may be different for your public housing properties, but overall, a lot of the principles behind asset management are the same. And this is one of the critical areas, particularly—I mean, if you have a very small public housing program and a large Housing Choice Voucher Program, this may be less of an issue. But for many housing authorities, it's your public housing portfolio that really makes a difference in terms of how you're perceived in the community, as well as how you're scored with HUD.

So, it's important that you look at your portfolio, each property's performance, on a property-by property-basis as well as a portfolio at large. And you can look at just a few indicators or more of them, as you see here in our sample report. And I might mention that we will provide these slides to you in the next week or so, so the fact that you can't necessarily see this as well as you'd like on the screen, you will be able to get a copy of it and look at it a little bit more closely. But at a minimum, you want to be looking at your occupancy, your tenant accounts receivables, your unit turnover times, and your work order completion rates, at a minimum. Those are some of the critical indicators that will help you assess whether the staff of the authority, or whether the status of those properties are in good shape or bad shape, and whether the agency at large is managing them well.

You can include some other indicators, such as move-ins and move-out. That's how quickly folks are getting into those properties, and then how quickly, when they move out, you're getting somebody else in. The number of applicants pulled, how quickly you're pulling people off the waitlist. The number of recertifications due versus the number that have been completed, hopefully those numbers are pretty close to each other. The amount of property damage. Are you seeing a lot of damage, and what are some of the tools that you could use to address that? The number of evictions. A breakdown of the work orders of those that are emergency versus those that are preventative maintenance and such. Perhaps the number of crime calls or complaints.

These are all options that you could look at, but at a minimum, you want to look at just a couple of those core ones. And ideally, you want to look at them on a monthly basis so that you can see if there are trends over time. See whether one property is performing much better than another one, and why. And look at them to make sure that the authority is performing well.

So, let's look at the next slide, at some strategies for improving your asset management. While asset management has been in place for public housing authorities for some time, agencies and Boards can continue to improve their model to meet the mission and the values of the community.

There's always room for improvement. Some of the areas that you can look at is looking at whether you have particular properties that are challenged, and if so, why? Is that because you need to expend some more capital resources to bring their systems up to snuff or modernize them more? There should be in place, for the staff, a process by which they are keeping their eye on that, that they're checking the quality standards of the maintenance in each building and keeping an eye on that infrastructure.

Actually, we won't go into it here at length, because we handle it in our module three, but there's something called a Physical Needs Assessment that HUD recommends that you do every 5 years, which is getting an outside engineering type of firm to come in and assess the status of that property from a capital perspective. It looks at the systems, looks at the outside, looks at each unit. Also, having data-driven information so that you can look at, are we actually improving our capital expenses? Are we maximizing our use of those capital funds? And also looking at whether we are managing those properties, in terms of occupancy and such.

So, let's do a quick knowledge check on asset management. Can you bring up our poll? So, "What steps should the Board take to address asset management challenges at a particular property or Asset Management Project, or AMP?" And we'll give you a few minutes to look at this.

Alright, Rose, if you want to bring up our answers for us?

00:56:00 Rose Turner: It looks like some folks are still answering.

00:56:05 Margaret McGilvray: There's a lot of words to read there, so we'll give you a couple more minutes.

00:56:20 Rose Turner: Alright, I'll go ahead and end the poll now.

00:56:30 Margaret McGilvray: So, those of you who said, "All of the above," that was the answer that we were looking for. However, those of you who answered, "Perform building and infrastructure improvements," or "Establish a core project team," those are also part of that "all of the above," so you get partial credit for that. But overall, you want to be looking at those properties, and asking questions, and requesting that the staff come up with some kind of approach or action plan for addressing those needs.

Alright, with that, I will turn it back to Paul to kick us off in terms of assessing your PHA, and how HUD does that, and your relationship to those HUD assessment projects.

00:57:35 Paul Watkins: Alright, great. So, let's look at assessing your PHA, right? You understand how monitoring has happened, some of the things that you should be looking at as part of monitoring the performance on a regular basis. Now, let's look at some of the things that HUD looks at to determine the performance of your agency. And this is very important, and will be helpful for you to understand so that when you get a score, you know the components that go into making up that score. And then, as a Commissioner, you can oversee or look at, and talk about with your ED, these areas that can be improved. So, let's look at it.

HUD establishes this mechanism, it's called your Public Housing Assessment System. And it's required for all agencies with low-rent public housing programs. Effectively, this system is to measure the performance of each AMP. So, each property, grouping, or specific development—it depends on how your agency has defined an AMP—that's what's going to be evaluated. And so, let's look at how that evaluation is done.

Ok, so first off, the entire score is weighted by AMP account. And then it's rolled up to create an agency-wide score. So, it's set at individual property or AMP level, and then it's rolled up to create an agency-wide score. The score is based on 100 points on four indicators. These are Physical, Financial Management, Operations, and the Capital Fund Program. If you're below 60 percent as an agency, then you're considered Troubled. If you are 70 percent, less than 70 percent, or—I'm sorry. If you're below 60, then you're Troubled. If you're less than 70, then you're considered Substandard. And then if you're above 90, you're considered a High Performer. And we'll get into what each one of these make up in just a second. Let's go to the next slide.

So, if we're looking at our total score, here's a sample PHAS score. And this is measured over 3 years: the blue is 2014, the red is 2015, and the green is 2016. And so, at the top, you can see how each of these scores have rolled up to create the agency score. So, in 2014, the agency was 82; 2015, 85; and then it dropped down to 68 in 2016. And then the individual indicator scores are below. So, we have a FASS score, or a financial assessment score. You can see how that's trended over the last 3 years for this agency. And then you have a Management Assessment System score, and you can see how that's trended. And the same thing with the Physical, and then the Capital Funds score. Remember, a score of less than 70 is considered Substandard, and a total score of less than 60 is considered Troubled.

Let me just quickly—I think we'll talk about one of our indicators here in a second, so let's move forward.

Ok, so our financial indicator. So, understanding and improving our financial performance, we've talked about this a lot. Remember the green, yellow, red, as a color-coding way of identifying how we're doing in our Financial Assessment Subsystem score. So, now we're going to get into what makes up that score, right? So, let's look at it. The financial assessment score, it measures the financial condition of each AMP or property. It's determined by data reported to HUD in your FDS, or your Financial Data Schedule. Now, this is reported to HUD on an annual basis, ok? And then HUD can produce the score based on what you have reported.

So, what are strategies to improve it? First, we have the Quick Ratio, right? It's a measure of liquidity, and the current assets that we have in our programs and our authority. The second one is Months Expendable Net Asset Ratio. It's a big word. Really, we're talking, how much reserves do we have? If we were to stop receiving revenue today, how many months of expenses could we carry just based on our reserves? In our personal lives, we might call it an emergency fund. How many months of our expenses do we have set aside in reserves?

Then we have a Debt Service Coverage Ratio. And again, that's a fancy way of saying, how much of our money is actually going towards debt? So, that's a ratio. Is 100 percent of our money going towards debt? Well, hopefully not, obviously, right? So, what's the capacity to cover our debt? And then the ability to meet regular debt obligations.

Okay, so some strategies are to—certainly the first one is pretty obvious, right? Maintain accurate financials, right? If you're putting bad information in, you're going to get bad results, period. Submit your financials on time. If stuff is late, then you're not capturing what's going on in the most prior month. And if you're not doing that, then really, how can you determine where you are financially month over month? You can't. So, you have to submit your financials on time.

And then we want to increase our Quick Ratio. We want greater liquidity, more assets, right? We want to increase our Months Expendable Net Asset Ratio, our MENAR. We want more reserves—appropriately so, we don't want too much reserves. We want enough reserves to cover our expenses. And then, of course, our Debt Service Coverage Ratio. We always want more coverage ratio. We want more coverage of debt, so we want to increase our debt coverage ratio, right? We don't want to be tight on that, we want to have plenty of room. As an example, I always say that if an interest rate went up by 1 percentage point, how would that impact your ability to pay? So, we want to make sure we have enough room in there to cover any interest rate fluctuations, as an example. So, let's look at our next slide.

Audits. Alright, we talked about audits before, right? So, regulations for financial reporting. These are pretty straightforward. And HUD basically has two regulations that govern the financial reporting. Certainly, it's the PHAS, right? But then it's also the Uniform Financial Reporting Standards. These regulations require your agency to file, first an audited financial information—an unaudited report, right? You file it electronically. And that's through the FDS, so when you hear that terminology, "We filed out FTS," that's what they're talking about. So that's the unaudited.

And then if your agency expends $500,000 or more of Federal award, or your agency elects to have an annual audit, then the UFRS, the Uniform Financial Reporting System or Standards, and PHAS regulations also require your agency to file an annual audit. So, this is unaudited financials and audited financials, right? So, our unaudited financials, as it says, is submitted via the FDS. It's due 60 days after the fiscal year-end. Remember that, it's whatever your agency's fiscal year-end is, you have 60 days to submit it after the end of the fiscal year. And it's generally prepared by someone in your finance department or, separately, a fee accountant you may hire or have a contract with.

So, that's your unaudited financials. Your audited financials—again, for PHAs with more than $500,000—they are required, again, to be submitted through the Financial Data System. But they're due 9 months after the end of the fiscal year. So, once your fiscal year ends, go ahead and start the clock. You've got 60 days, or 2 months, and 9 months to get your financial documents in order. And then it's generally prepared, or it's always prepared by an independent or outside accountant. So, let's go on to the next slide.

Alright, so Independent Public Accountant, or IPA, reports. IPAs can provide information regarding the financial condition of the agency, the reliability of financial records or documents. So, it's important to note that obviously your IPA report is not just reviewing, what were the results of your financial performance? But it's also looking at internal controls. How is your department structured? It's identifying procurement issues. Was everything by the book, or were there some things that really cause questions, right? Possible fraud, or conflict of interest. It's reviewing all of these elements within, not only the what, but how you're running your agency. Were there any improper use of funds? Improper calculation or payment of rent subsidies? Goes back to something we talked about earlier, right, with late recertifications of income? So, improper calculations. Did you even calculate the subsidy properly? And then, did you pay the rent subsidies appropriately?

So, these are reports that will have all that kind of information. It's always a good idea, if you're a new Board member, to go ahead and ask for the audit report so that you can take a look and see, "Hey, I'm new. Let me familiarize myself, not only with the—as we talked about before, right—the Annual Plan, the 5-Year Plan, but let me look at the audit to see how we're doing." Review the IPA management letters footnotes. So, that's very important. Sometimes it's not just in the numbers, but it's also in the explanations. Things happen in an agency, they just do. But it's important that you have context to understand those financial numbers, and reading the management letters in the footnotes really goes to aid in your ability to understand context for what's happened.

It's also a good practice to rotate your independent auditor at least every 5 years to get a different view, certainly avoid favoritism. And then the other thing that happens, sometimes, is people get used to working with the same people over and over and over again. And so, sometimes they're a little more lax, because they just know, "They're a good person, they mean well. Oh, they messed up a little bit. We'll let it slide." No, it's a good idea to have that reviewed every 5 years or so, to ensure that things are being done properly. Alright? And then lastly, certainly probably goes without saying: Use an auditor that is not your fee accountant. Must be a different auditor than your fee accountant. Very, very important. We don't want, again, conflict of interest coming into play. Let's go to the next slide.

So, Understand and Improve the Physical Performance. We've talked about financial a bit, let's look at the physical performance of your agency. And that's done through what we call the PASS, the Physical Assessment Subsystem. It measures and scores the physical condition of each AMP. And this is performed, this evaluation is performed by the HUD-sponsored, what we call REAC, the Real Estate Assessment Center. They send an inspector out, in some cases every 3 years, in other cases annually. And it's to review the condition of your property. And they're utilizing what we call UPCS, the Uniform Physical Conditions Standard. Those are the standards they're using to evaluate the condition of your property.

And so, it's important that you just have a good general sense and knowledge of, what is that? They inspect all of these units on an annual basis. They examine the Capital Fund use and prioritization. So, what begins to happen here is there's a comparison. Well, if last year's UPCS report, we failed in a particular area, then maybe we should be investing our capital funds and prioritizing the use of our capital funds in those areas. And then, by all means, checking up and talking with our maintenance staff, or whoever leads that department, to ensure that some of the areas that failed aren't just simply poor maintenance practices, poor routine and preventive maintenance practices that we should have just been on top of, and it really didn't require any Capital Fund expenditure. So, evaluating and being able to read those reports to understand what's really a capital intensive fix, where we need to deploy capital funds, versus the everyday management and maintenance of our properties, right?

So, maintaining accurate what we call PIC, Public and Indian Housing Information Center, PIC building and unit inventory. If a unit goes offline, well then that should be reported in PIC so that it's excluded from UPCS. And then, certainly, complete all emergency repairs within 24 hours. So, these are things that should be done on a regular basis. It's also a best practice. It's generally not too much of a surprise when REAC is coming. You generally get some heads up—60, 90 days in advance, in most cases. Well, guess what you should be doing when you know your REAC period is coming up? You should be going through every property, all around the buildings, making sure that those things that can be corrected immediately get corrected immediately, so that when REAC comes out, they can score your condition of your property the best that it can be. Let's go to the next slide.

Understand and Improve Management Performance. And so, all of these scores that we're talking about show up as part of our PHAS scoring. And then our management component, we're assessing each AMP and PHA's actual operations. We're not just looking at the buildings now, we're done with the buildings. Now we're looking at how your staff, how personnel is meeting the requirements of what's considered good management practices. And it's really by the numbers, right? What's our occupancy look like? If our occupancy is low, why is it low? And what are we doing about it, right? How are we collecting rents? Again, do we have a large tenant accounts receivables line item, or is it pretty small? Are we collecting rent and doing what's called lease enforcement? And then, of course, are we paying our bills on time? And then, obviously, are we reporting this data to HUD in our FDS? Are we doing that on a regular basis?

Strategies to improve MASS: Well, they go without saying, right? Increase unit occupancy. Well, that may be being affected by our unit conditions are not so good. So, we need to go back to our PASS score, our physical assessment. Why aren't we able to lease these properties? Well, because these properties aren't so great. We need to improve, spend capital funds on improving the condition of our property so that they become more marketable. We need to utilize the best practices when it comes to rent collection. And as part of our rent collection, certainly goes hand-in-hand with that: lease enforcement. Are we sending notification when someone is late on their rent? Are we doing that in a timely fashion? Not 15 days after the beginning of the month, but on day 6. Are we sending off those letters that say, "You missed your rental payment."

Reducing accounts payables and practice timely payment procedures—goes without saying. Review and understand maintenance reports, right? Knowing the amount and status of your CFP, your Capital Fund Program grants. And then, closely review construction contracts. These are all things that can be done at a management level. And as a Commissioner, you just want to be aware of some of the strategies, so that if you begin to see fall-off in any one of these indicators, you can be constructive in asking the questions of, what are we doing to resolve these issues? Let's go to our next slide.

Ah, knowledge check. So, let's look at this question. "Which of the following things can a PHA do to help increase its PASS or REAC score?" Physical Assessment Subsystem Score is our REAC score. There are there are multiple choices here, so you can choose all that apply. But they don't apply, so be selective.

We'll give you another 10 seconds on this.

Alright, Rose let's see what we got. Let's see how everyone did.

Alright, so let's kind of go through them. "Make sure the AMP budget and actuals balance. Inspect 100 percent of the units using the Uniform Physical Condition Standard prior to the REAC inspectors arrival." Remember I said that? I'm glad nobody said, "Decrease rent collection." Thank you. Good job.

Remember, we're focused here on our physical condition of our property, right? So, "Perform routine and preventive maintenance on the properties throughout the year." Absolutely, that helps the physical condition of our properties. "Utilize your Capital Fund to address more major REAC findings and issues uncovered in your own UPCS inspection." Absolutely. So, I wouldn't probably say the first one, "Make sure the AMP budget and actuals balance." That certainly is important, but specifically not being measured as part of our REAC score. Remember, we're just looking at the physical condition of the property. Our AMP budgets, and how that compares to our actuals—that's good to look at as part of our financial respect, right? But even in that, that's not something that's being measured in our PHAS, in our Public Housing Assessment Score. That's just good for you to know and to be aware of, so you can monitor where money is going and how you're doing financially.

So, "B," "D," and "E" would be the correct answers.

Alright, Margaret, I'm going to turn it back over to you. I think we have a question, as well, so let me read this question. It says, "Since there are so many acronyms being used by PHAs, please spell out the acronyms during training modules," alright, that's good, "so that the new commissioners can understand and keep up with what you're speaking about. What does AMP stand for?"

Asset Management Projects is what AMP stands for. And that is effectively a property or grouping of properties that your agency has decided to bundle together. When HUD came out with AMPs, the idea is to let authorities decide how they wanted to group properties. A lot of authorities just said, you know, each property will stand on its own. And some authorities said, "Well, we'll combine a couple of properties. Maybe we have a 10-unit, and we've got a 20-unit across the street, and we just want to make all that one." Right? Maybe it was based on geography. There could have been other reasons. But the idea is that the AMP is the Asset Management Project, it's determined by your agency's selection of properties or groups of properties to put together. Hopefully that helps you.

01:21:50 Margaret McGilvray: Ok. So, quickly, as Paul mentioned, the PHAS scoring also includes a point system for the Capital Fund. And we haven't talked, in this module, about the Capital Fund, so I will do so very briefly. And this is covered much more in depth during our module number three, for PHA Plan, Capital Fund, and Strategic Planning, as well as the recorded module on public housing.

But basically, when public housing began in 1937, you could do development, but there were no subsidies, and you just paid rent and it was one program. However, back in 1968, they realized that these properties weren't going to last forever and stand on their own. So, they established the Comprehensive Improvement Assistance Program, which ultimately derived, in 1998, into the Capital Fund and the Operating Fund. So, housing authorities receive their monies in two pots, basically: the Operating Fund, which is for all the operational activities, and then the Capital Fund, which is for more substantial rehab and updating of the properties.

So, the Capital Fund can be used for development. That could be new construction, but at this point in time, it really isn't at a large enough amount to be able to do that. But it does certainly cover things like some rehab to properties. It can certainly cover modernization, which may be bringing in new flooring, or new cabinets, and such. It can be used for financing, so if you are borrowing money or you're incurring debt through various programs, the Capital Fund can be used for part of that debt service payment. It can be used for safety and security measures, such as cameras and things like that. It cannot be used for security personnel, like security officers, but it can be done for lighting for other mechanisms that can help improve security.

It can be used for homeownership activities. It can be used for energy and water use conservation, so putting in Energy Star water heaters, or refrigerators, or those sorts of things. And then it can be used for management improvements; however, that needs to be closely tied to a management issue. So if, for instance, during the PHAS review, it's been determined that part of the problem with your rent collection is that your financial software is way behind, and you're having to calculate that rent or keep track of that rent collection manually, then certainly that would be a management improvement that would be appropriate. And the cost of that new financial software might be coverable by your Capital Fund.

Generally speaking, no more than 20 percent of your capital funds can be used for operating expenses. So, some of it can be used for operating activity, but only up to 20 percent. And no more than 10 percent can be used for program administration—so, salaries for, say, your Capital Fund Coordinator or your Modernization Coordinator. And no more than 10 percent for those management improvements that I just referenced. So, on to the next slide.

So, ways in which you can improve your Capital Fund performance is to make sure that—the Capital Fund does require that 90 percent of your Capital Fund be obligated, which means either through contracts or purchase orders, or something to that effect, within 2 years of when your funds were awarded. And then all of it must be expended within 4 years of when those funds were awarded. So, keeping track of those obligation and expenditure deadlines is very critical to Capital Fund performance, because if you don't and that deadline slips, then HUD will actually hold back money, and you'll lose money over time. And ultimately, you could lose your whole grant if things are really in bad shape.

So, strategies for improving that is making sure that you're doing your annual planning for your Capital Fund, and that you're tracking how you're doing against that planning. And it could be monthly reports, it could be quarterly. Also, making sure that the procurements that you may need to do for modernization for those new cabinets, or whatever, are done in a very timely basis, so that you're keeping up with that.

Let's do a quick knowledge check on this. So, the Capital Fund—oh, can you bring this up as a poll? I'm sorry.

So, "The Capital Fund must be 50-percent obligated within 24 months of the grant receipt in order to meet the requirements for the 10-point Capital Fund score in your PHAS." Is that true or false?

So, we said, "The Capital Fund must be 50-percent obligated within 2 years of the grant receipt." True or false?

If you want to give us a show, Rose? In the interest of time, we're going to move through these pretty quickly.

That is false. It is actually 90 percent of your Capital Fund that must be obligated within those first 2 years.

So, let's go on to our Housing Choice Voucher assessment. So, like the public housing, the Section 8 Program is also assessed by HUD through a similar system, called SEMAP. And that stands for Section 8 Management Assessment Program. And basically, part of it is validated by HUD, and part of it is a self-certification by the housing authority. And the housing authority must submit that self-certification within 60 days of the end of the fiscal year. And then, the field office has an opportunity, within 120 days, to certify that score and agree with it, or question it. And again, the same as with PHAS, the scores below 60 are designated as Troubled, and those above 90 are considered High Performers. Let's go on to our next slide.

So, there are 14 indicators which make up the SEMAP score. And we won't go into all of them here. I will point out that the first seven are self-certified by the housing authority. And those include a score around whether you have a policy for your waitlist, for rent reasonableness, for adjusting income, for your Housing Quality Standards, and that you are also following those policies. I will point out that the Housing Quality Standards actually show up four times on SEMAP, so that is a very critical area that the housing authority needs to get in place and in check. Because if it's out of sync, then that represents a large number of the points that you would have for your SEMAP score.

And then the other seven are validated through HUD's various systems. Here, it shows MTCS; actually, that has now become IMS/PIC. But basically, as you as Board members need to know, that's data. And the way those indicators are tracked is through HUD systems, and not through the housing authority's systems. Let's go on to our next slide.

So, just as we talked about how you monitor the public housing program, and then how that is juxtaposed with the way that HUD assesses that program, likewise is with the Housing Choice Voucher Program. So, here we've provided just a screenshot of a sample monthly report that we would recommend that the Board receive. And it can be as extensive as the one we've shown here, or it can be as simple as just keeping track of your voucher utilization, your Housing Assistance Payment utilization, and maybe the status of your recertification and inspections. But in general, regardless of what detail, we recommend that you monitor that on a monthly basis, and see your trends. And ask questions if you see things going up that should be going down, or things going down that should be going up, because that way your SEMAP score won't be a surprise. Because many of the indicators here are similar to or equivalent to those of the SEMAP process.

So, let's go on to a little bit of a scenario to help exemplify some of this. So, we're going back to Denton, again. And Constance Medina, who's our CEO of the housing authority, has informed the Board that the PHA has dropped from a High Performer to a standard performer for its Housing Choice Voucher Program. Its SEMAP score is 83, which is below the High Performer 90-point threshold. It's certainly not Troubled yet, but it's heading in a direction that is not advisable. And this year, the housing authority could not verify that it had completed Housing Quality Standard inspections for the Housing Choice Voucher units. And it could also not verify that the PHA had correctly adjusted annual income or the utility allowances for families, admissions, and annual occupancy re-exams. But the most detrimental to its score: It could not demonstrate that it had entered into HAP contracts for a number of the units that it has under its ACC.

So, let's see what that really means to us. Let's pull up our poll. So, why has the Denton Housing Authority's inability to lease up all of their vouchers been the most detrimental to its overall SEMAP score? So, take a look at our responses here.

Ok, Rose, let's look at our answers.

01:35:05 Rose Turner: A few more answers are coming in, and I will end it in 5 seconds.

01:35:15 Margaret McGilvray: Ok.

01:35:20 Rose Turner: Ok.

01:35:25 Margaret McGilvray: Ok. For those of you who indicated "A," that the lease-up indicator is 15 points and therefore is, you know, a high point-getter in our list of points there, that is correct. Missing this indicator alone will drop the PHA from a High Performer to a standard performer. "B," although lease-up is an important indicator, it is not the most important indicator, because actually the reasonable rent, or rent reasonableness, and the determination of adjusted income are 20 points. And so, they are even more important from that perspective. And, obviously, HUD cares about many of the indicators, not just leasing up. So, it is a very important one, but we're not saying that it is the most important.

Let's go on to our last summary slide, Rose. So, where does the Board's responsibility really lie with performance measurement in general? There are significant consequences of having a poor-performing PHA. HUD requires corrective actions, may limit your funding for other awards, may actually reduce your own funding. And a troubled PHA is much less able to support the families in the community who need your agency's services and support. So, it really is your responsibility to keep your PHA out of harm's way.

And as a Commissioner, your way of ensuring that is to focus on weak PHAS and SEMAP performance. And to also monitor your agency's performance on a monthly basis throughout, so maybe it doesn't even get to the point that you have a weak score. And to match performance against goals on a very regular basis. And to question, if you do see slippage in performance or slippage in goals that are set, why that is; establish an action plan; and hold the agency to that action plan.

So, with that, I will turn it over to Paul. And in the interest of time, we'll sort of fly fairly quickly through the next few sections of the training. I will take a quick look, did we have any questions that had come in while I was talking?

01:38:30 Paul Watkins: No, I don't see any there.

01:38:30 Margaret McGilvray: Alright, super, then take it away for risk management.

01:38:35 Paul Watkins: Alright, thank you everybody. So, Risk Management—so, obviously assessment, and then management of risks. So, let's look at some of that.

Board members and PHA leadership are responsible for risk management, even more so at some smaller PHAs. So, here's some ways to manage risk. Number one, continually review areas that are prone to risk, right? So, you can obviously say finances, right? That's an area that's prone to risk. Make sure that policies are compliant and up to date, and that they're being followed. Inspect tips on fraud and noncompliance. And make sure rules are, in fact, being followed. Now, these are somewhat management-related responsibilities, but it's important as Board members for you to be involved at a higher level in discussing, with your Executive Director, how those risks are being managed. So, let's look at the next slide.

What Does Risk Look Like at a PHA? Here's a list of items that you can go right to, to see how risks can be apparent. Excessive spending: Executive Director salaries above HUD limits, excessive trips. And I certainly won't go through all of these. Mismanagement of funds: Public housing or HCV residents that are ineligible for programs, Capital Funds paying for an ED's vehicle, public housing funds that have been used to pay for political fundraisers or events. Nepotism: Hiring a relative of a staff member or contractor or Board member, somebody who's a relative to a Board member or contractor. These are all ways that risks can appear within the context of your PHA, and things that you should be aware of, and certainly management should have policies in place to control. Lack of internal controls, right? That's a big one. So, let's go to the next slide. I think those are pretty obvious.

Set a Control Environment and Risk Assessment. So, let's look at what that consists of. Lead, number one, with integrity and strong ethical values. Commit to competence. The more you know, and the more you require your people to know, then the better equipped you are with being able to reduce or mitigate risks. If you don't know, then what can you do? But if you do know, then you can do something about it, and now it just becomes an integrity issue, really. Require thorough background checks for positions, such as CFOs and EDs. Management can demonstrate its commitment to competence by supporting staff education, creating a strong skills training program, monthly or quarterly.

Begin with strong agency goals and objectives. Identify operation areas that are prone to risk. Ensure you have a strong ethics code, strong controls, and a strong fraud policy. In many of these, it should really be a zero tolerance threshold when it comes to fraud. So, these are just some things that can be done to help in this way. Conduct fraud and ethical trainings for staff. Educate tenants on the consequences of fraud, using posters, emails, letters, staff meetings, or other ways to demonstrate—and I think that's what's so critical, from a Board member standpoint, to ask the question: How are we demonstrating? What are we doing to show that we are aware of risks, and we are doing everything possible to mitigate risk?

Making sure that there is an open door policy, that there's no retaliation or retaliatory actions taken against those who express, "I think something is going on." I'm encouraging employees to speak up and to say something when they feel like, or think, that there may be something unethical going on. So, all of these are certainly ways to encourage, through policy and practice, the demonstration of setting an environment where there's a strong risk management environment in place. The last thing I'll say about this: Identifying those, as this graph here says, those that are critical, priority, marginal, and low-risk areas within your agency. Let's go to the next slide.

So, again, here are some Risk Types. Mission risk: Meeting annual goals, intake/occupancy errors, poor site management, improper asset management. Financial risk: Inaccurate budgeting, inadequate revenue, financial audit findings, right? It's important. Management risk: Poor staffing and training. Remember, leadership—everything rises and falls on leadership. You all are part of that leadership. And then, the actual execution of the work is being done by staff. So, making sure they're well trained and equipped to do the best job, and then that they have oversight to hold them accountable is critical. But these are all representative of risk management, or management of risk.

External, what's outside of us: Funding loss due to changes by HUD, right? HCV landlords, they're external risk; if they fall off your program, then you might have a real problem. Reputational risks, that's always one that's external, but you want to try to control that narrative as best as you can. And then, I think Physical risk speaks for itself. Let's go to the next slide.

Information and Communication: Really, this goes back to, what are we doing to demonstrate our effort to manage risk appropriately? And it's certainly with information, and certainly with communication. So, Board members need key information, right? Financial conditions, status of attaining annual goals, compliance with laws and regulations. Some sources are, certainly the monthly report, observations, public hearings, audits, crime reports, Executive Director briefings. All of this is an effort for you to be aware and to stay on top of where your agency is at all times. Let's go to the next slide.

Assessing Complaints About Staff Members, I mentioned this a second ago. But really, is there a formal process to address complaints and to hear complaints from staff members, so that they are free from the fear of reprisal? In case they do, you should establish a formal process for them to do that.

So, these are very basic ways, and just some ideas here on controlling and monitoring and managing the risk within your agency. I'll turn the table back over to Margaret.

01:47:10 Margaret McGilvray: Alright. And we'll just quickly highlight the role of the Office of Inspector General, particularly as it pertains to fraud management. So, next slide.

Basically, the Inspector General Act of 1978 established Inspectors General in all of the Federal departments, and there is one at HUD. And basically, they are an office that is there to conduct and supervise audits and investigations of various agencies and their programs and operations. And the IG operates within a department, but sort of separate from that department. And they report, actually, annually to Congress.

And they conduct audits and criminal investigations, look at records and information that housing authorities submit to the Federal Government. They can also subpoena records and documents, and can refer entities or people to the U.S. Attorney's Office for possible prosecution. And although we're not here to scare you, we're just here to inform you, but certainly there have been instances where all of this has occurred at the housing authority level. And these are just some links on this slide, when you get them, that you can find a little bit more information out about that. Next slide.

So, it is not terribly uncommon for the Office of Inspector General to conduct audits. And so, you should be aware of the fact that the IG may come to your authority and conduct an audit. And although that is a little scary, in most cases, it may be that they are there highlighting some of the same problems that you'd already observed, and perhaps were working on, but had not yet fully addressed. But it is important for Board members to be aware that it is a crime to obstruct IG audits. The obstruction of an IG audit does come with penalties, some of which can include criminal penalties. And so, it's very important that if, in fact, a representative from the HUD IG comes to your authority, that you are responsive with them, that you make sure that your Executive Director is being cooperative and responsive, and that you provide all of the information that they are requesting. Next slide.

There are various ways in which people can report fraud, whether that's suspected fraud or actual, you know, bona fide fraud that you can validate. But there are particular regulations that say that any applicants of a Federal award—and that's public housing authorities—must disclose in writing, in a timely manner, any violations to the ACC, as well as any other regulations that they think are correct. And that can be done through reporting through fraud lines, it can be done through a letter to HUD or a phone call to HUD, or through the IG's website. And that can include all sorts of types of fraud. As you look at there, there can be fraud that's caused by opportunities presenting themselves, fraud that is caused by a lack of understanding of the requirements. Regardless of the type of fraud, it is the duty to, in fact, report that. And we encourage you to do so.

So, with that, we can move on to our final slide, and any final questions that you may have. You can either raise your hand, put them in the—

01:51:55 Paul Watkins: There is a question here, Margaret.

01:52:00 Margaret McGilvray: There is a question: "Can a Board member be fired?" It's not so much firing, because firing sort of implies that you receive a salary. However, Board members most definitely can be removed. And that's dictated by a number of things. One is that, hopefully, within your bylaws, there are statements pertaining to how and why a Board member might be removed. So, that could be for ethical reasons. It could be for attendance. In the State of New Jersey, where there are training requirements, it could also be because you haven't adhered to training requirements.

So, in your bylaws, there may be stated some reasons and, hopefully, a process for removal. That could be going back to the appointing official that appointed you in the first place, and telling them that, you know, you either haven't shown up for any Board meetings, or whatever. And then that person will essentially end your appointment. The other way is, in fact, HUD can come in and remove a Board in totality, through various means that are declared in your ACC. So, in general, that's the two ways that Board members can be removed.

Any other questions that we have? That's great, to be seeing these questions.

01:53:45 Paul Watkins: I think there's another one that just showed up.

01:53:50 Margaret McGilvray: Yes. “Will we receive any type of certificate for this training?” No, you will not. This is not officially certified training. In order to receive a certificate—such as ones that the National Association for Housing and Redevelopment Officials, NAHRO, hands out, or even some of the other providers, like Nan McKay—they have to be registered with an official, I can’t recall what it’s called, but national training entity that reviews all of the materials and allows for certification. And this particular training does not have that, so we do not have certificates.

Any other questions that we might get? You can either put them in that Q&A, or in the chat, or raise your hand.

If not, I again thank you for both your participation today, as well as your questions—we love having questions—as well as your service for your community and your residents in general. And we hope that you will keep your eye out for our other virtual live trainings, as well as, hopefully, those recorded trainings coming out later this month.