



U.S. Department of Housing and Urban Development, Washington, DC

Operating Fund Calculations

This report was re-issued on September 19, 2016, and the report number was changed from 2016-NY-1010 to 2016-NY-0001.

Office of Audit, Region 2
New York – New Jersey

Audit Report Number: 2016-NY-0001
September 12, 2016



To: Milan Ozdinec
Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

Unabyrd L. Wadhams
Deputy Assistant Secretary, Office of Field Operations, PQ

From: //signed//
Kimberly Greene
Regional Inspector General for Audit, 2AGA

Subject: Operating Fund Calculations Were Not Always Adequately Verified

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 calculation of Public Housing Operating Fund subsidies for public housing agencies.

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 212-264-4174.



Audit Report Number: 2016-NY-0001
Date: September 12, 2016

Operating Fund Calculations Were Not Always Adequately Verified

Highlights

What We Audited and Why

We audited the calculation process for Public Housing Operating Fund subsidies awarded to public housing agencies (PHA). We initiated this review based on an internal audit suggestion, which was included in our annual audit plan. The objective of the audit was to determine whether the U.S. Department of Housing and Urban Development (HUD) verified Operating Fund calculations to ensure that PHAs received the correct amounts and recaptured any excess subsidies provided.

What We Found

HUD did not always adequately verify the calculation of Operating Fund subsidies to ensure that PHAs received the correct amount; however, it recaptured the funds once it determined that excess subsidies were provided to PHAs. Specifically, (1) unsupported utility expense levels were used in funding calculations, (2) units that exceeded the limit were ineligibly funded, (3) verification procedures for PHAs' funding requests were not always adequately followed, and (4) HUD's verification procedures were limited. These issues existed due to errors by PHA officials and HUD field office staff, an ineffective data reconciliation mechanism, a weakness in controls over record keeping, and a lack of emphasis on following verification procedures. As a result, more than \$12 million in operating funds disbursed to PHAs was not adequately supported, and \$116,218 was ineligibly. HUD had taken actions to improve its controls over Operating Fund calculation to assist HUD field office staff in more accurately and efficiently calculating and determining the funding amount.

What We Recommend

We recommend that HUD officials (1) determine whether any of the overpayment of \$3.6 million was ineligibly and recover the ineligibly payments, (2) recapture from PHAs the \$116,218 ineligibly disbursed for the units that exceeded the limit, (3) obtain documentation of the utility expense level amounts and verify the accuracy of the computation of \$9 million of Operating Fund subsidies and recapture ineligibly amounts, (4) enhance controls to ensure that verification procedures for Operating Fund calculations are followed by field office staff, (5) continue implementing the reconciliation software application to provide greater assurance that operating fund subsidies are accurately calculated based on correct data, and (6) strengthen controls over record keeping.

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Background and Objective

In accordance with Section 9 of the U.S. Housing Act of 1937, as amended, the Public Housing Operating Fund program provides operating subsidies to public housing agencies (PHA) to assist in funding the operating and maintenance expenses of their dwellings. The subsidies are required to help maintain services and provide minimum operating reserves. The U.S. Department of Housing and Urban Development (HUD) distributes approximately \$4 billion in annual operating funds to more than 7,000 public housing projects.

In general, a PHA's operating subsidy is the difference between its operating expense and non-operating revenue from the rents charged to tenants. The operating expense is determined by three components: project expense level, utility expense level, and other formula expenses. Costs associated with the project expense level are administration, management fees, maintenance, protective services, leasing, occupancy, staff, and other expenses, such as project insurance. HUD calculates the project expense level using regression analysis and benchmarking for the actual costs of Federal Housing Administration projects to estimate costs for public housing projects, based on variables such as size of project, age of property, occupancy type, location, etc. The utility expense level for each PHA for a given funding period is the product of the utility rate multiplied by the payable consumption level multiplied by the inflation factor expressed as a per unit month dollar amount. Other formula expenses include the add-on costs related to the self-sufficiency program, energy loan amortization, payments in lieu of taxes, independent audits, resident participation activities, asset management fee, asset repositioning fee, and information technology fee. Since Operating Fund subsidies for other formula expenses were previously reviewed by HUD's Office of Inspector General (OIG),¹ we focused on the operating expenses at the project expense level and utility expense level.

Each year PHA officials submitted to HUD's field offices funding requests for each of their projects through HUD-developed Excel forms HUD-52723 and HUD-52722. Form HUD-52722 is used to calculate the per unit month utility expense level, which is then carried over to form HUD-52723 to compute the total eligible utility expense level of the project. Field office staff, usually financial analysts, review these two forms and follow up with PHAs when necessary before approving or denying the funding requests.

The audit objective was to determine whether HUD verified Operating Fund calculations to ensure that PHAs received the correct amount and recaptured any excess subsidies provided.

¹ HUD OIG conducted an internal audit of asset reposition fee calculation in 2014 (audit report 2014-NY-0003), and the audit resolution was completed in March 2016.

Results of Audit

Finding: Operating Fund Calculations Were Not Always Adequately Verified

HUD did not always adequately verify Operating Fund calculations to ensure that PHAs received the correct amount. Specifically, (1) unsupported utility expense levels were used in funding calculations, (2) units exceeding the limit were ineligibly funded for some PHAs, (3) verification procedures regarding PHAs' funding request forms were not always adequately followed, and (4) HUD's verification procedures were limited. These issues existed due to errors by PHA officials and HUD field office staff, an ineffective data reconciliation mechanism, a weakness in controls over record keeping, and a lack of emphasis on following verification procedures. As a result, more than \$12 million in operating funds disbursed to the PHAs was not adequately supported, and \$116,218 was ineligible. HUD had taken actions to improve its controls over Operating Fund calculation, most recently developing a software application to reconcile the data generated by multiple funding process tools, which should assist HUD field office staff in more accurately and efficiently calculating and determining the funding amount.

The Utility Expense Level Was Unsupported

Utility Expense Level Was Incorrectly Calculated

A PHA is eligible to receive operating subsidies for the costs of electricity, gas, heating fuel, water, and sewage service. The utility expense level of a public housing project is the product of the per unit month utility expense level multiplied by eligible unit months of the funding period. However, our review of the projects in six States disclosed that the per unit month utility expense level and utility expense level were not always accurately calculated because HUD field office staff did not detect the errors made by PHA officials while reviewing the PHAs' funding requests to determine the funding amounts.

HUD uses an Excel tool named form HUD-52722 to calculate the per unit month utility expense level, which is then carried over to another Excel tool called form HUD-52723 to compute the eligible utility expense level for a particular funding period. HUD requires the field office staff to ensure that the per unit month utility expense levels on both forms are equal. However, field office staff was not always able to catch the discrepancy due to errors or a lack of emphasis to ensure that the forms agreed. For example, the per unit month utility expense level of one project on form HUD-52722 for calendar year 2014 was \$236, while it was \$242 on form HUD-52723. Field office staff could not explain this discrepancy when we informed them during our review. The discrepancy caused an overpayment of \$141,418 to subsidize the utility costs of that project.

HUD also requires that the eligible unit months on form HUD-52723, which are adjusted with unit months of removed units and new units, be used as the denominator on form HUD-52722 to

compute the per unit month utility expense level. However, in many cases, PHA officials incorrectly used total unit months, resident participant unit month, or other unexplained numbers instead of the eligible unit months, and field office staff failed to identify these errors. For instance, one project had 1,765 eligible unit months in calendar year 2014; however, the PHA divided the total utility expense level of \$119,794 by the 1,236 unit months without explaining how they came up with this number. As a result, the per unit month utility expense level was \$30 higher than it should have been, and the funding for utility expense level was potentially \$45,523 higher than its eligible amount. In another example, a PHA regrouped three projects into one project. Instead of adding all of the utility costs and dividing that amount by the total unit months of the three projects, PHA officials added together the per unit month utility expense levels of the three projects. Thus, the per unit month utility expense level used in the funding determination was \$267, while the average per unit month utility expense level was only \$93. The utility expense level was overfunded by \$370,135.

Due to these deficiencies, for the six States reviewed, 161 of 1,284 projects in calendar year 2013 and 69 of 1,289 projects in calendar year 2014 had utility expense level calculation errors. As a result, HUD potentially overfunded these projects by approximately \$3.5 million and underfunded them by more than \$1 million in these two years. In addition, HUD potentially overfunded one project by \$97,001 in calendar year 2011 and underfunded it by \$10,638 in calendar year 2012. Further, for certain projects, the utility expense level on the form HUD-52723 matched that on the form HUD-52722, while the per unit month utility expense levels on the two forms were different. Although the funding amount for these projects was correct, these two forms were not reconciled effectively.

States	# of projects reviewed	Incorrect utility expense level (Calendar Year 2013)			
		# of projects	Overfunded	# of projects	Underfunded
CA	232	12	\$502,765	21	(\$781,560)
FL	233	2	468	3	(1,290)
IL	259	28	1,968,093	4	(13,745)
NJ	8	0	0	0	0
NY	8	0	0	0	0
TX	544	41	55,151	50	(128,876)
Total	1,284	83	2,526,477	78	(925,471)

States	# of projects reviewed	Incorrect utility expense level (Calendar Year 2014)			
		# of projects	Overfunded	# of projects	Underfunded
CA	231	8	\$107,545	5	(\$67,036)
FL	234	5	203,514	2	(54,643)
IL	261	11	101,706	9	(130,607)
NJ	8	0	0	0	0
NY	8	1	141,418	0	0

TX	547	25	452,625	3	(3,372)
Total	1,289	50	1,006,808	19	(255,658)

HUD officials stated that they were aware of these issues and started to develop and implement a software application in calendar year 2015² to automatically reconcile these two forms at headquarters in addition to the manual reconciliation process performed by field office staff.

Subsidies Were Awarded Without Support

Operating funds were awarded to subsidize the utility expenses of certain projects without adequate supporting documentation. The records maintained by HUD headquarters showed that 39 of 1,284 projects in calendar year 2013 and 93 of 1,289 projects in calendar year 2014 that received Operating Fund subsidies for utility expenses did not have supporting forms HUD-52722 or the utility expense level on forms HUD-52722 was listed as zero. As a result, more than \$15 million and more than \$8.5 million in operating funds disbursed in calendar years 2013 and 2014 for these projects were not adequately supported by the final forms HUD-52722 maintained at headquarters.

Upon request, field office staff members located additional forms HUD-52722, which contained adequate utility expense data for the corresponding projects. However, more than \$1 million and \$7.9 million in operating subsidies disbursed for the utility expense levels of 20 projects and 82 projects in calendar years 2013 and 2014, respectively, remained unsupported. This issue existed due to and a weakness in controls over record keeping. Field office staff members thought they had submitted the updated forms HUD-52722 and HUD-52723 to headquarters; however, headquarters and field offices could not explain why the data maintained at headquarters were not changed and the two forms were not reconciled. We believe that with the implementation of the software application reconciling forms HUD-52722 and HUD-52723, this kind of discrepancy will be significantly reduced.

Faircloth Limit Exceeded

Section 9(g)(3) of the United States Housing Act of 1937 (“Faircloth Amendment”) limits the construction of new public housing units. The Faircloth Amendment states that HUD cannot fund the construction or operation of new public housing units with capital or operating funds if the construction of those units would result in a net increase in the number of units the PHA owned, assisted, or operated as of October 1, 1999. The Faircloth limit is adjusted for PHA transfers of annual contributions contract units³, consolidations, and Rental Assistance

² HUD was in the process of reconciliation, and we were unable to test whether the accuracy of funding calculation had improved for calendar year 2015 since the data were not available.

³ Annual contribution contracts are annual contracts between HUD and public housing agencies for payments toward rent, financing debt service, and financing for modernization.

Demonstration Program⁴ removals. However, 12 and 7 PHAs in the six States reviewed received Operating Fund subsidies in calendar years 2014 and 2013, respectively, for units exceeding their Faircloth limit. These PHAs were overfunded by \$116,218 in those two years. This deficiency existed because the field office staff did not realize that the number of units submitted by the PHA exceeded the Faircloth limit. When a PHA has multiple projects, field office staff had to manually add up each project's unit number to determine whether the total number of units in these projects was beyond the limit. HUD officials stated that they were aware that certain PHAs might have been overfunded by claiming more units than their Faircloth limit and were considering how to improve the controls.

Verification Procedures Were Not Always Adequately Followed

Operating Subsidy Field Office Review Guidelines require that if the per unit month utility expense level is greater than \$300, or greater than +/-20 percent of the prior year's data, an explanation must be provided in the "comments" section of the form HUD-52723. However, field office staff did not always adequately follow this requirement. In 14 of the 16 projects tested for the implementation of verification procedures, there was either a high per unit month utility expense level or a significant change in the per unit month utility expense level. For 5 of the 14 projects, field office staff either did not provide an explanation, or the explanation was not reasonable. For example, the per unit month utility expense level of one project was increased by 88 percent from calendar years 2013 to 2014, and the field office staff incorrectly explained that the increase was due to the water utility paid by residents during calendar year 2014. Field office staff members failed to detect that the PHA mistakenly used per unit month utility expense level data of another project until we notified them during our review. As a result, \$124,788 in Operating Fund subsidies was not supported.

The Guidelines also require that field office staff verifies that the total unit months on the form HUD-52723 equals annual contributions contract units times 12 months, adjusted for new units or deleted units. However, field office staff did not always adequately verify this information. In 2 of 16 projects reviewed, the total number of unit months was less than the annual contributions contract units times 12 months. For example, one PHA had 656 contract units during the funding period of calendar year 2014, and no unit was added or removed. Therefore, the total unit months should be 7,872 (656 units x 12 months). However, the total unit months on the form HUD-52723 were incorrectly calculated as 7,706. Neither field office staff nor PHA officials were aware of this discrepancy and they could not explain why these numbers were different. A field office staff member explained that the form was possibly prepopulated with Public and Indian Housing Information Center data and he let it go without verification because the PHA did not question the number. Since HUD did not require PHAs to submit documentation to support the eligible unit months and PHA officials were not able to provide

⁴ The Rental Assistance Demonstration program was created to give public housing agencies a powerful tool to preserve and improve public housing properties and address the \$26 billion nationwide backlog of deferred maintenance. It also gives owners of three HUD's legacy programs (Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation) the opportunity to enter into long-term contracts that facilitate the financing of improvements.

adequate documentation when requested, we were not able to determine whether there was an impact to the eligible unit months and the funding amounts and we could not determine the correct amount of funding.

We attributed these issues to HUD's lack of emphasis on ensuring that field office staff followed verification procedures during the funding process.

HUD's Verification Procedures for Operating Fund Calculation Were Limited

HUD verified a PHAs' Operating Fund calculations with a limited scope. In general, HUD relied on PHA-certified unit months and utility expense data for the calculation without requesting PHAs to submit source documentation to support the data. HUD staff checked whether there were arithmetic errors among the current year's data and whether there was a significant change from the prior year's data. In addition, HUD staff conducted monitoring reviews only for the PHAs designated as high risk. For PHAs with normal performance, HUD staff usually did not review the tenant occupancy and utility bills to ensure that the eligible unit months and utility expenses claimed on forms HUD-52723 and HUD-52722 were accurate. HUD officials explained that they used to conduct more monitoring reviews and the limited verification procedures were due to personnel resource constraints.

Conclusion

HUD staff did not always adequately verify Operating Fund calculations to ensure that PHAs received the correct amount. We attributed this condition to errors made by PHA officials and HUD field office staff, an ineffective data reconciliation mechanism, a weakness in controls over record keeping, and a lack of emphasis on following verification procedures. As a result, more than \$12 million in operating funds disbursed to the PHAs was not adequately supported, and \$116,218 was ineligible. However, HUD had taken actions to improve its controls over the funding process beginning in calendar year 2015.

Recommendations

We recommend that the Director of the Public Housing Financial Management Division

- 1A. Determine whether any of the overpayment of \$3,630,286 was ineligible and take appropriate actions to recoup the ineligible payments.
- 1B. Validate the \$1,191,767 in underpayments and determine if any corrections should be made.
- 1C. Continue to implement the reconciliation software application to provide greater assurance that Operating Fund calculations are based on correct data.
- 1D. Obtain adequate supporting documentation of the utility expense level amounts and verify the computation of \$8,993,484 in operating funds is accurate or recapture ineligible amounts.
- 1E. Strengthen controls to ensure that files maintained at Headquarters are complete.

- 1F. Recapture the overpayment of \$116,218 disbursed for the units, which exceeded the PHAs' Faircloth limit.
- 1G. Strengthen controls to ensure that the units funded under the Operating Fund program do not exceed the PHA's Faircloth limit.
- 1H. Obtain accurate data from the PHAs and recalculate the calendar year 2014 operating subsidy for the project, which was mistakenly awarded based on other projects' utility expense level data. If the eligible amount is less than \$124,788, the difference should be recaptured.

We recommend that HUD's Deputy Assistant Secretary of the Office of Field Operations

- 1I. Develop and implement procedures to conduct a more detailed review of the PHA self-certified unit months and utility costs data and strengthen controls to ensure that field office staff follow the established verification procedures Operating Fund calculations.

Scope and Methodology

The audit focused on whether HUD adequately verified Operating Fund calculations to ensure that PHAs received the correct amounts and recaptured any excess subsidies provided. The audit generally covered the period of January 1, 2013, through December 31, 2014, and was extended as necessary to meet the objective of the review. We performed audit fieldwork from December 2015 to June 2016 at the HUD field office in Newark, NJ, and HUD headquarters in Washington, DC.

To accomplish our objective, we

- Reviewed relevant Operating Fund program requirements and applicable Federal regulations to gain an understanding of the funding process for the program.
- Reviewed prior HUD OIG audit reports for issues related to Operating Fund calculation.
- Interviewed HUD headquarters and field office staff and PHA officials to gain an understanding of their roles and responsibilities in the funding process for the Operating Fund program, as well as implementing the process.
- During the survey phase, we selected a nonstatistical sample of 16 projects in New York and New Jersey funded under the Operating Fund program in calendar years 2013 and 2014, which either had the highest numbers of unit months, per unit month utility expense levels, or significant variance in per unit month utility expense level amounts from the prior-year level. We tested whether HUD staff adequately verified the Operating Fund calculations of the 16 projects, PHAs received the correct amounts, and any excess subsidies were recaptured by HUD.
- We expanded the sample in the audit phase to include all of the projects in Texas, Illinois, California, and Florida that received Operating Fund subsidies for those 2 years. In total, we reviewed 1,284 and 1,289 projects in these 6 States for calendar years 2013 and 2014, respectively, which represented around 18 percent of the more than 7,000 public housing projects funded under the Operating Fund program nationwide. The results of our non-representative sample cannot be projected. Using ACL⁵ data analytics and extraction software, we identified from the selected sample that 241 projects in calendar year 2013 and 187 projects in CY 2014 had significant discrepancies of the per unit month utility expense level, utility expense level, and unit months on the forms HUD-52723 with those

⁵ ACL data analytics is a data extraction and analysis software developed by ACL Services Ltd. for fraud detection and prevention and risk management. By sampling large data sets, ACL data analysis software is used find irregularities or patterns in transactions that could indicate control weaknesses or fraud.

on forms HUD-52722 for verification. We analyzed the causes of discrepancies and computed the overpayment and underpayment for these projects based on supporting documentation provided. We discussed the calculation errors of the projects' Operating Fund subsidies with HUD staff and PHA officials.

- Assessed the reliability of computer-processed data on forms HUD-52722 and HUD-52723 used in calculating Operating Fund subsidies for the projects reviewed. Since the data were not always reliable, we verified the data with HUD field office staff and PHA officials as well as with supporting documentation provided. Assessment of the reliability of the data was limited to the data sample.

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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- HUD did not have adequate controls over its verification process when awarding Operating Fund subsidies to PHAs to ensure that the subsidies were correctly calculated for the eligible unit months (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$3,630,286	
1B			\$1,191,767
1D		8,993,484	
1F	\$116,218		
1H		124,788	
Totals	116,218	12,748,558	1,191,767


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD uses the \$1.2 million that was due to the PHAs to reduce the overpayments of the same funding year they owed to HUD, it would ensure individual PHAs would receive the appropriate amount of funds that are due to them.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments


OFFICE OF PUBLIC AND INDIAN HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

AUG 29 2016

MEMORANDUM FOR: Kimberly Greene, Regional Inspector General for Audit, 2AGA

FROM: Miljan M. Ozdinec, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE
Unabyrd Wadhams, Deputy Assistant Secretary for Field Operations, PQ

SUBJECT: Comments on Office of Inspector General Draft Report:
Operating Fund Calculations

We appreciate the opportunity to respond to the above-referenced audit report and to the discussion that occurred during the exit conference held with your team on August 11, 2016. The Office of Public and Indian Housing (PIH) has reviewed your draft audit report and submits, for your consideration, the response on the enclosed attachment.

PIH would like to emphasize the helpful attitude that was displayed by your staff in the performance of this audit and recognizes the magnitude of effort needed to produce this informative report.

We generally agree with your recommendations, and our offices have the shared responsibility and objective of strengthening controls in the Operating Subsidy eligibility calculations. PIH had controls in place during 2013 and 2014, including controls over the approval of approved vacancies, and the controls related to 50058s. We also had controls over the review of Operating Subsidy forms by Field Offices as well as the quality control measures implemented by the Public Housing Financial Management Division. PIH is constantly striving to continue to strengthen these as well as other newly developed and implemented controls.

In your report and at the exit conference, you recognized the additional mitigating measures that PIH put into place in 2015 and 2016 to address the weaknesses identified in this audit of the 2013 and 2014 Operating Subsidy calculations. PIH will continue to build upon and enhance in the future these measures and related controls.

In summary, PIH shares the objectives of the report to identify weaknesses and strengthen controls, and appreciates the recognition of the mitigating measures PIH has implemented in 2015 and 2016.

Attachment

Comment 1

Attachment

Comment 2

1A. PIH will get the detailed information from your office to perform our research and determine the appropriate action we will undertake.

Comment 2

1B. PIH will respond to this finding more fully in issuing its management decisions.

Comment 1

1C. We will continue to implement the reconciliation software application to provide greater assurance that calculations are based on correct data.

Comment 2

1D. PIH will gather adequate supporting documentation of the utility expense level amounts and verify the computation is accurate. This review will be performed upon release of the final report with the assistance from your office to provide detailed results for our analysis and review.

Comment 1

1E. We will strengthen controls outlined in this recommendation on files maintained at Headquarters are complete.

Comment 2

1F. The recommendation suggests that PIH recapture the overpayment disbursed for the units, which exceeded the PHAs' Faircloth limit. We will research and perform our analysis based on the information your office provides. PIH will determine the appropriate action we will undertake.

Comment 1

1G. PIH will strengthen controls to ensure units funded do not exceed the PHA's Faircloth limit.

Comment 2

1H. We will obtain accurate data from the PHAs and recalculate the calendar year 2014 operating subsidy for the project and recapture, if necessary. PIH will also need detailed information from your office to perform our research and determine the appropriate action we will undertake.

Comment 3

Note: Recommendations 1I and 1J should be addressed to the Deputy Assistant Secretary for Field Operations.

Comment 1

1I. OPHVP has initiated a draft PHA guidance with validation objectives to be finalized and provides instruction that will strengthen controls over the verification procedures to be followed by field office staff.

Comment 1

1J. We are currently drafting procedures and controls for field office staff to conduct more detailed review of the PHA self-certified unit months and utility costs data.

OIG Evaluation of Auditee Comments

- Comment 1 HUD officials agreed with our findings and the planned actions are responsive to our recommendation.
- Comment 2 We will provide detailed information regarding the identified projects and cooperate with HUD officials during audit resolution to reach management decision.
- Comment 3 We adjusted the report and the recommendations are addressed to appropriate HUD officials. As requested by HUD officials during exit conference, we combined recommendations 1I and 1J in the final report.