Housing Authority of the City of North Chicago, North Chicago, IL

Housing Choice Voucher Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2019-CH-1001
December 20, 2018

To: Daniel Sherrod, HUD's Chicago Office of Public and Indian Housing, 5APH

//signed//

From: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

Subject: The Housing Authority of the City of North Chicago, North Chicago, IL, Did Not Always Comply With HUD's Requirements and Its Own Policies Regarding the Administration of Its Housing Choice Voucher Program

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

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (312) 913-8499.

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The Housing Authority of the City of North Chicago, North Chicago, IL, Did Not Always Comply With HUD's Requirements and Its Own Policies Regarding the Administration of Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Housing Authority of the City of North Chicago's Housing Choice Voucher Program based on our analysis of risk factors related to the public housing agencies in Region 5's jurisdiction and the activities included in our 2018 annual audit plan. Our audit objective was to determine whether the Authority appropriately managed its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements.

What We Found

The Authority did not adequately enforce HUD's housing quality standards and its own requirements. Specifically, it failed to ensure that 78 program units, including 50 that materially failed, complied with HUD's housing quality standards and its program administrative plan. As a result, more than $153,000 in program funds was spent on units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, the Authority will pay more than $1.2 million in housing assistance for units with material housing quality standards violations.

The Authority did not always comply with HUD's and its own requirements for its program household files. It did not obtain and maintain required eligibility documentation and correctly calculate housing assistance and utility allowances. As a result, it lacked support for nearly $94,000, overpaid nearly $80, and underpaid nearly $2,200 in housing assistance.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to (1) certify that the applicable housing quality standards violations have been corrected for the 78 units cited, (2) reimburse its program from non-Federal funds for the 50 units that materially failed to meet HUD's and its own requirements and for the household files with inappropriate calculations of housing assistance, (3) support or reimburse its program for the household files with missing documentation, (4) reimburse its program households from program funds for the underpayment of housing assistance, and (5) implement adequate procedures and controls to address the findings cited in this audit report.

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Background and Objective

The Housing Authority of the City of North Chicago was established under the State of Illinois Department of Local Government Affairs to address the shortage of safe or sanitary dwelling accommodations in North Chicago available to persons who lacked the amount of income necessary to enable them, without financial assistance, to live in decent, safe, and sanitary dwellings without overcrowding. The Authority is governed by a five-member board of commissioners appointed by the mayor of the North Chicago, IL, and approved by the members of the North Chicago City Council. The executive director is appointed by the Authority and is responsible for the general supervision of the administration of its business and affairs, subject to the direction of the Authority, and management of the housing projects of the Authority. In addition, the executive director is the secretary-treasurer of the Authority and has all the powers and duties of that office.

The Authority administers the Housing Choice Voucher Program funded by the U.S. Department of Housing and Urban Development (HUD). The program allows very low-income families to choose and lease or purchase safe, decent, and affordable privately owned rental housing. As of November 2018, the Authority had 542 vouchers and had received more than $3 million in program funds for fiscal year 2018.

The goal of the Housing Choice Voucher Program is to provide decent, safe, and sanitary housing at an affordable cost to low-income families. To accomplish this goal, program regulations set forth basic housing quality standards, which all units must meet before assistance can be paid on behalf of a family and at least annually throughout the term of the assisted tenancy. Housing quality standards define "standard housing" and establish the minimum criteria for the health and safety of program participants.

HUD's regulations at 24 CFR (Code of Federal Regulations) 982.401 require that all program housing meet housing quality standards performance requirements, both at commencement of the assisted occupancy and throughout the assisted tenancy.

The objective of our audit was to determine whether the Authority appropriately managed its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority (1) conducted thorough housing quality standards inspections of its program units, (2) maintained its Housing Choice Voucher Program files in accordance with HUD's and its own requirements, and (3) correctly calculated housing assistance and utility allowance payments.

Region 5's jurisdiction includes Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

Results of Audit

Finding 1: The Authority Did Not Ensure That Program Units Complied With HUD's Housing Quality Standards and Its Own Requirements

The Authority did not ensure that program units complied with HUD's housing quality standards and its own requirements. Of the 80 program units statistically selected for inspection, 78 did not meet minimum housing quality standards. Of the 78 units that did not meet HUD's minimum housing quality standards, 50 materially failed to meet HUD's standards. The violations occurred because the Authority did not exercise proper supervision and oversight of its program and inspections to ensure that its program units complied with HUD's housing quality standards and its own requirements. As a result, more than $153,000 in program funds was spent on units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, the Authority will pay more than $1.2 million in housing assistance for units with material housing quality standards violations.

The Authority Passed Housing Units That Did Not Comply With HUD's Housing Quality Standards or Its Own Requirements

From the 148 program units that passed the Authority's inspections from December 1, 2017, through May 31, 2018, we selected[1] 80 units for inspection. The 80 units were inspected to determine whether the Authority ensured that its program units complied with HUD's housing quality standards and the requirements in its program administrative plan. We inspected the 80 units from July 24 through August 9, 2018.

Of the 80 units inspected, 78 (98 percent) had 746 housing quality standards violations, of which 430 violations predated the Authority's previous inspections. Of these, 50 units containing 644 violations were considered to be in material noncompliance based on our assessment of the deficiencies, which included preexisting conditions, the nature of the deficiency, and the impact the deficiency had on the family members living in the unit. The Authority disbursed $153,222 in program housing assistance payments for the 50 units that materially failed to meet HUD's housing quality standards and received $15,796 in program administration fees. Based on our statistical sample, we estimate that the Authority will pay more than $1.2 million in housing assistance for units with material housing quality standards violations. The following table categorizes the 746 violations in the 78 units.

[1] Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

Category of violations	Number of violations	Number of units
Other interior	228	67
Electrical	98	43
Window	60	30
Site-neighborhood	50	28
Smoke detector	38	23
Stair-rail-porch	36	25
Range-refrigerator	27	25
Interior stair-railing	26	17
Fire exits	22	20
Floor	21	12
Roof-gutter	19	15
Interior air quality	18	17
Exterior surface	16	12
Security	12	9
Interior air quality-carbon monoxide detector	12	17
Water heater	10	10
Evidence of infestation	10	9
Sink	8	8
Wall	7	7
Toilet	7	7
Ventilation	4	4
Garbage-debris-refuge disposal	4	3
Ceiling	3	3
Food preparation-storage	3	3
Foundation	2	2
Other exterior	2	2
Lead-based paint	1	1
Heating equipment	1	1
Plumbing-sewer-water supply	1	1
Total	**746**	

We provided our inspection results[2] to the Director of HUD's Chicago Office of Public and Indian Housing and the Authority's executive director on November 14, 2018.

The Inspected Units Had 228 Other Interior Violations

Two hundred twenty-eight other interior violations were found in 67 of the 80 units inspected. The following items are examples of other interior violations listed in the table above: gap around exterior door, allowing for air or vermin infiltration; closet doors off track or leaning against the wall, posing a falling hazard; interior doors that are difficult to open and close, posing a possible trapping hazard; keyed lockset on bedroom door, posing a trapping hazard; drywall missing the edge of the molding, exposing the metal edge and posing a cutting hazard; damaged door, posing a cutting hazard; uncapped gas line in the basement; closet door missing a knob with an exposed screw; dried feces on basement floor due to sewer backup; bedroom door missing a hinge pin, posing a falling hazard; exposed nails in door casing; and dryer vent not connected, causing excessive lint buildup and posing a fire hazard.

The Inspected Units Had 98 Electrical Violations

Ninety-eight electrical violations were found in 43 of the 80 units inspected. The following items are examples of electrical violations listed in the table above: open light sockets; nonworking ground fault circuit interrupter; ungrounded three-prong outlet; missing knockouts in junction boxes; outlet missing receptacle cover; missing cover on meter base, exposing electrical wiring and connections; broken receptacle cover; light switch sparking and tripping breaker; fuse box cover not secured, exposing electrical contacts; missing junction box cover; light fixture not secured to junction box and hanging by its wires; and receptacle pulling out of the wall.

The Inspected Units Had 60 Window Violations

Sixty window violations were found in 30 of the 80 units inspected. The following items are examples of window violations listed in the table above: windows that were not functional, torn window screen, missing crank on window casement, window casement left out of track, window not closing completely, window sash falling when opened, window screen not properly fitting the frame, and broken glass pane with glass shards on window sill and floor.

The following photographs illustrate examples of the violations noted during housing quality standards inspections of the 50 units that materially failed to meet HUD's housing quality standards and the requirements in the Authority's administrative plan.

[2] See appendix B for a detailed list of our housing quality standards inspection results.

Unit 10: Uncapped gas line

Unit 33: Hole in ceiling; active leak from bathroom above

Unit 33: Bucket to collect water from active leak pictured above

Unit 46: Stairs to basement; no handrail, stairs covered in debris, and dangerous tripping hazard

Unit 70: Dried paper and feces from sewage leak

Unit 16: Dead mouse and dried sewage

Unit 75: Active water leak from toilet

Unit 30: Taped breakers; possibility of not tripping when necessary

Unit 40: Deteriorated floor in attic used for a bedroom

The Authority Did Not Exercise Proper Supervision and Oversight

The Authority did not adequately enforce HUD's housing quality standards and the requirements in its program administrative plan. The weaknesses described above occurred because the Authority did not exercise proper supervision and oversight of its program and inspections to ensure that its program units complied with HUD's and its own requirements. Forty-eight of the inspections selected for review were reinspections of previously failed units inspected by the Authority.[3] Of the 48 reinspections, 30 (63 percent) materially failed our inspection. One of the thirty units received notification of violations from the City of North Chicago's Department of Economic and Community Development on March 14 and May 16, 2018. It was condemned by the City of North Chicago on May 30, 2018, 121 days after the Authority's most recently passed inspection. On July 26, 2018, the day we inspected the unit, the Authority provided a letter to the owner, dated July 24, 2018, stating that the housing assistance payments contract was being canceled, effective as of the date of the letter. This was done 19 days after we informed the Authority that we would be inspecting the unit.

The Authority's executive director said that the inspection errors occurred because the program staff had not received housing quality standards training, with the exception of herself. Of the 80 units inspected, the executive director inspected 5, 3 of which contained preexisting conditions; the deputy director inspected 42, 30 of which materially failed and 39 of which had preexisting conditions; and the Authority's program specialists completed the remaining 33 (80-5-42) inspections, 20 of which materially failed and 30 of which had preexisting conditions. The table

[3] If a unit fails an inspection, a reinspection occurs to determine whether the deficiencies in the unit have been corrected.

below shows the inspector, the number of inspections, and the number of material fails and preexisting conditions per inspector.

Inspector	Number of inspections	Number of inspections that materially failed our inspection	Number of inspections with preexisting conditions
Executive director	5	0	3
Deputy director	42	30	39
Program specialists	33	20	30
Totals	**80**	**50**	**72**

In addition, the Authority's program had not been fully staffed since November 2017, and the Authority had experienced extensive program staff turnover. During the period of understaffing and staff turnover, the executive director took on the program staff duties and completed inspections and household reexaminations. Further, the Authority did not have dedicated inspectors. Instead, the program specialist was required to complete inspections, without adequate supervision and oversight, and all household reexaminations. The executive director said that she planned to ensure that all employees that complete inspections receive training by the end of 2018.

As of December 2017, the Authority had hired a deputy director, who has assisted with completing the inspections. The deputy director said that he had not received housing quality standards training; however, he had previous experience completing inspections while working at another public housing agency and he received on-the-job training at the Authority. The deputy director also said that due to the shortage of staff, he completed the majority of the reinspections after deficiencies were noted on initial inspections. Additionally, the deputy director said that the HUD, Office of Inspector General (OIG), appraiser identified deficiencies that the Authority's staff did not know were deficiencies. The HUD OIG appraiser used HUD's housing quality standards requirements and the Authority's own administrative plan to identify the deficiencies cited in this report.

Further, the deputy director said that the quality of the units in the area was another reason for the large number of failed units. However, HUD requires all units to meet housing quality standards.[4]

[4] See appendix D for criteria.

Conclusion

The weaknesses described above occurred because the Authority did not exercise proper supervision and oversight of its program and inspections to ensure that its program units complied with HUD's and its own requirements. As a result, the Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that the units complied with HUD's housing quality standards and its own requirements. In addition, the Authority disbursed $153,222 in program housing assistance payments for the 50 units that materially failed to meet HUD's housing quality standards and received $15,796 in program administration fees.

If the Authority implements proper supervision and oversight of its unit inspections to ensure compliance with HUD's housing quality standards and its own requirements, we estimate that HUD will avoid spending more than $1.2 million in housing assistance payments on units that are not decent, safe, and sanitary over the next year.

Recommendations

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

1A. Certify, along with the owners, that the applicable housing quality standards violations have been corrected for the 78 units cited in this finding.

1B. Reimburse its program $153,222 from non-Federal funds for the housing assistance paid for the 50 units that materially failed to meet HUD's housing quality standards and its own requirements.

1C. Reimburse its program $15,796 from non-Federal funds for administrative fees earned for the 50 units that materially failed to meet HUD's housing quality standards and its own requirements.

1D. Ensure that its staff is properly trained and familiar with HUD's and its own requirements regarding housing quality standards inspections.

1E. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards and its own requirements to prevent $1,236,000 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures should include but not be limited to ensuring that inspectors are properly trained and familiar with HUD's and the Authority's requirements and that they consistently conduct accurate and complete inspections and reinspections.

Finding 2: The Authority Did Not Always Comply With HUD's and Its Own Requirements for Its Housing Choice Voucher Program Household Files

The Authority did not always comply with HUD's and its own requirements for its program household files. Specifically, it did not always ensure that it (1) maintained required eligibility documentation, (2) completed rent reasonableness determinations appropriately, and (3) correctly calculated housing assistance and utility allowances. The weaknesses occurred because the Authority lacked adequate oversight of its program household files and an understanding of HUD's requirements. As a result, it was unable to support nearly $94,000, overpaid nearly $80, and underpaid nearly $2,200 in housing assistance.

The Authority Lacked Documentation To Support Households' Eligibility and Its Rent Reasonableness Determinations

We reviewed 15 of the Authority's household files to determine whether it maintained the required documentation[5] to support households' eligibility for the program. Of the 15 household files reviewed, all 15 (100 percent) were missing 1 or more documents needed to determine household eligibility. The 15 household files were missing the following eligibility documentation:

- 15 were missing support showing that appropriate rent reasonableness determinations were performed;
- 7 were missing the original applications;
- 4 were missing support showing that criminal background checks were performed;
- 2 were missing birth certificates;
- 1 was missing a current form HUD-9886, Request for Authorizations for the Release of Information;
- 1 was missing the signed lead-based paint disclosure forms for the units built before 1978;
- 1 was missing the citizenship declaration;
- 1 was missing an executed lease; and
- 1 was missing the request for tenancy approval.

During the audit, the Authority was able to provide copies of eligibility documentation that was initially missing from one of the files. However, the 15 household files were still missing 1 or more required eligibility documents as of November 5, 2018. For each household file reviewed, the table below shows the number of documents originally unsupported, documents provided during the audit, and documents that remained unsupported.

[5] See appendix D for criteria.

Document	Originally unsupported	Provided during audit	Remaining unsupported
Rent reasonableness determination	15	0	15
Original application	7	0	7
Criminal background check	4	1	3
Birth certificate	2	1	1
Form HUD-9886, Request for Authorization for the Release of Information	1	0	1
Signed lead-based paint certification	1	0	1
Citizenship declaration	1	0	1
Executed lease	1	0	1
Request for tenancy approval	1	0	1
Totals	**33**	**2**	**31**

The Authority provided $93,651 in housing assistance payments and received $7,663 in program administrative fees for the households associated with the 15 files that were missing the required eligibility documentation and had rents that we could not determine were reasonable.[6]

The Authority Miscalculated Housing Assistance Payments

We reviewed 15 statistically selected certifications[7] for 15 of the Authority's program household files to determine whether the Authority correctly calculated housing assistance payments for the period March 1, 2016, through February 28, 2018. Our review was limited to the information maintained by the Authority in its household files.

For the 15 certifications, 12 (80 percent) had incorrectly calculated housing assistance and utility allowances.[8] The 12 certifications contained 1 or more of the following deficiencies:

- 11 had incorrect utility allowances and

[6] Public housing agencies receive administrative fees for correctly administering its program. Since we were unable to determine whether the 15 households were eligible for the program or whether the rents for the households was reasonable, the Authority's receipt of these fees are also unsupported.

[7] Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

[8] See appendix D for criteria.

- 2 had incorrect income calculations.

For the households associated with the 12 certifications, the Authority overpaid $76 and underpaid $2,193 in housing assistance. The Authority earned $2,207 in administration fees for the 12 certifications.

The Authority Lacked Adequate Oversight of Its Program Household Files

The Authority lacked adequate oversight of its program household files and an understanding of HUD's requirements. The executive director said that the Authority's program had not been fully staffed since November 2017 and the Authority had experienced extensive program staff turnover. During the period of understaffing and staff turnover, the executive director took on the program staff duties and household reexaminations. Further, in addition to performing household examinations, the Authority's program housing specialists performed unit inspections (finding 1).

Regarding household eligibility documentation, the Authority's executive director said that the Authority improperly stored older files and original documentation had been lost or shredded. The Authority did not store the original documents with the current files if a participant had more than one file folder. She also said that for some of the missing eligibility documents, it appeared that the documents were not maintained due to an oversight by the program staff.

Additionally, the Authority used Lindsey software to complete its rent reasonableness determinations. According to the Lindsey software website, the rent reasonableness module uses vacated program properties for the rent comparisons. Therefore, the Authority used previously assisted rents from vacated program properties for rent comparisons, when HUD's regulations at 24 CFR 982.507(b) require assisted unit rents to be compared to unassisted unit rents for the rent reasonableness determinations. The executive director agreed that the software compared assisted units rather than unassisted units for the rent reasonableness determinations.

In reviewing the household files for the accuracy of housing assistance payment calculations, we determined that the underlying systemic issue with the Authority's calculations was caused by errors in utility allowances. The Authority's executive director said that she was not aware of the change in HUD requirements to provide utility allowances based on the lower of the voucher or unit size.[9] The change was effective July 1, 2014.[10] Additionally, the Authority's executive director said that the Authority did not notice that its contractor included gas surcharges in the utility allowance schedules. The gas surcharges had been applicable since 2012, and the executive director agreed that the Authority should have provided the gas surcharge utility allowance to the Authority's households that had gas utilities.

Because the 15 household files were missing required eligibility documentation, HUD and the Authority lacked assurance that the households were eligible for the program and that program rents were reasonable. As a result, $93,651 in housing assistance provided for the households

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[9] This requirement does not apply to households with a reasonable accommodation.

[10] See appendix D for criteria.

was unsupported. The Authority received $7,663 in administrative fees for the housing assistance payments that were associated with the missing eligibility documentation and rents that we could not determine were reasonable.[11]

Conclusion

The weaknesses described above occurred because the Authority lacked adequate oversight of its program household files and an understanding of HUD's requirements. As a result, it was unable to support $93,651, overpaid $76, and underpaid $2,193 in housing assistance.

In addition, the Authority received $9,870 ($7,663 + $2,207) in program administrative fees related to the inappropriate housing assistance payments for the 15 program households with missing eligibility documentation and 12 program households with incorrectly calculated housing assistance.

Recommendations

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

2A. Support or reimburse its program $93,651 from non-Federal funds for the missing required eligibility documentation.

2B. Reimburse its program $76 from non-Federal funds for the overpayment of housing assistance due to inappropriate calculations of housing assistance.

2C. Reimburse the appropriate households $2,193 from program funds for the underpayment of housing assistance due to inappropriate calculations.

2D. Reimburse its program $9,870 ($7,663 + $2,207) from non-Federal funds for the administrative fees[12] it inappropriately earned for the missing required eligibility documentation and inappropriate calculations of housing assistance.

2E. Implement adequate procedures and controls to ensure that the required documentation to support household eligibility is obtained and maintained and housing assistance payments are appropriately calculated.

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[11] Public housing agencies receive administrative fees for correctly administering their program. Since we were unable to determine whether the 15 households were eligible for the program or whether the rents for the households were reasonable, the Authority's receipt of these fees was also unsupported.

[12] See appendix D for criteria.

2F. Review the utility allowance schedules to ensure that all applicable utilities are provided to the households and that the utility allowances are based on the lower of the voucher size or unit size in accordance with HUD's requirements.[13]

[13] HUD's regulations at 24 CFR 982.517(d) state that the Authority must use the appropriate utility allowance for the lesser of the size of dwelling unit leased by the family or the family unit size as determined under its subsidy standards. In cases in which the unit size leased exceeds the family unit size as determined under the Authority's subsidy standards as a result of a reasonable accommodation, the Authority must use the appropriate utility allowance for the size of the dwelling unit leased by the family.

Scope and Methodology

We performed our onsite audit work between March and August 2018 at the Authority's main office located at 1440 Jackson Street, North Chicago, IL. The audit covered the period March 1, 2016, through February 28, 2018, but was expanded as determined necessary as described below.

To accomplish our audit objective, we interviewed HUD program staff and the Authority's employees. In addition, we obtained and reviewed the following:

- Applicable laws, HUD's regulations at 24 CFR Parts 5 and 982, Office of Public and Indian Housing notices, HUD's Guidebook 7420.10G, and HUD's Housing Inspection Manual.

- The Authority's program administrative plan, annual audited financial statements for fiscal years 2014 through 2016, accounting records, policies and procedures, board meeting minutes for March 2016 through February 2018, payment standards and utility allowance schedules, household and landlord reports, household inspection reports, housing units, household files, and housing assistance payments register.

Finding 1

We statistically selected a stratified random sample of 80 of the Authority's program units to inspect from the 148[14] units that passed the Authority's inspections from December 1, 2017, through May 31, 2018. The 80 units were inspected to determine whether the Authority ensured that its program units complied with HUD's housing quality standards and the requirements in its program administrative plan. After our inspections, we determined whether each unit passed, failed, or materially failed. Material noncompliance was based on our assessment of the deficiencies, which included preexisting conditions, the nature of the deficiencies, and the impact the deficiencies had on the family members living in the unit. All units were ranked, and we used our materiality standards and auditors' judgement to determine the material cutoff point.

Based on our review of the 80 statistically selected units, we found that 50 of the units had material failures in housing quality standards or the requirements in the Authority's administrative plan, although they had recently passed the Authority's inspection. Using a confidence interval of 95 percent, we projected that at least 53 percent of the 148 units that passed the Authority's inspection during our audit scope had material violations. Extending this rate to the 282[15] active units on the Authority's program, we can say that at least 149 units would

[14] To ensure that each unit had the same chance of being selected, the statistician removed four inspections for the four properties that had more than one inspection during the period December 1, 2017, through May 31, 2018; thus, our universe was 148 (152-4).

[15] This represents the number of active Housing Choice Voucher Program rental units in May of 2018, the most recent month for which we have complete data according to the Authority's housing assistance payments register.

be in material noncompliance with HUD's housing quality standards or the requirements in the Authority's administrative plan, despite having passed the Authority's inspection.

Based on the average housing assistance paid for the 80 properties, less a deduction to account for a statistical margin of error, we can say with a confidence interval of 95 percent that the amount of monthly housing assistance spent on inadequate units was $365[16] per unit. Extending this amount to the 282 active units on the Authority's program yields at least $103,000 in monthly housing assistance payments made for inadequate units. This amounts to more than $1.2 million[17] in housing assistance paid per year for inadequate units.

We expanded our scope for finding 1 to May 31, 2018, to ensure that our universe was large enough to support a statistically valid sample and that we reported current information relevant to the Authority's unit conditions.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid for units that materially failed to meet HUD's minimum housing quality standards and the Authority's own requirements. If the questioned period was less than a full month, we limited the administrative fee to a daily rate, based on the number of days during which the unit did not comply with HUD's requirements.

Finding 2

We statistically selected a stratified random sample of 60 monthly housing assistance payments from the Authority's 8,702 monthly housing assistance payments for participants from March 1, 2016, through February 28, 2018. We completed the reviews 15 of the 60 household certifications to determine whether the Authority correctly calculated and paid housing assistance and utility allowances. We discontinued our review after the first 15 files because we determined that the underlying systemic issue with the Authority's calculations was caused by errors in utility allowances. Therefore, the results of our housing assistance and utility allowance reviews will not be projected to the universe.

The calculations of administrative fees were based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid. We limited the inappropriate administrative fees to the amounts of housing assistance payment calculation errors for the household files that contained administrative fees exceeding the housing assistance payment errors. We also reduced the ineligible amounts of housing assistance and administrative fees from our calculation of unsupported housing assistance and administrative fees to ensure that funds were not counted twice.

[16] This amount was rounded for reporting purposes.
[17] $103,000 x 12 months = $1,236,000

Data, Review Results, and Generally Accepted Government Auditing Standards

We relied in part on data maintained by the Authority in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

We provided our review results and supporting schedules to the Director of HUD's Chicago Office of Public and Indian Housing and the Authority's executive director during the audit. In addition, we informed the Director of HUD's Chicago Office of Public and Indian Housing of minor deficiencies through a memorandum, dated December 20, 2018.

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 operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The Authority failed to exercise proper supervision and oversight of its program inspections to ensure that its program units complied with HUD's housing quality standards and its own requirements (finding 1).
- The Authority lacked adequate oversight of its program household files and an understanding of HUD's requirements (finding 2).

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	$153,222		
1C	15,796		
1E			$1,236,000
2A		$93,651	
2B	76		
2C			2,193
2D	9,870		
Total	**178,964**	**93,651**	**1,238,193**

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

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

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendations, it will stop incurring program costs for units that are not decent, safe, and sanitary and, instead, will spend

those funds in accordance with HUD's requirements and the Authority's program administrative plan. Once the Authority improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit. Additionally, for household files where the error or omission is the fault of the public housing agency, the Authority must immediately refund the total amount due to the family.

Appendix B

OIG Housing Quality Standards Inspection Results

Identification number	Total number of units that materially failed	Total number of units that failed	Total number of units that passed	Total violations for materially failed units	Total number of housing quality standards violations	Total number of preexisting violations
1		X		0	6	3
2	X			5	5	2
3	X			11	11	9
4		X		0	4	1
5	X			15	15	13
6	X			18	18	12
7	X			20	20	8
8		X		0	4	3
9	X			16	16	5
10	X			12	12	6
11		X		0	2	1
12	X			13	13	9
13		X		0	1	0
14	X			8	8	4
15	X			12	12	5
16	X			15	15	7
17	X			9	9	6
18	X			20	20	12
19		X		0	2	0
20		X		0	2	1
21		X		0	6	2
22	X			10	10	4
23	X			8	8	6
24	X			11	11	6
25		X		0	6	4
26	X			8	8	5
27	X			8	8	7
28	X			18	18	13
29		X		0	3	1

OIG Housing Quality Standards Inspection Results (continued)

Identification number	Total number of units that materially failed	Total number of units that failed	Total number of units that passed	Total violations for materially failed units	Total number of housing quality standards violations	Total number of preexisting violations
30	X			5	5	3
31	X			5	5	4
32	X			20	20	11
33	X			32	32	21
34	X			17	17	6
35	X			18	18	11
36	X			10	10	7
37	X			11	11	7
38		X		0	7	4
39		X		0	4	3
40	X			37	37	24
41	X			30	30	16
42	X			14	14	9
43		X		0	3	2
44	X			11	11	8
45		X		0	8	4
46	X			5	5	4
47		X		0	6	3
48		X		0	4	2
49	X			25	25	9
50	X			9	9	6
51		X		0	7	3
52	X			14	14	9
53		X		0	4	2
54	X			5	5	3
55	X			5	5	4
56	X			6	6	5

OIG Housing Quality Standards Inspection Results (concluded)

Identification number	Total number of units that materially failed	Total number of units that failed	Total number of units that passed	Total violations for materially failed units	Total number of housing quality standards violations	Total number of preexisting violations
57		X		0	2	1
58	X			9	9	6
59	X			7	7	5
60		X		0	2	1
61	X			4	4	4
62	X			10	10	9
63		X		0	1	0
64	X			11	11	7
65			X	0	0	0
66		X		0	2	0
67	X			17	17	8
68		X		0	4	2
69		X		0	1	0
70	X			14	14	8
71		X		0	1	1
72		X		0	7	2
73		X		0	2	1
74	X			18	18	12
75	X			4	4	3
76		X		0	1	0
77	X			3	3	1
78	X			12	12	2
79			X	0	0	0
80	X			19	19	12
Totals	**50**	**28**	**2**	**644**	**746**	**430**

Appendix C

Auditee Comments and OIG's Evaluation

The Housing Authority of the City of North Chicago declined the opportunity to provide a written response to the discussion draft audit report.

Appendix D

Federal and Authority Requirements

Regulations at 24 CFR 982.152(d) state that HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to enforce HUD's housing quality standards.

Regulations at 24 CFR 982.401(a)(3) state that all program housing must meet housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the assisted tenancy.

Regulations at 24 CFR 982.404(a)(1) state that the owner must maintain the unit in accordance with housing quality standards. (2) If the owner fails to maintain the dwelling unit in accordance with housing quality standards, the public housing agency must take prompt and vigorous action to enforce the owner's obligations. Public housing agency remedies for such a breach of the housing quality standards include termination, suspension or reduction of housing assistance payments, and termination of the housing assistance payments contract. (3) The public housing agency must not make housing assistance payments for a dwelling unit that fails to meet the housing quality standards, unless the owner corrects the defect within the period specified by the public housing agency and the public housing agency verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any public housing agency-approved extension). (4) The owner is not responsible for a breach of the housing quality standards that is not caused by the owner and for which the family is responsible. (However, the public housing agency may terminate assistance to a family because of a housing quality standards breach caused by the family.)

Regulations at 24 CFR 982.404(b)(1) state that the family is responsible for a breach of the housing quality standards that is caused by any of the following: (ii) the family fails to provide and maintain any appliances that the owner is not required to provide but which are to be provided by the tenant or (iii) any member of the household or guest damages the dwelling unit or premises (damages beyond ordinary wear and tear). (2) If a housing quality standards breach caused by the family is life threatening, the family must correct the defect within no more than 30 calendar days (or any public housing agency-approved extension). (3) If the family has caused a breach of the housing quality standards, the public housing agency must take prompt and vigorous action to enforce the family obligations. The public housing agency may terminate assistance for the family in accordance with section 982.552.

Section 8.I.B of the Authority's administrative plan states that window sashes must be in good condition, solid and intact, and properly fitted to the window frame; damaged or deteriorated sashes must be replaced; windows must be weather-stripped as needed to ensure a weather-tight seal; and window screens must be in good condition (applies only if screens are present). Additionally, the plan states that if a window was designed to be opened, it must be in proper working order.

Section 8-I.B. of the Authority's administrative plan states that all exterior doors must be weather-tight to avoid any air or water infiltration, be lockable, have no holes, have all trim intact, and have a threshold. All interior doors must have no holes, have all trim intact, and be openable without the use of a key.

Section 8-I.C of the administrative plan defines the Authority's life-threatening conditions. The following are considered life-threatening conditions:

- any condition that jeopardizes the security of the unit;
- major plumbing leaks or flooding, waterlogged ceiling, or floor in imminent danger of falling;
- natural or liquefied petroleum gas or fuel oil leaks;
- any electrical problem or condition that could result in shock or fire;
- absence of a working heating system when outside temperature is below 60 degrees Fahrenheit;
- utilities not in service, including no running hot water;
- conditions that present the imminent possibility of injury;
- obstacles that prevent safe entrance or exit from the unit;
- absence of a functioning toilet in the unit;
- inoperable smoke detectors; and
- any life-threatening condition identified by government entities.

The Illinois General Assembly's Public Act 094-0741, section 10(a), effective January 1, 2007, states that every dwelling unit must be equipped with at least one approved carbon monoxide alarm in an operating condition within 15 feet of every room used for sleeping purposes.

Finding 2

Regulations at 24 CFR 982.152(d), state that HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to perform its administrative responsibilities correctly or adequately under the program.

Regulations at 24 CFR 982.158 (e) (3) state that during the term of each assisted lease and for at least 3 years thereafter, the public housing agency must keep the application from the family.

Regulations at 24 CFR 982.507(b) state that the public housing agency must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.

Federal Register, volume 79, number 122, section D,[18] limits the utility allowance payment for tenant-based vouchers to the family unit size for which the voucher is issued, regardless of the

[18] Federal Register 5778, Notice 01, Notice of Statutory Changes to Section 243 of the Department of Housing and Urban Development Appropriations Act, 2014, authorizes HUD to implement certain statutory changes to the United States Housing Act of 1937 made by the 2014 Appropriations Act through notice followed by notice and comment rulemaking. This notice establishes the terms and conditions by which HUD will implement changes to the utility allowances for tenant-paid utilities. HUD's 2014 Appropriations Act is Title II of Division L of Public Law 113-76, 128 Stat. 5, approved January 17, 2014. See Public Law 113-76 at 128 Stat. 604.

size of the unit rented by the family. It further states that the utility allowance for a family should be the lower of (1) the utility allowance amount for the family unit size or (2) the utility allowance amount for the unit size of the unit rented by the family. This provision applies only to vouchers issued after the effective date of this notice (July 1, 2014) and to current program participants. For current program participants, the public housing agency must implement the new allowance at the family's next annual reexamination, provided that the agency is able to provide a family with at least 60 days' notice before the reexamination.