



# Housing Authority of the City of Anderson, Anderson, IN

## Housing Choice Voucher Program



**To:** Patricia Tyus, Director of Public Housing Hub, 5HPH  
//signed//

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

**Subject:** The Housing Authority of the City of Anderson, Anderson, IN, Did Not Always Comply With HUD's and Its Own Requirements 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 Anderson'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.



**Audit Report Number: 2016-CH-1004**

**Date: July 28, 2016**

**The Housing Authority of the City of Anderson, Anderson, IN, Did Not Always Comply With HUD's and Its Own Requirements Regarding the Administration of Its Housing Choice Voucher Program**

## Highlights

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### What We Audited and Why

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We audited the Housing Authority of the City of Anderson's Housing Choice Voucher program based on the activities included in our 2016 annual audit plan and our analysis of risk factors related to the public housing agencies in Region 5's jurisdiction. Our audit objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements.

### What We Found

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The Authority did not always administer its program in accordance with HUD's and its own requirements. Specifically, it did not comply with HUD's conflict-of-interest requirements when it failed to obtain the services of an independent third party to perform housing quality standards inspections and rent reasonableness determinations for units owned by entities it substantially controlled. As a result, the Authority inappropriately (1) paid more than \$645,000 in housing assistance to the entities and (2) earned nearly \$62,000 in administrative fees. Further, HUD lacked assurance that the Authority acted in the best interests of its program households.

In addition, the Authority did not always ensure that (1) required eligibility documentation was obtained and maintained, (2) housing assistance was appropriately supported and paid, and (3) program funds were properly supported and used for eligible expenditures. It also did not ensure that (1) utility reimbursements were provided to program households, (2) program households and landlords were not charged for administrative services related to the normal costs of business, (3) households were properly admitted from its waiting list, and (4) exigent housing quality standards deficiencies were corrected within 24 hours. As a result, HUD lacked assurance that the Authority properly managed its program.

### What We Recommend

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We recommend that the Director of HUD's Indianapolis Office of Public Housing require the Authority to (1) reimburse its program more than \$700,000 from non-Federal funds for the ineligible housing assistance paid to the entities and the inappropriate program expenditures, (2) support or reimburse its program more than \$9,000 from non-Federal funds for the unsupported payments, (3) reimburse the appropriate households and landlords nearly \$8,000 for the underpayment of utility reimbursements and inappropriate administrative service fees, and (4) implement adequate procedures and controls to address the findings cited in this audit report.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>4</b>
<b>Finding 1: The Authority Did Not Comply With HUD’s Conflict-of-Interest Requirements.....</b>	<b>4</b>
<b>Finding 2: The Authority Did Not Always Comply With HUD’s and Its Own Program Requirements .....</b>	<b>7</b>
<b>Scope and Methodology.....</b>	<b>14</b>
<b>Internal Controls.....</b>	<b>16</b>
<b>Appendixes.....</b>	<b>17</b>
<b>A. Schedule of Questioned Costs Funds To Be Put to Better Use .....</b>	<b>17</b>
<b>B. Auditee Comments and OIG’s Evaluation.....</b>	<b>18</b>
<b>C. Federal and Authority Requirements .....</b>	<b>22</b>

# Background and Objective

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The Housing Authority of the City of Anderson is a public housing agency created in 1970 by the State of Indiana to provide safe and sanitary dwelling accommodations for persons of low income. The Authority is governed by a seven-member<sup>1</sup> board of commissioners appointed by elected officials. The board's responsibilities include performing duties and functions as required by the Authority's bylaws or its rules and regulations. The executive director has supervision over the administration of the Authority and management over the housing projects of the Authority.

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 February 2016, the Authority had 1,227 vouchers and received more than \$5.6 million in program funds for fiscal year 2016.

The objective of our audit was to determine whether the Authority administered its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority appropriately (1) complied with HUD's conflict-of-interest regulations, (2) maintained the required documentation to support household eligibility, (3) calculated and paid housing assistance, (4) used program funds for eligible expenditures, (5) refunded utility reimbursements to program households, (6) charged program households and landlords for administrative services, (7) admitted households from its waiting list, and (8) ensured that exigent housing quality standards deficiencies were corrected within 24 hours.

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<sup>1</sup> As of June 2016, the resident board member position was vacant; therefore, there were six members on the board.

# Results of Audit

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## **Finding 1: The Authority Did Not Comply With HUD's Conflict-of-Interest Requirements**

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The Authority did not comply with HUD's conflict-of-interest requirements. Specifically, it failed to obtain the services of an independent third party to perform housing quality standards inspections and rent reasonableness determinations for units owned by entities it substantially controlled. The weakness described above occurred because the Authority lacked a sufficient understanding of HUD's regulations regarding conflicts of interest. As a result, it inappropriately (1) paid more than \$645,000 in housing assistance to the entities and (2) earned nearly \$62,000 in administrative fees. Further, HUD and the Authority lacked assurance that the Authority acted in the best interests of its program households.

### **The Authority Performed Inspections and Rent Reasonableness Determinations for Units It Substantially Controlled**

Anderson Housing, Inc., a nonprofit entity, and Westwood Estates Limited Partnership, a for-profit entity, were created in 1995 and 1996, respectively. The Authority is the registered agent and has a controlling interest<sup>2</sup> in both entities. It is also the management agent for Westwood Estates. Anderson Housing and Westwood Estates consist of 149 single-family properties, collectively. From November 1, 2013, through March 1, 2016, 75 households received housing assistance at the Anderson Housing and Westwood Estates properties.

Contrary to HUD's requirements,<sup>3</sup> the Authority's program inspector conducted the initial move-in, annual, and any other necessary housing quality standards inspections for the entities. In addition, the Authority's staff used its program rent reasonableness software to perform the rent reasonableness determinations. Therefore, the Authority inappropriately (1) paid the entities \$645,509 in housing assistance and (2) received \$61,582 in administrative fees by performing the inspections and rent reasonableness determinations for units owned by entities it substantially controlled.

### **The Authority Lacked an Understanding of HUD's Conflict-of-Interest Requirements**

The Authority lacked a sufficient understanding of HUD's conflict-of-interest requirements. It misunderstood HUD's requirement that an independent third party perform housing quality standards inspections for the units owned by the entities it substantially controlled. The Authority allowed its program inspector to perform the housing quality standards inspections. Further, it contracted with a company that performs annual inspections of its public housing

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<sup>2</sup> The general partner of Westwood Estates, L.P., is Westwood Estates, Inc., a wholly owned subsidiary of Anderson Housing, Inc. Anderson Housing, Inc.'s board consists of two of the Authority's previous executive directors and six current board members.

<sup>3</sup> 24 CFR (Code of Federal Regulations) 982.352(b)(1)(iv)(A) (See appendix C.)

properties to perform quality control inspections for the Anderson Housing and Westwood Estates properties. These inspections took place once a year, and the program units were reviewed to meet public housing uniform physical conditions standards, not housing quality standards. In addition, the Authority's staff used its program rent reasonableness software to complete the rent reasonableness determinations for both entities.

According to HUD's portfolio management specialist, the quality control reviews were not sufficient to meet the requirements for an independent third-party inspection. In addition, the use of the Authority's system to complete rent reasonableness determinations was not sufficient to meet the requirement for an independent third-party rent reasonableness determination.

The Authority's current executive director said the quality control inspections were implemented by the previous executive director. When he became the executive director in October 2015, he did not know that (1) the Authority's program inspector could not inspect the units and (2) the quality control inspections performed by an independent third-party company were not sufficient. Further, regarding the rent reasonableness determinations, since the Authority used a computer system to perform the rent reasonableness determinations, he believed that the Authority complied with HUD's requirements.

On May 25, 2016, as a result of our audit, the executive director provided a copy of the contract, dated February 19, 2016, showing that the Authority entered into a contract with a former employee to perform housing quality inspections for the units. However, the Authority did not provide documentation showing that this contract was approved by HUD.<sup>4</sup>

### **Conclusion**

The weakness described above occurred because the Authority lacked a sufficient understanding of HUD's regulations regarding conflicts of interest. As a result, it inappropriately (1) paid more than \$645,509 in housing assistance to the entity and (2) earned nearly \$61,582 in administrative fees. Further, HUD and the Authority lacked assurance that the Authority acted on behalf of the best interests of its households.

In accordance with 24 CFR (Code of Federal Regulations) 982.152(d), 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. The Authority received \$61,582 in program administrative fees related to the inappropriate housing assistance payments for the 75 program households that resided in units owned by an entity substantially controlled by the Authority.

### **Recommendations**

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

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<sup>4</sup> 24 CFR 982.352(b)(1)(iv)(B) (See appendix C.)

- 1A. Reimburse its program \$707,091 from non-Federal funds (\$645,509 in housing assistance payments and \$61,582 in associated administrative fees) for the inappropriate payments cited in this finding.
- 1B. Ensure that the contract to perform housing quality standards inspections for the program units owned by entities substantially controlled by the Authority is with an independent entity approved by HUD.
- 1C. Procure an independent third party to perform rent reasonableness determinations for the program households that reside in units owned by entities substantially controlled by the Authority.
- 1D. Implement adequate procedures and controls to ensure that the Authority complies with HUD's requirements for program conflicts of interest.

We also recommend that the Director of HUD's Indianapolis Office of Public Housing

- 1E. Work with the Authority to ensure that (1) additional funds are not inappropriately paid for program units, (2) rent reasonableness determinations are appropriate, and (3) the program units met HUD's housing quality standards for the units cited in this finding.

## **Finding 2: The Authority Did Not Always Comply With HUD's and Its Own Program Requirements**

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The Authority did not always ensure that (1) required eligibility documentation was obtained and maintained, (2) housing assistance was appropriately supported and paid, and (3) program funds were properly supported and used for eligible expenditures. It also did not ensure that (1) utility reimbursements were provided to program households, (2) program households and landlords were not charged for administrative services related to the normal costs of business, (3) households were admitted from its waiting list appropriately, and (4) exigent housing quality standards deficiencies were corrected within 24 hours. These weaknesses occurred because the Authority lacked adequate procedures and controls and a sufficient understanding of HUD's and its own requirements. As a result, HUD lacked assurance that the Authority properly managed its program because the Authority (1) was unable to support \$8,677 in housing assistance and program expenditures, (2) overpaid \$1,112 in housing assistance, (3) used \$2,360 for ineligible expenditures, (4) underpaid \$5,506 in utility reimbursements to households, and (5) inappropriately charged \$2,252 to its program landlords and households for administrative services. Further, (1) housing assistance may have been unjustly denied or delayed for households on its waiting list, and (2) program households were subjected to housing units that were not decent, safe, and sanitary.

### **The Authority Lacked Documentation To Support Household Eligibility**

We reviewed 14<sup>5</sup> of the Authority's household files to determine whether it maintained the required documentation<sup>6</sup> to support households' eligibility for the program. Of the 14 household files reviewed, 12 (85.7 percent) were missing 1 or more documents needed to determine household eligibility. The 12 household files were missing the following eligibility documentation:

- 9 were missing proof of landlord ownership of the assisted units,
- 4 were missing a rent reasonableness determination,
- 3 were missing a lead-based paint certification,
- 3 were missing support showing that criminal background checks were performed,
- 2 were missing copies of the original household applications,
- 2 were missing citizenship declaration forms,
- 2 were missing authorization for the release of information forms, and
- 1 was missing a request for tenancy approval.

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<sup>5</sup> Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

<sup>6</sup> See appendix C for criteria.

In addition, the Authority executed one housing assistance payments contract more than 60 days after the lease was executed.<sup>7</sup>

During the audit, the Authority was able to provide copies of eligibility documentation that was initially missing from 10 of the 12 household files. The remaining two household files were still missing proof of landlord ownership as of May 25, 2016.

Because the two household files were missing required eligibility documentation,<sup>8</sup> HUD and the Authority lacked assurance that the households were eligible for the program. As a result, \$8,216 in housing assistance provided for the households and \$614 in administrative fees received by the Authority were unsupported.

### **The Authority Miscalculated Housing Assistance Payments**

We reviewed 14 statistically selected<sup>9</sup> certifications to determine whether the Authority correctly calculated housing assistance payments for the period November 2013 through October 2015. Our review was limited to the information maintained by the Authority in its household files. For the 14 household files reviewed, 2 (14.3 percent) had unsupported calculations of housing assistance. The two certifications contained the following deficiencies:

- One lacked support for the utility allowance calculation, and
- One lacked support for a dependent allowance deduction.

In addition, housing assistance was overpaid for one household due to the household's not reporting an increase in income.<sup>10</sup> The calculation errors identified above resulted in unsupported housing assistance payments totaling \$276. Because the housing assistance was unsupported, \$276 in administrative fees received by the Authority was also unsupported.<sup>11</sup> In addition, the Authority overpaid housing assistance totaling \$1,112 for one household with unreported income.

### **The Authority Used Its Program Funds for Ineligible Expenditures**

We reviewed the Authority's program disbursement report from November 1, 2013, through October 31, 2015, to determine whether the Authority used its program funds for eligible expenditures. The Authority used \$2,360 in program funds for 22 ineligible expenditures.<sup>12</sup> The ineligible expenditures included meals for board members, personal travel, and credit card interest expenses. In addition, the Authority was unable to support seven expenditures totaling \$185. These unsupported expenditures included meals and board meeting costs. As a result of the ineligible expenditures, \$2,360 was not available for eligible program use. In addition, HUD and the Authority lacked assurance that \$185 in program funds was used appropriately.

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<sup>7</sup> 24 CFR 982.305(c)(4) (See appendix C.)

<sup>8</sup> See appendix C for criteria.

<sup>9</sup> Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

<sup>10</sup> Chapter 12, section 12-G, of the Authority's administrative plan (See appendix C.)

<sup>11</sup> See the Scope and Methodology section of this report for our calculation of administrative fees

<sup>12</sup> 24 CFR 982.152(a)(3) (See appendix C.)

### **The Authority Did Not Refund Utility Reimbursements**

The Authority issued utility assistance payments directly to the utility companies for its program households.<sup>13</sup> According to the Authority's occupancy specialist, when a credit balance would occur in a program household's utility account,<sup>14</sup> the utility company would contact the Authority. The Authority would then transfer the household's utility assistance payments to another company as applicable. The utility company would then issue a refund for the credit balance to the Authority. The Authority deposited these funds into its program account. The Authority's account manager confirmed this process by stating that when the Authority received a refund from a utility company, it would deposit the money into its utility reimbursement payment program account rather than providing the funds to another utility company or to the household to pay for other utilities.

For the period January 2013 through October 2015, the Authority received refunds for 11 households totaling \$9,970 from utility companies. The Authority deposited the refunds into its program account rather than distributing the funds to the program households to pay other utilities. As a result of our audit, the Authority began providing the refunds of the utility reimbursements to the applicable households. As of February 26, 2016, the Authority had reimbursed 4 of the 11 households \$4,464.<sup>15</sup>

Because the Authority failed to reimburse the remaining seven (11 - 4) households when utility payments exceeded utility charges, the Authority underpaid utility reimbursements by \$5,506 (\$9,970 - \$4,464).

### **The Authority Inappropriately Charged Its Program Households and Landlords for Administrative Services**

In November 2013, the Authority's board of commissioners approved a board resolution, which allowed the Authority to charge administrative service fees to its program landlords for items such as change-of-ownership processing. At the June 2014 board meeting, the Authority's former executive director said that a HUD financial analyst informed her that the Authority's administrative service fee schedule included charges for the normal cost of doing business, which were not appropriate. We reviewed the Authority's (1) other income/ tenant/ miscellaneous account ledger and (2) its other income account ledger for the period December 1, 2013, through November 30, 2014, and identified 23 charges to landlords, of which 22 were for changes of ownership, totaling \$1,650. According to HUD, change of ownership is a normal cost of doing business, and it is not appropriate to charge administrative service fees to the landlords for this process.

In addition, the Authority's account manager said that the Authority charged its program households to notarize household eligibility documentation, such as zero-income certifications,

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<sup>13</sup> 24 CFR 982.514(b) (See appendix C.)

<sup>14</sup> When the utility reimbursement payments exceed the actual utility costs for a household, a credit balance results.

<sup>15</sup> The remaining seven households are no longer on the program, and the Authority had been unable to locate them as of May 25, 2016. The Authority said it planned to transfer the remaining utility reimbursement funds totaling \$5,506 to the Indiana Attorney General to be included on the unclaimed property Web site.

decrease in household composition forms, letters of intent to move, and self-employment certifications. The Authority provided notary services to the households for these forms at a cost of up to \$1 per notarization. We reviewed the Authority's account manager's notary ledgers for the period October 1, 2014, through January 31, 2016, and the assistant book keeper's notary ledgers from November 1, 2013, through January 31, 2016, and determined that there were 669 entries. Of the 669 entries, 664 were notary charges for its program households. Therefore, the Authority inappropriately charged notary fees totaling \$565 to its program households.

The Authority's director of housing programs also said that the Authority required applicants to pay the Anderson Police Department to obtain the criminal background checks that were required for admission to the program.<sup>16</sup> For 7 of the 14 household files reviewed, the households inappropriately paid the Anderson Police Department between \$3 and \$7 dollars each, for a total of \$37 for the criminal background checks.

As a result of the above deficiencies, the Authority improperly charged its program landlords and households a total of \$2,252 (\$1,650 + \$565+\$37) in administrative service fees for the normal costs of doing business.

#### **The Authority Did Not Properly Administer Its Waiting List**

For the period of January 1, 2013, through December 31, 2015, the Authority did not admit zero income households onto its program. According to an ad-hoc report from HUD's Public and Indian Housing Information Center system, we determined that the only zero income households admitted onto its program were port-in households. The Authority's director of housing programs confirmed that the Authority had not admitted any zero income households from its waiting list onto its program.

In addition, the Authority's waiting list preference for working families was too restrictive requiring households to work more than 25 hours per week at no less than minimum wage to claim the preference. HUD's regulations<sup>17</sup> allow the Authority to adopt a preference for working families. However, HUD's regulations do not require the family to work a certain number of hours or earn a certain wage.

#### **The Authority Did Not Enforce Timely Correction of Exigent Health and Safety Deficiencies**

While completing program unit observations, we identified exigent health and safety violations, such as a missing smoke detector and windows being nailed shut, blocking the second egress from the room. During a discussion with the Authority's inspector, we asked how the exigent health and safety violations were corrected. The inspector said that the Authority allowed 30 days to correct all deficiencies regardless of the type of deficiency. The inspector provided a copy of the inspection letters sent to the program landlords and households, which confirmed that the Authority allowed 30 days to correct the exigent health and safety violations. Therefore,

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<sup>16</sup> 24 CFR 982.553(d)(3) (See appendix C.)

<sup>17</sup> 24 CFR 982.207(b)(2) (See appendix C.)

the Authority did not require exigent health and safety violations to be corrected within 24 hours.<sup>18</sup>

Because the Authority allowed 30 days to correct the 24-hour exigent health and safety violations noted during its inspections, it did not always ensure that households resided in decent, safe, and sanitary housing.<sup>19</sup>

### **The Authority Lacked Adequate Procedures and Controls and a Sufficient Understanding of HUD's Requirements**

The Authority lacked adequate procedures and controls to ensure that its household files contained required eligibility documentation and households' housing assistance payments were correctly calculated. The Authority's director of housing programs said that the former compliance specialist performed the last quality control review of the program files in May 2015. The Authority did not have a system in place for performing quality control inspections from May 2015 until it hired a new compliance specialist in December 2015.

The Authority also lacked a sufficient understanding of HUD's requirements. The Authority's executive director said that he believed the Authority was permitted to use program funds to provide lunches to the board of commissioners because the commissioners elected to receive a monthly per diem of \$25 instead of \$50 per month. However, Indiana Code, title 36, article 7, chapter 18, section 8, states that commissioners of a housing authority are entitled to compensation limited to (1) a per diem allowance of \$25 for attending a meeting of the authority and (2) reimbursement for necessary expenses, including traveling expenses incurred in the discharge of the commissioner's duties.

Regarding the utility reimbursements, according to the Authority's account manager, the previous executive director said that any refunds received from utility companies should go back into the Authority's utility reimbursement account. Although the account manager disagreed with this practice, she was directed to deposit the refunds into the utility reimbursement account.

Further, on January 13, 2016, HUD's portfolio management specialist provided a copy of a letter from HUD's Indianapolis Office of Public Housing to the Authority, dated July 1, 2014. The letter detailed the Federal requirements regarding the charging of administrative service fees to program households and landlords. The letter stated that current HUD regulations at 24 CFR Parts 982 and 983, respectively, do not allow authorities to charge applicants, tenants, or owners for public housing agency administrative functions related to the program. The letter further stated that the statutory framework regarding administrative fees does not allow public housing agencies to pass the normal costs of doing business to other parties because it establishes a comprehensive scheme for compensating public housing agencies for those costs. The Authority's current executive director said that he was not aware of HUD's letter and believed that the former executive director did not provide the letter to the Authority's staff.

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<sup>18</sup> 24 CFR 982.404(a)(3) (See appendix C.)

<sup>19</sup> 24 CFR 982.1(a)(1) (See appendix C.)

On January 13, 2016, as a result of our audit, the Authority's director of housing programs informed the program staff that the Authority would no longer charge program households for notary fees for program documents.

The Authority's executive director said that the Authority admitted zero-income applicants. He also said that applicants who were not initially admitted to the program due to reporting zero income, or not meeting the local working preference were moved further down on the waiting list due to incorrect preference selections by the applicant. However, the Authority did not provide documentation to support its assertion. In addition, the Authority's executive director said that when the waiting list reopened on March 22, 2016, the Authority did not include the local preference for households that worked 25 hours or more per week at no less than minimum wage for new applicants.

The Authority's executive director and its housing quality standards inspector said that they were not aware of HUD's requirements or the citation in its own administrative plan requiring life-threatening deficiencies (24-hour exigent health and safety violations) to be corrected within no more than 24 hours.

### **Conclusion**

The weaknesses described above occurred because the Authority lacked (1) adequate procedures and controls and (2) a sufficient understanding of HUD's and its own requirements. As a result, HUD lacked assurance that the Authority's program was administered properly because the Authority (1) was unable to support \$8,677 (\$8,216 + \$276+\$185) in housing assistance and expenditures, (2) overpaid \$1,112 in housing assistance, (3) used \$2,360 for ineligible expenditures, (4) underpaid \$5,506 in utility reimbursements to households, and (5) inappropriately earned \$2,252 (\$1,650 + \$565+\$37) for administrative service fees charged to landlords and households and criminal background checks. Further, (1) housing assistance may have been unjustly denied or delayed for households on its waiting list, and (2) program households were subjected to housing units that were not decent, safe, and sanitary.

In accordance with 24 CFR 982.152(d), 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. The Authority received \$890 (\$614 + \$276) in program administrative fees related to the two program households with missing eligibility documentation and two households with unsupported housing assistance.

### **Recommendations**

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

- 2A. Support or reimburse its program \$9,382 from non-Federal funds (\$8,216 + \$276 in unsupported housing assistance payments + \$614 + \$276 in associated unsupported administrative fees + \$185 in unsupported expenditures) for the missing eligibility documentation, unsupported payments of housing assistance, and unsupported program expenditures cited in this finding.

- 2B. Pursue collection from the applicable household or reimburse its program \$1,112 from non-Federal funds for the overpayment of housing assistance due to unreported income.
- 2C. Reimburse its program \$2,360 from non-Federal funds for the ineligible expenditures.
- 2D. Reimburse the 11 households \$9,970 (of which \$5,506 remains outstanding for seven households) from program funds for the underpayment of utility reimbursements.
- 2E. Reimburse the appropriate landlords and households \$2,252 (\$1,650 + \$565+\$37) from program funds for inappropriate charges of administrative service fees.
- 2F. Implement adequate procedures and controls to ensure that (1) required eligibility documentation is obtained and maintained; (2) housing assistance payments contracts are executed in a timely manner; and (3) housing assistance payments are appropriately calculated, supported, and paid.
- 2G. Implement adequate procedures and controls to ensure that (1) program funds are used for eligible expenditures and (2) documentation to support its expenditures is maintained.
- 2H. Implement adequate procedures and controls to ensure that utility reimbursements are appropriately refunded to program households when the utility reimbursement payments to utility companies exceed the actual utility costs.
- 2I. Implement adequate procedures and controls to ensure that administrative service charges for functions related to the Housing Choice Voucher program are not passed to the landlords and household for the normal costs of doing Authority business.
- 2J. Ensure staff is trained and familiar with HUD's regulations and the Authority's own requirements including, but not limited to appropriately (1) managing its program waiting list, (2) applying local preferences, and (3) ensuring 24-hour exigent health-and safety-related violations are corrected within 24 hours, or appropriate extensions are documented.

We also recommend that the Director of HUD's Indianapolis Office of Public Housing

- 2K. Work with the Authority to determine whether program households are admitted in accordance with HUD's program requirements and if not, consider a referral to HUD's Office of Fair Housing and Equal Opportunity.
- 2L. Work with the Authority to determine whether it is appropriate to require households to obtain and pay for criminal background checks. If it is determined to not be appropriate, the Director should ensure that the Authority (1) provides background checks for all future applicants, (2) determines the number of households affected, and (3) reimburses the affected households as appropriate from program funds.

# Scope and Methodology

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We performed our onsite audit work between November 2015 and March 2016 at the Authority's main office located at 528 West 11<sup>th</sup> Street, Anderson, IN. The audit covered the period November 1, 2013, through October 31, 2015, but was expanded as determined necessary.

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, Public and Indian Housing Notice 2012-15, and HUD's Guidebook 7420.10G.
- The Authority's accounting records, bank statements, general ledger, policies and procedures, board meeting minutes for November 2013 through October 2015, organizational chart, payment standards, housing assistance payments register, incorporating documents, business entity reports, and partnership agreements.

## **Finding 1**

We reviewed the incorporating documents, business entity reports, partnership agreements, LexisNexis Accurint<sup>20</sup> business reports, and general ledgers to determine whether the Authority owned or substantially controlled units that received housing assistance payments from November 1, 2013, through March 1, 2016.

The calculation of administrative fees was based on the administrative fees received by the Authority from HUD and the number of vouchers the Authority reported through HUD's Voucher Management System. 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 paid.

## **Finding 2**

We statistically selected a stratified random sample of 90 monthly housing assistance payments<sup>21</sup> from the Authority's 25,284 monthly disbursements to landlords from November 2013 through October 2015 (24 months). We reviewed the first 14 statistically selected housing assistance

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<sup>20</sup> LexisNexis® Accurint ® for Government is a point-of-need investigative solution that enables government agencies to locate people, detect fraud, uncover assets, verify identity, perform due diligence, and visualize complex relationships. It helps enforce laws and regulations; fight fraud, waste, and abuse; and provide essential citizens' services.

<sup>21</sup> The 90 monthly housing assistance payments were from the 90 household certifications, which represented 89 households.

payments for 14 households to determine whether the Authority correctly calculated housing assistance and utility allowance payments and maintained the required documentation to support the households' admission to the program and continued occupancy. The number of errors (14.3 percent) was low and was the result of missing documentation for one household's utility allowance calculation and one household's dependent deduction. Therefore, we discontinued our review of the Authority's housing assistance payments calculations. Because we discontinued our review, we are unable to project our results to the universe of the 25,284 monthly disbursements to landlords from November 2013 through October 2015 (24 months).

The calculation of administrative fees was based on the administrative fees received by the Authority from HUD and the number of vouchers the Authority reported through HUD's Voucher Management System. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid and household eligibility was unsupported. We limited the inappropriate administrative fees to the amounts of housing assistance payment calculation errors for the household files that had administrative fees exceeding the housing assistance payment errors.

We reviewed the Authority's program disbursement report for expenditures made with program funds from November 1, 2013, through October 31, 2015, and disregarded \$33,957 expenditures for housing assistance payments, utility reimbursement payments, and payroll. From the remaining 647 transactions we judgmentally selected and reviewed invoices and other supporting documentation to determine whether the Authority disbursed its program funds for eligible expenditures. Because we judgmentally selected 44 transactions, we are unable to project our results to the universe of 647 transactions.

We reviewed 100 percent of the Authority's notary journals and account ledger reports for the (1) other income/ tenant/ miscellaneous account ledger and (2) its other income account ledger to determine whether the Authority charged its program applicants, households, and landlords fees for administrative services. We reviewed 100 percent of the transactions; therefore, no projection on our results is necessary.

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 Indianapolis Office of Public Housing and the Authority's executive director during the audit.

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

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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 lacked an understanding of HUD's regulations regarding conflicts of interest to ensure that it acted in the best interest of the program households (finding 1).
- The Authority lacked adequate quality control procedures and a sufficient understanding of HUD's and its own requirements to ensure that its program was administered properly (finding 2).

# Appendixes

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## Appendix A

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**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/
1A	\$707,091		
2A		<u>\$9,382</u>	
2B	1,112		
2C	<u>2,360</u>		
2D			\$5,506
2E			<u>2,252</u>
<b>Total</b>	<b><u>710,563</u></b>	<b><u>9,382</u></b>	<b><u>7,758</u></b>

- 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 Office of Inspector General (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 ensure that (1) utility reimbursements are properly spent or returned to the program households and (2) landlords and households are not charged administrative service fees for the normal costs of doing Authority business.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments



**Housing Authority**  
Charles E Weatherly, Executive Director  
528 W. 11<sup>th</sup> Street Anderson, IN 46016  
Telephone/TDD 765/641-2620 Fax 765/6412629  
Email aha@ahain.org



THE CITY OF  
**ANDERSON**

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July 15, 2016

In December 2015 the Anderson Housing Authority received verbal notice by way of phone call from the office of Inspector General for the US Department of Housing and Urban Development that it would be reviewing its Section 8 program. We were advised that review would start in two weeks and would continue through the Christmas holiday. We were advised that after the review there would be an opportunity to make comments on the results of the review. Below are some of the comments on the results.

**Comments For Finding Number 1:**

**UPCS inspection**  
The authority was acting in the best interest of the clients and so was the inspector. The authority did hire a third-party to inspect its units the inspection was conducted to a higher standard protocol UPCS. The PCS protocol is similar to HQ as but to a higher standard. Seeing that HUD has already started testing the UPCS protocol in place of HQS throughout the country should be proof enough that this inspection protocol is adequate and should be acceptable. Using UPCS in place of HQS for his third-party inspection should prove that the Anderson Housing Authority was acting in the best interests of his clients. In reviewing the inspections that were done, you would see that our agencies inspector treated the Westwood Estates homes as he would any other landlord in the city. Recording over 10% failures should prove that he was under no pressure to pass units when it was not warranted.

**Rent Reasonableness**  
The Anderson Housing Authority contracted several years ago with go section 8 to do its rent reasonableness and does not use his own system. As a courtesy to the Anderson Housing Authority and other agencies, Go Section 8 created a webpage that is similar to the agency's homepage so that other services that they offer would appear seamless to anyone using our page.

**Conclusion**  
Even though there may have been some lack of understanding of the exact rule, the Anderson Housing Authority was attempting to act in the best interest of its clients. We believe that we were ensuring there was no conflict of interest by hiring a third-party

Comment 1

Comment 2

Comment 3

Comments 1  
and 3

18

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 4

inspection group and a third-party party to provide is rent reasonable data. The Anderson Housing Authority has already contracted with a third-party inspector to do initial and annual inspections of the units that we hold interest. If necessary the Anderson Housing Authority will submit information about their third-party vendors for approval.

Comment 5

**Comments For Finding Number 2:**

The Anderson Housing Authority has provided the office of Inspector General with some documents to reduce his claim in finding number 2. The authority shall work with the local HUD office to provide a remedy for the rest of the items listed in the finding.

Comment 6

The Anderson Housing Authority was unable in the time given to prepare all the comments we would like to make. The office of Inspector General had seven months to prepare its findings but the housing authority was only given 10 days to research and make comments. Even though there was dialogue during this process the staff would like to comment on each finding in length. It is my hopes that the local HUD staff is aware of the minimal staff that we have and all of the document we are being asked to provide due to litigation and the freedom of information. The Anderson Housing Authority staff is committed to providing all the services offered by the US Department of Housing and Urban Development. We will work with our locals HUD office to ensure that any deficiencies are corrected. Being asked to pay back 645,000 and housing assistance payments and 62,000 administrative fees would not be in the end best interest of the clients that we serve. That certainly would be a severe punishment not only to the housing authority but to the clients we serve. It also may be the straw that broke the camel's back. It also appears in the spreadsheet provided to us by the office of Inspector General that it appears to be a mistake and its calculation proving that anyone can make a mistake.

Comment 7

Comment 8

Sincerely,



**Charles E. Weatherly Jr.**

Executive Director  
Anderson Housing Authority  
528 W 11<sup>th</sup> St Anderson, IN 46016  
(765) 641-2620 X114 Office (765) 208-1951 Cell  
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## OIG Evaluation of Auditee Comments

- Comment 1 The Authority contends that it had hired a third party inspector to inspect its units and the inspections were conducted using uniform physical conditions standards, a higher standard protocol. It also contends that HUD had already started testing the use of uniform physical conditions standards in place of housing quality standards throughout the country. Therefore, the inspection protocol used the Authority was adequate. We disagree. According to HUD's regulations at 24 CFR 982.401, the Authority's program units were required to meet housing quality standards. The Authority did not provide support (1) for its assertions that HUD deemed uniform physical conditions standards as satisfactory for its program units or (2) to show that it was part of HUD's testing group.
- Comment 2 The Authority contends that its inspector failed 10 percent of the Westwood Estate Homes; thus proving that the inspector was under no pressure to pass the units. The Authority did not provide support (1) for this assertion and (2) that it obtained approval from HUD to use its own program inspector to perform the inspections. In accordance with 24 CFR 982.352, a public housing agency *must* obtain the services of an independent entity to perform housing quality standards inspections. The Authority should work with HUD to resolve the recommendations regarding its housing quality standards inspections.
- Comment 3 The Authority contends that it contracted with GoSection8 to perform its rent reasonableness determinations. This is a software program that the Authority's staff uses to complete rent reasonableness determinations. As cited in the report, and according to HUD, the use of the Authority's system to complete rent reasonableness determinations was not sufficient to meet the requirement for an independent third-party rent reasonableness determination. The Authority should work with HUD to resolve the recommendations regarding its rent reasonableness determinations.
- Comment 4 The Authority contends that it had already contracted with a third party inspector to do initial and annual inspections of the units in which it holds an interest, and if necessary the Authority would submit information about its third-party vendors for approval. According to HUD's regulations, at 24 CFR 982.352, the independent entity used to perform the rent reasonableness and housing quality standards inspections *must* be approved by HUD. Therefore, the Authority needs to submit the contract to HUD and work with HUD to ensure the contract is appropriate.
- Comment 5 The Authority contends that it (1) had provided us with some documents to reduce its claim for finding 2 and (2) would work with HUD regarding the remaining items. For finding 2, the report acknowledges that the Authority provided household eligibility documentation that was initially missing from the selected household files, during the audit. The Authority did not provide any

additional documentation to reduce the errors along with its comments to the report. Therefore, the initial number of missing items had been reduced to reflect the receipt of the documents, as cited in this report. In addition, we commend the Authority on its willingness to work with HUD to resolve the issues cited in the finding.

- Comment 6 The Authority contends that we had 7 months to prepare its findings; however, the Authority was only given 10 days to research and make comments. We acknowledge that the audit took several months to complete; however, the Authority was provided ample time during the audit to resolve the deficient items and sufficient time to comment on the draft report. For instance, the audit team periodically met with the Authority from January through July 2016, and provided supporting documentation for all the deficient items identified throughout the audit. In addition, on May 3, 2016, the audit team provided the Authority with draft finding outlines, which mimicked the eventual draft audit report. The draft report was issued on June 30, 2016. Therefore, the Authority was made aware of our findings nearly two months before being presented with a draft report. The Authority was provided an additional two weeks to respond upon receiving the draft report. The Authority's comments were due and received on July 15, 2016.
- Comment 7 The Authority contends that it will work with the local HUD office to ensure the deficiencies are corrected. We commend the Authority on its willingness to work with HUD to resolve the issues cited in this report, in a way that does not negatively impact the Authority or its' households.
- Comment 8 The Authority contends that there appeared to be a calculation mistake on our spreadsheet. During the audit, the audit team provided the Authority with many spreadsheets to help it resolve the identified deficiencies. However, since the Authority did not identify the particular spreadsheet in question, we cannot comment on whether a spreadsheet contained a mistake.

## Appendix C

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### Federal and Authority Requirements

#### Finding 1

Regulations at 24 CFR 982.152(d) states 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 982.352(b)(1)(iv)(A) state that the public housing agency *must* obtain the services of an independent entity to perform the following functions as required under the program rule:

- (1) To determine rent reasonableness in accordance with 24 CFR 982.507. The independent agency must communicate the rent reasonableness determinations to the family and the agency.
- (2) To assist the family to negotiate the rent to owner in accordance with 24 CFR 982.506.
- (3) To inspect the unit for compliance with the housing quality standards in accordance with 24 CFR 982.305 and 24 CFR 982.405 (except that 24 CFR 982.405(e) is not applicable). The independent agency must communicate the results of each such inspection to the family and the public housing agency.

Regulations at 24 CFR 982.352(b)(1)(iv)(B) state that the independent agency used to perform the rent reasonableness, negotiation of rent, and housing quality standards inspections *must* be approved by HUD.

#### Finding 2

Regulations at 24 CFR 5.856 state that standards must be established to prohibit admission to federally assisted housing if any member of the household is subject to a lifetime registration requirement under a State sex offender registration program. In the screening of applicants, necessary criminal history background checks must be performed in the State where the housing is located and in other States where the household members are known to have resided.

Regulations at 24 CFR 982.1(a)(1) state that in the HUD Housing Choice Voucher program, HUD pays rental subsidies so eligible families can afford decent, safe, and sanitary housing.

Regulations at 24 CFR 982.152(a)(3) state that public housing agency administrative fees may be used to cover only the costs incurred to perform the agency's responsibilities for the program in accordance with HUD regulations and requirements.

Regulations at 24 CFR 982.152(d) states 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 982.207(b)(2) state that the public housing agency may adopt a preference for admission of working families (families in which the head spouse or sole member is employed). However, an applicant must be given the benefit of the working family preference if the head and spouse or sole member is age 62 or older or is a person with disabilities.

Regulations at 24 CFR 982.207(d) state that the public housing agency *must* not select families for admission to the program in an order different from the order on the waiting list for the purpose of selecting higher income families for admission to the program.

Regulations at 24 CFR 982.302(c) state that the family must submit to the public housing agency a request for approval of the tenancy and a copy of the lease, including the HUD-prescribed tenancy addendum. The request must be submitted during the term of the voucher.

Regulations at 24 CFR 982.305(c)(4) state that any housing assistance payments contract that is executed after 60 calendar days from the beginning of the lease term is void and no payments may be paid to the owner.

Regulations at 24 CFR 982.404(a)(3) state that the public housing agency must not make any 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 agency and the agency verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours.

Regulations at 24 CFR 982.514(b) state that if the housing assistance payment exceeds the rent to owner, the public housing agency may pay the balance of the housing assistance payment (“utility reimbursement”) either to the family or directly to the utility supplier to pay the utility bill on behalf of the family. If the agency elects to pay the utility supplier directly, the agency must notify the family of the amount paid to the utility supplier.

Regulations at 24 CFR 982.553(d)(3) state that the public housing agency may not pass along to the tenant the costs of a criminal records check.

HUD’s Housing Choice Voucher Guidebook 7420.10G, chapter 5.3, states that a dependent is a family member who is under 18 years of age, is disabled, or is a full-time student. It further states that although full-time students 18 years of age or older are technically identified as dependents, a small amount of their earned income will be counted, up to a maximum of \$480 per year.

HUD’s Housing Choice Voucher Guidebook 7420.10G, chapter 5.5, states that a full-time student is one carrying a full-time subject load (as defined by the institution) in an institution with a with a degree or certificate program.

HUD’s Housing Choice Voucher Guidebook 7420.10G, chapter 22.3, states that public housing agencies must independently verify all factors affecting a family’s eligibility and payment,

including factors that affect the determination of adjusted income, such as full-time student status.

HUD's Public and Indian Housing Notice 2012-15, part 2, states that administrative fees must be used only for program expenses. These include but are not limited to (1) waiting list management and updates; (2) preference verifications; (3) eligibility determinations; (4) intake and briefings; (5) voucher issuances; (6) owner outreach efforts; (7) unit inspections; (8) rent negotiations and reasonableness determinations; (9) annual and interim income reexaminations; (10) tenant fraud investigations and hearings; (11) processing subsequent moves, including portability moves outside the public housing agency's jurisdiction; (12) the costs associated with making housing assistance payments to owners; and (13) monthly reporting in HUD systems.

Chapter 10, section 10-C, of the Authority's administrative plan states that emergency items that endanger the family's health or safety must be corrected by the owner within 24 hours of notification.

Chapter 12, section 12-G, of the Authority's administrative plan states that the Authority requires that families report interim changes to the Authority within 30 days after the change occurs and that if the change is not reported within the required period or if the family fails to provide documentation or signatures, it will be considered untimely reporting. Further, it states that the family will be liable for any overpaid housing assistance and may be required to sign a repayment agreement or reviewed for termination for zero-income household members that do not report the changes in a timely manner.

Chapter 14, section 14-D, of the Authority's administrative plan states that the Authority will only enter into a contractual relationship with the legal owner of a qualified unit.