



**Jackson Housing Commission
Jackson, MI**

Section 8 Housing Choice Voucher Program



Issue Date: August 29, 2014

Audit Report Number: 2014-CH-1007

TO: Willie C. Garrett, Director of Public Housing, 5FPH

//signed//

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

SUBJECT: The Jackson Housing Commission, Jackson, MI, Needs To Improve Its Administration of Its Section 8 Housing Choice Voucher Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final audit report on our audit of the Jackson Housing Commission's Section 8 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 Web site. 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) 353-7832.



August 29, 2014

The Jackson Housing Commission, Jackson, MI, Needs To Improve Its Administration of Its Section 8 Housing Choice Voucher Program

Highlights

Audit Report 2014-CH-1007

What We Audited and Why

We audited the Jackson Housing Commission's Section 8 program as part of the activities in our fiscal year 2014 annual audit plan. We selected the Commission based on our analysis of the risk factors relating to public housing agencies in Region 5's¹ jurisdiction. Our objective was to determine whether the Commission administered its program in accordance with HUD's and its own program requirements.

What We Recommend

We recommend that HUD require the Commission to (1) establish and implement adequate procedures and controls, including but not limited to providing training to its staff to ensure that it manages its Section 8 program waiting list and zero-income households in accordance with its administrative plan and (2) implement adequate procedures and controls to ensure that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process in accordance with its administrative plan.

What We Found

The Commission generally administered its program in accordance with HUD's and its own requirements with two exceptions. Specifically, it did not always (1) properly select households from its Section 8 program waiting list and (2) conduct interim reexaminations for zero-income households in accordance with its administrative plan. As a result, housing assistance may have been (1) unjustly denied or delayed for eligible households or (2) overpaid to households that inappropriately reported no income.

¹ Region 5 includes the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

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BACKGROUND AND OBJECTIVE

The Jackson Housing Commission was established by the City of Jackson in 1946 and entered into its first annual contributions contract with the Federal Government in 1964. The Commission is governed by a five-member board of commissioners appointed by the mayor of Jackson, MI, with the consent of the city council. The board's responsibilities include (1) establishing policies under which the Commission conducts business and (2) ensuring that the Commission is successful in achieving its mission. The board appoints the Commission's executive director. The executive director is responsible for carrying out the policies established by the commissioners and managing the day-to-day operations of the Commission.

The Commission administers the Section 8 Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). The Housing Choice Voucher program provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. HUD approved the Commission to administer up to 475 vouchers. As of May 2014, it had 447 units under contract and was authorized to receive more than \$2.3 million in program funds for the fiscal year.

The objective of the audit was to determine whether the Commission administered its Section 8 Housing Choice Voucher program in accordance with HUD's and the Commission's program requirements. Specifically, we wanted to determine whether the Commission appropriately administered its waiting list and zero-income households.

RESULTS OF AUDIT

Finding: The Commission Did Not Always Administer Its Waiting List and Zero Income Households In Accordance With HUD's or Its Own Requirements

The Commission did not always administer its waiting list and zero income households in accordance with HUD's or its own requirements. Specifically, it did not (1) select Section 8 program households from its waiting list in sequential order and (2) conduct interim reexaminations for zero-income households. The deficiencies occurred because the Commission lacked adequate procedures and controls to ensure that it administered its program in accordance with its administrative plan. As a result, housing assistance may have been (1) unjustly denied or delayed for eligible households or (2) overpaid to households that inappropriately reported no income.

The Commission Inappropriately Selected Households From Its Waiting List

The Commission did not select program households from its Section 8 program waiting list in sequential order in accordance with its administrative plan. According to the plan,² the Commission's waiting list was arranged based on a lottery system and the Commission was to select households in numerical order.³ However, the Commission skipped over eligible households on the waiting list to accommodate other households without proper justification.⁴ Specifically, of the 96 households selected for its program from October 1, 2011, to December 1, 2013, the Commission selected 75 households before other households that were on the waiting list first and had a lower lottery number.

We reviewed the household files for 10 the 75 households to determine whether the Commission maintained documentation to justify the selection of the households. For all 10 files, the Commission did not document in the household files the reason why it selected certain households before other households that were on the waiting list and had lower numbers but were not selected. We also reviewed 10 of the Commission's 29 waiting list files for the households that were passed over for selection and still on the list. For all 10 files, the Commission did not document the reason why the households were not selected.

² Section 4-I.D of the Commission's Housing Choice Voucher program administrative plan

³ Section 4-III.C of the Commission's Housing Choice Voucher program administrative plan

⁴ 24 CFR (Code of Federal Regulations) 982.207(e)

The Commission Did Not Perform Interim Reexaminations for Zero-Income Households

Contrary to its administrative plan, the Commission did not conduct interim reexaminations every 3 months for households that had zero income.⁵ Further, according to the Commission's Section 8 program director, the households were also required to certify monthly that they had no income. However, the Commission did not consistently enforce this requirement. It also did not always compare HUD's Enterprise Income Verification System's⁶ income reports against past certifications during the reexamination process to determine whether the households had income and reported all their income to the Commission. Because the Commission did not conduct the interim reexaminations or compare the income reports against the past certifications, it may have failed to detect income that was earned by households and included in HUD's Enterprise Income Verification System but not reported by the households to the Commission. As a result, housing assistance may have been overpaid.

The Commission Lacked Adequate Procedures and Controls

The deficiencies described above occurred because the Commission lacked adequate procedures and controls to ensure that it administered its waiting list and zero income households in accordance with its administrative plan. The former staff person who managed the Commission's waiting list disregarded the Commission's administrative plan by selecting households from the waiting list out of sequential order. Further, the Commission did not have a control process in place to ensure that the appropriate households were selected. In addition, the Commission's Section 8 program director said that the requirement to perform quarterly reexaminations of the households that reported zero income was overlooked and the Commission did not have a system for tracking the households that reported zero income.

Conclusion

⁵ Section 11-II.C of the Commission's Housing Choice Voucher program administrative plan

⁶ The Enterprise Income Verification system (system) is a web-based application, available to all public housing agencies nationwide, providing them with employment, wage, unemployment compensation and social security benefit information of tenants who participate in the Public Housing and various Section 8 programs under the jurisdiction of HUD's Office of Public and Indian Housing. The system also identifies former tenants of Public and Indian Housing rental assistance programs who voluntary or involuntary left the program and owe money to a public housing agency.

The Commission did not always administer its waiting list and zero income households in accordance with HUD's requirements and its own administrative plan. The deficiencies occurred because the Commission lacked adequate procedures and controls to ensure that it administered its program in accordance with its administrative plan. As a result, housing assistance may have been (1) unjustly denied or delayed for eligible households or (2) overpaid to households that inappropriately reported no income.

Recommendations

We recommend that the Director of the Detroit Office of Public Housing require the Commission to

- 1A. Establish and implement adequate procedures and controls, including but not limited to adopting a quality control review process and providing training to its staff, to ensure that it appropriately manages its Section 8 program waiting list and zero-income households in accordance with its administrative plan.
- 1B. Implement adequate procedures and controls to ensure that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the reexamination process.

SCOPE AND METHODOLOGY

We performed our onsite audit work between December 2013 and May 2014 at the Commission's office located at 301 Stewart Avenue, Jackson, MI. The audit covered the period October 1, 2011, through October 31, 2013, but was expanded when necessary to include other periods.

To accomplish our objective, we reviewed:

- Applicable laws and regulations; HUD's program requirements at 24 CFR (Code of Federal Regulations) Parts 5 and 982; public and Indian housing notices; and HUD's Guidebook, 7420.10G.
- The Commission's Section 8 program administrative plan; annual contributions contract; 5-year plan; program household files; waiting list and support; accounting records; audited financial statements; bank statements; general ledger; policies and procedures; board meeting minutes and resolutions from October 2011 through October 2013; and organizational chart.
- HUD data for the Commission's program included in its files and in HUD's Financial Assessment Subsystem, Enterprise Income Verification System, Public and Indian Housing Information Center's Inventory Management System, and Voucher Management System.

We also interviewed the Commission's employees and HUD's staff.

From October 1, 2011, to December 1, 2013, the Commission selected 75 households before other households that were listed on its program waiting list first and had a lower lottery number. We randomly selected 10 of the 75 households to determine whether the Commission documented its justification for selecting the households.

From October 1, 2011, to December 1, 2013, we identified 29 households that were passed over for selection and still on the Commission's program waiting list. We randomly selected 10 of the 29 households to determine whether the Commission documented the reason(s) why the households were not selected.

We reviewed 13 households' files that reported they received no income to the Commission. The Commission did not track the households that were to receive the interim reexaminations or that reported zero-income; therefore, we were unable to determine the entire population that was affected by the deficiency.

We provided our discussion draft audit report to HUD's staff, Jackson Housing Commission's executive director and board on July 31, 2014. We asked the Commission's executive director to provide written comments on our discussion draft audit report by August 14, 2014. The executive director chose not to comment on the report.

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 the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- 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.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- 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.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in

financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal controls structure as a whole. Accordingly, we do not express an opinion on the effectiveness of Jackson Housing Commission's internal control.

Separate Communication of Minor Deficiencies

We reported minor deficiencies to both HUD and the auditee separately in a memorandum issued on August 29, 2014.

Appendix A

FEDERAL AND THE COMMISSION'S REQUIREMENTS

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

Regulations at 24 CFR 982.54(c) state that public housing agencies must administer the program in accordance with their administrative plan.

Regulations at 24 CFR 982.153 state that public housing agencies must comply with their consolidated contributions contract, the application, HUD regulations and other requirements, and their program administrative plan.

Regulations at 24 CFR 982.204(a) state that except for special admissions, participants must be selected from the public housing agency's waiting list. The public housing agency must select participants from the waiting list in accordance with admission policies in the public housing agency's administrative plan.

Regulations at 24 CFR 982.207(e) state that the method for selecting applicants from a preference category must leave 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.

The Commission's administrative plan, section 1-I.E, states that as a public service agency, the Commission is committed to providing excellent service to Housing Choice Voucher program participants, owners, and the community. The Commission's standards include administering applicable Federal and State laws and regulations to achieve high ratings in performance measurement indicators while maintaining efficiency in program operations to ensure fair and consistent treatment of clients served.

Section 4-I.D of the Commission's plan states that applicants will be placed on the waiting list using a lottery system. Once each application has been randomly assigned a number, the applications will be placed on the waiting list in order of the assigned numbers and according to the Commission's preferences(s).

Section 4-II.F of the Commission's plan states that if an applicant family is on the waiting list and the Commission determines that the family is not eligible for assistance (see chapter 3), the family will be removed from the waiting list.

Section 4-III.C of the Commission's plan states:

- The Commission will offer a local preference, which will require a minimum of one of the following documents: rent receipts, leases, utility bills, employer or agency records,

school records, driver's licenses, voter's registration records, credit reports, or a statement from the household with whom the family resides.

- The Commission will monitor progress in meeting the income targeting requirement throughout the fiscal year. Extremely low-income families will be selected ahead of other eligible families on an as-needed basis to ensure that the income targeting requirement is met.
- Families will be selected from the waiting list based on the targeted funding or selection preference(s) for which they qualify and in accordance with the Commission's hierarchy of preferences if applicable. Within each targeted funding or preference category, families will be selected in numerical order based on the numbers that were assigned to each application, by lottery, at the time the applications were placed on the waiting list.

Section 11-II.C of the Commission's plan states that if the family has reported zero income, the Commission will conduct an interim reexamination every 3 months as long as the family continues to report that it has no income.