<u>**RENT ASSISTANCE PROGRAM UPDATE**</u>

Similar to the public housing program, the rent assistance program has been severely impacted by a number of events before and during COVID. HACM's housing software conversion in mid-2019 necessitated a significant amount of work to prepare for conversion and perform reviews and correct any conversion issues afterwards. The impact of the COVID-19 pandemic hit soon afterward, during which time HACM's rent assistance department was hit hard and needed to close several times. The "great resignation" has had a significant impact on the overall operations of HACM and, specifically with regards to the rent assistance department, has led to extremely high staff turnover in the past two years.

Since 2021, in response to concerns about the utilization rates in the voucher program, the local field office of HUD has provided HACM with technical assistance both directly by field office staff as well as through other resources. HUD has arranged for contracted technical assistance provided by CVR Associates to assist HACM via implementation of strategies and revised policies and procedures with the goal to improve HACM's voucher utilization.

In 2022, HACM's Rent Assistance Program received two detailed on-site monitoring reviews:

1. **HUD Field Office Review:** The first monitoring visit in October 2022 was from the Milwaukee HUD Field Office staff to follow up on progress made on actions to improve utilization and other concerns.

2. **Quality Assurance Division Review:** The second review was a site visit from the HUD Quality Assurance Division (QAD) in December 2022. QAD is a division of HUD that performs financial management reviews whose primary purpose is to ensure that HCV program funds have been expended appropriately and reported accurately, and management and operations reviews to ensure that income, tenant rent and HAP has been appropriately calculated and documented to ensure that the data submitted in the Voucher Management System (VMS) is timely, accurate and complete. VMS is the HUD software system that collects monthly data on leasing and expenses related to rent assistance vouchers.

<u>**Milwaukee HUD Field Office On-Site Monitoring Review (October 2022)**</u>

The Milwaukee Field Office of HUD performed a detailed on-site monitoring review of the voucher program in early October 2022 and performed additional review off-site as well. The final written report of findings from HUD was received on December 29, 2022. While the HUD field office noted several improvements that had been made since their last review, they also found substantial non-compliance issues related to financial/accounting as well as programmatic areas. In total, there were 31 findings and 13 concerns in the report which required a corrective action plan from HACM. Some of the major findings from the HUD Field Office review include, but are not limited to:

- **Financial Software:** HACM is not using YARDI to its fullest advantage. The use of the Multiview financial software system for accounting complicates the process of accounting for the voucher program and requires additional steps and difficulty in reconciling both HAP payments and administrative fee expenses.

- **Internal Controls:** Lack of internal controls in the monthly HAP check run as well as in the reconciliation between the HUD Voucher Management System and the HACM accounting General Ledger amounts.

- **Late Recertifications:** A significant number of recertifications were processed late, including many in which HAP payments were made and charged to HAP in the current year for prior year HAP activity.

- **HAP Payments to HACM:** HACM was making HAP payments to itself for voucher participants in the Northlawn, Southlawn, and Berryland developments, rather than using LLCs or another entity. This is not in compliance with requirements of PIH Notice 2017-21.

- **Inaccurate Data in the VMS and PIC Systems:** Data reported to the VMS system and the PIC system have a number of inaccuracies. HACM needs to improve data integrity through using an improved quality control process. VMS reporting was inaccurate in places and needed to be better documented and reconciled.

- **Low HAP Utilization Rates:** HAP utilization rates continue to be low in both the HCV and PBV programs.

- **Processes and Procedures Need Streamlining:** HACM must implement a number of changes to streamline and create more efficient and effective policies and procedures to decrease processing delays that are impacting the utilization rates.

- **Incomplete Documentation in Files to Verify HAP and Tenant Rent:** HACM must improve: (1) compliance with HUD's verification procedures to verify income, assets, etc., including use of the EIV system and other third-party verification; (2) filing and storage of documentation in client files so that they are readily available; (3) ensure appropriate protection of personally identifiable information.

- **Use of Independent Entities and other Contractors:** Ensure that independent entities were performing rent reasonableness reviews and inspections at HACM-owned properties. In addition, consider outsourcing other processes to contractors to assist when necessary.

On February 10, 2023, HACM submitted a proposed Corrective Action Plan in writing to HUD regarding all findings and concerns, and work is continuing on the plan at this time. Some major action items being worked on include:

1. **YARDI Financial Software:** Effective January 2023, HACM will be using the full YARDI suite for Section 8 [Financials-HAP and HAP related transaction and Program operations]. This will allow better audit trail and more efficient and reliable reconciliation between Yardi and HUD VMS reporting information.

2. **Business Process Review:** HACM has engaged a YARDI consultant to perform a Business Process Review (BPM) to ensure accurate mapping of data, provide accurate reporting to HUD systems (PIC and VMS), provide a road map to optimize use of YARDI by HACM, and

improve HACM's processes

3. **Section 8 Accountant/Analyst:** HACM's Accounting Department has hired this position to focus solely on Section 8 accounting and financial reporting. This Financial & Systems Analyst position will have its top priority as stabilizing the Section 8 financial operations.

4. **Improved Internal Controls/Segregation of Duties:** HACM has already improved internal controls, revised responsibilities to provide better segregation of duties, and made revisions to the departmental organizational structure. In addition, HACM developed a Standard Operating Procedure over Quality control that will be implemented in June 2023.

5. **Increased Outsourcing Where Needed:** In cases where HACM does not have the immediate capacity to address issues or where a contractor brings a specialized knowledge or skill, HACM has begun to outsource services and will continue to outsource as needed. For example, HACM has hired Nan McKay to perform HCV recertifications. This will allow HACM staff to focus on correcting data integrity issues with participants in PIC and VMS and receive some intensive training. HACM will continue to look for opportunities to expand outsourcing where needed, with other potential areas that could include items such as but not limited to: tenant file reviews; SEMAP assessment/quality control reviews; FSS program administration assistance; management and organizational reviews and assessments; etc.

6. **Staff Training:** HACM leadership in the finance and Rent Assistance divisions will be required to complete a series of assigned financial management and HCV management and financial management courses. All trainings will be tracked through Yardi Aspire and HACM's Human Resources system. Trainings will include trainings provided by YARDI on specific tasks or processes in YARDI, HCV/PBV-geared trainings from HUD Exchange, and other trainings.

HUD Quality Assurance Division (QAD) Review (December 2022)

Based on concerns raised by the field office on-site monitoring report, the Quality Assurance Division of HUD scheduled an on-site financial management review (FMR) and management and operations review (MOR) in December 2022. The review covered the five-year period from 2017 to 2022. We received the initial report on findings from QAD on April 11, 2023. Some of the major concerns identified by QAD include:

- The HACM HCV financial records and books of account could not be properly and effectively tracked, and lack an audit trail. The use of Multiview for the accounting software system rather than YARDI adds to the complexity in reconciliation between the housing software and the general ledger, as well as to data reported to HUD through VMS and PIC.

- HACM must ensure a forensic audit and reconstruction of the full financial records to determine the true and accurate financial position.

- In addition, there appeared to be disallowed or questioned costs that need to be investigated and/or corrected. For example, HAP payments appeared to be made for a prior year due to a late recertification and were charged inappropriately to HAP expense rather than administrative fee.

- HACM is not properly tracking Family Self-Sufficiency (FSS) escrow amounts and balances.   This appears to be related to errors that occurred as part of the conversion from VisualHomes to YARDI in 2019. It has resulted in inaccurate escrow calculations and balances for participants that need to be corrected.
- Based on a review of participant files, the files were deemed in poor condition by QAD.   Due to documentation potentially missing from the participant file (hard copy file and/or electronic), QAD could not readily ensure the correct calculation of HAP payment and tenant rent amounts from the file.   This could potentially result in incorrect HAP payments made.

HACM responded with a proposed Corrective Action Plan (CAP) to QAD on May 18, 2023.   The Corrective Action Plan includes two major actions that were required by QAD:

- HACM will engage a financial consultant/independent contractor before end of June 2023 to perform these activities and to determine the correct financial position of the program. The contractor will assist in a reconstruction and forensic audit of the full financial records including full reconciliation between YARDI and the general ledger, determination of the correct UNP and RNP balances, and must ensure any adjustments/changes related to the 100% file review (see next bullet) are appropriately corrected in compliance with HUD regulations.

- As recommended in the Final Corrective Action in MOR-2023-8b, HACM will engage an independent contractor to perform a 100% file review of all new admissions, annual reexaminations and interim reexaminations that occurred during 2022. The contractor will also ensure that YARDI data is accurate and that any corrections are made where appropriate.

SEMAP

Similar to PHAS in the public housing program, the Section Eight Management Assessment Program (SEMAP) measures the performance of the public housing agencies (PHAs) that administer the Housing Choice Voucher program in 14 key areas. SEMAP helps HUD target monitoring and assistance to PHA programs that need the most improvement.

In the SEMAP Assessment, a High Performing PHA scores at 90% or more on the overall possible points.   A Standard Performer scores at 60-89% of possible points. A Troubled Performer scores at less than 60% of possible points.

HUD has the right to modify or withhold a PHA's overall performance rating when warranted by circumstances which have bearing on the indicators. Based on the results of the two recent compliance reviews from the HUD field office and from QAD, HUD did reduce a number of HACM's SEMAP indicators to a zero score. This reduced the overall rating to only 40 points out of 145, or 28%.

As a Troubled Performer, HACM will be required to submit a Corrective Action Plan to HUD related to the SEMAP score by June 18, 2023. In addition, HUD will be required to return to perform another monitoring visit later this year.

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HUD ACRONYM INDEX

BPM	Business Process Review
CAP	Corrective Action Plan
EIV	Enterprise Income Verification
FMR	Financial Management Review
FSS	Family Self Sufficiency program
HAP	Housing Assistance Payments
HCV	Housing Choice Voucher
MOR	Management/Operations Review
PBV	Project Based Voucher
PHA	Public Housing Authority
PIC	Public and Indian Housing Information Center (software system for data sharing amongst PHAs and HUD)
PIH	Public and Indian Housing (HUD office of)
QAD	Quality Assurance Division (a national office)
RNP	Restricted Net Position
SEMAP	Section Eight Management Assessment System
UNP	Unrestricted Net Position
VMS	Voucher Management System