

housing stakeholders (including representatives of PHAs, residents, housing advocacy representatives, governmental representatives, and other groups) to discuss specific PHAS concerns and possible solutions.

In the November 26, 2001, **Federal Register** notice proposing the interim scoring changes to the PHAS, the Department stated it expects to give extensive consideration to potential improvements in the PHAS, and that this consideration might lead to further changes in the PHAS.

II. Compliance Monitoring and Quality Assurance Procedures

As a companion to implementation of the PHAS regulation that assesses a PHA's performance, HUD is expanding its programs for PHA compliance and quality assurance (QA) reviews. This places additional emphasis on the principle that with increased PHA flexibility comes additional accountability.

HUD is also expecting more from itself through this increased emphasis on compliance and QA reviews, and is committing resources to both areas.

The process to select PHAs for compliance and QA reviews will minimize duplication of resources and repetition of reviews for PHAs. Both review areas will share information obtained during PHA reviews, thus increasing efficiency and streamlining HUD's accountability efforts.

A. Compliance Monitoring

HUD is introducing a new compliance monitoring initiative which is a management tool designed to focus and enhance HUD's compliance monitoring of PHAs.

This new PHA compliance monitoring initiative will determine a PHA's compliance levels and direct the compliance monitoring resources accordingly. HUD will look at pre-selected business flags in the individual PHAS indicators that are most related to issues of compliance. When the indicator flags indicate that a PHA may have compliance issues, that PHA will be referred to the appropriate field office for further observation. HUD will use this information to identify the PHAs that will be scheduled for on-site compliance reviews conducted by field offices, thereby more accurately deploying the Department's compliance resources.

HUD anticipates that field offices will conduct a minimum of 350 annual, on-site compliance reviews nationwide. Approximately 150 of the PHAs that receive 80 percent of all funds will be reviewed annually and approximately

200 of the remaining PHAs will be reviewed annually.

B. Quality Assurance Procedures

The QA procedures are designed to ensure that (1) Overall PHAS grades, as well as the individual indicator grades, are based on standards that are uniform and verifiable; and (2) the PHA maintains proper and accurate records supporting PHAS and Section 8 Management Assessment Program (SEMAP) certifications.

Each of the PHAS subsystems undergoes rigorous quality assurance to ensure fair and accurate scores. For the Physical Assessment Subsystem, the QA plan is a multi-step procedure that employs both automated and manual reviews, the cornerstone of which is the QA inspection process.

In the QA inspection process, trained HUD inspectors go on-site to verify the results of the physical inspections performed by HUD contract inspectors. These quality assurance reviews may be conducted at any time, including during the course of a property inspection, following an inspection, or as a separate analysis. The reviews seek to verify that the contract inspector has followed HUD's procedures and correctly assessed the property. An inspector who is not performing within HUD's protocol is subject to administrative action in the form of performance deficiency letters that may lead to decertification. Other measures in the QA plan include ongoing training of inspectors in HUD's protocol, and the use of automated systems that flag anomalies in the inspections as they are processed.

Another QA procedure is the new PHAS Exigent Health and Safety (EHS) certification review. This certification review, performed by HUD staff, validates certain information that the PHA has provided to HUD. It is an on-site property review of the EHS deficiencies cited in the property inspection reports against the PHA's certification that these deficiencies have been corrected. Annually, HUD will conduct certification reviews for a minimum of 25 percent of the PHAs that were assessed under the PHAS and certified to the correction of EHS deficiencies.

Both the Financial Assessment Subsystem and the Management Assessment Subsystem conduct automated reviews of all of their respective submissions when they are transmitted to HUD. This automated review is followed by a manual review. If corrections, changes, or further information are necessary, HUD contacts the PHA.

There also is an independent audit review of the PHA's financial submission and management operations submission. The Independent Public Accountant (IPA) or Certified Public Accountant (CPA) performs the PHA's annual audit reviews and verifies the supporting documentation for these submissions. Then, in the audited submission, the IPA/CPA reports any findings to HUD. When the findings indicate inaccuracies or discrepancies, HUD adjusts the financial indicator, management indicator, and overall PHAS grade.

For the Financial Assessment Subsystem, the Quality Assurance Subsystem (QASS) addresses the reliability of financial data collected and assessed by the PIH-REAC. The QASS staff conducts Quality Assurance Reviews (QARs) of IPA and CPA firms that perform financial statement and compliance audits of PHAs. The CPA firms are selected based on three established risk factors. These factors are: The number of audit clients; the total dollar amount (revenue and assets audited); and referrals from field offices, HUD management, or the PIH-REAC subsystems. Annually, the QASS staff performs a minimum of 15 reviews of CPA firms that audit PHAs. Teams of QASS auditors visit the firms and review a sample of audits and the associated working papers for compliance with professional auditing standards promulgated by the General Accounting Office and the American Institute of Certified Public Accountants (AICPA), as well as the Office of Management and Budget and the HUD audit requirements.

When the QASS team identifies material departures from professional standards the team recommends administrative sanctions which may include referrals to one or more oversight bodies, such as state boards of accountancy, the AICPA Professional Ethics Division, state societies of CPAs, and HUD's enforcement office.

The QA for the Resident Service and Satisfaction Subsystem includes a manual review of the random sample of addresses to ensure that they are complete and that there are no duplications. When the grade for the survey is generated, HUD performs a QA review of all grades of D or F to assure that the survey process was successful.

The final PHAS QA procedure is the seven-day field office review of a PHA's overall PHAS grade. All PHAs' grades are transmitted to the field office for this review period prior to release of the grade to the PHA.

In addition to the QAR reviews, the QASS staff also will perform two other