



Issue Date	July 13, 2009
Audit Report Number	2009-LA-0001

TO: K.J. Brockington, Director, Los Angeles Office of Public Housing, 9DPH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The HUD Phoenix Field Office's Procedures for Monitoring the Nogales Housing Authority Were Not Adequate

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing field office in Phoenix, Arizona (Public Housing). The objective of the audit was to determine whether Public Housing's procedures for monitoring the Nogales Housing Authority (Authority) were effective. The audit was started because Public Housing performed several monitoring reviews at the Authority; however, there were indications that some of the problems found had not been corrected. Further, Public Housing staff indicated that the Authority may have used HUD funds for ineligible pension fund expenses.

What We Found

Public Housing did not always identify and/or properly address significant deficiencies at the Authority. This condition occurred because Public Housing's monitoring and follow-up procedures were not thorough enough to (1) ensure that deficiencies at the Authority were identified and corrected and (2) determine whether the problems found were isolated incidents or systemic deficiencies. Also, Public Housing did not always apply the correct standards when performing its reviews. As a result, problems with the Authority's Section 8 and public housing programs persisted for years without appropriate corrective actions.

Based upon our review of 14 Section 8 tenant files at the Authority, we identified unsupported or ineligible housing assistance payments totaling \$98,170. Additionally, Public Housing failed to appropriately address the Authority's use of HUD funds for questionable pension fund expenses totaling \$171,601.

What We Recommend

We recommend that the Director of the HUD Los Angeles Office of Public Housing require the Phoenix field office to implement procedures to improve its monitoring and follow-up processes. We also recommend that the Director require the Authority to support or reimburse \$93,578 in unsupported housing assistance payments and \$4,592 in ineligible housing assistance payments. Finally, we recommend that the Director review the Authority's questionable pension plan costs totaling \$171,601, and require the Authority to reimburse its program if appropriate.

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 or directives issued because of the audit.

Auditee's Response

We discussed our audit findings with Public Housing officials during the audit and provided the draft report on May 12, 2009. We held an exit conference on May 29, 2009. The field office generally disagreed with our audit recommendations.

The complete text of the auditee's response, along with our evaluation of that response, is in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing is responsible for overseeing HUD's public housing and Section 8 programs. This role includes providing technical assistance and training as well as performing several types of on-site monitoring reviews of the public housing authorities (housing authorities) that HUD contracts with to administer these programs. The Office of Public Housing uses a risk assessment process to identify and analyze the relative risk that each housing authority represents and to develop priorities for its monitoring.

The Nogales Housing Authority (Authority) is one of twenty-four housing authorities within the jurisdiction of the Phoenix Office of Public Housing (Public Housing) field office. The Authority currently administers approximately 226 public housing units and 192 Section 8 vouchers with the following funding amounts:

	Fiscal Year 2007	Fiscal Year 2008
Operating subsidy	\$ 524,784	\$ 591,702
Capital funds	\$ 365,398	\$ 361,459
Vouchers	\$ 696,073	\$ 813,473
Totals	\$ 1,586,255	\$ 1,766,634

In July 2006, Public Housing performed a Section Eight Management Assessment Program (Section 8 assessment) confirmatory review to verify the Authority's self-certification and ratings under this program. A Section 8 assessment measures the performance of the housing authorities that administer the Housing Choice Voucher program in 14 key areas. For housing authorities that are assigned an overall rating of "troubled" under the Section 8 assessment, HUD must perform an on-site assessment of the housing authority, issue a report of its findings, and ensure that the housing authority implements corrective actions to address the deficiencies found. For housing authorities with less than 250 assisted units, HUD may elect not to perform an on-site review only if it determines that an on-site review is unnecessary to determine the needs of the housing authority and the actions required to address the program deficiencies. The Authority received a "troubled" Section 8 assessment rating for its fiscal years 2006 and 2007.

In May 2007, Public Housing performed both a limited management review and another Section 8 assessment confirmatory review. The limited management review assessed whether the Authority managed its public housing and Section 8 programs in compliance with statutory, regulatory, and other administrative requirements. Public Housing's management review of the Authority covered the areas of governance, organization and staffing, financial management, procurement, program management, property maintenance, resident services, capital funds, exigent health and safety repair requirements, security, and management information systems.

In January and May of 2008, Public Housing performed technical assistance visits to provide guidance and assess the Authority's progress in implementing corrective actions required as a result of the reviews performed in 2007. In June 2008, Public Housing performed another Section 8 assessment confirmatory review.

The objective of the audit was to determine whether Public Housing's procedures for monitoring the Authority were effective.

RESULTS OF AUDIT

Finding 1: Public Housing's Monitoring Process Did Not Always Identify and/or Properly Address Problems at the Authority

Public Housing did not always identify and/or properly address significant deficiencies at the Authority. This condition occurred because Public Housing's monitoring and follow-up procedures were not thorough enough to (1) ensure that deficiencies at the Authority were identified and corrected and (2) determine whether the problems found were isolated incidents or systemic deficiencies. Also, Public Housing did not always apply the correct standards when performing its reviews. As a result, problems with the Authority's Section 8 and public housing programs persisted for years without appropriate corrective actions. Based upon our review of 14 Section 8 tenant files at the Authority, we identified unsupported or ineligible housing assistance payments totaling \$98,170. Additionally, Public Housing failed to appropriately address the Authority's use of HUD funds for questionable pension payments totaling \$171,601.



Public Housing Did Not Identify Significant Program Deficiencies

Public Housing did not identify and/or address some problems at the Authority during its monitoring performed in 2006, 2007, and 2008 and during technical assistance visits performed in January and May 2008.

Public Housing Did Not Report the Authority's Failure to Support Tenant Eligibility Based upon Criminal Background and Prior Eviction History Checks

HUD regulations required the Authority to deny eligibility for three years (from the date of eviction) if a household member had been evicted from federally assisted housing for drug-related criminal activity. Eligibility must also be denied to those with a lifetime registration requirement under a state sex offender registration program. Further, the Authority's administrative plan included additional eligibility criteria related to tenants' criminal history that could prohibit a potential tenant from participation in the program. The Authority must perform background checks necessary to determine whether any household member is ineligible based upon his or her criminal or tenant eviction history.

Public Housing's monitoring reviews did not report that the Authority failed to maintain documentation to support tenant eligibility based upon criminal background and prior eviction history checks. As part of its monitoring review performed in 2007, Public Housing instructed the Authority to destroy tenant background check documentation as required yet did not instruct it to retain records to evidence that the checks were performed and the results were acceptable. Of the seven public housing and fourteen Section 8 tenant files we reviewed, 19 files did not contain records that supported the performance of background checks. Without such records, any management or audit review of the tenant files could not determine that appropriate Authority staff properly established the tenants' eligibility. A recent HUD Office of Inspector General (OIG) audit (City of Phoenix Housing Department – HUD OIG Audit report number 2008-LA-1011) of another housing authority under Public Housing's jurisdiction found a similar problem. This finding indicated that Public Housing was not requiring housing authorities to maintain documentation supporting their evaluation of each tenant's criminal and prior eviction history.

Public Housing Did Not Address the Authority's Failure to Verify the Status of Eligible Noncitizens as Required

HUD's regulations required the Authority to confirm the immigration status for applicants who were not citizens yet claimed to have an immigration status that allowed them to participate in HUD's rental assistance programs. Primary verification of the immigration status for applicants should be conducted by the Authority through the U.S. Department of Homeland Security's Systematic Alien Verification for Entitlements (Verification) system.

The Authority did not use the Verification system to verify the status of eligible noncitizens as required. This problem was particularly significant for the Authority because it is located near the United States border with Mexico and may have a higher than average number of eligible noncitizen applicants. Authority staff stated that access to this system was interrupted in January or February 2007 and that, thereafter, they ceased verifying the immigration status of program applicants. Public Housing indicated that access to the Verification system for all housing authorities was interrupted for an extended period. However, Public Housing did not provide adequate guidance to housing authorities under its jurisdiction to address problems, which may have discouraged housing authorities from using the primary immigration status verification tool prescribed by HUD. As a result, the Authority and, apparently, other housing authorities did not properly establish the eligibility of program applicants that claimed to have an eligible immigration status. Public Housing managers indicated that they did not receive guidance from HUD headquarters regarding procedures for addressing housing authorities' problems with the Verification system.

Public Housing Failed to Note That the Authority Lacked a System to Ensure Correction of Deficiencies Found during Public Housing Inspections

In accordance with HUD requirements, the Authority must inspect each Public Housing unit annually and ensure that necessary repairs are completed.

The Authority did not follow up to ensure that a work order was created for public housing inspection findings that were not considered an emergency. Authority staff stated that a repair work order was only created if the tenant called the Authority office to report the problem. Authority staff also noted that in some cases, tenants did not call the Authority and the needed repairs were not performed.

Public Housing's 2007 limited management review found the Authority did not have proper written policies for its maintenance operations, yet the review did not address the Authority's failure to implement procedures to ensure work orders were created for needed repairs identified during Public Housing inspections. Public Housing closed its finding regarding the Authority's maintenance policy and did not require the Authority to change its procedures for creating work orders.

Public Housing's Monitoring Did Not Disclose the Authority's Failure to Maintain Adequate Controls (Separation of Duties) over Rental Receipts

Federal regulations require that housing authorities establish adequate internal controls for cash, real and personal property, and other assets. Such controls generally include adequate separation of duties, supervision of employees, and review of critical documents.

The Authority did not have internal controls over rental payments received from public housing program tenants. Payments from public housing tenants were received, recorded, and deposited by the same individual. Further, the Authority did not perform supervisory oversight or testing of the rental receipts process to ensure that all payments were properly recorded and deposited. However, our audit did not include testing of public housing rental receipts; therefore, we did not identify related improper transactions.

Public Housing's 2007 limited management review found that the Authority's financial management policies were not in compliance with HUD requirements. In response, the authority submitted revised internal control procedures for cash management/internal controls including a rent collection policy. However, the Authority's revised policies did not include adequate control procedures over rental receipts.

Public Housing's Follow-up Did Not Always Ensure That Corrective Actions Were Implemented

Public Housing's follow-up process did not ensure that corrective actions were implemented to address some of the problems found during its monitoring reviews performed during 2006 through 2008. For example,

- The 2006 Section 8 assessment review did not require the Authority to submit a corrective action plan. Public Housing did not follow up to ensure that corrective actions were implemented to address the Authority's Section 8 assessment troubled status.
- The 2007 Section 8 assessment confirmatory and limited management reviews found that deficiencies at the Authority continued. Public Housing required the Authority to submit a corrective action plan as a result of these reviews, and the Authority implemented procedures to address some of the problems. However, Public Housing closed out its findings despite some remaining uncorrected issues.
- The 2008 technical assistance visits and Section 8 assessment confirmatory review failed to identify problems that persisted at the Authority and failed to ensure that previously required corrective actions were implemented.

Problems Persisted at the Authority after Public Housing's Monitoring Reviews

Specifically, Public Housing identified the following issues through its oversight of the Authority yet our audit, which included some of the same files reviewed by Public Housing officials, determined that corrective actions were not effectively implemented.

The Authority Routinely Accepted Pay Stubs and Self-Certifications as Verification of Tenant Income and Did Not Sufficiently Document Efforts to Obtain Third-Party Verification

HUD regulations require that housing authorities establish procedures to verify that income data used for tenant eligibility reviews are complete and accurate. The procedures should include obtaining and documenting third-party verification of a tenant's reported family income or an explanation for why third-party verification was not available.

The Authority routinely used documents provided by tenants such as pay stubs and written statements in lieu of third-party verification without providing a sufficient explanation and documentation as required. Authority staff indicated

that between 50 and 60 percent of mailed tenant employment verifications were not returned. The unreturned verification could have been an indication that the employment information provided by the tenant was not valid.

Public Housing failed to follow up to ensure that this deficiency was corrected. Its 2006 review did not include a corrective action plan to address this deficiency. Its monitoring reviews performed in 2007 resulted in a corrective action plan that required the Authority to resolve this problem; however, notes from Public Housing's technical assistance visit performed in May 2008 indicated that the problem was still unresolved. This review found that in two of the five tenant files reviewed, the Authority relied upon income information provided by the tenant rather than a third party as required. Our review of these same files found that they also did not contain a justification for the lack of third-party verification. Further, in 2008 Public Housing's Section 8 assessment confirmatory review included a review of the same two sample files noted above, yet the review failed to identify the lack of third-party verification and resulted in no corrective actions.

The Authority Did Not Ensure That Section 8 Leases Met HUD Requirements

In accordance with HUD regulations, housing authorities must ensure that all leases under the Section 8 program include HUD's prescribed tenancy addendum (addendum). The addendum sets forth the tenancy requirements for the program and the composition of the household as approved by the housing authority. The owner must sign the lease and addendum with the prospective tenant, and the tenant has the right to enforce the addendum against the owner. The terms of the addendum prevail over other provisions of the lease. Housing authorities are required to maintain a copy of the lease, including the addendum, for at least three years after the lease term.

The Authority did not ensure that the addendum was included in Section 8 program leases as required. Authority staff stated that they were not aware that the addendum was required to be included as part of the lease and did not enforce this requirement.

Public Housing's 2007 monitoring review found that the Authority failed to include HUD's tenancy addendum as part of Section 8 program leases. This review resulted in a corrective action plan that required the Authority to begin enforcing the addendum requirement. Public Housing closed its finding in this area but our review determined that the Authority had not implemented procedures to correct the problem. Further, Public Housing officials stated that they did not enforce the tenancy addendum or lease documentation requirements for housing authorities within their jurisdiction because they were not aware that housing authorities were required to maintain a copy of Section 8 program leases.

Authority Records Failed to Document That Emergency Inspection Issues Were Corrected within 24 Hours for Section 8 Units

HUD requires housing authorities to inspect each assisted unit before the initial term of the lease, at least annually, and at other times as needed to determine whether the unit meets HUD's housing quality standards. The Authority must not make housing assistance payments for units that fail to meet housing quality standards unless the owner corrects the defect within the period specified by the housing authority and the housing authority verifies the correction. If a defect is life threatening, the owner must correct it within 24 hours.

The Authority did not have procedures to clearly identify and track emergency repair items to ensure that owners completed repairs within 24 hours as required. Notification letters used by the Authority to communicate needed repair items to the unit owner did not indicate which items, if any, were considered emergency items that required correction within 24 hours.

Public Housing's 2007 Section 8 assessment confirmatory review identified this issue as a problem and included a corrective action plan requiring the Authority to implement a tracking log to document life-threatening inspection items and repairs. Public Housing closed out the finding yet failed to ensure that the corrective action was implemented. Public Housing's monitoring performed in 2008 failed to determine whether the Authority tracked emergency repair items or had a consistent process for ensuring that these items were resolved within 24 hours.

The Authority Did Not Have Adequate Supervisory Oversight of the Tenant File Review Process

In accordance with its annual contributions contract with HUD and associated requirements for the administration of federal awards, the Authority is required to implement adequate management controls to ensure that it properly administers its rental assistance programs. This requirement includes ensuring that tenant files are processed in accordance with HUD requirements.

The Authority management's quality control reviews of Section 8 and public housing tenant file processing were performed infrequently and were not effective. The Authority's management oversight of its staff was limited to the few Section 8 assessment program file reviews that were performed. For example, no Section 8 program quality control reviews were performed during the period February 2007 through July 2007. Also, no reviews were performed from March 2008 through at least September 2008. With regard to public housing tenant files, the executive director stated that he had only reviewed approximately eight files during the prior year and had no documentation to support these reviews. The executive director noted that he had not had time to focus on

reviewing the files and that he needed additional training on how to perform the reviews.

The infrequently performed supervisory reviews were also not effective. We reviewed the Authority's most recent nine Section 8 assessment tenant file quality control reviews and a nonstatistical random sample of 12 tenant files (including five Section 8 files and seven public housing program files). We identified processing errors in each of these files that were not identified through the Authority's quality control reviews. This result indicated that additional supervisory oversight was necessary at the Authority to ensure that tenant file reviews are performed in accordance with HUD requirements. Based upon our review of the 14 Section 8 tenant files at the Authority, we identified unsupported or ineligible housing assistance payments totaling \$98,170. See appendix C for a schedule of these deficiencies.

Although Public Housing identified problems with the Authority's oversight of tenant file reviews, it did not adequately follow up to ensure the deficiency was corrected. Specifically, Public Housing's 2006 review did not include a corrective action plan to address this deficiency. Public Housing's 2007 monitoring reviews resulted in corrective action items that required the Authority to implement quality control procedures for tenant file reviews including the establishment of supervisory oversight and documentation for Section 8 assessment reviews performed. However, Public Housing's 2008 Section 8 assessment review failed to identify and/or properly address significant tenant file review errors that we found, including: lack of third-party verification, incorrect tenant income and rent calculations, missing HUD tenancy addendums, ineligible units used to determine rent reasonableness, and other issues. These issues should have been identified and should have alerted Public Housing staff that (1) corrective actions required as part of the prior year monitoring were not properly implemented and (2) the Authority did not have effective supervisory oversight and quality control regarding tenant file processing.

The Authority Used HUD Funds for Questionable Employee Pension Fund Expenses

Public Housing was aware of questionable payments made by the Authority in 2005 to the City of Nogales pension fund yet failed to ensure that the issue was resolved. According to the Authority's executive director, the former Public Housing program center coordinator notified the Authority that HUD attorneys were considering the matter, but the Authority did not receive further communication. Public Housing staff stated that they were aware of the questionable payments but had not addressed the matter because it was considered outside the scope of their recent monitoring reviews.

The questionable pension payments occurred after the City of Nogales took over the Authority. From 1968 to 1995, the Authority did not have a pension plan for its employees. From 1995 through 2001, before the City took over the Authority,

the Authority had its own pension plan. Under this plan, Authority employees received less than employees covered by the City of Nogales pension plan. In 2001, the City of Nogales assumed control over the Authority, and all Authority employees became employees of the City. In 2005, after requests were made by at least one Authority employee, the City determined that it would use HUD program funds to retroactively “buy in” authority employees to the City’s pension plan from the employee’s initial hire date with the Authority (including periods in which the Authority had its own pension plan and periods in which it had no pension plan). The total amount paid on behalf of the eight involved employees was \$171,601.

Although, in general, pension expenses are allowable, the payments in this case were made retroactively (back to 1968) based upon newly established policies. Therefore, the eligibility of these payments was questionable, and Public Housing should have addressed the issue.

Public Housing’s Monitoring and Follow-up Procedures Were Not Adequate

The problems at the Authority continued despite HUD’s monitoring efforts because Public Housing’s procedures for performing its monitoring reviews and follow-ups did not always apply the correct program standards and were insufficiently thorough to (1) ensure that deficiencies at the Authority were identified and corrected and (2) determine whether the problems found were isolated incidents or systemic deficiencies. For example, the Public Housing management and staff misapplied HUD’s standards when they did not require housing authorities to maintain a copy of Section 8 leases and did not require the HUD prescribed tenancy addendum to be incorporated into the lease as long as it is included as part of the housing assistance payment contract. This practice was not consistent with HUD’s regulations which require that housing authorities’ maintain a copy of the lease and ensure that the HUD prescribed addendum is included. Similarly, Public Housing’s standards for housing authorities’ verification of tenant income allowed for routine acceptance of tenant provided documents without documentation showing third party verification was not available. This practice was not consistent with the standards prescribed within HUD’s regulations, HUD’s program guidance on this matter, or the Authority’s own Section 8 administrative plan.

Public Housing’s 2008 Section 8 assessment confirmatory review included an examination of Section 8 tenant files, yet these reviews were not thorough enough to identify the significant file processing errors that were found during our audit. Further, the tenant file reviews performed during the technical assistance visits and Section 8 assessment confirmatory reviews only included files that the Authority had previously selected and reviewed. Accordingly, these files may not have been an accurate representation of the Authority’s tenant file review process.

Public Housing's technical assistance visit performed in May 2008 included a review of five sample tenant files and disclosed at least one instance in which the Authority did not properly verify tenant income and an instance in which the Authority did not ensure that inspection issues were properly resolved. Also Public Housing's Section 8 assessment confirmatory review identified an emergency repair item that was not completed within 24 hours as required and was not identified as an emergency item on the associated letter sent to the landlord. These problems were similar to those identified during prior monitoring reviews, yet Public Housing did not expand its 2008 review to assess the extent of these problems or determine whether there was a continuing (systemic) problem with the Authority's process for performing income verifications and resolving emergency repair items. Finally, Public Housing did not address the cause of the Authority's tenant file review errors, which included inadequate training and inexperience of the Authority's supervisory reviewer who performed the quality control reviews.

Conclusion

Public Housing's procedures for monitoring housing authorities needs improvement. It failed to issue a report of its 2006 monitoring review findings and did not enforce timely corrective actions as a result of this review. Accordingly, problems persisted, and Public Housing's 2007 monitoring efforts identified significant deficiencies at the Authority. However, Public Housing did not ensure that corrective actions were implemented in response to some of its findings. The monitoring and assistance efforts performed in 2008 also did not identify and/or properly address deficiencies that persisted at the Authority. As a result, problems at the Authority continued for years without being corrected, and the Authority incurred unsupported and ineligible housing assistance payments. This condition occurred because Public Housing did not always apply the correct program standards and its procedures for performing monitoring and follow-up were not thorough enough to ensure that problems were identified and appropriate corrective actions were implemented.

Recommendations

We recommend that the Director of the Los Angeles Office of Public Housing require the Phoenix Office of Public Housing to

- 1A. Implement procedures to ensure that monitoring findings are fully resolved and corrective actions are implemented. These procedures should include an assessment of the housing authority's capacity to implement its planned corrective actions.

- 1B. Implement procedures to ensure that housing authorities within its jurisdiction document their review of criminal and prior eviction history checks.
- 1C. Begin enforcing HUD's requirement for immigration status verifications and provide guidance to housing authorities regarding proper procedures for performing such verification when the U. S. Department of Homeland Security's Verification system is not available. This process should include procedures for verifying the status of all eligible noncitizens that may not have been properly verified in the past due to complications with the Verification system.
- 1D. Implement procedures to enforce HUD's tenancy addendum requirement for Section 8 unit leases.
- 1E. Determine the eligibility of the Authority's questionable pension plan costs totaling \$171,601 and require the Authority to reimburse HUD for these costs if appropriate.

We also recommend that the Director of the Los Angeles Office of Public Housing require the Phoenix Office of Public Housing to require the Authority to

- 1F. Establish and implement procedures to ensure correction of deficiencies found during public housing inspections.
- 1G. Establish and implement internal controls over rental payments received from public housing program tenants.
- 1H. Support or reimburse HUD for ineligible housing assistance payments totaling \$4,592.
- 1I. Support or reimburse HUD for unsupported housing assistance payments totaling \$93,578.
- 1J. Establish and implement procedures for the Section 8 program to clearly identify and track emergency repair items to ensure that they are corrected within 24 hours as required.
- 1K. Establish and implement adequate controls and procedures to ensure that tenant eligibility and assistance payment amounts are properly determined. This process should include additional training for Authority staff and supervisors that perform quality control reviews as well as procedures for routine supervisory oversight of staff that perform tenant file reviews.

SCOPE AND METHODOLOGY

We performed our audit work at the Authority offices in Nogales, Arizona, and Public Housing from August 2008 through May 2009. The audit generally covered the period from July 2006 through June 2008. To accomplish our audit objective, we

- Reviewed HUD regulations, notices, and handbooks and the *Code of Federal Regulations*;
- Interviewed appropriate HUD officials from Public Housing;
- Interviewed Authority personnel including Section 8 and public housing program administration staff;
- Reviewed records maintained by HUD pertaining to the Authority including recent monitoring review reports;
- Reviewed the Authority's single audit reports for the fiscal years 2006 and 2007;
- Reviewed the Authority's annual plan; and
- Reviewed the Authority's most recent nine Section 8 assessment tenant file quality control reviews and a nonstatistical random sample of 12 tenant files (including five Section 8 files and seven public housing program files)

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 objectives are achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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:

- Administration of the Section 8 and public housing programs' oversight and monitoring including controls to ensure that housing authorities comply with HUD's program requirements.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- Public Housing's monitoring process did not always identify and/or properly address problems at the Authority.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1E	\$171,601	
1H	\$4,592	
1 I		\$93,578

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

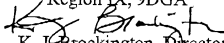
Auditee Comments



JUN 12 2009

U.S. Department of Housing and Urban Development
Office of Public Housing
Los Angeles Field Office, Region IX
611 W. 6th Street, Suite 1100
Los Angeles, CA 90017

MEMORANDUM TO: Joan S. Hobbs, Regional Inspector General for Audit
Region IX, 9DGA

FROM: 
K. J. Brockington, Director, Los Angeles Office of
Public Housing, 9DPH

SUBJECT: Response to the Draft Audit Report Regarding the Adequacy of the
Phoenix Field Office's Procedures for Monitoring the Nogales
Housing Authority

This Office has reviewed the draft audit report and conducted several discussions with the Phoenix Field Office regarding the draft report. The report includes 11 recommendations and identifies \$171,601 in questionable costs at the Nogales Housing Authority (NHA). Based on our review, we provide the following comments:

Comment 1

General comments: The draft audit often cites Public Housing for not reviewing public housing tenant files and includes deficiencies it identified during the auditor's review at NHA. It should be noted that Public Housing did not conduct any public housing file reviews at the NHA during its 2007 Limited Review and all subsequent reviews were related only to SEMAP.

Comment 2

Request rewording of Finding 1: Public Housing did NOT Fail to Identify and/or Properly Address Problems at the Authority. In the end, only a few weaknesses were noted, so this should not even be a finding.

The draft audit cites Public Housing for "failing" to identify deficiencies at the NHA. Along with Public Housing's 2007 Limited Management that identified 17 findings, numerous SEMAP Reviews/Reports have been issued. The audit also cites Public Housing for "failing" to issue a 2006 SEMAP Confirmatory and Quality Control Review. The deficiencies were issued in the SEMAP Confirmatory Review that is attached as a separate report to the 2007 Limited Management.

Comment 3

Recommendation 1A – Implement procedures to ensure that monitoring findings are fully resolved and corrective actions are implemented. These procedures should include an assessment of the housing authority's capacity to implement its planned corrective actions.

Response: This recommendation should be deleted. It should be noted that the deficiencies identified in the SEMAP 2006 Review along with some being noted in the 2007 Limited Management Review. Public Housing did require a Corrective Action Plan (CAP) to be submitted for the 2007 Review.

Although the 2007 SEMAP portion of the Limited Review has been closed, the Limited Management Review portion remains open, pending closure of remaining findings.

Comment 4

The 2008 technical assistance visits and SEMAP review did address remaining deficiencies from the 2007 Reviews, as noted in the TA report. In addition, the status of remaining corrective actions from the 2007 CAP was reviewed with the NHA during the TA visits.

Recommendation 1B – Implement procedures to ensure that housing authorities within its jurisdiction document their review of criminal and prior eviction history checks.

Response: It is recommended that this recommendation be deleted. The NHA was utilizing the City of Nogales Police department to screen applicants and maintaining the background checks in tenant files. During the 2007 limited management review, the NHA was instructed to stop utilizing the police department because of conflict and privacy issue and to destroy records unless they were required for the purposes of termination or non-eligibility, and further instructed them to maintain those documents in a separate locked cabinet. In addition, Public Housing advised NHA and its PHAs to utilize checklists for new admissions, which includes listing criminal background checks or make notes to file that a background check was completed. Many of the PHA's utilize the Lindsey Tenant PI software which generates a list of inquiries (applicant/tenant names) that have been entered which is provided upon request. The NHA contracted with Lindsey's Tenant PI software in 2007 and began utilizing the system to screen applicants. During the June 2008 SEMAP Confirmatory Review, an overview of the software and tenant screening was reviewed and determined to be compliant with HUD requirements.

Comment 5

Recommendation 1C – Begin enforcing HUD's requirement for immigration status verifications and provide guidance to housing authorities regarding proper procedures for performing such verification when the Immigration and Naturalization Service's Verification system is not available. This process should include procedures for verifying the status of all eligible noncitizens that may not have been properly verified in the past due to complications with the Verification system.

Response: This recommendation should be deleted. Public Housing identified deficiencies during a Limited Management Review and SEMAP Confirmatory review (reviews) conducted in April 2007. Public Housing issued a formal report outlining those deficiencies identified during the reviews and corrective actions to be taken by the Authority on September 14, 2007. The deficiencies were not identified as isolated incidents but as systematic deficiencies with corresponding corrective actions. Public Housing's monitoring and follow up procedures consisted of remote technical assistance and on-site technical assistance visits in September 2007, January 2008 and May 2008. During the technical assistance visits, training, guidance and resources were provided to Authority staff to assist in correcting deficiencies identified during the reviews.

The NHA has continually attempted to obtain access to the SAVE system, and to date, only receives a pending application status. In the absence of being able to verify immigration status in SAVE, Public Housing has and continues to advise NHA and other PHAs to comply with 24 CFR Part 5.Subpart E, and to maintain copies of required immigration status documentation in the files.

Comment 6

Recommendation 1D – Implement procedures to enforce HUD’s tenancy addendum requirement for Section 8 unit leases.

Response: This should be deleted. In accordance with 24 CFR 982.308 (b), the HAP contract prescribed by HUD will contain the owner's certification that if the owner uses a standard lease form for rental to unassisted tenants, the lease must be in such standard form that contains the tenancy addendum verbiage. During Public Housing’s review of tenant files, where the HAP Contract was required, an executed HAP Contract was in the tenant file. HUD’s tenancy addendum is part C of the HAP Contract.

In addition, during Public Housing’s 2007 Limited Review, the NHA was cited (finding 13) because leases lacked provision in the HUD tenancy addendum that did not comply with regulations that govern tenancy and leasing of a unit.

Comment 7

Recommendation 1E – Determine the eligibility of the Authority’s questionable pension plan costs totaling \$171,601 and require the Authority to reimburse HUD for those costs if appropriate.

Response: In 2004, the NHA paid \$171,601.28 on behalf of eight employees for retroactive payments or “purchase service” to the Arizona State Retirement System (ASRS). The payments were necessary to allow their future retirement benefits eligibility to be based on their employment start with NHA, even though they were beginning their enrollment with the ASRS at a later date. The payment was to make up for the years that the employee and employer (NHA) were not making contributions to the ASRS program.

The NHA was a semi-autonomous housing authority until 2001 when the City of Nogales demanded that the Housing Authority become part of City of Nogales. The NHA did not have a pension plan in place until 1991 when it started a program with a private company, the Housing Renewal and Local Agency Retirement Plan (HRLARP). In the negotiations bringing the Housing Authority back with the City of Nogales, the City agreed to absorb the housing authority into the pension plan used the City of Nogales, the Arizona State Retirement System and to make the pension plan retroactive to the date each employee started their employment with the Housing Authority. The City determined what was financially required by the ASRS to make the employees eligible from pension benefits based on their original start date. The “service purchase” cost is based on Actuarial Present Value. The amounts in HRLARP plan for each employee were transferred to the ASRS plan however the remaining balance of service purchase was billed to the NHA. The NHA paid \$171,601.28 from low income public housing reserves to cover the service purchase cost for the eight employees.

Because pension plan costs are eligible items, Public Housing believes that the retroactive payment was an acceptable use of the funds, but is requesting a legal opinion for confirmation.

The draft audit further recommends that the Phoenix Office of Public Housing require the NHA to comply with the following recommendations:

Comment 8

Recommendation 1F – Establish and implement procedures to ensure correction of deficiencies found during public housing inspections.

Response: We recommend this be deleted. During a Limited Management Review conducted by PH in April/May 2007, an assessment of the Authority's Property Maintenance was performed and reviewed the effectiveness of the overall maintenance operations, upkeep of the PHA's facilities, grounds and equipment, staff qualifications and capabilities. This includes the activities associated with PHA maintenance, utilities, modernization, demolition and disposition, procurement and inventory control. The results of the NHA's overall quality of maintenance of the PH units, grounds and equipment was deficient in providing analysis data comparing Uniform Physical Condition Standards (UPCS) with their local building code and high Vacant Unit Turnaround Time (VAT). The report also noted the NHA had instituted a Quality Control (QC) Program for Maintenance work and Annual Inspections.

Since 2003 and prior, the NHA has had in place a Maintenance Policy, as well as an internal Work Order Control System which deals with the procedures for generation, completion and closing out of Work Orders generated by the tenant, maintenance personnel, inspectors and other staff in Low Rent Public Housing units. When the Annual Inspections of the Low Rent Public Housing units are completed, the inspector either calls in a work order for necessary repairs, or completes one upon return to the office. The Work Order is then processed in accordance with NHA's Maintenance Policy. If the required repair is for an item that is considered an emergency, upon completion of the repair, the inspector returns to the Low Rent Public Housing unit for a re-inspection prior to passing of the unit inspection. If the repair is non-emergency in nature, and dependent on the extent of the deficiency, a re-inspection may be required; however, usually no re-inspection is required.

Public Housing conducted an AMP Review at the NHA in April 2009, and found that deficiencies identified during public housing inspections were being corrected. Work orders were generated after the inspection and repairs were made.

Comment 9

Recommendation 1G – Establish and implement internal controls over rental payments received from public housing program tenants.

Response: This should be deleted or the language in the narratives leading to this recommendation should be revised to reflect that Public Housing did not "fail" to identify this deficiency during the 2007 Limited Review (which did not include a Financial Review). During a Limited Management Review conducted by Public Housing in April/May 2007, some financial deficiencies were noted and referred to the Financial Analyst, who conducted a remote evaluation. Based on the evaluation, a decision was made to conduct an onsite Financial Review at some future date. The Financial Review was conducted May 1, 2009 and is pending issuance. Public Housing reviewed internal controls over rent payments and observed the following: the public housing case worker entered the deposits into the software, the finance person filled out the deposit and the inspector dropped off the deposits at the bank. The supervisory oversight will be addressed with them in our review report.

Comment 10

Recommendation 1H – Support or reimburse HUD for ineligible housing assistance payments totaling \$4,592.

Response: No comment is provided pending OIG's response to Public Housing's disputed recommendations.

Recommendation 1I – Support or reimburse HUD for unsupported housing assistance payments totaling \$93,578.

Response: No comment is provided pending OIG's response to Public Housing's disputed recommendations.

Recommendation 1J – Establish and implement procedures to clearly identify and track emergency repair items to ensure that they are corrected within 24 hours as required.

Response: This recommendation should be deleted. The draft audit cited EH & S and HQS deficiencies interchangeably. Public Housing only reviewed SEMAP Indicator 6, HQS Enforcement for the NHA's SEMAP self assessment. EH & S violations apply to Public Housing and are assessed by REAC. An AMP review was conducted the week of April 27, 2009, and, based on files reviewed, revealed that the NHA was in compliance with this requirement.

Comment 11

Recommendation 1K – Establish and implement adequate controls and procedures to ensure that tenant eligibility and assistance payment amounts are properly determined. This process should include additional training for Authority staff and supervisors that perform quality control reviews as well as procedures for routine supervisory oversight of staff that perform tenant file reviews.

Response: We recommend this be deleted. The Limited Review by Public Housing in 2007 cited NHA for not conducting QC reviews in SEMAP. The SEMAP Confirmatory Review conducted in June 2008 reviewed the NHA's SEMAP Quality Control files for the period of April 1, 2007 through March 31, 2008, and cleared the Limited Review Finding. Note(s): The PHA's Administrative Plan applicable for the period of the review was outdated and noncompliant, however; criteria required under the regulations were applied.

During the SEMAP Confirmatory Review in June 2008, Indicator 3, Determination of Adjusted Income, assessed the NHA's use of third party to determine adjusted income and calculation of TTP. The sample size required was 8 tenant files and 12 files were reviewed (2 annual reexaminations and 10 new admissions). Note(s): NHA was advised that because EIV verification is not available for new admissions, NHA must utilize other third party verification (i.e. SSA, DES, Aztecs etc.). If third party verification is unavailable, the NHA must use documents (i.e. pay stubs, letters of employment) and if documents are not available, then use applicant self declaration. TTP calculation sheets demonstrated third party was utilized in the calculation of TTP, tenant rent and HAP in accordance with 7420.10G Housing Choice Voucher Guidebook, Chapter 5 Eligibility and Denial of Assistance, Exhibit 5-5 Verification Requirements.

The SEMAP Confirmatory Review of June 2008, Indicator 2, Rent Reasonableness, assessed whether the NHA has and implements a reasonable written method to determine the rent to owner is reasonable at the time of initial leasing and before any rent increase. The sample size required was 8 tenant files and 19 files were reviewed. Note(s): The process in how the NHA determined rent reasonableness was evaluated.

- The NHA utilized the certification on the Request for tenancy Approval HUD form 52517 by the owner that the rent charged for the assisted unit was not more than unassisted comparable units.
- The PHA utilized an in house rent reasonableness comparability (RRC) form to list the unit to be assisted and two (2) of the comparables provided by the owner.

Enterprise Income Verification Training was provided on **June 27-28, 2007**, (see slides located at <http://hudatwork.hud.gov/services/webcasts/2007-06-27slides.pdf>) April 2008 and again in July 2008, and attended by NHA staff each year.

In addition, the training provided (above) recommended and encouraged PHAs to utilize EIV and paystubs and only obtain third party verification if a resident/tenant disputed the income reported in EIV (see slides 10, 11 and 12). Additionally, PIH Notice 2004-01 provides Verification Guidance to PHA's to assist in the development of verification policies and outlines the following verification methods:

1. Upfront Income Verification
2. Written Third Party Verification
3. Oral Third Party Verification
4. Document Review
5. Tenant Certification

NHA staff has also received the following training related to this subject:

- Nan McKay's HCV Specialist Training, June 2006 (2 NHA staff)
- Nan McKay's Public Housing Occupancy, April 2006 (1 NHA staff)
- Nan McKay's HCV Occupancy, April 2007 (1 NHA staff)
- Nan McKay's HCV Occupancy Specialist, April 2007 (1 NHA staff)
- Nan McKay's HCV HQS Specialist, March, 2007 (1 NHA staff)
- Lindsey Software, August 2007 (1 NHA staff)
- EIV Training by HUD, February 2009, (3 NHA staff)
- Nan McKay Public Housing Occupancy, May 2009 (3 NHA staff)
- Nan McKay HCV Rent Calculations, May 2009 (2 NHA staff)

If there are any questions related to Public Housing's response, please contact Barbara Gallegos at Barbara.A.Gallegos@hud.gov, or at (602) 379-7118.

OIG Evaluation of Auditee Comments

Comment 1 HUD's Los Angeles Office of Public Housing HUD stated the audit report erroneously "cited" The Phoenix Office of Public Housing (Public Housing) for "not reviewing public housing tenant files".

We agree that Public Housing may not have performed any review of the Authority's public housing tenant files; however, the audit report did not cite this as a specific deficiency. The audit found that Public Housing did not always identify and/or properly address significant deficiencies at the Authority and attributed this deficiency in part to Public Housing's failure to determine whether the problems it did find were isolated incidents or systemic deficiencies. In fact, many of the issues the audit identified with the Authority's Section 8 Program-- such as failure to properly perform and document income verification efforts, failure to obtain verifications from the U.S. Department of Homeland Security's SAVE¹ system, and failure to document reviews of criminal background checks-- apply to both the Section 8 and Public Housing programs. Moreover, the policies that the Authority applied were similar for both programs. If Public Housing had properly addressed the problems identified as systemic process issues at the Authority, the problems should have been corrected for both programs. We further note that the same individual at the Authority oversaw both programs and the procedures being applied were nearly identical.

Comment 2 HUD's response stated that the discrepancies it identified as part of its 2006 review were issued as part of the Limited Management Review performed in 2007.

HUD's response confirms that Public Housing did not issue a report regarding problems that existed at the time of the 2006 review until after a subsequent review was performed the following year which found that problems had not been corrected. Public Housing's 2006 Section 8 assessment review was performed July 24-27, 2006 and no related findings were issued to the Authority until September 14, 2007, over one year later. Thus, Public Housing was aware of significant problems at the Authority at the time of its monitoring in 2006 and should have followed up to ensure timely corrective actions were implemented. HUD's response indicated it was acceptable to wait for over a year to enforce a corrective action plan. This approach underscores our conclusion that improvements are needed to ensure that Public Housing's monitoring findings are fully resolved and corrective actions are implemented in a timely manner.

Comment 3 HUD's response noted that Public Housing's reviews resulted in some findings and that a corrective action plan was required as part of its 2007 review. HUD stated that Public Housing also considered the deficiencies identified during the 2007 review during the technical assistance visits performed in 2008. HUD also

¹ Systemic Alien Verification for Entitlements (SAVE) system

noted that some findings from the Limited Management Review have not been closed.

As noted in the audit report, Public Housing's monitoring process, including its technical assistance visits performed in 2008, did not ensure that previously identified deficiencies were corrected. The specific deficiencies are outlined within the audit report.

HUD's response noted that findings from its 2007 review remain open and, at the exit conference meeting with OIG in May 2009, Public Housing also indicated that the finding regarding the Authority's process for determining adjusted tenant income was among the findings that remained open. The fact that findings from Public Housing's 2007 review related to the Authority's procedures for determining tenant income (a cornerstone of the public housing program's integrity) remained unresolved over two years after the review was performed (and over a year since the last technical assistance visit was performed) reinforces our conclusion that improvements are needed to ensure that Public Housing's monitoring findings are fully resolved and corrective actions are implemented in a timely manner. Furthermore, although HUD did not provide any detail on why the findings remain open, we question whether Public Housing was actively addressing the corrective actions at the time of our audit. For example, at the time we met with HUD for an entrance conference on August 28, 2008, Public Housing management and staff indicated that there were no open findings other than issues related to obtaining copies of Board meeting minutes and an updated procurement policy. Also, at that time, the Authority itself stated it was only aware of these two remaining open findings. Accordingly, the Authority was apparently unaware of any open findings regarding its process for determining tenant income, and was not actively addressing its performance in this area.

Comment 4 HUD's response indicated the Authority's procedures for criminal background checks are deemed sufficient. HUD noted that the Authority uses the Lindsey software system to run the criminal background reports and this system generates a list of inquiries "which is provided upon request".

We disagree. During the audit, OIG requested that the Authority provide documentation to support the performance of criminal background checks and the Authority indicated they did not have anything to support this. Also, as noted in the audit report, 19 of the 21 files reviewed by OIG did not contain records that supported the performance of background checks. Without documentation to support the Authority's review of criminal background reports, any management or audit review could not determine whether appropriate Authority staff reviewed the report and found that the results were acceptable prior to entering into the housing assistance contract.

Comment 5 HUD stated the Authority is unable to access the SAVE system, and therefore Public Housing has instructed the Authority to maintain copies of the immigration documents provided by the prospective tenant. HUD also stated “the NHA [Authority] has continually attempted to obtain access to the SAVE system...”.

As noted in the audit report, Public Housing did not properly address the Authority’s failure to use this system to verify the documents submitted by the prospective tenant. According to Authority staff, they had not used SAVE to verify immigration status as required since February 2007 (over two years ago). While HUD’s response claims the Authority has continually attempted to obtain access to the SAVE system, our review did not support this assertion. For example, when asked about what action had been taken to address the lack of access to the SAVE system, Authority staff indicated only that they attempted to call the SAVE system administrator yet found they had an incorrect telephone number. Furthermore, according to discussions with officials at the Department of Homeland Security (Homeland Security) which operates the SAVE system, there have been no prolonged system outages and access problems for individual users can usually be resolved within a few days. Also Homeland Security officials indicated that users could perform immigration status verifications using a manual form if access to the automated system is interrupted. Finally, officials at one other housing authority within the Phoenix Field Office jurisdiction stated that they have had no problems accessing the SAVE system.

HUD’s response states Public Housing advised the NHA to “maintain copies of required immigration status documentation in the files”. We agree that the PHA must require persons claiming eligible immigration status to present appropriate immigration documents; however, the PHA is also required to verify this documentation through the Department of Homeland Security. As stated in the Housing Choice Voucher Guidebook “The PHA must conduct primary verification of eligible immigration status through the INS automated system², Systematic Alien Verification for Entitlements (SAVE). The audit found the Authority did not perform this verification which is required in addition to obtaining immigration documentation from the prospective tenant.

Public Housing should begin enforcing HUD’s requirement for immigration status verifications and provide guidance to housing authorities regarding proper procedures for performing such verification if they cannot access the SAVE system.

² The SAVE system is now administered by the Department of Homeland Security

Comment 6 HUD stated the housing assistance payment contract includes a certification by the owner that the lease will contain the tenancy addendum and noted that the housing assistance contract includes the tenancy addendum. HUD also stated its 2007 review included a finding that the Authority's leases lacked the tenancy addendum provisions.

HUD's response reinforces the fact that Public Housing did not always apply the correct standards when performing reviews and that it did not ensure some of its monitoring review findings were corrected. Public Housing's 2007 review cited the Authority's failure to include the tenancy addendum as part of its Section 8 leases, yet HUD's response now asserts that it need not enforce this requirement because the "owner's certification" in the housing assistance payment contract states the addendum will be included in the lease. In fact, Public Housing staff indicated that landlords were generally not using the Addendum, so in effect, HUD's position is that a certification it knows to be false is sufficient to satisfy the regulatory requirement that the lease contain the addendum.

As noted in the audit report HUD did not require the Authority to implement corrective actions to address this deficiency that was noted as part of its 2007 review. HUD's response cited requirements for the housing assistance payment contract yet failed to acknowledge the following specific regulatory requirements for Section 8 leases which clearly require that housing authorities (PHAs) ensure the tenancy addendum is included in both the housing assistance payment (HAP) contract and the lease.

- 24 CFR 982.162 requires that "the PHA must use program contracts and other forms required by HUD headquarters, including ...the tenancy addendum required by HUD (which is included both in the HAP contract and in the lease between the owner and the tenant)".
- 24 CFR 982.305 (a)(3) requires that "the PHA may not give approval for the family of the assisted tenancy, or execute a HAP contract, until the PHA has determined that ...the lease includes the tenancy addendum."

During recent discussions with OIG, Public Housing staff acknowledged the tenancy addendum requirements were not being enforced and stated they were unable to enforce these requirements for Section 8 leases because there was no regulatory requirement that PHA's maintain a copy of the lease. This is incorrect. 24 CFR 982.158 requires that during the term of each assisted lease, and for at least three years thereafter, the PHA must keep a copy of the executed lease.

HUD should implement procedures to enforce HUD's existing tenancy addendum requirement for Section 8 unit leases.

Comment 7 HUD's response states it will request a legal opinion to address the Authority's questionable pension fund expenses.

HUD's response indicates agreement with OIG's recommendation to determine the eligibility of these costs. We will concur with this proposed management decision once an acceptable target date has been established.

Comment 8 HUD's response states the Authority's procedures for inspections included procedures to generate work orders after inspections and that Public Housing found the Authority's procedures acceptable.

At the time of OIG's audit, Authority staff stated the Authority did not follow up to ensure that a work order was created for public housing inspection findings that were not considered an emergency. Authority staff stated that a repair work order was only created for these items if the tenant called the Authority office to report the problem. Authority staff further explained that in some cases, tenants did not call the Authority and the needed repairs were not performed. Also Authority staff stated some tenants complained to the authority and questioned why the inspections were even completed since the related repairs were not performed.

Public Housing's 2007 limited management review found the Authority did not have proper written policies for its maintenance operations, yet the review did not address the Authority's failure to implement procedures to ensure work orders were created for needed repairs identified during Public Housing inspections. Public Housing closed its finding regarding the Authority's maintenance policy and did not require the Authority to implement appropriate procedures for creating work orders based upon inspection results.

HUD's response states Public Housing's review performed in April 2009 found this deficiency has been corrected at the Authority. Accordingly, Public Housing can provide support for the corrective action as part of the Management Decision for Recommendation 1F.

Comment 9 HUD's response asserts that it was not responsible for discovering the Authority's failure to implement controls over rental receipts because it did not conduct a "Financial Review" until after OIG's audit in May 2009. HUD's response also appears to indicate the Authority's supervisory oversight of the rental receipt process will be addressed as a deficiency in Public Housing's report for its May 2009 review.

As noted in the audit report, at the time of our audit Public Housing had not identified this issue during its oversight of the Authority. This is a very basic yet significant control that could have been addressed by reviewing the Authority's policy for rental receipts and internal controls or by asking the Authority what their procedures for rent collections were. In fact, the letter Public Housing sent to the Authority in preparation for the 2007 management review documents that

Public Housing requested “Cash management/internal control policy/procedures” indicating this area was, or was intended to be, a part of the management review. Also, Public Housing’s report for the 2007 management review found “the NHAs financial management Policies are not in compliance with current HUD regulations or requirements”. The Authority provided revised cash management, internal control and rent collection policies to Public Housing in response to the 2007 review. The revised policies did not include procedures for proper separation of duties, yet this deficiency was not addressed.

HUD should require the Authority to establish and implement proper internal controls over the rental payments it receives from public housing program tenants.

Comment 10 HUD’s response states Public Housing recently reviewed some Authority files (in April 2009) and found the Authority was “in compliance” with requirements for emergency repairs. HUD’s response also notes that Public Housing’s review of emergency repair procedures only covered indicator 6 (HQS enforcement) of the SEMAP self assessment.

As stated in the audit report, Public Housing’s 2007 SEMAP review identified this issue as a problem for Section 8 inspections. Public Housings review included a corrective action requiring the Authority to “develop a tracking system log that documents 24 hour life-threatening repairs...”. Public Housing closed out this finding but did not ensure that the corrective action was fully implemented. For example, Public Housing’s monitoring performed in 2008 evaluated this area again and included a review of the letters used by the Authority to support its enforcement of housing quality standards. However, the review did not determine whether the Authority properly tracked emergency repair items or had a consistent process for ensuring that these items were resolved within 24 hours. As stated in the audit report, notification letters used by the Authority to communicate needed repair items to the unit owner (and to support the Authority’s enforcement of Section 8 housing quality standards), did not indicate which items, if any, were considered emergency items that required correction within 24 hours.

HUD should require the Authority to establish and implement procedures to clearly identify and track emergency repair items to ensure that they are corrected within 24 hours as required.

Comment 11 HUD’s response indicates it has reviewed the Authority’s procedures for verifying tenant income and that the Audit report recommendation to implement adequate controls and procedures over tenant eligibility and HAP amount determinations is not needed.

HUD’s response further demonstrates the point made in the audit report that Public Housing did not apply the correct standards when performing its reviews. Public Housing’s continued failure to recognize deficient income verification

practices represents a significant internal control weakness within the Department that could result in substantial program abuse if not corrected immediately. For example, at the Authority, we found 10 of the 21 sample files reviewed during the audit did not contain proper income verification documentation. Nevertheless, Public Housing has not required effective corrective action and further has opined that the audit report recommendation to correct the Authority's procedures is not necessary. HUD's response refers to verification methods which can be used if third party verification is not available yet fails to acknowledge HUD's requirement that the Authority document why third party verification was not available. Public Housing was allowing the Authority to use tenant provided documents without any requirement that the Authority properly document why it was necessary to use these less reliable forms of verification. This practice is not in compliance with HUD's program requirements and guidance on this matter which are very clear. For example,

- 24 CFR 982.516(a) requires that PHAs must document within the Section 8 tenant file third-party verification or why third-party verification was not available.
- 24 CFR 960.259 requires that PHAs must obtain and document third party verification of factors affecting the determination of adjusted income for Public Housing applicants including reported family income, or must document in the file why third party verification was not available.
- These regulatory requirements are explained further in Public Housing Notice 2004-01 which was issued after it was found substantial number of housing assistance program participants were not accurately reporting their income. It states "PHAs should begin with the highest level of verification methods. The use of lower level verification methods will place a higher burden on the PHA to justify its use of that particular verification method rather than a higher level of verification methods." This notice provides specific examples of proper and improper procedures for documenting the unavailability of third party verification. The example of improper documentation was precisely consistent with the procedures in place at the Authority, while the example of proper documentation specified the following information should be documented: a detailed account of when third party verification attempts were made, where requests were sent, what type of verification was requested, who the Authority staff spoke to, and what the contacted party said. Without such documentation Authority supervisors, HUD, the OIG or any other party reviewing the Authority's compliance can have no assurance that third party verification was pursued as required.
- The requirements for third party verification are also explained in Section 5-6 of HUD's Housing Choice Voucher Guidebook which indicates proper verification of income and other factors is intended to be a through

attempt to verify the information taking “a significant amount of time and attention”. The guidebook further states “When the preferred verification form is not successful and staff resort to the second or third alternative, staff must record in the tenant file efforts to obtain preferred forms of verification and the reason an alternative method was used.” The Guidebook also states, “if third party verification is not received in a timely fashion, the PHA should choose an acceptable alternate form of verification and document the effort made by the PHA to obtain third party verification.”

- The requirements for third party verification are also explained within the Authority’s PHA plan with which it is required to comply under its Annual Contributions Contract with HUD. Section 7-6 of the Authority’s PHA plan states “the NHA will make a minimum of two attempts, one of which may be oral, to obtain third-party verification. A record of each attempt to contact the third-party source (including no-answer calls) and all contacts with the source will be documented in the file.” Regarding third-party oral verification the plan states “NHA staff will record in the family’s file the name and title of the person contacted, the date and time of the conversation (or attempt), the telephone number used, and the facts provided.

As noted in the audit report, the Authority routinely used documents provided by tenants such as pay stubs and written statements in lieu of third-party verification without providing a sufficient explanation and documentation as required. Public Housing failed to follow up to ensure that this deficiency was corrected.

HUD’s response notes that housing authorities can now use the Enterprise Income Verification system (EIV) in lieu of traditional third party verification. We note that EIV is not currently available for tenants entering the program for the first time and in these cases, traditional third party verification will still be required. Also, the 10 files reviewed by OIG that were found to lack proper income verification documentation did not contain EIV verification documentation.

HUD should require the Authority to establish and implement adequate controls and procedures to ensure that tenant eligibility and assistance payment amounts are properly determined. Additionally, Public Housing should implement procedures to ensure that corrective actions are implemented for all housing authorities that fail to document efforts to obtain third party verification and why such efforts were unsuccessful.

Appendix C

SCHEDULE OF DEFICIENCIES FOUND IN 21 FILES

Section 8 tenant files (14)

Sample Number	Ineligible Amount	Unsupported Amount	Total Assistance Payments	Findings	Finding Notes
1	\$	\$ 3,133	\$ 3,133	A, H	(findings applicable to review effective July 18, 2008).
2	\$	\$ 12,431	\$ 12,431	A, D, H	Used paystubs as verification of income without explanation of why third- party verification could not be obtained (findings applicable to review effective April 1, 2008).
3	\$	\$ 7,528	\$ 7,528	A, H	(findings applicable to review effective July 1, 2008).
4	\$	\$ 3,480	\$ 3,480	A, H, I	Claimed "full time student" dependant without supporting documentation (findings applicable to review effective July 1, 2007 & July 1, 2008).
5	\$	\$ 17,157	\$ 17,157	D, H, M	Income not verified, missing release of information, no lease (findings applicable to review effective March 1, 2008).
6	\$ 1,104	\$ 3,526	\$ 4,630	A, B, E, H	Rent amount incorrect on HAP contract, incorrect utility allowance, (findings applicable to review effective December 3, 2007).
7	\$	\$ 10,658	\$ 10,658	A, D, H	No third-party verification for income (child support) (findings applicable to reviews effective August 27, November 1, and December 1, 2007).
8	\$	\$ 1,189	\$ 1,189	A,D, E, H J, N	No third-party verification for income, incorrect utility allowance, missing statement of non-contention (findings applicable to review effective January 7, 2008).
9	\$	\$ 4,368	\$ 4,368	A, D, H, L	Income not verified, no documentation of Verification system report, (findings applicable to review effective March 1, 2008).
10	\$	\$ 5,776	\$ 5,776	A, E, H, O, P	Incorrect utility allowance, no Rent Reasonableness Certificate, no re-

					inspection on "Failed" inspection. (findings applicable to review effective March 1, 2008)
11	\$ 1,364	\$ 5,020	\$ 6,384	A, C, D, H	Incorrect income calculation, Income not verified (findings applicable to review effective November 2, 2007).
12	\$	\$ 11,858	\$ 11,858	A, H, L, N,	No documentation of Verification system report, (findings applicable to review effective February 13, 2008).
13	\$	\$ 3,174	\$ 3,174	A, D, L, N	No documentation of Verification system report, income not verified, (findings applicable to review effective November 2, 2007).
14	\$ 2,124	\$ 4,280	\$ 6,404	A, C, H, N	Incorrect income calculated (findings applicable to review effective March 1, 2008).
Total	\$ 4,592	\$ 93,578	\$98,170		

* HAP = housing assistance payment

** 50058 = Form HUD 50058, a module of the Public and Indian Housing Information Center system that collects, stores, and generates reports on families who participate in public housing or Section 8 rental subsidy programs

Public housing tenant files (seven)

Sample number	Findings	Finding notes
1	A, F, J, K	No background check documentation, missing 2008 annual recertification and inspection, missing statement of noncontention, no asset verification (tenant shows as joint owner of property) (findings applicable to review effective August 1, 2007).
2	A	No background check documentation (findings applicable to review effective June 26, 2008).
3	D, J	No third-party verification of income or child support, missing statement of noncontention (findings applicable to review effective April 14, 2008).
4	A, C, D	No background check documentation, incorrect income calculation, no third-party verification of income (5/1/08 only), missing inspection report (4/1/07 only) (findings applicable to review effective March 1, 2007, April 1, 2007, and May 1, 2008).
5	A, J	No background check documentation, missing statement of noncontention (findings applicable to reviews effective May 1, 2007, and June 1, 2008).
6	A, D, L	No background check documentation, no documentation of Verification system report, no third-party verification of income (findings applicable to review effective July 25, 2008).
7	A, L	No background check documentation, no documentation of Verification system report (findings applicable to review effective August 10, 2007).

Legend	S8	PH
A - No Background or eviction verification performed	13	6
B - Incorrect rent amount	1	0
C - Incorrect income calculation	2	1
D - Income not properly verified	7	3
E - Incorrect utility allowance	3	0
F - No recertification documentation	0	1
G - No issues noted	0	0
H - No lease and/or tenancy addendum	13	0
I - No exemption documentation	1	0
J - No noncontention statement	1	3
K - No asset verification	0	1
L - No Systematic Alien Verification for Entitlement Report (SAVE)	3	2
M - Missing release of information form	1	0
N - HAP & Lease dates do not run concurrently	4	0
O - No Rent Reasonableness	1	0
P - No re-inspection on "Failed" Inspection	1	0

Appendix D

CRITERIA

24 CFR (*Code of Federal Regulations*) 982.516(a): The authority must conduct a reexamination of family income and composition at least annually and document in the tenant file third-party verification or why third-party verification was not available.

24 CFR 5.240(c): The responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment as appropriate, based on such information.

24 CFR 982.158(a): The public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit.

24 CFR 982.308(b)(2): The Section 8 lease must include HUD's prescribed tenancy addendum.

24 CFR 982.158(e)(1): Housing Authorities must maintain a copy of the executed lease for Section 8 units during the term of the lease and for at least 3 years thereafter.

24 CFR 982.553: The Authority is required to deny eligibility for three years (from the date of eviction) if a household member had been evicted from federally assisted housing for drug-related criminal activity. Eligibility must also be denied to those with a lifetime registration requirement under a state sex offender registration program.

The Authority's administrative plan includes eligibility criteria related to tenants' criminal history that could prohibit a potential tenant's eligibility for participation in the program.