



Los Angeles County Development Authority Alhambra, CA

Family Self-Sufficiency Program

**Office of Audit, Region 9
Los Angeles**

**Audit Report Number: 2020-LA-1004
June 18, 2020**



To: Jesse Wu, Acting Director, Office of Public Housing, Los Angeles, CA, 9DPH

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The Los Angeles County Development Authority, Alhambra, CA, Generally Met HUD Goals and Requirements in Managing Its Family Self-Sufficiency Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Los Angeles County Development Authority's Family Self-Sufficiency 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, appendix 8M, requires that OIG post its 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 213-534-2471.



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The Los Angeles County Development Authority, Alhambra, CA, Generally Met HUD Goals and Requirements in Managing Its Family Self-Sufficiency Program

Highlights

What We Audited and Why

We audited the Los Angeles County Development Authority's Family Self-Sufficiency Program due to a hotline complaint (HC-2019-4215) alleging that the Authority did not use its program funds in compliance with U.S. Department of Housing and Urban Development (HUD) requirements. Our audit objectives were to determine whether the Authority met its program goals and objectives to assist eligible families in becoming self-sufficient and administered its program in compliance with HUD requirements. In addition, determine whether the hotline complaint allegations of Authority employees misappropriating program funds for personal benefit had merit.

What We Found

We determined that the hotline complaint had no merit. The Authority met its goals and objectives to assist its participants in becoming self-sufficient and ensured that program funds were used in compliance with HUD requirements. Specifically, the Authority ensured that it (1) maintained the minimum program size; (2) provided participants with individual training and services plans, which included specific interim and final goals; (3) monitored participants' progress to ensure that they met their goals to become self-sufficient; (4) calculated participants' escrow accounts accurately; and (5) used program funds for supported and eligible activities.

What We Recommend

There are no recommendations.

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Background and Objective

In 1982, the Los Angeles County Board of Supervisors consolidated three entities – the Housing Authority of the County of Los Angeles, the Community Development Department, and the Redevelopment Agency – to form the Community Development Commission. The U.S. Department of Housing and Urban Development (HUD) provides more than 70 percent of the Commission’s funding. The agency’s four main areas are subsidized housing, housing development and preservation, community development, and economic development.

The Los Angeles County Development Authority provides rental assistance through its Housing Choice Voucher Program, commonly known as Section 8 program, to more than 23,000 low-income families throughout Los Angeles County. In addition, the Authority manages 2,962 units of public housing at 63 sites throughout Los Angeles County in the following communities: Marina Del Rey, Santa Clarita, unincorporated Los Angeles County, La Puente, Whittier, Long Beach, Lomita, Valencia, and La Crescenta.

The Authority operates a Family Self-Sufficiency Program. The Authority’s program is a 5-year voluntary program designed to help families achieve economic self-sufficiency by providing services ranging from case management and referrals to supportive social services, such as credit counseling, education, home-ownership, and vocational training. To be eligible to participate in the program, a family must be a Housing Choice Voucher Program or public housing participant. During our review, the Authority employed 10 program coordinators to assist its participants in becoming self-sufficient. Once an eligible family is selected to participate in the program, the Authority and the head of household of the family execute a Family Self-Sufficiency Program contract of participation, which specifies the rights and responsibilities of both parties. The term of these executed contracts is generally 5 years, but it may be extended for another 2 years by the Authority for good cause.

These contracts also include the families’ individual training and services plans. The individual training and services plans are the documents that record these families’ goals and the steps, services, and resources needed to achieve these goals. Some of these services include education, job training, employment, and home-ownership counseling.

In addition, an interest-bearing escrow account is established by the Authority for each participating family. Any increases in the family’s rent as a result of increased earned income during the family’s participation in the program result in a credit to the family’s escrow account. Once a family graduates from the program, it may access its escrow funds.

To graduate from the program and receive any funds from the escrow account, the head of household must

1. Complete the contract goals within 5 years or within the 2-year extension if applicable,
2. Achieve and maintain suitable employment,

3. Certify that no family member is on assistance for ongoing basic needs for 12 consecutive months before completion of the program, and
4. Certify that all family members are in good standing with the Authority.

If a family does not meet its responsibilities within the times specified in its contract or has been terminated from either this program or the Housing Choice Voucher Program, it will not receive any funds from the escrow account.

The Office of Inspector General received a confidential hotline complaint that alleged that the Authority's employees' misappropriated program funds for personal benefit. Specifically, the complainant alleged that Authority employees misappropriated housing assistance payments, program escrow funds, and program utility allowances. In addition, the complainant alleged that Authority employees sold housing choice vouchers to ineligible applicants.

The objective of our audit was to determine whether the Authority met its program goals and objectives to assist eligible families in becoming self-sufficient and administered its program in compliance with HUD requirements. In addition, determine whether the hotline complaint allegations of Authority employees misappropriating program funds for personal benefit had merit.

Results of Audit

Finding: The Los Angeles County Development Authority Generally Met HUD Goals and Requirements in Managing Its Family Self-Sufficiency Program

The Authority generally assisted eligible families in becoming self-sufficient and administered its program funds in compliance with HUD requirements. Specifically, the Authority ensured that it (1) maintained the minimum program size; (2) provided participants with individual training and services plans, which included specific interim and final goals; (3) monitored participants' progress to ensure that they met their goals to become self-sufficient; (4) calculated participants' escrow accounts accurately; and (5) used program funds for supported and eligible activities. We determined that there was insufficient evidence to substantiate the hotline complaint allegations of Authority employees' misappropriation of program funds for personal benefit. Specifically, we found no evidence to support the allegation that Authority employees misappropriated housing assistance payments, program escrow funds, or program utility allowances. Nor did we find any evidence that the Authority sold housing choice vouchers to ineligible applicants.

The Authority Maintained Required Minimum Program Size

The Authority maintained the required minimum size of its program as required by HUD. HUD regulations at 24 CFR (Code of Federal Regulations) 105(b)(3) required the Authority to fulfill vacant slots for each family that graduated from the program or for each family that did not complete its contract. In addition, HUD regulations at 24 CFR 203(b) required the Authority to fulfill a vacant slot based on an objective selection system such as the date on which a family expressed interest in participating in the program. For fiscal year 2018, the Authority exceeded its minimum goal of 548 program slots by filling 599 slots. For fiscal year 2019, the Authority exceeded its minimum goal of 509 slots by filling 515 slots. The Authority exceeded the minimum program requirements by performing outreach and recruitment activities to eligible participants. For example, the Authority's recruitment activities included publications, newsletters, brochures, and other activities for distribution to interested families who received either a housing choice voucher or public housing assistance. The Authority would place interested participants on its program waiting list. When a slot opened, the Authority would contact the interested participants to start the application process.

Once a participant was in the program, the Authority tracked the participant's performance through individual training and services plans. From July 1, 2017, to June 30, 2019, the Authority reported 678 participants in its program. Of the 678 participants, 413, or 61 percent (413/678), remained active in the program; 100, or 15 percent (100/678), had graduated; and 165, or 24 percent (165/678), did not graduate. Those participants who graduated were able to maintain employment and remained independent from assistance for ongoing basic needs for at least 12 months before their contracts expired. Those participants who did not graduate were not

able to complete their contract obligations, such as completing their individual training and services plans, maintaining employment, and becoming independent from assistance for ongoing basic needs at least 12 months before the contract expired. Overall, the Authority was able to exceed HUD's required minimum program size.

The Authority Established Required Individual Training and Services Plans

The Authority established the required individual training and services plans for its participants. Specifically, it included specific interim and final goals that each of the participants was required to complete. HUD regulations at 24 CFR 984.303(b)(2) required the Authority to establish specific interim and final goals between the Authority and the family to measure the family's progress in becoming self-sufficient. The Authority incorporated the plans into each of the participants' Family Self-Sufficiency Program contracts of participation. To assist the participants in becoming self-sufficient, the Authority established specific goals, such as budgeting, credit counseling, education, employment, and home-ownership opportunities. For example, the Authority would establish educational goals for its participants to contact adult schools and community colleges as a way to encourage them to enroll into general education development classes or vocational training programs. The Authority provided contact information, such as phone numbers and website addresses, to assist its participants in contacting these education centers. In addition, the Authority established employment goals for its participants to seek and maintain employment. For instance, the participants were encouraged to register with local WorkSource Centers to help create resumes, learn interview techniques, and use the internet for job searches. The Authority also encouraged its participants to attend job fairs for employment opportunities. Further, each of these goals would have target dates for its participants to meet. As a result, the Authority ensured that it established individual training and services plans with specific goals to assist its participants in becoming self-sufficient.

The Authority Monitored Participants' Program Activities

The Authority provided adequate oversight of its participants' program activities as stated in the executed contracts. HUD regulations at 2 CFR 200.328(a) required the Authority to monitor the activities of its participants' contracts. With each participant, the Authority established and monitored individual training and services plans, which included goals (as previously discussed in the report). As part of the monitoring, the Authority performed quarterly progress reviews of its participants' contracts and program activities. As a result, the Authority ensured that it monitored the performance of its participants' program contract activities as required by HUD.

The Authority Ensured That Participants' Program Escrow Accounts Were Accurate

The Authority calculated its participants' program escrow accounts accurately as required by HUD. HUD regulations at 24 CFR 984.304(a) required the Authority to calculate the total tenant payments and housing assistant payments for families participating in the program. In addition, HUD regulations at 24 CFR 984.304(b) required the Authority not to consider any increases in earned income as income for families participating in the program. The Authority met both requirements by ensuring accurate calculations of its participants' escrow accounts. In addition, the Authority maintained the required documentation to support each of the sampled participants' program escrow accounts. For example, the Authority maintained copies of the participants' check stubs, employment income verification reports, and program credit worksheets used to calculate their total tenant payments, housing assistance payments, and

escrow credits. Also, the Authority maintained a ledger for each of its participants that showed the beginning balances, credits, disbursements, and ending balances, which ensured the accuracy of participants’ program escrow accounts. As a result, the Authority ensured that the sampled participants’ program escrow accounts were accurate.

The Authority Ensured That Program Expenses Were Supported and Eligible

From July 1, 2017, to June 30, 2019, the Authority disbursed more than \$1.39 million in program funds for program-related expenses. HUD requirements at Notice of Funding Availability, Number FR-6200-N-04, stated that public housing agencies will use the allocated program funds to pay for the program coordinators’ salaries and fringe benefits. The Authority used its allocated program funds to pay for 10 program coordinators’ salaries and fringe benefits. To ensure accurate expenses, we reviewed documents, such as timecards, pension allocation reports, and payroll expenses, as well as the related supporting general ledger reports. We reviewed four disbursements, which totaled \$552,804, or 40 percent (\$552,804/\$1,390,153), in program expenses, as shown in the table below.

Sample	Sample period	Total
1	February 2018	\$214,781
2	June 2019	197,773
3	November 2017	70,759
4	May 2019	69,491
Total		552,804

The Authority ensured that the salaries and fringe benefits for its 10 program coordinators were supported and eligible.

Allegations of Program Misuse Were Not Substantiated

The hotline complaint alleged that the Authority misused program funds and sold housing choice vouchers to ineligible applicants. Specifically, the complainant alleged that the Authority misappropriated housing assistance payments, program escrow funds, and program utility allowances. In addition, the complainant alleged that the Authority sold housing choice vouchers to ineligible applicants. We found no evidence to support any of the allegations.

Allegations of the misappropriation of housing assistance payments

The Authority paid housing assistance payments to owners for leased housing units that covered the difference between the contract rents and the tenant portion of rents as required by HUD regulations at 24 CFR 886.309(a). For example, the Authority provided HUD Forms 50058 and housing assistance payment ledgers to support the housing assistance payments paid to the owners for each of the sampled participants. Specifically, the HUD Forms 50058 showed the participants’ housing assistance payment calculations for their portion of the rent. In addition, the housing assistance payment ledgers showed that the Authority paid the required portion of

the participants' rents to the owners. The Authority showed that it accurately calculated and paid the required housing assistance payments to the owners. As a result, this allegation related to the misappropriation of housing assistance payments was not substantiated.

Allegations of the misappropriation of program escrow funds

The Authority disbursed program escrow funds to the 10 sampled participants who completed their program contracts and certified that they were not receiving assistance for ongoing basic needs in compliance with HUD regulations at 24 CFR 984.305(c)(1). The Authority provided escrow ledgers, bank statements, and cancelled check to support the disbursements of its participant's escrow funds. As required by HUD regulations at 24 CFR 984.305(f)(1)(i) and 24 CFR 984.305(f)(1)(ii), the Authority held onto its participants' escrow funds for those who did not complete the program or completed the program, but received assistance for a family's ongoing basic needs when their contracts expired. The Authority provided escrow ledgers, general ledgers, and bank statements to account for the forfeited escrow funds of participants who did not complete their contracts. As a result, the allegations related to misappropriation of program escrow funds could not be substantiated.

Allegations of misappropriation of program utility allowances

The Authority maintained utility allowance schedules for all tenant paid utilities in compliance with HUD regulations at 24 CFR 982.517(a)(1). Specifically, the Authority provided the Los Angeles County locality utility allowance schedules and HUD Forms 50058 to calculate and support the payments for the 10 sampled participants. As a result, we found no evidence to support this allegation.

Allegations of misappropriation of housing choice vouchers The Authority maintained the required documentation to verify applicants on the waiting list that were selected from a preference category was specified in its administrative plan as required by HUD regulations at 24 CFR 982.207(e). The Authority provided applicants online registration forms that showed the date and time when they applied for the program. The Authority used these registration forms to determine the ranking of the applicants on its waiting list. In addition, the Authority assigns preference points for categories such as homelessness, veterans, and local residents that may increase its ranking on the waiting list. As a result, we found no evidence to support this allegation.

Conclusion

The Authority met its goals and objectives to assist its participants in becoming self-sufficient through its program. In addition, it administered its program funds in compliance with HUD requirements, while ensuring that program funds were supported and eligible. We also determined that the hotline complaint allegations of Authority employees' misappropriating program funds for personal benefit could not be substantiated. Specifically, we found no misuse of housing assistance payments, program escrow funds, and program utility allowances. In addition, there were no indications of Authority employees selling housing choice vouchers.

Recommendations

There are no recommendations.

Scope and Methodology

We performed our audit work at the Authority's office in Alhambra, CA, from October 21, 2019, to January 30, 2020. Our review covered the period July 1, 2017, to June 30, 2019.

To accomplish our objective, we

- Reviewed relevant background information, which included the Authority's administrative plan and agency plan.
- Reviewed applicable HUD requirements.
- Reviewed the Authority's participant files and program expenses related to its program.
- Obtained an understanding of the Authority's internal controls.
- Interviewed Authority officials to obtain an understanding of its program processes.
- Interviewed HUD officials to obtain an understanding of the program.
- Reviewed HUD funding and monitoring reports.
- Reviewed the Authority's audited financial statements for fiscal years 2018 and 2019.
- Reviewed the Authority's general ledgers.
- Reviewed the Authority's board minutes.
- Reviewed the hotline complainant's allegations.

Program Participant Sample

The audit universe consisted of 678 program participants between July 1, 2017, and June 30, 2019. Using the Authority's program participant reports, we used Microsoft Excel to randomly select 102 of 678 participants to review within fiscal years 2018 and 2019. We used random sampling of participant files from the total universe as a way to ensure each file had an equal chance of selection. Based on the results, the 102 participants represent 15 percent (102/678) of the total universe of participants in the program during the period of review. We reviewed the first 10 participants, which represented 10 percent (10/102) of the total participants selected for consideration of review within fiscal years 2018 and 2019. We believe that the review of 10 sampled participants was sufficient enough to determine that the Authority did not misappropriate program funds for personal benefit. Specifically, each sampled participant file contained the required contract, goals and objectives, escrow calculations and ledgers and monitoring documents. In addition, the 10 files contained different attributes that included participants who were active, graduates, and non-graduates. As a result, there was no evidence to substantiate the complaint's allegation that the Authority misappropriated program funds. This sampling method did not allow us to project to the universe, but it was sufficient to meet the audit objective.

Program Expense Sample

The audit universe totaled more than \$1.39 million in total program expenses, which consisted of 24 disbursements made between July 1, 2017, and June 30, 2019. Of the 24 disbursements, we selected a nonstatistical sample¹ of 7 disbursements of at least \$58,000 between July 1, 2017, and June 30, 2019. These seven disbursements totaled \$744,062 in total expenses, or 54 percent (\$744,062/\$1,390,153) of the total universe. We determined that the sample of 7 disbursements was adequate since it represented more than half of the total universe.

We reviewed four disbursements consisting of two of the highest disbursements from each fiscal year, which totaled \$552,804 in total expenses. Overall, we reviewed 40 percent (\$552,804/\$1,390,153) of the total expenses that the Authority incurred using program funds. This sampling method did not allow us to project to the universe, but it was sufficient to meet the audit objective.

We relied in part on the computer-processed data from the Authority, such as the Yardi reports², HUD Forms 50058, general ledgers, and financial data schedules. We used the data to determine the audit universe, participant files for review, and selection of disbursements. We assessed the computer data to be sufficiently reliable to meet the audit objective.

¹ A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest.

² Yardi is private-sector owned housing management and accounting system that the Authority uses to generate program participant statements and information.

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 – Implementation of policies and procedures to reasonably ensure that program funds are used for eligible purposes.
- Reliability of financial reporting – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support eligible program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to reasonably ensure that the monitoring of and expenditures for program activities comply with applicable HUD requirements.

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.

We evaluated the internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls did not identify significant deficiencies related to our audit objective. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment



May 6, 2020

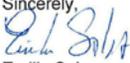
Tanya E. Schulze
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Re: Audit Report, Los Angeles County Development Authority, Alhambra, CA
Family Self-Sufficiency Program

Dear Ms. Schulze,

On behalf of the Los Angeles County Development Authority, we would like to thank the Office of Inspector General Region 9 for the audit of the Authority's Family Self-Sufficiency Program conducted October 21, 2019 through January 30, 2020. We concur with the audit report and are pleased the audit concluded with no findings or recommendations.

We would also like to express our gratitude and acknowledge [REDACTED], the on-site auditors, for their professionalism and consideration during the course of the audit.

Sincerely,

Emilio Salas
Acting Executive Director

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OIG Evaluation of Auditee Comments

Comment We appreciate the Authority's cooperation during our review. We redacted individuals' names mentioned in the body of the letter for privacy.