NAHRO
building communities together

National Association of Housing and Redevelopment Officials
630 Eye Street NW, Washington DC 20001-3736
(202) 289-3500 Toll Free 1 (877) 866-2476 Fax (202) 289-8181

April 2, 2010

Mr. Ross A. Rutledge
HUD Desk Officer
Office of Management and Budget
New Executive Office Building
Washington, DC 20503

Re: [Docket No. FR–5376–N–20] Notice of Submission of Proposed Information Collection to OMB; Emergency Comment Request; Housing Choice Voucher Program (Voucher Management System Enhancements and Reporting Requirements)

To Whom It May Concern:

On behalf of the National Association of Housing and Redevelopment Officials' (NAHRO's) members, we would like to thank you for the opportunity to comment on a number of matters relating to the Voucher Management System (VMS). In particular, NAHRO's comments below begin with our justifications regarding clarification that is needed to better understand the definitions provided for the four new VMS reporting fields.

The seven-day emergency comment period provided to address definitions for four new proposed fields in VMS does not provide a planned opportunity for program stakeholders to comment on the relationship of the proposed changes in VMS with HUD's other existing reporting systems, such as the Public and Indian Housing Information Center (PIC). Nevertheless, the connections between VMS and PIC and the proper use of each system are important to NAHRO and our members. The remaining comments in our letter deal with a range of important issues related to HUD's proposed changes in VMS that should have been considered by HUD and subject to comment rather than disconnected from the Department's Transformation Initiative.

At one point in time, HUD PIH posted a draft notice on its website with information largely similar to the information provided for the four new fields proposed in this notice, as well as a copy of screen shots for a revised VMS submission form (attached). NAHRO's comments pertain to the information contained in this notice as well as the applicable information contained in HUD's screen shots of a revised VMS submission form.

e-mail: nahro@nahro.org web site: www.nahro.org

Overarching Comment on Line-Item References for Four Proposed VMS Fields

We commend HUD for adding specific line-item numbers and references to the definitions of the fields proposed for VMS to coincide with public housing authorities' (PHAs') existing unaudited and audited financial statements.

Net Restricted Assets (NRA) as of the Last Day of the Month

<u>VMS Data Submissions from January 1, 2010 and Beyond</u>

The Department has not explained its reasons for selecting January 1, 2005 as the date by which PHAs' NRA balances will be carried forward on a monthly basis through the end of the current month. We do not dispute the effective date, but believe it would be helpful to PHAs and program stakeholders to understand the Department's underlying rationale for choosing January 1, 2005 as the commencement date for this purpose. After the proposed NRA field is added to VMS, NAHRO has been led to believe that it is not the Department's intention to require PHAs to input their NRA data retroactive to January 1, 2005, but to include this information from January 1, 2010 to the present and then resume this practice prospectively. By using the proposed definition of NRA as of January 1, 2005 to guide the NRA figures entered by PHAs effective January 1, 2010 to the present, PHAs would comply fully with the operational definition provided in this notice. If our understanding of HUD's planned implementation of this VMS field is correct, we agree with the Department's plan. However, in no circumstances would we agree with requiring PHAs to enter their NRA data through a new VMS reporting system back to January 1, 2005.

<u>Corrections to VMS Form Are Needed</u>

Under the proposed VMS form, NRA cannot be compiled for each specific voucher program in VMS such as HCV, HUD-VASH, FUP, and 1-Year Mainstream. This should be corrected.

<u>Using NRA Field to Reassess All PHAs NRA as of 12/31/08 and HUD's Offset in 2009</u>

NAHRO recommends that HUD correct its error in its wholesale use of PIC data for "mid-month" HAP expenses during FFY 2008 by reassessing PHAs' Net Restricted HAP Assets amounts using VMS data for voucher leasing and costs. Our recommendation has three elements:

1. *Reassess PHAs' Net Restricted HAP Asset amounts.* Many PHAs have significant NRA discrepancies compared with the amounts identified for them by HUD in previous years. HUD's assessment of some PHAs' NRA is significantly higher than actually exists. This had the effect of compounding the impact of distributional shortfalls to many PHAs around the country by overstating a primary source of funding--NRA--necessary to deal with them. In 2009, HUD and Congress took extraordinary actions to help remedy funding shortfalls for PHAs facing terminating families, which took place in large measure due to HUD's wholesale use of PIC data rather than VMS data for mid-month leasing. Other PHAs that experienced funding shortfalls due to the same HUD error could not lease turnover vouchers and ended up serving fewer families with no financial remedy. As a result of HUD's error, PHAs were forced to lease fewer families than they

could have otherwise served. NAHRO recommends that HUD recalculate PHAs' proper Net Restricted HAP Assets using VMS data, while continuing to satisfy the $750 million rescission (offset) target mandated in the FY 2009 appropriations act. Without any new appropriations and entirely within the existing amounts of NRA nationwide, NAHRO recommends that HUD recalculate PHAs' proper NRA using VMS data and in accordance with PIH Notice 2009-13.

2. *Recalculate PHAs' voucher lease-up and budget utilization rates using VMS data to make sure that they are in the correct utilization groups.* Based on HUD's wholesale use of PIC data for PHAs' mid-month leasing rather than VMS data, some PHAs' voucher leasing and budget utilization rates should be reclassified as provided in HUD Notice 2009-13. If completed, this would affect the calculation of PHAs' NRA offsets of their "usable" and "unusable" NRA.

3. *Take into account HUD's assessment of NRA as of 12/31/09 in set-aside awards to PHAs.* HUD's reassessment of PHAs' NRA and corresponding offsets should also take into account whether HUD's improper assessment of PHAs' NRA as of 12/31/09 adversely affected the amount of adjustment funds provided to PHAs from the $150 million set aside fund in 2010.

Unrestricted Net Assets (UNA) as of the Last Day of the Month

VMS Data Submissions from January 1, 2010 and Beyond

The Department has not explained its reasons for selecting January 1, 2005 as the date by which PHAs' UNA balances will be carried forward on a monthly basis through the end of the current month. We do not dispute the effective date, but believe it would be helpful to PHAs and program stakeholders to understand the Department's underlying rationale for choosing January 1, 2005 as the commencement date for this purpose. After the proposed UNA field is added to VMS, NAHRO has been led to believe that it is not the Department's intention to require PHAs to input their UNA data retroactive to January 1, 2005, but to include this information from January 1, 2010 to the present and then resume this practice prospectively. By using the proposed definition of NRA as of January 1, 2005 to guide the UNA figures entered by PHAs effective January 1, 2010 to the present, PHAs would comply fully with the operational definition provided in this notice. If our understanding of HUD's planned implementation of this VMS field is correct, we agree with the Department's plan. However, in no circumstances would we agree with requiring PHAs to enter their UNA data through a new VMS reporting system back to January 1, 2005.

Corrections to VMS Form Are Needed

Under the proposed VMS form, UNA cannot be compiled for each voucher program in VMS such as HCV, HUD-VASH, FUP, and 1-Year Mainstream. This should be corrected.

NRA, UNA & Cash/Investments as of the Last Day of the Month In Conjunction with HUD's Monthly Accrual Accounting Requirement in VMS

Under the proposed VMS form, fraud recovery and FSS escrow forfeitures are totaled across all programs rather than being itemized according to each specific and applicable voucher program (HCV, HUD-VASH, FUP, Mainstream, etc.). This should be corrected.

<u>Income Statement – For Calculation of NRA and UNA</u>

Reporting Problem Lines:

96210 Compensated Absences
97400 Depreciation Expense
97500 Fraud Losses
71100 Investment Income Unrestricted
72000 Investment Income Restricted

The calculations for these figures are completed on an annual basis. To calculate on a monthly basis would greatly increase PHAs' time to calculate the NRA and UNA for VMS reporting. PHAs would be able to estimate the monthly costs, but would need to do an adjustment at the Fiscal Year end so the UNA and NRA would balance to the Financial Data Schedule (FDS) submission.

<u>Balance Sheet – For Calculation of Cash at End of month</u>

322 Accrued Compensated Absences- current portion
354 Accrued compensated absences – non current
71100 Investment Income Unrestricted
72000 Investment Income Restricted

The calculations for these figures are completed on an annual basis. To calculate on a monthly basis would greatly increase the amount of time PHAs would have to take to calculate the available cash for program purposes at the end of the month. PHAs would be able to estimate the monthly costs, but would need to do an adjustment at the Fiscal Year end to reconcile the monthly estimates to the actual accrual. In addition, if PHAs are estimating the amount of interest income on a monthly basis, their cash balances are going to have to be adjusted to reflect that they do not have the cash until the end of their Fiscal Year.

By adding the above accruals/estimates for income and expenses to calculate the cash at end of month, NRA and UNA balances reported in VMS would not balance to PHAs' internal financial reporting. Currently, PHAs do not accrue for these items on a monthly basis internally, and would therefore only balance to the VMS reporting at the Fiscal Year End when they had recorded all of these adjustments.

In a letter to HUD dated October 2, 2009, NAHRO recommended that PHAs be able to use the cash accounting method for purposes of VMS reporting *only*. For purposes of PHAs' FDS unaudited statements, independently audited financial statements, and financial 50058 household data extractions from (PIC), however, we recommended continued use of the accrual accounting method consistent with Generally Accepted Accounting Principles (GAAP). A copy of NAHRO's letter and memo are enclosed. By adopting NAHRO's recommendations on using cash accounting in VMS *only*, HUD's proposed additions of NRA and UNA fields would be manageable for PHAs on a monthly basis.

Number of Vouchers Issued but Not Under Active Housing Assistance Payment (HAP) Contract as of the Last Day of the Month

Improper Assessment of the Underlying Reason and Magnitude of the 2009 Voucher Funding Crisis

In the fall of 2009, NAHRO met with HUD to discuss the voucher funding crisis and HUD's responses to the crisis. According to a senior HUD official, approximately 75 percent of the 400 PHAs with "triage" calls from HUD had problems with their NRA assessment as of 12/31/08 and the corresponding offset of their funding in 2009. This information corresponds with NAHRO's independent analysis of many PHAs' funding shortfalls in 2009, which we communicated with HUD PIH staff. However, it appears that in considering pro-active monitoring measures in VMS for 2010 and beyond, HUD is under the impression that the underlying cause of the voucher funding shortfall crises that the HCV program experienced in 2009 was largely attributable to a significant number of PHAs over-issuing vouchers and over-leasing relative to their budget authority in the fourth quarter of 2008. Regrettably, HUD's impression is off the mark. We believe that HUD's current exercise to include NRA in VMS will bear out that the Department's earlier statements were off the mark, and the effort to include a new field for issued vouchers was largely misplaced. We also reiterate our November 2009 recommendations to HUD to compare PHAs' calendar VMS submissions with their corresponding audited financial statements, which will shed further light on the underlying reason for the voucher funding crisis that occurred in 2009--a crisis which many PHAs are still feeling the adverse effects of in 2010.

Other Existing Remote Risk Assessment Tools and Triage Measures Would Be More Effective

We are supportive of a meaningful approach commensurate with the scope of this problem, as well as a meaningful approach to the underlying NRA problem (and corresponding offset) that occurred in 2009 and still exists in 2010. We think that HUD's proposed approach on NRA in 2010 would accomplish that goal, but think that further improvements on developing a meaningful and workable solution on monitoring leasing and budget utilization are still needed.

The notice states, "The reporting enhancements are expected to assist HUD's goal of achieving improved financial accountability by the PHAs and greater recognition of potential shortfalls that may impede the PHAs' ability to assist as many families and individuals as possible while staying within their budget." NAHRO agrees with HUD's overall goal. However, we do not agree with HUD's approach to add this new field to VMS as a way to achieve this goal. Instead, we are suggesting using a "triage" approach that gives rise to working with the small number of

PHAs using robust and meaningful program tracking tools and gives HUD the information it needs to be pro-active.

As you know, there are a number of different tracking mechanisms that PHAs use to monitor all of the aspects of their voucher and budget utilization. The options available to PHAs include the Voucher Issuance Program (VIP), which is a free, web-based software package HUD designed to help PHAs manage the voucher issuance process. VIP will help PHAs fully utilize their vouchers without exceeding their calendar year budget authority. The software program, accompanying instruction manual, and help desk number are all available at http://www.huduser.org/vip/. We are not suggesting that HUD *require* PHAs to use VIP, which would be a bad idea for a number of different reasons. However, we are suggesting that there are a number of simple ways for HUD to do remote risk-assessments on all PHAs' voucher leasing and budget utilization absent creating a new VIP-like reporting system in VMS. We believe that there were a small number of PHAs in 2009 that had over-leasing and over-utilization issues, attributable to their program operations and insufficient tracking systems. By contrast, the scope of PHAs that experienced funding shortfalls attributable to HUD's wholesale use of PIC data for their mid-month HAP expenses to assess their Net Restricted HAP Assets and leasing rates in CY 2008 to determine their usable and unusable NRA offsets was very significant. There are many other ways for HUD FMC to perform remote risk assessments using other existing tools such as their unaudited and audited financial statements, among others, to help the applicable PHAs avoid over-leasing and/or over-utilization, as well as to maximize the number of families they serve with the funds provided. Attached please find a copy a letter (November 19, 2009) NAHRO sent to HUD with this recommendation. For the small number of PHAs that are identified through HUD's other remote risk assessment systems, *required* use of VIP or another program tracking tool at the PHA's discretion but consistent HUD's minimum requirements would seem in order.

Corrections to VMS Form Are Needed

On a technical note, it does not appear that the proposed field, "new vouchers issued but not under HAP contract by the end of the month," allows for PHAs with multiple programs reported in VMS (i.e., HCV, HUD-VASH, FUP, 1-year Mainstream, etc.) would be able to submit or track this information by each specific program. This should be corrected.

Inconsistencies between Planned Changes in VMS and PIC

VMS - Listed below is NAHRO's critique of HUD not using the existing PIC system to gather the same information on the number of vouchers issued but not under active HAP contract as of the last day of the month. Noting our critique below, NAHRO agrees with the examples provided below for VMS compared with the proposed changes in PIC (described below), with which we do not agree. The notice example states, "A PHA has 125 vouchers issued and 'on the street,' as follows: (a) 105 families are applicants from the PHA's waiting list that were selected and issued vouchers; (b) 10 families are participants whose HQS inspection resulted in abatement, and their contracts were terminated; (c) 5 families are Port-ins that the PHA is absorbing; and (d) 5 families are transferring from other units for which they are currently being assisted. In this example, the first 120 families from categories a, b and c will be reported in the VMS field described in (4), above. **The remaining 5 families in (d) would not be reported in this field.**" (emphasis added)

PIC - Simultaneous with HUD PIH's proposed addition of a field in VMS to gather this information is an effort at HUD PIH to revise the "type of action 10" in its PIC sub-module 50058 & MTW-50058 in a way that is inconsistent with the proposed changes in VMS. Specifically, the notice states that PHAs are to *exclude* from this field the "5 families who are transferring from other units for which they are currently being assisted." By contrast, HUD PIH plans to include a revision in HUD form 50058 to require PHAs to enter the voucher issuance date for "Other Change of Unit" (2a= 7), which is the action type for families that are transferring from other units for which they are currently being assisted, but which are under active HAP contracts. NAHRO believes that to gather accurate information on vouchers issued but not under active HAP contracts as of the last day of the month, and to be able to gather accurate voucher success rates, HUD should exclude families who are transferring from other units for which they are currently being assisted in both PIC and VMS. As a practical matter, voucher-assisted participants who transfer with continuous assistance (i.e., no break in HAP payments between property owners) are never issued a voucher because they always have the voucher. Transfers and relocations from one unit to another unit with a household benefitting from voucher-assistance prior to their move, during their move, and after their move does not affect PHAs' voucher leasing or budget-utilization rates attributable to the household's move. Knowing in advance that a voucher-assisted household is looking to move from one dwelling unit to another tells PHAs and HUD nothing about voucher HAP costs, since a new unit could have either a lower or higher HAP depending on its condition, location, amenities, etc.

With the addition of this field in VMS, it will not provide the Department with as meaningful information as it would in the existing fields designed for this purpose in PIC, because PIC would provide information on both voucher issuance and voucher success rates, while the proposed field in VMS will not. The range of PHAs' voucher success rates varies greatly around the country. Simply knowing voucher issuance rates without any realistic estimate of the percentage of issued vouchers that have a reasonable chance in coming under lease with a corresponding HAP liability undermines one of HUD's main objectives in assessing PHAs' prudent or imprudent use of their budget authority and leasing relative to their available unit months. Granted, the percentage of records completed in PIC for voucher issuance is low. HUD's proper and imprudent guidance and enforcement of PHAs' submission of data in PIC for vouchers issued is the way to go, rather than creating a new and less meaningful field in VMS for this purpose. HUD's proposed addition of this field in VMS is at odds with the statement in the notice which states, "The system is periodically enhanced to provide new flexibilities or features for improved **ease and accuracy** of reporting and use of the data." (emphasis added)

Stated simply, if HUD was following a coherent plan for its Transformation Initiative, the Department would use its existing field and existing system--PIC--to gather the number of vouchers issued but not under active HAP contract as of the last day of the month rather than creating a new field in VMS for this purpose. Not only will inclusion of "Other Change of Unit" (2a=7) in PIC for issuance of a voucher mix "apples with oranges" in terms of vouchers issued and ultimately voucher success rates, but because many software systems are not set up to report this information it will cause unnecessarily major havoc with PHAs' PIC reporting rates.

NAHRO and its members hoped that as part of HUD's Transformation Initiative, HUD staff would talk to one another along with program stakeholders, and that the Department's information systems would interface with one another as well.

Correct Timing Mismatch between SEMAP Performance Assessment and Budget Accounting Systems

If the Department wants to be proactive in mitigating the number of PHAs that risk annual over-leasing and exceeding their budget authority, HUD should complete implementation of its plans under PIH Notice 2005-1. Listed below is a summary explanation, and attached is a letter NAHRO sent to HUD on this topic.

Under HUD's existing PIC, Section Eight Management Assessment Program (SEMAP), VMS and FDS systems, many PHAs face a mismatch between the 12-month periods used to evaluate the number of vouchers under lease for purposes of 1) program performance and 2) accounting. Since the number of voucher families naturally fluctuates, PHAs need a consistent period of time over which to aim for 100 percent utilization without going over or under. The existing mismatch results in inefficient use of funds and unfair penalties assessed to PHAs. The HUD-controlled evaluation systems should be synchronized to provide PHAs with consistent goals that allow efficient budgeting of resources.

For over five years, HUD has not followed through with synchronizing the calendar year voucher program funding cycle with annual settlement calculations for PHAs, which continue to be based on each PHA's fiscal year (i.e. 3/31, 6/30, 9/30, 12/31). The department declared its intention to do this in Section 9A of PIH Notice 2005-1, which stated, "HUD will issue further guidance relating to the Year-End Settlement Statements which, subsequent to the last quarter in calendar year 2005, will be based on calendar years rather than a PHA's fiscal year end."

Voucher program renewals are funded on a calendar year basis, yet the Department has not issued the guidance contemplated in the 2005 notice, and PHAs continue to report that their HUD Field Offices are holding them to leasing and budget utilization unit months available (UMA) at their respective PHA fiscal years. This has resulted in unnecessary complexity for PHAs administering the voucher program and has been a contributing factor in producing programmatic inefficiency, resulting in a significant drop in lease-up rates of authorized vouchers and budget utilization rates in past years and inhibiting greater numbers of families from being served in the HCV program in more recent years.

This problem seems technical, but it has real consequences. PHAs that have sought to increase or decrease their lease-up rates in order to meet their targets for the fiscal year may place themselves in an untenable position for the balance of the calendar year remaining after fiscal year end. Note in this regard that SEMAP scores continue to be generated based on the PHA's fiscal year, so that HUD's system introduces incentives to PHAs to make adjustments in the run-up to fiscal year end that they would not necessarily make if year-end settlements were synchronized with the funding cycle. Agencies that approach this situation conservatively will serve fewer very low-income households than could have otherwise been served. We believe tens of thousands of households were not leased, in significant part, due to this problem.

Unfortunately, this is occurring at a time when "worst-case" housing needs are significantly increasing and the need for efficient use of voucher funds is always important.

HCV program Housing Assistance Payment funding offsets are also executed on a calendar year basis, not by PHAs' respective fiscal years. The asynchronous administration of SEMAP leasing and budget-utilization scores and the calendar year funding cycle has also prejudiced the SEMAP scores of some PHAs. Further, this has had adverse consequences for these PHAs' ability to apply for and receive all types of incremental vouchers over the last several years. Further details are contained in NAHRO's letters to HUD (attached).

For the purposes of HUD's SEMAP voucher lease-up and budget utilization scores (indicator 13) for PHAs, NAHRO believes that HUD should revise its existing regulations to include all days a voucher-assisted household is under an assisted dwelling lease and HAP contract, not just the days starting on the first day of each month, in its SEMAP calculations for both voucher lease-up and budget utilization rates. This method would provide a more accurate representation of PHAs' voucher lease-up and budget utilization rates, as well as their average per voucher HAP costs.

Overarching Comment on the Intersection of Four Proposed VMS Fields with Existing VMS Fields

At one point and time, HUD PIH posted a draft notice on its website with information largely similar to the information provided for the four new fields proposed in this notice, as well as a copy of screen shots for a revised VMS submission form (attached). NAHRO's comments below pertain to the information contained in this notice as well as the applicable information contained in HUD's screen shots of a revised VMS submission form.

Voucher HAP Expenses and Unit Months Leased & NRA for Each Individual Voucher Program

The proposed VMS reporting form does not appear to capture HAP expenses corresponding with Unit Months Leased for the first month in which a HAP contract is effective after the first of the month (formerly known as "mid-month" leasing and HAP expenses) for the HCV program **as well as all of the relevant special voucher programs such as HUD-VASH, FUP, 1-Year Mainstream, etc.**

From NAHRO's perspective, and the subject of much formal correspondence between our organization and HUD in 2009 concerning the serious voucher HAP funding shortfalls and inaccurate assessment and corresponding offset of PHAs' Net Restricted HAP Assets (as of 12/31/08) in 2009 and beyond, we believe that HUD's use of PIC data for mid-month HAP expenses was the root of the problem. Needless to say, making sure that any new VMS reporting form does not embed an inherent structural flaw as it relates to mid-month HAP expenses is crucial to preventing a similar voucher funding crisis as occurred in 2009 into the future.

"Average UML Last 12-Months," "Average HAP Last 12-Months," "UML Last Month," and "HAP Last Month"

It appears that fields with a grey background are formula-driven rather than entered by PHAs. The column "Average UML Last 12-Months" would be useful programmatic (as well as monitoring and oversight) information both to PHAs and HUD, if instead it was "Average UML Year-to-Date." The same holds true for the column "Average HAP Last 12-Months," would be more useful information if instead it was "Average HAP Year-to-Date." Some consideration should also be given to specifying average *per voucher* HAP rather than average HAP. As you know, the HCV program is funded on a calendar-year basis and PHAs are to lease and utilize their budgets on a calendar-year basis irrespective of their PHA Fiscal Year-End Date (i.e., 3/31, 6/30, 9/30 and 12/31). While providing formula-driven information on average last twelve-months for both leasing and HAP costs is nice to know for trending purposes, revising them as recommended above would provide must-have information for monitoring and management purposes, as well as trending information. Defining threshold for PHAs' VMS entries that constitute "material" differences is long overdue and important to providing value to the information HUD is planning to gather in the columns "UML Last Month" and "HAP Last Month."

There are a number of different tracking mechanisms that PHAs use to monitor all of the aspects of their voucher and budget utilization. The existing tracking tools outside of the proposed new fields in VMS are robust and effective. Among other important fields, PHAs' existing program tracking tools include fields such as Unit Months Available (UMA) as adjusted during the year for any opt-out vouchers or other incremental vouchers. Ultimately, PHAs and HUD are concerned with total calendar year-to-date UMLs versus total calendar year-to-date UMAs. The proposed fields in VMS do not contain this calendar-year UMA or year-to-date UMA information. As such, it would not capture fundamentally important information to one of the principal goals of having PHAs, and HUD, monitor and stay within 100 percent of their UMA for their calendar-year voucher leasing rates.

No Proposed Revisions to VMS to Address Department's Use of PIC Data for Portability Reimbursement

HUD replied to NAHRO's March 11, 2010 letter (attached) regarding HUD's use of PIC data, not VMS leasing and cost data, to provide PHAs with set-aside adjustment funding for their portability costs exceeding their renewal funding awarded. HUD's response states, "The OHVP have consistently selected PIC, rather than VMS, to identify the Ports' increased costs incurred by PHAs because we can do it systematically, avoiding a potential double-funding. There is no convenient way to tease out the new port activities/charges without referring to PIC…We agree with you that the process does have problems. Although the PHAs know the process, because we have used it each time portable costs have been included in the set-aside, they still apparently have problems with PIC reporting and communications between PHAs to ensure this happens on a timely and consistent basis. We are discussing alternatives for the future and welcome your ideas…For the current year, we are compelled to follow through with the process outlined in the Notice, and we will continue to work with the PHAs to achieve reporting that will support their actual needs."

HUD's response implies that if HUD were to use the existing VMS voucher leasing and cost data, it would pose a potential pitfall of double-funding. HUD's response states that there is no convenient way to tease out the new port activities/charges without referring to PIC. With PHAs that have HCV programs only without any special voucher programs (i.e., HUD-VASH, FUP or Mainstream), HUD could use the existing VMS data for the fourth quarter of 2009 without any double counting and without the need of PIC data. For PHAs with both HCV programs and special voucher programs, HUD could simply use PIC data to isolate portability costs attributable to their special voucher programs in conjunction with use of their VMS data for their HCV programs to ensure that there was not any double counting of their portability costs. Instead, like the Department's wholesale use of PIC data for PHAs' mid-month HAP expenses, which contributed in large measure to the voucher funding crisis in 2009, HUD is opting to continue its practice of wholesale use of PIC data. If HUD does not revise its proposed VMS form to include specific line items relating to portability, NRA, UNA, Cash/Investments and vouchers issued for each specific voucher program (i.e., HCV, HUD-VASH, FUP, and Mainstream), and that is the Department's justification for its wholesale use of PIC data rather than VMS data for adjusting PHAs' funding attributable to portability, this is disconcerting to NAHRO and its members.

In referring to VMS, the notice states, "It is a critical data system that is used for a variety of major functions, including budget formulation, utilization analysis, and funding allocations. As such, accuracy of the data is extremely important." Unfortunately, HUD's improper use of its existing VMS data and omission of related changes to the next generation of VMS will continue a practice that does not provide PHAs with accurate funding allocations and adjustments.

HUD's Programmed Thresholds by PHA Size of Requiring Hard-Edit Approvals Is Not Working as Planned

<u>Revisions to VMS Data After Validated by PHA and Saved</u>

There are hard edits in VMS when PHAs validate the file before saving. PHAs enter the VMS data, validate, and then save. If the PHA goes back in and changes some of the pull down boxes in VMS with new or changed information, the edit logic may stop them, clear all associated data, and then force them to renter and validate again. That is one kind of edit. The problem PHAs have with this is that when the edit happens, it clears all associated data and makes PHAs reenter it even if most of it was correct. If, instead of the current process, the validate function did not clear all of the PHA's associated data, it would take much less time for the PHA to make corrections.

<u>Revisions to Triggering Hard Edit and HUD Approval Is Not Working as Planned</u>

There is some data that PHAs can change in VMS which will pass the validate feature, but once the file is saved it is flagged in the system as "pending hard edit" until HUD approves it. Only then can PHAs proceed to another month. PHAs cannot change any field without ending up in this state of hard edit required by FMC. This problem poses particular hardships when PHAs have to wait for HUD approval when they are seeking to change several months of VMS data at a time as when dealing with correcting data or updating prior months due to retroactive changes under the accrual accounting method.

PHAs of all sizes also report to NAHRO that "*any* change generates the need for a hard edit and HUD approval." PHAs report that even changing the count on number of vouchers or a small amount of HAP generates a message when saved that HUD approval is required. The summary screen then displays the report as "pending hard edit required." Other PHAs of all sizes report to us about their experiences with having to get hard edits approved by HUD FMC by stating, "*any* VMS item with a drop down box/menu, such as spending Net Restricted HAP Assets to augment my monthly HAP, triggers the need for a hard edit approval from HUD FMC, and that once a month in VMS is considered a hard edit it is always a hard edit requiring another approval from my HUD FMC Financial Analyst even for an unrelated change." If this is the case, PHAs engaged in accrual accounting reporting in VMS are bound to trigger VMS' hard edit approval a significant percentage of the time. Our PHA members report that some FMC people are very quick to approve VMS hard edits for them, while other FMC people are simply on vacation at this time with no communication to them about who they should contact in their absence for hard edit approvals. This is not a sustainable way to continue using VMS for renewal funding purposes.

NAHRO has conveyed our members' thoughts about the problems with HUD's programmed VMS data thresholds by PHA size, following agencies' VMS submissions that trigger the need for a hard edit and approval of HUD FMC. Given that the programmed thresholds by PHA size are not working, the amount of time and effort requiring approvals by HUD FMC of PHAs' hard edits is unwarranted. The existing system does not provide HUD with the type of Quality Control intended by the Department. From PHAs' perspective, the existing system is onerous and needs to be fixed.

Apparent Lack of Coordination by HUD in its Transformation Initiative

In FY 2010, HUD received $100 million from the Section 8 Tenant-Based Assistance Program for its Transformation Initiative (TI) for next generation technology investments in the HCV program, of which the proposed four new fields in VMS are a part. The Department's Transformation Initiative is "the cornerstone of the agency's efforts to change the way that HUD does business. For the first time, the Department has the flexibility to make strategic, cross-cutting investments in research and evaluation, major demonstration programs, technical assistance and capacity building, and next generation technology investments to bring the agency fully into the 21st century."

The Department provided a general presentation on its Transformation Initiative to a few PHAs in November 2009, stating that HUD wants to look at reporting workloads and workflows, and determine where HUD's IT systems (i.e., VMS, PIC, DIS) inhibit its ability to effectively share information with stakeholders. HUD stated that its goals are to improve customer /partner relations, increase efficiency and accountability in the HCV program, identify process and system consolidation opportunities, decrease system maintenance and development costs, and increase oversight and monitoring of funds, families, PHAs and HUD. HUD stated that its plan is to create a database and software application unifying all of its discrete databases and spreadsheets, and the Department also envisions an enterprise architecture that would displace software systems provided by private industry software vendors. To date, however, there have been no working groups or meaningful design or implementation of a TI plan presented to PHAs and program stakeholders. In the meantime, HUD PIH is moving forward with changes to VMS in a way that appears to be disconnected to, and inconsistent with, its other information systems. It is a shared goal to have HUD systems "talk to one another" with regard to information that is already entered and submitted. Layering duplicative fields in other systems rather than developing an Enterprise Architecture information system to capitalize on existing information systems would move in the opposite direction of HUD's stated intentions under the Transformation Initiative.

FY 2010 will mark the seventh year that the average pro-ration of ongoing administrative fees is approximately 90 percent. HUD's FY 2011 budget request for ongoing administrative fees states that it would maintain a funding level at 90 percent pro-ration. If the $100 million was used for ongoing administrative fees rather than the Transformation Initiative, it would have provided PHAs with almost a 100 percent pro-ration in FY 2010. In this intervening period of HUD consulting with HCV program stakeholders in the development of its proposed changes under the Transformation Initiative, PHAs would like to see the funds that would have otherwise provided them with a 100 percent pro-ration be used in a way that does not create duplicative work for them and provides the Department with meaningful information that it will use and enforce in a worthwhile manner.

Conclusion

Thank you for the opportunity to comment on these matters. If you have any questions or comments, please feel free to e-mail me at jzimmerman@nahro.org or call me at 202-580-7213.

Sincerely,

Jonathan Zimmerman
Senior Policy Advisor – Housing Assistance Programs

Encl.