
AUDIT REPORT



HOUSING AUTHORITY OF THE CITY OF GARY SECTION 8 HOUSING PROGRAM

GARY, IN

The Authority Did Not Properly Manage its Section 8 Housing
Program and Significant Weaknesses Existed

2005-CH-1020

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OFFICE OF AUDIT, REGION V
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FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Housing Authority of the City of Gary, Indiana Did Not Properly Manage its Section 8 Housing Program and Significant Weaknesses Existed

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Gary's (Authority) Section 8 housing program. The audit was part of the activities in our fiscal year 2005 annual audit plan. We selected the Authority based upon a risk analysis that identified it as having a high risk Section 8 housing program. The objective of the audit was to determine whether the Authority managed its Section 8 program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

Overall, the Section 8 housing program was not operated according to HUD and the Authority's requirements. The Authority's board of commissioners did not act responsibly to ensure federal requirements and the Authority's own policies were followed. The Authority's executive director did not exercise adequate day-to-day control over the operation of the Section 8 housing program.

The Authority's Section 8 housing units were in poor physical condition. Our inspections noted 57 of 63 units that did not meet HUD's housing quality standards. We also noted significant weaknesses in using administrative fees,

issuing vouchers without proper documentation, calculating housing assistance payments, and abating Section 8 vouchers. In addition, the Authority misused Section 8 funds by overpaying per diem, improperly disallowing tenant income, and erroneously charging expenses to its Section 8 housing program.

What We Recommend

We recommend that HUD's general deputy assistant secretary for public and indian housing issue a notice of default to the Authority regarding the administration of its Section 8 housing program. We also recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to contract out its Section 8 program or transfer control to HUD, and ensure the Authority reimburses its program for the inappropriate uses of Section 8 funds cited in this report.

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 issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the Authority's executive director and HUD's staff during the audit. We held an exit conference with the Authority's executive director on September 20, 2005.

We asked the Authority's executive director to provide comments on our discussion draft audit report by September 26, 2005. The Authority's executive director provided written comments dated September 26, 2005. The executive director agreed to implement corrective action to address our findings. The complete text of the written comments, along with our evaluation of those comments where needed, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Gary (Authority) is a nonprofit governmental entity organized under the laws of the State of Indiana to provide decent, safe, and sanitary housing for low-income families under the U.S. Housing Act of 1937. The City of Gary established the Authority in 1938. A seven-member board of commissioners governs the Authority. The mayor of Gary appoints the board members to four-year staggered terms. The executive director, appointed by the board of commissioners, is responsible for coordinating established policy and carrying out the Authority's day-to-day operations. As of December 31, 2004, the Authority had 1,286 Section 8 housing units and 2,182 public housing units.

The Authority was designated as a troubled Section 8 housing program by the U.S. Department of Housing and Urban Development (HUD) in 2002. HUD executed a memorandum of agreement on September 28, 2004, with the Authority based upon its troubled designation and Section 8 management assessment scores. The Authority certified a score of 68 in fiscal year 2003 on its Section 8 management assessment program. HUD performed a Section 8 management assessment program confirmatory review in September 2004 and changed the Authority's score to 14.

Our objective was to determine whether the Authority operated its Section 8 housing program according to HUD's requirements.

RESULTS OF AUDIT

Finding 1: Section 8 Program Was Not Operated According to Requirements

The Authority's board of commissioners did not adequately exercise its responsibility to effectively manage the Authority. The Authority's executive director did not implement adequate controls to ensure that Section 8 units were free of health and safety violations. Further, the Authority lacked adequate controls over its operations. These deficiencies have existed with the Authority's Section 8 housing program for more than three years. The Authority's board and its executive director did not follow HUD's requirements and/or the Authority's own policies. As a result, HUD lacked assurance that more than \$8 million in Section 8 funds was effectively used to benefit the Authority's Section 8 tenants.

Prior HUD Reviews

HUD noted significant weaknesses in the Authority's Section 8 housing program during prior reviews conducted in 2002 and 2004. HUD performed a rental integrity monitoring review of the Section 8 program in December 2002. A corrective action plan was issued, and a rental integrity monitoring re-review was completed in March 2004. The re-review determined that the Authority unsatisfactorily implemented the corrective actions addressed in the corrective action plan.

The Authority was designated troubled for fiscal year 2002. Due to the troubled status of the Authority, HUD's Indianapolis Field Office of Public Housing conducted a Section 8 Management Assessment Program confirmatory review in September 2004. The confirmatory review determined the Authority's Section 8 Management Assessment Program score to be a 14, with 60 as a passing score. In fiscal year 2003, the Authority gave itself a score of 68.

Significant Issues Noted during Our Audit

We noted the following significant issues during the audit:

- The Authority's Section 8 units did not meet HUD's housing quality standards due to the poor condition of most units inspected. The violations existed because the Authority failed to perform sufficient quality control inspections and failed to exercise proper supervision and oversight of Section 8 unit inspections (see finding 2).

- The Authority's board of commissioners and executive director did not ensure that HUD's requirements regarding the use of administrative fees were followed when the Authority used \$805,585 in administrative fees to fund its HOPE VI development (see finding 3).
- The Authority's board of commissioners and the executive director failed to ensure the Authority followed HUD's requirements or its Section 8 administrative plan regarding Section 8 tenant files, resulting in missing or incomplete files for 65 of 73 files reviewed (see finding 4).
- The Authority inappropriately allowed the repayment of \$59,348 in abatements to landlords. The Authority withheld 100 percent of the housing assistance payment for the abated period, but returned 75 percent of the rent to the landlord when the property passed inspection. The Authority's management failed to comply with HUD's requirements and its own administrative plan regarding the abatement of housing assistance payments (see finding 5).
- The Section 8 employees and the board of commissioners for the Authority were overpaid per diem by \$17,080. The overpayment was due to the Authority's commissioners authorizing higher rates for per diem than authorized in the City of Gary's travel requirements. The commissioners did not act prudently considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government (see finding 6).
- The Authority overpaid \$36,001 in housing assistance payments by inappropriately allowing 14 Section 8 tenants to disregard income as part of their housing assistance payment calculations. This occurred because the Authority misunderstood and misinterpreted HUD's approval of its HOPE VI relocation plan (see finding 7).
- The Authority failed to comply with HUD's regulations by inappropriately charging \$20,706 in expenses to the Section 8 housing program. This was indicative of the Authority's failure to act with reason or prudence in expensing items to the program (see finding 8).

The deficiencies in the Authority's Section 8 housing program are significant and demonstrate a lack of effective management of the program. Additionally, some problems are longstanding because the Authority's board of commissioners did not adequately address them. As a result, we recommend that this program be contracted out so that more than \$8 million in Section 8 program funds can be used more efficiently and effectively. Both HUD and the Authority have also determined the Section 8 program should be contracted to a third party. The Authority began the contracting process by publishing a notice of request for proposal on July 11, 2005. However, HUD should issue a written notice to the Authority as permitted by Section 15 of the Section 8 annual contributions

contract that permits HUD to take possession of all or any Authority property, rights, or interests in connection with its Section 8 housing program. The notice should reserve HUD's right to protect its interest in case the contracting process is not completed.

Recommendations

We recommend that HUD's general deputy assistant secretary for public and Indian housing

- 1A. Issue a written notice to the Authority as permitted by Section 15 of the Section 8 annual contributions contract that permits HUD to take possession of all or any Authority property, rights, or interests in connection with its Section 8 housing program.

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 1B. Continue contracting proceedings with HUD's oversight, or transfer control of the Authority's Section 8 housing program to HUD if the Authority is unsuccessful in contracting out the program. These actions will help ensure that \$8,057,519 in Section 8 funds are used in support of housing that meets housing quality standards.

We also recommend that the director of HUD's Departmental Enforcement Center

- 1C. Take administrative action against the Authority's board of commissioners for failing to administer the Authority's Section 8 program according to federal and its own requirements.

Finding 2: Section 8 Units Did Not Meet HUD’s Housing Quality Standards

The Authority’s Section 8 units did not meet HUD’s housing quality standards due to the poor condition of most units inspected. Our inspections found that 57 of 63 Section 8 units did not meet minimum housing quality standards. The Authority did not perform reinspections of its Section 8 units in a timely manner. The violations existed because the Authority failed to exercise proper supervision and oversight of its Section 8 unit inspections. As a result, \$78,738 in Section 8 funds was not used efficiently and effectively to provide units that were decent, safe, and sanitary.

Units Did Not Meet HUD’s Housing Quality Standards

Of the 63 units we inspected, 57 (90 percent) had 491 housing quality standards violations as indicated in the following table.

Category of violations	Number of violations
Electrical	79
Security	72
Windows	65
Smoke detectors	46
Interior walls	37
Range/refrigerator	35
Exterior surface	19
Ceiling	19
Exterior stairs	15
Floor	15
Other potential hazardous features	14
Lead-based paint	11
Ventilation	10
Foundation	7
Access to unit	7
Interior stairs	6
Flush toilet in enclosed room	6
Interior air quality	4
Water heater	4
Chimney condition	4
Roof	4
Tub/shower unit	4
Garbage and debris	4
Plumbing	2
Space for preparation and storage of food	2
Total	<u>491</u>

Electrical Violations

By reviewing the Authority's own inspection reports, we determined that 11 of the 491 deficiencies were identified at the time the Authority conducted its most recent inspections. These deficiencies were included in 40 units in which we determined that 149 deficiencies existed before the last inspection conducted by the Authority.

Seventy-nine electrical violations were present in 34 of the Authority's Section 8 units inspected. The following items are examples of electrical violations listed in the table: outlets with open grounds, light fixtures hanging from wires, no cover on junction box, ground fault circuit interrupters not tripping, loose wires, and receptacles without covers. The following pictures are examples of the electrical violations identified in the Section 8 housing units inspected.

3960 Maryland:
Cover on electric panel
is not securely fastened;
panel also has a breaker
missing.



3837 Maryland:
Exposed wires in
basement junction box.



Security Violations

Seventy-two security violations were present in 38 of the Authority's Section 8 units inspected. The following items are examples of security violations listed in the table: locks on exterior doors not working, broken door jam, and use of unacceptable double-keyed deadbolt locks. The following pictures are examples of the security violations identified in the Section 8 housing units inspected.

4940 Carolina Street:
Broken door jam on the
locking side of door with
missing strike plate.



843 Harrison Street:
Broken door jam and
loose strike plate.



Window Violations

Sixty-five window-related violations were present in 34 of the Authority's Section 8 housing units inspected. The following items are examples of window-related violations listed in the table: windows not able to open, window locks not working properly, and broken windowpanes. The following pictures are examples of the window-related violations.

1430 West 16th
Avenue:
Broken bedroom glass
pane.



2621 West 61st Place,
unit 31:
Moldy bedroom window.



The Authority Did Not Perform Reinspections in a Timely Manner

The Authority did not perform reinspections of its Section 8 units in a timely manner. According to the Authority's administrative plan, if a unit fails due to a housing quality standards violation, the owner or tenant is given 30 days before the unit is reinspected for nonemergency corrections. If a unit fails at the reinspection, abatement is placed on the unit's housing assistance payment. To either continue abatement or cancel a contract on an abated unit, the Authority conducts another inspection upon notification by the owner or the tenant that the deficiencies were corrected. The abatement is continued until the end of the contract if the unit fails the inspections.

The Authority's interim Section 8 manager said the reasons for the untimely reinspections of failed units were due to the handling of reinspections by the previous administration, and a reduced Section 8 staff. Previously, the Authority did not perform reinspections at the end of the 30-day period—instead it allowed the owner to set the reinspections based on the deficiencies being corrected. The owner would inform the Authority if a unit was not ready to be inspected, and the Authority lost track of units needing reinspections after the 30-day period. In addition to the owner controlling the reinspection date, the Authority's Section 8 department experienced a reduction in staff. In September 2004, three Section 8 employees were discharged, and in November 2004, the Section 8 inspector was reassigned to another department at the Authority. The Authority only had two inspectors to cover an estimated 1,200 Section 8 units.

We reviewed 975 inspections performed for 589 Section 8 units by the Authority's inspectors in the previous six months (October 1, 2004, through April 1, 2005) to determine the timeliness of reinspections. According to the Authority's administrative plan, there should not be more than one reinspection; however, the Authority conducted up to three reinspections on units. The following table shows the range and average days of reinspections performed late.

Types of inspection	Total inspections	Performed in a timely manner	Performed Late		
			count	range (days)	average (days)
Reinspection	207	50	91	31-110	49
Second reinspection	111	34	36	31- 79	46
Third reinspection	68	20	19	31- 88	48
Last inspection – April 1, 2004	155	73	82	30-175	59
Totals	541	177	228		
Percent of total inspections	100 percent	33 percent	42 percent		

We determined that 33 percent of the reinspections reviewed were conducted within the appropriate timeframe. The majority (42 percent) of the 541 reinspections was not performed in a timely manner—ranging from 30 to 175 days late—and we could not determine the timeliness of the remaining 25 percent of the reinspections reviewed based upon the Authority's files.

Causes for Deficiencies

The violations existed because the Authority failed to exercise proper supervision and oversight of Section 8 unit inspections. The Authority's executive director terminated a former Section 8 manager and reassigned another manager due to performance-related problems. The current interim Section 8 manager was previously a property manager for low-income housing, and is inexperienced in managing Section 8 programs. She is managing the Section 8 program until the program is contracted out, and began performing quality control reviews of inspections in December 2004 without adequate training or experience in this area. Before that, the former Section 8 manager did not properly annotate the inspections so it was difficult to distinguish quality control inspections from regular inspections. The executive director agreed that proper supervision would have helped to correct the inadequate inspections within the Section 8 program.

HUD Funds Were Not Used Properly

The Authority's executive director was aware that the Section 8 program had problems and attempted to correct the problems by replacing management of the program. However, the board of commissioners removed her ability to hire and terminate employees without the board's permission, resulting in significant delays in attempts to make personnel changes.

The Authority did not properly use Section 8 funds when it failed to enforce compliance with HUD's housing quality standards. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any Section 8 administrative fees paid to the Authority if it fails to enforce HUD's housing quality standards. The Authority disbursed \$71,891 in Section 8 housing assistance payments for 40 Section 8 units that materially failed to meet HUD's housing quality standards. In addition, the Authority earned \$6,847 in Section 8 administrative fees for these 40 units.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 2A. Notify all landlords and tenants of units that failed housing quality standards inspections and provide a copy of the inspection report and a written notice when violations should be corrected.
- 2B. Conduct followup housing quality standards' inspections on housing units that failed inspection to determine whether violations still exist, and abate housing assistance payments to landlords.
- 2C. Implement a quality control plan—if the Authority retains oversight control of the Section 8 program—to ensure that all units meet housing quality standards within the next 12 months to prevent Section 8 funds from being spent on units that are in noncompliance with the standards.
- 2D. Reimburse its Section 8 housing program \$78,738 from nonfederal funds (\$71,891 for housing assistance payments and \$6,847 in associated administrative fees) for Section 8 units that materially failed the inspections cited in this finding.

Finding 3: The Authority Inappropriately Funded \$805,585 for HOPE VI Development from Section 8 Administrative Fees

The Authority paid HOPE VI expenses from Section 8 administrative fees instead of using administrative fee reserves and did not accurately account for the funds used. The Authority failed to follow the Authority’s board of commissioners’ resolution that approved the use of administrative fee reserves to assist the HOPE VI program because the Authority lacked sufficient controls over these funds. As a result, \$805,585 in Section 8 program funds was improperly used.

\$805,584 in HOPE VI Expenses Were Paid with Administrative Fees

The Authority paid \$805,585 in HOPE VI expenses from Section 8 administrative fees instead of using administrative fee reserves. We reviewed 100 percent of the Section 8 funds used for the HOPE VI program by reviewing general ledgers, vouchers, and canceled checks. The funds were used to pay expenses for McCormack, Baron & Associates of \$511,381, land acquisitions of \$187,987, and other HOPE VI program expenses of \$106,217, for a total of \$805,585. The following table summarizes the inappropriate expenses charged to the Authority’s Section 8 administrative fees.

Inappropriately used administrative fee funds				
Funding for:	April 2002- March 2003	April 2003 - March 2004	April 2004 - April 2005	Total expense
McCormack, Baron & Associates fees and expenses	\$65,294	\$97,890	\$348,197	\$511,381
Land acquisitions	0	177,987	10,000	187,987
Other expenses	0	17,800	88,417	106,217
Totals	\$65,294	\$293,677	\$446,614	\$805,585

The Authority used Section 8 administrative fees to fund and acquire land for the HOPE VI program in violation of 24 CFR [*Code of Federal Regulations*] 982.152. This part states that administrative fees may only be used to cover costs to perform administrative responsibilities for the Section 8 program.

The Authority Did Not Accurately Account for Funds Used

The Authority did not accurately account for the funds used for HOPE VI and violated the board of commissioners’ resolution by not funding a separate

account. The Authority expensed the HOPE VI expenses to the Section 8 vouchers section of the general ledger. The funds were charged to the Authority's Section 8 voucher sundry account, HOPE VI assistance account, employer paid benefit account, earned operating subsidy current year account, annual contribution earned Section 8 account, and site acquisition HOPE VI account. We requested complete records of the administrative fee reserves and account balances from April 2001 through March 2005, but the Authority was unable to provide the requested information. The Authority's comptroller confirmed that the Authority was using administrative fees or voucher funds to pay for the HOPE VI development and land acquisition. The financial statements supported the comptroller's statement since no administrative fee reserves were identified in the Authority's 2003 annual audited financial statements.

The Authority Failed to Follow the Board of Commissioners' Resolution on Using Section 8 Administrative Fee Reserves

The Authority failed to follow the Authority's board of commissioners' resolution that approved the use of administrative fee reserves to assist the HOPE VI program in accordance with 24 CFR [*Code of Federal Regulations*] 982.155. The Authority lacked sufficient controls over Section 8 administrative fees and administrative fee reserves. On September 12, 2002, the board authorized \$350,000 to be placed in an account in which the funds can be used to fund activities in furtherance of the HOPE VI project that do not have any other funding source. On March 13, 2003, the board also authorized the executive director to enter into contracts with the City of Gary, Indiana for the purpose of acquiring land for the offsite rental phase of the HOPE VI program, using up to \$250,000 in Section 8 administrative fee reserves. Through reviews of financial records, we determined that the Authority did not establish the administrative fee reserve account per the board's resolution.

Conclusion

We determined that the \$805,585 in administrative fees was disbursed over a 37-month period, averaging \$21,773 per month. Using this monthly total, we estimate an annual benefit of \$261,276 if the Authority strengthens its controls over the use of administrative fees.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 3A. Reimburse its Section 8 administrative fees \$805,585 from nonfederal funds for inappropriately funding HOPE VI expenses.
- 3B. Implement procedures and controls to ensure that \$261,276 in estimated Section 8 administrative fees is used appropriately.

Finding 4: Controls over Housing Assistance Payments Were Inadequate

The Authority failed to comply with HUD's regulations and its Section 8 administrative plan regarding housing assistance payments. The Authority lacked documentation to support issuing housing assistance payment vouchers to Section 8 landlords and incorrectly calculated housing assistance payments. In addition, the Authority inappropriately executed loan contracts to Family Self-Sufficiency program participants. The Authority also needed to establish an account to deposit \$17,901 in escrow credits for the Family Self-Sufficiency program. Weaknesses occurred due to an absence of procedures and controls to ensure HUD's regulations and the Authority's administrative plan were appropriately followed. As a result, the Authority lacked documentation to support \$738,708 in housing assistance payments made and made net overpayments of \$16,954.

The Authority Lacked Proper Documentation to Support Issuing Housing Assistance Payments

The Authority lacked documentation to support issuing housing assistance payment vouchers totaling \$738,708. Of the 73 tenant files reviewed, 65 files had the following missing or incomplete documents:

- 18 were missing birth certificates,
- 18 were missing or had incomplete signed certifications of citizenship,
- 9 were missing proof of Social Security numbers,
- 38 were missing signed housing assistance payment contracts and lease agreements,
- 10 were missing the original application,
- 30 were missing disclosures of information on lead-based paint, and
- 53 had incomplete or missing rent reasonableness forms.

Of the total files reviewed, 89 percent contained missing or incomplete documentation. Table I in appendix D of this report details our results. In addition, the Authority used \$74,259 in administrative fees to service the inappropriate housing assistance payments for the 65 vouchers. Therefore, HUD lacked assurance the administrative fees were appropriately earned by the Authority.

The Authority's executive director said the Section 8 employees were not capable of adequately performing in their assigned positions, despite receiving Section 8 training. In addition, the board of commissioners maintained excessive control over hiring and firing decisions which hampered the executive director's day-to-day decisions regarding staffing.

The Authority Incorrectly Calculated Housing Assistance Payments

The Authority incorrectly calculated housing assistance payments causing overpayments of \$23,138 and underpayments of \$6,184 from January 2003 through December 2004 (see Table II in appendix D of this report). To determine whether the Authority correctly calculated the housing assistance payments, we reviewed annual certifications conducted between January 2003 and December 2004 from a random sample of 73 Section 8 tenant files. The Authority incorrectly calculated housing assistance payments in 68 of the 73 tenant files (93 percent) reviewed for one or both of the annual certifications that took place in 2003 and 2004. Four of the files' housing assistance payments could not be determined due to missing or incomplete documentation. The Authority correctly calculated housing assistance payments for one tenant file as it was found to have all of the required documentation. Overall, errors occurred because the Authority did not use the appropriate annual income figures and/or utility allowances.

The Authority made errors in 32 tenants' annual certifications for one or both years when determining annual income. Seven more tenants' annual income—for one or both years—could not be determined because documents were missing or incomplete for their files. The Authority also used incorrect utility allowances for 65 tenants' annual certifications for one or both years. There were three more tenants whose utility allowances could not be determined for one or both years because documents were missing or incomplete for their files. Over and under payments of housing assistance payments from January 2003 until December 2004 occurred because of a lack of tenant file reviews by the Authority's Section 8 staff. As a result, HUD and the Authority lacked assurance that housing assistance payments were accurate.

The Authority Failed to Appropriately Manage Its Family Self-Sufficiency Program

The Authority inappropriately executed loan contracts to Family Self-Sufficiency program participants and did not establish an account to deposit escrow credits. HUD regulations regarding the Family Self-Sufficiency program allow partial disbursements to participants who have shown progress in the program. However, the program coordinator developed, instituted, and approved loan contracts with program participants that were inappropriate. We notified the Authority of this and it converted the loans to program disbursements. To be eligible, the disbursements must be used for the participants to meet their goals. The requests for two loans totaling \$1,307 were not in support of the participants' goals. One loan for \$807 was for unpaid utilities to the Northern

Indiana Public Service Company, and no reason for the other loan for \$500 was provided.

The Authority did not establish a separate HUD-approved investment account for the deposit of the Family Self-Sufficiency program escrow account credits. The escrow credits totaled \$17,901 as of July 2005. The Family Self-Sufficiency program coordinator said he notifies the Authority's accounting department twice a year of changes and updates concerning escrow accounts. The accounting department was unaware of the requirement due to recent personnel changes in the department. As a result of the Authority's failure to properly establish this account, \$17,901 in escrow funds was not invested, and interest was not earned on the escrow funds.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 4A. Provide support or reimburse its Section 8 program \$812,967 (\$738,708 in housing assistance payments plus \$74,259 in related administrative fees) from nonfederal funds for unsupported housing assistance payments and unearned administrative fees related to the 65 tenants cited in this finding.
- 4B. Implement procedures and controls to ensure all required documentation is maintained in the Authority's current tenant files in support of housing assistance payments made and ensure calculations are correct.
- 4C. Reimburse its Section 8 program \$23,138 for the overpayment of housing assistance payments cited in this finding from nonfederal funds.
- 4D. Reimburse the appropriate tenants \$6,184 for the underpayment of housing assistance payments from Section 8 housing funds cited in this finding.
- 4E. Provide support or reimburse its Family Self Sufficiency program \$1,307 from nonfederal funds.
- 4F. Establish a separate federally insured interest-bearing investment account approved by HUD, and allocate the \$17,901 in escrow funds appropriately among the participants.
- 4G. Implement procedures and controls to assure that its Family Self-Sufficiency program is operated according to HUD's regulations.

Finding 5: The Authority Inappropriately Abated Section 8 Vouchers

The Authority inappropriately allowed the repayment of abated housing assistance payments to landlords. It withheld housing assistance payments for the abatement period, but returned 75 percent of the rents to landlords once units passed inspection. The Authority lacked procedures and controls to ensure rents are abated in accordance with HUD's requirements and the Authority's administrative plan. As a result, the Authority inappropriately returned \$59,348 in housing assistance payments to landlords who did not maintain their housing units in decent, safe, and sanitary condition.

The Authority Inappropriately Returned Housing Assistance Payments to Landlords

The Authority improperly paid \$59,348 in housing assistance payments to landlords once units passed inspection. These funds were inappropriately returned to the landlords in violation of HUD and the Authority's requirements. According to the interim Section 8 manager, the Authority had always done the abatements by returning 75 percent of the housing assistance payments to landlords once units passed inspection. The manager was unaware that this was not in accordance with HUD's regulations and the Authority's administrative plan.

We requested a report showing the total amount of funds returned to landlords after failing an inspection and not completing corrections within 30 days, to identify the amount improperly returned to landlords. We identified \$59,348 in Section 8 funds that were not used according to HUD's regulations and the Authority's Section 8 administrative plan.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 5A. Reimburse its Section 8 housing program \$59,348 from nonfederal funds for inappropriately returning abated housing assistance payments to landlords.
- 5B. Implement procedures and controls to ensure that abatements of housing assistance payments are done according to its approved administrative plan and HUD's requirements.

Finding 6: Section 8 Employees and the Board of Commissioners Were Overpaid Per Diem by \$17,080

Section 8 employees and the board of commissioners were overpaid per diem because the Authority's commissioners did not follow Office of Management and Budget Circular A-87 guidelines on reasonable costs, or act prudently when they set unreasonable per diem rates for the Authority. The commissioners authorized higher rates of per diem than were authorized in the City of Gary's travel regulations. As a result, available funding for the Authority was unnecessarily reduced by \$17,080.

The Board of Commissioners Set Unreasonable Per Diem Rates

The Authority's board of commissioners did not follow city, state, or federal travel regulations or act prudently when it set unreasonable per diem rates for the Authority. The board initially raised the per diem rate to \$75 per day for everyone, and then raised the rate applicable to board members to \$100 per day. The board lowered its rate back to \$75 per day when tenants requested the same rate the board was getting. The Authority's chairman of the board of commissioners said the reason the board raised its per diem rate for meals was because the existing rate was not sufficient to cover what the board needed while in a travel status.

Housing authorities are local government employees. Therefore, housing authority employees are subject to the regulations implemented by the City of Gary. In addition, housing authorities are subject to Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Therefore, per diem rates of a housing authority must meet reasonableness standards set out in Office of Management and Budget guidance.

In addition, the board of commissioners must consider its responsibilities to the governmental unit, its employees, the public at large, and the federal government. The per diem rate of \$75 established by the board of commissioners significantly deviated from established practices of the City of Gary. The per diem rate for City employees was \$40 per day. As a result, the per diem rates established by the board were not reasonable, and unnecessarily reduced Section 8 program funds.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 6A. Reimburse its Section 8 program \$17,080 from nonfederal funds for the overpayment of per diem.

- 6B. Implement procedures and controls to ensure travel reimbursements are consistent with local requirements and Office of Management and Budget Circular A-87 guidelines.

Finding 7: The Authority Overpaid \$36,001 in Housing Assistance Payments By Improperly Disallowing Earned Income

The Authority improperly disallowed earned income used in calculating housing assistance payments to be received by Section 8 tenants. The Authority’s procedures were not consistent with HUD’s provision in the Authority’s HOPE VI relocation plan, since the disallowance only applied to low-rent housing tenants. As a result, the Authority overpaid \$36,001 in housing assistance payments to unqualified Section 8 tenants.

Tenants’ Income Was Improperly Disallowed from Housing Assistance Calculations

The Authority improperly disallowed income for 14 Section 8 tenants resulting in overpayments of housing assistance payments. The HOPE VI program allows tenants forced to move from low-rent public housing to have a portion of their earned income disregarded. However, the 14 tenants were not low-rent public housing tenants. The improper disallowance of earned income resulted in \$36,001 in overpayments of housing assistance payments. The amount of housing assistance payments overpaid by the Authority in 2003 and/or 2004 is listed in the following table.

Tenant number	OIG housing assistance payment recalculations with earned income	Actual housing assistance payments without earned income	Amount refunded by the Authority due to earned income disallowance	Amount of housing assistance payments overpaid
15270	\$6,867	\$12,075	N/A	\$5,208
11529	0	4,062	N/A	4,062
12169	5,052	6,760	N/A	1,708
14550	2,688	7,035	N/A	4,347
10002	14,264	14,905	N/A	641
11945	2,970	4,995	N/A	2,025
3085	4,554	5,091	N/A	537
3826	2,964	6,300	N/A	3,336
9078	N/A	11,295	\$3,498	3,498
15229	9,519	12,351	N/A	2,832
14465	3,195	4,998	N/A	1,803
9292	3,984	6,600	N/A	2,616
10577	5,280	6,472	N/A	1,192
10764	4,404	6,600	N/A	2,196
Total				\$36,001

The Authority's Procedures Were Inconsistent with HUD's Guidelines

The Authority permitted the earned income disallowance for Section 8 tenants because of HUD's approval of the Authority's HOPE VI relocation plan. However, according to HUD's HOPE VI coordinator, the Authority misinterpreted HUD's approval to include Section 8 tenants as qualified tenants for earned income disallowance. Title 24 CFR [*Code of Federal Regulations*], 960 defines a qualified family for receiving earned income disallowance as a family residing in public housing. Therefore, the Section 8 tenants did not qualify for the earned income disallowance, resulting in the Authority overpaying \$36,001 in housing assistance payments.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 7A. Reimburse its Section 8 program \$36,001 from nonfederal funds for improperly assigning earned income disallowance adjustments for the 14 tenants cited in this finding.
- 7B. Implement procedures and controls to follow HUD's guidance regarding the proper use of earned income disallowance.

Finding 8: The Authority Inappropriately Charged Expenses to The Section 8 Program

The Authority failed to comply with HUD’s regulations by inappropriately charging expenses to the Section 8 program. It failed to act with prudence because procedures and controls were lacking to ensure HUD’s regulations and the principles of Office of Management and Budget Circular A-87 were followed. As a result, \$20,705 was inappropriately charged to the Section 8 program and reduced funds available to assist low and very low-income families and individuals.

The Authority Did Not Follow HUD’s Regulations and Office of Management and Budget Circular A-87

The Authority failed to follow HUD’s regulations and Office of Management and Budget guidance in expensing items to the Section 8 program. The Authority’s Section 8 program administrative fees were charged for HOPE VI expenses, property taxes, food, and other expenses that did not benefit the Section 8 program. The expenses were not allowable costs for administrative fees in accordance with 24 CFR [*Code of Federal Regulations*], 982.152. In addition, the Authority failed to follow Office of Management and Budget Circular A-87 regarding reasonable cost, and the cost was not of a type generally recognized as ordinary and necessary for the performance of the Section 8 program. The following table lists the inappropriate expenses.

Voucher number	Description	Inappropriate amount
85678	Program manager services	\$6,111
86903	Program manager services	3,327
83295	Rent for HOPE VI office	87
83174	Program manager services	4,880
90369	Property taxes	1,412
90370	Property taxes	683
84288	Elevator repairs	1,687
80521	Executive session lunch	12
77114	Employee picnic	1,125
73621	Weedeater repair	3
73622	Chainsaw repair	2
73623	Chainsaw repair	2
73624	Chainsaw repair	2
73523	Weedeater repair	3
76099	Catered Christmas lunch	1,369
Total:		\$20,705

The inappropriate expenses charged to the Authority’s Section 8 program included HOPE VI program manager services, rent for the HOPE VI office, property taxes for two properties, elevator repairs, lunch reimbursement, an

employee picnic, a catered staff Christmas party, and chainsaw and weed eater repairs.

The Authority's management failed to act reasonably and with prudence in terms of expensing items to the Section 8 program. This occurred because the Authority lacked procedures and controls to ensure HUD's regulations and the principles of Office of Management and Budget Circular A-87 were followed. As a result, available funding for the Section 8 program was inappropriately reduced.

Recommendations

We recommend that the director of HUD's Public Housing Hub, Cleveland Field Office, require the Authority to

- 8A. Reimburse its Section 8 program \$20,705 from nonfederal funds for the inappropriate expenses charged to its Section 8 program.
- 8B. Implement procedures and controls to ensure that charges to the Section 8 program are expensed appropriately according to HUD's regulations and Office of Management and Budget Circular A-87.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we reviewed:

- Applicable laws, regulations, and HUD program requirements at 24 CFR [*Code of Federal Regulations*] 5, 35, 960, 982, and 984; HUD Public and Indian Housing Notice 2004-7; Office of Management and Budget Circular A-87; and the Authority's Section 8 administrative plan (revised July 29, 1999);
- The Authority's accounting records, annual audited financial statements for 2002 and 2003, general ledgers, bank statements and cancelled checks, tenant files, policies and procedures, board meeting minutes for 2003 and 2004, organizational chart, and its Section 8 annual contributions contract; and
- HUD's files for the Authority.

We also interviewed the Authority's employees, HUD staff, and Section 8 tenants.

We performed our onsite audit work between January and June 2005 at the Authority's office located at 578 Broadway, Gary, Indiana. The audit covered the period from January 1, 2003, through December 31, 2004, but was expanded when necessary to include other periods.

We statistically selected 63 of the Authority's Section 8 units to inspect. We selected the units using the U.S. Army Audit Agency's Statistical Sampling System, Version 6.3 software, from the Authority's 653 Section 8 housing units that were inspected by the Authority between November 24, 2004, and May 24, 2005. The 63 units were selected to determine whether the Authority properly ensured its Section 8 units met HUD's housing quality standards.

We selected a statistical sample for the tenant file reviews from the Authority's total Section 8 vouchers as of December 31, 2004. We used the U.S. Army Audit Agency's Statistical Sampling System, Version 6.3 software, to determine the sample size. There were 1,286 Section 8 units as of December 31, 2004. Using a confidence level of 90, a 50 percent error rate, and a sampling precision of 10 percent produced a sample size of 65 tenant files. A random numbers listing was created for selection of the 65 tenant files. The tenant file master list was created using audit command language and assigned line numbers for the random selection. We used 73 tenant files for review—63 tenant files from the review random sample and 10 tenant files from our survey sample.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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

Relevant Internal Controls

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

- 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.

It is a significant weakness if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following conditions at the Authority are significant weaknesses:

- The Authority did not operate its Section 8 housing program according to program requirements (see finding 1),
- The Authority failed to exercise proper supervision and oversight of its Section 8 unit inspections (see finding 2),
- The Authority lacked sufficient controls on the proper use of Section 8 funds (see finding 3),
- The Authority lacked sufficient procedures and controls to ensure compliance with HUD's regulations and the Authority's administrative plan (see findings 4, 5, and 7), and
- Controls were lacking to ensure HUD's regulations and the principles of Office of Management and Budget Circular A-87 were followed (see findings 6 and 8).

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/
1B			\$8,057,519
2D	\$ 78,738		
3A	805,585		
3B			<u>261,276</u>
4A		\$812,967	
4C	23,138		
4D	6,184		
4E		<u>1,307</u>	
5A	59,348		
6A	17,080		
7A	36,001		
8A	<u>20,705</u>		
Totals	<u>\$1,046,779</u>	<u>\$814,274</u>	<u>\$8,318,795</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 audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future 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/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG EVALUATION

Ref to OIG Evaluation

Auditee Comments

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MRS BROOKS

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Management's Comments
HUD's Office of Inspector General for Audit
Audit Report
September 26, 2005

Management Summary

The Gary Housing Authority (the Authority) has reviewed the Audit Report issued by HUD's Office of Inspector General for Audit (OIG). Management acknowledges that there have been several operational and compliance issues pertaining to the Section 8 program. The Authority has taken several steps to begin to address the multitude of issues over the last several months. The current Executive Director has held her position since *April 2003*, and has recruited and recommended for hire qualified and experienced management staff over several key areas such as Capital Funds, HOPE VI, Finance, Internal Audit (new position), and Human Resources; and negotiating a Memorandum of Agreement with the local HUD office with monthly internal monitoring of progress on the associated objectives. In addition, training programs for staff and development and implementation of policies, procedures and internal controls has commenced and continued under her direction.

In addition to the many issues in the Section 8 program, the Authority had experienced many financial missteps that were the direct result of poor financial management and indiscretions with a criminal intent by prior staff, which were openly brought to the attention of the OIG by Authority management. Other irregularities were reported to the HUD Indianapolis Office by the current Executive Director after her arrival. As a result, current management and staff have worked extensively to conduct research and recover from prior practices, while establishing new processes and controls along the way.

It should be noted that the Authority is committed to ongoing improvement and essential changes to address operational and compliance issues. The Authority's Board and Executive Director agreed to contract out the management and operations of the Authority's Section 8 Program to an independent third party after the last review conducted by the Indianapolis HUD Office. We are in the final stages of the solicitation process for this endeavor and expect to award such a contract within 60 days of this report. HUD Indianapolis received the awards on September 14, 2005 and has promised to return the awards to the Authority this week. Upon such award, the Authority is committed to closely tracking the performance of the contractor and providing ongoing progress reports to the local HUD office.

The Authority has reviewed all of the OIG Audit Report findings, and has provided associated responses below.

Management's Comments
HUD's OIG Report

September 26, 2005

Finding 1: Section 8 Program Was Not Operated According to Requirements

The Authority agrees that we were lacking significant procedural and control mechanisms in place over the Section 8 program during the period of review that contributed to the various findings noted in this report. The Authority concurs that the Section 8 program should be contracted out, and have taken significant steps towards the accomplishment of this objective. The Authority obtained a sample RFP from the local HUD office and utilized that document as our means of solicitation for a third party contractor to manage and run our Section 8 program. The solicitation process resulted in two responses. The Authority conducted an internal responsiveness review and found both firms to be responsive to the solicitation. Currently, the local HUD office is reviewing the two responses and our review, per their request, and have committed to returning the documents to us by September 26, 2005. Upon receipt, the Authority will have a review committee complete the process to award the solicitation within 30 days. The Authority is committed to keeping the local office informed of our progress throughout solicitation process.

Based on the fact that we have two qualified, responsive firms that have responded to our solicitation, the Authority believes we will successfully contract out the Section 8 program within the next 60 days. Once awarded, the Authority intends to closely track the performance of the third party contractor and report such progress to the local HUD office. Accordingly, we disagree with the necessity for HUD to issue a written notice to the Authority as permitted by Section 15 of the Section 8 annual contributions contract that permits HUD to take possession of all or any Authority property, rights or interests in connection with its Section 8 housing program. The Authority has shown initiative and intent to improve operations of the Section 8 program through the current Executive Director's commitment to improvement and dedication to the third party contracting process. Furthermore, such a notice could deter interested third parties from accepting the Section 8 management and operations contract, knowing that HUD could come in and take over the program at any time. We assert that it is in the mutual best interest of HUD and the Authority to not issue such notice, but to allow the third party contracting process to continue and result in our mutual objective of privatizing the program. Further, since the Authority has received two responses from third-party contractors for its Section 8 program, notice from HUD would only delay the progress that the Authority has nearly completed.

Comment 1

Management's Comments
HUD's OIG Report

September 26, 2005

Finding 2: Section 8 Units Did Not Meet HUD's Housing Quality Standards

The Authority agrees with the recommendations made in association with this finding. As noted in the Office of Inspector General (OIG) report, the Authority's current Executive Director attempted to correct the problems by replacing management of the program, but was limited in her ability to hire and fire, resulting in significant delays in attempts to make personnel changes. Despite prior attempts to train the existing staff in HUD's housing quality standards and compliance therewith, violations of HUD's housing quality standards continued.

The current Section 8 Manager has undergone sufficient training on compliance with HUD's housing quality standards, and has begun conducting quality control reviews on a regular basis. In addition, both the Board of Commissioners and the Executive Director have taken a personal interest in ensuring housing quality standards are met, and they are actively going through recent system reports and inspection files in order to ensure appropriate follow up and abatement are occurring in accordance with the standards.

The Authority is in receipt of the 57 failed unit inspection reports and is in the process of following HUD's failed unit inspection requirements.

Once the Authority has awarded a third party contractor the management and operations of the Section 8 program, a quality control plan will be implemented. In addition, the current Executive Director has recently been granted the authority to hire and fire personnel by the Board of Commissioners, enabling her to more effectively address staffing issues throughout the agency. The Authority is committed to improving the housing quality standards and will continue to work toward significant improvement.

Finding 3: Authority Inappropriately Funded \$805,585 for HOPE VI Development from Section 8 Administrative Fees

The Authority did utilize Section 8 reserves on HOPE VI development, in accordance with the Board of Commissioners' and Executive Director's authorization. However, we agree that the Authority did not accurately account for the funds used. Also, because the Authority did not have sufficient controls in place for the proper segregation of Section 8 reserves, it proved difficult to identify where the funds were held.

The Authority held all of its funds in various cash and investment accounts, with the investment accounts including the Section 8 reserve funds. However, these reserves were not segregated in a separate account, or accounted for separately. When the Section 8 reserve funds were used, the existing staff inappropriately recorded the expenses as Section 8 administrative fee funds utilization. Accordingly, these expenses were also reported as ongoing administrative expenses on the annual YESS statements instead of Withdrawals from Operating Reserves during the Fiscal Year (Attachment A). The Authority has restated our YESS statements from the period affected going forward making the appropriate reclassification. It should be noted that the bottom line "Operating Reserve" balance is not affected by such reclassification and does not change from what had been originally reported.

Comment 2

Management's Comments
HUD's OIG Report

September 26, 2005

The Authority has taken the appropriate amount of operating reserves from our general investment accounts and deposited them in a separate account just for Section 8 reserves. This account represents the remaining reserves to date, less the \$805,585 previously expended on HOPE VI Development.

The Authority disagrees with the recommendation that we should reimburse Section 8 administrative fees of \$805,585 from nonfederal funds for inappropriately funding the HOPE VI project. By restating our YESS statements, noting our files that the use of these funds was truly out of Section 8 reserves that were held in Authority investments, appropriately crediting investment income to the reserves, depositing the remaining reserves in a separate investment account and establishing procedures for accounting for Section 8 reserve expenses separately and distinctly from administrative fees, we have addressed the problem.

Finding 4: Controls Over Housing Assistance Payments Are Inadequate

The Authority agrees that we had weaknesses in our procedures and controls that would ensure HUD's regulations and the Authority's administrative plan were appropriately followed. As a result, we acknowledge that several of our Section 8 files lacked sufficient documentation to support Housing Assistance Payments made and associated administrative fees, calculation of annual income and utility allowances. Further, the issues noted with regard to the Authority's Family Self-Sufficiency (FSS) program were also due to weaknesses in controls and procedures, including the lack of a separate, interest-bearing investment account for escrow funds. Accordingly, we do not refute the recommended reimbursements from the Authority.

The Authority is currently performing quality control reviews of files in order to ensure appropriate documentation is included. We have also established a separate, interest-bearing investment account for FSS escrows. Current files are being reviewed and necessary documentation is being requested from both tenants and owners to support Housing Assistance Payments.

Once the Authority has awarded a contract to a third party for management and operations of the Section 8 program, these issues will be outlined as a priority for the awardee to address. The solicitation for a private contractor includes a requirement for co reporting the HUD Indianapolis Office.

Finding 5: The Authority Inappropriately Abated Section 8 Vouchers

The Authority agrees that the practice of returning a percentage of housing assistance payments once a previously failed unit has passed inspection is not in accordance with HUD's regulations or the Authority's administrative plan. We are actively taking steps to ensure that this practice is no longer continued.

Management's Comments
HUD's OIG Report

September 26, 2005

The recently appointed Interim Manager of the program is currently abating rent for failed unit inspections. In addition, the Board of Commissioners and the Executive Director have taken a personal interest in ensuring that Authority inspectors are appropriately following up, and they are actively going through recent system reports and inspection files in order to ensure appropriate follow up and abatement are occurring in accordance with the standards.

It is the goal of the Authority to contract the management and operations of the Section 8 program to a third party contractor within the next 60 days.

Finding 6: Section 8 Employees and the Board of Commissioners Were Overpaid Per Diem by \$17,080

The Authority agrees that the per diem rates used for travel were not in compliance with Office of Management and Budget Circular A-87 guidelines on reasonable costs. However, it should be noted that the Authority is a separate municipal corporation, I.C. 36-7-18-4, and is not bound to comply with the City of Gary Policies, but that the Authorities policies must be reasonable. Accordingly, the Authority Board of Commissioners will establish a policy to reduce the per diem rate for travel to \$45 per day. Attached is the proposed resolution which will be presented at September 26, 2005 special meeting. (Attachment B)

Finding 7: The Authority Overpaid \$36,001 in Housing Assistance Payments By Improperly Disallowing Earned Income

The Authority agrees that the earned income disallowance should have only been applied to low rent housing recipients and not Section 8 tenants. The HOPE VI relocation plan was misinterpreted to include Section 8 tenants. The Authority is making adjustments in its internal policies and procedures in order to ensure that the HOPE VI relocation plan is not misapplied to Section 8 tenants in the future. The HOPE VI coordinator will periodically review files as a quality control mechanism that will further ensure compliance with the relocation plan.

Finding 8: The Authority Inappropriately Charged Expenses to the Section 8 Program

The Authority agrees that these expenses were not ordinary and necessary for the performance of the Section 8 program. The Authority has hired a Budget Analyst that is responsible for reviewing Section 8 transactions monthly. Any non-section 8 program transactions are questioned and researched by accounting staff, in order to ensure compliance with Section 8 program regulations and OMB Circular A-87 regarding reasonable cost. The Authority is also preparing financial statements to the Board by program. Thus, the Board of Commissioners and Management can see changes in expense and revenue activity for the Section 8 program monthly. These changes are added controls that the Authority has implemented with regard to Section 8 expense management. (Attachment A)

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Management's Comments
HUD's OIG Report

September 26, 2005

Summary

The Authority's Board of Commissioners and Executive Director are in full support of contracting out the management and operations of the Section 8 program to a third party. The solicitation process is in the final stages at the time of this report, and is soon to be awarded. In addition, overall Authority procedures and controls have improved vastly over the last year, primarily due to significant turnover in Authority management and administrative staff. Accordingly, significant improvement and continued progress are highly anticipated in the Authority's Section 8 program administration.

Submitted by



Estelle W. Brooks
Executive Director
Gary Housing Authority

OIG Evaluation of Auditee Comments

Comment 1

The Authority disagreed with our recommendation that HUD issue a letter of default. The Authority states it has shown initiative and intent to improve its operations of the Section 8 program and a default letter could deter contractors interested in accepting responsibility for managing and operating the Authority's Section 8 program. Our position is that the default letter will provide further assurances that HUD's interests is protected in the event a contractor is not selected or able to effectively manage and operate the program.

Comment 2

The Authority's response directed us to its operating reserve account, but did not identify the amount of administrative fee reserves that were included in this account, or if the Authority had administrative fee reserves available to use. The Authority's documentation and its comptroller did not support the existence of any administrative fee reserves maintained by the Authority.

Appendix C

CRITERIA

Finding 1

Section 6 of the Section 8 annual contributions contract mandates that HUD may reduce the amount payable by HUD if it determines that the Authority has failed to comply with any obligations under the contract. HUD may reduce to an amount determined by HUD the amount of the HUD payment for any funding increment. Also Section 15 “Default by a Housing Authority,” states that upon written notice to the housing authority, HUD may take possession of any or all housing authority property, rights or interest in connection with a program, including funds held by a depository, program receipts, and rights or interests under a contract for housing assistance payments with an owner, if HUD determines that the housing authority has failed to comply with any obligations under the consolidated annual contributions contract or the housing authority has made any misrepresentation to HUD of any material fact.

Finding 2

Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.401, “Housing Quality Standards,” requires that all Section 8 program housing must meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the tenancy.

The Authority’s administration plan, Section 12.2, “Owner and Family Responsibility,” states the Authority will not make any housing assistance payments for a dwelling unit that fails to meet housing quality standards, unless the owner corrects the defect within the period specified by the Authority, and the Authority verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects, the owner must correct the defect within 21 days.

Section 12.5, “Timeframes and Corrections of Housing Quality Standards Failed Items,” states if the owner does not correct the housing quality standards failed items after proper notification has been given, the Authority will abate payment and terminate the contract in accordance with the administration plan.

Section 12.7, “Abatement,” states when a unit fails to meet housing quality standards and the owner has been given an opportunity to correct the deficiencies but has failed to do so within the required timeframe, the rent for the dwelling will be abated. The initial abatement period will not exceed 7 days. If the corrections are not made within the 7-day timeframe, the abatement will continue until the housing assistance payments contract is terminated. When the deficiencies are corrected, the Authority will end the abatement the day the unit passes inspection. Rent will resume the next day and be paid on the first day of the following month.

Finding 3

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.155, “Administrative Fee Reserve,” mandate that the housing authority must maintain an administrative fee reserve (formerly ‘operating reserve’) for the program. The Authority must credit to the administrative fee reserve the total of the amount by which program administrative fees paid by HUD exceed the Authority’s program administrative expenses for the fiscal year, plus interest earned on the administrative fee reserve. The Authority must use funds in the administrative fee reserve to pay program administrative expenses in excess of administrative fees paid by HUD for an Authority’s fiscal year. If funds in the administrative fee reserve are not needed to cover administrative expenses, the Authority may use these funds for other housing purposes permitted by state and local law. The Authority’s board of commissioners or other authorized officials must establish the maximum amount that may be charged against the administrative fee reserve without specific approval. If the Authority has not adequately administered any Section 8 program, HUD may prohibit use of funds in the administrative fee reserve, and may direct the Authority to use funds in the reserve to improve administration of the program, or to reimburse ineligible expenses.

HUD may also reduce or offset any administrative fee to the Authority, in the amount determined by HUD, if the Authority fails to perform administrative responsibilities correctly or adequately under the program (for example, the Authority failed to enforce housing quality standards requirements).

Office of Management and Budget Circular A-87, attachment A, requires principles to be established to assure that federal awards bear their fair share of costs, requires all costs to be necessary and reasonable for proper and efficient performance and administration of federal awards, and requires all costs to be adequately documented.

Public and Indian Housing Notice, 2004-7, issued April 22, 2004, states that any administrative fees from fiscal year 2004 funding that are moved into the administrative fee reserve account at year end may not be used for other housing purposes permitted by state and local law and must only be used for the provision of Section 8 rental assistance, including related development activity.

Finding 4

Federal regulations 24 CFR [*Code of Federal Regulations*] 5.216, “Disclosure and Verification of Social Security and Employer Identification Numbers,” require that each assistance applicant must submit the following information to the processing entity when the assistant applicant's eligibility under the program involved is being determined.

- A complete and accurate Social Security number assigned to the assistance applicant and to each member of the assistant applicant’s household who is at least six years of age; or
- If the assistance applicant or any member of the assistance applicant's household who is at least six years of age has not been assigned a Social Security number, a certification executed by the individual involved.

Federal regulations 24 CFR [*Code of Federal Regulations*] 5.508, “Submission of Evidence of Citizenship or Eligible Immigration Status,” require evidence of citizenship or eligible immigration status for each family member, regardless of age. For U.S. citizens or U.S. nationals, the evidence consists of a signed declaration of U.S. citizenship or U.S. nationality.

Federal regulations 24 CFR [*Code of Federal Regulations*] 35.92, “Lead Based Paint Certification and Acknowledgement of Disclosure,” require that each contract to lease target housing shall include, as an attachment or within the contract, a lead warning statement with the following language: “a statement by the lessor disclosing the presence of known lead-based paint and/or lead-based paint hazards in the target housing being leased or indicating no knowledge of the presence of lead-based paint and/or lead-based paint hazards, and a list of any records or reports available to the lessor pertaining to lead-based paint and/or lead-based paint hazards in the housing that have been provided to the lessee.”

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.54, “Administrative Plan,” require the Authority to adopt a written administration plan that establishes local policies for administration of the program in accordance with HUD requirements. The Authority’s board of commissioners or other authorized officials must formally adopt the administration plan and any revisions of the plan. The Authority must administer the program in accordance with its administrative plan.

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.158, “Program Accounts and Records,” require the Authority to 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. The Authority must prepare a unit inspection report. During the term of each assisted lease, and for at least three years thereafter, the Housing Authority must keep

1. A copy of the executed lease,
2. The housing assistance payments contract, and
3. The application from the family.

The Authority must keep the following records for at least three years:

1. Records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants;
2. Unit inspection reports;
3. Lead-based paint records as required by part 35, subpart B of this title.
4. Records to document the basis for housing authority determination those rental payments are reasonable (initially and during the term of a housing assistance payments contract).

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.207, “Verification of Selection Method for Selecting Applicants from a Preference Category,” require a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.305, “Public Housing Authority Approval of Assisted Tenancy Program Requirements,” state the Authority may not give

approval for the family of assisted tenancy or execute a housing assistance payments contract until the Authority has determined that the following program requirements have been met

- The unit has been inspected by the Authority and passes housing quality standards; and
- The rent to owner is reasonable.

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.308, “Lease and Tenancy,” state the tenant and the owner must enter a written lease for the unit. The owner and the tenant must execute the lease.

The Authority’s Section 8 administrative plan, section 2.1, “Gary Housing Authority Responsibilities,” states the Authority will comply with the consolidated annual consolidated contract, the application, HUD regulations and other requirements, and the Authority’s Section 8 administrative plan.

In administering the program, the Authority will

- Receive applications from families, determine eligibility, maintain the waiting list, select applicants, issue a voucher to each selected family;
- Determine who can live in the assisted unit at admission and during the family’s participation in the program;
- Obtain and verify evidence of citizenship and eligible immigration status in accordance with 24 CFR [*Code of Federal Regulations*] 5;
- Determine the maximum rent to the owner and whether the rent is reasonable;
- Examine family income, size and composition at admission and during the family’s participation in the program (the examination includes verification of income and other family information); and
- Establish and adjust the Authority’s utility allowance.

Section 3.0, “Eligibility for Admission,” states that to be eligible for admission to and continued participation in the Section 8 program, an applicant must be at least 18 years of age and a resident of the city of Gary or surrounding communities (10-mile radius). Priority will be given to those applicants who live within the city limits. An applicant must qualify as a family, have an income within the income limits, meet citizenship/eligible immigrant criteria, provide documentation of Social Security numbers, and sign consent authorization documents. In addition to the eligibility criteria, families must also meet the Authority’s screening criteria to be admitted to the Section 8 program.

Section 3.2, “Eligibility Criteria,” states family status is a family with or without children. Such a family is defined as a group of people related by blood, marriage, adoption or affinity that live together in a stable family relationship. To be eligible, each member of the family must be a citizen, national, or a noncitizen who has eligible immigration status under one of the categories set forth in section 214 of the Housing and Community Development Act of 1980 (see 42 United States Code 1436a(a)).

Section 6.5, “Approval to Lease a Unit,” states the Authority will approve a lease if the rent to owner is reasonable.

Section 10.3, “Verification of Citizenship or Eligible Noncitizen Status,” requires that the citizenship/eligible noncitizen status of each family member regardless of age be determined. Before being admitted or at the first reexamination, all citizens and nationals will be required to sign a declaration under penalty of perjury (they will be required to show proof of their status by such means as Social Security card, birth certificate, military identification, or military Department of Defense 214 form).

Section 11.2, “Rent Reasonableness,” states the Authority will not approve initial rent or a rent increase in any of the tenant-based programs without determining that the rent amount is reasonable. Reasonableness is determined before to the initial lease and at the following times

- Before any increase in rent to owner is approved,
- If 60 days before the contract anniversary date there is a 5 percent decrease in the published fair market rent report as compared to the previous report, and
- If the Authority or HUD directs that reasonableness be redetermined.

The Housing Choice Voucher Program Guidebook, Chapter 9, “Rent Reasonableness,” states in each case in which the housing authority is required to determine rent reasonableness, it must document its decision and the basis for it (for example, information on comparable unassisted units) in the tenants file. This documentation should identify who conducted the rent reasonableness determination and when.

Finding 5

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.404, “Maintenance: Owner and Family Responsibility,” state the Authority must not make any housing assistance payments for a dwelling that fails to meet housing quality standards, unless the owner corrects the defect within the period specified by the Authority and the Authority verifies the correction.

Finding 6

Office of Management and Budget Circular A-87, C-2, “Reasonable Costs,” states a cost is reasonable if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the federal award;
- The restraints or requirements imposed by such factors as sound business practices, federal, state, and other laws and regulations; and terms and conditions of the federal award;
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government; and

- Significant deviations from the established practices of the governmental unit that may unjustifiably increase the federal award's cost.

Finding 7

Federal regulations 24 CFR [*Code of Federal Regulations*] 960.255, "Self-Sufficiency Incentives, Disallowance of Increase in Annual Income," define disallowance as an exclusion from annual income and a qualified family is a family residing in public housing.

Finding 8

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.151, "Annual Contributions Contract," state an annual contributions contract is a written contract between HUD and a housing authority. The housing authority agrees to administer the program in accordance with HUD regulations and requirements.

Federal regulations 24 CFR [*Code of Federal Regulations*] 982.152, "Administrative Fee," state HUD may approve administrative fees to the housing authority for any of the following purposes:

- Ongoing administrative fee,
- Costs to help families who experience difficulty finding or renting appropriate housing under the program,
- The following types of extraordinary costs approved by HUD
 1. Costs to cover necessary additional expenses incurred by the Authority to provide reasonable accommodation for persons with disabilities in accordance with part 8 of this title (for example, additional counseling costs), when the Authority is unable to cover such additional expenses from ongoing administrative fee income or from the administrative fee reserve,
 2. Costs of audit by an independent public accountant, or
 3. Other extraordinary costs determined necessary by HUD Headquarters, and
- Preliminary fee - Costs to coordinate supportive services for families participating in the family self-sufficiency program.

Office of Management and Budget Circular A-87, attachment A, "Policy Guides," states the application of these principles is based on the fundamental premises that

1. Governmental units are responsible for the efficient and effective administration of federal awards through the application of sound management practices; and
2. Governmental units assume responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award.

The basic guidelines state factors affecting the allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:

1. Be necessary and reasonable for proper and efficient performance and administration of federal awards;
2. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items; and
3. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Attachment B, "Selected Items of Cost," states costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Appendix D

RESULTS OF TENANT FILE REVIEWS

Table I

January 2003 through December 2004

Tenant number	Birth certificates	Certification claiming to be U.S. citizens	Social Security numbers	Properly signed housing assistance payments contract/lease agreement	Original application	Lead-based paint	Rent reasonableness	Housing assistance payments amount ineligible in 2003 and 2004
16065							X	\$11,501
16243				X			X	11,787
19605	X						X	11,585
13734				X	X		X	12,718
1846						X	X	5,472
13394				X		X	X	13,356
15782						X		6,616
13854							X	18,025
7227	X	X		X			X	7,919
17325							X	6,131
17208						X	X	5,608
364		X				X		5,198
3085	X	X	X	X	X	X	X	13,988
13476						X	X	15,244
17749							X	14,602
6512				X		X	X	7,412
9154	X		X		X		X	16,608
5943	X	X		X		X	X	14,117
2894	X	X	X	X		X	X	12,770
1124		X		X		X	X	13,255
13648				X				8,156
17635							X	10,989
17536				X			X	11,187
17554						X	X	11,409
6105	X			X		X	X	9,852
7713		X	X			X	X	18,312
6470	X		X			X	X	13,007
13825				X			X	13,122
6288	X	X	X	X			X	8,696
17983						X	X	15,914

Tenant number	Birth certificates	Certification claiming to be U.S. citizens	Social Security numbers	Properly signed housing assistance payments contract/lease agreement	Original application	Lead-based paint	Rent reasonableness	Housing assistance payments amount ineligible in 2003 and 2004
5895		X		X		X	X	3,853
790	X			X	X	X	X	12,260
6195	X	X		X			X	11,822
1360	X	X	X	X			X	9,016
12775						X	X	16,510
15562		X		X		X	X	11,564
205							X	15,717
436				X	X		X	11,310
12179							X	10,060
7161	X	X	X	X		X		16,608
2529	X			X			X	14,793
6001	X	X	X	X		X	X	10,800
18315		X		X	X		X	13,512
18971	X			X		X	X	8,541
6061				X			X	16,098
1626				X	X		X	15,440
17211				X			X	7,816
17993						X		6,282
18079				X			X	14,836
1768							X	10,883
15255	X					X		12,021
2563				X		X	X	10,502
3756	X						X	3,524
7886				X		X	X	4,790
1621						X	X	8,205
4655		X			X			10,715
7521				X			X	9,904
3219				X	X			18,336
17171							X	12,504
5780		X		X				8,616
361		X		X				9,864
18126				X		X		12,076
16267				X			X	12,404
12929				X				9,936
19103					X	X	X	13,034
Totals	18	18	9	38	10	30	53	\$738,708

Note: "X" represents missing or incomplete documentation.

Table II

Housing assistance payment errors			
Tenant number	Certifications	Overpayments	Underpayments
16065	1		\$5
19056	1		\$250
20375	1		\$65
20455	1		\$116
13734	2	\$627	
1846	1		\$9
15782	2	\$130	\$20
13854	2		\$90
7227	2	\$198	
17325	2	\$19	
18017	1		\$22
1057	2	\$36	\$9
17208	2	\$105	
364	2	\$2,071	
3085	2		\$19
13476	2		\$1,093
17749	2	\$181	
6512	2	\$817	
9154	2	\$28	\$25
5943	1	\$221	
2894	1		
1124	2	\$98	\$72
13648	1	\$60	
17635	2	\$9	
17536	2		\$42
17554	2	\$384	
6105	2	\$36	\$22
7713	2	\$63	
17702	1	\$1,890	
6470	2	\$976	
13825	1	\$232	
6288	2	\$4,647	
17983	2	\$3,136	
5895	2	\$200	
790	1		\$325
6195	2	\$1,086	
1360	2		\$1,426

Housing assistance payment errors (continued)

Tenant number	Certifications	Overpayments	Underpayments
12775	2	\$280	
15562	2	\$113	
205	2		\$27
436	2	\$1	
12179	2	\$493	
7161	2		\$650
2529	2		\$891
6001	2	\$660	
18315	2	\$1,038	
18971	2	\$12	\$28
6061	2	\$312	
1626	2	\$48	
17211	2	\$639	
17993	2		\$44
18079	2		\$30
1768	2		\$66
15255	2	\$60	
15579	2	\$171	
2563	2	\$15	\$544
2846	2		\$9
3756	2		\$30
7886	2	\$609	
1621	2	\$221	\$18
4655	2	\$352	
7521	2	\$132	
3219	2	\$156	
17171	2		\$105
5780	1		<u>\$132</u>
361	2	\$378	
18126	1		
16267	2	\$128	
12929	2		
19103	<u>2</u>	<u>\$70</u>	
Totals	<u>126</u>	<u>\$23,138</u>	<u>\$6,184</u>