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

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

SUBJECT: The Indianapolis Housing Agency, Indianapolis, Indiana, Failed to Operate Its Housing Choice Voucher Program According to HUD's and Its Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Indianapolis Housing Agency's (Agency) Section 8 Housing Choice Voucher program. The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the Agency's program based upon our prior audits of the Agency's program and recent press coverage regarding conditions at two of the Agency's Section 8 Project-Based Voucher program apartment complexes. Our objectives were to determine whether the Agency effectively administered its program and followed the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the third of three audit reports on the Agency's program.

What We Found

The Agency failed to administer its Section 8 Housing Choice Voucher program according to HUD's requirements. Further, its administration regarding the utilization of available program funding, selection and approval of project-based units, and housing conditions for its Section 8 Project-Based Voucher program units was inadequate. The Agency's failure to meet HUD's lease-up thresholds resulted in approximately 1,569 households not being housed in fiscal year 2008 and more than \$8.7 million in program funds not being used to provide decent,

safe, and sanitary housing for eligible households. By implementing adequate procedures and controls regarding its program utilization, we estimate that nearly \$9 million in excess program funds could be put to better use over the next year.

The Agency lacked documentation to support its selection and approval of Section 8 Project-Based Voucher program projects because it lacked adequate procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, it could not support that any of the 11 projects was eligible for more than \$2 million in project-based assistance and nearly \$212,000 in program administrative fees received by the Agency were appropriate. We estimate that over the next 12 months, the Agency will spend more than \$127,000 in program funds for improper administrative fees.

Of the 18 Section 8 Project-Based Voucher program units selected for inspection, 17 did not meet minimum housing quality standards, and 11 had material violations that existed before the Agency's previous inspections. As a result, more than \$24,000 in program funds was spent on units that were not decent, safe, and sanitary. We estimate that over the next year, HUD will pay more than \$72,000 in housing assistance on units with material housing quality standards violations.

What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Agency to reimburse its Section 8 Housing Choice Voucher program from nonfederal funds for the improper use of nearly \$236,000 in program funds, provide documentation or reimburse its program more than \$2 million 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 to prevent nearly \$9 million in program funds from not being used over the next year to house needy families. We also recommend that the Director require the Agency to implement a detailed comprehensive written action plan to improve its procedures and controls to ensure that the Agency operates its program in accordance with HUD's and its own requirements.

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

Auditee's Response

We provided our review results and supporting schedules to the Coordinator of HUD's Indianapolis Office of Public Housing Program Center and the Agency's

executive director during the audit. We provided our discussion draft audit report to the Agency's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on December 16, 2008.

We asked the executive director to provide comments on our discussion draft audit report by January 12, 2009. The executive director provided written comments, dated January 12, 2009. The Agency generally disagreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report except for 117 pages of documentation that was not necessary for understanding the Agency's comments. A complete copy of the Agency's comments plus the documentation was provided to the Director of HUD's Cleveland Office of Public Housing.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: The Agency Did Not Operate Its Housing Choice Voucher Program in Accordance with HUD's and Its Requirements	6
Finding 2: The Agency Significantly Underleased Its Housing Choice Voucher Program	10
Finding 3: The Agency Inappropriately Administered Its Section 8 Project-Based Voucher Program	12
Finding 4: The Agency's Section 8 Project-Based Voucher Units Did Not Meet HUD's Housing Quality Standards	15
Scope and Methodology	20
Internal Controls	22
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	24
B. Auditee Comments and OIG's Evaluation	26
C. Federal Requirements	45

BACKGROUND AND OBJECTIVES

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

The Agency administers a Section 8 Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). The Agency provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of November 30, 2008, the Agency had 6,434 units under contract with annual housing assistance payments totaling more than \$34 million in program funds. Of the 6,434 units, 296 were assisted under the Agency's Section 8 Project-Based Voucher program.

This is the third of three audit reports on the Agency's Section 8 Housing Choice Voucher program. Our objectives were to determine whether (1) the Agency utilized its program funds to HUD's expected lease-up thresholds; (2) the Agency administered its Section 8 Project-Based Voucher program according to HUD's requirements; and (3) the Agency's project-based unit inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its residents. The first audit report (report # 2007-CH-1011, issued on July 23, 2007) included one finding. The objective of the first audit was to determine whether the Agency appropriately used its Section 8 administrative fees in accordance with HUD's and its requirements. The second audit report (report # 2008-CH-1006, issued on April 15, 2008) included three findings. The objectives of the second audit were to determine whether (1) the Agency's Section 8 Housing Choice Voucher program unit inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its residents; (2) the Agency accurately calculated and maintained required documentation to support housing assistance and utility allowance payments; and (3) the Agency appropriately verified that reported zero-income households had income.

RESULTS OF AUDIT

Finding 1: The Agency Did Not Operate Its Housing Choice Voucher Program in Accordance with HUD's and Its Requirements

As identified in this and our two prior audits, the Agency did not adequately manage its Section 8 Housing Choice Voucher program. It incorrectly used restricted program administrative fees to pay for expenses that exceeded the program's reasonable fair share, were unrelated to the program's operation, and were unsupported. The Agency's program administration regarding housing unit conditions, housing assistance payments, and reported household income was inadequate. The Agency significantly underleased its program and inappropriately administered its Section 8 Project-Based Voucher program. As a result, program funds were not used efficiently and effectively and for eligible purposes.

Restricted Program Administrative Fees Were Used Incorrectly

As identified in our first audit, the Agency failed to comply with HUD's requirements and its cost allocation plan regarding the allocation of administrative expenses. Between January 1, 2005, and November 30, 2006, it used Section 8 administrative fees to pay more than \$1.6 million for expenses that exceeded the Section 8 Housing Choice Voucher program's reasonable fair share, allocated expenses that were unrelated to the program's operation, and paid unsupported expenses. This noncompliance occurred because the Agency lacked adequate procedures and controls to ensure that HUD's requirements and its cost allocation plan were appropriately followed. As a result, fees of more than \$1.6 million were not used to benefit the Agency's program. Based on our review, we estimate that over the next year, the Agency will use more than \$855,000 in fees for administrative expenses not related to its program (see finding in report #2007-CH-1011).

Controls over Housing Unit Inspections Were Inadequate

As identified in our second audit, the Agency did not adequately enforce HUD's housing quality standards and the Health and Hospital Corporation of Marion County, Indiana's (Corporation) housing standards. Of the 65 Section 8 Housing Choice Voucher program units statistically selected for inspection, 52 did not meet minimum housing quality standards and/or the Corporation's housing standards, and 38 had material violations that existed before the Agency's

previous inspections. The violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. The Agency also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards and/or the Corporation's housing standards. As a result, more than \$41,000 in program funds was spent on units that were not decent, safe, and sanitary (see finding 1 in report #2008-CH-1006).

As discussed in finding 4 of this report, the Agency did not adequately enforce HUD's housing quality standards. Of the 18 Section 8 Project-Based Voucher program units selected for inspection, 17 did not meet minimum housing quality standards, and 11 had material violations that existed before the Agency's previous inspections. The violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. The Agency also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. As a result, more than \$24,000 in program funds was spent on units that were not decent, safe, and sanitary (see finding 4 in this audit report).

Controls over Housing Assistance Payments Were Inadequate

As identified in our second audit, the Agency failed to always compute housing assistance and utility allowance payments accurately. It incorrectly calculated housing assistance and utility allowance payments and lacked documentation to support housing assistance and utility allowance payments to program landlords and households, respectively, because it lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan were appropriately followed. As a result, it overpaid more than \$131,000 and underpaid more than \$13,000 in housing assistance and utility allowances and was unable to support more than \$587,000 in housing assistance and utility allowance payments made (see finding 2 in report #2008-CH-1006).

The Agency Failed to Include Reported Household Income

As identified in our second audit, the Agency incorrectly reported households as having zero income when the Agency's household files contained income documentation. It also did not effectively use HUD's Enterprise Income Verification system or other third-party verification methods to determine whether households it reported as having zero income had unreported income. This condition occurred because the Agency lacked adequate procedures and controls to ensure that HUD's requirements and its program administrative plan were appropriately followed. As a result, it unnecessarily paid housing assistance

totaling more than \$47,000 for households that had the resources to meet their rental obligations (see finding 3 in report #2008-CH-1006).

The Agency Significantly Underleased Its Housing Choice Voucher Program

As discussed in finding 2 of this report, the Agency significantly underleased its Section 8 Housing Choice Voucher program despite having funds available to house eligible households. This condition occurred because the Agency lacked adequate procedures and controls to comply with HUD's requirements. Its failure to meet HUD's lease-up thresholds resulted in approximately 1,569 households not being housed in fiscal year 2008. Overall, the Agency's failure to meet HUD's lease-up requirements resulted in more than \$8.7 million in program funds not being used. As a result, the Agency failed to maximize the benefits of its program funding to provide assistance to low- and moderate-income households seeking decent, safe, and sanitary housing (see finding 2 in this audit report).

The Agency Inappropriately Administered Its Section 8 Project-Based Program

Discussed in finding 3 of this report, as of April 2008, the Agency had failed to comply with HUD's requirements for the selection and approval of its 11 projects receiving Section 8 project-based assistance. It lacked documentation to support its selection and approval of the projects because it did not have adequate procedures and controls to ensure that HUD's requirements were appropriately followed. The Agency's executive director said that he believed that HUD's requirements had been met but could not explain why the supporting documentation was missing from the Agency's files. As a result, the Agency could not support that any of the 11 projects was eligible for project-based assistance and that \$211,680 in Section 8 administrative fees paid to the Agency was appropriately earned (see finding 3 in this audit report).

Conclusion

The previously mentioned deficiencies occurred because the Agency substantially lacked adequate procedures and controls to ensure that it properly managed the day-to-day operations of its Section 8 Housing Choice Voucher program. It did not ensure that it fully implemented HUD's and its own requirements, resulting in the improper use of program funds. The deficiencies in its program were significant and demonstrated a lack of effective program management. HUD and the Agency should implement a detailed comprehensive plan to improve the

Agency's program. The plan should include the submission of quarterly reports to HUD detailing the Agency's progress in improving its procedures and controls regarding its program in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in this finding.

Recommendation

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

- 1A. Implement a detailed comprehensive written action plan to improve its procedures and controls to ensure that it operates its Section 8 Housing Choice Voucher program in accordance with HUD's and its requirements. If the Agency is unable to appropriately implement the plan, HUD should take appropriate action against the Agency.

Finding 2: The Agency Significantly Underleased Its Housing Choice Voucher Program

The Agency significantly underleased its Section 8 Housing Choice Voucher program despite having sufficient funds available to house eligible households. This condition occurred because the Agency lacked adequate procedures and controls to comply with HUD's requirements. Its failure to meet HUD's lease-up thresholds resulted in approximately 1,569 households not being housed in fiscal year 2008. Further, the Agency failed to maximize the benefits of more than \$8.7 million in program funding to provide assistance to low- and moderate-income households seeking decent, safe, and sanitary housing.

The Housing Choice Voucher Leasing Threshold Was Not Met

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 985.3(n)(3)(ii) require that public housing authorities lease at least 95 percent of their allocated yearly vouchers and/or funding to eligible participants in order to receive an acceptable program performance rating as a "standard" performer. HUD uses this requirement as part of its review and scoring of the Agency's program.

In calendar year 2007, the Agency used only 5,648 (71 percent) of the 7,958 vouchers authorized by HUD. To be considered a "standard" performer by HUD, it was required to lease up to 95 percent of its contracted vouchers, or 7,560 units (7,958 units authorized by HUD times 95 percent), an additional 1,912 units. However, doing so would have exceeded the Agency's available funding. Between January and November 2008, the Agency improved its utilization to an average of 5,991 vouchers but was still only using 75 percent of the 7,958 vouchers authorized by HUD.

HUD's Office of Public Housing's Quality Assurance Division conducted an on-site monitoring review in May 2008 with a follow-up review in September 2008. In its September 2008 report, HUD calculated that the Agency had a net restricted asset balance of \$11,797,567 as of December 31, 2007. With the available funding, the Agency could have housed an additional 1,837 households in fiscal year 2008 using \$11,797,214 in program funds.

The Agency Acknowledged Low Utilization

The Agency's management acknowledged that low voucher utilization was a problem that needed to be addressed. The Agency's executive director said that when HUD designated the Agency as troubled and executed a memorandum of

agreement (agreement), the Agency had to transfer some of its Section 8 staff from their normal duties to address issues under the agreement. This situation limited the staff's ability to issue new vouchers to enough families from the Agency's waiting list. Additionally, the Agency's Section 8 director said that high staff turnover and an old waiting list had hindered the Agency's ability to issue enough vouchers. The Agency had not opened its Section 8 waiting list to new applications since June 2004.

Conclusion

The Agency's Section 8 Housing Choice Voucher program was significantly underleased despite having excess program funds totaling nearly \$12 million. As a result, the Agency did not provide housing assistance to as many households as it could have. If the Agency does not improve its voucher utilization, future housing assistance to the Agency may be permanently reduced. By implementing adequate procedures and controls regarding its program voucher utilization, we estimate that funds could be put to better use over the next year by housing more than 1,500 eligible households, thereby providing \$8,751,882 in additional housing assistance to eligible households. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendation

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

- 2A. Implement adequate procedures and controls to ensure that its program vouchers are fully utilized to the maximum extent possible, thereby providing an additional \$8,751,882 in housing assistance to eligible households.

Finding 3: The Agency Inappropriately Administered Its Section 8 Project-Based Voucher Program

The Agency failed to comply with HUD's requirements for the selection and approval of its 11 projects receiving Section 8 project-based assistance as of April 2008, including a project in which the Agency had an identity of interest. It lacked documentation to support its selection and approval of the projects because it did not have adequate procedures and controls to ensure that HUD's requirements were appropriately followed. The Agency's executive director said that he believed that HUD's requirements had been met but could not explain why the documentation was missing from the Agency's files. As a result, the Agency could not support that any of the 11 projects was eligible for project-based assistance and that \$211,680 in administrative fees paid to the Agency was appropriately earned.

The Agency Lacked Documentation to Support That HUD's Requirements Were Followed

The Agency's files for its 11 Section 8 project-based projects lacked adequate documentation to support that its selection and approval of the projects met HUD's requirements. The 11 project files were missing documentation to support that the Agency ensured that

- 265 units in 10 projects had environmental reviews conducted,
- 219 units in nine projects had a proper rent reasonableness determination,
- 234 units in seven projects had a housing quality standards inspection conducted,
- 162 units in six projects had an analysis conducted to demonstrate how the projects would assist low-income people without unduly concentrating them,
- 135 units in five projects were handicap accessible, and
- 81 units in three projects had a subsidy layering review.

The Agency's executive director told us that he believed the Agency had followed all of HUD's requirements in reviewing and approving project proposals for Section 8 project-based assistance. However, the executive director was unable to explain why the documentation was unavailable in the Agency's files except that the Agency had experienced significant staff turnover in its Section 8 program.

As a result, the projects were inappropriately selected and approved for project-based assistance and the assistance was not supported. Between January 2007 and August 2008, the Agency had between 185 and 219 project-based voucher units under lease, or an average of 196 units per month. With an average

administrative fee per unit of \$54 per month, we estimate that \$211,680 in Section 8 administrative fees was inappropriately earned by the Agency between January 2007 and August 2008 for the project-based units.

The Agency Inappropriately Approved Assistance for an Agency Owned Project

The *Federal Register*, Volume 70, Number 197, dated October 13, 2005, 24 CFR 983.3, defines public housing agency owned as any interest by the public housing agency in the building in which the unit is located. HUD regulations at 24 CFR 983.51(e) permit a public housing agency-owned project to be assisted under its Section 8 Project-Based Voucher program only if the HUD field office reviews the selection process and determines that the units were appropriately selected based on the selection procedures specified in the Agency's administrative plan. The reasonableness of the rental payments to the owner and the housing quality standards inspections must be determined by an independent entity.

The Agency leased the land from a former public housing project to an Illinois partnership for use in developing and building a new project to be assisted with Section 8 Project-Based Voucher program funds. On July 9, 2003, the Agency entered into a memorandum of agreement with the partnership providing that the partnership pay the Agency \$99 for a 99-year lease with an option for an additional 99-year lease period. On December 1, 2004, the Agency entered into the 99-year ground lease with the partnership. The partnership was required to remove the existing buildings; construct new units on the site; and be responsible for all improvements, taxes, utilities, and operating costs.

Contrary to HUD's requirements that the Agency disclose its ownership of the land and request HUD's approval, the Agency entered into a Section 8 Project-Based Voucher program housing assistance payments contract with the Illinois partnership in January 2006. The contract was for 10 of the 237 units at the Red Maplegrove/Brokenburr Apartments complex (complex).

The Agency failed to ensure that the complex met HUD's requirements for an environmental review, conduct a rent reasonableness determination, inspect the complex's units to ensure that they met HUD's housing quality standards before approving the assistance contract, and conduct a subsidy layering review. The subsidy layering review was especially necessary since the Agency was aware that the complex received Hope VI and HOME Investment Partnerships Program funds from HUD. The Agency also conducted the annual housing inspections for the project- and tenant-based units at the complex.

As a result of the above deficiencies, HUD could not be assured that tenants in the Agency's Section 8 Project-Based Voucher program resided in decent, safe, and sanitary conditions and that the rents paid were appropriate.

Conclusion

The Authority could not support its use of more than \$2 million in program funds. From January 1, 2007, to August 31, 2008, the Authority received \$211,680 in Section 8 administrative fees while inappropriately administering the units in its program. In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing authority in the amount determined by HUD if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program. Given the Authority's substantial noncompliance with HUD's requirements, we recommend that HUD pursue reimbursement of the administrative fees related to the operation of the Section 8 Project-Based Voucher program.

Recommendations

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

- 3A. Reimburse its program \$211,680 from nonfederal funds for the Section 8 administrative fees received related to its inappropriate program administration cited in this finding.
- 3B. Provide supporting documentation or reimburse its program \$2,081,512 from nonfederal funds for the 11 Section 8 project-based projects cited in this finding.
- 3C. Implement adequate procedures and controls to ensure compliance with all federal requirements for the operation of its Section 8 Project-Based Voucher program to prevent administrative fees totaling \$127,008 from being paid over the next 12 months for units not eligible for assistance.

Finding 4: The Agency's Section 8 Project-Based Voucher Units Did Not Meet HUD's Housing Quality Standards

The Agency did not adequately enforce HUD's housing quality standards. Of the 18 Section 8 Project-Based Voucher program units selected for inspection, 17 did not meet minimum housing quality standards and 11 had material violations that existed before the Agency's previous inspections. The violations existed because the Agency failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. As a result, more than \$24,000 in program funds was spent on units that were not decent, safe, and sanitary. We estimate that over the next year, HUD will pay more than \$72,000 in housing assistance on units with material housing quality standards violations.

HUD's Housing Quality Standards Were Not Met

Based upon our review, the Agency's project-based units in its multifamily buildings were generally well maintained by the owners and met HUD's housing quality standards. However, its project-based single-family and duplex units did not appear to meet HUD's housing quality standards based upon our initial review. As of May 30, 2008, the Agency had 221 project-based units under contract, of which 78 were either single-family or duplex units. The Agency inspected 26 of these units between March 1 and May 30, 2008, and passed 23 of the units while failing the remaining three. We selected the 23 units for inspection by our appraiser but eliminated five units since three had been vacated before our inspections and two had previously been observed during our initial review.

Our appraiser inspected the 18 (23 minus 5) remaining units between August 5 and August 7, 2008. Seventeen (94 percent) of the units did not meet HUD's housing quality standards, and 11 (61 percent) had material violations that existed before the Agency's previous inspections. The remaining unit met HUD's housing quality standards. Of the 18 units inspected, 17 had 88 housing quality standards violations, and 16 had 53 violations that existed when the Agency last inspected and passed the units, including six violations that had been cited by the Agency in a prior inspection report and reported as having been corrected. The 11 units were considered to be material failures due to more than one violation existing at the time the Agency passed the units or a unit containing an exigent health and safety violation.

For the 11 materially failed units, we estimated that from the time the Agency should have identified, cited, and obtained correction or abated the units' housing assistance until June 30, 2008, the Agency inappropriately paid \$22,071 in housing assistance and improperly received \$2,124 in Section 8 administrative

fees. We also estimate that if the Agency fails to make corrections to its inspection process, it will pay \$72,024 in housing assistance over the next year for the 11 units that do not meet HUD’s housing quality standards.

The following table categorizes the 88 violations in the 17 units.

Category of violations	Number of violations
Windows	28
Electrical	16
Security	6
Other potential hazardous features	6
Stairs/rails/porch	5
Exterior surfaces	4
Stove	3
Ventilation	3
Floors	2
Refrigerator	2
Smoke detector	2
Site and neighborhood	2
Walls	1
Lead-based paint	1
Tub/shower unit	1
Roof/gutters	1
Heating equipment	1
Ventilation	1
Water heater	1
Plumbing	1
Infestation	<u>1</u>
Total	<u>88</u>

We provided our inspection results to the Coordinator of HUD’s Indianapolis Office of Public Housing Program Center and the Agency’s executive director on November 20, 2008.

Window Violations Were Identified

Twenty-eight window violations were present in 12 of the Agency’s units inspected. The following items are examples of the window violations listed in the table: damaged screens, cracked window panes, and damaged hardware. The following picture is an example of the window-related violations.

Unit #1766: Broken window sash preventing window from locking.



Electrical Violations Were Identified

Sixteen electrical violations were present in 12 of the Agency's units inspected. These defects included unsecured electrical meter box cover plates and broken outlet covers. The following picture is an example of the electrical-related violations.

Unit #2498: Meter box cover plate not secured with a crimp lock to prevent access to 220-volt electrical connections. NOTE: The cover plate was removed to emphasize the danger of the plate being unsecured.



Stairs/Rails/Porch Violations Were Identified

Five stair, rails, or porch violations were present in four of the Agency's units inspected. The following items are examples of stair, rails, or porch violations listed in the table: damaged stairs or missing railings. The following picture is an example of the stair, rails, or porch violations identified.

Unit #19: Basement stairs missing a handrail.



The Agency's inspections were not performed at a standard sufficient to meet HUD's housing quality standards due to a lack of understanding of the housing quality standards by the Agency's inspection staff. High turnover of inspection staff hindered the Agency from performing its unit inspections in a consistent and effective manner. We previously cited the Agency's inadequate controls over its inspection process for its Section 8 Housing Choice Voucher program (see audit report #2008-CH-1006).

Conclusion

The housing quality standards violations existed because the Agency failed to exercise proper supervision and oversight of its Section 8 Project-Based Voucher program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. The Agency's households were subjected to health- and safety-related violations, and the Agency did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards. In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to enforce HUD's housing quality standards. The Agency disbursed \$22,071 in housing assistance payments for the 11 units that materially failed to meet HUD's housing quality standards and received \$2,124 in Section 8 administrative fees.

If the Agency implements adequate procedures and controls regarding its Section 8 Project-Based Voucher program unit inspections to ensure compliance with HUD's housing quality standards, we estimate that over the next year, HUD can avoid spending more than \$72,024 in housing assistance payments on units that are not decent, safe, and sanitary. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 4A. Certify, along with the owners of the 17 program units cited in this finding, that the applicable housing quality standards violations have been repaired. If the necessary repairs have not been made, the Agency should abate housing assistance payments to the landlords as appropriate.
- 4B. Reimburse its program \$24,195 from nonfederal funds (\$22,071 for program housing assistance payments plus \$2,124 in associated administrative fees) for the 11 units that materially failed to meet HUD's housing quality standards.
- 4C. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards to prevent \$72,024 in program funds from being spent on units that are not in compliance with HUD's requirements.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; the Agency's program administrative plans effective June 2006 and January 2007; HUD's program requirements at 24 CFR Parts 5, 85, and 983; HUD's Public and Indian Housing Notices 2001-4 and 2005-1; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Agency's accounting records; annual audited financial statements for 2003, 2004, and 2005; program household files; computerized databases; policies and procedures; organizational chart; and program annual contributions contract.
- HUD's files for the Agency.

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

Finding 2

The annual average housing assistance payment per unit was determined by taking HUD's Voucher Management System's expenses for the first 11 months of fiscal year 2008 (\$33,417,520) and dividing by the average number of Section 8 voucher units for same period in fiscal year 2008 (5,991). This gave an average annual voucher payment of \$5,578 for fiscal year 2008. The Agency was required to lease up to 95 percent of its contracted vouchers, which was 7,560 units (7,958 units authorized by HUD times 95 percent); however, it only leased an average of 5,991 vouchers. The Agency needed to lease an additional 1,569 vouchers to meet its lease-up threshold of 95 percent or 7,560 vouchers. Using the average annual voucher payment of \$5,578 times the number of vouchers that were needed to meet the required 95 percent (1,569) provides a total of \$8,751,882. By implementing adequate procedures and controls over its program voucher utilization, we estimate that funds could be put to better use over the next year by housing an additional 1,569 eligible households. This estimate is solely to demonstrate the annual amount of program funds that could be put to better use if the Agency implements our recommendation.

Finding 3

We used computerized data and project listings provided by the Agency to identify the 11 projects that had project-based contracts as of April 9, 2008. We reviewed the Agency's Section 8 Project-Based Voucher program files for the 11 projects to determine whether the Agency followed HUD's requirements for its selection of the projects and approval for project-based housing assistance payments contracts. We used HUD's Voucher Management System to identify the number of project-based units each month and the average administrative fee per unit between January and August 2008. Between January 1, 2007, and August 31, 2008, the Agency received an average administrative fee of \$54 per unit for its project-based units while administering an average of 196 units for the same period. We estimate that over the next 12

months the Agency will spend \$127,008 (\$54 per unit in administrative fees times 196 units times 12 months) in program funds for inappropriate administrative fees.

Finding 4

We determined through our initial review that the Agency's project-based units in its multifamily buildings were generally well maintained by the owners and met HUD's housing quality standards. However, the Agency's project-based single-family and duplex units did not appear to meet HUD's housing quality standards. As of May 30, 2008, the Agency had 221 project-based units under contract, of which 78 were either single-family or duplex units. The Agency inspected 26 of these units between March 1 and May 30, 2008, and passed 23 of the units while failing the remaining three. We selected the 23 (26 minus 3) passed units for inspection by our appraiser but eliminated five units since three were vacated before our inspection and two had been observed during our initial review.

We inspected the 18 remaining units (23 minus 5) between August 5 and August 7, 2008. Seventeen (94 percent) of the units did not meet HUD's housing quality standards and 11 (61 percent) had material violations that existed before the Agency's previous inspections. The remaining unit met HUD's housing quality standards. Of the 18 units, 17 had 88 housing quality standards violations and 16 had 53 violations that existed when the Agency last inspected and passed the units, including six violations that had been cited by the Agency in prior inspection reports and reported as having been corrected. We considered 11 units to be material failures due to more than one violation existing at the time the Agency passed the units or a unit containing an exigent health and safety violation.

For the 11 materially failed units, we determined that from the time the Agency inspected the units and should have identified, cited, and obtained correction or abated the units' housing assistance until June 30, 2008, the Agency inappropriately paid \$22,071 in housing assistance and improperly received \$2,124 in Section 8 administrative fees. As of May 30, 2008, the total monthly housing assistance payment for the 11 units was \$6,002. We estimate that if the Agency does not make corrections to its inspection process, it will pay \$72,024 (\$6,002 total monthly housing assistance payments times 12 months) in housing assistance over the next year for the 11 units that will not meet HUD's housing quality standards.

We performed our on-site audit work between April and November 2008 at the Agency's central office located at 1919 North Meridian Street, Indianapolis, Indiana. The audit covered the period January 1, 2007, through March 31, 2008, but was expanded when necessary to include other periods.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- 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. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The Agency lacked adequate procedures and controls to ensure compliance with federal requirements and/or its policies regarding managing the day-to-day operations of its program, including housing unit conditions, housing assistance payment calculations, voucher utilization, and the operation of its Section 8 Project-Based Voucher program (see findings 1, 2, 3, and 4).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
2A			\$8,751,882
3A	\$211,680		
3B		<u>\$2,081,512</u>	
3C			127,008
4B	<u>24,195</u>		
4C			<u>72,024</u>
Totals	<u>\$235,875</u>	<u>\$2,081,512</u>	<u>\$8,950,914</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 the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include 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 that are specifically identified. In these instances, if the Agency implements recommendation 2A, it should ensure that it meets HUD's expected leasing thresholds in issuing available vouchers, and it can provide more housing assistance to eligible households. If the Agency implements recommendation 3C, it should ensure that the Agency provides assistance to only eligible units through its project-based program, thereby earning its administrative fees correctly. If the Agency implements recommendation 4C, it will cease to incur program costs for units that are not decent, safe, and sanitary and, instead, will expend those funds in accordance with HUD's

requirements. Once the Agency successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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

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

January 12, 2009

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

Re: OIG Phase III Audit Response

Dear Mr. Wolfe:

I would like to thank the Office of Inspector General (OIG) for the opportunity to provide comment on this report. The Indianapolis Housing Agency (IHA) appreciates the hard work and professionalism that the staff of the OIG exhibited during their audit of IHA's Section 8 Housing Choice Voucher Program (program). Although IHA has firmly taken exception to certain sections of the findings and recommendations, in many ways, IHA also considers the OIG's report a learning opportunity for IHA and recognizes the significance of correcting some the issues referenced in the report.

Let me first take the opportunity to state that IHA takes its mission and pledge to provide safe, decent and sanitary housing to low-income families very seriously, and we strive each and every day to accomplish our mission within the boundaries set by Congress and the U.S. Department of Housing and Urban Development. We absolutely maintain that every citizen of the great City of Indianapolis deserves and should receive quality housing irrespective of income level. An emphasis to this point is important because any contentions or exceptions that IHA may have with the OIG audit does not diminish the level of importance that IHA places on assuring that each participating family in IHA's program receives quality housing.

As the report points out, this was the third of three audits performed by the OIG. The second audit focused, inter alia, on IHA's administration of the tenant-based side of IHA's housing choice voucher program. Naturally, given the similarities of the tenant-based and project-based programs regarding housing quality standard (HQS) inspections, eligibility determinations, case management, etc., IHA is not surprised by some of the similar findings in the third audit. Thus, it is significant to point out that during the period of review, IHA had taken

Ref to OIG Evaluation

Auditee Comments

Page 2 of 17

measures to begin addressing issues cited in the second audit. Furthermore, in many respects, these measures have demonstrated a marked improvement for the program. In particular, the program has undergone a refinement designed to better account for and respond to "bottleneck" issues, lack of performance, quality controls, etc. Notwithstanding an increased number of unit abatements from our stringent enforcement of HQS inspections, the result of the refinement has led to significant changes, including a substantial increase in IHA's voucher utilization. In addition, after the issuance of the OIG's second audit findings, IHA mandated that all of our inspectors undergo certified training by a nationally recognized consultant company. Moreover, presently IHA is engaged in discussions with a "sister" governmental agency to potentially perform quality control inspections.

As most public housing officials and representatives understand, there is a reality to the effective management of any housing authority. The ability of a Public Housing Authority (PHA) to maximize its utilization is determined by a number of factors, all of which are internal and external to a PHA. Some of those factors include the level of administrative fees, the potential for recapture of funding, the focused attention on commitments with funders, the PHA's staff capacity, the support of the not-for-profit community, the support of landlord association groups, the existence of fraud, the cooperation of voucher holders, the HUD program requirements, etc.

Comment 1

One significant factor addressed, as a program requirement, is adequate HQS enforcement. Consistent with the OIG's findings and recommendations in its second audit, IHA has made a determined effort to use the standards set by OIG in their assessment of the HQS requirements. This approach, of course, has resulted in the termination/abatement of many housing assistance payment (HAP) contracts, as well as, an increase in many many more inspections and reinspections by IHA's inspection team. In addition, it has eliminated the eligibility of many potential units upon which voucher holders have requested approval. Unfortunately, but not surprisingly, it has created an alarming level of discontent among many of our City's reputable property owners/landlords. The result is that IHA's effort to reach 100% utilization has been a gradual progression.

In order to off-set some of the discontent caused by IHA's adherence to the standards interpreted and set by OIG's reports, IHA has developed a "Landlord Guide" for property-owners to use as a reference tool (see Attachment A which is herein incorporated and included as a part of IHA's "comment"). In addition, IHA has invested in software that will provide a "landlord portal" so that landlords will be able to gather information, e.g., a client's payment status or history, and communicate more fluidly with IHA. In addition, IHA recognizes that in a climate of economic uncertainty for property owners, the tax obligations that they must satisfy, and the capital requirements often necessary to meet the HQS standards interpreted and emphasized by the OIG reports, IHA must take prudent but practical steps to help facilitate and encourage the increase in the City's pool of quality housing. For many reasons including those mentioned herein, IHA has sought an increase in its payment standards.

Suffice it to point out, without an adequate supply of quality housing under the standards promoted by OIG, the utilization process, the relationships between landlords and IHA and, in general, the administration of the program becomes significantly strained.

Comment 2

A review of the majority of the OIG audits of PHA Housing Choice Voucher programs within the region almost invariably demonstrates a very similar pattern of HQS findings. This obvious pattern of findings is reflective of the unusual level of strain, pressure and program conflicts on PHAs, to wit: a PHA must be fully utilized and at the same time only lease to the most pristine properties (at least in accord with the standards interpreted by the report). Congress has recognized the reality of the strain that current requirements and interpretations

Comment 3

Page 3 of 17

have placed on PHAs. A recognition of the strain is evident in Congress' latest proposal for the reformation of the Section 8 program under the Section Eight Voucher Reform Act (SEVRA). Through this Act (currently passed by the House of Representatives) Congress has recognized the extraordinary burden that the current regulations place on PHA's. Speaker of the House,

Nancy Pelosi stated, "...The bill will improve the efficiency of the initiative, encourage self-sufficiency for low-income families, promote homeownership, and ensure that vouchers can be used to create new affordable housing developments for seniors, disabled, and homeless people...". As an acknowledgment of the lack of efficiencies and the overly-burdensome nature of some of the regulations for PHAs, SEVRA would modify the requirement for annual inspections. That is, SEVRA stipulates that inspections could be performed biennially (every two years) as opposed to the current requirement for annual inspections. This simple provision is undoubtedly intended to assist PHAs in its administrative burden to inspect properties incessantly.

Notwithstanding the strain imposed by the standards interpreted and addressed by OIG, in 2008, IHA has arduously but successfully moved ahead with initiatives to improve the program. In 2008 IHA implemented the use of handheld-computer technology as a part of our inspections process. Moreover, IHA has converted its program software system from an outdated DOS-based system to a "user-friendly" window-based system. IHA is quite confident that the implementation of this new technology to our program will reduce the number of inspection errors, create a more efficient working environment, provide an evaluative tool for our inspection supervisors and provide some counter-balance to the strain of additional inspections.

In addition to the other changes, IHA has conducted numerous "after-business hours" or "overtime" sessions with staff and potential voucher participants in order to address the issues of utilization and inspections. As a result of IHA's careful planning, the dedicated work of our staff and the support of our HUD field office, IHA has been able to increase (lease) 1,100 additional vouchers in a little more than one (1) year's time. IHA's current lease-up level is now higher than at any time since August of ~~2005~~! With the IHA staff's determination and dedication to serve the City of Indianapolis' low-income community, and the "after business hours" initiatives that continue to take place, IHA expects that it will be able to open its waiting list in the 3rd quarter of 2009.

In conclusion, IHA will continue to make marked improvements to our HCV program. Furthermore, we will meet the following future challenges head-on:

- o The reduction of administrative fees;
- o The potential for over-leasing which could result in having to cancel/recall vouchers (as has been the case with other PHAs);
- o The uncertain economic times for the community at large and for property owners in particular;
- o Staff turnover and capacity;
- o The ability for voucher holders to find quality housing;
- o The change in property tax rates for many property owners in 2006;
- o The fraudulent activity outside of PHAs that cost taxpayers millions of dollars across the nation. (see the Office of Special Investigations supplemental addendum).

We will continue to honor and uphold our pledge to serve the City of Indianapolis and its families, and overcome the many challenges that persist for not only IHA but Housing Authorities across the country. Notwithstanding the inevitable challenges ahead, IHA not only


Ref to OIG Evaluation

Auditee Comments

Page 4 of 17

expects to significantly add to the 1,100 new vouchers issued during the last year, but fully intend to reach a 100% utilization level by the end of 2009.

Respectfully,


Rufus "Bud" Myers
Executive Director
The Indianapolis Housing Agency

Ref to OIG Evaluation

Auditee Comments

Comment 4

Page 5 of 17

IHA responds to the OIG findings, as follows:

Finding 1: The Agency did not operate its Housing Choice Voucher Program in accordance with HUD's and its requirements.

Recommendation- Implement a detailed comprehensive written action plan to improve its procedures and controls to ensure that it operates its Section 8 HCV program in accordance with HUD's and its requirements. If the Agency is unable to appropriately implement the plan, HUD should take appropriate action against the Agency.

RESPONSE:

As the report indicates, the language in the finding is, by and large, a reference to "previously mentioned deficiencies" from OIG's second report. In response to the previous report, IHA has taken affirmative actions to improve the HCV program. For example, IHA developed an HCV task force and an HCV utilization improvement plan (see Attachment B which is herein incorporated and included as a part of IHA's "comment"). Moreover, as previously referenced, IHA has mandated that all of our inspectors undergo additional training.

- As a result of IHA's careful planning and with the dedicated work of our office staff and support of our HUD field office, IHA has been able to increase (lease) 1,100 additional vouchers in a little more than one (1) year's time. IHA's current lease-up level is now higher than at any time since August of 2005!
- IHA will develop and implement a comprehensive written action plan to improve its procedures and controls for its Section 8 HCV program including the project-based program. Consistent with this process, IHA has already begun developing a more comprehensive project-based voucher program that will be added to IHA's administrative plan (see Attachment C which is herein incorporated and included as a part of IHA's "comment").

Finding 2: The Agency significantly under-leased its Section 8 HCV program despite having sufficient funds available to house eligible households. This condition occurred because the Agency lacked adequate procedures and controls to comply with HUD's requirements. Its failure to meet HUD's lease-up thresholds resulted in approximately 1,837 households not being housed in fiscal year 2008. Further, the Agency failed to maximize the benefits of \$11.8 million in program funding to provide assistance to low-and moderate-income households seeking decent, safe, and sanitary housing.

Recommendation: Implement adequate procedures and controls to ensure that its program vouchers are fully utilized to the maximum extent possible, thereby providing an additional \$11,797,214 in housing assistance to eligible households.

RESPONSE:

IHA has always vigorously pursued its mission to provide safe, decent and sanitary housing to low-income families, and will continue to do so. As conveyed to the OIG and understood by various housing officials and representatives, IHA has undergone a number of programmatic and personnel changes and, in addition, has used considerable time and effort to uncover and prevent what has become a nationwide-epidemic of fraud outside of IHA and other PHAs across

Ref to OIG Evaluation

Auditee Comments

Comment 5

Page 6 of 17

the country. These changes and findings have impacted IHA's effectiveness in some cases, including full HAP utilization. IHA has addressed many of the issues surrounding the underutilization and is creating procedures and controls to ensure full utilization. As pointed out, notwithstanding the many constraints imposed on IHA, IHA has been able to successfully add an additional 1,100 vouchers to our HAP register in a little over one (1) year's time.

- In order to increase voucher utilization, IHA understands that it must work with the property owners in the City of Indianapolis. To this end, IHA has drafted a "Landlord Guide-Housing Choice Voucher Program". In addition, IHA hopes to encourage landlord participation and facilitate the increase in quality housing in the City of Indianapolis by our request to HUD for an increase in its payment standards.

- IHA has, also, created a Housing Choice Voucher task force, the purpose for which is to identify problem areas in the program and quickly and adequately address those problems. Currently, there is a utilization improvement plan implemented by the task force. The improvement plan is attached (see Attachment B which is herein incorporated and included as a part of IHA's "comment").

Finding 3: The Agency inappropriately administered its Section 8 project-based voucher program.

Recommendation:

Reimburse its program \$211,680 from nonfederal funds for the Section 8 administrative fees received related to its inappropriate program administration cited in this finding.

Provide supporting documentation or reimburse its program \$2,081,512 from nonfederal funds for the 11 Section 8 project-based projects cited in this finding.

Implement adequate procedures and controls to ensure compliance with all federal requirements for the operation of its Section 8 Project-Based Voucher program to prevent administrative fees totaling \$127,008 from being paid over the next 12 months for units not eligible for assistance.

RESPONSE:

Comment 6

IHA has reviewed the project-based voucher files and, likewise, has determined that in many files insufficient documentation existed for the project-based voucher files. However, IHA did not find in its review any indication nor basis for determining that any of the project-based voucher selections were inappropriate. The report, unfortunately, suggests that the lack of documentation demonstrates inappropriate selections. IHA, respectfully, disagrees with this method of deduction. IHA, thus, submits that the presumption upon which the recommendations are made, i.e., the lack of documentation presumes the inappropriateness of the selections, are without substantiation under the regulations.

Comment 7

Moreover, unfortunately, the method used in the report to calculate the administrative fees for reimbursement is overly-broad. The methodology fails to segment the various components or elements of the administration of the program. Instead, the methodology takes the whole of the fee and essentially provides that any violation of any aspect of the program should result in the reimbursement of the entire fee. IHA respectfully takes exception to this form of "sweeping" methodology.

Comment 8

Page 7 of 17

In addition, the report incorrectly cites an "identity of interest" issue. A proper construction of the law against the facts clearly demonstrates that there is no "identity of interest" issue. In Appendix C of the report under "Federal Requirements", the report does not point to any authority that demonstrates the existence of a violation or defines the term "identity of interest".

The relevant "identity of interest" provision for the project-based voucher regulations is:

24 CFR § 983.59 - PHA-owned units.

(a) *Selection of PHA-owned units.* The selection of PHA-owned units must be done in accordance with §983.51(e).

(b) *Inspection and determination of reasonable rent by independent entity.* In the case of PHA-owned units, the following program services may not be performed by the PHA, but must be performed instead by an independent entity approved by HUD.

(1) Determination of rent to owner for the PHA-owned units. Rent to owner for PHA-owned units is determined pursuant to §§983.301 through 983.305 in accordance with the same requirements as for other units, except that the independent entity approved by HUD must establish the initial contract rents based on an appraisal by a licensed, state-certified appraiser; and

(2) Inspection of PHA-owned units as required by §983.103(f).

(c) *Nature of independent entity.* The independent entity that performs these program services may be the unit of general local government for the PHA jurisdiction (unless the PHA is itself the unit of general local government or an agency of such government) or another HUD-approved public or private independent entity.

(d) *Payment to independent entity and appraiser.* (1) The PHA may only compensate the independent entity and appraiser from PHA ongoing administrative fee income (including amounts credited to the administrative fee reserve). The PHA may not use other program receipts to compensate the independent entity and appraiser for their services.

(2) The PHA, independent entity, and appraiser may not charge the family any fee for the appraisal or the services provided by the independent entity.

Other HUD regulations, although unrelated to the project based voucher program, are persuasive guides to the issue of "identity of interest":

24 CFR 943.151:

(c) *Contracting with identity-of-interest parties.* A joint venture partner may contract with an identity-of-interest party for goods or services, or a party specified in the selected bidder's response to a RFP or RFQ (as applicable), without the need for further procurement if:

(1) The PHA can demonstrate that its original competitive selection of the partner clearly anticipated the later provision of such goods or services;

(2) Compensation of all identity-of interest parties is structured to ensure there is no duplication of profit or expenses; and

(3) The PHA can demonstrate that its selection is reasonable based upon prevailing market costs and standards, and that the quality and timeliness of the goods or services is comparable to that available in the open market. For purposes of this paragraph (c), an "identity-of-interest party" means a party that is wholly owned or controlled by, or that is

Page 8 of 17

otherwise affiliated with, the partner or the PHA. The PHA may use an independent organization experienced in cost valuation to determine the cost reasonableness of the proposed contracts.

24 CFR §30.45- Multifamily and section 202 or 811 mortgagors.

(a) Definitions. The following definitions apply to this section only:

(1) Agent employed to manage the property that has an identity of interest and identity of interest agent. An entity: (i) That has management responsibility for a project; (ii) In which the ownership entity, including its general partner or partners (if applicable) and its officers or directors (if applicable), has an ownership interest; and (iii) Over which the ownership entity exerts effective control.

(2) Effective control. The ability to direct, alter, supervise, or otherwise influence the actions, policies, decisions, duties, employment, or personnel of the management agent.

(3) Entity. An individual corporation; company; association; partnership; authority; firm; society; trust; state, local government or agency thereof; or any other organization or group of people.

(4) Multifamily property. Property that includes 5 or more living units and that has a mortgage insured, co-insured, or held pursuant to the National Housing Act (12 U.S.C. 1702 et seq.).

(5) Ownership interest. Any direct or indirect interest in the stock, partnership interests, beneficial interests (for a trust) or other medium of equity participation. An indirect interest includes equity participation in any entity that holds a management interest (e.g. general partner, managing member of an LLC, majority stockholder, trustee) or minimum equity interest (e.g., a 25% or more limited partner, 10% or more stockholder) in the ownership entity of the management agent.

Under any construction of the "identity of interest" definitions, an "identity of interest" issue does not exist. IHA does not own the units to which the project-based vouchers are attached. Moreover, IHA has no ownership interest in the owner entity (described as the "Illinois partnership"). Furthermore, IHA does not have any effective control over the owner entity to direct, supervise or otherwise influence the actions, policies, etc., of the owner. Moreover, a review of IHA's Annual Contributions Contract would find no violation in IHA's contractual arrangement with IHA's HOPE VI developer.

Lastly, IHA believes that it is important to consider issues referenced in the report in the proper context and environment to which most PHA's operate. The development pictured below is the project-based voucher, mixed income development to which the report incorrectly referenced as having an "identity of interest" issue. The work of IHA and the Owners of this HOPE VI development resulted in the transformation of a once hardened and crime-riddled complex into a vibrant and healthy community. The significance of pointing this out is two-fold. (1) It highlights the level of competence in IHA to provide quality housing to the citizens of Indianapolis; (2) it should serve as a mitigating factor against potentially debilitating and costly recommendations against IHA.



Pursuant to 24 CFR 982.152(d), HUD has the discretion to reduce or offset a Housing Authority's fees. IHA firmly believes that the permissible nature of the regulation indicates that Congress' legislative intent is to allow HUD officials the opportunity to review program citations on a case by case basis. As a part of the review, IHA respectfully contends that issues such as program malfeasance, criminal activity, indicia of anti-competition or other wanton program violations are the types of PHA acts that warrant the forms of reimbursement reduction or offsets contemplated in the regulations. In those cases, IHA agrees that, if not an outright program default for the PHA, then a reduction in fees, among other sanctions, should be instituted. The report does not, however, find nor cite any indication of program malfeasance, criminal activity, indicia of anti-competition, or wanton program violations. IHA, as well, has not found any indication of these types of issues. What both HUD and IHA have found is that IHA has demonstrated considerable improvement over the last year in IHA's HCV program. As an example, IHA received extremely positive reviews following the most recent audit performed by HUD's Quality Assurance Division. Moreover, in 2008 IHA's HCV program received a "Standard Performer" designation. IHA has, also, begun the draft process to amend its administrative plan and implement a comprehensive project-based voucher program in order to ensure that all federal requirements of the program are met. (see Attachment B which is herein incorporated and included as a part of IHA's "comment").

Comment 9

With the foregoing in mind, IHA respectfully submits that the report's recommendation regarding the reimbursement of administrative fees is an inappropriate remedy. Instead, the remedy should be for IHA to be directed to perform, post-haste, the administrative requirements not supported by documentation. Furthermore, IHA should be required to set up a document and file maintenance procedure such that the documents demonstrating and supporting the completion of the administrative requirements are maintained in the main project-based voucher

Ref to OIG Evaluation

Auditee Comments

Page 10 of 17

vendor files. In the event that IHA determines that a project-based voucher selection was ineligible, then IHA would be required to advise HUD immediately.

Finding 4: The Agency's Section 8 Section 8 Project-Based Voucher units did not meet HUD's Housing Quality Standards.

Recommendations:

Certify, along with the owners of the 17 program units cited in this finding, that the applicable housing quality standards violations have been repaired. If necessary repairs have not been made, then the Agency should abate housing assistance payments to the landlords as appropriate.

Reimburse its program \$24,195 from nonfederal funds (\$22,071 for program housing assistance payments and \$2,124 in associated administrative fees) for the 11 units that materially failed to meet HUD's housing quality standards.

Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards to prevent \$72,024 in program funds from being spent on units that are not in compliance with HUD's requirements.

RESPONSE:

Comment 10

The report, unfortunately, inaccurately implies that the discovered "deficiencies" or violations existed during IHA's original inspections of the premises. Furthermore, in at least one photograph, the report misrepresents the condition of the "deficiency" when discovered by the during the OIG's inspection of the property. In particular, the electrical box shown in the photograph was not exposed or in an open condition when originally discovered by the OIG inspector. That is, the cover was on the box but then removed by the inspector, apparently, to demonstrate the danger behind the unsecured utility box. However, the photograph along with the written text above the photo (with the general reference to "exposed electrical wiring") misleads readers to conclude that the "deficiency" was the exposed condition of the utility box and that this "deficiency" was pre-existing.

Comment 11

Furthermore, it strains credulity for the OIG inspection reports to indicate that the vast majority of the material violations found by the OIG inspector were pre-existing violations. IHA believes that this is an error and, thus, does not believe that the reimbursement recommendation is proper. Below is a summary of IHA's determinations regarding the inspections.

Comment 12

Furthermore, IHA must respectfully object to the recommended reimbursement amount. The methodology used to calculate the recommended reimbursement amount fails to take into consideration the many program activities that the fee supports. The omission of a pro-rated calculation creates an inequitable result.

Comment 13

Lastly, IHA takes strong exception to the premise that IHA lacked sufficient understanding of the program rules for HQS inspections. Recently, IHA was able to compare the strengths of its program and personnel with the recent training that IHA's personnel received by a nationally recognized company. Upon the conclusion of the training, IHA's staff concluded overwhelmingly that IHA's standards were, and continues to be, more stringent and rigorous than the national standards taught by experts.

Comment 14

Page 11 of 17

ADDITIONAL COMMENTS:

Included is a summary of some of the determinations and findings that IHA made following our inspection reviews.

It should be noted that OIG's initial correspondence to IHA regarding the audit of our project-based voucher program referenced that it (OIG) intended to audit IHA's project-based program because of recent media accounts regarding some of the law enforcement efforts that IHA lead to eliminate mortgage and welfare fraud. Thus, also, included is supplementary information regarding IHA's efforts to eliminate mortgage and welfare fraud. The significance of this issue can not be overstated given the pressure for IHA and other Housing Authorities to be sound fiduciary stewards of Federal taxpayer dollars. In the swell of fraud and program manipulation by criminal elements outside of IHA, IHA has historically taken a very pragmatic approach to voucher utilization. The supplemental information will provide context to the efforts and the intensity upon which IHA's staff has addressed and, in many ways, prevented these issues of fraud.

Development A – Project Based Section 8	
Development A is made up of approximately 30 duplex homes (60 units) . The tax-credit financed development is owned by a not-for profit company. When constructed in the early 1990's, it was an oasis in a severely distressed neighborhood known as "Dodge City". In 2001, with the help of funding from the U.S. Department of Housing & Urban Development, the entire area was transformed into Fall Creek Place, where hundreds of new homes and existing homes were redeveloped. The neighborhood has not been exempt from the mortgage foreclosure crises. In the period of 09/1995 through 11/2008 the property has had four different management companies. The owner has endured many challenges including a successful appeal before the Indiana Tax Court (2005), an appeal of valuing its real property for the 2001 assessment. OSI specifically asked OIG to avoid this property due to on-going investigations that do not involve the owner but involve specific recipients.	
HAP Payments 09/15/1995 – 06/02/2001	\$4,312,245.89

The Outside Electrical Service Panels	
<p>08/05/2008: HUD OIG Audit cited that the covers on the center hub of exterior electrical service were 24 hour emergency deficiencies for units 0001836, 0002498, 0005924, and 0002962.</p> <p>The photographs provided by OIG Audit give the impression to any observer that the covers were found in a down position. The IHA inspector was present when the HUD OIG inspector opened the electrical box and slid the cover down in preparation for the photograph. The photographs clearly show that locks are on the electrical meters of the homes failed by OIG Audit.</p> <p>Note: IHA does check meters for service. See Next Page For Picture</p>	<p>08/07/2008: On an inquiry from the then-"Development A" management company, Indianapolis Power & Light provided the following written statement: "Marking of the meters is the property owner's responsibility. If a meter is pulled or sealed by anyone other than IPL it is considered tampering and a charge will be billed to the account for the tampering of the meter". IHA provided a copy of this letter to OIG Audit on 08/08/2008 via electronic mail</p> <p>08/08/2008: HUD OIG Audit responds to e-mail and letter from IPL, stating "The appraiser lifted the unsealed box cover to show what was accessible behind the unlocked box. OIG Audit terms the IPL letter to be "a case of poor communication with a bureaucratic utility"</p> <p>Note: A national recognized training company who provides training to OIG Audit & IHA, informed IHA staff they know of no requirement for locks on exterior meter boxes.</p>

Selected HQS Abatements By IHA Prior To HUD OIG Audit Inspections	
<p style="text-align: center;">03/12/2008</p> <p style="text-align: center;">Landlord Criminally Charged With Bribery Of IHA Inspector Filed October 2008 Marion Superior Court</p> <p style="text-align: center;">Violent Felon Sex Offender Assumed A False Identity</p> <p style="text-align: center;">Caught On The "Front End" By DOJ Funded IHA Financial Analyst</p>	<p>Development A recipient 019547 filed a Housing Quality Standards "HQS" complaint with the IHA on 03/12/2008, resulting in abatement of the HAP contract by the agency. The recipient family was also the victim of a violent crime prior to the HQS complaint. The family subsequently moved to a unit on the eastside of Indianapolis owned by the (later arrested) landlord. The IHA inspector failed the home three times resulting in the offer of a bribe to pass the home. The Financial Analyst discovered that ownership documents submitted by the landlord for another home just entered into the program were fraudulent. OSI investigation found the landlord was using a false name, that he was a convicted sex offender who failed to register as was ordered by the Court, that the other Section 8 home had in fact been sold by the County for delinquent taxes, and that he was demanding that recipient 019547 pay rent in addition to the executed HAP contract. The OSI relocated the family using DOJ funding, landlord charged with 9 counts including Welfare Fraud, Theft, Bribery, Forgery and Identity Deception.</p>


Selected "Development A" HQS Abatements By IHA Prior To HUD OIG Audit Inspection	
12/31/2006	Unit abated for HQS violations client 19945
02/03/2007	Unit abated for HQS violations client 27467
02/28/2007	Unit abated for HQS violations client 25552
04/30/2007	Unit abated for HQS violations client 27162
03/04/2008	Unit abated for HQS violations client 26104
05/09/2008	Unit abated for HQS violations client 29474

IHA Response To HUD OIG Audit Findings – "Development A"

Ref to OIG Evaluation

Auditee Comments

Page 13 of 17

Unit 0002697										
OIG Audit Finding	OSI Response									
<p>07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008</p> <p>08/05/2008: OIG cites the unit as a material failure for the following:</p> <table border="1"> <tr><td>Window balance broken</td></tr> <tr><td>Stove LF burner doesn't work</td></tr> <tr><td>Refrigerator seal broken</td></tr> <tr><td>Broken outlet cover</td></tr> <tr><td>Drafty door</td></tr> <tr><td>Torn window screens (3)</td></tr> <tr><td>Roaches & Ants</td></tr> </table>	Window balance broken	Stove LF burner doesn't work	Refrigerator seal broken	Broken outlet cover	Drafty door	Torn window screens (3)	Roaches & Ants	<p>03/24/2008: IHA passed home on HQS inspection.</p> <p>Recipient Had Been Dead 3 Months When OIG Audit Interviewed Unknown Person(s) At This Home IHA discovered on 08/21/2008 that the recipient had in fact died on 05/13/2008. The death and the continued occupancy in the home by persons unknown was concealed from the IHA, HUD OIG, and the landlord.</p> <p>Prior Event Related Information: Criminal Homicide IP05-0127355</p>		
Window balance broken										
Stove LF burner doesn't work										
Refrigerator seal broken										
Broken outlet cover										
Drafty door										
Torn window screens (3)										
Roaches & Ants										
Unit 0001836										
OIG Audit Finding	OSI Response									
<p>07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008.</p> 	<p>03/05/2003: Recipient absorbed at "Development A" due to HUD closure of Weyerbacher Terrace apartments. Unit failed initial HQS inspection 02/07/2003</p> <p>12/20/2007: Section 8 conducted the annual inspection on the unit resulting in a failure for the following defects:</p> <table border="1"> <tr><td>Outlet cover missing</td></tr> <tr><td>Vent cover missing bedroom</td></tr> <tr><td>Replace flapper ball bathroom</td></tr> <tr><td>Bathroom cabinet loose</td></tr> <tr><td>Bathroom door knob missing</td></tr> <tr><td>Bathroom subfloor loose</td></tr> <tr><td>Replace furnace filter</td></tr> <tr><td>Door striker plate missing</td></tr> <tr><td>All window screens damaged or missing</td></tr> </table>	Outlet cover missing	Vent cover missing bedroom	Replace flapper ball bathroom	Bathroom cabinet loose	Bathroom door knob missing	Bathroom subfloor loose	Replace furnace filter	Door striker plate missing	All window screens damaged or missing
Outlet cover missing										
Vent cover missing bedroom										
Replace flapper ball bathroom										
Bathroom cabinet loose										
Bathroom door knob missing										
Bathroom subfloor loose										
Replace furnace filter										
Door striker plate missing										
All window screens damaged or missing										
<p>08/05/2008: OIG cites unit as a material failure for the following:</p> <table border="1"> <tr><td>Electrical panel not locked</td></tr> <tr><td>Drafty door / window balances</td></tr> <tr><td>Bathroom vent not working</td></tr> <tr><td>Electrical outlets loose</td></tr> <tr><td>J-siding needs repair</td></tr> <tr><td>Globe missing front porch</td></tr> </table>	Electrical panel not locked	Drafty door / window balances	Bathroom vent not working	Electrical outlets loose	J-siding needs repair	Globe missing front porch	<p>03/12/2008: IHA passed the unit</p> <p>Client Is Ineligible Unreported Serious Violent Felon Live-In Gallery 538341, violent felon currently wanted on warrants was last arrested 12/05/2008 for possession of cocaine, firearm possession by SVF; police called to vacant home 3300 E Vermont where subject was found with \$2,889 in cash, crack-cocaine, Winchester long rifle. Multiple subjects arrested by IMPD.</p>			
Electrical panel not locked										
Drafty door / window balances										
Bathroom vent not working										
Electrical outlets loose										
J-siding needs repair										
Globe missing front porch										
Unit 0002498										
OIG Audit Finding	OSI Response									
<p>07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008.</p>	<p>11/26/2007: Recipient absorbed at "Development A" due to HUD closure of Bolton Court apartments. Unit passed initial HQS on 11/13/2007</p>									

Ref to OIG Evaluation

Auditee Comments

Page 14 of 17

	<p>04/11/2008: Section 8 conducted a Quality Control Inspection on the home resulting in a failure for the following defects to be corrected by 04/29/2008:</p> <table border="1"> <tr><td>Bedroom window will not stay up</td></tr> <tr><td>Furnace cover off</td></tr> <tr><td>Mice infestation</td></tr> <tr><td>Bathroom rack missing – tenant damage</td></tr> <tr><td>Fire extinguisher expired</td></tr> </table>	Bedroom window will not stay up	Furnace cover off	Mice infestation	Bathroom rack missing – tenant damage	Fire extinguisher expired							
Bedroom window will not stay up													
Furnace cover off													
Mice infestation													
Bathroom rack missing – tenant damage													
Fire extinguisher expired													
<p>08/05/2008: OIG cites unit as a material failure for the following:</p> <table border="1"> <tr><td>Torn piece of vinyl floor tile</td></tr> <tr><td>Stove door doesn't close fully</td></tr> <tr><td>Bathroom fan does not work</td></tr> <tr><td>Window balance broken (2)</td></tr> <tr><td>D.R. smoke detector not working</td></tr> <tr><td>Electrical panel not secured</td></tr> <tr><td>Cable TV rolled up in the yard</td></tr> </table>	Torn piece of vinyl floor tile	Stove door doesn't close fully	Bathroom fan does not work	Window balance broken (2)	D.R. smoke detector not working	Electrical panel not secured	Cable TV rolled up in the yard	<p>04/29/2008: Unit passed Section 8 re-inspection</p> <p>OSI Comment:</p> <p style="text-align: center;">With The Exception Of The Electrical Panel Any Of These Issues Could Have Easily Developed Between The 04/11/2008 QCI & The 08/05/2008 OIG Inspection Tenant Abuse</p>					
Torn piece of vinyl floor tile													
Stove door doesn't close fully													
Bathroom fan does not work													
Window balance broken (2)													
D.R. smoke detector not working													
Electrical panel not secured													
Cable TV rolled up in the yard													
Unit 0005561													
<p style="text-align: center;">OIG Audit Finding</p> <p>07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/06/2008</p>	<p style="text-align: center;">OSI Response</p> <p>02/01/2008: Recipient moved into unit that passed HQS inspection on 01/28/2008</p>												
<p style="text-align: center;">Any Of These Issues Could Have Easily Developed Between The 04/14/2008 QCI (Right) & The 08/05/2008 OIG Inspection (Below)</p>	<p>04/14/2008: Section 8 conducted a Quality Control Inspection on the home resulting in a failure for the following defects to be corrected by 05/14/2008:</p> <table border="1"> <tr><td>Doors not weather tight</td></tr> <tr><td>Cracked electrical plate</td></tr> <tr><td>Tile damage in front of toilet</td></tr> <tr><td>GFCI does not trip</td></tr> <tr><td>Shed door knob missing</td></tr> <tr><td>Handrail missing</td></tr> <tr><td>Screens missing</td></tr> <tr><td>Light globe missing</td></tr> <tr><td>Air conditioning unit missing</td></tr> <tr><td>Computer wire strung across the floor</td></tr> <tr><td>Hole in bedroom door</td></tr> <tr><td>Knobs missing from furnace room door</td></tr> </table>	Doors not weather tight	Cracked electrical plate	Tile damage in front of toilet	GFCI does not trip	Shed door knob missing	Handrail missing	Screens missing	Light globe missing	Air conditioning unit missing	Computer wire strung across the floor	Hole in bedroom door	Knobs missing from furnace room door
Doors not weather tight													
Cracked electrical plate													
Tile damage in front of toilet													
GFCI does not trip													
Shed door knob missing													
Handrail missing													
Screens missing													
Light globe missing													
Air conditioning unit missing													
Computer wire strung across the floor													
Hole in bedroom door													
Knobs missing from furnace room door													
<p>08/06/2008: OIG cites unit as a material failure for the following:</p> <table border="1"> <tr><td>Refrigerator door seal loose</td></tr> <tr><td>Drafty door</td></tr> <tr><td>Window balance broken (2)</td></tr> <tr><td>Torn window screen</td></tr> </table>	Refrigerator door seal loose	Drafty door	Window balance broken (2)	Torn window screen	<p>05/14/2008: Unit passed Section 8 re-inspection</p> <table border="1"> <tr><td style="text-align: center;">Client Eligibility Issue</td></tr> <tr><td style="text-align: center;">On Bond For 03/22/2008 Theft FD Arrest</td></tr> <tr><td style="text-align: center;">Program Management Issue</td></tr> </table>	Client Eligibility Issue	On Bond For 03/22/2008 Theft FD Arrest	Program Management Issue					
Refrigerator door seal loose													
Drafty door													
Window balance broken (2)													
Torn window screen													
Client Eligibility Issue													
On Bond For 03/22/2008 Theft FD Arrest													
Program Management Issue													
Unit 0002591													

Ref to OIG Evaluation

Auditee Comments

Page 15 of 17

OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/06/2008	01/19/2001: Recipient moved into unit
	04/01/2005 – 05/03/2005: Abated for HQS issues
	02/07/2006: Unit passed annual HQS
	01/25/2008: Unit failed annual HQS for the following violation:
	Mold growing on the floor in the bathroom from an apparent prior leak
	02/25/2008: Unit passed re-inspection
	04/11/2008: Section 8 conducted a Quality Control Inspection the home resulting in a failure for the following defects to be corrected by 04/30/2008:
	2 doors don't latch in bedrooms
	Tuckpoint on brick
	GFCI doesn't trip on front porch
	Repair ceiling
	Inspect fire extinguisher
	04/30/2008: Unit passed re-inspection with comment
08/06/2008: OIG cites unit as a material failure for the following:	Any Of These Issues Could Have Easily Developed Between The 04/11/2008 QCI (Above) & The 08/06/2008 OIG Inspection (Left)
Loose outlet cover	
Window balance broken (2)	
1 smoke detector bad	
	Tenant Fraud – Unreported Income Household Member Had Employment Income – Suspect In Theft Of \$1,703 From Drop Vault 05/23/2008 DP08-0070889
Unit 0002671	
OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008	02/24/2003: Recipient moved into unit that failed the first HQS on 01/14/2003 but subsequently passed on 02/07/2003.
	04/27/2007: Unit passed annual HQS inspection
	03/24/2008: Unit passed annual HQS inspection
08/05/2008: OIG cites unit as a material fail for the following:	Any Of These Issues Could Have Easily Developed Between The 03/24/2008 Annual Inspection (Above) & The 08/05/2008 OIG Inspection (Left)
Extension cord running under rug	
1 window balance broken	
Bi-fold closet doors off track	

Ref to OIG Evaluation

Auditee Comments

Page 16 of 17

Torn screen rear bedroom window	
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Unit 0002962	
OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008	02/17/2005: Recipient moved into unit that passed HQS inspection
	04/27/2007: Unit passed annual HQS inspection
	03/24/2008: Unit passed annual HQS inspection
08/05/2008: OIG cites unit as a material fail for the following:	<p>Any Of These Issues Could Have Easily Developed Between The 03/24/2008 Annual Inspection (Above) & The 08/05/2008 OIG Inspection (Left)</p>
Window balances broken	
Holes in screens	
Front room outlet loose	
	<p>Ineligible Recipient - Fraud</p> <p>02/19/2005 Search Warrant Executed For Cable Television Theft</p> <p>08/29/2006 Convicted Possession of Cocaine FC As a result of a search warrant executed in her prior non-federally assisted home 01/31/2003 where police seized cocaine, \$7,102 in cash, firearms.</p> <p>Reports Only Public Assistance Income 11/28/2008 Purchased A 2006 Cadillac STS Sedan 12/23/2008 Disturbance – Stabbing – Shooting In Federally Assisted Home – Suspect Had Firearm With Laser – Discharged Weapon Inside Home With Minor Children In The Unit</p>

Unit 0005924	
OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008	11/19/1997: Recipient moved into unit
	11/21/2001 – 12/21/2001: Unit abated HQS violations
	01/07/2008: Unit passed annual HQS inspection
<p>The Issue Of The Floor Tile In The Kitchen Obviously Occurred After The 02/20/2008 QCI – It Would Make No Sense To Order The Bath Tile Replaced & Not The Kitchen If It Existed</p>	02/20/2008: Section 8 conducted an HQS inspection on the home resulting in the following defects to be corrected by 03/07/2008:
	GFCI on porch does not trip
	Corrosion on water heater
	Hole in bedroom wall
	Cracked floor tile in bathroom
	Vanity dry rotted
	Living room ceiling damaged

Ref to OIG Evaluation

Auditee Comments

Page 17 of 17

	Range needs to be cleaned
	03/07/2008: Unit passes re-inspection
08/05/2008: OIG cites unit as failing the following:	Ineligible Recipient Project Manager Threatened By Recipient 09/26/2008 Police called to assist manager & maintenance after recipient made verbal threats to beat the manager who was at the home due to a damaged door from a burglary 09/25/2008.
Tripping hazard – torn floor tile	
Electrical box needs to be secured, currently secured with a rusty wire	
Unit 0001766	
OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008	02/01/2006: Recipient moved into unit, came from another project-based Section 8 property in Marion County
	03/24/2008: Unit passed annual HQS inspection
08/06/2008: OIG cites unit for defect including 24-hour violation:	Comment: The Window Sash Could Have Easily Occurred After The March 24, 2008 Annual Inspection Police Reports Indicate A Strong Possibility Of An Unreported Felon Living In The Household
Rear window sash broken	
Window balances broken	
Unit 0002708	
OIG Audit Finding	OSI Response
07/11/2008: OIG notified "Development A" via U.S. Mail that an OIG inspection would occur on 08/05/2008	06/06/1995: Recipient moved into unit
	03/24/2008: Unit passed annual HQS inspection
08/05/2008: OIG cites unit as failing due to the following:	The Torn Window Screen Could Easily Have Occurred After The 03/24/2008 Annual Inspection. Recipient Has A History (police reports) Of Reporting Broken Windows, Missing Lights & Shots Fired Into The Home Freon Leaking From The Air Conditioner Would Not Be Noticed In March (Cold Weather) Position On Electrical Panel Previously Stated
Torn window screen	
Window balances broken	
Freon leaking from A/C	
Electrical panel not secured	

OIG Evaluation of Auditee Comments

- Comments 1** The standards referred to by the Agency are HUD's housing quality standards as defined at 24 CFR 982.401. The project-based program incorporates the use of HUD's housing quality standards at 24 CFR 983.101.
- Comment 2** As stated in HUD's Housing Choice Voucher Guidebook, HUD's housing quality standards establishes the minimum criteria necessary for the health and safety of program participants. The Agency incorporates additional requirements for the inspections of its Section 8 units in its program administrative plan by including chapter 10, Minimum Standards for Residential Property and Housing from the Code of the Health and Hospital Corporation.
- Comment 3** We conducted our audit of the Agency's program using the applicable federal requirements as well as the Agency's program administrative plan.
- Comment 4** The Agency's proposed actions should improve its procedures and controls over its Section 8 Housing Choice Voucher program if fully implemented.
- Comment 5** The Agency's actions should improve its utilization of vouchers for its Section 8 Housing Choice Voucher program if fully implemented.
- Comment 6** We revised the report to reflect that the project-based assistance was unsupported due to the lack of documentation.
- Comment 7** In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fees paid to a public housing agency, in the amount determined by HUD, if the agency fails to perform its administrative responsibilities correctly or adequately. Further, we specifically discussed during the exit conference held with the Agency on December 16, 2008, that the entire administrative fee earned was questioned in our findings because it was HUD's responsibility to determine the amount of the fee to be reduced or offset. HUD's decision can then be discussed with us during the audit resolution process.
- Comment 8** We agree that the appropriate HUD requirement, 24 CFR 983.3, refers to public housing agency owned rather than identity of interest, and we revised the finding to reflect the proper terminology. However, the finding accurately explains the Agency's role in the Red Maplegrove/Brokenburr Apartments complex and HUD's requirements for providing the project-based voucher assistance.
- Comment 9** During the exit conference held with the Agency on December 16, 2008, we discussed the audit resolution process with the Agency. Specifically, HUD will work with the Agency to develop a corrective plan to address the audit recommendations. The Agency is familiar with the audit resolution process and should be aware that it may be afforded the opportunity to provide the supporting documentation that was not available to us during the audit.

Comment 10 We agree that the caption for the picture was misleading and we revised the caption and the report text with regard to the meter box enclosure cover. Our appraiser did open the unsecured enclosure cover to show the electrical wiring coming from the utility pole to the meter connections. The National Electrical Code requires that outdoor electrical equipment, including meters, be installed in suitable enclosures and be protected from accidental contact by unauthorized personnel.

Comment 11 On page 15 of this audit report, we stated that 11 (61 percent) of the 18 units inspected had material violations that existed before the Agency's previous inspections. Our appraiser identified the deficiencies noted in the inspection results we provided to the Agency, as witnessed by the Agency's inspection supervisor. The supervisor was also present when we attempted to determine whether the deficiencies existed at the time of the Agency's previous inspections by interviewing the households or by the obvious long-term nature of the violations. Further, the Agency's supervisor was proactive in attempting to correct the noted deficiencies. He contacted the respective properties' maintenance personnel to expedite the needed repairs.

Comment 12 See comment 7.

Comment 13 We agree that the Agency has taken significant measures to improve its compliance with HUD's housing quality standards. Based upon the deficiencies noted, additional improvements in quality control review may still be necessary.

Comment 14 We notified the Agency on April 9, 2008, that we selected the Agency for audit based upon our prior two audits and the recent press coverage regarding the physical conditions at two program-subsidized apartment complexes. The Indianapolis Star published a number of articles between October and December 2007 about the deplorable living conditions at two HUD-subsidized projects (Phoenix and Timber Ridge Apartments) administered by the Agency. On page 15 of this report, we stated that we did not conduct inspections at the Agency's project-based units in its multifamily buildings because they were generally well maintained. The Agency's enforcement efforts resulted not only in the improved physical conditions, but also in removing inappropriate households from the projects.

Appendix C

FEDERAL REQUIREMENTS

Finding 2

HUD's Housing Choice Voucher Program Guidebook, 7420.10G, sections 8.13 and 24.3, state in part that a public housing agency must maintain a leasing rate of at least 95 percent of the number of units under its annual contributions contract. Section 24.1 states that a public housing agency that has not spent 100 percent of the funds contracted under its annual contributions contract has not utilized all of the resources provided for its program. The failure of any authority to use all of the funding contracted for the Housing Choice Voucher program will always mean that a family in need of housing assistance is not being helped. HUD has a responsibility to Congress to ensure that the funds authorized for housing assistance are used to assist the maximum number of families.

HUD's regulations at 24 CFR 985.3(n)(3)(ii) require that public housing authorities lease at least 95 percent of their allocated yearly vouchers and/or funding to eligible participants in order to receive an acceptable program performance rating as a "standard" performer. HUD uses this requirement as part of its review and scoring of the Agency's program.

Finding 3

Federal Register, Volume 66, Number 10, dated January 16, 2001, 24 CFR 983.11(b) (1997 through September 30, 2005) and 983.58(d), effective October 13, 2005, require compliance with HUD's environmental regulations. Housing agencies may not enter into housing assistance payments contracts unless an environmental review has been completed and HUD has approved the environmental certification or it was determined that the project was exempt from environmental laws.

Effective with *Federal Register*, Volume 66, Number 10, January 16, 2001, 24 CFR 983.257(b) and (d), effective from January 16, 2001, through September 30, 2005, required housing agencies to perform a subsidy layering review to prevent excessive public assistance by combining housing assistance with other governmental housing assistance from federal, state, and local agencies. Project-based Section 8 assistance may not be paid for units subsidized with any governmental rent subsidy or subsidy that covers any part of housing operating costs or tenant-based assistance such as the HOME Investments Partnerships Program. These requirements were provided in 24 CFR 983.54(a), (c), (d), and (k), effective October 13, 2005.

Effective with *Federal Register*, Volume 66, Number 10, subpart F, dated January 16, 2001, housing agencies were prohibited from providing project-based Section 8 assistance for units in a building if the project-based units were more than 25 percent of the dwelling units in a building except for single-family dwellings, elderly or disabled buildings, or units occupied by families

receiving supportive services. This requirement was also established in 24 CFR 983.56(a) and (b), effective October 13, 2005.

Effective with *Federal Register*, Volume 70, Number 197, dated October 13, 2005, 24 CFR 983.205 requires the initial housing assistance payments contract term to be from 1 to 10 years with the ability to extend the contract for up to an additional five-year term. The *Federal Register*, Volume 70, Number 197, also included 24 CFR 983.3, which defines public housing agency owned as any interest by the public housing agency in the building in which the unit is located.

Federal Register, Volume 66, Number 10, dated January 16, 2001, requires compliance with HUD's housing quality standards for both tenant-based and project-based Section 8 units. Before and during the term of assistance, units are inspected for compliance with the HUD's housing quality standards. In general, the same statutory public housing agency inspection requirements apply to project-based voucher assistance as to the tenant-based voucher program (see *United States Code*, title 42, sections 1437f(o)(8) and 1437f(o)(13)(F)).

United States Code, title 42, chapter 8, subchapter I, subsection 1437f(o)(10)(A), states that the rent for dwelling units for which a housing assistance payment contract is established under this subsection shall be reasonable in comparison with rents charged for comparable dwelling units in the private, unassisted local market.

HUD's regulations at 24 CFR 983.12(b), 983.252, and 983.256(a) and (b), effective April 1, 1997, through September 30, 2005, required housing agencies to determine the reasonable rents to the owners comparing the proposed rents with the rents of at least three comparable unassisted units. Effective with *Federal Register*, Volume 70, Number 197, dated October 13, 2005, HUD's regulations at 24 CFR 983.301(b), (c), and (e) and 983.303(c) and (d) require housing agencies to perform the rent reasonableness reviews using three comparable unassisted units.

HUD's regulations at 24 CFR 983.52(a) and (b), effective April 1, 1997, through September 30, 2005, required housing agencies to inspect each proposed project-based unit to determine that it fully complied with HUD's housing quality standards before executing a housing assistance payments contract. Effective with *Federal Register*, Volume 70, Number 197, October 13, 2005, 24 CFR 983.103(b) and 983.204(a) require that all units pass a housing quality standards inspection before contract approval.

HUD's regulations at 24 CFR 983.6(a)(3) from April 1, 1997, through September 30, 2005, required that project-based assistance be consistent with the goal of deconcentrating poverty and expanding economic opportunity while avoiding undue concentration of low-income persons. Effective with *Federal Register*, Volume 70, Number 197, October 13, 2005, 24 CFR 983.57(b)(1) requires housing agencies to not unduly concentrate low-income persons.

HUD's regulations at 24 CFR 983.55(a), from April 1, 1997, through September 30, 2005, required project-based units to comply with disability accessibility requirements of Section 504 of the Rehabilitation Act of 1973. Effective with *Federal Register*, Volume 70, Number 197,

October 13, 2005, 24 CFR 983.102(a) requires housing agencies to comply with Section 504 disability access requirements.

HUD's regulations at 24 CFR 983.257(c), effective January 16, 2001, through March 31, 2005, and 983.256, effective April 1, 2005, as well as 24 CFR 983.304(e), effective October 15, 2005, provide that the agency may reduce rents to owners because of other government subsidies.

HUD's regulations at 24 CFR 983.253(b), effective January 16, 2001, through September 30, 2005, and 983.59(b), effective October 13, 2005, prohibit the housing agency from determining rents to the owner or performing housing quality standard inspections for project-based Section 8 units that the agency owns. These activities must be conducted by an independent entity approved by HUD.

HUD's regulations at 24 CFR 983.256(a)(1) state that the housing authority may not enter an agreement to enter into a housing assistance payments contract until the housing authority determines that the initial rent to the owner under the housing assistance payments contract is a reasonable rent.

HUD's regulations at 24 CFR 983.11(b) state that activities under this part are subject to HUD's environmental regulations in Part 58. A housing authority may not attach assistance to a unit unless, before the housing authority enters into an agreement to provide project-based assistance for the unit, (1) the unit of general local government within which the project is located that exercises land use responsibility or, as determined by HUD, the county or state has completed the environmental review required by 24 CFR Part 58 and provided to the housing authority for submission to HUD the completed request for release of funds and certification and (2) HUD has approved the request for release of funds.

HUD's regulations at 24 CFR 983.59(b) requires the following:

(a) The selection of public housing agency owned units must be done in accordance with 24 CFR 983.51(e),

(b) In the case of public housing agency owned units, the following program services may not be performed by the public housing agency, but must be performed instead by an independent entity approved by HUD.

(1) Rent to owner for public housing agency owned units is determined pursuant to Part 983.301 through 983.305 in accordance with the same requirements as for other units, except that the independent entity approved by HUD must establish the initial contract rents based on an appraisal by a licensed, state-certified appraiser; and

(2) Inspection of public housing agency owned units as required by Part 983.103(f).

(c) The independent entity that performs these program services may be the unit of general local government for the public housing agency jurisdiction (unless the public housing agency is itself the unit of general local government or an agency of such government) or another HUD-approved public or private independent entity.

HUD's regulations at 24 CFR 983.304(e) provide that the housing agency may reduce rents to the owners due to other governmental subsidies including tax credits, grants, or other subsidized financing.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency in the amount determined by HUD if the agency fails to perform its administrative responsibilities correctly or adequately under the program (for example, public housing agency failure to enforce housing quality standards requirements).

Finding 4

Federal Register, Volume 66, Number 10, dated January 16, 2001, requires compliance with HUD's housing quality standards for both tenant-based and project-based Section 8 units. Before and during the term of assistance, units are inspected for compliance with the housing quality standards. In general, the same statutory public housing agency inspection requirements apply to project-based voucher assistance as to the tenant-based voucher program (see *United States Code*, title 42, sections 1437f(o)(8) and 1437f(o)(13)(F)).

Federal regulations at 24 CFR 982.401 require that all Section 8 program housing meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the tenancy.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency in the amount determined by HUD if it fails to enforce HUD's housing quality standards.