

types of reviews, both of which are new. The first additional review is the PHA monitoring review using the OMB A-133 Compliance Supplement. All major requirements associated with PIH programs are covered in the OMB A-133 Compliance Supplement and the monitoring review is to verify the PHA's adherence with statutes, regulations, and contract provisions; verify the documents supporting the PHAS (*e.g.*, Management Operations (MASS) Certification) and SEMAP certifications; and verify the results of the testing that the PHA's CPA is to perform during the annual financial statement audit. The PHAs who will be visited for a monitoring review will be selected both randomly and through a targeted risk-based approach. Each year the QASS team will conduct approximately 45 to 50 monitoring reviews nationwide. Once again, these reviews will be coordinated with field office staff to avoid repetitive reviews at the same PHA. Reported PHA findings, including false MASS certification, will result in appropriate follow-up action by the field office staff, such as referral for limited denial of participation (LDP), suspension, or debarment. The QASS staff will follow-up with CPAs who are not conducting the appropriate compliance testing. Follow-up actions include, but are not limited to, referring the CPA to one or more oversight bodies and HUD's enforcement office and/or including the CPA firm in the risk ranking process for QARs.

The second type of new review performed by QASS staff is an internal control review of PHA service providers (*e.g.*, fee accountants). The QASS staff will perform independent internal control reviews of the largest PHA service providers and determine whether follow-up action is required. Depending on the deficiencies identified, referrals will be made to HUD's enforcement office for action if the PHA service provider failed to comply with HUD requirements.

III. Proposed Amendments to the PHAS

Policy Considerations

After further research involving public housing stakeholders, as well as far-reaching internal review, HUD has developed proposed amendments to the PHAS. These proposed amendments to the PHAS make important improvements to the system, while retaining the core principle of ensuring housing is decent, safe, sanitary, and in good repair for public housing residents.

HUD received suggestions for changes to the PHAS from representatives of the public housing industry, public housing

directors, HUD program experts, residents, and recommendations from the Millennial Housing Commission. HUD evaluated all of these suggestions in a deliberative process that led to this latest version of the PHAS. As a result, the Department has made numerous changes to the PHAS.

Above all, this proposed rule strives to be simpler to understand and utilize. It places more emphasis on assessing those items that directly affect day-to-day living conditions.

The proposed amendments to the PHAS retain the basic structure of the rule that they replace. A PHA will continue to be evaluated in four areas: physical condition, financial condition, management operations, and resident service and satisfaction. The PHAS continues to rely on information that is verifiable by a third party wherever possible, but with clearer QA standards.

Under current PHAS protocols, the evidence is clear there has been improvement generally in the management of the PHAs.

Recognizing this improvement, this proposed PHAS rule gives PHAs increased flexibility and regulatory relief without sacrificing accountability. Under the proposal, Grade A PHAs will be assessed less often. The physical inspection scoring process is revised and places a stronger emphasis on the concept of livability and the immediate correction of exigent health and safety deficiencies. In the financial assessment, four of the component thresholds have been lowered for Small and Very Small PHAs. In addition, the penalty for high liquidity and reserves is eliminated. Along with this additional flexibility and regulatory relief, the Department is placing increased accountability on PHAs for the information they supply. The Department expects the highest standards of integrity from providers of public housing. All information to which PHAs self-certify will be subject to audit and verification. When this information is false, fraudulent, or otherwise justifies enforcement, the Department will take aggressive action against those who would abuse the public trust. The Department has also increased the penalties for late submissions.

The proposed amendments to the PHAS are a collaborative effort between HUD and its partners. They have been developed out of mutual respect between HUD and the affected parties.

Highlights of Changes

Under the proposed rule, a PHA will receive letter grades of A, B, C, D, or F, and the frequency of assessments is

based on the designation. Under the current PHAS rule, a PHA receives numeric scores and is assessed annually. Further, under the proposed rule, a PHA will no longer be designated high performer, standard performer, or troubled. A PHA's designation will be a letter grade based on the overall PHAS grade and indicator grades. In addition to publishing the proposed amendments to the PHAS rule, HUD is also publishing five proposed grading notices for comment. Four of the notices explain the grading process for each of the four PHAS indicators, and there is one overall notice explaining the grading process in general.

All observed deficiencies determine the physical condition score under the current rule. Under the proposed rule, only observed deficiencies that primarily impact "livability" determine the property grade.

In the proposed rule, the penalty points under Current Ratio (CR) and Months Expendable Fund Balance (MEFB) for high liquidity or reserves are eliminated.

In the proposed rule, the management operations self-sufficiency sub-indicator has four components rather than a stand-alone sub-indicator. Furthermore, self-sufficiency questions have been added to the resident survey. The proposed rule changes the standards for rating vacant unit turnaround time, work orders, and annual inspection of dwelling units and building systems. The maximum time periods have decreased, and the percentages of units, and buildings and systems required to be inspected for a given grade have increased.

Currently, the Resident Service and Satisfaction (RASS) indicator points are apportioned between the survey, and the implementation plan and follow-up plan certification. Under the proposed PHAS, the entire RASS assessment is based on survey results. If the survey process is not properly managed as directed by HUD, the PHA shall receive a zero and a grade of F under this indicator.

Under the current PHAS rule, a PHA may be designated "troubled in one area" based on the physical, financial, or management score. In this proposed rule, a PHA may be referred to the appropriate HUD office for remedial action if it receives a grade of F in any one of the four PHAS indicators.

The point deductions from the overall PHAS score for any late submission under the current rule are replaced with grade deductions from the affected indicators under the proposed rule. When a submission is late, the time period for a presumptive rating of