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TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH

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

SUBJECT: The Indianapolis Housing Agency, Indianapolis, Indiana, Did Not Effectively Operate Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Indianapolis Housing Agency's (Agency) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the Agency based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Agency administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of two audit reports on the Agency's program.

What We Found

The Agency's program administration regarding housing unit conditions, housing assistance payments calculations, and adequate documentation to support the calculation of households' housing assistance payments was inadequate. Of the 65 housing units statistically selected for inspection, 52 did not meet HUD's housing quality standards and the Health and Hospital Corporation of Marion County, Indiana's (Corporation) housing standards, and 38 had 402 violations that existed at the time of the Agency's previous inspections. The 38 units had between 2 and 29 preexisting violations per unit. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$5.2 million in

housing assistance payments for units with material housing quality standards violations.

The Agency also failed to properly calculate housing assistance payments, ensure that its household files contained required documentation to support its payment of housing assistance, and consistently utilize HUD's Enterprise Income Verification system. Of the 67 files statistically selected for review, the Agency incorrectly calculated housing assistance payments for 63 (94 percent) and 59 (88 percent) did not contain the documentation required by HUD and/or the Agency's program administrative plan. From January 2005 through January 2007, the Agency overpaid more than \$131,000 and underpaid more than \$13,000 in housing assistance and utility allowances, and was unable to support more than \$587,000 in housing assistance and utility allowance payments made. Based upon our statistical sample, we estimate that over the next year, the Agency will overpay nearly \$4.7 million. Further, the Agency did not adequately use HUD's Enterprise Income Verification system to determine that its reported zero-income households had reported income resulting in more than \$47,000 in improper housing assistance payments.

What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Agency to reimburse its program from nonfederal funds for the improper use of more than \$291,000 in program funds, provide documentation or reimburse its program more than \$587,000 from nonfederal funds for the unsupported housing assistance payments, and implement adequate procedures and controls to address the findings cited in this audit report to prevent nearly \$10 million from being spent on units with material housing quality standards violations and excessive housing assistance and utility allowance payments over the next year.

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

Auditee's Response

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Agency's executive director during the audit. We provided our discussion draft audit report to the Agency's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on March 24, 2008.

We asked the executive director to provide comments on our discussion draft audit report by April 10, 2008. The executive director provided written comments, dated April 10, 2008, and generally agreed with our recommendations.

The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objective	5
Results of Audit	
Finding 1: Controls over Housing Unit Inspections Were Inadequate	6
Finding 2: Controls over Housing Assistance Payments Were Inadequate	13
Finding 3: The Agency Failed to Include Reported Household Income	17
Scope and Methodology	20
Internal Controls	22
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	24
B. Auditee Comments and OIG's Evaluation	25
C. Federal Requirements and the Agency's Program Administrative Plan	33

BACKGROUND AND OBJECTIVE

The Indianapolis Housing Agency (Agency) is a nonprofit governmental entity created by the City of Indianapolis, Indiana (City), under State of Indiana law in 1964 to provide decent, safe, and sanitary housing. The Agency became a division of the City's Department of Metropolitan Development on January 1, 1986. It was separated as an independent organization in December 1994 but still operates with oversight by the Metropolitan Development Committee of the combined City and Marion County, Indiana (City/County), government. The Agency's jurisdiction encompasses Marion County, Indiana. A nine-member board of commissioners governs the Agency. The City's mayor appoints five board members, the City/County council appoints two members for four-year staggered terms, and the Agency's resident council appoints two board members for one-year terms. The Agency's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Agency's day-to-day operations.

The Agency administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). The Agency provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of December 31, 2007, the Agency had 5,427 units under contract with annual housing assistance payments totaling more than \$36 million in program funds.

Our objective was to determine whether the Agency administered its program in accordance with HUD's requirements. This is the second of two audit reports on the Agency's program. The first audit report (report number 2007-CH-1011, issued on July 23, 2007) included one finding. That finding was not repeated in this audit report.

RESULTS OF AUDIT

Finding 1: Controls over Housing Unit Inspections Were Inadequate

The Agency did not adequately enforce HUD's housing quality standards and the Health and Hospital Corporation of Marion County, Indiana's (Corporation) housing standards. Of the 65 program units statistically selected for inspection, 52 did not meet minimum housing quality standards and/or the Corporation's housing standards, and 38 had material violations that existed before the Agency's previous inspections. The violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. The Agency also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards and/or the Corporation's housing standards. As a result, more than \$41,000 in program funds was spent on units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$5.2 million in housing assistance on units with material housing quality standards and/or Corporation housing standards violations.

HUD's Housing Quality Standards and the Corporation's Housing Standards Not Met

From the 1,724 program units that were inspected by the Agency between January 1 and April 30, 2007, we statistically selected 65 units for inspection by using data mining software. The 65 units were inspected to determine whether the Agency ensured that its program units met HUD's housing quality standards and the Corporation's housing standards. Our appraiser inspected the 65 units between May 7 and May 22, 2007.

Of the 65 units inspected, 52 (80 percent) had 606 housing quality standards and/or Corporation housing standards violations and 429 violations that predated the Agency's previous inspections. In addition, 38 units containing 549 violations were considered to be in material noncompliance since they had exigent health and safety violations and/or multiple violations that predated the Agency's previous inspections or had a violation that was noted in the Agency's previous inspections but was not corrected. The following table categorizes the 606 violations in the 52 units.

Category of violations	Number of violations
Electrical	139
Exterior surfaces	72
Interior walls/surfaces	56
Security	48
Windows	47
Range/refrigerator	22
Other potential hazardous features	22
Ventilation	20
Site and neighborhood	19
Roof	18
Sink	18
Smoke detector	17
Interior stairs	15
Foundation	12
Access to unit	12
Floor	10
Water heater	10
Exterior stairs	9
Tub/shower unit	9
Safety of heating equipment	9
Ceiling	8
Lead-based paint	6
Flush toilet in enclosed room	4
Infestation	<u>4</u>
Total	<u>606</u>

We provided our inspection results to the Coordinator of HUD's Indianapolis Office of Public Housing Program Center and the Agency's executive director on June 18, 2007.

Electrical Violations

One hundred thirty-nine electrical violations were present in 35 of the Agency's units inspected. The following items are examples of the electrical violations listed in the table: outlets with open grounds, disconnect boxes with exposed electrical contacts, exposed wires, ground fault circuit interrupters that did not turn off once tripped, exposed electrical outlets, exposed electrical switches, and holes or gaps in a breaker box. The following pictures are examples of the electrical-related violations.

Unit #25599: Missing cover plate inside disconnect box for air conditioner, exposing electrical contacts.



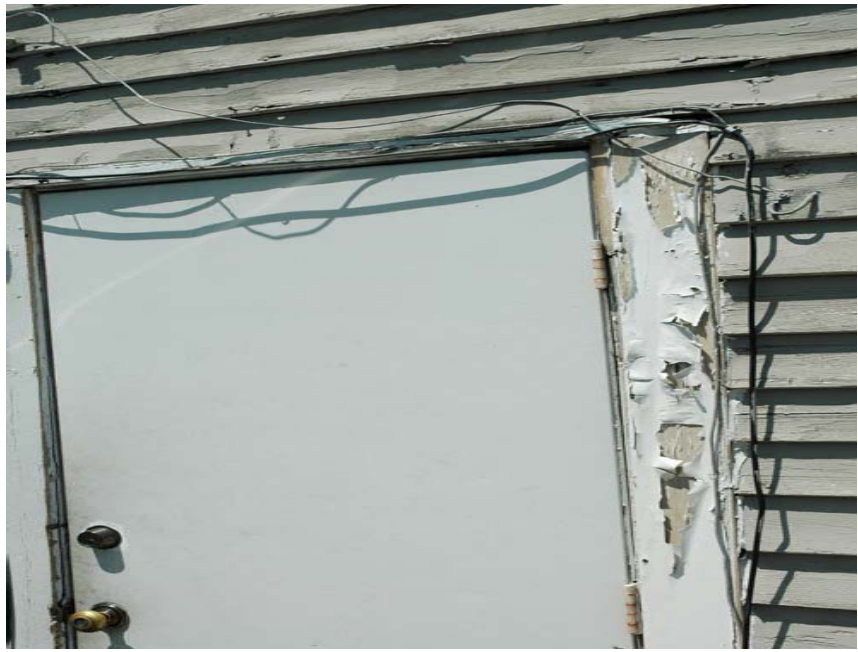
Unit #3806: Electrical outlet pulled out of the outlet box exposing the electrical contacts.



Exterior Surface Violations

Seventy-two exterior surface violations were present in 28 of the Agency's units inspected. The following items are examples of exterior surface violations listed in the table: peeling paint, deteriorated boards, and exposed nails. The following pictures are examples of the exterior surface-related violations identified.

Unit #5350: Exterior boards deteriorated with peeling paint.



Unit #29221:
Deteriorated second floor wood railing separated and unstable.



Interior Walls/Surfaces Violations

Fifty-six interior walls/surfaces violations were present in 27 of the Agency's units inspected. The following items are examples of the interior walls/surfaces violations listed in the table: damaged walls and holes in the walls. The following pictures are examples of interior walls/surface-related violations.

Unit #23203:
Water damaged
ceiling and wall.



Unit #12141:
Damaged and missing
wall sections caused
by plumbing leaks.



Adequate Procedures and Controls Lacking

The Agency lacked adequate procedures and controls to ensure that its program units met HUD's and its requirements. It also failed to exercise proper supervision and oversight of its program unit inspections. Quality control inspections were not conducted from June 2006 through February 2007. They began again in March 2007 when the Agency hired a new inspection supervisor to oversee its inspection process. The former inspection supervisor's employment was terminated in December 2006 due to poor performance. The current

inspection supervisor recognizes the importance of improving the Agency's inspection staff. In an effort to address the large number of electrical violations, the Agency purchased electric continuity testing equipment for its inspection staff at the supervisor's request. The Agency has experienced a high rate of turnover in its inspection staff. The supervisor plans to reverse this trend by improving the training for staff, as well as providing the necessary feedback to staff from his quality control inspections.

Conclusion

The housing quality standards and/or Corporation housing standards violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards and/or the Corporation's housing standards. The Agency's households were subjected to health-and-safety related violations, and the Agency did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards and/or the Corporation's housing standards. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to enforce HUD's housing quality standards. The Agency disbursed \$37,280 in housing assistance payments for the 38 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards and received \$3,814 in program administrative fees.

If the Agency implements adequate procedures and controls over its unit inspections to ensure compliance with HUD's housing quality standards and/or the Corporation's housing standards, we estimate this will prevent HUD from spending more than \$5.2 million in future housing assistance payments on units that are not decent, safe, and sanitary over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 1A. Reimburse its program \$41,094 from nonfederal funds (\$37,280 for program housing assistance payments and utility allowances plus \$3,814 in associated administrative fees) for the 38 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards.
- 1B. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards and/or the Corporation's housing

standards to prevent \$5,273,100 in program funds from being spent on units that do not comply with HUD's and the Agency's requirements over the next year.

- 1C. Implement adequate procedures and controls to ensure that supervisory quality control inspections are conducted and documented, along with the feedback provided to inspectors to correct recurring inspection deficiencies noted.

Finding 2: Controls over Housing Assistance Payments Were Inadequate

The Agency failed to always compute housing assistance and utility allowance payments accurately. It incorrectly calculated housing assistance and utility allowance payments and lacked documentation to support housing assistance and utility allowance payments to program landlords and households, respectively, because it lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan were appropriately followed. As a result, it overpaid more than \$131,000 and underpaid more than \$13,000 in housing assistance and utility allowances and was unable to support more than \$587,000 in housing assistance and utility allowance payments made. Based upon our statistical sample, we estimate that over the next year, the Agency will overpay nearly \$4.7 million in net overpayments.

The Agency Incorrectly Calculated Housing Assistance Payments

We statistically selected 67 household files from a universe of 5,052 households with income certification examinations conducted after January 1, 2006, using data mining software. We reviewed the 67 files to determine whether the Agency maintained adequate documentation to support the households' admission and selection for its program and to determine whether the Agency accurately verified and calculated the income information received from the households for its housing assistance and utility allowance payments for the period January 1, 2005, through January 31, 2007. Our review was limited to the information maintained by the Agency in its households' files.

The Agency's miscalculations resulted in overpayments of \$131,230 and underpayments of \$13,377 in housing assistance and utility allowances. The Agency incorrectly calculated housing assistance and utility allowances for 63 of the 67 (94 percent) households in one or more of the annual or interim certifications. The 63 files contained the following errors:

- 49 had incorrect payment standards for one or more certifications,
- 46 had annual income calculation errors for one or more certifications,
- 33 had incorrect utility allowance payment calculations for one or more certifications, and
- 18 had income calculation errors due to not including interim income.

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

The errors occurred because the Agency did not use the appropriate annual income figures, program payment standards, and utility allowances and did not perform retroactive housing assistance payment adjustments when income was identified that had started since the previous certifications. Therefore, overpayments and underpayments of housing assistance occurred.

The Agency Lacked Documentation to Support More Than \$587,000 in Housing Assistance and Utility Allowance Payments

The Agency lacked documentation to support housing assistance and utility allowance payments totaling \$587,022 for the period January 2005 through January 2007. Of the 67 household files statistically selected for review, 59 (88 percent) were missing or had incomplete documents as follows:

- 55 were missing or had an inadequate rent reasonableness determination,
- 53 were missing a disclosure of information on lead-based paint,
- 50 were missing evidence that the Agency obtained Enterprise Income Verification system (system) reports to identify potential unreported income,
- 43 were missing a housing quality standards inspection report,
- 26 were missing evidence of criminal background checks or had checks showing criminal histories that disqualified the household,
- 24 were missing HUD Form 9886, Authorization for the Release of Information and Privacy Act Notice,
- 14 were missing third-party verifications of cash assets or income,
- 12 were missing a birth certificate for one or more household members,
- 10 were missing a current housing assistance payment contract,
- 6 were missing proof of a Social Security card for one or more household members,
- 4 were missing or had an incomplete declaration of U.S. citizenship, and
- 4 were missing a current lease.

The 59 files did not include documentation required by HUD's regulations and the Agency's program administrative plan.

HUD performed a consolidated tier 1 review in August 2006, which included a Section 8 management assessment confirmation review, rental integrity monitoring review, and the system review. The 2006 consolidated review identified that the Agency's household files contained errors similar to the ones cited in this finding. HUD identified errors with 19 files (46 percent) out of a sample of 41 files, and the Agency had been aware of the household file errors since August 2006.

Along with recommendations for improvements in other areas, regarding housing assistance payment calculations, HUD specifically recommended that the Agency (1) use the system's variance reports for verification of income status and require quarterly affidavits of zero-income status; (2) follow the Agency's policy for notating the system; (3) implement HUD's verification guidance in Public and Indian Housing Notice 2004-1 and provide group training on revised verification procedures; (4) implement the use of a file comment form to document its efforts to get third-party verifications; and (5) implement quality control systems for housing quality standards, utility allowances, and calculation of family income and rent.

The Agency's Procedures and Controls Had Weaknesses

The weaknesses regarding incorrect calculations and missing documentation occurred because the Agency lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan were appropriately followed. The Agency did not ensure that HUD's regulations and the Agency's administrative plan were fully implemented and household certifications and file management procedures were standardized. The Agency's administrative plan also did not address how households would be reimbursed when an underpayment of housing assistance occurred.

Conclusion

The Agency did not properly use its program funds when it failed to comply with HUD's regulations. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency in the amount determined by HUD if the agency fails to perform its administrative responsibilities correctly or adequately under the program.

As previously mentioned, the Agency overpaid \$131,230 and underpaid \$13,377 in housing assistance and utility allowances and disbursed \$587,022 in housing assistance and utility allowance payments without supporting documentation. In addition, it received \$71,439 in program administrative fees related to the incorrectly paid and unsupported housing assistance and utility allowance payments.

If the Agency implements adequate procedures and controls over its housing assistance and utility allowance payments to ensure compliance with HUD's regulations and its program administrative plan, we estimate that nearly \$4.7 million in net erroneous payments will be prevented over the next year based on the error rate found in our sample. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 2A. Reimburse its program \$192,854 (\$113,973 for overpaid housing assistance, \$17,257 for overpaid utility allowances, and \$61,624 in associated administrative fees) for the 63 households cited in this finding from nonfederal funds.
- 2B. Reimburse the appropriate households \$13,377 for the underpayment of housing assistance (\$11,208) and utility allowances (\$2,169).
- 2C. Reimburse its program \$9,815 from nonfederal funds for the program administrative fees related to the underpaid housing assistance payments.
- 2D. Provide supporting documentation or reimburse its program \$587,022 from nonfederal funds for the unsupported payments related to the 59 households cited in this finding.
- 2E. Determine the appropriate administrative fees for the applicable households for which it is unable to provide supporting documentation cited in recommendation 2D and reimburse its program the applicable amount from nonfederal funds.
- 2F. Implement adequate procedures and controls over its housing assistance and utility allowance payments to ensure that they meet HUD's regulations and its program administrative plan. The procedures and controls should include but not be limited to ensuring that all required documentation is maintained in the Agency's current household files to support housing assistance and utility allowance payments and that payment calculations are correct. By implementing adequate procedures and controls, the Agency should help ensure that \$4,681,486 in net program funds is appropriately used for future payments over the next year.
- 2G. Revise its program administrative plan to address how households will be reimbursed when an underpayment of housing assistance and/or utility allowance occurs.

Finding 3: The Agency Failed to Include Reported Household Income

The Agency incorrectly reported households as having zero income when the Agency's household files contained income documentation. It also did not effectively use HUD's system or other third-party verification methods to determine whether households it reported as having zero income had unreported income. This condition occurred because the Agency lacked adequate procedures and controls to ensure that HUD's requirements and its program administrative plan were appropriately followed. As a result, it unnecessarily paid housing assistance totaling more than \$47,000 for households that had the resources to meet their rental obligations.

The Agency Failed to Include Households' Reported Income

We statistically selected 56 household files from a universe of 316 households listed as having zero income by the Agency as of October 2006 using data mining software. Due to the deficient condition of the Agency's household files, we reviewed the first 20 of the 56 household files to determine whether the Agency conducted periodic reviews of the zero-income households and whether the households had unreported income according to HUD's system for the period January 1, 2005, through December 31, 2007. Of the 20 household files reviewed, the Agency incorrectly listed 17 households as having zero income when the Agency's files contained income documentation.

The following are examples of households with reported income that the Agency failed to include in its housing assistance calculations:

- ▶ Household 31072 had income according to HUD's system totaling \$18,936. Since the household had income, the Agency overpaid \$2,286 and \$1,422 (\$3,708) in housing assistance from May 1, 2006, through November 30, 2007, and November 1, 2005, through April 30, 2006, respectively. The household file contained documentation showing that the household received Social Security income.
- ▶ Household 9342 had income according to HUD's system totaling \$18,795. Since the household had income, the Agency overpaid \$4,379 in housing assistance from May 1, 2005, through January 31, 2007. The household file contained documentation showing that the household received Social Security benefits for the entire period. Additionally, the Agency's household file contained a verification from HUD's system showing the household's income as of November 14, 2007. However, the Agency had not included the income in the household's housing assistance calculation as of January 31, 2008.
- ▶ Household 15193 reported income to the Agency for the period November 2003 to April 2006. The reported income in April 2006 was for the annual

recertification effective May 1, 2006. There was no evidence in the household file that the Agency verified via HUD's system whether the household had income. The Agency would have found the income since it was listed in HUD's system through the first quarter of 2007. The Agency overpaid \$5,964 in housing assistance from January 1 through October 30, 2005, and May 1 through August 10, 2006.

According to HUD's Public and Indian Housing Notice 2005-9, as a possible way to reduce costs, program households can be required to report all increases in income between reexaminations, and public housing authorities can conduct more frequent interim income reviews for families reporting no income. In the examples above, the households reported their income correctly to the Agency but it failed to include the reported income. Additionally, if the Agency had used HUD's system effectively, as required by Public and Indian Housing Notice 2004-1, it could have discovered its failure to include households' income.

Conclusion

As mentioned in finding 2, HUD performed a consolidated Tier I review of the Agency's program in August 2006. In its September 2006 report, HUD suggested that the Agency have the applicable adult household member provide an affidavit of the household's zero-income status. HUD also recommended that the Agency use HUD's system variance reports for verification of income status and require quarterly affidavits of zero-income status; follow its policy for notating information from HUD's system in its household files; implement HUD's verification guidance in Public and Indian Housing Notice 2004-1 and provide group training on the revised verification procedures; and implement quality control systems for housing quality standards, utility allowances, and calculation of family income and rent.

As a result of the Agency's failure to properly implement HUD's recommendations and verify household income for its zero-income households, HUD paid \$47,543 in housing assistance and utility allowances for households that had the resources to meet their rental obligations.

Recommendations

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

- 3A. Reimburse its program \$47,543 (\$36,748 for housing assistance payments and \$10,795 for utility allowance payments) from nonfederal funds for the inappropriate housing assistance payments related to the 17 households cited in this finding.

- 3B. Implement adequate procedures and controls to ensure that its households listed as having zero income do not have income that would result in overpayment of housing assistance.

- 3C. Review the remaining 296 (316 households listed as having zero income by the Agency as of October 2006 minus the 20 households reviewed) zero-income households as of October 12, 2006, to determine whether they had unreported income or income that was not included by the Agency in the calculation of housing assistance payments. For households that the Agency incorrectly calculated the housing assistance, it should reimburse its program from nonfederal funds the applicable amount of overpaid housing assistance and associated program administrative fees.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; the Agency's program administrative plans effective October 2005, June 2006, and January 2007; and HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 35, 982, and 984; HUD's Public and Indian Housing Notices 2004-12, 2005-1, 2005-9, 2006-3, and 2006-5; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Agency's accounting records; annual audited financial statements for 2003, 2004, and 2005; program household files; computerized databases; policies and procedures; board meeting minutes for 2005 and 2006; organizational chart; and program annual contributions contract.
- HUD's files for the Agency.

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

We statistically selected 65 of the Agency's program units to inspect from the 1,724 units that were inspected by the Agency and passed from January 1 through April 30, 2007, using data mining software. The 65 units were selected to determine whether the Agency ensured that its program units met HUD's housing quality standards and the Corporation's housing standards. Our sampling criteria used a 90 percent confidence level with a 50 percent estimated error rate and precision level of plus or minus 10 percent.

Our sampling results determined that 38 of the 65 units (58.5 percent) materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards. Materially failed units were those considered to have exigent health and safety violations and/or multiple violations that predated the Agency's previous inspections or those units that had a violation that was noted in the Agency's previous inspections but was not corrected.

The Agency's Voucher Management System reports for the 12-month period October 2006 to September 2007 showed that the average monthly housing assistance payment was \$525. Projecting our sampling results of the 38 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards to the population indicates that 1,008 units or 58.46 percent of the population contains the attributes tested (would materially fail to meet HUD's housing quality standards and/or the Corporation's housing standards). The sampling error was plus or minus 9.86 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 48.60 and 68.32 percent of the population. This equates to an occurrence of between 837 and 1,177 of the 1,724 units in the population.

- The lower limit is 48.60 percent times 1,724 units equals 837 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards.

- The point estimate is 58.46 percent times 1,724 units equals 1,008 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards.
- The upper limit is 68.32 percent times 1,724 units equals 1,177 units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Agency will annually spend \$5,273,100 (837 units times \$525 average payment times 12 months) for units that materially failed to meet HUD's housing quality standards and/or the Corporation's housing standards. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use on decent, safe, and sanitary housing if the Agency implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We statistically selected 67 household files from a universe of 5,052 households with income certification examinations conducted after January 1, 2006, using data mining software. We reviewed the 67 files to determine whether the Agency maintained adequate documentation to support the households' admission and selection for its program. We also reviewed the 67 files to determine whether the Agency accurately verified and calculated the income information received from the households for its housing assistance and utility allowance payments for the period January 1, 2005, through January 31, 2007. The Agency incorrectly calculated payments for 63 of the 67 files reviewed. This error resulted in total miscalculation of payments by \$144,607—to include overpayments of \$131,230 and underpayments of \$13,377 in housing assistance and utility allowances.

Unless the Agency improves its calculation process, we estimate that it could make \$4,681,486 in net future excessive housing assistance and utility allowance payments over the next year. We determined this amount by multiplying 13.4 percent (the percentage of the total housing assistance and utility allowance for the 67 households' files in the sample that received excessive payments) times \$34,936,463 (the total payments for the population of households served). We determined the 13.4 percent by annualizing the net excessive payments of \$117,853 (\$131,230 in overpayments minus \$13,377 in underpayments divided by the audit period of 25 months times 12 months, or \$56,569) for our sample of 67 households divided by the \$422,100 in housing assistance and utility allowance payments for one year (67 households times \$525 which is the average monthly housing assistance payment times 12 months). This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use on appropriate payments if the Agency implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work between May and December 2007 at the Agency's central office located at 1919 North Meridian Street, Indianapolis, Indiana. The audit covered the period January 1, 2005, through April 30, 2007, but was expanded when necessary to include other periods.

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

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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The Agency lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding unit inspections and housing assistance and utility allowance payments (see findings 1, 2, and 3).

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	\$41,094		
1B			\$5,273,100
2A	192,854		
2B			13,377
2C	9,815		
2D		<u>\$587,022</u>	
2F			<u>4,681,486</u>
3A	<u>47,543</u>		
Totals	<u>\$291,306</u>	<u>\$587,022</u>	<u>\$9,967,963</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ 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 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 these instances, if the Agency implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and for excessive housing assistance payments and, instead, will expend those funds in accordance with HUD's requirements. Once the Agency successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation

Auditee Comments



THE INDIANAPOLIS HOUSING AGENCY
1919 North Meridian Street
Indianapolis IN 46202-1303

OFFICE OF THE EXECUTIVE DIRECTOR
MR. RUFUS "BUD" MYERS
317.261.7331

April 10, 2008

Via Federal Express & Electronic Mail

Mr. Heath Wolfe
Regional Inspector General for Audit
Office of Inspector General Region V
United States Department of Housing & Urban Development
77 West Jackson Boulevard, Suite 2646
Chicago IL 60604-3507

Re: OIG Phase II Audit Response

Dear Mr. Wolfe:

I would like to thank the OIG for the opportunity to provide comment on this report.

When arriving at the IHA in January 2001 (having come from the Chicago Housing Authority), I found an agency and staff that was highly dedicated, competent, and knowledgeable in the delivery of federally assisted housing. The same commitment to excellence continues today at the Indianapolis Housing Agency, and that has been possible by the on-going support of the Office of Inspector General and the local HUD program office.

Our focus has been, and continues to be, on transforming the agency's business model that can readily adapt to both volatile market forces coupled with changes in federal program regulations to improve program integrity. It's all about changing the mindset of not only staff but recipients and vendors.

In this industry, the popular stance by many housing authorities is to blame the federal government for a multitude of funding woes and operational issues. To say the changes have been painful would be an understatement. But first and foremost, our most important task continues to be protecting taxpayers' dollars in order to reach the thousands of persons in Marion County who are in need of affordable housing assistance.

In that vein, our agency, in partnership with the HUD Office of Inspector General, has since April 2001 maintained joint initiatives by our Office of Special Investigations and the HUD OIG have resulting in the arrest of 307 persons charged with defrauding HUD/IHA in various schemes. This includes recipients, vendors and multiple public servants.

In October 2004 I asked the Secretary of HUD for immediate assistance to address what we clearly saw was an approaching storm of mortgage fraud that was beginning to seriously impact agency operations. HUD and the U.S. Department of Justice wasted no time in bringing both resources and expertise to the IHA in the form of a Public Housing Safety Initiative grant.

In a joint initiative with the Marion County Prosecutor's Office, the PHSI in the period of November 2005 through September 2007 was responsible for the cash recovery of \$842,283 in federal funds. 100 criminal arrests resulted in the identification of fraudulent HAP payments of \$2,163,174, thereby preventing future HAP payments of \$2,748,851 (based on 36 months)

1

Comment 1

Page 2-IHA Audit Response

In FY 2006 a study by the agency found that nearly 80% of the criminal homicides occurring in the City of Indianapolis were linked to programs administered by the IHA. FY 2007 found a near similar finding. Our investigations also found a clear and undeniable link between violent crime and mortgage fraud schemes that had silently spread out all across Marion County. Particularly hard hit were the NESCO and WESCO areas of Indianapolis between 2005 and 2007.

In June 2007, the IHA, with the support of the local HUD office, applied to the United States Department of Justice "DOJ" for a Byrne Targeting Violent Crime Initiative "TVCI" grant. In September 2007 the IHA became the first public housing authority nationwide to receive a TVCI grant, in the amount of \$1.3 million dollars. The current grant runs through March 2009.

The DOJ grant is funding many specific initiatives to improve program integrity, including more than \$500,000 dedicated to technology upgrades. This includes improvements to the agencies operating system that will address many of the symptomatic problems that resulted in the findings addressed in the Phase II audit report. The focus is both the prevention of fraud and increasing accountability of agency operations in the management of federal funds.

Along with the DOJ Byrne grant, in November 2007 the agency also was awarded a two-year private foundation grant from the Nina Mason Pulliam Trust that funds the salary of a full-time OSI criminal investigator. The focus and mission of this grant is to improve HQS standards city-wide, working to stop both neighborhood destabilization and prosecuting criminal cartels.

With respect to agency HQS inspections, it has been a challenge; our experiences are further addressed in our comment to Finding 1. As a result of initial OIG random audits, and the failure of the former HQS inspections manager to address identified program violations, that person was terminated from employment by the agency.

We have moved the former Director of Maintenance for Housing Management into that position. This individual is a 25-year veteran of IHA. He has been working diligently to advance progress and accountability in the inspection process as we transition to new technology.

Overall in regards to Findings 1, 2, and 3, the IHA would request management discussion on the recommended reimbursement of certain costs and expenditures identified by OIG Audit. We are aware of certain on-going and long-term OSI initiated criminal investigations that are relevant to this matter.

In closing, the IHA since 2001 has widely publicized its efforts and initiatives to improve program integrity and protect taxpayer funds. We look forward to the continuing support, guidance and important oversight of the Office of Inspector General in our collaborative mission to provide federally assisted housing in the City of Indianapolis.

Sincerely,



Rufus "Bud" Myers
Executive Director

Distribution:
Mr. Ron Farrell, HUD OIG
Mr. Forrest Jones, HUD Indianapolis Field Office
Mr. Aaron Haith, Board Chairman

IHA RESPONSE TO THE OIG AUDIT

Finding 1: Controls over Housing Unit Inspections Were Inadequate

HUD's Housing Quality Standards and the Corporation's Housing Standards Not Met

Response:

At any given time, a significant percentage of PHA units will not be in compliance with HQS. These issues are observed upon the annual reinspection of units that had passed inspection a year earlier. Many of the issues identified in the OIG inspections are common, such as closet doors coming off the tracks, broken windows and/or screens, smoke detectors being disabled, weather-stripping wearing out and tenant abuse.

As in any home, when guests are expected, everything is put in perfect order; days or weeks later, standards decline and imperfections arise. So it is with our Section 8 properties: they may meet HQS for the initiation or annual renewal of the HAP contract, but deficiencies arise over the ensuing months and will be found during the next reinspection.

Exacerbating this problem has been the crises of mortgage fraud and property flipping of rental properties that has been occurring in the City of Indianapolis, particularly since late 2003. Some federally assisted families have been uprooted as many as four times in a five year period due to foreclosure or failure of HQS by absent landlords. Overall, our criminal investigations have found a number of homes are going from government re-sale to the private sector then placed in the Section 8 program. And, since 2003 the IHA has also absorbed a number of troubled project-based Section 8 vouchers in our commitment to work with and support HUD's enforcement efforts. The OIG random inspections included a number of these projects.

IHA encourages recipients to report HQS complaints if they have been unable to secure requested repairs from their property owners. A summary of HQS inspections shows the overwhelming problem, and the strain it has placed on the inspections division which is not sufficiently staffed due to budget constraints the agency has been operating under:

Section 8 Housing Quality Standards Inspection Report Data All Zip Codes City of Indianapolis 2001-2007								
Inspection Category	2001	2002	2003	2004	2005	2006	2007	Total
Abatement Cure	0	0	0	1	431	13	189	634
Complaint	408	126	365	360	342	267	341	2209
Initial Inspection	172	1724	956	1298	819	1156	1119	7244
Complaint Repair	0	11	57	221	204	109	132	734
Move Transfer	54	264	1139	1098	1245	1284	846	5930
Recertification Repair	1251	640	1058	2343	1571	893	1504	9260
Quality Control Inspection	9	815	349	162	167	80	329	1911
Recertification Annual	4624	3690	7507	5933	5215	4980	4497	36,446
Initial Inspection Repair	2	69	55	69	37	82	253	567
Move/Transfer Repair	13	3	28	46	114	53	98	355
Total Records	6533	7342	11514	11531	10145	8917	9308	65,290

The OIG inspections also highlighted what we have been finding since our joint OSI/OIG investigations began in April 2001; homes that should have never passed inspection. There are

Page 4-IHA Audit Response

many reasons for this; most of it filters back to a business model within the agency that is not acceptable and has not been tolerated since 2001. The agency has terminated a number of inspectors, and, with the support of the OIG has criminally prosecuted and convicted multiple public servants who clearly were not executing their assigned duties. It became very clear to IHA the epicenter of the problem had to be reached in order to correct on-going deficiencies.

Adequate Procedures and Controls Lacking:

The audit report states that 52 of 65 units inspected were in material non-compliance with HQS at the time of the HUD/OIG inspection. This is not unexpected given what we find during our annual inspections. The findings state that IHA conducted no quality control inspections "QCI" from June 2006 through February 2007. Agency records show that a total of 409 QCI's were conducted from January 2006 through November 01, 2007. It should be noted that during this time period the agency was focused on other program directives from HUD under our Memorandum of Understanding coupled with the foreclosure problem.

Comment 2

We believe that we have in place an internal control plan that provides reasonable assurance that assisted units are in compliance with Housing Quality Standards prior to execution of any new HAP contract and prior to any renewal of a HAP contract. The agency added additional Section 8 financial staff in late 2006 whose efforts to detect fraud and violation of internal controls have protected federal funds from risk of improper payment. The inspectors will soon be utilizing hand-held satellite mobile computers with built-in cameras when performing HQS inspections that will speed up and collect data while also preventing improper HAP payments from the field when the units fail inspection. This will replace the current paper based process. This is part of the agencies continued technology upgrades funded by HUD and DOJ.

Comment 3

Conclusion:

The audit report states that: "HQS and/or Corporation standards violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD housing quality standards and/or the Corporation's housing standards. The Agency disbursed \$37,280 in housing assistance payments for the 38 units that materially failed to meet HUD's housing quality standards and/or the Corporations housing standards and received \$3,814 in program administrative fees"

Following the OIG inspections conducted in May 2007, the agency took corrective action on the units that did not meet the minimum HQS standards. Of these, as of April 01, 2008, 19 units have had the corrections made and have passed reinspection within the 30-day deadline. 12 units have had the corrections made and have passed reinspection after the 30-day deadline (and HAP payments were appropriately abated). 3 units were vacated or terminated from the program, and 1 unit has yet to pass reinspection and HAP payments have been abated.

With respect to Finding 1A, (a recommendation to reimburse \$41,094), the IHA has information from certain on-going OSI/OIG criminal investigations that is relevant to the recommended reimbursement, and we would request management discussion with the HUD Field office and OIG.

Finding 2: Controls over Housing Assistance Payments Were Inadequate

The Agency Incorrectly Calculated Housing Assistance Payments

Page 5-IHA Audit Response

The Agency Lacked Documentation to Support More Than \$587,000 in Housing Assistance and Utility Assistance Payments

The Agency's Procedures and Controls Had Weaknesses

With respect to Finding 2, the agency feels it would be more effective to address all three sub-findings in one general response, which is not intended to diminish the importance of the individual opinions.

The issues identified by OIG Audit are not generally inconsistent with the findings of on-going OSI/OIG criminal investigations within agency programs since FY 2001. With respect to the identified missing documents, the agency transitioned to a central filing system when moving into its present headquarters in FY 2000. The "file room" has managed millions of documents generated by Section 8 and Public Housing since its implementation. The secure facility is staffed by two full-time clerks, and has reached its maximum capacity that will be further addressed in this response.

Since FY 2000, documents have been collected and/or generated by agency staff, and eventually forwarded to central records for storage in individual client files kept in a very well organized filing system. Once reaching central files, nothing is removed without a signature from an authorized requesting party.

Criminal investigations by the OSI and the OIG, (more than 300 persons arrested since April 2001), have resulted in an on-going average 92% conviction rate in federal and state Courts. To maintain this standard requires verifiable documents admissible under the Indiana Business Records Act. The validity and the security of the IHA filing system and its documents has not only been upheld in state and federal courts, but 5 times in challenges before the Indiana Court of Appeals and the Indiana Supreme Court, the latest decision coming on April 8, 2008.

In over 300 criminal prosecutions, and more than 5,000 file removals by OSI, only one time have investigators encountered a situation where an entire file was missing. OSI and OIG were able to convict that defendant (a landlord) based on the redundancy of IHA recordkeeping, that being in the form of back-up electronic record keeping.

With respect to the missing documents identified on page 14 of the OIG draft report, many of the documents are with great certainty attributed to incomplete processing by housing specialists during a particular recertification. That is certainly a problem that IHA has recognized and will be continuously monitoring through technology advancements currently on-going.

With respect to the notation that 26 files were missing criminal background checks, that notation is inconsistent with the OIG report of 02/19/2008 where it was noted that criminal background checks were missing from 4 of the 33 files identified in the report. The OSI maintains a database of criminal history background investigations of recipients entering the program back to 1997, and a review of that database found background investigations had been conducted with the Justice Information System of Marion County for the 4 identified recipients. This is another example of the agencies document redundancy.

Much of what the agency does currently with document retention and security is based on prior HUD OIG audits (1997) and HUD staff and consultant recommendations. The theory and implementation of that guidance has proven invaluable to protecting taxpayer funds.

Comment 4

Comment 5

Page 6-IHA Audit Response

To improve program integrity for the areas identified in this finding, the agency has purchased and is currently transitioning into a windows-based operating system from its current 15-year-old outdated network. The new operating system has a series of "checks and balances" to detect when each specified process is not followed correctly.

The technological improvements are intended to address issues such as those identified in the OIG audit. The "missing" documents from a particular agency action may seem insignificant, but they are critical in the long run when determining eligibility. It should be emphasized that a missing document, as extremely rare as it is, does not preclude the agency from taking administrative or criminal action against a recipient, landlord or an employee. Our whole process is based on redundancy, a concept driven by the number of fraudulent acts and occurrences that have been previously detected in the delivery of federally assisted housing assistance in the City of Indianapolis.

Concurrent with our long-term business model, the agency has also been moving, and intends to accelerate more records to document imaging for security and retention purposes. The overall goal is to streamline processing from a paper process to electronic management. The IHA Board of Commissioners approved a major contract for this transition on April 8, 2008.

The agency has had a significant reduction in manpower from 2001 to 2007, while the workload and responsibilities have only increased. During this period compliance with significant changes in HUD policy, procedures and reporting requirements were the top priority of the IHA. This has been a challenge that included periods of time (2003) when staff worked one day without pay each month to serve our customers.

With the support and assistance of our local HUD office in FY 2006, we were able to stabilize and reduce the turnover in Section 8 staff in both FY 2007 and FY 2008.

OIG Audit is aware of the existence of certain on-going and long term criminal investigations by the IHA Office of Special Investigations and the HUD OIG. The IHA has information from certain on-going OSI/OIG criminal investigations with the Marion County Prosecutors Office and/or the U.S. Attorney that is relevant to the recommended reimbursement, and we would request management discussion with the HUD Field Office and OIG on the following sub-findings: 2A, 2B, 2C, 2D, 2E, 2F and 2G.

Finding 3: The Agency Failed to Include Reported Household Income

The Agency Failed to Income Household's Reported Income

Response:

The issues identified by OIG Audit are not generally inconsistent with the findings of on-going OSI/OIG criminal investigations within agency programs. With the implementation of new operating systems (as identified in Finding 2), this will lead to a reduction in the errors of calculating household income. Additional staff training will be implemented with the transition to the new software.

EIV has been an invaluable tool in our on-going criminal investigations. Like any other database we have also encountered some discrepancies, (a very small percentage) which is not to be unexpected in the mass collection of data.

The agency is in possession of certain information from on-going and long-term investigations that is extremely relevant to the recommendations of Finding 3, and we would

Ref to OIG Evaluation

Auditee Comments

Page 7-IHA Audit Response

request a management discussion regarding reimbursement (\$47,543) and the review of the remaining 286 households listed as zero income.

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OIG Evaluation of Auditee Comments

- Comment 1** The OIG is extremely appreciative of the Agency's joint efforts with our Office of Investigations to address program fraud. The Agency has been commended by OIG's Office of Investigations for its continued commitment to combating housing fraud.
- Comment 2** The Agency's former Section 8 director provided the documentation for the Agency's quality control inspections from February 2006 through March 2007. The documentation did not contain any inspection information for June 2006 through February 2007.
- Comment 3** The Agency's proposed actions should greatly improve its procedures and controls over its housing quality standards process, if fully implemented.
- Comment 4** Page 14 of our discussion draft audit report provided to the Agency on February 19, 2008, included information that 26 files were missing evidence of criminal background checks. In this report, we have clarified that to more accurately state that 26 were missing evidence of criminal background checks or had checks showing criminal histories that disqualified the household.
- Comment 5** The Agency's actions should greatly improve its procedures and controls over its file documentation, if fully implemented.

Appendix C

FEDERAL REQUIREMENTS AND THE AGENCY'S PROGRAM ADMINISTRATIVE PLAN

Finding 1

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency in the amount determined by HUD if the public housing agency fails to perform its administrative responsibilities correctly or adequately under the program.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.305(a) state that the public housing agency may not give approval for the family of the assisted tenancy or approve a housing assistance contract until the agency has determined that the following meet program requirements: (1) the unit is eligible, (2) the unit has been inspected by the housing agency and passes HUD's housing quality standards, and (3) the rent to the owner is reasonable.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.401 require that all program housing meet HUD's housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the tenancy.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.404(a) state that the owner must maintain the unit in accordance with HUD's housing quality standards. If the owner fails to maintain the dwelling unit in accordance with HUD's housing quality standards, the agency must take prompt and vigorous action to enforce the owner's obligations. Remedies for such breach of the housing quality standards include termination, suspension, or reduction of housing assistance payments and the termination of the housing assistance payments contract. The agency must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the agency and the agency verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.405(a) require public housing agencies to perform unit inspections before the initial move-in and at least annually. The agency must inspect the unit leased to a family before the term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets housing quality standards.

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.216(a) state that each assistance applicant must submit the complete and accurate Social Security number assigned to the applicant and to each member of the household who is at least six years of age. The documentation necessary to verify the Social Security number of an individual is a valid Social Security number issued by the Social Security Administration or such other evidence of the

Social Security number as HUD and, where applicable, the authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.230(a) require each member of the family of an assistance applicant or participant who is at least 18 years of age and each family head and spouse regardless of age to sign one or more consent forms.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.508(b) require each family member, regardless of age, to submit the following evidence to the responsible entity:

(1) For U.S. citizens or U.S. nationals, the evidence consists of a signed declaration of U.S. citizenship or U.S. nationality. The responsible entity may request verification of the declaration by requiring presentation of a U.S. passport or other appropriate documentation, as specified in HUD guidance.

(2) For noncitizens who are 62 years of age or older or who will be 62 years of age or older and receiving assistance under a Section 214-covered program on September 30, 1996, or applying for assistance on or after that date, the evidence consists of a signed declaration of eligible immigration status and proof of age document.

(3) For all other noncitizens, the evidence consists of a signed declaration of eligible immigration status, one of the documents referred to in 5.510, and a signed verification consent form. For each family member who contends that he or she is a U.S. citizen or a noncitizen with eligible immigration status, the family must submit to the responsible entity a written declaration, signed under penalty of perjury, by which the family member declares whether he or she is a U.S. citizen or a noncitizen with eligible immigration status. For each adult, the declaration must be signed by the adult. For each child, the declaration must be signed by an adult residing in the assisted dwelling unit who is responsible for the child.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.901(a) include requirements that apply to criminal conviction background checks by public housing authorities that administer Section 8 and public housing programs when they obtain criminal conviction records, under the authority of Section 6(q) of the 1937 Act (*United States Code* 42.1437d(q)), from a law enforcement agency to prevent admission of criminals to public housing and Section 8 housing and to assist in lease enforcement and eviction.

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

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.158(a) state that 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. The authority must prepare a unit inspection report. During the term of each assisted lease and for at least three years thereafter, the authority must keep a copy of the executed lease, the housing assistance payment contract, and the application from the family. The authority must keep the following records for at least three years: records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants; unit inspection

reports; lead-based paint records as required by part 35, subpart B, of this title; records to document the basis for authority determination that rent to owner is a reasonable rent (initially and during the term of a contract); and other records specified by HUD.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.162(a)(3) state that the authority must use program contracts and other forms required by HUD headquarters including the tenancy addendum required by HUD.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.305(d) state that after receiving the family's request for approval of the assisted tenancy, the housing authority must promptly notify the family and owner of whether the assisted tenancy is approved.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.311(d) state that if the family moves out of the unit, the authority may not make any housing assistance payment to the owner for any month after the month when the family moves out. The owner may keep the housing assistance payment for the month when the family moves out of the unit.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.4 state that the voucher is the document issued by the authority to a family selected for admission to the voucher program. This document describes the program and procedures for the authority's approval of a unit selected by the family. The voucher also states obligations of the family under the program.

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

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.516(a)(1) require the authority to conduct a reexamination of family income and composition at least annually. The authority must obtain and document in the client file third-party verification of the following factors or must document in the client file why third-party verification was not available: (1) reported family annual income, (2) the value of assets, (3) expenses related to deductions from annual income, and (4) other factors that affect the determination of adjusted income. At any time, the authority may conduct an interim reexamination of family income and composition. Interim examinations must be conducted in accordance with policies in the authority's administrative plan. As a condition of admission to or continued assistance under the program, the authority shall require the family head and such other family members as the authority designates to execute a HUD-approved release and consent form (including any release and consent as required under 5.230 of this title) authorizing any depository or private source of income or any federal, state, or local agency to furnish or release to the authority or HUD such information as the public housing authority or HUD determines to be necessary. The authority and HUD must limit the use or disclosure of information obtained from a family or from another source pursuant to this release and consent to purposes directly in connection with administration of the program. HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.517(a) state that the authority must maintain a utility allowance schedule for all client-paid utilities, for cost of client-supplied refrigerators and ranges, and for other client-paid housing services.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 9, section 9.2, states, "In each case where the public housing agency is required to document rent reasonableness, it must document its decision and the basis for it (i.e., information on the unassisted units compared) in the household's file. This documentation should identify who conducted the rent reasonableness determination and when." Section 9.4 states, "In order to compare program units to market units, it is necessary to collect comparable information on the program units."

The Agency's Housing Choice Voucher Administrative Plan, as revised June 2006, provides the Agency's policies for operating the Housing Choice Voucher program. The section on occupancy states that the Agency will conduct a criminal background check to determine eligibility (1) for all applicants (including ports and special admissions), (2) at the request to add an adult (18 years of age or older) to the household, (3) upon accusation of criminal involvement, and (4) as part of quality control reviews of files. The Agency's policy is to deny participation or terminate participation in the program when it can be reasonably determined that a household member is illegally using a drug or abusing alcohol in a way that may interfere with the health, safety or right of peaceful enjoyment by other residents or engaging in a violent criminal activity. The Agency will also terminate assistance when it can be determined that there is a pattern of illegal drug use or a pattern of alcohol abuse. A pattern is one or more incidents during the last five years. An arrest or conviction is not required to determine whether an applicant or participant or household member has engaged in violent criminal activity.

Assistance will be denied or terminated if the head of household or any member of the household (1) is subject to a lifetime registration requirement under a state sex offender registration program; (2) has engaged in any criminal activity that resulted in negligent death of any person, (3) has engaged in any criminal activity of sexual assault or abuse; (4) has been evicted from public or assisted housing for any lease or family obligation violation; or (5) has engaged in the manufacturing, distribution, or use of methamphetamine.

The Agency's administrative plan section on subsidy standards relate to the number of bedrooms on the voucher, not on the family's actual living arrangements. Subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding, and be applied consistently and in accordance with HUD's housing quality standards for space. The Agency will generally assign one bedroom on the voucher for every two family members except the head of household subject to various exceptions. The sections on payment standards and rent provide for using HUD-published fair market rents for payment standards but a minimum rent of \$50 was established for all vouchers. The agency will use the same payment standard schedule for the homeownership program as is used for the Housing Choice Voucher program.

The administrative plan section on rent reasonableness states that the Agency will compare characteristics of the contract unit with characteristics of comparable unassisted units considering factors such as location, characteristics, amenities, services, maintenance, and utilities provided. The Agency is to assess rent reasonableness by conducting phone calls, site visits, or market surveys of available rental units. The Agency is to consider market rent information obtained from the City, real estate agents, banks, classified newspaper ads, or HUD field office data appraisers. The Agency will not accept documentation provided by a landlord unless it can be verified to the Agency's satisfaction.

The administrative plan section on interim reexaminations requires families to report all changes in family composition to the Agency in writing within 10 business days of the change, and an interim examination may be conducted at the Agency's option. Families may request an interim reexamination if there is a reduction in income. Families must report in writing all increases in household income of \$50 or more per week, \$100 or more biweekly, \$200 per month or more, or \$2,400 per year or more within 10 business days of the change. The Agency will process all interim changes resulting from such increases.

Finding 3

HUD's Public and Indian Housing Notice 2004-1, issued March 9, 2004, provides instructions on the HUD established verification policies as provided in its accompanying Verification Guidance.

Chapter VII of HUD's March 2004 Verification Guidance states that public housing agencies must put forth a conscientious effort to ensure that they use all available resources, including upfront income verification techniques, to obtain verification of tenant reported (unreported or underreported) income.

The Agency's Housing Choice Voucher Administrative Plan revision, effective March 19, 2007, states that families reporting zero income must recertify every 60 days and submit a completed continued occupancy application reflecting current income status along with an Indianapolis network and employment and training work history printout. If the client continues to report zero income, the client must complete the zero income guide and checklist and a nonincome affidavit.

The new policy also requires that an Enterprise Income Verification report be run quarterly on zero-income clients. The threshold to report increases in income is \$2,400 in reviewing the Enterprise Income Verification discrepancy report.