



The Housing Authority of the City of Annapolis, MD

Housing Choice Voucher Program



To: Russell DeSouza, Director, Office of Public Housing, Baltimore Field Office,
3BPH
//signed//

From: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA

Subject: The Housing Authority of the City of Annapolis, MD, Did Not Always Properly
Administer Its Housing Choice Voucher Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Housing Authority of the City of Annapolis, MD's Housing Choice Voucher Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov/>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6734.



Audit Report Number: 2019-PH-1004

Date: August 19, 2019

The Housing Authority of the City of Annapolis, MD, Did Not Always Properly Administer Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Housing Authority of the City of Annapolis, MD's Housing Choice Voucher Program because we received a complaint alleging that the Authority (1) ignored discrepancies between income information for applicants and program participants and (2) did not properly administer its program. Our objective was to determine whether the Authority administered its program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. We focused the audit on whether the Authority (1) accurately calculated and maintained support for housing assistance payments, (2) properly administered its waiting list and selected applicants from it, and (3) admitted only eligible applicants.

What We Found

The allegation regarding the Authority's ignoring discrepancies between income information for applicants and program participants had no merit. However, the allegation that the Authority did not always properly administer its program had merit. Specifically, the Authority did not (1) properly administer its waiting list and select tenants from it and (2) maintain adequate documentation to show that it admitted eligible applicants into its program. These conditions occurred because the Authority (1) was unaware of some waiting list requirements, (2) lacked controls to ensure that it maintained documentation to show that it properly selected applicants from the waiting list, (3) lacked procedures to ensure that it maintained documentation to show that it admitted eligible families into the program, and (4) did not establish a reasonable timeframe before admitting applicants who had engaged in criminal activity. As a result, HUD lacked assurance that applicants admitted into the program (1) were properly placed on the waiting list, (2) were selected fairly from the waiting list, and (3) met all eligibility requirements.

What We Recommend

We recommend that HUD require the Authority to (1) update its administrative plan to clearly define the weights or rankings of its waiting list preference system; (2) develop and implement controls to ensure that it administers its waiting list according to the requirements in its administrative plan, including maintaining documentation to show that it properly selected applicants from the waiting list; (3) develop and implement procedures to ensure that it maintains documentation to show that it admitted eligible families into the program; and (4) update its administrative plan to establish the timeframe during which an applicant must not have engaged in criminal activity before it will admit the applicant into the program.

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Background and Objective

The Housing Authority of the City of Annapolis was founded in 1937 to provide affordable housing in Annapolis, MD, for families who lacked the means to purchase or rent housing at market prices. The Authority’s mission is to achieve excellence by providing housing and self-sufficiency opportunities and by promoting customer satisfaction to enhance the quality of life of low-, very low-, and moderate-income residents. The Authority is an independent agency, chartered by the State of Maryland and funded by the U.S. Department of Housing and Urban Development (HUD), under the direction of a board of commissioners appointed by the mayor of Annapolis. The board of commissioners consists of seven members. An executive director, appointed by the board of commissioners, manages the daily operations of the Authority. The executive director during the audit began her employment with the Authority in May 2017. The Authority’s administrative office is located at 1217 Madison Street, Annapolis, MD. Below is a photo of the Authority’s office building.



HUD’s Baltimore Office of Public Housing has oversight responsibility for the Authority. Under the Housing Choice Voucher Program, HUD authorized the Authority to provide leased housing assistance payments to nearly 400 eligible households and provided the Authority the following financial assistance for housing choice vouchers in fiscal years 2017 and 2018.

Year	Annual budget authority
2017	\$4,002,325
2018	4,077,968

In November 2017, we received a complaint alleging that the Authority ignored discrepancies between income information for applicants and program participants and did not properly administer its program.

Our objective was to determine whether the Authority administered its Housing Choice Voucher Program in accordance with HUD requirements. We focused the audit on whether the Authority (1) accurately calculated and maintained support for housing assistance payments, (2) properly administered its waiting list and selected applicants from it, and (3) admitted only eligible applicants.

Results of Audit

Finding: The Authority Did Not Always Properly Administer Its Housing Choice Voucher Program

The allegation regarding the Authority's ignoring discrepancies between income information for applicants and program participants had no merit. However, the allegation that the Authority did not always properly administer its program had merit. Specifically, the Authority did not (1) properly administer its waiting list and select families from it and (2) always admit eligible families into the program. These conditions occurred because the Authority (1) was unaware of some waiting list requirements, (2) lacked controls to ensure that it maintained documentation to show that it properly selected applicants from the waiting list, (3) lacked procedures to ensure that it maintained documentation to show that it admitted eligible families into the program, and (4) did not establish a reasonable timeframe before admitting applicants who had engaged in criminal activity. As a result, HUD lacked assurance that applicants admitted into the program (1) were properly placed on the waiting list, (2) were selected fairly from the waiting list, and (3) met all of the eligibility requirements.

One of the Allegations in the Complaint Did Not Have Merit

The allegation that the Authority ignored discrepancies between income information for applicants and program participants had no merit. For three files reviewed for families that reported zero income, the Authority maintained documentation, such as zero-income self-declaration statements, nonemployment affidavits, letters from employers confirming that the participants had lost their jobs, and income verification reports from HUD's Enterprise Income Verification (EIV) system,¹ to show that the families had no income. Additionally, the Authority maintained documentation, such as income verification from the EIV system, to show that it performed interim and annual reexaminations to ensure that the families had no income. Also, our review of the files for the three families most recently admitted into the program contained documentation to show that the Authority generally accurately calculated their housing assistance payments. For one of the families, the Authority mistakenly applied the earned income disallowance to a family member's income, resulting in a monthly overpayment of \$330 in housing assistance. We discussed this error with the Authority, and it corrected the error and provided documentation to support its corrective action.

The Authority acknowledged that it previously identified income discrepancies with some program participants while performing routine examinations. As a result, the Authority removed 19 families from the program between October 2017 and August 2018 because they underreported their income. The Authority also stated that it had concerns with its program staff's ability to identify income discrepancies when admitting applicants and conducting annual

¹ The Enterprise Income Verification system is a web-based computer system that contains employment and income information of individuals who participate in HUD rental assistance programs.

reexaminations. To correct this issue, the Authority dismissed one employee in July 2017 and transferred another employee in March 2018 to assist with administering another program. The Authority hired three employees between January and June 2018; however, it dismissed these employees between May and September 2018 due to performance and conduct issues. In October 2018, the Authority hired another two employees to assist with administering its program. The Authority provided copies of training certificates to show that the employees received formal program training.

The Authority Did Not Properly Administer Its Waiting List

The Authority used a preference point system that had not been clearly defined in its administrative plan. Program regulations at 24 CFR (Code of Federal Regulations) 982.207(a)(1) allowed the Authority to establish a system of local preferences for selection of families admitted into the program. However, the Authority's selection preferences were required to be described in its administrative plan. Section 3.2 of HUD's Housing Choice Voucher Program Guidebook 7420.10G required that the Authority's administrative plan state how it would select program applicants from the waiting list. Further, the administrative plan was required to include the preferences the Authority intended to use, any weights or rankings assigned to those preferences, and the method that would be used to select applicants. As of October 2018, the Authority's waiting list showed that 523 families had applied for housing assistance. Of the 523 families on the waiting list, the Authority awarded 4 points to 43 families because they had been displaced from their prior residence, 3 points to 163 families because they were considered working families, 1 point to 172 families because they lived or worked in the city, and 0 points to 145 families. Although the Authority's administrative plan listed preferences for displaced families, working families, veterans, and families either living or working in the city, it did not list the weights or rankings associated with the preferences.

This condition occurred because the Authority was unaware that it was required to include the weights or rankings associated with the waiting list preferences in its administrative plan. Because the Authority did not follow HUD regulations, HUD lacked assurance that applicants that applied for program assistance were properly placed on the waiting list. After we informed the Authority of this issue, it acknowledged the issue and planned to update its administrative plan to clearly define the weights or rankings of its waiting list preference system.

The Authority Did Not Maintain Documentation To Show That It Selected Applicants From Its Waiting List in Order

For the same three newly admitted families mentioned above, the Authority did not maintain documentation to show that one family was selected from the waiting list in the order of its application. Program regulations at 24 CFR 982.204 required the Authority to select applicants from the waiting list and select them in accordance with its admission policy contained in its administrative plan. Program regulations at 24 CFR 982.207(e) required the Authority to maintain a clear audit trail for selecting applicants from a preference category to verify that each applicant had been selected according to the method specified in its administrative plan. Section 5.2 of the Authority's administrative plan required the Authority to select families based on preferences and the date and time of application. The Authority placed the applicant on the waiting list based on preferences and the date and time of the application; however, it could not

provide documentation to show why it admitted an applicant before other applicants on the waiting list.

This condition occurred because the Authority lacked controls to ensure that it maintained adequate documentation to show that each family was properly placed and selected from the waiting list. Although the Authority's administrative plan contained procedures for selecting families from the waiting list, the Authority lacked controls to ensure that it maintained adequate documentation to support its selections from the waiting list. Because the Authority lacked controls, HUD had no assurance that applicants admitted into the program were selected fairly from the waiting list.

The Authority Did Not Always Admit Eligible Applicants

For the same three newly admitted families mentioned above, the Authority did not maintain adequate documentation to show that one family met all of the program eligibility requirements. Program regulations at 24 CFR 982.553(a)(2)(ii) allowed the Authority to prohibit admission to its program if it determined that any household member was currently engaged in or during a reasonable timeframe before admission, had engaged in the following: (1) drug-related activity; (2) violent criminal activity; (3) other criminal activity that may threaten the health, safety, or right to peaceful enjoyment of the premises by other residents or those residing in the vicinity; and (4) other criminal activity, which may threaten the health or safety of the owner, property staff, or persons performing an administrative function on behalf of the public housing agency. Section 3.2 of the Authority's administrative plan required the Authority to deny assistance to a family if any family members were involved in drug-related or violent criminal activity. The file for one family contained a criminal background check, which showed that an applicant engaged in violent criminal activity in June 2016, approximately 2 years before the date on which the family applied for assistance. The criminal background check also showed that the applicant engaged in other criminal activity, such as thefts, between November 2006 and February 2014. The Authority could not provide adequate documentation to justify why it admitted an applicant with a violent criminal history.

This condition occurred because the Authority lacked procedures to ensure that it maintained documentation to show that it admitted eligible families into the program and that it had established a reasonable timeframe before admitting applicants who had engaged in criminal activity. The Authority explained that it initially denied assistance to the family but later admitted the family into the program by following its informal review process. The Authority's informal review process included (1) providing the applicant the opportunity to present written or oral objections to the Authority's denial decision and (2) notifying the applicant of the Authority's final decision. The Authority did not maintain documentation to show that it followed its informal review process and supported its final decision to admit the applicant who had engaged in violent criminal activity. The Authority also explained that it admitted the applicant into the program because most of the criminal activities were misdemeanors, which occurred more than 5 years before the application date and its policy allowed it to admit applicants into the program if they had not engaged in violent criminal activity for 5 years. However, the Authority's administrative plan did not specify a timeframe before admitting

applicants who had engaged in criminal activity. As a result, HUD had no assurance that eligible families were admitted into the program.

Conclusion

Since the Authority did not always properly administer its program, HUD lacked assurance that applicants admitted into the program (1) were properly placed on the waiting list, (2) were selected fairly from the waiting list, and (3) met all of the eligibility requirements. This occurred because the Authority was unaware of some waiting list requirements, lacked controls to ensure that it maintained documentation to show that it properly selected applicants from the waiting list, lacked procedures to ensure that it maintained documentation to show that it admitted eligible families into the program, and did not establish a reasonable timeframe before admitting applicants who had engaged in criminal activity.

Recommendations

We recommend that the Director of HUD's Baltimore Office of Public Housing direct the Authority to

- 1A. Update its administrative plan to clearly define the weights or rankings of its waiting list preference system.
- 1B. Develop and implement controls to ensure that it administers its waiting list according to the requirements in its administrative plan, including maintaining documentation to show that it properly selected applicants from the waiting list.
- 1C. Develop and implement procedures to ensure that it maintains documentation to show that it admitted eligible families into the program.
- 1D. Update its administrative plan to establish the timeframe during which an applicant must not have engaged in criminal activity before it will admit the applicant into the program.

Scope and Methodology

We conducted the audit from October 2018 through June 2019 at the Authority's office located at 1217 Madison Street, Annapolis, MD, and our office located in Baltimore, MD. The audit covered the period October 2017 to September 2018 but was expanded to include the Authority's employee personnel actions and its waiting list as of October 2018.

To accomplish our objective, we reviewed

- Applicable laws, regulations, the Authority's administrative plan, HUD's program requirements at 24 CFR Part 982, HUD's Housing Choice Voucher Guidebook 7420.10G, and other guidance.
- The Authority's program files, including waiting lists, household files, family data, housing assistance payment register, annual audited financial statements, policies and procedures, board meeting minutes, and organizational chart.

We also interviewed Authority employees and HUD staff.

To achieve our audit objective, we relied in part on computer-processed data, such as family ledgers and a waiting list from the Authority's computer system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

During the period October 1, 2017, through September 30, 2018, five families reported that they had zero income. We nonstatistically selected and reviewed the files for three of the families to determine whether the Authority maintained documentation to support the families' zero-income status. Since our review did not identify any issues, we did not review additional files, and we did not project our audit results to the population.

The Authority admitted three families into its program during the period October 1, 2017, through September 30, 2018. Specifically, one family was admitted into the program in July 2018 and two families were admitted into the program in September 2018. We selected and reviewed the files for these three families to determine whether they were eligible to participate in the program and whether the Authority properly selected them from the waiting list.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

Relevant Internal Controls

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

- Effectiveness and efficiency of 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 applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

The Authority

- Lacked controls to ensure that it properly administered its waiting list (finding).
- Lacked procedures to ensure that it maintained documentation to show that it admitted eligible families into the program (finding).

- Did not establish a reasonable timeframe before admitting applicants who had engaged in criminal activity (finding).

Appendix

Appendix A

Auditee Comments and OIG's Evaluation


Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

**Housing Authority of the City of Annapolis**

Executive Director/CEO
Beverly J. Wilbourn

Board of Commissioners
Sandra D. Chapman, Chairman
Jacquelyn V. Wells, Vice-Chairman
Andre Atkins, Secretary
Kimberlee Cornett
Philip Gibbs

July 15, 2019

Ronald J. Lloyd
Assistant Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Philadelphia Regional Office
Wanamaker Building
100 Penn Square East, Ste 10205
Philadelphia, PA 19107

RE: Housing Authority of the City of Annapolis, MD
Housing Choice Voucher Program
Draft OIG Audit Report

Dear Mr. Lloyd,


The Housing Authority of the City of Annapolis, Maryland ("HACA" or the "Authority") appreciates the opportunity to respond to the OIG draft audit report dated June 23, 2019 regarding HACA's Housing Choice Voucher Program ("HCV"), which was provided to the Authority on July 8, 2019 for review and comment. We thank you, and onsite auditor Belinda Morales, for a professional onsite investigation. Below are the responses to each of the findings:

1. HACA fully agrees with the draft audit finding that there is no merit to allegations that HACA ignored discrepancies in documentation of income verification for applicants and program participants.
2. The Authority generally agrees with the draft audit finding that the Authority could take some steps to improve its administration of the HCV program, with the exception of the issues clarified below. HACA generally accepts the draft audit recommendations regarding suggested modifications and improvements to its internal controls, written procedures, file documentation and updates to the Administration Plan. The Authority will develop a plan to implement the recommended improvements with appropriate coordination and reporting to HUD.

However, there is an inaccurate statement in the draft audit report that requires correction. Specifically, the third paragraph of page 5 of the draft audit report incorrectly states that the Authority acknowledged that program participants has "previously abused the program" by inaccurately reporting income. The draft audit report suggests that senior management at HACA

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation


Auditee Comments

Comment 3

**Housing Authority of the City of Annapolis**

was aware of falsification of income by program participants and took corrective steps against suspected program abuse. In fact, as the OIG is aware, HACA experienced several changes in Senior Management prior to the audit period. Senior Management in place during the audit period took proactive steps to improve HACA's operations, which included a number of staff changes, ensured training of staff occurred and provided oversight in the normal course of business, to ensure accuracy in the administration of the HCV program. We respectfully request removal of the inaccurate statement noted above as it does not reflect current or past practices of the Authority. To my knowledge, HACA did not know of abuses, but merely discovered discrepancies during routine certification processes and followed up seeking clarifications.


Again, thank you for your time and for allowing HACA the opportunity to respond to the draft OIG audit findings.

Sincerely,

Beverly Wilbourn
Executive Director/CEO

cc: David Kasperowicz, HUD OIG

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OIG Evaluation of Auditee Comments

- Comment 1 We appreciate the Authority's cooperation during our audit. For clarification, we conducted an audit, not an investigation.
- Comment 2 The Authority generally agreed with the finding and recommendations. It stated that it will develop a plan to implement the recommended improvements. We acknowledge the Authority's positive attitude toward the audit report and the recommendations. As part of the audit resolution process, HUD will work with the Authority to ensure that its corrective actions satisfy the recommendations.
- Comment 3 The Authority asserted that the audit report incorrectly stated that it acknowledged that program participants had previously abused the program by inaccurately reporting income. It requested that we remove the statement from the audit report because it does not reflect current or past practices of the Authority. We revised the statement in the audit report to clarify that the Authority previously identified income discrepancies with some program participants while performing routine examinations that led to the Authority removing families from the program because they underreported their income.