

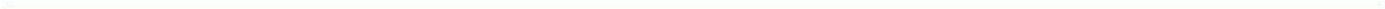


Menard County Housing Authority, Petersburg, IL

Housing Choice Voucher Program

**Office of Audit, Region 5
Chicago, IL**

**Audit Report Number: 2017-CH-1007
September 28, 2017**





To: Daniel W. Sherrod, Director of Public Housing Hub, 5APH

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

Subject: The Menard County Housing Authority, Petersburg, IL, Did Not 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 Menard County Housing Authority's Housing Choice Voucher program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.



Audit Report Number: 2017-CH-1007

Date: September 28, 2017

The Menard County Housing Authority, Petersburg, IL, Did Not Comply With HUD's and Its Own Requirements Regarding the Administration of Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Menard County Housing Authority's Housing Choice Voucher program based on the activities included in our 2017 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 complied with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements regarding the administration of its program.

What We Found

The Authority did not comply with HUD's conflict-of-interest requirements. Specifically, it failed to obtain the services of a HUD-approved independent third party to perform housing quality standards inspections for units owned by entities it substantially controlled. As a result, it paid nearly \$303,000 in housing assistance for ineligible units and could not support the eligibility of nearly \$340,000 in housing assistance payments to the entities. In addition, it inappropriately paid nearly \$8,000 in program funds and could not support the eligibility of more than \$18,000 in program funds paid to a contractor for housing quality standards inspection services.

The Authority failed to comply with HUD's and its own requirements for its program household files. Specifically, it did not correctly calculate housing assistance payments and ensure that households resided in affordable units. It also failed to issue appropriate voucher sizes based on family composition and appropriately apply payment standards and utility allowances for its program households. As a result, it (1) overpaid nearly \$103,000, (2) underpaid nearly \$9,000, and (3) lacked support for nearly \$3,000 in housing assistance. In addition, the Authority's program households contributed nearly \$3,200 in excess rental payments.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public and Indian Housing require the Authority to (1) reimburse its program nearly \$415,000 from non-Federal funds for the ineligible payments; (2) seek retroactive approval or reimburse its program nearly \$361,000 from non-Federal funds for the inappropriate, overpaid, and unsupported payments; (3) reimburse its program households nearly \$12,000 from non-Federal funds; and (4) implement adequate procedures and controls to address the findings cited in this audit report.

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Background and Objective

The Menard County Housing Authority was created under the laws of the State of Illinois. The Authority is governed by seven-member board of commissioners appointed by the mayor of Petersburg. The board appoints the executive director. The executive director has general supervision over the administration of the Authority's business and affairs, subject to the direction of the Authority and the management of 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 individuals to lease or purchase safe, decent, and affordable privately owned rental housing. As of August 2017, the Authority had 706 vouchers and received more than \$2.1 million in program funds.

On January 1, 2014, HUD approved the voluntary transfer of 374 vouchers and associated budget authority from the Illinois Department of Commerce and Economic Development program to the Authority. Further, on November 1, 2014, HUD approved the transfer of 73 vouchers and associated budget authority from the Livingston County Housing Authority to the Authority. As a result, the Authority is responsible for program households located in 23 counties throughout the State of Illinois.

Region 5's jurisdiction consists of the States of Illinois, Ohio, Michigan, Minnesota, and Wisconsin.

The objective of our audit was to determine whether the Authority complied with HUD's and its own requirements regarding the administration of its Housing Choice Voucher program. Specifically, we wanted to determine whether the Authority (1) complied with HUD's conflict-of-interest requirements regarding housing quality standards inspections, (2) correctly calculated housing assistance payments, (3) issued appropriate voucher sizes, and (4) appropriately applied payment standards and utility allowances for its program households.

Results of Audit

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

The Authority did not comply with HUD's conflict-of-interest requirements. Specifically, it failed to obtain the services of a HUD-approved independent third party to perform housing quality standards inspections for units owned by entities it substantially controlled. The weakness occurred because the Authority lacked a sufficient understanding of HUD's requirements regarding conflicts of interest. As a result, it paid nearly \$303,000 in housing assistance for ineligible units and could not support the eligibility of nearly \$340,000 in housing assistance payments to the entities. In addition, it inappropriately paid nearly \$8,000 in program funds and could not support the eligibility of more than \$18,000 in program funds paid to a contractor for housing quality standards inspection services.

The Authority Did Not Comply With HUD's Conflict-of-Interest Requirements for Its Unit Inspections

Central Illinois Services, Inc.,¹ the Authority's nonprofit, owns a controlling interest in County Estates GP 2, Inc., and Prairie Partners, Inc.² The Authority was the registered agent and had a controlling interest in 20 units of housing at Prairie Place and 68 units at County Estates, for a total of 88 units.

We reviewed 134³ inspections for the 74 program households that resided in units at the projects from October 1, 2014, through September 30, 2016. None of the 134 of the inspections met HUD's conflict-of-interest requirements.⁴ Specifically, 66 inspections were inappropriately completed by either the Authority's program manager or a former employee whose employment at the Authority ended less than 1 month before he entered into a contractual agreement with the Authority to perform inspections. The remaining 68 inspections were performed by either the Authority's former employee (contractor) 1 year after his employment ended or another contractor; however, the Authority failed to obtain HUD's approval⁵ of the contractors.

¹ Central Illinois Services, Inc. is a private, nonprofit corporation acting as an instrumentality of the Authority whose board composition is comprised of a majority interest of the Authority's board.

² County Estates GP 2, Inc. and Prairie Partners, Inc. are private corporations acting as instrumentalities of the Authority. Both entities are comprised of a majority interest of the Authority's board.

³ A household may have had more than one inspection during the period.

⁴ 24 CFR (Code of Federal Regulations) 982.161(a)

⁵ 24 CFR 982.352(b)(1)(iv)(A) and (B)

The Authority paid \$302,638 in housing assistance for the 66 units inspected by its program manager or its former employee and \$339,908 in housing assistance for the 68 units inspected by the two contractors. In addition, the Authority paid \$25,908 (\$7,579 + \$18,329) in program funds to the contractor for housing quality standards inspection services.

The Authority's executive director believed that HUD's conflict-of-interest requirements applied only to former employees who had decision-making capabilities. As a result of our audit, on July 1, 2017, the Authority requested approval from HUD to extend the contract with its former employee for 1 year. HUD approved the Authority's request; however, the approval was not retroactive.

Conclusion

The weakness described above occurred because the Authority lacked a sufficient understanding of HUD's requirements regarding conflicts of interest. As a result, it paid nearly \$303,000 in housing assistance for ineligible units and could not support the eligibility of nearly \$340,000 in housing assistance payments to the entities. In addition, it inappropriately paid nearly \$8,000 in program funds and could not support the eligibility of more than \$18,000 in program funds paid to a contractor for housing quality standards inspection services.

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 \$63,643 in program administrative fees for the 134 inspections.

Recommendations

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

- 1A. Reimburse its program \$373,860 (\$302,638 in ineligible housing assistance payments + \$63,643 in associated administrative fees + \$7,579 in program funds paid to the contractor) from non-Federal funds for the inappropriate payments cited in this finding.
- 1B. Seek retroactive approval or reimburse its program \$358,237 (\$339,908 in housing assistance payments + \$18,329 in program funds paid to the contractor) for the housing quality standards inspections of units owned by entities substantially controlled by the Authority, completed by contractors that were not approved by HUD.
- 1C. Implement adequate procedures and controls to ensure that the Authority complies with HUD's requirements for program conflicts of interest, including but not limited to ensuring that (1) its staff does not complete inspections for units owned by entities substantially controlled by the Authority, (2) its staff is appropriately trained and familiar with HUD's requirements for units owned by entities it substantially controls, and (3) future contracts to perform housing quality standards inspections for program units owned by entities substantially controlled by the Authority are with a HUD-approved independent third party.

Finding 2: The Authority Failed To Comply With HUD's and Its Own Requirements for Its Program Household Files

The Authority failed to comply with HUD's and its own requirements for its program household files. Specifically, it did not (1) correctly calculate housing assistance payments, (2) ensure that households resided in affordable units, (3) issue appropriate voucher sizes based on family composition, and (4) appropriately apply payment standards and utility allowances for its program households. The weaknesses occurred because the Authority lacked adequate oversight of its program. As a result, it overpaid nearly \$103,000, underpaid nearly \$9,000, and was unable to support nearly \$3,000 in housing assistance. Additionally, the Authority's program households contributed nearly \$3,200 in excess rental payments. If the Authority does not correct its certification process, it could overpay nearly \$104,000 and underpay more than \$4,300 in housing assistance over the next year.

The Authority Had Miscalculated and Unsupported Housing Assistance Payments

We reviewed 82 statistically selected⁶ certifications for 75 of the Authority's program household files to determine whether the Authority correctly calculated housing assistance payments for the period October 1, 2014, through September 30, 2016. Our review was limited to the information maintained by the Authority in its household files.

For the 82 certifications, 58 (71 percent) had incorrectly calculated housing assistance. The 58 certifications contained 1 or more of the following deficiencies:

- 44 had incorrect utility allowances,
- 33 had incorrect payment standards,
- 15 had incorrect income calculations, and
- 4 had incorrect dependent deductions.

The errors resulted in \$29,074 in overpayments, \$2,588 in underpayments, and \$2,533 in unsupported payments of housing assistance.

Additionally, of the 58 certifications that had incorrectly calculated housing assistance, 25 certifications had additional errors that had no impact on the housing assistance. Further, of the 24 (82 - 58) remaining certifications reviewed, 6 certifications contained errors that had no impact on the housing assistance. The errors included incorrect payment standards, utility allowances, income, and dependent deductions.

The Authority inappropriately received \$18,141 in administrative fees for the miscalculated certifications. If the Authority does not correct its certification process, it could overpay \$103,841 and underpay \$4,373 in housing assistance over the next year.⁷

⁶ Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

⁷ Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Further, 2 of the 75 household files contained documentation showing that the households had unreported or underreported income. However, the Authority failed to review the documentation and adjust the housing assistance payments. The Authority overpaid \$470 in housing assistance for the two households.

The Authority also allowed five households to move into units that were not affordable.⁸ The five households paid \$3,178 in excess of 40 percent of their adjusted monthly income toward rent.

The Authority Did Not Provide Appropriate Voucher Sizes and Failed To Appropriately Apply Its Payment Standards and Utility Allowances

We reviewed 189 certifications for 56 households to determine whether the Authority issued the appropriate voucher size based on each household's composition. Contrary to the Authority's own administrative plan,⁹ for 118 of the 189 certifications (62 percent), it provided incorrect voucher sizes, resulting in the households being overhoused or underhoused. In addition, because the households received an inappropriate voucher size, the households' payment standards and utility allowances were not accurate.

The Authority regularly updated its payment standards and utility allowances; however, it failed to appropriately use and consistently apply them during households' annual recertifications. Of the 189 certifications reviewed, the Authority failed to appropriately use or consistently apply payment standards for 145 (77 percent) certifications and utility allowances for 117 (62 percent). The Authority overpaid \$74,957 and underpaid \$6,692 in housing assistance and inappropriately received \$41,144 in administrative fees for the improperly implemented voucher sizes and the inconsistent application of payment standards and utility allowances.

The Authority Lacked Adequate Oversight of Its Program

The Authority lacked adequate oversight of its program. In 2014, the Authority voluntarily accepted the transfer of 447 vouchers and associated budget authority from two divesting public housing agencies. According to the Authority's program manager, the large number of program units added led to the inappropriate voucher sizes, payment standards, and utility allowances. After accepting the units from other public housing agencies, the Authority had 19 counties for which it was required to track and implement payment standards and utility allowances.

Further, when the divesting agencies transferred their program units to the Authority, the Authority did not always ensure that the households were issued the appropriate voucher sizes before adding them to its program so that it could update them based on family size and composition as appropriate. According to HUD's Public and Indian Housing Notice 2012-11, no later than each household's next annual recertification, new housing assistance payments contracts must be executed between the receiving Authority and the owner. Additionally, at the

⁸ Regulations at 24 CFR 982.508 state that at the time the Authority approves initial occupancy of a dwelling unit, the family share must not exceed 40 percent of the family's adjusted monthly income.

⁹ Section 5.II.B.

household's next annual recertification, the Authority may apply its occupancy and subsidy standards and any other applicable administrative policies unless the payment standards are lower. In that case, they will be updated at the household's second annual recertification.

According to the Authority's program manager, the Authority was creating a chart to help it manage changes in its payment standards and utility allowances and appropriately apply them to its program households. Although the volume of the transferred vouchers may have contributed to the errors, the Authority's files had been quality control reviewed, and the reviewer did not note the errors. For example, of the 189 certifications we reviewed, 93 (49 percent) had been quality control reviewed. None of the 93 quality control reviews identified errors regarding the voucher sizes provided or the payment standards and utility allowances applied, although documentation was in the files.

Conclusion

The weaknesses described above occurred because the Authority lacked adequate oversight of its program to ensure that it complied with HUD's requirements. As a result, it overpaid \$104,031 (\$29,074+ \$74,957) and underpaid \$9,280 (\$2,588 + \$6,692) in housing assistance and utility allowances. In addition, households resided in units that were not affordable and contributed \$3,178 in excess of 40 percent of their adjusted monthly income toward rent. Further, \$2,533 in housing assistance payments was unsupported, and the Authority failed to recapture \$470 in housing assistance for households with unreported or underreported income.

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 \$59,285 (\$18,141 + \$41,144) in program administrative fees related to the inappropriate and unsupported housing assistance payments cited in this finding.

If the Authority does not correct its certification process, we estimate that it could overpay \$103,841 and underpay \$4,373 in housing assistance over the next year.¹⁰ These overpayments and underpayments could be avoided if proper procedures and controls are put into place to ensure the accuracy of housing assistance payments.

Recommendations

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

- 2A. Reimburse its program \$163,316 from non-Federal funds (\$29,074 in housing assistance due to calculation errors + 74,957 due to inappropriate voucher sizes, payment standards, and utility allowances + \$18,141 + \$41,144 in administrative fees) for the inappropriate payments cited in this finding.

¹⁰ Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

- 2B. Reimburse the appropriate households \$9,280 (\$2,588 in housing assistance underpayments due to calculation errors + \$6,692 due to inappropriate voucher sizes, payment standards, and utility allowances) from program funds for the inappropriate underpayments cited in this finding.
- 2C. Support or reimburse its program \$2,533 from non-Federal funds for the unsupported payments of housing assistance cited in this finding.
- 2D. Pursue collection from the applicable households or reimburse its program \$470 from non-Federal funds for the overpayment of housing assistance due to unreported or underreported income.
- 2E. Reimburse the appropriate households \$3,178 from non-Federal funds for the rent amount paid in excess of 40 percent of the adjusted monthly income for the units that were not affordable.
- 2F. For the five household's residing in units that were not affordable, renegotiate the rent to the owners or require the households to move into units that are affordable.
- 2G. Implement adequate procedures and controls to ensure that (1) housing assistance payments are appropriately calculated and supported, (2) households reside in units that are affordable, and (3) repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that \$108,214 (\$103,841 in potential overpayments + \$4,373 in potential underpayments of housing assistance) in program funds is appropriately used for future payments.
- 2H. Evaluate its quality control process to ensure that calculation, voucher size, payment standard, and utility allowance errors are identified and appropriately corrected.
- 2I. Ensure that its staff is properly trained and familiar with HUD's and its own requirements regarding program housing assistance calculations, applying appropriate voucher sizes, and when to apply changes to households' payment standards and utility allowances.
- 2J. Review all of the remaining program household files to determine whether appropriate voucher sizes were provided and payment standards and utility allowances were applied and updated appropriately. The Authority should conduct special recertifications for the households with vouchers that do not comply with HUD's requirements and the Authority's administrative plan, issue the appropriate voucher sizes, and apply updated payment standards and utility allowances as appropriate.

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

- 2K. Restrict the Authority from administering other HUD-funded programs until it substantially improves its program administration to ensure compliance with applicable requirements based on the findings cited in this audit report, absent sufficient documentation provided by the Authority.

Scope and Methodology

We performed our onsite audit work between October 2016 and March 2017 at the Authority's main office located at 101 West Sheridan Road, Petersburg, IL. The audit covered the period October 1, 2014, through September 30, 2016, 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 law, HUD's regulations at 24 CFR Parts 5 and 982, HUD's Public and Indian Housing Notices 2012-11 and 2014-25, and HUD's Guidebook 7420.10G.
- The Authority's program administrative plan, annual audited financial statements for fiscal years 2013 through 2015, accounting records, bank statements, policies and procedures, board meeting minutes for October 2014 through September 2016, payment standards, household and landlord reports, housing assistance payments register, household files, and HUD's fair market rents.

Finding 1

We reviewed the independent audit reports, incorporating documents, and board meeting minutes to determine whether the Authority owned or substantially controlled units that received housing assistance payments from October 2014 through September 2016.

We determined that 134 inspections were completed for the units owned by an entity substantially controlled by the Authority in which program households resided between October 1, 2014, and September 30, 2016. We reviewed 100 percent of the inspection reports for the units owned by an entity substantially controlled by the Authority. The universe was small enough to allow for a 100 percent review; therefore, no projection of our results was necessary. Further, we performed a cursory review of the projects' units; however, this limited review was not detailed enough to determine the condition of the units.

Finding 2

We statistically selected a stratified random sample of 82 monthly housing assistance payments¹¹ from the Authority's 6,563 monthly disbursements to landlords from October 2014 through September 2016 (24 months). We used a statistical sample so the audit results could be projected to the universe. Based on the 82 randomly selected housing assistance payments from the audit universe of 6,563 housing assistance payments, we found that the overpayment per household was an average of \$43 per tenant month. Deducting for a statistical margin of error,

¹¹ The 82 monthly housing assistance payments were from the 82 household certifications, which represented 75 households.

we can say with a one-sided confidence interval of 95 percent that this amounts to at least \$31 per tenant per month. Therefore, projecting this amount to the audit universe of 6,563 housing assistance payments and deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state with a confidence interval of 95 percent that at least \$207,681 in housing assistance in the universe was overpaid. Over the next year, this is equivalent to an additional overpayment of \$103,840 ($\$207,681 \times 12 \text{ months} / 24 \text{ months}$) in housing assistance.

We also found that the underpayment per household was an average of \$3 per tenant month. Deducting for a statistical margin of error we can say with a one-sided confidence interval of 95 percent that this amounts to at least \$1 per tenant per month. In projecting this amount to the audit universe of 6,563 housing assistance payments and deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state with a confidence interval of 95 percent that at least \$8,745 in housing assistance in the universe was underpaid. Over the next year, this is equivalent to an additional underpayment of \$4,372¹² ($\$8,745 \times 12 / 24 \text{ months}$) in housing assistance.

We ran an ad hoc report from HUD's Public and Indian Housing Information Center system for the Authority's program households to determine whether there were indications that households may have been overhoused. We identified 54 households that had indications that they may have been overhoused and reviewed all 54 (100 percent). The universe was small enough to allow for a 100 percent review; therefore, no projection of our results was necessary. We also reviewed two households in our survey because a physical observation of the unit indicated the households may have been overhoused. The 56 households (54+2) had 189 recertifications.

The calculations of administrative fees were based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid. We limited the inappropriate administrative fees to the amounts of housing assistance payment calculation errors for the household files that contained administrative fees exceeding the housing assistance payment errors.

Data, Review Results, and Generally Accepted Government Auditing Standards

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

We provided our review results and supporting schedules to the Acting Director of HUD's Chicago Office of Public and Indian Housing and the Authority's executive director during the audit.

¹² The amounts in our explanation of the projections of overpayments and underpayments were rounded for this report.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that 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 a sufficient understanding of HUD's regulations regarding conflicts of interest (finding 1).
- The Authority lacked adequate oversight of its program household files (finding 2).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$373,860		
1B		\$358,237	
2A	163,316		
2B			\$9,280
2C		2,533	
2D	470		
2E	3,178		
2I			108,214
Total	540,824	360,770	117,494

- 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 stop incurring program costs for the overpayment and underpayment of housing assistance and, instead, will spend those funds in accordance with HUD's requirements and its program administrative plan. Once the Authority

improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

September 20, 2017

Ms. Kelly Anderson
Regional Inspector General for Audit- Region 5
Ralph H. Metcalfe Federal Building
77 West Jackson Blvd., Suite 2201
Chicago, IL 60604

Re: Menard County Housing Authority- Audit Report Number: 2017-CH-10xx

Dear Ms. Anderson:

The Menard County Housing Authority (the "Authority") is in receipt of Audit Report Number 2017-CH-10xx from the U.S. Department of Housing and Urban Development ("HUD") Office of Inspector General, Office of Audit- Region 5 ("OIG") dated September, 2017 (the "Report"). The Report contains two findings by the OIG with respect to the Authority's Section 8 Housing Choice Voucher Program (the "HCV Program"), as well as certain recommendations to HUD's Chicago Office of Public Housing (the "Chicago Field Office") based on the OIG's findings.

While the Authority strongly disputes certain of the findings of the Report and disagrees with certain of the recommendations the OIG makes in the Report, the Authority appreciates the opportunity to provide its input on these findings and recommendations to the Chicago Field Office and to work with the Chicago Field Office moving forward.

I. Success of Section 8 Program

The Authority is proud that the Report confirms that the Authority's HCV Program is successful, well-managed and a benefit to the community. The Authority acknowledges the benefit of having policies and procedures examined by an independent party. The Authority takes great pride in the fact that after an audit, during which time the OIG examined every aspect of the HCV Program, the OIG did not find any major issues or problems with the HCV Program. The fact that no major issues were found is particularly noteworthy given the size and complexity of the HCV Program managed by the Authority.

The Authority's HCV Program manages over 700 vouchers and receives over \$2 million of program funds. In January 2014, HUD recognized the Authority's capabilities and approved the voluntary transfer of 374 vouchers from the Illinois Department of Commerce and Economic Development to the Authority. Further, in late 2014, HUD approved the transfer of 73 vouchers from the Livingston County Housing Authority to the Authority. Overall, the Authority is responsible for administering vouchers in 23 counties throughout the State of Illinois.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

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II. Audit Finding 1: The Authority Did Not Comply With HUD's Conflict-of-Interest Requirements

A. OIG Misinterpreted Regulations

The Authority utilizes its best efforts to fully comply with all regulations impacting the HCV Program. The Report alleges that the Authority did not comply with HUD's conflict-of-interest requirements. That is not correct. In fact, such a finding ignores the clear language set forth in the applicable regulations.

The Authority fully complied with HUD's conflict-of-interest requirements. The conflict of interest provision cited by the OIG is 24 CFR § 982.161(a), which states, in part:

"Neither the PHA nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the HCV program in which any of the following classes of persons has any interest, direct or indirect, during tenure or for one year thereafter: . . . (2) [a]ny employee of the PHA, or any contractor, subcontractor or agent of the PHA, who formulates policy or who influences decisions with respect to the programs[.]" (emphasis added)

Comment 1

The OIG incorrectly interprets the regulation by consciously ignoring the words "who formulates policy or who influences decisions with respect to the programs[.]" This oversight leads directly to the OIG's incorrect conclusion.

Comment 2

The Authority procured [REDACTED] to perform inspections of the HCV units. [REDACTED], a former employee of the Authority, is the principal of [REDACTED]. [REDACTED] was a Maintenance Mechanic for the Authority from December 30, 1990 to 1996. He then served as a Maintenance/CIAP Coordinator for the Authority from 1996 to 2009. He then again served as a Maintenance Mechanic for the Authority from 2009 until he left the Authority's employment on July 1, 2014. As the regulation clearly states, only employees who formulate policy or influence decisions are subject to the one-year exclusion. At no time did [REDACTED] formulate policy for the Authority or influence decisions with respect to the Authority's programs. Therefore, the Authority's contract with [REDACTED] to perform inspections on units owned by the Authority does not constitute a conflict of interest under the regulation relied upon by the Report.

Comment 3

B. The Authority Properly Procured Inspections

The Authority did not simply engage [REDACTED], but properly procured them to inspect its PHA-owned units. In contracting with [REDACTED] to perform the inspections, the Authority followed the proper procurement rules for an independent entity to perform inspections. It advertised its Request

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

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for Proposals in the *Menard County Review* and in the *Petersburg Observer*. A copy of the advertisement appearing in the *Menard County Review* and a copy of the associated Request for Proposals are enclosed with this Response as Exhibit A. [REDACTED] then submitted a proposal. The Authority reviewed and scored this proposal in the same way that it reviewed and scored other proposals. The Inspection Services Contract Review Summary and the accompanying scoring papers, resulting in the selection of [REDACTED] to perform the inspections, are enclosed with this Response as Exhibit B.

Comment 4

C. HUD Was Confused by Its Own Regulation

The HUD regulation regarding the inspection of PHA-owned units, 24 CFR § 983.59(b) states, in part: "In the case of PHA-owned units, the following program services may not be performed by the PHA, but must be performed instead by an independent entity approved by HUD . . . (3) [i]nspection of PHA-owned units as required by § 983.103(f)." Given that there was no conflict of interest and a proper procurement was done, the Authority believes that [REDACTED] was an independent entity under this regulation.

Comment 4

Unfortunately, the definition of an independent entity was unclear at the time that [REDACTED] entered into a contract with the Authority on July 1, 2014. HUD sent a letter to the Authority on October 24, 2014, after the Authority and [REDACTED] entered into their original contract, indicating that "there may be some confusion on the part of a number of Illinois Public Housing Agencies" regarding the definition of an independent entity. A copy of this letter is enclosed with this Response as Exhibit C. The Authority repeatedly sought clarification via email, beginning on October 29, 2014. HUD never provided the Authority with the requested clarification. The emails sent by the Authority and HUD's unresponsive emails are enclosed with this Response as Exhibit D. The Authority should not be held in violation of a regulation that was unclear and that was causing "confusion on the part of a number of Illinois Public Housing Agencies"; confusion that HUD was unable to resolve.

Comment 5

When the Authority realized that it needed approval for [REDACTED] to serve as an independent entity to perform inspections on PHA-owned units, the Authority sought such approval in a June 27, 2017 letter, which is enclosed with this Response as Exhibit E. HUD approved [REDACTED] as a qualified "Independent Third Party Entity" in a letter dated July 5, 2017, which is enclosed with this Response as Exhibit F.

Comment 6

Moreover, pursuant to 24 CFR 982.161(c): "The conflict of interest prohibition under this section may be waived by the HUD field office for good cause." Therefore, even if the Authority's contract with [REDACTED] constituted a conflict of interest, HUD can waive that conflict of interest. In fact, HUD should waive any conflict of interest present here because of the confusion regarding the definition of an independent entity and because [REDACTED] was ultimately qualified as an independent entity.

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D. Multiple Inspections Ensured Compliance

Even if the Authority violated the regulations regarding conflict of interest and even if [REDACTED] was not an approved independent entity, there was no harm. The PHA-owned units were inspected by multiple entities and, based on the results of those inspections, the units were clearly habitable. The Illinois Housing Development Authority ("IHDA") performed a Tax Credit inspection of Prairie Place on November 5, 2015, with no findings or violations. That inspection included unit interiors, common areas, building exterior, building systems, and physical conditions. A letter documenting the performance and the results of this Tax Credit inspection is enclosed with this Response as Exhibit G. Enterprise Community Asset Management, Inc. also performed an inspection of Prairie Place on July 1, 2015, and, as mentioned in a May 17, 2016 email, a "good performance [was] observed at Prairie Place[.]" A copy of that May 17, 2016 email is enclosed with this Response as Exhibit H.

Comment 7

The IHDA performed a Tax Credit inspection of County Estates on July 9, 2014. Based on the Management Review & Property Inspection Summary Sheet provided by the IHDA regarding the 2014 inspection, it appears that there were no violations regarding the habitability of the units. A copy of that Management Review & Property Inspection Summary Sheet is enclosed with this Response as Exhibit I. The IHDA performed another Tax Credit Inspection of County Estates on June 24, 2016. The only Deficiencies noted in that inspection involved a concrete walkway, a concrete porch, and a couple of broken windows. Please see the letter and 2016 Physical Deficiency Checklist enclosed with this Response as Exhibit J. Alliant Capital also inspected County Estates on August 27, 2014, on July 6, 2015, and on March 23, 2016. Documentation regarding the scope and scheduling of these inspections is enclosed with this Response as Exhibit K. Alliant Capital did not find any issues during its inspections.

Comment 7

Additionally, with regard to both Prairie Place and County Estates, the units were newly constructed. They were inspected upon completion by the City of Petersburg and the City of Athens and, for County Estates, the Village of Greenview as well, in order to receive Certificates of Occupancy. Moreover, as new units, there was no wear and tear by previous occupants, supporting the fact that they were habitable.

Comment 8

Finally, another independent contractor, [REDACTED], performed some of the inspections of the PHA-owned units. Although the Authority may not have sought HUD approval of [REDACTED] as an independent entity, [REDACTED] clearly has no conflict of interest pursuant to 24 CFR § 982.161.

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E. Recommendations

1A. Reimburse its program \$373,860 (\$302,638 in ineligible housing assistance payments ("HAP") + \$63,643 in associated administrative fees + \$7,579 in program funds paid to the contractor).

As set forth above, the Authority believes that there was no conflict of interest and that [REDACTED] was an appropriate independent entity providing all of the inspections required. Moreover, to the extent that the inspections were not considered to be properly completed, the properties were also inspected by the IHDA, Alliant Capital, and/or Enterprise Community Asset Management. Each of the properties were also inspected by the City of Petersburg and the City of Athens and, for County Estates, the Village of Greenview as well, in order to receive its Certificates of Occupancy. Accordingly, any conflict should be waived. Given that the funds were properly used, no repayment is necessary.

1B. Seek retroactive approval or reimburse its program \$358,237 (\$339,908 in HAP + \$18,329 in program funds paid to the contractor).

The Authority will work with the Chicago Field Office to obtain the necessary retroactive approvals for all of the reasons set forth herein.

1C. Implement adequate procedures and controls to ensure the Authority complies with HUD's requirements for program conflicts of interest.

The Authority will implement Recommendation 1C and will, therefore, evaluate and update its procedures and controls to ensure that the Authority complies with HUD's requirements regarding conflicts of interest and will ensure that the Authority's staff is familiar with and well-versed in these procedures and controls. Additionally, if HUD believes that the plethora of previous inspections of the PHA-owned units by [REDACTED], the IHDA, Alliant Capital, and Enterprise Community Asset Management were not sufficient, the Authority is willing to have another independent entity perform inspections of those units at this time.

III. Audit Finding 2: The Authority Failed to Comply With HUD's and Its Own Requirements for Its Program Household Files

As set forth previously, the Authority manages an exceedingly large portfolio of HCV program properties. As acknowledged in the Report, in 2014, the Authority voluntarily accepted the transfer of 447 vouchers and associated budget authority from two divesting public housing agencies. Unfortunately, the Authority accepted these households and many did not have residents housed in appropriate unit sizes at that time. The Authority had to digest this large number of voucher holders and households and slowly adjust the unit/voucher sizes based on family size and composition, as

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Comment 11

Comment 12

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appropriate. This was not something that could happen overnight and, accordingly, it was done over a period of time.

Comment 13

The Authority disagrees with and contests the Report's conclusion that the Authority failed to comply with HUD's requirements and its own requirements for its program household files. Additionally, the Authority did not lack adequate oversight of its program. On the contrary, the Authority has consistently monitored all aspects of its HCV Program, even as it has absorbed other programs into its responsibility.

Comment 14

A. Miscalculation and Unsupported HAP

The Report alleges that the Authority incorrectly calculated HAP during the October 1, 2014 to September 30, 2016 review period. In fact, the Authority issued voucher sizes consistently according to its administrative plan subsidy standards criteria.

Comment 14

However, when the Authority updated its administrative plan, the model language was unintentionally left in the section on subsidy standards. As a result, the Authority continued to issue voucher sizes based on the previous criteria. However, this mistake has been discovered and remedied. The Authority is now relying on and using the updated subsidy standards.

Comment 15

B. Appropriate Oversight

The Authority also disagrees with HUD's conclusion regarding the Authority's quality control reviews. Quality control reviews were performed, and these reviews did not identify any errors due to the remnants of the previous criteria that remained in the administrative plan and due to the resulting belief that the appropriate voucher sizes were being issued. Thus, the quality control reviews performed were more than adequate. In fact, the Authority takes the extra step of having a second individual verify the calculations for each certification before a change notice is sent out to a resident.

Comment 16

It is easy for the OIG to state that under HUD's Public and Indian Housing Notice 2012-11, no later than each household's next annual recertification, new HAP contracts must be executed. It is much easier to make this statement than to actually take the action required when it affects hundreds of families. The Authority is proud of the humane way it has handled the HCV Program. It has done so, not only within the confines of the regulations, but also while taking into consideration the situation in which voucher holders find themselves.

Comment 17

Additionally, if the Authority is required to pay back anything at all, it should only be required to do so for the period of the audit, October 1, 2014 to September 30, 2016. However, some of the date ranges included in HUD's Subsidy Review chart fall outside of the period of the audit. The Authority should not be required to pay back anything outside the period of the audit.

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C. Recommendations

2A. Reimburse its program \$163,316 from non-federal funds (\$29,074 in housing assistance due to calculation errors + \$74,957 due to inappropriate voucher sizes, payment standards, and utility allowances + 18,141 + \$41,144 in administrative fees) for the inappropriate payments cited in this finding.

The Authority complied with its existing policy in providing subsidy payments and properly housing families. Any payments made beyond the policy were due to an error in the policy – which has been corrected – not in the policy's implementation.

2B. Reimburse the appropriate households \$9,280 (\$2,588 in housing assistance underpayments due to calculation errors + \$6,692 due to inappropriate voucher sizes, payment standards, and utility allowances) from program funds for the inappropriate underpayments cited in this finding.

The Authority will work with the Chicago Field Office to make the necessary payments, where possible.

2C. Support or reimburse its program \$2,533 from non-Federal funds for the unsupported payments of housing assistance cited in this finding.

The Authority will work with the Chicago Field Office to provide the required support.

2D. Pursue collection from the applicable households or reimburse its program \$470 from non-Federal funds for the overpayment of housing assistance due to unreported or underreported income.

The Authority will work with the Chicago Field Office to determine the efficacy of such collection.

2E. Reimburse the appropriate households \$3,178 from non-Federal funds for the rent amount paid in excess of 40 percent of the adjusted monthly income for the units that were not affordable.

The Authority will work with the Chicago Field Office to make the necessary payments, where possible.

Comment 19

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2F. For the five household's residing in units that were not affordable, renegotiate the rent to the owners or require the households to move into units that are affordable.

The Authority will notify the residents and negotiate a reasonable resolution with each of the affected households.

Comment 20

2G. Implement adequate procedures and controls to ensure that (1) housing assistance payments are appropriately calculated and supported, (2) households reside in units that are affordable, and (3) repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that \$108,214 (\$103,841 in potential overpayments + \$4,373 in potential underpayments of housing assistance) in program funds is appropriately used for future payments.

See below.

Comment 20

2H. Evaluate its quality control process to ensure that calculation, voucher size, payment standard, and utility allowance errors are identified and appropriately corrected.

See below.

Comment 20

2I. Ensure that its staff is properly trained and familiar with HUD's and its own requirements regarding program housing assistance calculations, applying appropriate voucher sizes, and when to apply changes to households' payment standards and utility allowances.

See below.

Comment 20

2J. Review all of the remaining program household files to determine whether appropriate voucher sizes were provided and payment standards and utility allowances were applied and updated appropriately. The Authority should conduct special recertifications for the households with vouchers that do not comply with HUD's requirements and the Authority's administrative plan, issue the appropriate voucher sizes, and apply updated payment standards and utility allowances as appropriate.

The Authority will implement Recommendations 2G, 2H, 2I, and 2J and will, therefore, evaluate and update its procedures and controls to ensure that HAP are appropriately calculated and supported and to ensure that households reside in units that are affordable. Based on these Recommendations, the Authority will also evaluate and update its quality control process to ensure that errors are identified and appropriately corrected and will increase and improve its staff training to ensure that its staff are well-versed in HUD's regulations and in the Authority's policies. The Authority will also review all of the remaining program household files to determine whether appropriate voucher sizes were provided and payment standards and utility allowances were applied and updated

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appropriately. Additionally, the Authority will conduct special recertifications for the households with vouchers that it determines do not comply with HUD's requirements and the Authority's administrative plan, issue the appropriate voucher sizes, and apply updated payment standards and utility allowances as appropriate.

With regard to Finding 2G(3), however, the Authority believes that it is improper for the OIG to speculate on whether there will be future overpayments. The OIG states, as if it were fact, that the Authority will spend \$108,214 in potential overpayments. The OIG has absolutely no factual basis for these statements, but instead makes assumptions based on a statistical sampling of units and arithmetic averages. The OIG extrapolates to come up with an estimate. The formula and numbers may sound convincing, but they are entirely based on assumptions and estimates. In fact, such actions demean the good work by the Authority. Audit reports should not be based on conjecture and speculation. Rather, audit reports should be grounded in fact. Therefore, the Authority believes it is improper for the Report to assume the future rather than sticking with the facts.

2K. Restrict the Authority from administering other HUD-funded programs until it substantially improves its program administration.

Based on the foregoing, the Authority believes that it is inappropriate and entirely unnecessary for HUD to restrict the Authority from administering other HUD-funded programs at this time.

IV. Conclusion

The Authority appreciates your input and continued partnership to ensure that the Authority's residents are receiving the highest possible standards of service.

Please do not hesitate to contact me with any questions or if any further information is needed.

Very truly yours,

Anne Smith, Executive Director

cc: [REDACTED], Assistant Regional Inspector General for Audit- Region 5
(via email: [REDACTED])

OIG Evaluation of Auditee Comments

- Comment 1 The Authority asserts that OIG ignored and incorrectly interpreted HUD's regulations. We disagree. The Authority's contract for inspection services was for three different types of inspections; uniform physical conditions standards inspections of public housing units, housing quality standards inspections for units that the Authority administers housing choice vouchers, and for all units owned by entities it substantially controlled. The Authority is focusing only on one part of HUD's conflict-of-interest requirements. We did not question the inspections for the units that the Authority administers housing choice vouchers. HUD's regulations for public housing strictly prohibit any former employee from conducting business with the Authority for 1 year.¹³ HUD's regulations at 24 CFR 982.352(b)(1) state that a unit owned by the public housing agency that administers the assistance under the consolidated annual contributions contract (including units owned by entities substantially controlled by the public housing agency) may only be assisted under the tenant-based program if all of the following conditions are satisfied of which, one such condition is, (iv)(A) the public housing agency must obtain the services of an independent entity to perform the following functions as required under the program rule (3) to inspect the unit for compliance with HUD's housing quality standards.
- Comment 2 The Authority stated that it had procured the inspection services and that the former employee worked for the Authority from December 20, 1999 to July 1, 2014, in the capacity of maintenance mechanic and as the comprehensive improvement assistance program coordinator at varying times throughout his employment. The Authority also stated that the employee did not formulate policy or influence decisions with respect to the Authority's programs. However, the Authority did not provide documentation to support the employee's responsibilities and duties while employed at the Authority. This finding remains. The Authority should work with HUD on the resolution of this finding.
- Comment 3 The Authority alleged that it properly procured the former employee to perform inspections. We did not review the Authority's procurement. However, the employee received training and certification in UPCS and HQS inspections in March 2014. The request for proposal dated April 18, 2014, stated that in addition to meeting the minimum requirements the two certifications were also required. On April 29, 2014, the Authority tabulated the bids and recommended that the contract be awarded to the Authority's employee, while he was still employed at the Authority, thus the appearance of a conflict of interest. The contract was executed between the Authority and the employee on July 1, 2014.

¹³ Section 4-4C., of HUD Handbook 7460.8, REV-2.

- Comment 4 The Authority alleged that HUD was confused by its own regulation. The Authority cited HUD's regulations at 24 CFR part 983 as the source of confusion. However, this regulation contains requirements for project-based vouchers. We did not review the Authority's project-based voucher program. However, HUD's regulations at 24 CFR 983.59(b)(3) state that inspection services may not be performed by the public housing authority for units it owns, but must instead be performed by an independent entity approved by HUD. Therefore, the requirements at 24 CFR 983.59(b)(3) are consistent with the requirements of 24 CFR 982.352(b)(1)(iv)(A)(3) and 24 CFR 982.352(b)(1)(iv)(B) in that both regulations require a HUD-approved independent third-party complete housing quality standards inspections for units owned or substantially controlled by the public housing agency.
- Comment 5 The Authority stated that when it realized it needed HUD's approval for the inspection services of units owned by entities it substantially controlled it requested approval from HUD. We agree, that as a result of the audit, the Authority requested and received HUD approval for its 2017 contract extension. However, the approval was not retroactive.
- Comment 6 The Authority stated that HUD can and should waive any conflict of interest present because of the confusion of the regulation relating to project-based vouchers. As stated in comment 4, we did not review the project-based voucher program. The Authority should work with HUD on the resolution of the recommendations in this audit report related to the Housing Choice Voucher program.
- Comment 7 The Authority stated that multiple types of inspections occurred for the units owned by entities it substantially controlled. The Authority should work with HUD to determine whether the other types of inspections satisfy HUD's housing quality standards requirements.
- Comment 8 The Authority stated that another contractor performed some inspections of the units owned by entities it substantially controlled. We agree; however, as stated in finding 1, the Authority did not receive HUD's approval for this contractor to perform inspections on units owned by entities it substantially controlled in accordance with HUD's regulations at 24 CFR 982.352(b).
- Comment 9 The Authority stated that it believes there was no conflict of interest with its former employee and that no repayment of funds is necessary. We disagree. See also comments 1, 2, and 3. The Authority should work with HUD on the resolution of this recommendation.

- Comment 10 The Authority stated it would work with HUD to obtain the necessary retroactive approvals. We appreciate the Authority's willingness to correct the deficiencies cited in this audit report.
- Comment 11 The Authority stated that it would implement the recommendation to ensure that the Authority complies with HUD's requirements and that it would have another independent entity complete inspections if HUD finds the additional types of inspections to be insufficient. We appreciate the Authority's willingness to correct the deficiencies cited in this audit report. The Authority should work with HUD to ensure that the procedures and controls it plans to implement are sufficient and appropriate.
- Comment 12 The Authority stated that it voluntarily accepted 447 vouchers and associated budget authority from two divesting public housing agencies and that many households had inappropriate unit sizes. The Authority contends that it had adjusted the voucher sizes over a period of time. We disagree. The households that had inappropriate voucher sizes were associated with vouchers the Authority received, its original voucher holders, and new admissions. Additionally, the errors had occurred over multiple recertification periods.
- Comment 13 The Authority stated that it disagrees and contests the conclusion that the Authority failed to comply with HUD's and its own requirements and that it did not lack oversight of its program. We disagree. See findings 1 and 2.
- Comment 14 The Authority contends that it issued voucher sizes consistently and that its administrative plan had model language unintentionally left in the subsidy standards section of the plan. Additionally, the Authority stated that it continued to issue voucher sizes based on previous criteria. As result of our audit, the Authority also stated that its administrative plan has been corrected. The Authority did not provide documentation to substantiate its claims. The Authority should work with HUD to ensure that its administrative plan is updated appropriately and fully implemented.
- Comment 15 The Authority stated that it disagrees with our conclusion that its quality control reviews were not sufficient. The Authority also stated that the reviews did not identify errors due to the remnants of the previous criteria that remained in the administrative plan and the belief that it had issued the appropriate voucher sizes. We disagree. The Authority's administration plan was consistent with HUD's regulations. However, the Authority's quality control reviews did not always met the requirements contained in plan. As a result, the Authority's quality control reviews did not identify deficiencies.
- Comment 16 The Authority stated that it was easy for OIG to state HUD's requirements regarding annual recertifications than to take actions affecting hundreds of families. The Authority agreed to the terms of the acceptance of the vouchers and

executing new housing assistance payments contracts with the owners does not affect the households. HUD's Public and Indian Housing Notice 2012-11 number 10 states that no later than at the family's next annual recertification, new housing be executed with the existing owners reflecting the name of the receiving Authority. No other changes to the contracts would be required.

- Comment 17 The Authority contends that if it was required to pay back anything, it should only be required to do so for the period of the audit, from October 1, 2014 through September 30, 2016, and that it should not be required to repay anything outside of that period. We disagree. When our reviews identified an error, we ensured that the entire period of the error was included. For instance, if an error was identified for a household's annual recertification dated November 1, 2015, and no other certifications occurred, we carried the error through the end of the certification period, or October 30, 2016. The error does not cease being an error because the audit period ended. Further, chapter 22 of HUD's Housing Choice Voucher Program Guidebook states that when the family payment is set too high and the error is the fault of the public housing agency, it must immediately refund the *total* amount due to the family. Additionally, when the family payment is set too low and the error is the fault of the public housing agency, it must repay HUD the amount of overpaid subsidy.
- Comment 18 The Authority stated that it had complied with its existing policy and any payments made beyond the policy were due to an error in the policy and that the policy had been corrected. The Authority failed to provide documentation to substantiate its claim. The Authority should work with HUD on the resolution of this recommendation.
- Comment 19 The Authority stated that in regards to recommendations 2B through 2E, it would work with HUD to make the necessary payments, provide the required support, and determine the efficacy of collecting funds from its program households. We appreciate the Authority's willingness to work with HUD on the resolution of the recommendations.
- Comment 20 The Authority stated that for recommendation 2F, it would notify the households and negotiate reasonable resolutions. We appreciate the Authority's willingness to take the corrective actions cited in the recommendations. The Authority should ensure it works with HUD on the resolution of the recommendations.
- Comment 21 The Authority stated that it believes it is improper for OIG to use projections and that there was no factual basis for the statements. We disagree. Based on the identified deficiencies, we used common projection formulas to estimate the error rate in the population sampled. Our methodology for projecting the audit results to the universe, as detailed in the scope and methodology section of this report, is a valid statistical estimate of future savings. Funds to be put to better use, as defined by the Inspector General Act of 1978, as amended, are estimates of future

HUD funds that could be used more efficiently if an OIG recommendation is implemented.

Comment 22 The Authority stated that it was inappropriate and unnecessary to restrict the Authority from administering other HUD-funded programs. We disagree. The findings cited in this audit report support our recommendation. The Authority should work with HUD to improve the administration of its program, including the resolution of the recommendations cited in this report.

Appendix C

Federal and Authority Requirements

Finding 1

HUD's regulations at 24 CFR 982.161(a) state that neither the public housing agency nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any of the following classes of persons has any interest, direct or indirect, during tenure or for 1 year thereafter:

- (1) Any present or former member or officer of the public housing agency (except a participant commissioner).
- (2) Any employee of the public housing agency or any contractor, subcontractor, or agent of the public housing agency who formulates policy or who influences decisions with respect to the programs.
- (3) Any public official, member of a governing body, or State or local legislator who exercises functions or responsibilities with respect to the programs.

HUD's 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 should communicate the rent reasonableness determinations to the family and the agency.
- (2) To assist the family in negotiating the rent to owner in accordance with 24 CFR 982.506.
- (3) To inspect the unit for compliance with 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 should communicate the results of each such inspection to the family and the public housing agency.

HUD's 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.

Section 8.II.A of the Authority's administrative plan states that the public housing agency must obtain the services of an independent entity to perform all housing quality standards inspections in cases in which a Housing Choice Voucher family is receiving assistance in a public housing agency-owned unit. A public housing agency-owned unit is defined as a unit that is owned by the public housing agency that administers the assistance under the consolidated annual contributions contract (including a unit owned by an entity substantially controlled by the public housing agency). The independent agency must communicate the results of each inspection to the family and the public housing agency. The independent agency must be approved by HUD. In the case of inspections of public housing agency-owned units, the public housing agency may compensate the independent agency from ongoing administrative fees for inspections performed.

The public housing agency and the independent agency may not charge the family any fee or charge for the inspection.

Section 4-4C. of HUD Handbook 7460.8 REV 2 states that no present or former public housing authority employee, officer, or agent shall engage in selling or attempting to sell supplies, services, or construction to the public housing authority for one year following the date such employment ceased.

Finding 2

Federal Register, volume 79, number 122, section D,¹⁴ limits the utility allowance payment for tenant-based vouchers to the family unit size for which the voucher is issued, regardless of the size of the unit rented by the family. It further states that the utility allowance for a family should be the lower of (1) the utility allowance amount for the family unit size or (2) the utility allowance amount for the unit size of the unit rented by the family. This provision applies only to vouchers issued after the effective date of this notice (July 1, 2014) and to current program participants. For current program participants, the public housing agency must implement the new allowance at the family's next annual reexamination, provided that the agency is able to provide a family with at least 60 days' notice before the reexamination.

HUD's regulations at 24 CFR 982.54(1) state that the public housing agency must adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. The administrative plan and any revisions of the plan must be formally adopted by the public housing agency's board of commissioners or other authorized public housing agency officials. (1)(b) The administrative plan must be in accordance with HUD regulations and requirements. (1)(c) The public housing agency must administer the program in accordance with the agency's administrative plan.

HUD's regulations at 24 CFR 982.402 state that (a)(1) the public housing agency must establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions, (b)(1) the subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding, and (b)(3) the subsidy standards must be applied consistently for all families of like size and composition.

HUD's regulations at 24 CFR 982.505(c)(1) state that the payment standard for the family is the lower of (i) the payment standard amount for the family unit size or (ii) the payment standard amount for the size of the dwelling unit rented by the family.

¹⁴ Federal Register 5778, Notice 01, Notice of Statutory Changes to Section 243 of the Department of Housing and Urban Development Appropriations Act, 2014 (2014 Appropriations Act) authorizes HUD to implement certain statutory changes to the United States Housing Act of 1937 made by the 2014 Appropriations Act through notice followed by notice and comment rulemaking. This notice establishes the terms and conditions by which HUD will implement changes to the utility allowances for tenant-paid utilities. HUD's 2014 Appropriations Act is Title II of Division L of Public Law 113-76, 128 Stat. 5, approved January 17, 2014. See Public Law 113-76 at 128 Stat. 604.

HUD's regulations at 24 CFR 982.505(c)(3) state that if the payment standard is decreased during the term of the housing assistance contract, the lower payment standard amount generally must be used to calculate the monthly housing assistance payment for the family beginning at the effective date of the family's second regular reexamination following the effective date of the decrease in the payment standard amount.

HUD's regulations at 24 CFR 982.505(c)(4) state that if the payment standard amount is increased during the term of the housing assistance payments contract, the increased payment standard amount must be used to calculate the monthly housing assistance payment for the family beginning at the effective date of the family's first regular reexamination on or after the effective date of the increase in the payment standard amount.

HUD's regulations at 24 CFR 982.505(c)(5) state that regardless of any increase or decrease in the payment standard amount, if the family unit size increases or decreases during the housing assistance payments contract term, the new family unit size must be used to determine the payment standard amount for the family beginning at the family's first regular reexamination following the change in family unit size.

HUD's regulations at 24 CFR 982.508 state at the time the public housing agency approves a tenancy for initial occupancy of a dwelling unit by a family with tenant-based assistance under the program and when the gross rent of the unit exceeds the applicable payment standard for the family, the family share must not exceed 40 percent of the family's adjusted monthly income. The determination of adjusted monthly income must be based on verification information received by the public housing agency no earlier than 60 days before the voucher is issued to the family.

Public and Indian Housing Notice 2014-25, section B, states that a family may always request a reasonable accommodation to program rules, policies, practices, or services, including to the live-in aide policy, to permit program participation by individuals with disabilities. A family's composition or circumstances may warrant the provision of an additional bedroom to permit disability-related overnight care and allow the family equal use and enjoyment of the unit. Such limited exceptions to the established subsidy standards are permitted under 24 CFR 982.402(b)(8). The public housing agency must consider requests for an exception to the established subsidy standards on a case-by-case basis and provide an exception, when necessary, as a reasonable accommodation.

Public and Indian Housing Notice 2014-25, section D, states that although an additional bedroom for medical equipment may be provided if the need is documented by a health care provider, the actual equipment in the extra bedroom should be verified by the public housing agency during the annual inspection of the unit. If the extra bedroom is not being used for the intended purpose, the subsidy standard and corresponding payment standard must be reduced at the family's next annual recertification. However, the public housing agency may take further action if it believes any family obligations under the program were violated.

Section 5.II.C of the Authority's administrative plan states that the public housing agency will consider granting an exception for any of the reasons specified in the regulation: the age, sex, health, handicap, or relationship of family members or other personal circumstances. The family must request any exception to the subsidy standards in writing. The request must explain the need or justification for a larger family unit size and must include appropriate documentation. Requests based on health-related reasons must be verified by a knowledgeable professional source. The family's continued need for an additional bedroom due to special medical equipment must be reverified at annual reexamination. The public housing agency will notify the family of its determination within 10 business days of receiving the family's request. If a participant family's request is denied, the notice will inform the family of its right to request an informal hearing.

Section 6.III.A of the Authority's administrative plan states that if a family chooses a unit with a gross rent (rent to owner plus an allowance for tenant-paid utilities) that exceeds the public housing agency's applicable payment standard, (1) the family will pay more than the total tenant payment, and (2) at initial occupancy, the public housing agency may not approve the tenancy if it would require the family share to exceed 40 percent of the family's monthly adjusted income. The income used for this determination must have been verified no earlier than 60 days before the family's voucher was issued.

Section 6.III.C of the Authority's administrative plan states that the payment standard for a family is the lower of (1) the payment standard for the family unit size, which is defined as the appropriate number of bedrooms for the family under the public housing agency's subsidy standards, or (2) the payment standard for the size of the dwelling unit rented by the family. When the public housing agency revises its payment standards during the term of the housing assistance payments contract for a family's unit, it will apply the new payment standards in accordance with HUD regulations.

If the amount on the payment standard schedule is decreased during the term of the housing assistance payments contract, the lower payment standard generally will be used beginning at the effective date of the family's second regular reexamination following the effective date of the decrease in the payment standard. The public housing agency will determine the payment standard for the family as follows:

Step 1: At the first regular reexamination following the decrease in the payment standard, the public housing agency will determine the payment standard for the family using the lower of the payment standard for the family unit size or the size of the dwelling unit rented by the family.

Step 2: The public housing agency will compare the payment standard from step 1 to the payment standard last used to calculate the monthly housing assistance payment for the family. The payment standard used by the public housing agency at the first regular reexamination following the decrease in the payment standard will be the higher of these two payment standards. The public housing agency will advise the family that the application of the lower payment standard will be deferred until the second regular reexamination following the effective date of the decrease in the payment standard.

Step 3: At the second regular reexamination following the decrease in the payment standard, the lower payment standard will be used to calculate the monthly housing assistance payment for the family unless the public housing agency has increased the payment standard, in which case, the payment standard will be determined in accordance with procedures for increases in payment standards described below.

If the payment standard is increased during the term of the housing assistance payments contract, the increased payment standard will be used to calculate the monthly housing assistance payment for the family beginning on the effective date of the family's first regular reexamination on or after the effective date of the increase in the payment standard.

Section 6.III.D of the Authority's administrative plan states that a public housing agency-established utility allowance schedule is used in determining family share and public housing agency subsidy. A family's utility allowance is determined by the size of dwelling unit leased by a family or the voucher unit size for which the family qualifies using public housing agency subsidy standards, whichever is the lowest of the two. At reexamination, the public housing agency must use its current utility allowance schedule. The revised utility allowances will be applied to a family's rent and subsidy calculations at the first annual reexamination that is effective after the allowance is adopted.