



Issue Date	September 17, 2009
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Audit Report Number	2009-CH-1014
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TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH

FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Cincinnati Metropolitan Housing Authority, Cincinnati, Ohio, Did Not Effectively Administer Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Cincinnati Metropolitan Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the third of three audit reports on the Authority's program.

What We Found

The Authority's Family Self-Sufficiency program was operated in compliance with HUD's and its requirements. The Authority properly funded its participants' escrow accounts, made escrow payments when appropriate, and maintained documentation to support its Family Self-Sufficiency program operations. However, the Authority's administration regarding housing assistance payments for larger housing units than its policy permitted, its use of HUD's Enterprise Income Verification system regarding households claiming to have zero income, and the timeliness of initial housing quality standards inspections need improvement.

The Authority provided program vouchers to 32 families for units that were larger than its subsidy standards allowed because it lacked controls to detect and prevent overhousing. As a result, it made excessive housing assistance payments of more than \$100,000. By implementing adequate procedures and controls regarding its housing assistance payments, we estimate that more than \$25,000 in payments will be accurately spent over the next year.

The Authority did not effectively use HUD's Enterprise Income Verification system (system) or other third-party verification methods to determine that reported zero-income households had unreported income. It made excessive housing assistance payments of more than \$32,000 for 20 of 31 households that had unreported income. Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than \$11,000 in housing assistance and utility allowances.

The Authority did not always comply with HUD's requirements when conducting initial inspections after receiving a request for tenancy approval. Untimely inspections occurred due to the Authority's inability to track the time between the receipt of the request and the initial inspection.

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of a minor deficiency through a memorandum, dated September 14, 2009.

What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$136,000 in program funds and implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$36,000 in program funds from being spent on excessive housing assistance over the next year.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence issued because of the audit.

Auditee's Response

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on August 26, 2009.

We asked the executive director to provide comments on our discussion draft audit report by September 7, 2009. The executive director provided written comments, dated September 3, 2009. The executive director generally disagreed with our findings. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report except for 235 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Cleveland Office of Public Housing.

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BACKGROUND AND OBJECTIVES

The Cincinnati Metropolitan Housing Authority (Authority) was established in 1933 under Section 3735.27 of the Ohio Revised Code to provide decent, safe, and sanitary housing. In 2006, the Authority merged with the Hamilton County, Ohio, Housing Authority's Section 8 Housing Choice Voucher program. The Authority serves households in neighborhoods throughout Cincinnati, Ohio, and Hamilton County. A five-member board of commissioners governs the Authority. Board members are appointed for five-year terms. The commissioners are appointed by the Probate Court (one appointment), the city manager (two appointments, one of which must be a public housing resident), Hamilton County Board of Commissioners (one appointment), and the Court of Common Pleas (one appointment). The board makes operational and budgetary decisions regarding the use of federal funds allocated for housing. The Authority's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of June 2009, the Authority had 9,979 units under contract with annual housing assistance payments totaling more than \$59 million in program funds.

This is the third of three planned audit reports on the Authority's program. Our objectives were to determine whether the Authority (1) applied the correct voucher size in accordance with its adopted subsidy standards, (2) appropriately verified that reported zero-income households had income, (3) ensured that initial inspections were conducted according to HUD requirements, and (4) properly administered its Family Self-Sufficiency program. The first audit report (report #2008-CH-1012, issued on September 23, 2008) included one finding. The objective of the first audit was to determine whether the Authority's inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its households. The second audit report (report #2009-CH-1010, issued on May 19, 2009) included two findings. The objectives of our second audit were to determine whether the Authority (1) accurately calculated housing assistance and utility allowance payments, (2) maintained adequate documentation to support household eligibility, and (3) adequately administered its Section 8 project-based certificate contract.

RESULTS OF AUDIT

Finding 1: Controls to Prevent Making Housing Assistance Payments for Units Larger Than Necessary Need Improved

The Authority generally applied the correct voucher size in accordance with its adopted subsidy standards. However, it housed 32 households in units that were larger than its standards allowed (overhoused) because it lacked adequate procedures to detect and prevent overhousing. As a result, the Authority made excessive housing assistance payments totaling more than \$100,000.

The Authority Overpaid Assistance for Households That Were Overhoused

The Authority provided a spreadsheet listing all the vouchers it issued between January 1, 2007, and December 31, 2008. The file contained 10,903 households with each household's address, payment standard, number of bedrooms in the unit, household size, gross rent, and utility allowance. From this spreadsheet, we determined whether the number of bedrooms was greater than household size and whether the payment standard exceeded or was 110 percent of the fair market rent. We identified 79 exceptions. We reviewed the household files and family reports (HUD Form 50058) for each of the 79 exceptions and determined that 32 households were overhoused and excess housing assistance was paid from federal funds.

The Authority is required by HUD's regulations to establish subsidy standards that determine the number of bedrooms needed for households of different sizes and compositions. The subsidy standards must provide for the smallest number of bedrooms needed for a household without overcrowding. HUD also requires the Authority to establish payment standards. The Authority established payment standards by the number of bedrooms and used them to calculate the amount of housing assistance it would pay to a landlord on behalf of the household leasing the unit.

The Authority Lacked Appropriate Procedures

The overhousing occurred because the Authority did not have adequate procedures to detect and prevent overhousing. Although its process for performing certifications gave its housing specialists discretion to review previous file documentation, the Authority did not require them to do so. Also, the Authority uses Emphasys Elite (Elite) software to manage its program data. When recertifications are conducted, the HUD form 50058 (family report) is

electronically produced by the Elite software with certain fields, including the household bedroom size, automatically completed. Therefore, if an error was made on a prior certification or a tenant's household size was reduced between annual recertifications, it is the responsibility of the housing specialist to ensure the form is appropriately changed in the Elite software. The Elite software system did not show an exception if a household was overhoused. If the unit size was not changed on the annual recertification, that error could continue from one certification to another.

The Authority conducted peer reviews of 50 percent of the initial certifications and 33 percent of its certifications. Supervisors conducted monitoring reviews of 1 in 10 certifications. These reviews were performed in the same manner as the certifications that the housing specialists performed. The Authority randomly chose certifications for review instead of performing a full file review. It ensured that all new housing specialists received formal training and extensive training with a supervisor and shadowed housing specialists before performing certifications. Also, the Authority conducted training with all housing specialists using the results from peer and supervisory reviews. Although the Authority had external and internal training processes and performed monitoring reviews of the certifications, the overhousing errors occurred. Therefore, additional procedures and controls are needed to ensure full implementation of HUD's regulations and the Authority's program administrative plan.

Conclusion

As a result of its procedural weaknesses, the Authority made excess housing assistance payments of \$100,073 for 32 households. If the Authority implements adequate procedures regarding its housing assistance payments to ensure compliance with federal regulations and its program administrative plan, we estimate that more than \$25,000 in payments will be accurately spent over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 1A. Reimburse its program \$100,073 from nonfederal funds for the improper payments related to the households cited in this finding.
- 1B. Implement adequate procedures over its overhoused tenants to ensure that it complies with HUD's requirements to prevent \$25,224 in program funds from being spent on units that do not comply with HUD's and its requirements over the next year.

Finding 2: The Authority's Zero-Income Households Had Unreported Income

The Authority did not effectively use HUD's Enterprise Income Verification system (system) or other third-party verification methods to determine that reported zero-income households had unreported income. Of the 129 households statistically selected for review, 20 had unreported income that affected their housing assistance and utility allowance payments. As a result, the Authority unnecessarily paid housing assistance totaling more than \$32,000 for households that were able to meet their rental obligations. We estimate that over the next year, the Authority will pay more than \$11,000 in housing assistance for reported zero-income households that had unreported income.

Zero-Income Households Had Unreported Income

Using data mining software, we statistically selected 129 of the Authority's zero-income program households from the 952 households which received full housing assistance payments from January 1, 2007, through December 31, 2008, and was expanded as necessary. We reviewed the 129 households using HUD's system and Public and Indian Housing Information Center to determine whether the Authority properly adjusted the housing assistance payments or entered into a repayment agreement for the overpaid subsidy once it became aware of the unreported income for households claiming zero-income. Of the 129 households reviewed, HUD's system showed that 52 households had earned income during the time their zero-income certifications were effective. We reviewed the 52 household files further to determine whether the households had unreported income.

Thirty-one households had income that should have been reported. The remaining 21 were correctly reported as zero-income by the Authority for various reasons including meeting HUD's requirements for excluded income. Of the 31 households, 20 (15.5 percent) of the households had unreported income resulting in the Authority providing \$32,395 in excessive housing assistance payments. Our review was limited to the information maintained in HUD's system and the Authority's household files.

The following are examples of households with unreported income:

- Household 75969 had income, according to HUD's system, totaling \$18,959 from January through December 2007. The household had consistently been employed for the same employer since 2002. The file contained a third-party employment verification, which the Authority determined to be outdated. The third-party employment verification was received by the Authority in October 2006, and the new admission certification for the household was effective January 2007. The Authority

did not attempt to receive updated third-party employment verification and determined the household had zero income. Since the household had income, the Authority overpaid \$4,019 in housing assistance from the household's date of admission on January 1, 2007, through February 1, 2008.

- Household 69436 had income, according to HUD's system, totaling \$19,595 from January through September 2008. The household file contained a system report, dated August 14, 2008, showing that the household member was employed and receiving income. The Authority overpaid \$2,976 in housing assistance from the household's date of admission on December 14, 2007, through November 30, 2008. It did not attempt to recover the overpaid housing assistance.

As a result of the Authority's failure to properly adjust the housing assistance payments or pursue repayment for its zero-income households with unreported income totaling \$251,461, HUD paid \$32,395 in housing assistance for 20 households having income that were able to meet their rental obligations.

The Authority pursued repayment for 9 of the 20 tenants identified as zero income households during our audit. This action resulted in a reduction in recommendation 2A of \$18,163. As a result, the improper payments cited in recommendation 2A shows the remaining 11 files (20 minus 9).

The Authority's Did Not Follow Its Administrative Plan

The Authority did not require 37 of the 52 zero-income households execute the income verification forms as required by its program administrative plan. It also failed to perform the interim reexamination every 60 days for households claiming to have reported zero income as its administrative plan requires. The Authority's acting program director said that its 2009 administrative plan was being revised to state that interim reexaminations for changes in income would be performed on households reporting zero income at the discretion of the Authority. Additionally, the Authority failed to perform third-party employment verifications in nine household files and failed to adjust annual income and the housing assistance payments after the household had reported a change in five household files.

The Authority Lacked Adequate Procedures and Controls

The Authority lacked adequate procedures and controls to ensure that housing assistance payments met HUD's requirements and those of the Authority's program administrative plan. The overpayments occurred because the Authority's

process for performing certifications did not require its housing specialists to review previous household file documentation. Therefore, when a zero-income household notified the Authority of its household income situation, the Authority did not compare the current information with past documentation. As a result, it did not always attempt to recover overpaid housing assistance. This process also resulted in the housing specialists only being concerned with the current income information and not with income information regarding previous certifications.

Conclusion

As a result of the Authority's failure to properly verify household income for its zero-income households and identify unreported income, it improperly paid more than \$32,000 in housing assistance for households that were able to meet their rental obligations. If the Authority does not implement adequate controls over its zero-income households, we estimate that it could pay more than \$11,000 in excessive housing assistance over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$3,893 in program administrative fees for the 20 households with incorrect housing assistance.

Recommendations

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

- 2A. Pursue collection from the applicable households or reimburse its program \$36,395 (\$32,502 in housing assistance payments plus \$3,893 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance cited in this finding, of which \$16,034 (\$14,319 in housing assistance payments plus \$1,715 in associated administrative fees) remains for pursuit of collection or reimbursement.
- 2B. Implement adequate procedures and controls regarding its zero-income households to prevent the overpayment of \$11,024 in excessive housing assistance over the next year.
- 2C. Review the remaining 823 (952 minus 129) households claiming zero income between January 1, 2007, and December 31, 2008, to determine whether the households had unreported income. For households that received excessive housing assistance payments, the Authority should pursue collection and/or reimburse its program the applicable amount

from nonfederal funds and/or terminate housing assistance for the applicable households.

Finding 3: Controls over Timely Initial Inspections Need Improvement

The Authority did not always comply with HUD’s requirements when conducting initial inspections after receiving a request for tenancy approval (request). Untimely inspections occurred due to the Authority’s inability to track the time between the receipt of the request and the initial inspection. As a result, the Authority did not fully comply with HUD’s requirements and placed unnecessary hardships on households and landlords.

The Authority Conducted Initial Inspections Late 16 Percent of the Time

We statistically selected 67 initial inspections from a universe of 4,174 initial inspections during the period January 2007 through December 2008 using data mining software. We reviewed 67 household files to determine whether the Authority performed initial inspections within 15 days of receipt of the request for tenancy approval. We determined whether any of the identified inspections was appropriately delayed due to a unit being unavailable for inspection. HUD’s regulations at 24 CFR 982.305(b)(2)(i)(B) state that the Authority must inspect the unit, determine whether the unit meets housing quality standards, and notify the family and the owner of the determination. In the case of a public housing authority with more than 1,250 budgeted units in its tenant-based program, this process should take place within a reasonable time after the family submits a request for approval of the tenancy. To the extent practicable, such inspection and determination must be completed within 15 days after the family and owner submit a request for approval of the tenancy. Regulations at 24 CFR 982.305(b)(ii) state that the 15-day clock (under paragraph (b)(2)(i)(B) of this section) is suspended during any period when the unit is not available for inspection.

Of the 67 initial inspections statistically selected for review, 11 inspections (16 percent) did not have initial inspections within 15 days of receipt of the request and availability of the unit for inspection. The average days late for the 11 inspections were 23 days. The requests that exceeded 15 days are listed in the following table.

Inspection	Latest date beginning the	Date of initial	Days
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number	15 day clock	inspection	late
143899	Nov. 16, 2007	Feb. 2, 2008	52
137109	Aug. 15, 2007	Oct. 18, 2007	49
141536	Nov. 2, 2007	Dec. 28, 2007	41
145075	Sept. 19, 2007	Oct. 25, 2007	21
147115	Feb. 13, 2007	Mar. 19, 2008	20
140122	Nov. 1, 2007	Dec. 3, 2007	17
131084	June 5, 2007	July 6, 2007	16
136919	Sept. 12, 2007	Oct. 11, 2007	14
130752	May 29, 2007	June 26, 2007	13
138072	Oct. 1, 2007	Oct. 29, 2007	13
137901	Oct. 1, 2007	Oct. 18, 2007	2

From the sample results, we are 90 percent confident that of 4,174 initial inspections conducted by the Authority, 686 were not conducted within 15 days.

The Authority's Procedures and Controls Had Weaknesses

The weakness regarding late initial inspections occurred because the Authority lacked procedures and controls to track the timeliness of initial inspections. Its Elite software did not automatically track whether initial inspections were conducted in a timely manner. The Authority did not track whether initial inspections were conducted within the prescribed timeframe stated in HUD's requirements. During our audit, the Authority created a report to track the timeliness of initial inspections. The tracking report process had not been in place long enough to determine whether it eliminated or reduced the late initial inspections. The controls need to be further evaluated during HUD's follow-up on our audit recommendations to ensure that the procedures and controls adequately ensure timely initial inspections.

Conclusion

As a result of its procedural and control weaknesses, the Authority did not always follow HUD's requirements and subjected landlords and households to unnecessary hardships and quite possibly limited landlord participation in its program. For its program to be efficient and effective, there must be a landlord base that is willing to rent decent, safe, and sanitary units to families in the program. If the Authority implements adequate procedures and controls regarding its initial inspections, its timeliness of initial inspections should improve. This improvement will assist in reducing the financial hardships on tenants and landlords participating in the program along with a possible increase in landlord participation.

Recommendation

We recommend that the Director of HUD's Cleveland Office of Public Housing ensure the Authority

- 3A. Fully and successfully implements its procedures and controls regarding the initial inspection process to ensure that it complies with HUD's requirements.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws, regulations, HUD's program requirements at 24 CFR Part 982, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records; annual audited financial statements for fiscal years 2005, 2006, and 2007; program administrative plans, effective April 2006, April 2007, and April 2008; program household files; computerized databases; policies and procedures; program annual contributions contracts; board meeting minutes for calendar years 2006, 2007, and 2008; and organizational chart.
- HUD's files for the Authority.

We also interviewed the Authority's employees, HUD staff, and program households.

Finding 1

We selected 100 percent of the Authority's households between January 1, 2007, and December 31, 2008. From the 10,903 tenants, we determined that 32 households were overhoused using data mining software. Unless the Authority implements adequate procedures and controls regarding initial inspections, we estimate that \$25,224 in payments will be misspent over the next year. From the 32 overhoused households, we determined that the households that were overhoused at the end of our audit period could recur indefinitely; however, we were conservative in our approach and included only the initial year in our estimate.

Finding 2

Using data mining software, we statistically selected 129 of the Authority's program household files from the 929 households that were identified as having zero income from January 1, 2007, through December 31, 2008. The 129 household files were selected to determine whether the Authority determined whether households appropriately reported zero income.

Our sampling method was an unrestricted variable sample with a 95 percent confidence level and precision level of plus or minus 10 percent. Using variable sampling difference estimation techniques with a 95 percent confidence level, the sample results support an estimate that the Authority failed to appropriately determine whether a household correctly reported zero income in 163 households with an error rate of plus or minus 6 percent. We used the last 12 months of housing assistance overpayments determined in our sample to project funds that could be put to better use.

Unless the Authority implements adequate procedures and controls regarding households reporting zero income to ensure compliance with HUD's regulations and its program administrative plan, we estimate that \$11,024 in payments will be misspent over the next year. This estimate is presented solely to demonstrate the annual amount of program funds that could

be put to better use for appropriate payments if the Authority implements our recommendation. While these benefits could recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Finding 3

We statistically selected 67 of the Authority's program household files from the 4,174 households that had initial inspections conducted from January 1, 2007, through December 31, 2008, using data mining software. Our analysis used only the first inspection whether that inspection passed or failed. The 67 household files were selected to determine whether the Authority conducted timely initial inspections after the receipt of a request for tenancy approval.

Our sampling method was an unrestricted variable sample with a 90 percent confidence level and precision level of plus or minus 10 percent. Using variable sampling difference estimation techniques with a 90 percent confidence level, the sample results support an estimate that the Authority failed to conduct initial inspections for 686 households within 15 days with an error rate of plus or minus 7.4 percent.

We performed our on-site audit work in June 2009 at the Authority's office located at 1044 West Liberty Road, Cincinnati, Ohio. The audit covered the period January 1, 2007, through March 31, 2009, but was expanded when necessary to include other periods.

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. 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 an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- 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 significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weakness

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

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements regarding tenants being overhoused, zero-income households, and implementing timely initial inspections (see findings 1, 2, and 3).

Separate Communication of a Minor Deficiency

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of a minor deficiency through a memorandum, dated September 14, 2009.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$100,073	
1B		\$25,224
2A	<u>36,395</u>	
2B		<u>11,024</u>
Totals	<u>\$136,468</u>	<u>\$36,248</u>

- 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/ 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 recommendations 1B and 2B, it will ensure that program funds are spent according to federal requirements. Once the Authority successfully 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 3, 2009

Ronald Farrell
Assistant Regional Inspector General for Audit
U.S. Department of HUD
Office of Inspector General
200 North High St., Room 334
Columbus, OH 43125

Subject: Audit Report 2009-CH-101X dated 9/xx/09

Dear Mr. Farrell:

The Cincinnati Metropolitan Housing Authority (CMHA) is in receipt of the Phase 3 discussion draft audit report of HUD's Office of Inspector General of Audit.

CMHA's responses to the violations noted in the audit report follow:

Finding 1 – The Cincinnati Metropolitan Housing Authority Needs To Improve Controls To Prevent Payments For Larger Housing Units Than Its Policy Permits

The Authority generally applied the correct voucher size in accordance with its adopted subsidy standards. However, it overhoused 37 households in units that were larger than its standards allowed because it lacked controls to detect and prevent overhousing. The Authority made excess housing assistance payments (HAP) totaling more than \$119,000.

CMHA provided a spreadsheet listing all vouchers issued between January 1, 2007 and December 31, 2008. The file contained 10,903 households with each household's address, payment standard, number of bedrooms in the unit, household size, gross rent, and utility allowance. From this spreadsheet, the Auditor tested whether the number of bedrooms was greater than household size and whether the payment standard exceeded or was 110 percent of the fair market rent. Seventy-nine exceptions were identified and household files and family reports (HUD Form 50058) were reviewed for each of the exceptions. It was determined that 37 households of the 79 exceptions identified were overhoused and excess housing assistance was paid from federal funds.

CMHA Response

CMHA made excess HAP (HAP) of \$92,512 for 31 families. Five of the families noted as overhoused by the OIG had reasonable accommodations allowing for a larger unit. CMHA has verified the need for the additional bedroom for 928 Fairbanks and the physician documented this need. Reasonable accommodation documentation for these 6 families is appended as Exhibits A1-7. All other certifications have been corrected by the housing specialist.

Comment 1



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September 3, 2009
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Comment 2

In the case of 1549 Meredith Dr., the OIG stated that CMHA authorized 1 bedroom voucher in 2006, a 2 bedroom voucher in 2007, and a 3 bedroom voucher in 2008. Attached **Exhibit A8** includes excerpts from the 50058s for this family for 1/1/06, 6/1/06, 11/1/06 and 11/1/07. The 1/1/06 50058 shows the mother and her 2 adult sons living in the unit (a 3 bedroom voucher). The 6/1/06 50058 shows an adjustment for the death of the Mother, reducing the household to a two bedroom voucher for the two adult brothers. The 50058s for 11/1/06 and 11/1/07 continue to show the 2 adult brothers living in the 2 bedroom Voucher unit, so CMHA feels that the OIG should revisit the overhoused overpayment for this tenant family.

Finding 2 – The Authority's Zero-Income Households had Unreported Income

The Authority did not effectively use HUD's Enterprise Income Verification (EIV) system or other third-party verification methods to determine that reported zero-income households had unreported income. Of the 129 households statistically selected for review, 22 had unreported income that affected their housing assistance and utility allowance payments. As a result, the Authority unnecessarily paid housing assistance totaling more than \$32,000 for households that were able to meet their rental obligations. We estimate that over the next year, the Authority will pay more than \$11,000 in housing assistance for reported zero-income households that have unreported income.

As a result of the Authority's failure to properly adjust the HAP or pursue repayment for its zero-income households with unreported income totaling \$251,461, HUD paid \$32,865 in housing assistance for 22 households having income that were able to meet their rental obligations.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$3,936 in program administrative fees for the 21 households with incorrect housing assistance.

CMHA Response

Comment 3

CMHA disagrees with the OIG's assessment that CMHA did not effectively use HUD's EIV system. As noted in CMHA's response there will be occasions where the information contained on the EIV report will not warrant a retro active adjustment.

Comment 4

CMHA admits that it was not able to perform a re-examination every 60 days on zero income families as stated in its HCV Administrative Plan and has amended this section of the plan to state "families reporting zero income or other income that results in the minimum rent will have their circumstances reexamined at periods determined by CMHA ..." For the 52 household files reviewed by the OIG, **Exhibit B** contains applicable copies of executed repayment agreements where justified, copies of retro payment due letters, and paperwork indicating instances when no repayment agreement or retro active charges were required. A spreadsheet summarizing the current status of the 52 households is also included.



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September 3, 2009
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Finding 3 – Controls Over Timely Initial Inspections Need Improvement

The Authority did not always comply with HUD's requirements when conducting initial inspections after receiving a Request for Tenancy Approval (RTA). Untimely inspections occurred due to the Authority's inability to track the time between the receipt of the request and the initial inspection. As a result, the Authority did not fully comply with HUD's requirements and placed unnecessary hardships on households and landlords.

Of the 67 initial inspections statistically selected for review, 11 inspections (16 percent) did not have initial inspections within 15 days of the receipt of the RTA and availability of the unit for inspection. The RTAs that exceeded 15 days are listed in the following table:

Inspection Number	Latest date beginning the 15 day clock	Date of Initial Inspection	Days late	Summary of Processing Delays
143899	11/16/2007	02/02/2008	77	1/22/08 - Attached inspection #143343 shows unit was not ready (See attached Exhibit C1)
137109	08/15/2007	10/18/2007	49	CMHA agrees
141536	11/02/2007	12/28/2007	41	CMHA agrees
145075	09/19/2007	10/25/2007	21	CMHA agrees
147115	02/13/2008	03/19/2008	20	2/26/08 – RTA canceled, T was no sub (See attached Exhibit C2)
140122	11/01/2007	12/03/2007	17	CMHA agrees
131084	06/05/2007	07/06/2007	16	CMHA agrees
136919	09/12/2007	10/11/2007	14	CMHA agrees
130752	05/29/2007	06/26/2007	13	CMHA agrees
138072	10/01/2007	10/29/2007	13	CMHA agrees
137901	10/01/2007	10/24/2007	8	10/18/07 Attached inspection #137133 shows that the unit was not ready (See attached Exhibit C3)

From the sample results, we are 90 percent confident that out of 4,174 initial inspections conducted by the Authority, 686 inspections with an error rate of plus or minus 7.4 percent were not conducted within 15 days.

Comment 5



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Comment 6

CMHA Response

CMHA disagrees with the OIG's estimate that 7.4% of initial inspections are not being conducted timely. The following is CMHA's process for RTA processing.

1. Within 3 days receipt of a completed RTA, CMHA conducts the affordability test.
2. If the unit passes the affordability test, the RTA is passed for inspection. If not, a cancel RTA letter is sent to the owner and client stating the reason for the cancellation along with the amount the rent has to be lowered in order for the voucher holder to qualify for the unit.
3. If the unit passed the affordability test, staff checks to make sure the owner is in program compliance and the unit does not have outstanding building codes. If this standard is met, the unit is listed for inspection.
4. The inspector has up to 3 days to make initial contact with the owner to schedule the unit for an inspection. If the owner does not respond to the inspector or informs the inspector that the unit will not be available for an inspection within 7 days, the RTA is canceled and letters sent to both parties.

Comment 7

CMHA puts forth a tremendous amount of effort to work with program participants and owners on the RTA process and admits that some RTAs have not been processed timely because of delays that may arise in this process. These delays can be attributed to negotiating rents with owners, units not ready for inspection, delays in owner response to an inspection request, and clients submitting multiple RTAs as well as those caused by staff. While CMHA policy prohibits participants from submitting multiple RTAs this continues to be an issue for staff. CMHA is working to correct this issue and has seen improvements with the newly implemented tracking report. CMHA has met with its staff to emphasize the importance of meeting this requirement.

RECOMMENDATIONS

- 1A Reimburse its program of more than \$119,000. from nonfederal funds for ineligible payments related to the households cited in this finding.

Comment 8

CMHA Response

CMHA disagrees with this finding and has attached documentation to support the accommodations granted for some of the households. Due to budget restraints and the lack of nonfederal resources available to make monetary payments, CMHA would ask that it be allowed to repay the remaining amount by providing "community service" approved in advance by HUD's Cleveland Office. CMHA suggests that it be able to conduct community training that will be scheduled on a quarterly basis with topics such as Fair Housing, Effective Property Management, The HCV Contract and how it relates to Ohio Landlord Tenant Law and Expediting the HCV Process. CMHA will provide additional details for the training sessions if approved by HUD.

- 1B Implement adequate procedures and controls over its overhoused tenants to ensure that it complies with HUD's requirements to prevent \$35,160 in program funds from being spent on units that do not comply with HUD's and its requirements over the next year.



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Comment 9

CMHA Response

CMHA has taken the following steps to improve procedures and controls over its overhoused tenants to ensure compliance with HUD's requirements:

1. Re-enforcement training has been given to the Housing Specialists to ensure that payment standards are reviewed before the completion and approval of a certification. A copy of the attendance sheet and agenda are attached as part of **Exhibit D**.
2. Re-enforcement training has been provided to the Housing Specialists on reasonable accommodations, and the steps required to verify and approve the need for reasonable accommodation. As stated above, a copy of the attendance sheet and agenda are attached as part of **Exhibit D**.
3. CMHA is developing a method to code and a report to track families that have been granted a reasonable accommodation to ensure across the board compliance with households granted reasonable accommodation.
4. CMHA is developing an **Elite report** that compares the unit size, voucher size and subsidy in the system to isolate potential problem certifications.

2A It is recommended that the director of HUD's Cleveland Office of Public Housing require the Authority to pursue collection from the applicable households or reimburse its program \$36,801 (\$32,865 and \$3,936 in associated administrative fees) from nonfederal funds for the overpayment of HAP cited in this finding.

Comment 10

CMHA Response

All 22 of the zero-income clients cited by the OIG having earned income during the time their zero-income certifications were effective have been retroactively charged if the unreported income affected the participant's Housing Assistance Payment (HAP) or Utility Assistance Payment (UAP). (See attached **Exhibits B**.) Participants were also reminded of CMHA's reporting requirements for changes in income and family composition.

2B It is recommended that the director of HUD's Cleveland Office of Public Housing require the Authority to implement adequate procedures and controls regarding its zero-income households to prevent the overpayment of \$11,108 in excessive HAP over the next year.

Comment 11

CMHA Response

5. At the OIG's recommendation, CMHA has made a procedural change in which EIV reports will be run with all reported income changes. In addition to adding a specific number of zero-income householders to its regular peer audits, CMHA has implemented a procedural change and has trained its Housing Specialists to review previous income documentation for the family during any certification process and charge families retroactively for any amounts that would have effected the Housing Assistance Payment for the household. A copy of the attendance sheet and agenda are attached as part of **Exhibit E**.

2C It is recommended that the director of HUD's Cleveland Office of Public Housing require the Authority to review the remaining 823 (952 minus 129) households claiming zero-income



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Comment 12

between January 1, 2007 and December 31, 2008, to determine whether the households had unreported income. For households that received excessive housing assistance and utility allowance payments, the Authority should pursue collection and/or reimburse its program the applicable amount from nonfederal funds and/or terminate housing assistance for all applicable households.

CMHA Response

CMHA disagrees with this recommendation because some of the families are no longer on the voucher program. Controls have been implemented by CMHA to ensure these errors do not occur in the future.

- 3A Fully and successfully implement adequate procedures and controls regarding its initial inspection process to ensure that it complies with HUD's regulations.

Comment 13

CMHA Response

CMHA agrees that in the past it lacked adequate procedures and controls to ensure that initial inspections were completed within 15 days after the family and owner submitted an RTA. CMHA created a report to track the timeliness of initial inspections. See attached Exhibit F CMHA's Lease Tracking Report.

Sincerely,


Richard S. Rust, IV
Executive Director

Enclosure

Cc: Lisa Isham, HCV Director
James Olson, OIG Senior Auditor

OIG Evaluation of Auditee Comments

- Comment 1** The Authority provided documentation to support that five households were eligible for a larger unit. As a result, we adjusted Recommendation 1A.
- Comment 2** The Authority did not provide documentation to support any adjustment for this household. We suggest the Authority and HUD conduct a thorough review of this household file to include the household members.
- Comment 3** We agree with the Authority's response that a retroactive adjustment is not always warranted from reviewing the information in HUD's system.
- Comment 4** The Authority disagrees with our assessment that it did not effectively use HUD's system. However, it admits that it did not follow its administrative plan for reexaminations of its zero-income households. We did adjust Recommendation 2A based upon the documentation submitted by the Authority.
- Comment 5** We adjusted the days late in the table for inspection numbers 143899 and 137901 from 77 days to 52 days, and 8 days to 2 days, respectively. For inspection number 147115, the household received assistance and the inspection was performed using the original request. If the request was cancelled, a new request should have been issued.
- Comment 6** The sample results support an error rate of 16.4 percent plus or minus 7.4 percent. Therefore, the error rate ranges from 9 percent to 23.8 percent.
- Comment 7** We commend the Authority's continued efforts to improve its program operations.
- Comment 8** The Authority disagrees with the finding but stated on page 1 of its response that it made excess housing assistance payments of \$92,512 for 31 families. As described in Comment 1 above, we adjusted Recommendation 1A. As we previously discussed with the Authority, its proposal for repayment should be detailed in its audit resolution correspondence with HUD.
- Comment 9** The actions taken, in process, and proposed by the Authority, if fully implemented, should improve its program operations.
- Comment 10** We commend the Authority for its proactive measures in pursuing the repayment of incorrectly paid housing assistance payments.
- Comment 11** See Comment 9.

Comment 12 The Authority should fully implement the recommendation. For any households that have left the Authority's program, it can discuss the disposition of these households with HUD.

Comment 13 See Comment 9.

Appendix C

FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

Finding 1

HUD's regulations at 24 CFR 982.402, subsidy standards, state: (a)(1) the public housing authority must establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions; (2) for each family, the public housing authority determines the appropriate number of bedrooms under the public housing authority subsidy standards (family unit size); and (3) the family unit size number is entered on the voucher issued to the family. The public housing authority issues the family a voucher for the family unit size when a family is selected for participation in the program. (b) The following requirements apply when the public housing authority determines family unit size under the public housing authority subsidy standards:

1. the subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding,
2. the subsidy standards must be consistent with space requirements under the housing quality standards (See 982.401(d)),
3. the subsidy standards must be applied consistently for all families of like size and composition,
4. a child who is temporarily away from the home because of placement in foster care is considered a member of the family in determining the family unit size,
5. a family that consists of a pregnant woman (with no other persons) must be treated as a two-person family,
6. any live-in aide (approved by the public housing authority to reside in the unit to care for a family member who is disabled or is at least 50 years of age) must be counted in determining the family unit size,
7. unless a live-in-aide resides with the family, the family unit size for any family consisting of a single person must be either a zero or one-bedroom unit, as determined under the public housing authority subsidy standards,
8. in determining family unit size for a particular family, the public housing authority may grant an exception to its established subsidy standards if the public housing authority determines that the exception is justified by the age, sex, health, handicap, or relationship of family members or other personal circumstances. (For a single person other than a disabled or elderly person or remaining family member, such public housing authority exception may not override the limitation in paragraph (b)(7) of this section).

(c) The family unit size as determined for a family under the public housing authority subsidy standard is used to determine the maximum rent subsidy for a family assisted in the voucher program. For a voucher tenancy, the public housing authority establishes payment standards by number of bedrooms. The payment standard for a family shall be the lower of:

1. The payment standard amount for the family unit size; or
2. The payment standard amount for the unit size of the unit rented by the family.
3. Voucher program. For a voucher tenancy, the public housing authority establishes payment standards by number of bedrooms. The payment standards for the family must be the lower of:
 - i. The payment standards for the family unit size; or
 - ii. The payment standard for the unit size rented by the family.

(d)(1) The family may lease an otherwise acceptable dwelling unit with fewer bedrooms than the family unit size. However, the dwelling unit must meet the applicable housing quality standards space requirements. (2) The family may lease an otherwise acceptable dwelling unit with more bedrooms than the family unit size.

Finding 2

HUD's regulations at 24 CFR 982.54 require the public housing authority to adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. The administrative plan states the public housing authority's policies on the matter for which the public housing authority has discretion to establish local policies. The public housing authority must administer the program in accordance with its administrative plan.

HUD's regulations at 24 CFR 5.240(c) state that public housing authorities must verify the accuracy of the income information received from program households and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 982.153 state that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

HUD's regulations at 24 CFR 982.152(d) state that HUD is permitted to reduce or offset any Section 8 administrative fees paid to a public housing authority if it fails to perform its administrative responsibilities adequately.

HUD's regulations at 24 CFR 982.516(d)(1) state that the public housing authority must adopt policies prescribing how to determine the effective date of a change in the housing assistance payment resulting from an interim redetermination.

HUD's regulations at 24 CFR 982.526(f) state that the public housing authority must establish procedures that are appropriate and necessary to ensure that income data provided by applicant or participant families are complete and accurate.

HUD's Public and Indian Housing Notice 2005-9, section 4(e), states that families can be required to report all increases in income between reexaminations and the authority may conduct more frequent interim reviews for families reporting no income.

The Authority's administrative plan states:

Chapter 5, page 10. Zero Income Status. Families claiming to have no income will be required to execute verification forms to determine that forms of income such as unemployment benefits, Temporary Assistance for Needy Families, Supplemental Security Income, are not being received by the household.

Chapter 8, page 10. Minimum Income. There is no minimum income requirement. Families who report zero-income are required to undergo an interim recertification every 60 days. Families that report zero-income will be required to provide information regarding their means of basic subsistence, such as food, utilities, and transportation.

Chapter 12, page 5. Rent Adjustments. Program participants are required to report all changes in family composition or income within ten business days of the occurrence. Changes must be reported in writing using the Report of Change Form available in the Housing Choice Voucher department. Failure to report within ten business days may result in a retroactive rent increase, but not a retroactive credit or rent reduction.

Chapter 12, page 7. Zero-Income Families/Minimum Rent Payers. Unless the family has income that is excluded for rent computation, families reporting zero-income or other income that results in minimum rent will have their circumstances examined every 60 days until they have stable income. Persons claiming zero-income or paying minimum rent will also be asked to complete a family expense form. The form will ask residents to estimate how much they spend on telephone, cable TV, food, clothing, transportation, health care, child care, debts, and household items. Residents will then be asked how they pay for these items.

Chapter 12, page 7. Failure to Report Accurate Information. If it is found the resident has misrepresented or failed to report to their Housing Specialist the facts upon which his/her rent is based, including errors or omissions by the Authority, so that the rent being paid is less than what should have been charged, then the increase in rent will be made retroactive. Failure to report accurate information is also grounds for termination in accordance with the Authority's administrative plan.

Chapter 12, page 11. Timely Reporting of Changes in Income. If the family does not report the change as described under Timely Reporting, the family will have caused an unreasonable delay in the interim reexamination processing and the following guidelines will apply: Increase in Tenant Rent will be effective retroactive to the date it would have been effective had it been reported on a timely basis. The family will be liable for any overpaid housing assistance and may be required to sign a Repayment Agreement.