



Issue Date April 28, 2009
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Audit Report Number 2009-CH-1007
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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Springfield Housing Authority, Springfield, Illinois, Needs to Improve Its Controls over Its Section 8 Housing Assistance Payments

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Springfield Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of two audit reports on the Authority's program.

### **What We Found**

The Authority's program administration regarding housing assistance payment calculations and zero-income households was inadequate. The Authority did not effectively manage its housing assistance calculation and payment process in accordance with HUD requirements, resulting in nearly \$57,000 in overpayment, more than \$21,000 in unsupported payments and nearly \$22,000 in underpayment for the period January 1, 2007, through August 31, 2008. In addition, the Authority improperly received more than \$19,000 in program administrative fees for the households with incorrect and unsupported housing assistance payments.

Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than \$96,000 and underpay more than \$15,000 in housing assistance and utility allowances due to the Authority's calculation errors.

Further, the Authority failed to comply with its program administrative plan regarding zero-income household reviews. It did not effectively use HUD's Enterprise Income Verification system or other third-party verification methods to determine whether the households reporting zero income had unreported income. As a result, it unnecessarily paid housing assistance totaling more than \$41,000 for households that were required to meet their rental obligations. The Authority also improperly received more than \$6,000 in program administrative fees for the reported zero income households with overpaid housing assistance. Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than \$108,000 in housing assistance and utility allowances for households with unreported income.

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated April 23, 2009.

### **What We Recommend**

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$123,000 in program funds, provide documentation or reimburse its program more than \$21,000, and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that more than \$241,000 in program funds is spent on program administration that meets HUD's requirements over the next year.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Chicago Office of Public Housing and the Authority's executive director during the audit. We also provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's executive director on April 16, 2009.

We asked the Authority's executive director to provide comments on our discussion draft audit report by April 20, 2009. The Authority's executive director provided written comments, dated April 20, 2009. The executive director agreed with our findings and recommendations. The complete text of the auditee's response, except for eight attachments consisting of 16 pages of documentation that were not necessary to understand the Authority's comments, along with our evaluation of that response, can be found in appendix B of this report. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Chicago Office of Public Housing.

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## **BACKGROUND AND OBJECTIVE**

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The Springfield Housing Authority (Authority) was established by the State Housing Board of Illinois in November 1937 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a five-member board of commissioners (board) appointed by the mayor of Springfield, Illinois, to five-year staggered terms. The board's responsibilities include overseeing the administration of the Authority and approving policies. The board appoints the Authority's executive director. The executive director is responsible for ensuring that policies are followed and providing oversight of the Authority's programs.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of March 10, 2009, the Authority had 1,823 units under contract with annual housing assistance payments totaling more than \$7.2 million in program funds.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) accurately calculated housing assistance and utility allowance payments and (2) appropriately verified whether reported zero-income households had income. This is the second of two audit reports on the Authority's program. The first audit report (report number 2008-CH-1016, issued on September 29, 2008) included one finding. That finding was not repeated in this audit report.

## RESULTS OF AUDIT

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### Finding 1: Controls over Housing Assistance and Utility Allowance Payments Were Inadequate

The Authority did not comply with HUD's requirements and its program administrative plan regarding housing assistance and utility allowance payments. It did not effectively manage its housing assistance calculation and payment process. This condition occurred because the Authority lacked adequate procedures and controls to ensure that HUD's requirements and its program administrative plan were appropriately followed. As a result, the Authority overpaid nearly \$78,000 and underpaid nearly \$22,000 in housing assistance and utility allowances. Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than \$96,000 and underpay more than \$15,000 in housing assistance.

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#### **The Authority Miscalculated Housing Assistance and Utility Allowance Payments**

We statistically selected 66 household files from a universe of 1,218 households receiving housing assistance payments as of October 2, 2008, using data mining software. The 66 files were reviewed to determine whether the Authority had documentation for and correctly calculated households' housing assistance and utility allowance payments for the period January 2007 through August 2008. Our review was limited to the information maintained by the Authority in its household files and HUD's Enterprise Income Verification system (system).

Of the 66 files reviewed, the Authority incorrectly calculated housing assistance and/or utility allowance payments for 34 households in one or more of the certifications reviewed. The incorrectly calculated housing assistance was due to the following errors:

- 26 had incorrect annual income for one or more certifications,
- 22 had incorrect utility allowances for one or more certifications,
- Nine had incorrect payment standards for one or more certifications,
- Eight had computer system rounding errors for one or more certifications,
- Five had incorrect rents to owners for one or more certifications,
- Three had incorrect dependent allowances for one or more certifications,
- Two had incorrect elderly/disability allowances for one or more certifications,
- One had incorrect medical allowances for one or more certifications, and
- One had incorrect childcare costs for one or more certifications.

The Authority's miscalculations resulted in overpayments of \$25,074 in housing assistance and utility allowances for 18 of the 34 households and underpayment of \$3,103 in housing assistance and utility allowances for 16 of the 34 households.

Further, the Authority failed to take action on unreported income found during the examination process. Of the 66 household files reviewed, 18 had unreported income totaling \$176,748 which resulted in \$31,668 in total overpaid housing assistance and utility allowances. Through third-party verification or HUD's Enterprise Income Verification reports, the Authority became aware of the unreported income for the 18 households but failed to seek repayment of the overpaid housing assistance. According to its program administrative plan, if the Authority has evidence of program abuse, such as misrepresenting income, it will take action to terminate the abuse. The administrative plan also states that if a household owes money to the Authority, it may require the household to enter into a repayment agreement or require repayment on demand.

### **The Authority Lacked Documentation to Support Housing Assistance and Utility Allowance Payments**

Of the 66 files reviewed, 21 (32 percent) lacked documentation to support whether the Authority correctly calculated the housing assistance and utility allowance payments. The documentation was required by HUD's regulations and/or the Authority's program administrative plan. The 21 files were missing the following support documentation:

- 16 were missing third-party verifications of reported household income;
- Nine were missing support for the calculation of medical, disability, and/or dependent allowances;
- Six were missing birth certificates and/or proof of Social Security numbers; and
- Two were missing executed housing assistance payment contracts.

The missing supporting documentation resulted in unsupported overpayment of \$16,487 for 9 of the 21 households and unsupported underpayment of \$15,951 in housing assistance and utility allowances for the remaining 12 households.

### **The Authority Incorrectly Processed Housing Assistance Payments**

Of the 66 files reviewed, the Authority incorrectly processed housing assistance and utility payments for 32 households (48 percent). The 32 households were incorrectly paid due to unsupported adjustments in housing assistance, incorrect proration of housing assistance and/or utility allowance payments, and failure to issue utility allowance payments.

The Authority made one or more adjustments in housing assistance and/or utility allowance payments for 22 of the 32 households; however, it was unable to provide supporting documentation for the adjustments. In addition, the Authority inconsistently calculated the housing assistance and utility allowance payments for midmonth moves for nine households. Further, the Authority failed to issue utility allowance payments for five households.

The incorrectly processed housing assistance and utility allowance payments for the 32 households resulted in unsupported overpayment of \$4,634 for 15 households and unsupported underpayment of \$2,789 for the remaining 17 households.

### **The Authority Failed to Effectively Manage Its Housing Assistance Calculation and Payment Process**

The housing assistance and utility allowance payments were erroneously calculated because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements and its program administrative plan.

The Authority's program administrative plan states that the Authority will provide quality control reviews to identify mistakes or program abuse. However, the administrative plan did not detail the type or number of quality control reviews the Authority would conduct. Of the 66 household files reviewed, there was evidence that three quality control reviews were performed by the Authority's director of housing operations; however, none of the reviews revealed calculation errors or mistakes. The administrative plan also states that the Authority assumes full responsibility for ensuring that its staff is knowledgeable in certification/recertification requirements and other HUD factors impacting eligibility and household participation. Although the three quality control reviews resulted in a passing rating, our review found incorrect income calculations, utility allowances, and rental payments to owners. Quality control reviews are an

important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate. The Authority's director of housing operations performed the three quality control reviews; however, a supervisory review performed by the deputy executive director would have assisted in ensuring that errors were not overlooked.

The Authority's director of housing operations said that she attempted to review 100 percent of the new admission and annual certifications but did not have time. She also said she had not had time to develop a procedure for reviewing a smaller percentage of the household files. The Authority performed quality control reviews of 7 percent of the active households in 2007 and less than 2 percent in 2008. None of the quality control reviews received a supervisory review to ensure that mistakes or program abuse was identified.

In addition, the Authority lacked controls over adjustments to housing assistance and utility allowance payments. Of the 66 files reviewed, 32 (48 percent) had one or more unsupported adjustments to housing assistance and/or utility allowance payments. According to its program administrative plan, the Authority will maintain an internal control system to ensure the accurate posting and tracking of housing assistance payments. However, the Authority's director of housing operations said that the specialists were not required to complete documentation or seek management approval before processing adjustments to a household's housing assistance payment amount in the Authority's computer system. She also said that documentation was not needed since the specialists usually remember why they made adjustments.

## Conclusion

The Authority improperly used its program funds when it failed to comply with HUD's requirements and its program administrative plan. It overpaid \$25,074 and underpaid \$3,103 in housing assistance and utility allowances for a net overpayment of \$21,971. In addition, it had \$16,487 in unsupported overpayment and \$15,951 in unsupported underpayment of housing assistance and utility allowances due to insufficient supporting documentation. Further, the Authority incorrectly processed housing assistance and utility allowance payments for 32 households resulting in unsupported overpayment of \$4,634 for 15 households and unsupported underpayment of \$2,789 for 17 households.

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to perform its administrative responsibilities correctly or adequately under the program. The Authority received \$19,071 in program administrative fees related to the inappropriate payments for the 34 program households with incorrectly calculated housing assistance and utility allowances, 21 program households with unsupported housing assistance and utility allowance

calculations, and the 32 households with incorrectly processed housing assistance and utility allowance payments.

HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid \$77,863 (\$25,074 plus \$31,668 plus \$16,487 plus \$4,634) and underpaid \$21,843 (\$3,103 plus \$15,951 plus \$2,789) in housing assistance and utility allowances. If the Authority does not correct its certification process, we estimate that it could overpay \$96,461 and underpay \$15,080 in housing assistance and utility allowances over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put in place to ensure the accuracy of housing assistance and utility allowance payments.

## Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to

- 1A. Reimburse its program \$25,074 from nonfederal funds for the overpayment of housing assistance cited in this finding.
- 1B. Reimburse the appropriate households \$3,103 from program funds for the underpayment of housing assistance cited in this finding.
- 1C. Pursue collection from the applicable households or reimburse its program \$31,668 from nonfederal funds for the overpayment of housing assistance due to unreported income.
- 1D. Provide support or reimburse its program \$16,487 from non federal funds for the unsupported overpayment of housing assistance and utility allowances for the nine households cited in this finding.
- 1E. Provide support or reimburse the appropriate households \$15,951 from program funds for the unsupported underpayment of housing assistance for the 12 households cited in this finding.
- 1F. Provide support or reimburse its program \$4,634 from nonfederal funds for the unsupported overpayment adjustments to housing assistance and utility allowances cited in this finding.
- 1G. Provide support or reimburse the appropriate households \$2,789 from program funds for the unsupported underpayment adjustments to housing assistance and utility allowances cited in this finding.

- 1H. Reimburse its program \$19,071 from nonfederal funds for the improper administrative fees related to the households cited in this finding.
- 1I. Ensure that its staff responsible for performing quality control reviews are knowledgeable of HUD's and its program policies and procedures to assure that mistakes made during household reexaminations are not overlooked and repayment agreements are created to recover overpaid housing assistance when unreported income is discovered.
- 1J. Implement a system of supervisory reviews within its quality control process, and implement adequate procedures for obtaining and documenting approval for adjustments to its housing assistance payments to ensure that \$111,541 (\$96,461 plus \$15,080) in program funds is appropriately used for future payments.
- 1K. Implement adequate procedures and controls to ensure that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process.

## Finding 2: The Authority's Zero-Income Households Had Unreported Income

The Authority did not effectively use HUD's system or other third-party verification methods to perform periodic reviews to determine that reported zero-income households had unreported income. Of the 49 households reviewed, 27 had unreported income that affected their housing assistance and utility allowance payments. This condition occurred because the Authority lacked adequate procedures and controls to perform appropriate income verifications. As a result, it unnecessarily paid housing assistance and utility allowances totaling more than \$41,000 for households that were required to meet their rental obligations.

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### Households Had Unreported Income

From the 333 households claiming zero annual income as of October 2, 2008, we statistically selected 49 households using data mining software. The 49 files were reviewed to determine whether the Authority conducted periodic reviews of the zero-income households and whether the households had unreported income according to HUD's system for certifications effective January 1, 2007, through August 31, 2008. Our review was limited to the information maintained by the Authority in its household files and HUD's system.

The Authority's program administrative plan states that the Authority will schedule special reexaminations every 90 days for households reporting zero income. However, the Authority did not perform reexaminations every 90 days for the 49 household files reviewed.

Of the zero-income household files reviewed, 28 had income not reported to the Authority but income information was available through HUD's system. The unreported income for 27 of the 28 households resulted in \$41,569 in overpaid housing assistance and utility allowances. As of March 2009, the Authority had recovered \$525 of the overpaid housing assistance and initiated action to recover an additional \$15,821 in overpaid funds for 14 of the 27 households.

The following are examples of households with unreported income:

- Household 18 had income, according to HUD's system, totaling \$18,565. Since the household had unreported income, the Authority overpaid \$3,402 in housing assistance from January 1, 2007, through June 30, 2008. There was no evidence in the household file that the Authority accessed HUD's system from January 2007 through June 2008. However, unreported income was listed on HUD's system as of March 2007. If the Authority had conducted periodic reviews every 90 days as required in its program administrative plan or accessed HUD's system while completing annual certifications, it would

have found the unreported income and been able to verify the household's employment status by performing a third-party verification.

- Household 42 had income, according to HUD's system, totaling \$10,537. Since the household had unreported income, the Authority overpaid \$1,376 in housing assistance from January 1, 2007, through August 31, 2008. The household file contained a third-party employment verification received by the Authority on April 29, 2008, stating that a household member was employed from July 13, 2007, through February 8, 2008. However, the Authority did not attempt to recover the overpaid housing assistance.

As previously mentioned, 28 of the 49 files reviewed had income not reported to the Authority but income information was available through HUD's system. The Authority's program administrative plan states that the Authority's procedures for anticipating annual income include the use of HUD's system. In addition, the administrative plan states that the Authority will schedule special reexaminations every 90 days for households reporting zero income. Therefore, the Authority would have discovered the unreported income if it had accessed HUD's system in accordance with its administrative plan while conducting reviews every 90 days.

The Authority's deputy director said that before October 2007 the Authority's administrative plan did not require 90-day reviews of its zero-income households. The director of housing operations also said that since the 90-day review requirement was implemented in October 2007, she had distributed HUD's Enterprise Income Verification reports to the Authority's Section 8 specialists, who were responsible for conducting the periodic reviews. However, the Authority did not perform quality control reviews to ensure that the specialists completed the 90-day reviews and was unable to provide documentation showing that the 28 household files that had unreported income received periodic reviews.

In addition to the 49 household files reviewed, 18 contained documentation that showed the households earned income during the periods in which zero income was reported but the Authority did not attempt to recover the overpaid housing assistance. The Authority did not ensure that its staff took appropriate steps to determine whether households reporting zero income had unreported income. The Authority's deputy director said that prior to the specialist receiving training in July 2008 on the use of HUD's system, the Authority was not fully aware of what to do with the system's income reports. She also said this may account for the lack of action when unreported income was discovered.

## **The Authority Lacked Adequate Procedures and Controls**

The overpayment of \$41,569 in housing assistance and utility allowances to households that reported zero income but had income occurred because the Authority lacked adequate procedures and controls for performing appropriate income verification. The Authority needs to make full use of HUD's system or perform other third-party income verification for all households at the time of examinations. Periodic quality control reviews are an important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate. If the Authority had conducted periodic reviews every 90 days as required by its program administrative plan, it would have discovered the income information and been able to verify the households' employment status by performing third-party verification.

As a result of the Authority's failure to properly verify household income for its zero-income households and recover overpaid housing assistance, it improperly paid \$41,569 in housing assistance and utility allowances for households that were required to meet their rental obligations. In addition, the Authority received \$6,218 in program administrative fees for the periods in which it failed to conduct periodic reviews and for the periods income was excluded although proof of income was documented in the household file. Since the Authority's administrative plan did not require a 90-day review until October 2007, the administrative fees were not questioned prior to this date if a 90-day review was not conducted.

## **Conclusion**

HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid \$41,569 in housing assistance. If the Authority does not correct its zero-income review process and controls, we estimate that it could overpay \$108,323 in excessive housing assistance over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put in place to ensure the accuracy of housing assistance payments.

## **Recommendations**

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to

- 2A. Pursue collection from the applicable households or reimburse its program \$41,044 (\$41,569 minus \$525) from nonfederal funds for the overpayment of housing assistance cited in this finding.
- 2B. Reimburse its program \$6,218 from nonfederal funds for the improper administrative fees related to the 27 households cited in this finding.
- 2C. Implement quality control procedures to include supervisory reviews of the household files with reported zero income to ensure that periodic reviews are performed to prevent an estimated \$108,323 in improper program funds being used for future payments over the next year.
- 2D. Review the remaining 284 (333 minus 49) households claiming zero income as of October 2, 2008, to determine whether the households had unreported income. For households that received excessive housing assistance and utility allowance payments, the Authority should pursue collection and/or reimburse its program the applicable amount from nonfederal funds.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we reviewed

- Applicable laws, regulations, the Authority's program administrative plan, HUD's program requirements at 24 CFR Parts 5 and 982, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records; annual audited financial statements for 2004, 2005, and 2006; bank statements; household files; policies and procedures; board meeting minutes for January 2006 through February 2008; organization chart; and program annual contributions contract with HUD.
- HUD's files for the Authority.

We also interviewed the Authority's employees and board chairman, HUD staff, and program households.

### **Finding 1**

Using data mining software, we statistically selected 66 from the 1,218 households receiving housing assistance payments as of October 2, 2008. The 66 files were reviewed to determine whether the Authority had documentation for and correctly calculated households' housing assistance and utility allowance payments for the period January 2007 through August 2008. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent.

Our sampling results determined that the housing assistance and/or utility allowance payments were miscalculated or unsupported for 47 households in one or more of the certifications reviewed. Of the 47 household files, 34 had calculation errors which resulted in incorrect housing assistance payments. Of these 34 household files with calculation errors, 18 resulted in overpayment of housing assistance and utility allowances and the remaining 16 resulted in underpayment of housing assistance and utility allowances.

Based on our sample review results, using difference estimation methodology, we are 95 percent confident that the amount of overpaid housing assistance and utility allowances due to calculation errors over the next year will be at least \$96,461. This amount was determined by limiting the estimated difference lower limit of overpaid housing assistance to one year. We divided the estimated difference lower limit of \$160,769 by 20 months and then multiplied by 12 months. In addition, we are 95 percent confident that the amount of underpaid housing assistance and utility allowances due to calculation errors over the next year will be at least \$15,080. This amount was determined by limiting the estimated difference lower limit of underpaid housing assistance to one year. We divided the estimated difference lower limit of \$25,133 by 20 months and then multiplied by 12 months.

## **Finding 2**

Using data mining software, we statistically selected 49 from the 333 households reporting zero annual income as of October 2, 2008. The 49 files were reviewed to determine whether the Authority conducted periodic reviews of the zero-income households and whether the households had unreported income according to HUD's system for certifications effective January 1, 2007, through August 31, 2008. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent.

Our sampling results determined that 27 households received excessive housing assistance and utility allowance payments due to income unreported by the household. Based on our sample review results, using difference estimation methodology, we are 95 percent confident that the amount overpaid due to unreported income over the next year will be at least \$108,323. This amount was determined by limiting the estimated difference lower limit of overpaid housing assistance to one year. We divided the estimated difference lower limit of \$180,539 by 20 months and then multiplied by 12 months.

We performed our on-site audit work between October 2008 and February 2009 at the Authority's offices located at 200 North 11<sup>th</sup> Street, Springfield, Illinois. The audit covered the period January 1, 2007, through August 31, 2008, but was expanded as determined necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## **Significant Weaknesses**

Based on our review, we believe that the following items are significant weakness:

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and its program administrative plan regarding the calculation and payment of housing assistance and utility allowance payments and the review of zero-income households (see findings 1 and 2).
- Procedures did not exist to obtain and document approval for adjustments to its housing assistance payments (see finding 1).
- Quality control reviews did not identify housing assistance calculation errors or ensure that repayment agreements were created to recover overpaid housing assistance due to unreported income discovered during the examination process (see finding 1).
- Quality control procedures did not exist to ensure that periodic reviews of reported zero income households were performed (see finding 2).

## **Separate Communication of Minor Deficiencies**

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated April 23, 2009.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$25,074		
1B			\$3,103
1C	31,668		
1D		\$16,487	
1E			15,951
1F		<u>4,634</u>	
1G			2,789
1H	19,071		
1J			111,541
2A	41,044		
2B	<u>6,218</u>		
2C			<u>108,323</u>
Totals	<u>\$123,075</u>	<u>\$21,121</u>	<u>\$241,707</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the Authority implements our recommendations, it will cease to incur program costs for the overpayment and/or underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and/or the Authority's program administrative plan. Once the

Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

 **SPRINGFIELD HOUSING AUTHORITY**  
Changing lives one key at a time  
April 20, 2009

200 North 11th Street, Springfield, IL 62703  
Phone 217.753.5757 Fax 217.753.5799  
www.springfieldhousingauthority.org

Nikita Irons, Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of the Inspector General  
477 Michigan Avenue, Room 1780  
Detroit, Michigan 48226-2592

RE: Springfield Housing Authority – Response to Findings

Dear Ms. Irons:

In follow up to the Office of Inspector General's correspondence dated April 6, 2009, relative to the Phase 2 discussion draft audit report of HUD's Office of Inspector General for Audit, the Springfield Housing Authority respectfully submits its formal response to the audit findings for your review. In addition, the Springfield Housing Authority has provided supporting documentation through exhibits to further sustain the formal responses made.

Thank you for your review and consideration of the enclosed documents. Should you have any questions and/or concerns relative to the attachments, please contact me directly at (217) 753-5757 ext. 206.

Sincerely,  
  
SPRINGFIELD HOUSING AUTHORITY

Jackie L. Newman  
Executive Director

Cc  
Tim Schweizer, SHA Board Chairman  
SHA Board of Commissioners  
Melissa Huffstetter, Deputy Director  
Debra A. Hereford, Director of Housing Operations  
OIG Audit File – Executive Director's Office



**Ref to OIG Evaluation**

**Auditee Comments**

**RESPONSE TO OIG'S PHASE 2 AUDIT FINDINGS**

**OIG Recommendation 1A** Reimburse its program \$25,074 from non federal funds for the overpayment of housing assistance cited in this finding.

**Management Response:** Agree

As a result of monies being paid in the amount of \$25,074 for the overpayment of housing assistance cited, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency.

**OIG Recommendation 1B** Reimburse the appropriate households \$3,103 from program funds for the underpayment of housing assistance cited in this finding.

**Management Response:** Agree

The Springfield Housing Authority is in the process of making corrections to participant's files for underpayment of housing assistance in the amount of \$3,103. Participants will be reimbursed for housing assistance underpayment on or before July 15, 2009.

**OIG Recommendation 1C** Pursue collection from the applicable households or reimburse its program \$31,668 from nonfederal funds for the overpayment of housing assistance due to unreported income.

**Management Response:** Agree

**Action Plan**

The Springfield Housing Authority has implemented quarterly zero-income briefings for all families in the Voucher program reporting zero income to holistically address zero income families as outlined in the SHA's Administrative Plan, Section XIII - Ongoing Activities, C(2) Zero Income. To date, 113 voucher participants reporting zero income have been reviewed via this process. Additionally, SHA staff is in the process of contacting participants to enter into repayment agreements to reimburse the Housing Authority for housing assistance payments paid on behalf of the participant, due to the participant not properly reporting income. The 18 participants are scheduled to come into the office within the next 30 days. Verifications will be acquired within 60 days in order to process repayment agreements for the 18 participants. If verification is unable to

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be acquired, the Springfield Housing Authority will terminate participants as necessary and refer them for prosecution. For any participants no longer active under the Housing Choice Voucher program, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency. (See Attachment 1 – List of 18 Participants)

**OIG Recommendation 1D** Provide support or reimburse its program \$16,487 from non federal funds for the unsupported overpayment of housing assistance and utility allowances for the nine households cited in this finding.

**Management Response:** Agree

**Action Plan** The Springfield Housing Authority is in the process of locating the necessary documentation for the 9 households cited. The 9 participants are scheduled to come into the office within the next 30 days. Supporting documentation will be acquired within 60 days. If supporting documentation is unable to be acquired and it is determined to be the family's responsibility, the Springfield Housing Authority may pursue a repayment agreement for the overpaid housing assistance. For any of the remaining nine households cited the Springfield Housing Authority is unable to provide supporting documentation, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency.

**OIG Recommendation 1E** Provide support or reimburse the appropriate households \$15,951 from program funds for the unsupported underpayment of housing assistance for the 12 households cited in this finding.

**Management Response:** Agree

**Action Plan** The Springfield Housing Authority is in the process of locating the necessary documentation for the 12 households cited. The 12 participants are scheduled to come into the office within the next 30 days. Verifications will be acquired within 60 days. If verification is unable to be acquired, or if the Housing Authority is unable to acquire the appropriate documentation, the participants will be reimbursed for underpayment housing assistance. (See Attachment 2 – List of 12 Participants)

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<b>OIG Recommendation 1F</b>	<b>Provide support or reimburse its program \$4,634 from non federal funds for the unsupported overpayment adjustments to housing assistance and utility allowances cited in this finding.</b>
<b>Management Response:</b>	<b>Agree</b>  As a result of monies being paid in the amount of \$4,634 for the unsupported overpayment adjustments to the housing assistance and utility allowances cited, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency.
<b>OIG Recommendation 1G</b>	<b>Provide or reimburse the appropriate households \$2,789 from program funds for the unsupported underpayment adjustments to housing assistance and utility allowances cited in this finding.</b>
<b>Management Response:</b>	<b>Agree</b>
<b>Action Plan</b>	The Springfield Housing Authority is in the process of locating the necessary documentation for the 17 households cited. The 17 participants are scheduled to come into the office within the next 30 days. Verifications will be acquired within 60 days. If verification is unable to be acquired, or if the Housing Authority is unable to acquire the appropriate documentation, the participants will be reimbursed for housing assistance underpayment on or before July 15, 2009. (See Attachment 3 - List of 17 Participants)
<b>OIG Recommendation 1H</b>	<b>Reimburse its program \$19,071 from non-federal funds for the improper administrative fees related to the households cited in this finding.</b>
<b>Management Response:</b>	<b>Agree</b>  As a result of monies being paid in the amount of \$19,071 for the improper administrative fees related to the households cited in this finding, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency.

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Comment 1

<b>OIG Recommendation 1I</b>	Ensure that its staff responsible for performing quality control reviews are knowledgeable of HUD's and its program policies and procedures to assure that mistakes made during household reexaminations are not overlooked and repayment agreements are created to recover overpaid housing assistance when unreported income is discovered.
<b>Management Response:</b>	Agree
<b>Action Plan</b>	The Director of Housing Operations and Section 8 Manager are responsible for conducting quality control reviews. Annual external training sessions are attended by the Director of Housing Operations and the Section 8 Manager to ensure they are knowledgeable of HUD rules and regulations governing the Housing Choice Voucher program and to review household reexaminations conducted by the Section 8 Leasing Specialists for accuracy. The Section 8 Leasing Specialists are scheduled to attend the Housing Choice Voucher Specialist Training by Nan McKay and Associates which will ensure staff are provided with current regulations in voucher administration. Similar training will be provided on an annual and semi-annual basis as available.
<b>OIG Recommendation 1J</b>	Implement a system of supervisory reviews within its quality control process, and implement adequate procedures for obtaining and documenting approval for adjustments to its housing assistance payments to ensure that \$111,541 (\$96,461 plus \$15,080) in program funds is appropriately used for future payments.
<b>Management Response:</b>	Agree
<b>Action Plan</b>	The Director of Housing Operations and Section 8 Manager are responsible for conducting quality control reviews of voucher holder examinations. The Springfield Housing Authority processes payments to landlords on a bi-monthly basis and the Director of Housing Operations and/or Section 8 Manager are responsible for approving adjustments made by Leasing Specialists prior to payment processing in an effort to minimize errors in adjustments to housing assistance payments. (See <a href="#">Attachment 4 - Review and Approval of Adjustment Process</a> )
<b>OIG Recommendation 1K</b>	Implement adequate procedures and controls to ensure that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process.

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<b>Management Response:</b>	Agree
<b>Action Plan</b>	The Springfield Housing Authority's Administrative Plan and Enterprise Income Verification (EIV) Policy and Procedures Manual address the policy and procedures regarding repayment agreements for voucher families identified with unreported income during the examination process. The SHA Leasing Specialists utilize the EIV reports during the re-examination process and sends out Third Party verifications for any discrepancies. Further, the Leasing Specialist meets with the Head of Household to discuss how the Authority will proceed if the discrepancy is further verified by 3 <sup>rd</sup> Party. If necessary, a Repayment Agreement will be entered into with the Head of Household. If a Repayment Agreement cannot be reached, the Head of Household may be referred for prosecution and/or collection for the amount owed. (See Attachment 5 – Administrative Plan / EIV Policy and Procedures)
<b>OIG Recommendation 2A</b>	Pursue collection from the applicable households or reimburse its program \$41,044 (\$41,569 minus \$525) from nonfederal funds for the overpayment of housing assistance cited in this finding.
<b>Management Response:</b>	Agree
<b>Action Plan</b>	The Springfield Housing Authority is in the process of locating the necessary documentation for the 27 households cited. The 27 participants are scheduled to come into the office within the next 30 days. Verifications will be acquired within 60 days. If verification is unable to be acquired, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency. (See Attachment 6 – List of 27 Participants)
<b>OIG Recommendation 2B</b>	Reimburse its program \$6,218 from nonfederal funds for the improper administrative fees related to the 27 households cited in this finding.
<b>Management Response:</b>	Agree
	As a result of mistakes being paid in the amount of \$6,218 for the improper administrative fees cited, the Springfield Housing Authority will request to enter into a repayment agreement with a time line and a monthly amount that would be agreeable to both the HUD and the Springfield Housing Authority that would not place a financial hardship on the Agency.

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**OIG Recommendation 2C** Implement quality control procedures to include supervisory reviews of the household files with reported zero income to ensure that periodic reviews are performed to prevent an estimated \$108,323 in improper program funds being used for future payments over the next year.

**Management Response:** Agree

**Action Plan** The Springfield Housing Authority's Administrative Plan outlines in its Administrative Plan, Section XIII – Ongoing Activities C(2) Zero Income Policy that the SHA will schedule special re-examinations every ninety (90) for families reporting zero income. In January 2009, the Springfield Housing Authority implemented quarterly zero-income briefings for all families in the Voucher program reporting zero income. To date, 113 voucher participants reporting zero income have been reviewed via this process. (See Attachment 7 – Zero Income Policy and Procedures)

**OIG Recommendation 2D** Review the remaining 284 (333 minus 49) households claiming zero income as of October 2, 2008, to determine whether the households had unreported income. For households that received excessive housing assistance and utility allowance payments, the Authority should pursue collection and/or reimburse its program the applicable amount from nonfederal funds.

**Management Response:** Agree

**Action Plan** Of the 284 remaining households claiming zero income that need to be reviewed, 177 have currently been reviewed. (See Attachment 8 – List of Participants Reviewed and Participants Remaining). The 107 participants that still need to be reviewed are scheduled to be complete within the next 60 days. A more detailed follow-up report outlining the status of the 284 households claiming zero income will be sent to the Chicago HUD Field Office within the next 60 days.

## OIG Evaluation of Auditee Comments

**Comment 1** The Authority's corrective action plan with HUD does not require the Authority to implement a system of supervisory reviews within its quality control process to ensure that program funds are appropriately used for future payments. The action plan only requires the Authority to implement procedures for obtaining and documenting approval for adjustments to its housing assistance payments. The Authority should provide supporting documentation that its procedures and controls were implemented to HUD's staff, who will work with the Authority, to resolve the recommendation.

## Appendix C

### FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

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HUD's regulations at 24 CFR 5.240(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 982.54 require the public housing authority to adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. The administrative plan states the authority's policy on matters for which the authority has discretion to establish local policies. (c) The public housing authority must administer the program in accordance with the authority's administrative plan.

HUD's regulations at 24 CFR 982.152(d) state that HUD may reduce or offset any administrative fee to a housing authority, in the amount determined by HUD, if the authority fails to perform program administrative responsibilities correctly or adequately under the program.

HUD's regulations at 24 CFR 982.153 state that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and the authority's program administrative plan.

Section VII, part A, number 2, of the Authority's program administrative plan states that the Authority's procedures for anticipating annual income include the use of Enterprise Income Verification methods approved by HUD in conjunction with family-provided documents dated within 60 days of the Authority's interview date.

#### **Finding 1**

HUD's regulations at 24 CFR 982.54(d) state that the public housing authority's administrative plan must cover the authority's policies on the following subjects: (4) occupancy policies, including (i) definition of what group of persons may qualify as a "family".

HUD's regulations at 24 CFR 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. (e) During the term of each assisted lease, and for at least three years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family.

HUD's regulations at 24 CFR 982.201(a) state that public housing authorities may only admit an eligible family to the program. To be eligible, the applicant must be a "family."

HUD's regulations at 24 CFR 982.305(c)(2) state that the public housing authority may not pay any housing assistance to the owner until the housing assistance payment contract has been executed.

HUD's regulations at 24 CFR 982.308(g)(2) state that if there are any changes in lease requirements governing tenant or owner responsibilities for utilities or appliances, tenant-based assistance shall not be continued unless the authority has approved a new tenancy in accordance with program requirements and has executed a new housing assistance payments contract with the owner.

HUD's regulations at 24 CFR 982.516(a)(1) state that the public housing authority must conduct a reexamination of family income and composition at least annually. (2) The Authority must obtain and document in the tenant file third-party verification of the following factors or must document in the tenant file why third-party verification was not available: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income, and (4) other factors that affect the determination of adjusted income. (b)(1) At any time, the public housing authority may conduct an interim reexamination of family income and composition.

Section IV, part B, number 1, of the Authority's program administrative plan states that a family is defined as one or more persons sharing residency whose income and resources are available to meet the family's needs, when the person to be designated head of household meets the Authority's definition of adult and is either related by blood, marriage, or act of law or who has evidenced a "stable" family/spousal relationship. Persons who evidence a "stable" family/spousal relationship must show evidence of operating as a family. Such a relationship must be evidenced by providing birth certificates showing joint parenthood of children who reside in the unit, joint savings/checking accounts, life insurance policies naming coresident as beneficiary, prior leases in both parties' names, and/or proof of "common law marriage" if parties have previously resided in a state that recognizes common law marriages.

Section VIII, part C, number 1, of the Authority's program administrative plan states that the Authority will implement new payment standards at the annual reexaminations or when the household moves or household composition changes. If the payment standards decrease, the Authority will implement the new standards at the annual reexamination, whenever a participant family moves or when the bedroom size, for which the family qualifies, changes.

Section IX, part A, of the Authority's program administrative plan states that bedroom size assignments on vouchers will be made so that no less than one and no more than two persons will occupy a bedroom. Persons of the opposite sex shall not be required to occupy the same bedroom except for married or cohabitating couples. Two children of the same sex may be required to share a bedroom regardless of age. Children of the opposite sex may be required to share a bedroom if both are under the age of three. Generally, children over the age of six shall not be required to share a bedroom with a parent. A separate bedroom may be provided for an individual family member if the family presents documentation sufficient to convince the Authority that the individual's physical or mental health requires separate sleeping quarters.

Section XIII, part C, number 5, of the Authority's program administrative plan states that (a) if a change in family circumstances or income results in a decrease in tenant rent, the adjustment in rent will be effective the first day of the month following verification of reported changes; (c) if a change in family circumstances or income results in an increase in tenant rent, the adjustment in rent will be made effective the first day of the second month following the change in family circumstances (thereby giving a 30-day notice to the participant).

Section XIII, part D, of the Authority's program administrative plan states that all participants are required to report any change in household composition within 30 days of the change.

Appendix J, part D, number 6, of the Authority's program administrative plan states that to reduce procedural problems, the Authority will provide quality control reviews of work completed by staff in an attempt to identify "honest" mistakes as well as incidences of program abuse.

## **Finding 2**

HUD's regulations at 24 CFR 982.516(f) states that the public housing authority must establish procedures that are appropriate and necessary to ensure that income data provided by applicant or participant families are complete and accurate.

HUD's Public and Indian Housing Notice 2005-9, section 4(e), states that families can be required to report all increases in income between reexaminations and the public housing authority may conduct more frequent interim reviews for families reporting no income.

Section XIII, part C, number 2, of the Authority's program administrative plan states that the Authority will schedule special reexaminations every 90 days for families reporting zero income. Families reporting zero income will be required to have all adult household members sign a certification of zero income and a release allowing the Authority to obtain a certified copy of any tax return submitted to the Internal Revenue Service by all adults residing in the household. Failure to comply with these reexamination requirements will be considered grounds for termination of assistance.

Appendix J, part D, of the Authority's program administrative plan states that the Authority will consider any activity designed to elicit monies and/or other forms of remuneration to which the party was not rightfully entitled as an act of "fraud or program abuse." Resident fraud is defined as the underreporting of income, underreporting of assets, and/or falsifying family size/composition or income. If abuse is substantiated, the Authority may require repayment depending on the seriousness of the abuse.