



Issue Date August 15, 2008

Audit Report Number 2008-PH-1012

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH

FROM: *Generatory for*
John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The Delaware County Housing Authority, Woodlyn, Pennsylvania, Did Not Adequately Administer Its Housing Assistance Payments

HIGHLIGHTS

What We Audited and Why

We audited the Delaware County Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). We selected the Authority for an audit based on our analysis of various risk factors relating to the housing authorities under the jurisdiction of the U.S. Department of Housing and Urban Development's (HUD) Philadelphia regional office. This is the first of two audit reports that we plan to issue on the Authority's program. Our audit objective was to determine whether the Authority administered its housing assistance payments in compliance with HUD requirements and its own administrative plan.

What We Found

The Authority did not adequately administer its housing assistance payments in compliance with HUD requirements and its own administrative plan. It incorrectly calculated housing assistance and utility allowance payments and failed to execute housing assistance contracts in a timely manner, resulting in about \$58,900 in ineligible payments and more than \$3,300 in tenant underpayments. It also could not support more than \$26,500 in housing

assistance and utility allowance payments. If the Authority does not implement sufficient controls or procedures to ensure that its program is administered in compliance with HUD requirements, we estimate that over the next year it will pay more than \$926,300 in ineligible housing assistance.

What We Recommend

We recommend that HUD require the Authority to reimburse the program from nonfederal funds for ineligible payments of about \$58,900, reimburse the appropriate tenants or households more than \$3,300 for the underpayment of housing assistance and utility allowances, provide documentation or reimburse the program more than \$26,500 from nonfederal funds for unsupported payments, and implement sufficient controls or procedures to prevent ineligible payments of more than \$926,300 in program funds 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 or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the Authority on July 7, 2008. We discussed the report with the Authority during the audit and at an exit conference on July 10, 2008. Following the exit conference, we provided an updated draft to the Authority on July 21, 2008. The Authority provided written comments to our draft report on August 4, 2008. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Delaware County Housing Authority (Authority) was created by the Delaware County Council in January 1938. The Authority was created to address the lack of decent, safe, and sanitary housing for the low-income families in the Delaware County, Pennsylvania, area.

The Authority is governed by a board of commissioners made up of a chairman, vice chairman, secretary, assistant secretary, treasurer, and assistant treasurer. All members of the board, except the secretary, are appointed by the Delaware County Council. The appointed members of the board appoint a secretary who also acts as the Authority's executive director. The present executive director is Lawrence E. Hartley. The Authority employs a staff of approximately 75 individuals at its offices located at 1855 Constitution Avenue, Woodlyn, Pennsylvania.

The Authority is authorized to have 2,753 contracted units under its consolidated annual contributions contract with the U.S. Department of Housing and Urban Development (HUD). The contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance for fiscal years 2005 through 2007:

Authority fiscal year	Annual budget authority	Disbursed
2005	\$21,541,266	\$21,541,266
2006	\$20,026,512	\$20,026,512
2007	\$20,560,195	\$20,560,195
Totals	\$62,127,973	\$62,127,973

Our audit objective was to determine whether the Authority administered its housing assistance payments in compliance with HUD requirements and its own administrative plan. As part of this audit, we also reviewed the Authority's Family Self-Sufficiency program. Minor findings noted in relation to that program were separately communicated to the Authority in a letter, dated June 9, 2008.

RESULTS OF AUDIT

Finding: The Authority Did Not Adequately Administer Its Housing Assistance Payments

The Authority did not administer its housing assistance payments in compliance with HUD requirements and its own administrative plan. It often incorrectly calculated housing assistance and utility allowance payments and did not execute some of its housing assistance contracts within the required timeframe. It also did not have appropriate documentation to support housing assistance and utility allowance payments in more than 18 percent of the sample cases reviewed. These problems occurred because the Authority did not implement sufficient controls to ensure that it followed applicable requirements and did not assign sufficient staff to properly administer its tenant files and related assistance payments. As a result, the Authority made about \$58,900 in ineligible payments, underpaid tenants more than \$3,300, and was unable to support more than \$26,500 in payments. The Authority will also make approximately \$926,300 in ineligible payments from program funds over the next year if it does not implement sufficient controls or procedures to ensure that it administers its assistance payments in compliance with applicable requirements.

The Authority Incorrectly Calculated Housing Assistance and Utility Allowance Payments

We reviewed tenant files for 65 program participants. In 37 cases, the Authority incorrectly calculated housing assistance and/or utility allowance payments. As a result, it made ineligible overpayments of \$30,759 and underpaid tenants more than \$3,300. The payments were incorrectly calculated because of the following deficiencies noted in the files:

- 30 files had errors in the calculation of income for one or more certifications,
- Nine files had incorrect calculations for deductions from annual income,
- Six files had incorrect utility allowance calculations for one or more certifications,
- Five files had incorrect payment standards for one or more certifications,
- Two files had zero income reported by a member of the family that was not periodically certified by the Authority as required by its administrative plan, and
- Two files had unreported income by the household that the Authority became aware of in subsequent certifications through its use of HUD's Enterprise Income Verification (EIV) system; however, the Authority did

not determine the resulting overpayments to the households and accordingly set up repayment plans for the tenants as required by its administrative plan.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 6, describes the guidelines for calculating rent and subsidies. Chapter 22 of the guidebook describes the quality control procedures necessary for ensuring that the calculations are correct. Specifically, chapter 22 states that establishing good quality control procedures will help housing authorities to ensure that staff's daily decision making on tenant eligibility and tenant rent complies with program regulations and is based on accurate information. With respect to families that report zero income, the Authority's administrative plan requires interim certifications every 90 days for families that report zero income. The Authority's administrative plan also requires tenants to report any changes in their income within 10 days of the change. The plan further states that tenants are responsible for repaying any excess payments that result from their actions or inactions.

The Authority established and implemented a quality control review process as described in chapter 22 of HUD's Housing Choice Voucher Guidebook. The Authority's quality control reviews showed problems with the accuracy of its housing assistance and utility allowance payment calculations. However, it did not take action or implement procedures to stop the deficiencies noted during the reviews from recurring.

The Authority can reduce the risk of error associated with calculations of rent and subsidies by implementing quality control procedures to ensure that the results of its quality control reviews are used as a tool to reduce and/or prevent recurring deficiencies.

The Authority Made Ineligible Payments Because It Did Not Execute Assistance Contracts as Required

The Authority did not execute housing assistance contracts within 60 days of the beginning of the lease term as required in 6 of 65 cases reviewed. As a result, it made \$28,229 in ineligible housing assistance payments. In four of the six cases, the contracts were executed by the Authority after the allowed 60-day period. In the remaining two cases, the housing assistance contracts were never executed by the Authority. In both cases, the tenants have moved and are no longer active in the Authority's program.

The Authority's administrative plan and HUD requirements at 24 CFR [*Code of Federal Regulations*] 982.305 state that the Authority must make a best effort to ensure that the housing assistance contract is executed before the beginning of the

lease term and that the housing assistance contract must be executed no later than 60 calendar days from the beginning of the lease term. Any housing assistance contract executed after the 60-day period is void, and the Authority may not make housing assistance payment to the owner.

The Authority did not follow its own administrative plan and HUD requirements when it failed to execute the six housing assistance contracts within the required timeframe. Therefore, the \$28,229 paid to the applicable tenants while there were no executed contracts is ineligible.

The Authority Lacked Documentation to Support \$26,596 in Payments

The Authority lacked documentation to support housing assistance and utility allowance payments in the amount of \$26,596 for 12 or approximately 18 percent of the cases reviewed. Of the 67 files statistically selected for review, 10 were missing supporting documentation for income, one reflected an increase in the housing assistance payment that was not supported, and the Authority could not provide two of the files before the completion of our audit fieldwork due to errors in its archiving system.

According to 24 CFR 982.158, the 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. During the term of each assisted lease and for at least three years thereafter, the Authority must keep a copy of the executed lease, housing assistance payments contract, and application from the family. Also, the Authority must keep records that provide income data for three years.

Since the Authority lacked appropriate documentation for 12 sample cases, the \$26,596 in housing assistance and utility allowance payments made to the related tenants is unsupported.

The Authority Needs to Strengthen Its Controls

The miscalculations of housing assistance and utility allowance payments generally occurred as a result of administrative errors by the Authority's staff. The staff often did not use due care in calculating housing assistance and utility allowance payments. Authority staff also stated that housing assistance contracts were in some cases executed beyond the required 60-day timeframe because the staff lost track of the related tenant files.

The Authority also did not implement sufficient controls to ensure that its program was administered in compliance with HUD requirements and its administrative plan. The Authority performed quality control reviews as required by HUD; however, its management did not take action to stop the deficiencies noted during the reviews from recurring. The Authority needs to strengthen its control process by implementing procedures to ensure that the results of its quality control reviews are used as a tool to reduce and/or prevent recurring deficiencies.

The Authority Needs to Evaluate Its Staff Levels

During the period we reviewed, the Authority lost three or 30 percent of its 10 housing choice voucher occupancy aides. This situation may have created some difficulty for the Authority in terms of its case load management. Of the seven aides that remained, all had received Section 8 training; however, as of the end of our audit fieldwork on May 16, 2008, two had not passed the proficiency examinations.

The Authority had hired three additional aides to assist with its caseload; however, these individuals had not received formal Section 8 training as of the end of our audit fieldwork. Two of the aides were hired during our audit review period but were not assigned case loads before the end of our review period. The Authority should evaluate its staff levels and staff competencies with respect to its program and if necessary, make the appropriate adjustments to ensure that it has sufficient staff with the competencies required to administer the program in compliance with HUD requirements and its administrative plan.

Conclusion

The Authority failed to administer its program in compliance with HUD requirements and its own administrative plan. As a result, it paid about \$58,900 in ineligible housing assistance, underpaid more than \$3,300 in housing assistance, and made more than \$26,500 in unsupported housing assistance payments. The deficiencies in the Authority's administration of its program occurred because it did not implement sufficient controls to ensure that it followed applicable requirements and did not assign sufficient staff with the competencies needed to administer the program.

If the Authority does not implement adequate controls or procedures to ensure that it complies with HUD requirements and its administrative plan, we estimate that it will make more than \$926,300 in ineligible payments over the next year.

Our methodology for this estimate is explained in the Scope and Methodology section.

Recommendations

We recommend that the Director, Office of Public Housing, Pennsylvania State Office, require the Authority to

- 1A. Reimburse its Section 8 program from nonfederal funds \$58,988 for the ineligible housing assistance and utility allowance payments.
- 1B. Reimburse the appropriate households \$3,376 for the underpayment of housing assistance and utility allowances.
- 1C. Provide support or reimburse its Section 8 program \$26,596 from nonfederal funds for unsupported housing assistance and utility allowance payments.
- 1D. Improve its controls by implementing procedures to help reduce and/or prevent recurring deficiencies in its payments calculation process, and ensure that housing assistance contracts are executed as required, thereby helping to put to better use \$926,312 in ineligible payments over the next year.
- 1E. Evaluate and adjust its staffing levels if necessary to ensure that it has adequate staff with the competencies needed to administer its program in compliance with applicable requirements.
- 1F. Provide program training for all of its housing choice voucher occupancy aides who have not received training.

SCOPE AND METHODOLOGY

We performed our on-site audit work between October 2007 and May 2008 at the Authority's office located at 1855 Constitution Avenue, Woodlyn, Pennsylvania. The audit covered the period October 1, 2005, through September 30, 2007, and was expanded when necessary to include other periods.

To determine whether the Authority administered its program in compliance with applicable HUD requirements, we reviewed

- Applicable laws and regulations; the Authority's administrative plan; HUD's program requirements at 24 CFR Parts 5, 982, and 984; HUD's Public and Indian Housing Notice 2004-01; and HUD's Housing Choice Voucher Guidebook 7420.10G;
- The Authority's accounting records, annual audited financial statements for 2005 and 2006, tenant files, computerized databases including housing assistance payment and family data, board meeting minutes, organizational chart, and annual contributions contract; and
- HUD's monitoring reports for the Authority.

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

We performed our audit in accordance with generally accepted government auditing standards.

During the audit, we relied in part on computer-processed data in the Authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We statistically selected 67 of the tenants who received housing assistance payments during our audit period using a variable statistical sampling method developed by our computer audit specialist. The sampling criteria used a variable sampling methodology with a 90 percent confidence level and 10 percent precision. Our universe included 2,875 families that received more than \$35 million in housing assistance payments. We only reviewed 65 of the 67 sample cases because the Authority was unable to locate two tenant files before the completion of our fieldwork. To be conservative we treated the two files that were not reviewed as having no discrepancies.

The Authority made ineligible payments in the amount of \$58,988 for the period October 1, 2005, through September 30, 2007. The \$58,988 represents the sum of overpayments (\$30,759) from incorrect housing assistance and utility allowance calculations in 37 cases and ineligible payments (\$28,229) stemming from the Authority's failure to execute housing assistance contracts within the required timeframe in six cases. Three of the six cases were included in the 37 cases in which we found erroneous housing assistance and utility allowance calculations. Because of this overlap, we only associated ineligible payments with 40 of 65 cases reviewed.

Unless the Authority improves its housing assistance payment calculation process, as well as its execution of housing assistance contract processes, we estimate that it could make \$926,312 in ineligible housing assistance and utility allowance payments over the next year.

To determine our estimate of \$926,312 in potential ineligible payments over the next year, we used difference estimation techniques to project the sample results. This yielded a point estimate of \$5,679,288 in housing assistance and utility allowance overpayments during our two year audit period with overpayments of \$1,852,625 and \$9,505,951 based on the upper and lower limits respectively. For reporting purposes, we annualized the upper limit (\$1,852,625 divided by the audit period of 2 years) to obtain a one year estimate of \$926,312. The upper limit provides the most conservative estimate of potential ineligible payments over the next year. The estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use if the Authority implements our recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being 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. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that it calculated housing assistance payments correctly, properly maintained documentation in its tenant files, and properly administered its Family Self-Sufficiency program.
- 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.

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 Weakness

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

- The Authority did not implement sufficient controls to ensure compliance with HUD requirements and/or its program administrative plan with regard to calculations of households' housing assistance and utility allowance payments, execution of housing assistance contracts, and tenant file documentation (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$58,988		
1B			\$3,376
1C		\$26,596	
1D			\$926,312
Totals	\$58,988	\$26,596	\$929,688

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendations, it will use \$3,376 in program funds to serve its purpose of assisting eligible families and prevent approximately \$926,300 in program funds from being spent on ineligible housing assistance and utility allowance payments annually.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

DELAWARE COUNTY HOUSING AUTHORITY

1855 CONSTITUTION AVENUE, P.O. BOX 100, WOODLYN, PA 19094-0100
610-876-2521 FAX # 610-490-6246 TDD # 610-876-3341



July 31, 2008

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John P. Buck
Regional Inspector General for Audit
Philadelphia Regional Office, 3AGA
U. S. Department of Housing and Urban Development
The Wanamaker Building
100 Penn Square East
Philadelphia, Pennsylvania 19107-3380

RE: Draft Audit Report for Delaware County Housing Authority

Dear Mr. Buck:

During our entrance conference for this Audit I stated that Delaware County Housing Authority (DCHA) was entering into this process with a positive outlook that it would result in constructive recommendations that would help DCHA improve what we believe to be a well run Housing Choice Voucher Program. We did not expect that after a ten month review of our program it would result in a finding of no errors in our administration of the program. We believe that the draft report closely matches our expectations. Having read three audit reports of other similar size Housing Choice Voucher Programs in other parts of the country and our report which contains only one Finding confirms my belief that DCHA operates a good Housing Choice Voucher Program.

The comments below do not refute any facts contained in the report but provide a status report on actions planned and/or implemented as a result of our consultation with Regional Inspector General Staff throughout the Audit regarding the one finding and recommendation contained in the report.

MEMBERS
ANTHONY J. GROSSO, CHM.
PAUL G. MATTIUS
JAMES J. MARKS
FRANCIS J. BERNHARDT, JR.

EXECUTIVE DIRECTOR AND SECRETARY
LAWRENCE E. HARTLEY, P.H.M.

SOLICITOR
STEPHEN J. POLAHA, ESQ.

DELAWARE COUNTY, AN EQUAL OPPORTUNITY HOUSING AUTHORITY

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1. The Authority incorrectly calculated Housing Assistance and Utility Allowance Payments.

With respect to zero income tenants DCHA is improving its monitoring of zero income recertifications by the Director of Housing Choice Voucher Programs reviewing with staff every month a report of zero income clients indicating the date of their last recertification. The interim recertification will continue to be conducted every ninety (90) days until the client reports income.

With respect to the conduct of recertifications, DCHA is drafting a change to its Administrative Plan to eliminate interim recertifications and conduct only annual recertifications. HUD regulations do not require interim recertifications and as a result of declining administrative fees many Housing Authorities have discontinued interim recertifications. DCHA will continue to conduct thorough annual recertifications requiring clients to report all changes at that time.

The report indicates that DCHA established and implemented a quality control review process as required but must improve the follow up on weaknesses revealed by those reviews. Housing Choice Voucher Specialists and the Director of Housing Choice Voucher Programs are informed of all deficiencies by quality control reviews immediately and are expected to follow up. In the future the Director of Housing Choice Voucher Programs will closely monitor these reviews and provide both positive and negative feedback individually to staff members immediately following the review. The Director will then review common and frequent errors with the entire staff at weekly departmental meetings.

2. The Authority made ineligible payments because it did not execute Assistance Contracts as required.

The authority's administrative plan and HUD requirements at 24 CFR {Code of Federal Regulations} 982.305 state that the Authority must make a best effort to ensure that the housing assistance contract is executed before the beginning of the lease term. Although DCHA believes that it did make a best effort to ensure compliance, due to the staff levels as indicated in the audit report "This situation may have created some difficulty for the authority in terms of its case load management" those efforts may not have been adequate. The Director of Housing Choice Voucher Program has amended an internal rental integrity monitoring review checklist to include the following question.

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Mr. Buck
July 31, 2008

Comment 1

Was the contract approved within 60 days of the effective date of the lease? If no, send disapproval notice. Do not process the file.

3. The Authority lacked documentation to support \$67,522 in payments.

The Draft report indicated that DCHA could not retrieve six (6) required files from its archives. During the exit conference four (4) of the six (6) files were provided to the Auditor who agreed to review them.

4. The Authority needs to strengthen its controls.

In addition to monitoring internal quality control processes noting possible weaknesses, the Director of Housing Choice Voucher Program will meet with each employee individually every other week to review all issues that may arise dealing with the integrity of the Housing Choice Voucher Program. Items to be discussed include but not limited to interviewing techniques, acceptance of all lease related documents and learning how to navigate through all of the Department of Housing Urban Developments electronic systems.

5. The Authority needs to evaluate its staff levels.

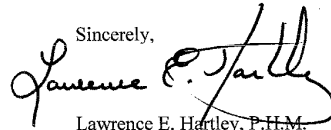
The Authority continuously monitors its staffing levels and compares them with industry standards. We believe when staffing is at 100% of planned levels it is adequate and within industry standards. DCHA's Housing Choice Voucher Specialist's do not take applications, select new clients or issue new Vouchers. These tasks are handled by Application and Admission Specialist's in the Admission, Compliance and Special Programs Department.

Unfortunately as the report indicates during the Audit period the Authority lost three (3) Housing Choice Voucher Specialists and hired three (3) replacements. Subsequent to the Audit period all new and uncertified Housing Choice Voucher Specialist's attended training and took a proficiency exam. Training was conducted by Nan McKay on June 24th through June 26th. All employees who attended passed.

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If you have any questions regarding our response please let us know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence E. Hartley".

Lawrence E. Hartley, P.H.M.
Executive Director

LEH/jes

Cc: Laura D. Blackburn
Maureen C. Donegan
Pamela R. Haines
Lynn Cox
Dennis Bellingtier

OIG Evaluation of Auditee Comments

Comment 1 Following our exit conference on July 10, 2008, we reviewed the four additional files provided by the Authority and issued an updated draft report to the Authority on July 21, 2008, which only reflected unsupported payments totaling \$26,596. However, the Authority's response to the finding appears to be based on the initial version of the draft report. This report reflects the updated amount of the Authority's unsupported payments as reported in our revised draft issued to the Authority on July 21, 2008.