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Audit Report Number	2008-CH-1017
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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

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

SUBJECT: The Chicago Housing Authority, Chicago, Illinois, Needs to Improve Its Controls Over Housing Assistance and Utility Allowance Payments

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Chicago Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program) under its Moving to Work Demonstration program. The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the first of multiple audit reports that may be issued regarding the Authority's program.

### **What We Found**

The Authority's program administration regarding housing assistance payment calculations, documentation to support households' eligibility and calculations for housing assistance, and the recovery of overpayments of housing assistance and utility allowances for deceased individuals was inadequate. The Authority incorrectly calculated households' payments resulting in more than \$60,000 in overpayments and nearly \$5,800 in underpayments for the period January 1, 2006, through August 31, 2007.

The Authority also did not ensure that its households' files contained the required documentation to support its housing assistance and utility allowances. Of the 71 files statistically selected for review, 42 did not contain documentation required by HUD and the Authority's program administrative plan to support nearly \$157,000 in housing assistance and utility allowance payments.

Further, the Authority did not effectively recover more than \$36,000 in housing assistance and utility allowance overpayments for deceased individuals.

We informed the Authority's chief executive officer and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated August 25, 2008.

### **What We Recommend**

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$113,000 in program funds, provide documentation or reimburse its program nearly \$164,000 from nonfederal funds for the unsupported payments cited in this audit report, and implement adequate procedures and controls to address the findings cited in this audit report.

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 Chicago Office of Public Housing and the Authority's chief executive officer during the audit. We also provided our discussion draft audit report to the Authority's chief executive officer, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's chief executive officer on July 23, 2008.

We asked the chief executive officer to provide comments on our discussion draft audit report by August 15, 2008. The chief executive officer provided written comments, dated August 15, 2008. The Authority disagreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this report except for 27 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Chicago Office of Public Housing.

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## BACKGROUND AND OBJECTIVE

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The Chicago Housing Authority (Authority) was established in April 1934 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a 10-member board of commissioners (board) appointed by the mayor of the City of Chicago, Illinois to five-year staggered terms. The board's responsibilities include overseeing the Authority's operations, as well as the review and approval of its policies. The City's mayor also appoints the Authority's chief executive officer. The chief executive officer is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

In May 1995, the U.S. Department of Housing and Urban Development (HUD) assumed control of the Authority due to years of management problems and deteriorated living conditions at the Authority's developments. HUD selected Quadel Consulting Corporation (contractor) to administer, manage, and operate the Authority's Section 8 Housing Choice Voucher program (program) in October 1995. The contractor created a subsidiary, CHAC, Inc., which formally took over the Authority's program administration in December 1995. The Authority paid the contractor more than 90 percent of its administrative fee to operate the program. Although the contractor administers the program, the Authority is ultimately responsible to HUD for program operations and for any errors.

In 1996, Congress authorized the Moving to Work Demonstration (Moving to Work) program as a program under HUD. The Authority was accepted into the Moving to Work program on February 6, 2000, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement (agreement). Moving to Work allows certain housing authorities to design and test ways to promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choices for low-income households. Congress exempted the Moving to Work participants from much of the United States Housing Act of 1937 and associated regulations. The agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 and the annual contributions contract to the extent necessary for the Authority to implement its Moving to Work demonstration initiatives. As of June 2008, HUD proposed amendments to the Authority's agreement; however, it had not executed the new agreement.

As of May 31, 2008, the Authority had 48,557 units under contract with annual housing assistance payments totaling more than \$463 million in program funds.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) accurately calculated housing assistance and utility allowance payments, (2) maintained required documentation to support household eligibility, and (3) recovered the overpayment of housing assistance provided for deceased individuals. This is the first of multiple audit reports that may be issued regarding the Authority's program.

## RESULTS OF AUDIT

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### Finding 1: Controls over Housing Assistance and Utility Allowance Payments Were Inadequate

The Authority did not comply with HUD's requirements and its program administrative plan regarding housing assistance and utility allowance payments. Its contractor failed to maintain required documentation to support payments to program landlords and households and consistently compute payments accurately. This condition occurred because the Authority and its contractor lacked adequate procedures and controls to ensure that their calculations were accurate and that HUD's requirements and the Authority's program administrative plan were appropriately followed. As a result, the Authority was unable to support nearly \$157,000 in housing assistance and utility allowance payments and overpaid more than \$60,000 and underpaid nearly \$5,800 in housing assistance and utility allowances.

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#### **The Authority's Contractor Lacked Documentation to Support Nearly \$157,000 in Housing Assistance and Utility Allowance Payments**

We statistically selected 71 household files from a universe of 34,895 households receiving housing assistance payments as of September 24, 2007, using data mining software. The 71 files were reviewed to determine whether the Authority and/or its contractor had documentation for and correctly calculated households' housing assistance and utility allowance payments for the period January 2006 through August 2007. Our review was limited to the information maintained by the contractor in the Authority's household files.

The contractor lacked documentation to support housing assistance and utility allowance payments totaling \$156,449 for the period January 2006 through July 2007. The documentation was required by HUD's regulations and/or the Authority's program administrative plan. Of the 71 household files reviewed, 42 (59 percent) had missing or incomplete documents as follows:

- 21 were missing HUD Form 52517, Request for Tenancy Approval;
- Seven were missing HUD Form 9886, Authorization for the Release of Information and Privacy Act Notice;
- Seven were missing third-party income verifications of reported household income;
- Seven were missing a disclosure of information on lead-based paint;
- Six were missing birth certificates;
- Five were missing declaration of U.S. citizenship certifications;

- Five were missing proof of Social Security numbers;
- Five were missing evidence of criminal history background checks;
- Four were missing housing assistance payments contracts;
- Four were missing the lease and/or addendum agreements;
- Two were missing supporting documentation for the utility allowance calculation;
- One was missing supporting documentation for the dependent allowance and income calculation; and
- One was missing the biennial certification.

The contractor obtained new or original documentation for 17 of the 42 household files after we notified it of the missing or incomplete documents during the audit. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining 25 household files (42 minus 17).

### **The Authority's Contractor Miscalculated Housing Assistance and Utility Allowance Payments**

The contractor's miscalculations and its failure to comply with program requirements resulted in housing assistance and utility allowance overpayments of \$60,679 and underpayments of \$5,718. Of the 71 household files reviewed, 60 (85 percent) contained errors in one or more of their income certifications. The 60 files contained the following errors:

- 41 did not have adjusted housing assistance payments when the contractor became aware of the increase in household income,
- 38 had incorrect utility allowance standards,
- 33 had incorrect payment standards,
- 22 had incorrect income calculation errors,
- Three had incorrect child care expense allowances,
- Three had incorrect payments involving portability,
- Three had incorrect minimum rent standards,
- Three had incorrect dependent or disability allowances, and
- Two had an incorrect medical expense calculation.

### **The Authority's Procedures and Controls over Its Contractor Had Weaknesses**

The Authority did not ensure that its contractor provided an acceptable level of service because it did not effectively monitor the contractor. The Authority's contract requires the contractor to implement a quality control system in which an error rate of no more than 10 percent is acceptable in the calculation of household contribution. The contractor performed a quality control review on 8 of the 71

files reviewed; however, it did not identify three files (38 percent) that had errors in housing assistance and utility allowance payments. In addition, of the 71 files statistically sampled, 60 contained errors in one or more of the income certifications, resulting in an 85 percent error rate. According to the Authority's acting housing choice voucher director, the contractor was solely responsible for implementing quality controls and overseeing housing assistance and utility allowance payments. As of March 2008, the Authority had not conducted any reviews of its contractor regarding the maintaining of documentation to support household eligibility or the calculation of housing assistance payments. The Authority's quality assurance analyst said that because of our audit and a review by Ernest and Young, the Authority planned to initiate reviews of its contractor regarding the maintaining of documentation to support household eligibility and the calculation of housing assistance payments.

In addition, the Authority was aware of previous errors the contractor had made in its housing assistance and utility payments functions. During HUD's rental integrity review in August 2002, HUD stated that due to serious operational problems in program administration of household eligibility, 51 (28 percent) of the 184 files reviewed had one or more errors. During its integrity monitoring re-review in May 2004, HUD stated that there were approximately 62 instances in which copies of a household member's Social Security card, birth certificate, or proof of citizenship were missing, and in several instances the Social Security numbers and birth certificate dates were incorrectly entered on the HUD Form 50058 in the files reviewed. There were also 11 files that lacked third-party verification of income or zero income, and the dependent status as a household member.

The contractor made a number of errors in managing the Authority's program. It did not maintain the required program documentation and made incorrect housing assistance and utility allowance payments to program landlords and households because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and the Authority's program administrative plan. The contractor's executive director stated that the missing eligibility documentation was due to its scanning process of the program household files. According to the executive director, the Authority's computer system contained sufficient checks to ensure that households would not be approved and vouchers would not be issued for households that had not provided the appropriate documentation and the fact that these households received housing assistance evidenced the existence of the documents despite the contractor's inability to produce them. The contractor's quality control supervisor said that errors in the utility allowance calculations could have been caused by shortcuts taken by staff when processing the HUD Form 50058.

Further, the contractor did not adequately use HUD's Enterprise Income Verification system (system) or other similar third-party income verification. For 38 of the 71 households reviewed, when the contractor ran a system report and it indicated an increase in the household's reported income, the contractor did not conduct an interim certification. The Authority's program administrative plan

requires an interim certification be conducted when there is an increase or decrease in household income that is expected to last at least 30 days. The contractor's director of compliance and training said that it was not the contractor's intention to conduct an interim certification every time there was an increase in household income and that the administrative plan needed to be clarified. The Authority's former housing choice voucher program director agreed with the contractor and said that the administrative plan needed to be clarified. However, as of May 29, 2008, the Authority's administrative plan had not been updated or clarified. Moreover, the contractor did not consistently communicate to households the program requirements regarding how and when to report increases and/or decreases in annual income. For example, the application for the program required households to report any changes in income; however, the family obligations form only required households to report income if they had previously reported zero annual income.

The Authority's program administrative plan did not address how households would be reimbursed when an underpayment of housing assistance payment occurred.

## Conclusion

As a result of the weaknesses in the Authority and its contractor's procedures and controls, the Authority disbursed \$156,449 in housing assistance and utility allowance payments without required supporting documentation and overpaid \$60,679 and underpaid \$5,718 in housing assistance and utility allowances.

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$7,345 in program administrative fees related to the unsupported payments for the 25 households and \$36,369 (\$29,217 related to the households receiving overpayments plus \$7,152 related to the household receiving underpayments) in program administrative fees for the 60 households with incorrect housing assistance and utility allowance payments.

## Recommendations

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

- 1A. Provide support or reimburse its program \$163,794 (\$156,449 in housing assistance and utility allowance payments and \$7,345 in associated administrative fees) from nonfederal funds for the unsupported payments and associated administrative fees cited in this finding.



- 1B. Reimburse its program \$89,896 (\$60,679 in housing assistance and utility allowance payments and \$29,217 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 1C. Reimburse the appropriate households \$5,718 for the underpayment of housing assistance and utility allowances cited in this finding.
- 1D. Reimburse its program \$7,152 in associated administrative fees from nonfederal funds for the underpayment of housing assistance and utility allowances cited in this finding.
- 1E. Implement adequate procedures and controls to ensure that all required documentation is complete, accurate, and maintained in its household files to support the eligibility and calculation of housing assistance and utility allowance payments.
- 1F. Implement adequate procedures and controls to ensure that its contractor properly calculates housing assistance and utility allowance payments.
- 1G. Revise its program administrative plan to address how households will be reimbursed when an underpayment of housing assistance and/or utility allowance occurs.
- 1H. Revise the appropriate document(s) to clarify when it will conduct an interim certification when there is an increase or decrease in household income.

## Finding 2: Controls over Recovery of Housing Assistance and Utility Allowance Payments for Deceased Individuals Need Improvement

The Authority's contractor did not comply with HUD's regulations and its program administrative plan regarding the collection of housing assistance and utility allowance payments for deceased individuals. The contractor did not consistently pursue repayment agreements with households' landlords. This condition occurred because the Authority and its contractor lacked adequate procedures and controls to ensure that the Authority's program administrative plan was appropriately followed. As a result, the Authority overpaid more than \$36,000 in housing assistance and utility allowance payments and underpaid nearly \$1,500 in housing assistance and utility allowances.

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### **The Authority Did Not Recover Housing Assistance and Utility Allowance Payments for Two Households**

A review of 110,972 active household members' Social Security numbers as of September 24, 2007, revealed that 796 were associated with deceased individuals. We statistically selected 32 household members by using data mining software to determine whether the Authority inappropriately provided housing assistance and utility payments and failed to recover any overpayments for the period October 2006 through May 2008.

Of the 32 household members' Social Security numbers reviewed, 27 were associated with deceased individuals, 12 of which resulted in net overpayments of \$34,586 (10 overpayments of \$36,009 minus two underpayments of \$1,423<sup>1</sup>). For the households where the contractor was aware of the deceased individuals, the contractor recovered overpayments of \$21,614, as of May 27, 2008, for nine of the deceased individuals where overpayments were made. In addition, as of June 2008, the contractor initiated action to recover the payment for the one deceased individual and sent letters to advise the two households of the underpayments that were made. However, the contractor informed household 9701934 that \$860 in housing assistance payments was underpaid, when actually \$1,265 was underpaid. However, balances remain from one household where the contractor did not begin collections within 30 days and only attempted to collect 6 of the 11 months outstanding. As a result, the outstanding net overpayment of housing assistance and utility payments were \$12,972 (two overpayments of \$14,395 minus two underpayments of \$1,423) for four individuals.

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<sup>1</sup> Although the contractor was informed by the heads of household that a member passed away, it failed to conduct interim certifications to remove the deceased members' income and/or the dependent allowance from the calculation of housing assistance payments. As a result, the contractor underpaid housing assistance payments of \$1,265 for household 9701934 and \$158 for household 0950870.

The contractor was aware of 18 of the 27 deceased individuals; however, it was not aware of the remaining nine deceased individuals until we informed it. We did not include the outstanding balances for the nine individuals in our previously mentioned totals. The contractor's procedures manual states that once the contractor becomes aware of an overpayment, an overpayment letter is mailed to the owner. The owner then has 30 days to repay the outstanding balance. If the owner owing money is currently receiving housing assistance payments, the Authority's account tracking system will automatically deduct the overpayments amount from the owner's current housing assistance payments.

### **The Authority and Its Contractor Lacked Adequate Procedures and Controls**

The outstanding net overpayments of \$12,972 in housing assistance and utility allowances to program landlords for deceased individuals occurred because the Authority and its contractor lacked adequate procedures and controls to ensure that they appropriately followed the Authority's program administrative plan.

In three instances, the contractor did not respond when notified of deceased individuals. Twice the contractor was informed by the heads of household that a household member passed away and it failed to conduct interim certifications to remove the deceased members' incomes and/or the dependent allowances from the calculation of housing assistance payments. This resulted in the households paying \$1,423 more than they should have.

The Authority's program administrative plan states that if an owner owes money for overpayments of housing assistance, the contractor will provide the owner the opportunity to repay immediately or enter into a repayment agreement. However, the contractor did not attempt to enter into a repayment agreement or seek immediate repayment with an owner who received more than \$12,000 in overpaid housing assistance. Since the owner was not receiving housing assistance payments as of May 2008, the contractor could not pursue reimbursement through the Authority's account tracking system. The contractor's former finance manager said that the contractor would seek reimbursement when the owner reenters the Authority's program. However, there is no assurance that the owner will reenter the program. Therefore, the contractor should have sought immediate repayment or a repayment agreement. On June 16, 2008, the contractor sent a demand letter to the owner requesting repayment in full in 30 days.

### **Conclusion**

HUD lacked assurance that the Authority used its program funds efficiently and effectively when it failed to collect \$14,395 and underpaid \$1,423 in housing assistance and utility allowances.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$1,746 in program administrative fees related to the excess amounts not collected on the two deceased individuals that the contractor underpaid assistance and the one deceased individual where the contractor did not attempt to make any collections cited in this finding.

## Recommendations

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

- 2A. Ensure that it collects the \$14,395 in overpaid housing assistance and utility allowances for the two households cited in this finding or reimburse its program the applicable amount from nonfederal funds.
- 2B. Reimburse the appropriate households \$1,423 for the underpayment of housing assistance and utility allowances cited in this finding.
- 2C. Reimburse its program \$1,746 from nonfederal funds for the inappropriate administrative fees related to the three households cited in this finding.
- 2D. Implement adequate procedures and controls to ensure funds paid related to deceased tenants are collected according to its administrative plan and interim certifications are performed when household members are reported as deceased.

# SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws, regulations, the Authority's 2006 program administrative plan, HUD's program requirements at 24 CFR Parts 5 and 982, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records; annual audited financial statements for 2004, 2005, and 2006; bank statements; household files; policies and procedures; board meeting minutes for January 2006 through July 2007; organizational chart; and program annual contributions contract with HUD.
- HUD's files for the Authority.

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

## **Finding 1**

Using data mining software, we statistically selected 71 of the Authority's program households from the 34,895 households on the Authority's program as of September 24, 2007. The 71 households were selected to determine whether the Authority correctly calculated households' housing assistance payments. Our sampling criteria used a 90 percent confidence level with a 50 percent estimated error rate.

## **Finding 2**

Using data mining software, we statistically selected 32 of the Authority's program individuals from the 796 individuals on the Authority's program as of September 24, 2007. The 32 individuals were selected to determine if the Authority inappropriately provided housing assistance for deceased individuals and failed to capture the overpayments. Our sampling criteria used a 90 percent confidence level with a 50 percent estimated error rate.

We performed our on-site audit work between October 2007 and March 2008 at the contractor's offices located at 60 East Van Buren Street, 8<sup>th</sup> Floor, Chicago, Illinois. The audit covered the period January 1, 2006, through August 31, 2007, but was expanded as determined necessary.

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

# INTERNAL CONTROLS

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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,
- Validity and reliability of data,
- 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.

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## 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 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 review, we believe the following item is a significant weakness:

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's regulations and/or its program administrative plan regarding the program eligibility determination, calculation of housing assistance payments, and recovery of overpaid housing assistance for deceased individuals (see findings 1 and 2).

### **Separate Communication of Minor Deficiencies**

We informed the Authority's chief executive officer and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated August 25, 2008.

## APPENDIXES

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### Appendix A

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

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Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		<u>\$163,794</u>	
1B	\$89,896		
1C			\$5,718
1D	7,152		
2A	14,395		
2B			<u>1,423</u>
2C	<u>1,746</u>		
Totals	<u>\$113,189</u>	<u>\$163,794</u>	<u>\$7,141</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.




## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

<p><b>CHANGE.</b> CHICAGO HOUSING AUTHORITY</p> <p><b>Martin Nesbitt</b> <i>Chairperson</i></p> <p><i>Board of Commissioners</i> <b>Hallie Amey</b> <b>Dr. Mildred Harris</b> <b>Michael Ivers</b> <b>Samuel Mendenhall</b> <b>Bridget O'Keefe</b> <b>Carlos Ponce</b> <b>Mary E. Wiggins</b> <b>Sandra Young</b></p> <p><b>Lewis A. Jordan</b> <i>Chief Executive Officer</i></p> <p><b>Adrienne G. Minley</b> <i>Chief of Staff</i></p> <p><b>Scott W. Ammarell</b> <i>General Counsel</i></p>	<p style="text-align: right;">HUD - OIG OFFICE OF AUDIT CHICAGO, ILLINOIS</p> <p style="text-align: right;">2008 AUG 15 PM 4:54</p> <p style="text-align: right;">RECEIVED</p> <p>August 15, 2008</p> <p>Heath Wolfe U.S. Department of Housing and Urban Development Office of Inspector General for Audit, Region V Ralph H. Metcalfe Federal Building, Room 2646 77 West Jackson Boulevard, Suite 2646 Chicago, IL 60604-3507</p> <p>Re: <u>OIG Audit of the Chicago Housing Authority</u></p> <p>Dear Mr. Wolfe:</p> <p>Please find attached the Chicago Housing Authority's ("CHA") response to the HUD's Office of Inspector General for Audit phase one (1) discussion draft, dated July 14, 2008.</p> <p>I appreciate the time and patience of your staff and you in working with the CHA through the audit process. Although we may disagree on some of the findings, I am convinced that your team's audit will assist the CHA in making the needed changes and improvements in the administration and operation of its Housing Choice Voucher Program.</p> <p>The CHA will certainly incorporate your recommendations in the current and planned changes for its Housing Choice Voucher program.</p> <p>Thanks for the opportunity to work with you again. If you have any questions, please feel free to contact me.</p> <p>Sincerely,</p> <p> Lewis A. Jordan Chief Executive Officer / President</p> <hr/> <p style="text-align: center;"><small>60 E. Van Buren Street - Chicago, Illinois 60605-1207 - (312) 742-8500 - <a href="http://www.thecha.org">www.thecha.org</a></small></p>
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**CHICAGO HOUSING AUTHORITY  
RESPONSE TO THE JULY 14, 2008 HUD OIG PHASE 1 DRAFT AUDIT REPORT  
SUBMITTED AUGUST 15, 2008**

There are several areas where CHA disagrees with the conclusions contained in the audit report or believes that key facts are missing which are necessary to provide the appropriate context for the findings. This response contains both CHA's overarching comments, as well as specific, line-by-line responses to items in the audit. Some of the documentation referenced in this response can be found in Attachment 5 to the approved policies and procedures under which the program was updated.

**A. OVERALL COMMENTS ON JULY 14, 2008 DRAFT AUDIT REPORT**

**1. CHA Has Effective Measures for Monitoring Its Housing Choice Voucher ("HCV") Program to Ensure that It Complies with HUD Standards**

As the audit report points out, CHA's HCV program was operated by its contractor, CHAC, Inc. ("CHAC") during the audited period. The audit report concludes that CHA does not accurately monitor its contractor. CHA believes, however, that this conclusion was reached without evaluating CHA's various systems for ensuring program compliance. CHA's HUD-approved contract with CHAC requires that the contractor implement a quality control plan and provide periodic reports to CHA. The CHAC quality control plan was developed with CHA and reviewed by a professional statistician to ensure that CHAC is testing its compliance with program requirements based on a statistically valid sample and in accordance with HUD's Section 8 Management Assessment Program (SEMAP) standards. (As described below, the sample size determined by the expert statistician to be statistically valid is much greater than that used by the OIG in its audit.) CHA receives quality control reports from CHAC, which evaluate CHAC's performance under their contract in accordance with the HUD-approved contract standards.

In addition, CHA's independent auditor conducts periodic reviews of HCV files and provides an annual report. The OIG indicated at our exit conference that this was new information that was material to the report. After the exit conference, CHA provided documentation to OIG regarding the quality control plan, including the statistician's report, as well as additional information regarding CHA's independent review. The audit report was not re-drafted to reflect this important information. Furthermore, CHA will be implementing a new quality assurance program before the end of 2008, which will require review of files and data created in the administration of the Housing Choice Voucher Program to ensure compliance with HUD regulations, CHA's Administrative Plan, and performance standards established under its contract with CHAC and will also include regular reviews for consistency of administrative plan, procedures, and practice, as well as the quality control measures taken by CHAC.

**Comment 1**

Comment 2

**2. The Sample Size Used by the OIG Does Not Support the Extrapolation of Error Rates or Accurately Describe HUD Standards for Performance**

CHA appreciates and agrees with the OIG's conclusion that it did not review a sufficient number of HCV files to use the amount of funds called into question in this audit to extrapolate to a larger number, program-wide. As the OIG indicated in our exit conference, such a conclusion is not supportable given that CHA's HCV program encompasses over 35,000 tenant files, and OIG reviewed approximately 71. This is approximately 0.2% of CHA's program, which does not constitute a sufficient sample from which generalizations can be made.

While OIG did not extrapolate the amount of funds called into question, the audit report attempts to extrapolate error rates for CHA's HCV files based on the same sample size. One cannot draw adequate conclusions regarding the rates of errors in CHA's HCV files based on the OIG's low sampling rate. Given the complexity of the HCV program it is impossible to operate the program without any errors. HUD recognizes this and has established acceptable error rates for program performance through the SEMAP standard, which CHA believes is a more accurate way to measure the performance of CHA's HCV program. Regardless, the CHA always has and will continue to endeavor to improve all of its processes so that the error rate is below HUD's standards.

The draft audit report also reveals some additional troubling methodology issues. First, it is unclear how the OIG selected the total of 71 files referred to in the draft audit from the 125 files CHA provided to the OIG; and second, there appears to be double-counting of errors and a recommendation for reimbursement of the same HAP dollars twice for the same program participants. These issues are discussed in greater detail below.

**3. The Audit Report Does Not Provide the Context of CHA's HCV File Documentation**

In 2006, CHA made the decision to improve its HCV file system by moving from paper tenant files to an electronic files system. This monumental effort was undertaken in order to improve program efficiency in the future with the understanding that some records would not be completely accessible while the transition was taking place. Now, CHA is using electronic files for all new admissions, but it is continuing to scan old files, including many that were sought by the OIG.

Comment 3

At the inception of the audit, CHA and its contractor explained to the OIG auditors that they would likely be unable to access some documents due to the on-going file upload, not because the documents did not exist, but rather because some documents remained in a "queue" of documents currently in the scanning process. The scanning queue can include as many as 15,000 documents at any one time. The audit report does not fully acknowledge this important fact and its impact on CHA's ability to readily produce original documents. In a number of cases where a document was not readily accessible, CHA, through its contractor, produced alternative documentation supporting its compliance with the applicable regulation. The OIG acknowledged some of these situations but declined to do so in others, leaving the impression that CHA did not comply with applicable HUD requirements. As a result, CHA

**Comment 4**

believes that many of the findings asserting that CHA did not comply with HUD requirements due to missing documentation are not valid.

**4. Conclusions Are Not Clearly Supported by the Facts and Resulting Alleged Errors Are Multiplied**

In some areas of the report, OIG draws a conclusion that CHA did not comply with program requirements, when CHA, in fact, believes its actions were legally authorized. The most critical example of this is the OIG's determination that CHA did not complete interim recertifications. Under CHA's policies and procedures, interim recertifications are not always required. This policy is legally authorized under CHA's Moving to Work Agreement with HUD. Regardless, OIG found that interim recertifications should have been conducted because, in its view, the CHA Administrative Plan should more clearly describe this policy. Moreover, instead of considering this one error, OIG has counted every file it reviewed where an interim review was elective as a separate "error," resulting in a significant amount of funds being called into question. Because the alleged "error" happened only once, in CHA's drafting of the Administrative Plan, CHA believes the OIG should not count each instance as a separate "error."

**Comment 5**

**5. The Audit Report Does Not Make Clear Distinctions Between CHA's Compliance with HUD Requirements and OIG's Evaluation of What It Believes Should Be the HUD Requirements**

There are a number of places throughout the audit report where OIG indicates CHA's performance was inadequate, even though CHA either (1) met or exceeded existing HUD standards or (2) there is no HUD standard upon which the OIG relies. CHA appreciates OIG's interest in identifying issues it sees as weaknesses the HCV program; however, a finding against CHA is not justified if CHA met existing requirements. For example, the OIG found that CHA's recovery of housing payments made on behalf of deceased individuals was inadequate even though CHA followed applicable HUD requirements and provided documentation that funds had either been recovered or were in the process of being recovered in every case cited by OIG. Again, we appreciate the OIG acknowledging at the exit conference that HUD has no clear national standard in this area and suggesting that this finding might be removed from the report and addressed in a separate "minor finding" letter. Accordingly, CHA reiterates its request that these findings be removed from the report

**Comment 6**

**6. The Entire HAP and Administrative Fees Should Not Be Called Into Question**

For the reasons stated in this response, CHA does not believe that the OIG's findings justify any recapture of funds. Even if a recapture were justified, CHA disagrees with the OIG's practice of calling into question the full amount of both the HAP and the administrative fees for a household when only one particular document was found to be missing or incomplete. Any HAP amount sought to be recovered should be proportional to the seriousness of the error. Moreover, if administrative fees are assessed, only those fees that can be allocated to the administrative functions at issue here should be sought.

Comment 7

**B. SUMMARY OF AREAS OF DISAGREEMENT WITH FINDINGS**

**Finding 1: The OIG's Conclusion That CHA's Contractor Lacked Documentation Is Not Supported by the Facts or HUD Requirements**

The OIG's assertion that CHA and its contractor lacked documentation to support \$264,000 in HAP and utility allowance payments gives the inaccurate impression that there was not adequate documentation in the files to support eligibility for housing assistance and utility allowance payments. That is not the case.

As explained above, CHA and its contractor concede that all typical file documentation could not be readily produced due to the on-going conversion to electronic files. Despite the challenges in retrieving documents under these circumstances, almost half of the files cited by the OIG were missing only one of the 13-plus documents OIG sought to review. In some cases, the OIG determined that the document was in the file but did not agree that it was properly completed, although no specific HUD regulation was violated. In other cases, the file documents sought by the OIG were not required by HUD, and CHA's contractor provided alternative evidence that the regulatory requirements had been met.

Although CHA's contractor provided alternative evidence that the regulatory requirement was met, or, in some cases, had original documents re-executed, the OIG continued to consider the entire payment associated with these files as unsupported.

While there are some cases where it appears that required documents were not in the file or not complete, we believe that if the OIG had used a valid sample and had calculated errors in accordance with the CHA-CHAC quality control plan, any errors would be within permitted HUD standards.

**Finding 1: HAP and Utility Allowance Payments Were Calculated in Accordance with CHA's Legally-Authorized Policies and Procedures**

With respect to HAP and utility calculations, our greatest disagreement with the OIG is its finding that interim recertifications should have been conducted because, in its view, the CHA Administrative Plan should more clearly describe this policy, instead of leaving it to the CHAC Procedures Manual, which implements the Administrative Plan. Even if the OIG were correct, instead of considering this one error, OIG has counted every file it reviewed where an interim review was elective as a separate "error," resulting in a significant amount of funds being called into question. CHA recognizes that as a matter of good business practice, the interim reexamination policy should be clearly stated in both the Administrative Plan and the Procedures Manual, and it has recently revised its Administrative Plan to further clarify that policy. However, with respect to its past practices, CHA continues to believe that the lack of sufficient description in the plan does not support the OIG's conclusion as to the funds that should be recaptured.

Comment 4

**Comment 8**

**Finding 1: CHA Employs Internal Control Procedures for Its HCV Program That Are Consistent with HUD Standards**

There is no basis for the OIG's extrapolated file documentation error rate of 86 percent. The OIG did not extrapolate the amount of funds called into question, and so it should not attempt to extrapolate error rates for CHA's HCV files, due to the same inadequate sample size.

Even if the sample were appropriate, OIG's assessment that the controls are inadequate is not based on the HUD-approved contract standards which are based on SEMAP. CHA is always interested in improving its systems, and it appreciates OIG's suggestions about how to improve. Nevertheless, HUD standards and the contractor's HUD-approved contract define the acceptable margin of error and determine how those errors are calculated. It appears that the OIG used an entirely different methodology that was not based on the HUD-approved standards.

CHA does, in fact, have a number of methods to monitor the performance of the HCV program. First, it requires its contractor to implement a detailed quality control plan which samples a statistically valid number of files that exceeds the HUD sample size requirement. Second, CHA's independent auditor conducts a random sample audit of HCV files each year and provides a report to CHA. CHA provided that information to the OIG concerning these reports. Furthermore, CHA will be implementing a new quality assurance program before the end of 2008.

**Finding 2: CHA's Systems for Recovery of Payments for Deceased Individuals Is Consistent with HUD Requirements**

We also disagree with the OIG's finding that CHA's recovery of housing payments made on behalf of deceased individuals was inadequate. CHA followed applicable HUD requirements and provided documentation to the OIG that funds had either been recovered or were in the process of being recovered in every case cited by OIG. At the exit conference, the OIG recognized that HUD had no clear national standard in this area and suggested that it was considering removing this finding and addressing it in a separate "minor finding" letter. CHA once again requests that these findings be removed. Over and above the HUD requirements, based on the OIG's suggestions, CHA has begun to implement a new procedure where the EIV database on deceased individuals is reviewed regularly in order to identify potential issues.

**C. DETAILS RELATED TO SPECIFIC FINDINGS**

The discussion below responds to specific statements contained in the draft audit report, in the order in which those statements appear in the report. It should be read in conjunction with our general comments.

**Comment 10**

**Comment 11**

**Finding 1: The OIG's Conclusion CHA's Contractor Lacked Documentation Is Not Supported By the Facts or HUD Requirements**

**1. Inaccuracy in Heading**

**(a) Issue:**

The heading states, "The Authority's Contractor Lacked Documentation to Support Nearly \$264,000 in Housing Assistance and Utility Allowance Payments." This heading gives the impression that there was not adequate documentation in the files to support eligibility for housing and utility payments. That is not the case.

Almost half of the files cited by the OIG were missing only one of the 13-plus documents OIG sought to review. In some cases, the OIG determined that the document was in the file but did not agree that it was properly completed, although the OIG did not cite a specific HUD regulation that was violated. In other cases, the file documents sought by the OIG were not required by HUD, and CHA's contractor provided alternative evidence that the regulatory requirements had been met.

**(b) Resolution**

The audit report should more accurately reflect the fact that documentation was provided in many cases, or it could not be determined if the files were properly maintained due to the scanning process.

**2. Files Were Double Counted**

**(a) Issue**

The charts provided by the OIG as support for the draft audit report indicate that the OIG has double-counted four files. The 30 files in which the OIG has found there to be missing documentation are comprised of the 20 files listed on the chart entitled "Program Eligibility - Missing Documentation" and the 10 files listed on the chart entitled "Housing Assistance Payments Calculations." There is an overlap of four files between these two charts, as shown in the spreadsheet attached at Attachment 1.

**(b) Resolution**

The audit report should be corrected. It is not accurate to state that a total of 30 files have errors. Because there is an overlap of four files, the total should be 26. Also, the total funds calculation should be double-checked by the OIG to confirm that there has been no double-counting of unsupported/ineligible payments and to remove any such double-counting.

**3. The Findings Do Not Match the Accompanying Charts**

The charts provided by the OIG as support for the draft audit report do not match the information contained in the draft audit report. There are discrepancies between the two in

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**Auditee Comments**

**Comment 12**

terms of the number of errors, as shown on the spreadsheet attached at Attachment 2, and the total amount unsupported funds. One possible explanation for the discrepancy is that it appears that the numbers cited in the draft audit report might not reflect the 14 cases where additional documentation was accepted by the OIG.

**(a) Resolution**

The draft audit report should be corrected to reflect the lower numbers contained in the chart.

**4. Inaccurate Statement regarding Number of Files**

**(a) Issue**

The draft audit report states that of the 71 household files reviewed, 44 (62 percent) had missing or incomplete documents. However, later in this same section, the OIG acknowledges that “[t]he contractor obtained new or original documentation for 14 of the 44 household files after we notified it of the missing or incomplete documents during the audit. As a result, the questioned cost cited in recommendation 1A only reflects the missing documents for the remaining 30 household files (44 minus 14).”

**Comment 12**

**(b) Resolution**

The audit should be revised to state that 30 (or 26, which is the appropriate number after the overlapping files are removed, per the discussion above) had missing or complete documents, to give credit for those files where CHA provided new or additional documentation.

**5. Misinterpreted Requirement for HUD Form 52517**

**(a) Issue**

The draft audit report’s statement that 21 files were missing HUD Form 52517, Request for Tenancy Approval (“RFTA”) is not accurate, as it is based upon a misinterpretation of file documentation requirements.

CHA provided to the OIG logs and other documentation containing the same information as a RFTA for files that did not contain a RFTA. The OIG accepted a Request for Inspection form in lieu of a RFTA, because it contained the same information as the RFTA, including the signatures of the tenant and the landlord. However, the OIG did not accept other logs and documentation provided where they did not include signatures. CHA requests that such documents be accepted despite the missing signatures.

**(b) Requirements**

- (i) 24 C.F.R. § 982.305(d)**



**Comment 13**

The Code of Federal Regulations, 24 C.F.R. § 982.305(d), states: "After receiving the family request for approval of the assisted tenancy, the PHA must promptly notify the family and owner whether the assisted tenancy is approved." These regulations do not require a specific form and do not establish minimum standards for the process, nor do they require a signature.

**(ii) HUD OIG Operations Manual**

Section 3-17(c) of the HUD OIG Audit Operations Manual recommends that auditors make a reasonable effort to identify alternative verification methods if specific costs are not adequately documented.

**(c) Resolution**

The OIG should accept alternative forms if they meet the requirements of the regulation, and the OIG should not require signatures. The audit report should be revised to delete this finding. Also, the supporting chart states that there were 14 and not 21 files missing the RFTA, so in the event that the finding is not removed, the number should be changed to 14.

**6. Misinterpreted Requirement for HUD Form 9886**

**(a) Issue**

The draft audit report states that 12 files were missing HUD Form 9886, Authorization for the Release of Information and Privacy Act Notice. The OIG should accept alternative consent forms if such consent forms meet the requirements of the regulations.

**(b) Requirements**

**(i) 24 C.F.R. § 5.230(a)**

The Code of Federal Regulations, 24 C.F.R. § 5.230(a), requires that 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, shall sign one or more consent forms. The regulation specifies the minimum contents of a consent. The regulations do not specify that HUD Form 9886 must be used in order to meet the consent requirement.

**Comment 14**

**(c) Resolution**

The finding should be revised or eliminated because the 12 files found to be missing HUD Form 9886 contain acceptable alternative consent forms.

**Comment 15**

**Finding 1: HAP and Utility Allowance Payments Were Calculated in Accordance with CHA's Legally-Authorized Policies and Procedures**

**1. Overlap with Missing Documentation Finding**

**(a) Issue**

Approximately 69 of the files reviewed in connection with the HAP Calculation finding were also reviewed for the Program Eligibility - Missing Documentation section.<sup>1</sup> 17 of the files listed on the spreadsheet entitled "Program Eligibility - Missing Documentation" are contained on the spreadsheet entitled "Housing Assistance Payments Calculation." Double counting with respect to the 17 overlapping files would be improper. If HUD is seeking the entire HAP payment for a program participant on the grounds that there is missing documentation, it should not also be seeking recovery for an overpayment for that participant for the same period of time.

**(b) Resolution**

Any double-counted funds should be eliminated from the repayment sought.

**2. Interim Examinations**

**(a) Issue**

The audit report states that 40 files did not have adjusted housing assistance payments when the contractor became aware of the increase in household income. This finding is a result of the OIG's misapplication of the applicable interim reexamination requirements. Such interim reexaminations are not required under CHA's approved and procedures. Even though the OIG believes that the CHA Administrative Plan should more clearly describe this policy, instead of leaving it to the CHAC Procedures Manual, such a belief is not a sufficient basis to justify recapture of the funds. Moreover, even if the OIG were correct in its view, the error should only be counted over and should not serve as the basis for recapture of funds in every instance where the OIG believes an interim recertification should have been performed. The OIG agrees that CHA and its contractor follow the legally authorized policies and procedures contained in the Procedures Manual with respect to interim reexaminations.

**(b) Requirements**

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<sup>1</sup> We also note that the spreadsheets dated July 16, 2008 provided to support the draft audit report differ significantly from the original spreadsheet we were provided. There are differences in the information contained in the original as compared to the revised spreadsheet for over one quarter of the files (16 of the 61), some of which amount to thousands of dollars. A spreadsheet showing the differences between the two charts is attached at Attachment 3.

**Comment 4**

**(i) 24 C.F.R. § 982.516**

HUD regulations require housing authorities to conduct a reexamination of family income and composition at least annually. 24 C.F.R. § 516(a)(1). They provide that a housing authority “may” conduct an interim reexamination at any time and that such reexaminations must be conducted according to the CHA’s administrative plan. 24 C.F.R. § 516(b)(2), (b)(3).

**(ii) Administrative Plan**

CHA’s Administrative Plan contains its policies for interim reexaminations. The Administrative Plan was revised on July 15, 2008 to clarify these policies.

**(iii) MTW Requirements**

HAs that participate in HUD’s Moving to Work program enter into a MTW Agreement with HUD. CHA is a MTW HA. Participants in the MTW program such as CHA are given more flexibility in their administration of the covered programs, including more flexibility in the use of administrative plans.

**(iv) Procedures Manual**

In order to implement the policies contained in the Administrative Plan, CHAC has adopted written procedures, which are contained in a Procedures Manual. The Procedures Manual provides that interim reexaminations will not be performed except in certain circumstances, such as when a household member who was previously unemployed becomes employed.

**(c) Resolution**

CHA revised its Administrative Plan on July 15, 2008 to clarify its policies regarding interim reexaminations. Since the issue here is not whether CHAC has been following its Procedures Manual, but rather in which document the policy should be described, the finding should be that the interim recertification policies should be included in the Administrative Plan, not that CHA or its contractor made errors on interim recertifications or failed to perform them when they are not required.

**3. Payment Standards and Utility Allowances**

**(a) Issue**

The draft audit report states that 40 files had incorrect payment standards, and 38 had incorrect utility allowance standards. Included in those numbers are files where the OIG determined: 1) that an interim reexamination should have been conducted pursuant to CHA’s Administrative Plan but was not; and 2) that if an interim reexamination had been conducted, an error on payment standard and/or utility allowance would have been made. Even if the OIG’s determination regarding whether an interim reexamination was required was correct, which it is not, there is absolutely no basis for its assumption that an error would have been made on payment standard and/or utility allowance as a result of that reexamination.

**Comment 4**

As discussed above, CHA and its contractor followed the Procedures Manual policy with respect to conducting interim reexaminations, so the OIG's determination that interim reexaminations should have been conducted pursuant to the Administrative Plan is not correct.

When CHA does conduct interim reexaminations, it follows HUD's requirements with respect to payment standards and utility allowances. The computer software used - Yardi - automatically pulls up the most recent payment standard and utility allowance. For interims, the practice is to manually override the system and input numbers for payment standard and utility allowance to comply with HUD regulations. Any determination by OIG as to whether this would or would not have been done correctly had CHA conducted an interim reexamination is pure speculation.

**(b) Requirements**

**(i) 24 C.F.R. § 982.505**

HUD requirements regarding the application of payment standards are contained in 24 C.F.R. § 982.505. If the payment standard decreases, that decrease cannot be imposed until the family's second regular (i.e., annual) reexamination following the date of the decrease. 24 CFR § 982.505(3). (The exception is if there is a change in family size or composition, in which case the decrease is effective as of the next regular (i.e., annual) reexamination. 24 CFR § 982.505(5).) If it increases, that increase is applied at the family's first regular (i.e., annual) reexamination on or after the effective date of the increase. 24 CFR § 982.505(4). This means that for interim reexaminations, an increase or decrease would not be applied.

**(ii) 24 C.F.R. § 982.517**

HUD requirements regarding utility allowances are contained in 24 C.F.R. § 982.517. The regulations provide that at reexamination, the PHA must use the PHA's current utility allowance.

**(c) Resolution**

A new report has been developed to review the accuracy of payment standards and utility allowances when a transfer or interim certification is processed, to enable corrections to be made if necessary. The report is being tested and is scheduled to be implemented by August 22, 2008. Accordingly, these findings should be removed from the audit report.

**Finding 1: CHA Employs Internal Control Procedures for Its HCV Program that Are Consistent with HUD Standards**

**1. Extrapolated Error Rate**

**(a) Issue**

**Comment 1**

The draft audit report indicates that there was an 86 percent error rate, based upon the finding that there were errors in 61 of the 71 files reviewed.<sup>2</sup> The OIG has recognized that the audit sample size of 71 files was not sufficient to extrapolate to an amount of funds to be recovered, and the audit report does not contain such an extrapolation. It follows that it would also not be appropriate to extrapolate from the number of tenant file errors to an overall error rate. This conclusion is supported by the report of a statistician, who reviewed CHAC's quality control plan and determined that the appropriate sample size for determining error rate in a file review is much greater than that used by the OIG in its audit.

Given the complexity of the HCV program, it is impossible to operate the program without any errors. HUD recognizes this and has established acceptable error rates for program performance through the SEMAP standard. Regardless, CHA always looks for ways to improve its processes. It is more accurate to measure the performance of CHA's HCV program against these HUD standards, which are enforced through CHA's contract with its contractor, rather than implying that the standard is that each and every file be 100 percent error free.

**(b) Resolution**

The language "resulting in an 86 percent error rate" should be deleted from the audit report, and any discussion in the audit report of tenant files errors should be limited to a statement that there were errors in a certain number of files.

**2. CHA Review**

**(a) Issue**

The draft audit report states that as of March 2008, CHA had not conducted any reviews of its contractor regarding documentation and HAP calculations. This statement is misleading and needs context. Both CHA and CHAC have quality control procedures in place that effectively monitor CHAC's performance in administering the Housing Choice Voucher Program and ensure the accuracy of the information being reported and compliance with HUD regulations.

CHA's independent auditor conducts periodic reviews of HCV files and provides an annual report. CHA provided information regarding these reviews to the OIG after the exit conference. Furthermore, CHA will be implementing a new quality assurance program currently under development with a consulting firm. This program will review files and data created by all contractors and sub-contractors engaged in the administration of the Housing Choice Voucher Program to ensure compliance with HUD regulations, CHA's Administrative Plan, and performance standards established under its contracts with vendors. The new program, to be implemented before the end of 2008, will also include regular reviews for consistency of administrative plan, procedures, and practice, as well as the quality control measures taken by each contractor.

<sup>2</sup> The OIG has not adequately explained how it selected the total of 71 files referred to in the draft audit from the 125 files CHA provided to the OIG.

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**Comment 16**

CHA’s contract with CHAC requires that the contractor implement a quality control plan and provide periodic reports to CHA. The CHAC quality control plan was developed with CHA and reviewed by a professional statistician to ensure that CHAC is testing its compliance with program requirements. CHA receives quality control reports from CHAC, which evaluate CHAC’s performance under their contract in accordance with the HUD-approved contract standards.

**(b) Resolution**

The statement regarding CHA not conducting reviews and the remainder of that paragraph should be deleted. Moreover, the finding that CHA’s procedures and controls over its contractor had weaknesses should be removed.

**3. Contractual Error Rate**

**(a) Issue**

The draft audit report states, “The Authority’s contract requires the contractor to implement a quality control system in which an error rate of no more than 5 percent is acceptable in the calculation of household contribution.” The 5 percent error rate is incorrect. Under the current contract, a 10 percent error rate is acceptable. Also, a discussion of error rate is unnecessary here, because, as discussed above, the small sample size does not allow for the extrapolation of an error rate.

**(b) Resolution**

The discussion of error rate under the contract should be removed. If not removed, the 5 percent should be changed to 10 percent

**Comment 17**

**4. CHAC Quality Control**

**(a) Issue**

The draft audit report states that CHAC performed a quality control review on eight of the 71 files reviewed but that it did not identify three files - “38 percent” - that had errors in housing assistance and utility allowance payments. The three tenant files referenced in the report were provided to CHA, and CHAC reviewed the files to determine whether an error had been made in HAP or utility allowance payments. The review of the files indicates that the HAP and utility allowance were calculated correctly. In any event, the reference to 38 percent is misleading, as CHAC performed quality control review on more than eight files. 38 percent is not an error rate.

**(b) Resolution**

The sentence should be deleted. If it is not deleted, the reference to 38 percent should be deleted.

**Comment 18**

**5. Rental Integrity Monitoring (“RIM”) Review Paragraph**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 19**

**(a) Issue**

The draft audit report contains a discussion regarding the RIM Reviews conducted by HUD in 2002 and 2004. These prior RIM reviews have no relevance to the audit. The RIM reviews were conducted outside of the time period covered by the audit. Moreover, CHA responded to HUD's findings in both reviews, and HUD closed out the review findings.

**(b) Resolution**

The entire paragraph regarding the RIM Reviews should be deleted. Alternatively, a statement that the RIM reviews took place outside of the time period covered by the audit should be included, as should information regarding HUD's close-out of the review findings.

**Comment 20**

**6. Statements Attributed to CHA and Its Contractor**

**(a) Issue**

The draft audit report contains two statements that it attributes to CHA and/or its contractor. As discussed at Attachment 4, it appears that OIG misunderstood these statements.

**(b) Resolution**

Any inaccuracies in the draft audit report should be corrected.

**7. Enterprise Income Verification ("EIV") System**

**(a) Issue**

The draft audit report states: "Further, the contractor did not adequately use HUD's Enterprise Income Verification system (system) or other similar third-party income verification."<sup>3</sup> CHA appreciates the OIG's acknowledgment that HUD does not currently require EIV to be used and had serious problems with the system's reliability during the audit period. EIV was not completed by HUD until late 2005. HUD's many problems implementing its computer systems have been documented by OIG and the Government Accounting Office. HUD has also acknowledged that there have been problems in the implementation of EIV. During the audit period, between late 2006 and early 2007, the EIV system was completely unavailable to housing authorities due to problems with HUD's contractor. While HUD has

<sup>3</sup> The draft audit report also states that for 38 of the 71 households reviewed, when the contractor ran a system report with EIV it indicated an increase in the household's reported income, but the contractor had not conducted an interim certification. Because CHA is not required to and does not conduct interim reexaminations except in certain circumstances, the fact that EIV indicated an increase in income for certain households but an interim recertification was not performed is irrelevant and not a violation of HUD requirements or the Administrative Plan.

**Comment 21**

encouraged the use of EIV, it has permitted housing authorities to continue to use alternative methods for verification of certain information because of reliability issues with the system. Despite the issues with the system, CHA and its contractor are continuing to make changes in their procedures to incorporate a greater use of EIV. We also appreciate OIG drawing our attention to new modules in the system that have recently come on line that could be helpful in verifying relevant information.

**(b) Resolution**

CHA is continuing to evaluate how the EIV system can best be utilized in the day-to-day management of the Housing Choice Voucher program. We ask that this sentence and the entire discussion regarding EIV following it be removed.

**8. Statement re Revision of Administrative Plan**

**(a) Issue**

The draft audit report states, "However, as of May 29, 2008, the Authority's administrative plan had not been updated or clarified." CHA revised its Administrative Plan on July 15, 2008 to clarify its policies regarding interim reexaminations.

**(b) Resolution**

The audit report should be revised to delete the above statement and add the following sentence: "On July 15, 2008, the Authority revised its Administrative Plan to further clarify its polices regarding interim reexaminations."

**Comment 22**

**9. Communication of Program Requirements**

**(a) Issue**

The draft audit report states that CHAC did not consistently communicate to households the program requirements regarding how and when to report increases and/or decreases in annual income. The report references the application and the family obligations form. The application informs the applicant that they are to report any changes in income immediately. The family obligations form informs the family that they are to report within 30 days when any household member who was previously unemployed becomes employed. While the application contains a broader statement than the family obligations form, they are not contradictory. The documents do not discuss CHA's policy regarding recertifications; they only discuss family reporting procedures. There has been no indication that any tenants are confused as to the procedures for reporting changes in income.

**(b) Resolution**

The application form will be revised in order to avoid any possibility for confusion on the part of the applicant as to the procedures for reporting changes in income. Based on the proposed corrective action, this statement should be removed.

**Comment 23**



**Comment 24**

**10. Administrative Plan Underpayments**

**(a) Issue**

The draft audit report states that CHA's Administrative Plan does not address how households would be reimbursed when an underpayment of housing assistance payment occurred. There is no requirement that the issue of reimbursements for underpayments be addressed in the Administrative Plan. CHA has a practice for underpayment reimbursement but does not currently have written procedures in place dealing with this issue.

**(b) Resolution**

As it believes that it is good business practice to have written procedures regarding reimbursement for underpayments, CHA will be implementing procedures in the appropriate document, either the Administrative Plan or the Procedures Manual. Because the failure of the Administrative Plan to address reimbursements for underpayments is not a violation of HUD program requirements but rather a matter of business practice, this statement should be removed.

**11. Administrative Fees**

**(a) Issue**

The draft audit report seeks the reimbursement of administrative fees related to the claimed unsupported payments and overpayments. We disagree that administrative fees should be assessed here; however, in the event that they are, only those that can be allocated to the administrative functions at issue here should be assessed, not the entire administrative fee.

CHA's contractor previously raised this issue in a June 25, 2008 letter to the OIG, written in response to the OIG's suggestion that if there were a methodology for apportioning the administrative fees to the various responsibilities of the housing authority, they would evaluate whether that apportionment could be taken into consideration. In the letter, CHAC provided an allocation of the 2007 administrative fees by the various functions that it performed during that time period. While we do not concede that it is appropriate to call any amount of the administrative fee into question, based on the information we have seen thus far, if the OIG proposed to forward with such actions, these allocations provide a more accurate guideline than simply questioning the entire fee.

**(b) Resolution**

We disagree that any administrative fees should be assessed. In the event that administrative fees are assessed, only those that can be allocated to the administrative functions at issue here should be sought.

**Comment 6**

**12. Recommendations**

CHA's response to the OIG's Recommendations is as follows:

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**Comment 24**

**1A** - We believe we have already provided support for the HAP and utility allowance payments and associated administrative fees. We disagree with any reimbursement but agree to implement additional policies and procedures in order to enhance our performance regarding tenant file documentation.

**Comment 25**

**1B** - We disagree with any reimbursement but will agree to implement additional policies and procedures in order to enhance our performance with regard to HAP and utility allowance calculations. We have revised our Administrative Plan in order to further clarify our policies with respect to interim reexaminations. A new report has been developed to review the accuracy of payment standards and utility allowances when a transfer or interim certification is processed, to enable corrections to be made if necessary. If administrative fees are to be reimbursed, only those fees that can be allocated to the administrative functions at issue here should be sought, not the entire fee.

**Comment 22**

**1C** - We disagree with any reimbursement but will agree to implement additional policies and procedures in order to enhance our performance with regard to HAP and utility allowance calculations. We have revised our Administrative Plan in order to further clarify our policies with respect to interim reexaminations. A new report has been developed to review the accuracy of payment standards and utility allowances when a transfer or interim certification is processed, to enable corrections to be made if necessary. If administrative fees are to be reimbursed, only those fees that can be allocated to the administrative functions at issue here should be sought, not the entire fee.

**Comment 6**

**1D** - We disagree with any reimbursement of administrative fees. If administrative fees are to be reimbursed, only those fees that can be allocated to the administrative functions at issue here should be sought, not the entire fee.

**Comment 3**

**1E** - We believe that our procedures are already adequate, but we agree to implement additional policies and procedures in order to enhance our performance. CHA plans to implement new quality control procedures before the end of 2008.

**Comment 3**

**1F** - We believe that our procedures are already adequate, but we agree to implement additional policies and procedures in order to enhance our performance. CHA plans to implement new quality control procedures before the end of 2008.

**1G** - We agree, but we are evaluating the matter in order to determine whether the Administrative Plan (as opposed to the Procedures Manual) is the appropriate location for the policy.

**1H** - We believe that this is already covered in the current Administrative Plan and Procedures Manual. However, we have revised our Administrative Plan in order to further clarify our policies with respect to interim reexaminations, and we are considering whether additional revisions would be helpful.

**Comment 26**

**Finding 2: CHA's Systems for Recovery of Payments for Deceased Individuals Is Consistent with HUD Requirements**

**1. Statement regarding Overpayments and Underpayments**

**(a) Issue**

The draft audit report states that CHA overpaid more than \$36,000 in HAP and utility allowance payments and underpaid nearly \$1,500 in HAP and utility allowance payments. This statement needs clarification. As recognized by the OIG, CHAC has recovered approximately \$21,614 of the overpayments. Moreover, it is continuing to seek repayment of the amount remaining and has made efforts to reimburse the underpayments.

**(b) Resolution**

Language should be added to clarify that CHA has recovered \$21,614 and is continuing to seek repayment of the remaining amount due and has made efforts to reimburse the underpayments.

**2. Heading Is Inaccurate**

**(a) Issue**

The heading states: "The Authority Did Not Recover Housing Assistance and Utility Allowance Payments." This statement is unsupported. CHA *did* recover HAP and utility allowance payments. The draft audit report recognizes that CHA recovered \$21,614 as of May 27, 2008. There are only two households where the OIG believes CHA still needs to recover overpayments.

**(b) Resolution**

The heading should be changed to: "The Authority Has Not Recovered Housing Assistance and Utility Allowance Payments in Two Cases."

**3. Statement regarding Attempt to Recover Payments**

**(a) Issue**

The draft audit report states that CHAC did not attempt to recover any payments for one deceased individual. This statement is unsupported. CHAC sent a demand letter to this household and has referred the matter to CHA finance for collection. Because the owner is no longer receiving HAP payments, the overpayments cannot be automatically deducted. The owner has contacted CHAC to inquire about the remaining member of the household and whether the owner does in fact owe the CHA an overpayment. This matter is being investigated.

**(b) Resolution**

**Comment 27**

**Comment 28**

The audit report should be revised to state: "However, the contractor has been unable to date to recover any payments for one deceased individual, but it has sent a demand letter to the owner and referred the matter to the Authority for collection and has been in contact with the owner."

**4. Statement regarding Underpayments**

**(a) Issue**

The draft audit report states that CHAC has not attempted to make repayments to the two households where underpayments were made. This is not correct. CHAC has attempted to make repayments to both individuals. Neither family is a current participant, both having ended their participation in 2006. CHAC sent letters to both individuals to the last known address.

**(b) Resolution**

The statement should be changed to: "Contractor has attempted to make repayments to the two tenants to whom repayments are owed."

**Comment 29**

**5. Statement regarding Remaining Balances**

**(a) Issue**

The draft audit states: "Balances also remain from one household where the contractor did not begin collections within 30 days and only attempted to collect 6 of the 11 months outstanding." This statement is not correct. CHAC is continuing to pursue collection of the remaining amount owed. Also, the fact that collections did not begin within 30 days is irrelevant, as there is no HUD requirement or CHA/CHAC policy specifying a time frame for pursuing collection. The CHAC Procedures Manual merely states that once an overpayment is identified, the owner should be notified that he/she has 30 days to make a repayment.

**(b) Requirements**

**(i) Administrative Plan**

The Administrative states that if an owner owes CHA for overpayments of HAP, CHA will provide the owner with an opportunity to repay immediately or enter into a repayment agreement, but CHA is not required to enter into a repayment agreement. Owners who are currently receiving HAP payments will automatically have the payment deducted from their current HAP payments unless otherwise agreed upon by CHA.

**(ii) Procedures Manual**

The Procedures Manual elaborates upon the policies contained in the Administrative Plan regarding overpayments. It provides that once CHAC becomes aware of an overpayment, an overpayment letter is mailed to the owner, and the owner then has 30 days to

**Comment 30**

repay the outstanding balance. If the owner is currently receiving HAP payments, CHA will automatically deduct the overpayments from the owner's current HAP payments.

**(c) Resolution**

The statement should be changed to: "A balance also remains from one household, and the contractor is continuing to pursue that matter as well."

**6. Statement regarding Awareness of Deceased Individuals**

**(a) Issue**

The draft audit states: "The Contractor was aware of 18 of the 27 deceased individuals; however, it was not aware of the remaining nine deceased individuals until we informed it. We did not include the outstanding balances for the nine individuals in our previously mentioned totals." CHAC has no affirmative duty either under its Administrative Plan or HUD regulations to seek information concerning the possible death of one of its HCV tenants. The family and/or the owner are responsible for notifying CHAC that a family member has died. If CHAC is not notified by the family or the owner of a death, no opportunity to collect funds is lost, as any overpayments will be recovered upon recertification. Whether or not CHAC was aware of the death of these individuals is irrelevant.

**(b) Requirements**

**(i) Administrative Plan**

Under the Administrative Plan, the family is required to notify CHAC in writing if any family member no longer lives in the unit. This implements the requirement contained in 24 C.F.R. § 982.551(h)(3) and applies in the case of a death of a family member. It provides that CHAC will conduct an interim certification when there is a change in family composition, upon notification by the family.

**(ii) 24 C.F.R. § 982.551(h)(3)**

24 C.F.R. § 982.551(h)(3) states that the family is required to promptly notify the HA if any family member no longer resides in the unit.

**(iii) Housing Choice Voucher HAP Contract**

The Housing Choice Voucher HAP contract between the owner and CHA provides that during the term of the HAP, the owner is certifying that the family lives in the unit. Thus in the case of the death of the sole occupant of the unit, it is the owner's responsibility to cease collecting HAP payments.

**(c) Resolution**

Over and above the HUD requirements, based on the OIG's suggestions, CHAC has begun to implement a new procedure where the EIV database on deceased individuals is

**Comment 31**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 30**

reviewed regularly to identify potential issues. These statements regarding awareness of deceased individuals should be removed.

**7. Statement regarding Failure to Follow the Administrative Plan**

**(a) Issue**

The draft audit states: "The outstanding net payments of \$12,972 in housing assistance and utility allowances to program landlords for deceased individuals occurred because the Authority and its contractor lacked adequate procedures and controls to ensure that they appropriately followed the Authority's program administrative plan." This statement is incorrect, because the Administrative Plan was followed with respect to the overpayments. With respect to the underpayments, there are no procedures in the Administrative Plan on that issue, so CHA could not have failed to follow the Administrative Plan.

**(b) Resolution**

The audit report should be corrected to state that the outstanding net payment remains because despite CHA's efforts to seek repayment for the overpayments, the owners have not yet paid, but CHA is continuing to seek recoupment.

**8. Statement regarding \$12,000 Overpayment**

**(a) Issue**

The draft audit report states: "The contractor's former finance manager said the contractor would seek reimbursement when the owner re-enters the Authority's program. However, there is no assurance that the owner will re-enter the program." It is unclear whether this statement was actually made; however, if it was, it must be put in context. The statement is correct in that if the owner were to re-enter the program, the funds would be recovered, but that is not the only remedy CHA is pursuing. CHAC has sent a demand letter and referred the matter to CHA finance for collection.

**(b) Resolution**

The statement should be changed to: "The contractor is currently seeking reimbursement from the owner."

**9. Conclusion**

**(a) Issue**

The draft audit report seeks reimbursement of administrative fees related to the three cases where the OIG has asserted that CHA and CHAC failed to take action. As discussed above, CHA and its contractor's actions complied with HUD requirements and its Administrative Plan, and they have sought to re-pay the two individuals who were underpaid and are continuing to seek reimbursement for the outstanding overpayments.

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 32**

**(b) Resolution**

The assessment of administrative fees should be deleted, because CHA and CHAC have taken all necessary and appropriate actions.

**10. Recommendations**

CHA's response to the OIG's Recommendations is as follows:

**2A** - We agree and are pursuing collection of the outstanding overpayments.

**2B** - We agree. Although we believe that we have already done all that is required by attempting to contact the two former tenants who were underpaid, at their last known address, we will make another attempt to locate the former tenants in order to reimburse them.

**Comment 6**

**2C** - We disagree with any reimbursement of administrative fees. If administrative fees are to be reimbursed, only those fees that can be allocated to the administrative functions at issue here should be sought, not the entire fee.

**2D** - We believe that our procedures are already adequate and in compliance with HUD requirements, but we agree to implement additional policies and procedures in order to be more aggressive with respect to payments for deceased individuals. We have already begun to implement a new procedure wherein the EIV database on deceased individuals is reviewed regularly to identify potential issues.

**D. CONCLUSION**

**Comment 10**

We appreciate the opportunity that you provided us at the exit conference to discuss the draft audit report and, in particular, the opportunity that you gave us to point out areas where we believed there were inaccuracies. We had hoped based upon our discussion that these inaccuracies would be clarified in a revised draft, but to date have not, and the report continues to contain inaccuracies.

The many of the issues raised in the draft audit report do not violate HUD requirements or rise to the level of demonstrating that our controls over the Housing Choice Voucher Program were inadequate. However, a number of the items discussed in the draft audit report make good business sense, and we are considering your suggestions as part of our continual efforts to improve our performance. While we disagree with the report's recommendations that funds be reimbursed, we welcome the opportunity to work with your staff as we implement improved policies and procedures.

## OIG's Evaluation of Auditee Comments

**Comment 1** We agree that the Authority's contract with its contractor requires the contractor to implement a quality control plan and provide periodic reports to the Authority; however, this does not address that the Authority had not conducted any reviews of its contractor regarding the maintenance of documentation to support household eligibility or the calculation of housing assistance payments as of March 2008.

We disagree that the Authority provided documentation that supports an independent review. The documentation provided shows the Authority observed the quality control activities performed by the contractor as stated in the contractor's quality control plan. The quality control plan states that the contractor is responsible for consistently measuring and monitoring the results of its quality control efforts and the Authority reserves the right to observe quality control activities performed by the contractor.

**Comment 2** We disagree with the Authority that one cannot draw adequate conclusions regarding the rates of errors in the Authority's program files based on our sampling rate. The Authority's statistician's report agreed with our error rate computation methodology. The statistician's report noted that the percent of files with errors was computed by dividing the number of files with errors by the total number of files and multiplying the result by 100. In practice, only a sample of files is examined and the percent of sampled files with errors is computed. An inference regarding the actual percent of files with errors is made based upon this sample percent. Our error rate was based on this methodology. In addition, the statistician's report also stated that based on the number of files sampled and the percent of the sampled files with errors; one can determine a relevant probability or likelihood of an observed sample result.

Our methodology for the review of files was discussed with the Authority during our audit. We statistically selected 125 household files from a universe of 34,895 households receiving housing assistance payments as of September 24, 2007, using data mining software. The 125 files reviewed during the survey phase were not limited to household eligibility or the calculation of housing assistance payments. The 71 files noted in this audit report were reviewed to determine whether the Authority and/or its contractor had documentation for and correctly calculated households' housing assistance and utility allowance payments for the period January 2006 through August 2007.

We disagree with the Authority that there was a double-counting of errors and a recommendation for reimbursement for the same housing assistant payment dollars were counted twice for the same program household.



**Comment 3** We disagree with the Authority that our Office did not take into account the upgrading of the scanning process; we accepted alternate documents and adjusted our findings and recommendations where appropriate.

The Authority began its scanning process in October 2006 and completed clearing the queue in June 2008. However, the Authority had not provided us with the missing documents for the remaining 25 households as of August 15, 2008. The Authority will have further opportunity to provide supporting documentation to HUD's staff, who will work with the Authority, to resolve the recommendation.

**Comment 4** The Authority is required to adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD's regulations at 24 CFR 982.54. According to HUD's regulations at 24 CFR 982.516(b)(3), the Authority must conduct an interim certification in accordance with its administrative plan. The Authority's contractor did not conduct an interim certification in accordance with the administrative plan. The Authority's administrative plan states that the Authority will conduct an interim certification when there is a decrease or increase in the household's income that is expected to last at least 30 days.

The Authority's administrative plan, dated September 20, 2005, and December 19, 2006, are in agreement when an interim certification should be conducted. However, the Authority's procedures manual, dated October 2006, was inconsistent with the Authority's previous and current administrative plans on when to conduct an interim certification. Because of the inconsistency in the use of the Authority's policy and procedures, we used the Authority's administrative plan in accordance with HUD's regulations. When the Authority's contractor did not follow the administrative plan, it resulted in housing assistance and utility allowance overpayments.

**Comment 5** The Authority is correct that a statement was made during the exit conference that finding 2 might be removed from the report and addressed in a separate "minor finding" letter. However, we do not agree with the Authority that it met existing requirements because it did not attempt to recover housing assistance payments in accordance with its requirements. We agree that the Authority is in the process of attempting to recover the housing assistant payments; therefore, we adjusted the report to accurately reflect the Authority's actions.

**Comment 6** In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. We limited the questioned administrative fee to the gross error amount of the housing assistance payment.

**Comment 7** We adjusted recommendations 1A, 1B, 1C, 1D, and finding 2 based upon additional documentation provided by the Authority.

**Comment 8** As previously mentioned in comment 2, the Authority's statistician's report agreed with our error rate computation methodology. The Authority's acceptable margin of error was 10 percent. Per the statistician's report in practice, only a sample of files is examined and the percent of sampled files with errors is computed. An inference regarding the actual percent of files with errors was made based upon this sample percent. If we find the probability of an observed sample result is less than or equal to 5 percent, we reject the assumption that 10 percent or fewer files contain errors and conclude that more than 10 percent of the files contain errors. We determined that of the 71 files reviewed, 42 (59 percent) had missing or incomplete documents and 60 (85 percent) contained errors in one or more of their income certifications.

While the Authority may disagree with the finding, its interest in implementing a new quality assurance program indicates its willingness to further address the importance of this issue.

**Comment 9** While the Authority may disagree with the finding, its interest in implementing controls and procedures indicates its willingness to further address the importance of this issue. As previously mentioned in comment 5, we do not agree with the Authority that it met existing requirements because it did not attempt to recover housing assistance payments in accordance with its requirements.

**Comment 10** We disagree that the audit report inaccurately reflected the fact that documentation was provided in many cases. As previously mentioned in comment 3, the Authority will have further opportunity to provide supporting documentation to HUD's staff, who will work with the Authority, to resolve the recommendation.

The recommendations in this report were adjusted to reflect the Authority's comments and documentation. As noted in the finding 1, the contractor obtained new or original documentation for 17 of the 42 household files after we notified it of the missing or incomplete documents during the audit. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining 25 household files (42 minus 17).

**Comment 11** We disagree with the Authority that any double counting of unsupported or ineligible payments are presented in this audit report. The four files were reviewed for different purposes (household eligibility and the calculation of housing assistance payments). We did not combine the results of the separate testing.

**Comment 12** The recommendations in this report were adjusted to reflect the Authority's comments and documentation provided during and after the issuance of the discussion draft audit report. As previously mentioned in comment 10, the contractor obtained new or original documentation files after we notified it of the missing or incomplete documents during the audit. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining household files where documentation was not provided.

**Comment 13** We agree with the Authority that HUD's regulations at 24 CFR 982.305(d) states that after receiving the family request for approval of the assisted tenancy, the public housing authority must promptly notify the family and owner whether the assisted tenancy is approved. We do not agree that this regulation does not require a specific form. The regulation states after receiving the family request for approval refers to HUD form 52517, Request for Tenancy Approval.

HUD's regulations at 24 CFR 982.305(a) states that the public housing authority may not give approval for the family of the assisted tenancy, or execute a housing assistance payment contract, until the public housing authority has determined that all the following meet program requirements: (1) the unit is eligible; (2) the unit has been inspected by the public housing authority and passes housing quality standards; (3) the lease includes the tenancy addendum; (4) the rent to owner is reasonable; and (5) at the time a family initially receives tenant-based assistance for occupancy of a dwelling unit, and where the gross rent of the unit exceeds the applicable payment standard for the family, the family share does not exceed 40 percent of the family's monthly adjusted income. Eligible families must submit this information to the public housing authority on HUD form 52517 when applying for housing assistance under Section 8 of the U.S. Housing Act of 1937 (42 U.S.C. 1437f). The public housing authority uses the information to determine if the family is eligible, if the unit is eligible, and if the lease complies with program and statutory requirements. In addition, HUD form 52517 requires an owner and household signature.

As previously mentioned in comment 10, the contractor obtained new or original documentation files after we notified it of the missing or incomplete documents during the audit. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining household files where documentation was not provided. In addition, we did not question program administrative fees or housing assistance payments for the files where only the request for tenancy approval was not provided.

**Comment 14** We adjusted recommendation 1A based upon alternative documentation provided by the Authority.

**Comment 15** The audit report does not reflect double counting of housing assistance payments. The recommendations are reflected of the separate errors found in the household files. The 71 files were reviewed to determine whether the Authority and/or its contractor had documentation for and correctly calculated households' housing assistance and utility allowance payments. We determined 25 files had missing or incomplete documents and the contractor miscalculated and failed to comply with program requirements resulted in housing assistance and utility allowance overpayments and underpayments in 60 household files.

The differences noted in attachment 3 were due to work in progress. The original numbers dated May 7, 2008, were noted in a draft finding outline and was

updated due to additional work. The schedule dated July 16, 2008, was the result of the additional work and supporting documentation provided by the Authority.

**Comment 16** We disagree with the Authority. The Authority did not provide documentation to support that it conducted quality control reviews of its contractor. It provided us with its Authority wide housing choice voucher review conducted by its internal audit division. The final review was released on February 3, 2005, with an overall risk rating of high. A high observation includes control weaknesses that are causing disruption of the process or adversely affecting the Authority's ability to achieve process objectives.

The review noted that it did not appear that responsibility for contract administration and performance management had been clearly defined. It also noted that it did not appear that the Authority was effectively reviewing its contractor's performance results in a timely manner to ensure they met the established performance measurements. It further stated that 7 of the 17 (41 percent) of the quality control standards required of the contractor were above the tolerable percentage of error for the majority of the year. Moreover, the internal review found the Authority's current quality control measures at its contractor were inadequate.

The Authority also provided us an onsite review conducted by Nan McKay and Associates of a representative sample of the Authority's tenant-based Section 8 files. On-site work was performed from November 28 through November 30, 2008. The purpose of the review was to provide Nan McKay and Associates with a deeper understanding of how public housing authorities' policies and procedures impact the execution of program requirements. This was clearly not a quality control review on the behalf of the Authority.

In addition, the Authority provided us with its reviews of its contractor to confirm its 2007 section eight management assessment program scores. The contractor provided the Authority the supporting documentation and the Authority stated that it reviewed the documentation and found an error only in the deconcentration bonus indicator. There were no errors found in the other section eight management assessment program indicators. The Authority did not pull independent samples to review; it relied on the contractor's supporting documentation, information in the Authority's system, and information that was entered into HUD's systems. The Authority only confirmed indicator 4, utility allowance schedules, with an outside entity.

These three reviews provided by the Authority only further emphasizes that the Authority's weaknesses in its procedures and controls over its contractor.

**Comment 17** We revised this audit report to show that the Authority's contract requires the contractor to implement a quality control system in which an error rate of no more than 10 percent is acceptable in the calculation of household contribution.

- Comment 18** The Authority did not provide sufficient documentation with its written comments to support that the three files we identified did not have errors in housing assistance and utility allowance payments.
- Comment 19** We disagree with the Authority that HUD's rental integrity reviews in August 2002 and 2004 have no relevance to this audit. The prior reviews conducted by HUD shows that the Authority was aware of previous errors the contractor made in its housing assistance and utility payments functions. In addition, the errors noted in HUD's rental integrity reviews were the same issues we identified during our audit which further emphasizes that the Authority has weaknesses in its procedures and controls over its contractor.
- Comment 20** We revised the report based on the documentation received from the Authority during and after the issuance of the discussion draft audit report.
- Comment 21** We disagree with the Authority that the entire discussion regarding the Authority's use of HUD's Enterprise Income Verification system should be removed from this audit report. Per the Authority's program administrative plan, an interim reexamination must be conducted if a family's increase in income is expected to last at least 30 days. As previously mentioned in comment 4, the Authority must conduct an interim certification in accordance with its administrative plan in accordance with HUD's regulations at 24 CFR 982.516(b)(3). For 38 of the 71 households reviewed, when the contractor ran a system report and it indicated an increase in the household's reported income, the contractor did not conduct an interim certification, resulting in an over/underpayment of housing assistance and utility allowance payments.
- Comment 22** The Authority did not provide sufficient documentation to show that its program administrative plan was revised on July 15, 2008.
- Comment 23** While the Authority may disagree with the finding, its interest in revising the application form to avoid any possibility for confusion on the part of the applicant as to the procedures for reporting changes in income indicates the Authority's willingness to further address the importance of this issue.
- Comment 24** While the Authority may disagree with the finding, its interest in implementing controls and procedures indicates the Authority's willingness to further address the importance of this issue.
- Comment 25** While the Authority may disagree with the finding, its interest in implementing controls and procedures indicates the Authority's willingness to further address the importance of this issue. As previously mentioned in comment 22, the Authority did not provide sufficient documentation to show that its program administrative plan was revised.

- Comment 26** The audit report accurately reflects that the Authority's contractor recovered overpayments of \$21,614. Additional language was added to the audit report to reflect the contractor's attempts to collect the remaining amount. The Authority did not provide sufficient documentation to show that it made efforts to reimburse the appropriate households \$1,423 for the underpayment of housing assistance and utility allowances cited in this audit report.
- Comment 27** The sub-heading was revised to reflect that the Authority had not recovered housing assistance and utility allowance payments for two households.
- Comment 28** We added additional language to the audit report to accurately reflect the contractor's attempts to collect the remaining amount for the deceased household.
- Comment 29** We added additional language to the audit report to accurately reflect the contractor's attempts to repay the underpaid housing assistance payments.
- Comment 30** We added additional language to the audit report to accurately reflect the contractor's attempts to recover the overpaid housing assistance payments and repay the underpaid housing assistance payments.
- Comment 31** The Authority's efforts are commendable. The Authority's proposed actions, if fully implemented, should substantially improve its procedures and controls to ensure that funds paid related to deceased tenants are collected according to its administrative plan and interim certifications are performed when household members are reported as deceased.
- Comment 32** See comment 6. The administrative fees were only questioned during the time the Authority was not seeking recovery or repayment for the underpaid and overpaid housing assistance payments for the three households cited in the audit report.

## Appendix C

### FEDERAL REGULATIONS AND THE AUTHORITY'S REQUIREMENTS

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

The Authority's agreement executed on February 6, 2000, part II, article I (A), states that the Authority is subject to the requirements of the annual contributions contracts, the United States Housing Act of 1937, and other HUD requirements, except as necessary to implement the Authority's activities described in the memorandum of approval and resident protection agreement.

The revised contract between the Authority and its contractor, effective December 1, 2002, section 7.01, states that an event of default as the contractor's material failure to perform the contractor's services in accordance with the performance standards set forth in exhibit B under the agreement or material failure to comply with the quality controls set forth in exhibit E under the agreement. According to exhibit E, quality control plan, the goal for integrity of basic program functions including 50058 preparations, housing assistance payments calculation, and compliance with lead-based paint regulations covering all programs, is 10 percent error rate. Also, the error rate goal for the accuracy of primary participant file review or quality control reviews and error correction reports from initial file reviews to assess performance of the quality control specialist is 10 percent.

Section 2.18 of the revised contract effective December 1, 2002, state there shall be a contract performance review committee ("review committee"), which shall consist of the Authority chief of staff, managing director of resident services, director of section 8, other Authority staff as designated by the Authority, and contractor representatives designated by the contractor. The review committee shall meet no less frequently than quarterly to review management issues, the operating budget, and other matters related to the smooth, orderly and efficient management and operation of the section 8 programs. These meetings shall take place within the month following the end of each quarter if possible, and shall be scheduled by the Authority with advance notice and agenda provided to all parties. At least three (3) days prior to each scheduled quarterly meeting of the review committee, or as otherwise agreed to by the parties, the contractor shall submit a copy of its most recent written monthly performance report and quarterly community impact report to each representative serving on the committee, as specified in exhibit D, as well as financial and budget reports, and such other information as the Authority and the contractor agree is reasonably required or may be required by the terms of this agreement or for purposes of any specific meeting. It shall be the duty of the review committee to: (1) review and resolve any

differences regarding the contractor's performance relative to contract goals, including status of incentive goals and claims for payment of incentive fees; (2) discuss and resolve issues, if any, impeding the ability of the contractor to achieve the performance standards and/or performance incentive fees; (3) review the operating budget and actual operating expenses and reports; (4) review any requests by the contractor for operating budget amendments; (5) review and discuss any and all performance deficiencies of the contractor so that the contractor can take steps to correct said deficiencies, including such steps as may be suggested by the review committee consistent with the Agreement; and (6) consider any other matters affecting or regarding the Authority's section 8 programs and their administration by the contractor.

### **Finding 1**

HUD's regulations at 24 CFR 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, as applicable, the public housing authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR 5.230(a) state that 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 shall sign one or more consent forms.

HUD's regulations at 24 CFR 5.508 require evidence of citizenship or eligible immigration status for each household member regardless of age. For U.S. citizens or U.S. nationals, the evidence consists of a signed declaration of U.S. citizenship or U.S. nationality.

HUD's regulations at 24 CFR 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. During the term of each assisted lease and for at least three years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) 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; and other records specified by HUD.

HUD's regulations at 24 CFR 982.201 state that the public housing authorities must follow certain criteria when determining the family's eligibility for the programs. The family must meet the family, citizenship, and income eligibility requirements.

HUD's regulations at 24 CFR 982.305(b)(ii) states that the public housing authority may not give approval for the family of the assisted tenancy or execute a housing assistance payment contract until the authority has determined that the landlord and the tenant have executed the lease (including the HUD-- prescribed tenancy addendum and the lead-based paint disclosure information as required in section 35.92(b) of this title).



HUD's regulations at 24 CFR 982.516(a)(1) state that the public housing authority must conduct a reexamination of family income and composition at least annually.

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

HUD's regulations at 24 CFR 982.516(a)(1) require the public housing authority to conduct a reexamination of family income and composition at least annually. The public housing authority must obtain and document in the household file third-party verification or why third-party verification was not available for the following factors: (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 public housing authority may conduct an interim reexamination of family income and composition.

HUD's regulations at 24 CFR 982.451 require the public housing authority to determine the amount of the monthly housing assistance payment in accordance with HUD regulations and other requirements.

The Authority's administrative plan at part III General Administration, Interim Reexaminations, states that the rent and other charges shall remain in effect for the period between regularly scheduled reexaminations except that a family previously receiving a zero housing assistance payment must report within 30 days any change in income that will last more than 30 days and a decrease or increase in income expected to last at least 30 days. A decrease in the tenant's total tenant payment, whether completed at annual, biennial or interim reexamination, will be effective the first day of the month following the month in which the change was reported, provided the change was reported within the required 30 days. An increase in the tenant's total tenant payment, whether completed at an annual, biennial or interim reexamination, will be effective the first day of the second month following the date the change occurred, except in cases in which underreporting of income by the participant has occurred.

## **Finding 2**

HUD's regulations at 24 CFR 982.516(b)(3) states that the housing authority must conduct an interim certification in accordance with its administrative plan.

The Authority's program administrative plan, section III, General Administration, Reexamination of Household Composition, Income, Allowances and Rent, requires the Authority to conduct an interim certification when there is a change in family composition.

The Authority's program administrative plan, section III, General Administration, Repayment Agreement, states that the Authority will provide the owner the opportunity to repay immediately or enter into a repayment agreement. Also, the owners who are currently receiving housing assistance payments will automatically have the overpayment deducted from their current housing assistance payments unless otherwise agreed upon by the Authority.

The Authority's program procedures manual, chapter 18, part 9, states once the Authority becomes aware of an overpayment, an overpayment letter is mailed to the owner. The owner then has 30 days to repay the outstanding balance. If the owner owing money to the Authority is currently receiving housing assistance, the Yardi System will auto-deduct the overpayments amount from the owner's current assistance payments.