



**Ferndale Housing Commission,
Ferndale, MI**

Section 8 Housing Choice Voucher Program



Issue Date: September 11, 2014

Audit Report Number: 2014-CH-1008

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

//signed//

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

SUBJECT: The Ferndale Housing Commission, Ferndale, MI, Generally Administered Its Housing Choice Voucher Program Household Files in Accordance With HUD's and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final report on our audit of the Ferndale 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. 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.



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The Ferndale Housing Commission, Ferndale, MI, Generally Administered Its Housing Choice Voucher Program Household Files in Accordance With HUD's and Its Own Requirements

Highlights

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What We Audited and Why

We audited the Ferndale Housing Commission's Section 8 Housing Choice Voucher program as part of the activities in our fiscal year 2014 annual audit plan. We selected the Commission based upon an analysis of risk factors related to public housing agencies in Region 5's jurisdiction.¹ Our objectives were to determine whether the Commission appropriately (1) calculated housing assistance payments, (2) maintained required eligibility documentation, and (3) ensured that its households did not have unreported income.

What We Recommend

This report contains no recommendations, and no further action is necessary with respect to this report.

What We Found

For the 24 household files reviewed, the Commission generally (1) appropriately calculated housing assistance and utility allowance payments and (2) appropriately obtained and maintained the required eligibility documentation to support the admission and continued occupancy of its program households. In addition, it appropriately used HUD's Enterprise Income Verification system to (1) ensure that its zero-income households did not have unreported income in the system and (2) determine that the households with reported income discrepancies did not have unreported income at the time of their annual reexamination.

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

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BACKGROUND AND OBJECTIVES

The Ferndale Housing Commission was established in 1969 under ordinance number 548 and public act number 18 to provide affordable housing free from discrimination and to ensure quality housing in a safe and cost-effective manner through cooperation and communication with residents and participants. The Commission's priority is to continually develop and provide decent, safe, and sanitary housing for the low-income residents of the community.

The Commission is governed by a five-member board of commissioners. The board members are appointed by the city manager of Ferndale, MI, with confirmation by the Ferndale City Council, to 5-year staggered terms so that there is one vacancy every year. Efforts are made to appoint at least one board member that is a Commission resident or program participant. The Commission's executive director is appointed by its board of commissioners and is responsible for coordinating established policies and carrying out the Commission's day-to-day operations.

The Commission administers public housing and Section 8 Housing Choice Voucher programs funded by the U.S. Department of Housing and Urban Development (HUD). The Section 8 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. As of September 2013, the Commission had 975 units under contract and was authorized to receive more than \$1.7 million in program funds for the fiscal year. Further, on July 1, 2012, the Commission accepted a transfer of 222 vouchers from the Royal Oak Housing Commission.

Our audit objectives were to determine whether the Commission (1) appropriately calculated housing assistance payments, (2) maintained appropriate documentation to support the admission and continued occupancy of its program households, and (3) appropriately ensured that its households did not have unreported income.

RESULTS OF AUDIT

The Commission Generally Managed Its Program Household Files in Accordance With HUD's and Its Own Requirements

The Commission generally managed its program household files in accordance with HUD's requirements and its own administrative plan. Specifically, for the 24 files reviewed, it appropriately (1) calculated housing assistance and utility allowance payments and (2) obtained and maintained the required eligibility documentation to support the admission and continued occupancy of its program households. In addition, it appropriately used HUD's Enterprise Income Verification system to (1) ensure that its zero-income households did not have unreported income in the system and (2) determine that the households with reported income discrepancies did not have unreported income at the time of their annual reexamination.

The Commission Generally Ensured That Housing Assistance and Utility Allowance Payments Were Calculated Appropriately

We reviewed one statistically selected² certification for 24 of the Commission's program household files to determine whether the Commission correctly calculated housing assistance payments for the period January 1, 2012, through December 31, 2013. For the 24 certifications, the Commission generally ensured that housing assistance and utility allowance payments were correctly calculated for the 24 households.

The Commission Generally Ensured That Required Eligibility Documents Were Maintained

We reviewed 24 of the Commission's household files to determine whether the Commission maintained the required documentation to support the households' eligibility for the program. For the 24 household files reviewed, the Commission generally ensured that it maintained the required eligibility documentation to support the admission and continued occupancy of households.

² Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

The Commission Generally Ensured That Its Households Did Not Have Unreported Income

We reviewed 21 of the Commission's zero-income households and 10 households listed in HUD's Enterprise Income Verification system as having an income discrepancy for the period January 1, 2012, through December 31, 2013, to determine whether the Commission appropriately verified the zero-income status and used the system reports to detect unreported income. Generally, the Commission appropriately used HUD's Enterprise Income Verification system to (1) ensure that the 21 zero-income households did not have unreported income in the system and (2) determine that the 10 households with reported income discrepancies did not have unreported income at time of their annual reexamination; therefore, the reported income discrepancy for the households were not valid.

Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the Commission's office at 415 Withington Street, Ferndale, MI, between February 4 and April 10, 2014. The audit covered the period January 1, 2012, through December 31, 2013, but was expanded as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws; regulations; HUD program requirements at 24 CFR (Code of Federal Regulations) 5 and 982; the annual contribution contract between HUD and the Commission; Public and Indian Housing Notices 2010-19, 2011-25, 2012-15, 2012-22, and 2013-23; and HUD Guidebook 7420.10G.
- The Commission's accounting records; bank statements; housing assistance payments register; independent auditors' reports for fiscal years 2010, 2011, and 2012; computerized databases; policies and procedures; board meeting minutes pertinent to the program; and organizational chart.
- HUD's files for the Commission.

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

We statistically selected a stratified random sample of 85 housing assistance payments from the Commission's 16,424 disbursements to landlords from January 2012 through December 2013 (24 months). The 85 monthly payments were for 81 households. Two of the households in the sample had two monthly housing assistance payments selected that occurred during the same certification. In addition, two of the households in the sample had two monthly housing assistance payments selected that occurred during different certifications. We reviewed the first 24 statistically selected housing assistance payments for 24 households of the 81 households to determine whether the Commission correctly calculated housing assistance and utility allowance payments and maintained the required documentation to support the households' admission to the program and continued occupancy. Our review was limited to the information maintained in the Commission's household files.

Using HUD's Public and Indian Housing Information Center system, we determined that 24 households reported zero income on form HUD-50058 family reports. We reviewed 21 of the 24 zero-income households to determine whether the households had unreported income in HUD's system for the household's most recent family report. Our review was limited to the information maintained in the Commission's household files.

Further, using HUD's system, we determined that 82 households had nearly \$686,000, collectively, in income discrepancies. We selected and reviewed the top 10 households that had

the largest reported income discrepancy. The income discrepancies for these 10 households totaled nearly \$198,000. The income discrepancy report generated by HUD's system lists potential income discrepancies. HUD's requires public housing agencies validate whether the identified income discrepancies are valid.³ There are instances when the income discrepancy listed in the report is not valid. These instances include but are not limited to the following:

- Income reported is before the household began participating in the program; and
- Income reported is for a minor or fulltime student.

We reviewed the income discrepancies to ensure that the Commission was following HUD's and its own requirements for using HUD's system reports to detect unreported income. Our review was limited to the information maintained by (1) HUD's system and (2) the Commission in its household files.

To achieve our audit objectives, we relied in part on computer-processed data in the Commission's database. We used computer-processed data to select a sample of household files for review. 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 adequate for our purposes. We provided our review results and supporting schedules to the Director of HUD's Detroit Office of Public Housing and the Commission's executive director during the audit.

We provided our discussion draft audit report to HUD's staff, Ferndale Housing Commission's executive director, and board on August 27, 2014. We asked the Commission's executive director to provide written comments on our discussion draft audit report by September 5, 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 provided a reasonable basis for our findings and conclusions based on our audit objectives.

³ HUD's requirements at 24 Code of Federal Regulations 5.236.

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 objectives:

- 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.

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 control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Separate Communication of Minor Deficiencies

We informed the Commission's executive director and the Director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum, dated September 11, 2014.