



Issue Date	May 19, 2009
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Audit Report Number	2009-CH-1010
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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 Cincinnati Metropolitan Housing Authority, Cincinnati, Ohio, Needs to Improve Its Controls over Section 8 Housing Assistance Payments

## **HIGHLIGHTS**

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

We audited the Cincinnati Metropolitan Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2008 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of three planned audit reports on the Authority's program.

### **What We Found**

The Authority's program administration regarding housing assistance payments calculations, documentation to support households' eligibility for housing assistance, and its Section 8 project-based certificate contract was inadequate. The Authority incorrectly calculated households' payments resulting in more than \$44,000 in overpayments and more than \$11,000 in underpayments for the period July 2006 through August 2008. Based on our statistical sample, we estimate that over the next year, HUD will overpay more than \$925,000 in housing assistance and utility allowances.

The Authority also did not ensure that its households' files contained the required documentation to support its housing assistance and utility allowances. Of the 111 files statistically selected for review, 31 did not contain documentation required by HUD and the Authority's program administrative plan to support nearly \$216,000 in housing assistance and utility allowance payments.

The Authority failed to appropriately manage its Section 8 project-based certificate contract. It improperly received more than \$87,000 in program administrative fees for 51 months while it made housing assistance payments for units without valid housing assistance payments contracts, including payments for 20 months to an owner that notified the Authority that it did not want to renew its contract.

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of a minor deficiency through a memorandum, dated May 1, 2009.

### **What We Recommend**

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$135,000 in program funds, provide documentation or reimburse the applicable program nearly \$238,000, and implement adequate procedures and controls to address the finding cited in this audit report to prevent more than \$925,000 in program funds from being spent on excessive housing assistance and utility allowances over the next year.

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

### **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on April 16, 2009.

We asked the executive director to provide comments on our discussion draft audit report by May 1, 2009. The executive director provided written comments, dated April 30, 2009. The executive director 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 625 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's

comments plus the documentation was provided to the Director of HUD's Cleveland Office of Public Housing.

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## BACKGROUND AND OBJECTIVE

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The Cincinnati Metropolitan Housing Authority (Authority) was established in 1933 under Section 3735.27 of the Ohio Revised Code to provide decent, safe, and sanitary housing. In 2006, the Authority merged with the Hamilton County, Ohio Housing Authority's Section 8 Housing Choice Voucher program. The Authority serves households in neighborhoods throughout Cincinnati, Ohio, and Hamilton County. A five-member board of commissioners governs the Authority. Board members are appointed for five-year terms. The commissioners are appointed by the Probate Court (one appointment), the city manager (two appointments, one of which must be a public housing resident), Hamilton County Board of Commissioners (one appointment), and the Court of Common Pleas (one appointment). The board makes operational and budgetary decisions regarding the use of federal funds allocated for housing. The Authority's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of December 2008, the Authority had 9,925 units under contract with annual housing assistance payments totaling more than \$59 million in program funds.

This is the second of three planned audit reports on the Authority's program. Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) accurately calculated housing assistance and utility allowance payments, (2) maintained adequate documentation to support household eligibility, and (3) adequately administered its Section 8 project-based certificate contract. The first audit report (report number 2008-CH-1012, issued on September 23, 2008) included one finding. The objective of the first audit was to determine whether the Authority's inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its households.

# RESULTS OF AUDIT

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## Finding 1: Controls over Housing Assistance Payments Were Inadequate

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It failed to consistently compute payments accurately and maintain documentation to support all payments to program landlords and households. These deficiencies occurred because the Authority lacked adequate procedures and controls to ensure that its calculations were accurate and that HUD's requirements and its program administrative plan were appropriately followed. As a result, it overpaid more than \$44,000 and underpaid more than \$11,000 in housing assistance and utility allowances and was unable to support nearly \$216,000 in housing assistance and utility allowances paid. Based upon our statistical sample, we estimate that over the next year, the Authority will overpay more than \$925,000 in housing assistance and utility allowances.

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### **The Authority Made Incorrect Housing Assistance and Utility Allowance Payments**

We statistically selected 111 household files from a universe of 13,353 households that received housing assistance payments during the period July 2006 through August 2008 using data mining software. The 111 files were reviewed to determine whether the Authority accurately verified and calculated the income information received from households for their housing assistance and utility allowances for the period July 1, 2006, through August 31, 2008. Our review was limited to the information maintained by the Authority in its household files.

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

The Authority's miscalculations resulted in overpayments of \$44,144 and underpayments of \$11,082 in housing assistance and utility allowances. The Authority incorrectly calculated housing assistance and utility allowances for 61 (55 percent) households in one or more certifications. The 61 files contained miscalculations of the households' annual income and income deductions and the use of an incorrect utility reimbursement schedule and/or incorrect payment standard.

Of the \$44,144 in overpaid housing assistance and utility allowances, \$36,525 (58 households) was a result of the Authority's calculation errors and \$7,589 (three

households) was a result of households' underreporting their income to the Authority. However, the Authority's files contained the correct income information for the three households. One file contained a report from HUD's Enterprise Income Verification system and the other two files contained third-party income verifications showing the correct income information. The \$11,082 in underpaid housing assistance and utility allowances was a result of the Authority's calculation errors.

The 61 files contained the following errors:

- 49 had annual income calculation errors by the Authority for one or more certifications,
- 29 had incorrect utility reimbursement calculations for one or more certifications,
- Seven had incorrect payment standards for one or more certifications,
- Four had incorrect income adjustments for one or more certifications, and
- Three had unreported income by the households for one or more certifications.

The Authority received \$3,949 in program administrative fees related to the 58 households that were overpaid housing assistance and utility allowances for the period July 1, 2006, through August 31, 2008.

### **Household Files Lacked Eligibility Documentation**

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$215,865 for the period July 1, 2006, through August 31, 2008. Of the 111 household files statistically selected for review, 31 files (28 percent) were missing or contained incomplete or late documents as follows:

- 22 were missing the disclosure of information on lead-based paint,
- 16 were missing the original application,
- 11 did not have the lease and housing assistance payments contract executed within 60 days of each other,
- Nine were missing rent reasonableness determinations for the leased unit,
- Eight were missing a current lease,
- Eight did not have the annual recertification performed annually,
- Six were missing a housing assistance payments contract,
- Six were missing a request for tenancy approval,
- Five were missing proof of the properties' ownership,
- Four were missing proof of a criminal background check,
- Three were missing signed U.S. citizenship certification,
- Three were missing birth certificates,
- Three were missing Social Security cards, and

- Two were missing HUD Form 9886, Authorization for the Release of Information and Privacy Act Notice.

The 31 files did not include documentation required by HUD's regulations and the Authority's program administrative plan. Of the required documentation to support housing assistance payments and utility allowances, the disclosure of information on lead-based paint and the original application were not a determining factor in the computation of the unsupported housing assistance payments cited in this audit report.

The Authority obtained acceptable new or original documentation for 12 of the 31 household files after we notified it of the missing or incomplete documents during our audit. This resulted in a reduction in recommendation 1D of \$108,042. As a result, the questioned cost cited in recommendation 1D only reflects the missing documentation for the remaining 19 files (31 minus 12). The Authority should ensure that any new supporting documentation that it provides to HUD reflects the accurate date on which it was completed and should not be postdated to reflect the original date on which the document should have been completed.

### **The Authority's Procedures and Controls Had Weaknesses**

The weakness regarding incorrect calculations, inappropriate payments, and missing documentation occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its program administrative plan. Although the Authority's process for performing certifications gave its housing specialists discretion to review previous file documentation, it did not require them to do so. Therefore, if an error was made on a prior certification, that error could continue from one certification to another. However, this was not the only cause for the incorrect calculations of housing assistance payments and utility allowances. Fifty-two errors were made in calculating household income for one or more certifications as a result of the collection and completion of appropriate eligibility documentation.

The Authority conducted peer reviews of 50 percent of the initial certifications and 33 percent of its recertifications. Supervisors conducted monitoring reviews of 1 in 10 certifications. These reviews were performed in the same manner as the certifications that the housing specialists performed. The Authority randomly chose certifications for review instead of performing a full file review. It ensured that all new housing specialists received formal training and extensive training with a supervisor and shadowed housing specialists before performing certifications. Also, the Authority conducted training with all housing specialists using the results from peer and supervisory reviews. Although the Authority had external and internal training processes and performed monitoring reviews of the certifications, the certification errors occurred. Therefore, additional procedures



and controls are needed to ensure full implementation of HUD's regulations and the Authority's program administrative plan.

## Conclusion

As a result of its procedural and control weaknesses, the Authority overpaid \$44,144 and underpaid \$11,082 in housing assistance and utility allowances and disbursed \$215,865 in housing assistance and utility allowance payments without supporting documentation. If the Authority implements adequate procedures and controls regarding its housing assistance and utility allowances to ensure compliance with HUD's regulations and its program administrative plan, we estimate that more than \$925,000 in payments will be accurately spent over the next year based on the error rate found in our sample. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

## Recommendations

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

- 1A. Reimburse its program \$40,474 (\$36,525 in housing assistance and utility allowance payments and \$3,949 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 1B. Pursue collection of the \$7,589 from the three households cited in this finding or reimburse its program the applicable amount from nonfederal funds for the overpaid housing assistance and utility allowances.
- 1C. Reimburse the appropriate households \$11,082 for the underpayment of housing assistance and utility allowances cited in this finding.
- 1D. Provide supporting documentation or reimburse its program \$215,865 in nonfederal funds for the unsupported payments related to the 31 households cited in this finding, of which \$108,042 in housing assistance and utility allowance payments for 19 files remains unsupported.
- 1E. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and the Authority's program administrative plan. By implementing adequate procedures and controls, the Authority should help to ensure that \$925,125 in program funds is appropriately used for future payments.

## Finding 2: Controls over Section 8 Project-Based Certificate Contract Were Inadequate

The Authority's controls regarding the management of its Section 8 project-based certificate program were inadequate. The Authority inappropriately made housing assistance payments for units without valid housing assistance payments contracts, including payments for 20 months to an owner that had notified the Authority that it did not want to renew its contract. This condition occurred because the Authority lacked adequate procedures and controls regarding its Section 8 project-based certificate program. As a result, it received more than \$87,000 in program administrative fees while placing HUD program funds at risk.

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### **The Authority Failed to Properly Manage Its Project-Based Certificate Program**

The Authority did not ensure that its Section 8 project-based certificate contract (contract) was properly managed. The contract, effective in November 1991, stated that the original term was for three years with no more than two five-year renewals. The Authority failed to execute the appropriate renewal contract for the units. It was aware that it was late in renewing the contract in 1994 and that it did not renew the contract in 1999.

The Authority was aware that it could not execute renewal contracts after April 2004 but continued to do so. Its former attorney, the Authority's current executive director, advised the previous executive director that the contract ended on April 30, 2004, if all renewals had been issued appropriately. The previous executive director did not agree and directed the attorney to execute the renewal contract for part of the project for one year beginning May 1, 2004. The remainder of the project was issued renewal contracts by someone other than the Authority's attorney. These renewal contracts were issued under the Authority's Section 8 Moderate Rehabilitation program rather than the Section 8 project-based certificate program.

Renewal contracts for all units were executed after the original contract's 13-year limit was exceeded. The renewals were inappropriately executed on an annual basis from May 1, 2004, through April 30, 2007, and only one renewal contract executed in 2004 addressed the appropriate contract, program, and annual contributions contract. The Authority did not renew any type of contract after April 30, 2007, but continued to make housing assistance payments, conduct annual inspections, and conduct certifications/recertifications of households. During our audit, we notified HUD of the contract issues. In July 2008, HUD directed the Authority to process the households into its Section 8 Housing Choice Voucher program. This process was completed on September 30, 2008.

The Authority continued to pay housing assistance, without a valid housing assistance payments contract, totaling \$21,917 for units for which the owner of one property under the contract provided documentation to the Authority terminating the renewal contract that expired on April 30, 2007.

The Authority also failed to appropriately select families from the waiting list for its Section 8 project-based certificate units. It allowed the owners to select families and then notify the Authority of the selection when a unit became empty so it could process the family for eligibility to receive housing assistance payments. Section 1.4(A)(3) of the contract states that all vacant contract units must be rented by the owner to eligible families on the Authority's waiting list referred by the Authority. However, if the Authority does not refer a sufficient number of interested applicants to the owner within 30 days of the owner's notification to the Authority of a vacancy, the owner may advertise for or solicit applicants.

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

The Authority's failure to manage its contract correctly occurred because of a lack of adequate procedures and controls within its Special Programs Section. At the time we conducted our review, the Authority was not aware of this weakness and had to be directed by HUD to convert the remaining households under the project-based certificate program to tenant-based housing choice vouchers.

### **Conclusion**

As a result of its weakness, the Authority placed HUD program funds at risk by not executing the appropriate housing assistance payments contracts. Although low- and very low-income households were housed, the Authority was required to have an executed housing assistance payments contract for the project-based certificate program. From May 1, 2004, beyond which date the contract period with appropriate renewals could not continue, until the Authority properly transferred the households to its Housing Choice Voucher tenant-based program in September 2008, the Authority paid \$824,245 in housing assistance payments without valid housing assistance payments contracts.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$87,130 in program administrative fees for the inadequate management of its Section 8 project-based certificate contract from May 1, 2004, through August 31, 2008. Therefore, HUD should require the Authority to reimburse the inappropriate program administrative fees received.

## Recommendations

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

- 2A. Reimburse its program \$87,130 in program administrative fees related to the improper administration of its Section 8 project-based certificate contract cited in this finding.
- 2B. Provide supporting documentation or reimburse its program \$21,917 in nonfederal funds for the payments cited in this finding.

# SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws, regulations, HUD’s program requirements at 24 CFR Part 982, and HUD’s Housing Choice Voucher Guidebook 7420.10.
- The Authority’s accounting records; annual audited financial statements for fiscal years 2005, 2006, and 2007; program administrative plans effective April 2006, April 2007, and April 2008; program household files; computerized databases; policies and procedures; program annual contributions contracts; board meeting minutes for calendar years 2006, 2007, and 2008; and organizational chart.
- HUD’s files for the Authority.

We also interviewed the Authority’s employees, HUD staff, and program households.

## **Finding 1**

We statistically selected 111 of the Authority’s program household files from the 13,353 households that received housing assistance payments from July 1, 2006, through August 31, 2008, using data mining software. Our analysis purposely disregarded any cross-participation such as if the household was a port-out or had been on the Authority’s Section 8 Moderate Rehabilitation program at anytime. Thus, the applicable household was eliminated from the housing assistance payments register. This was done because the Authority was not able to provide the data as requested due to software limitations. The 111 household files were selected to determine whether the Authority appropriately calculated the households housing assistance and utility allowance payments and maintained documentation to support the households’ program eligibility.

Our sampling method was an unrestricted variable with a 90 percent confidence level and precision level of plus or minus 10 percent. Using variable sampling difference estimation techniques with a 90 percent confidence level, the sample results support an estimate that the Authority overpaid its program participants \$1,927,344 during our audit period.

Summary for difference values (population = 13,353; sample/size = 111)			
<b>Number of nonzero items</b>	61	Confidence level	90 percent
<b>Mean</b>	\$297.59	Lower limit	\$1,927,344
<b>Standard deviation</b>	\$977.39	Point estimate	\$3,973,660
<b>Skewness</b>	2.95	Upper limit	\$6,019,976
<b>Standard error (mean)</b>	\$92.38	Precision amount	\$2,046,316
<b>Standard error (total)</b>	\$1,233,594	Precision percent	44.65 percent
		<b>t-value used</b>	1.658824187414

We annualized the sample results for the audit period (25 months) by dividing \$1,927,344 by 25 months and then multiplying that amount by 12 months. Because this figure represents the more

conservative lower limit projection, we are 95 percent certain that the overpaid amount annually was at least \$925,125. Our sample results determined that 65 of the 111 (59 percent) households' housing assistance and utility allowances were overpaid.

Unless the Authority implements adequate procedures and controls regarding the disbursement of housing assistance and utility allowance payments to ensure compliance with HUD's regulations and its program administrative plan, we estimate that \$925,125 in payments will be misspent over the next year. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use for appropriate payments if the Authority implements our recommendation. While these benefits could recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work between September 2008 and March 2009 at the Authority's office located at 1044 West Liberty Road, Cincinnati, Ohio. The audit covered the period July 1, 2006, through August 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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

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## Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

## **Significant Weakness**

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

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements regarding the calculation of household income and housing assistance and utility allowance payments, household eligibility, and management of its Section 8 project-based certificate contract (see findings 1 and 2).

## **Separate Communication of a Minor Deficiency**

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of a minor deficiency through a memorandum, dated May 1, 2009.



# APPENDIXES

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## Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$40,474		
1B	7,589		
1C			\$11,082
1D		\$215,865	
1E			<u>925,125</u>
2A	<u>87,130</u>		
2B		<u>21,917</u>	
Totals	<u>\$135,193</u>	<u>\$237,782</u>	<u>\$936,207</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, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements recommendation 1E, it will ensure that program funds are spent according to federal requirements. Once the Authority 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



April 30, 2009

Ronald Farrell  
Assistant Regional Inspector General for Audit  
U.S. Department of HUD  
Office of Inspector General  
200 North High St., Room 334  
Columbus, OH 43125

**Subject Audit 2009-CH-100X dated April 1, 2009**

Dear Mr. Farrell:

The Cincinnati Metropolitan Housing Authority (CMHA) is in receipt of the phase 2 discussion draft audit report of the HUD's Office of Inspector General. The audit report states that CMHA's program administration regarding housing assistance payment calculations, documentation to support households' eligibility for housing assistance, and Section 8 project-based certification contracts were inadequate. The report further states that of the 111 files statistically selected for review, 31 did not contain documentation required by HUD and CMHA's administrative plan to support nearly \$216,000 in housing assistance and utility allowance payments.

The time frame covered by this audit was an extremely tumultuous period for CMHA. In 2005, CMHA started the migration of the agency's central voucher processing software system from an old DOS-based forum to an enhanced MS Windows platform in an effort to continue to improve management of the Housing Choice Voucher Program. As with any new technology, CMHA experienced significant growing pains during the staff's adjustment to the myriad of new processes and procedures.

Shortly after the agency's software implementation, the Hamilton County Community Development Department opted to discontinue its HCV Program, jeopardizing the status of 2,900 Hamilton County voucher households. At HUD's request, CMHA's HCV staff worked with Hamilton County to absorb its voucher portfolio within a six-month period. The merger of the voucher portfolios required CMHA staff to spend thousands of hours transferring hard and electronic records, building extra work spaces, hiring additional staff and implementing multiple customer service and other initiatives to ensure the smoothest possible transition of thousands of new clients. Also during this period, CMHA worked to adjust the agency's leasing goals and subsidy levels to obtain the best possible outcome under HUD's new funding formula.

HOUSING CHOICE VOUCHER PROGRAM, 1635 WESTERN AVENUE, CINCINNATI, OHIO 45214  
Phone: (513) 421-8190 Fax: (513) 977-5858 TDD: (513) 977-5807 Job Line: (513) 977-5659 Website: [www.cintimha.com](http://www.cintimha.com)  
Equal Opportunity Employer, Equal Housing Opportunities



Ron Farrell  
April 30, 2009

**Comment 1**

CMHA has reviewed the audit report and found that it contains errors within the rent calculations performed by OIG. CMHA has attached documentation to support its findings and requests that the OIG reduce its amounts accordingly. CMHA has also located the documentation claimed to be missing from tenant files which is also attached. CMHA also requests the amount stated by the OIG in unsupported funds be fittingly reduced.

CMHA's responses to the violations noted in the audit report follow.

**Finding 1: Controls over Housing Assistance Payments (HAP) Were Inadequate**

**The Authority Made Incorrect Housing Assistance and Utility Allowance Payments**

The OIG report states that CMHA's miscalculations resulted in overpayments of \$54,271 and underpayments of \$13,048 in housing assistance and utility allowances.

The OIG report further states that CMHA incorrectly calculated housing assistance and utility allowances for 65 (59 percent) households, those files contained the following errors:

- 52 had annual income calculation errors by CMHA for one or more certifications,
- 33 had incorrect utility reimbursement calculations for one or more certifications,
- 8 had incorrect payment standards for one or more certifications,
- 5 had incorrect income adjustments for one or more certifications,
- 3 had unreported income by the households for one or more certifications, and
- 1 had the incorrect disability exemption calculation for 2 certifications.

**CMHA Response**

CMHA maintains that 11 of the 65 OIG findings of incorrectly calculated housing assistance were in fact calculated correctly. In 12 other instances, CMHA agrees that HAP calculation errors occurred, but the over/under payments differ from those calculated by the OIG. CMHA maintains that instead of an aggregate overpayment of \$41,223 for the audited files, the aggregate amount of overpayments was \$12,612. Attached is a spread sheet detailing CMHA's findings marked as exhibit "A".

**Household Files Lacked Eligibility Documentation**

The OIG report states that CMHA lacked documentation to support housing assistance and utility allowance payments totaling \$215,865 for the period July 1, 2006 through August 31, 2008.

**Comment 2**



Ron Farrell  
April 30, 2009

The OIG further reported that 31 files (28 percent) were missing or contained incomplete or late documents as follows:

- 22 were missing the disclosure of information on lead-based paint,
- 16 were missing the original application,
- 11 did not have the lease and housing assistance payments contract executed within 60 days of each other,
- 9 were missing rent reasonableness determinations for the leased unit,
- 8 were missing a current lease,
- 8 did not have the annual recertification performed annually,
- 6 were missing a HAP contract,
- 6 were missing a request for tenancy approval,
- 5 were missing proof of the properties' ownership,
- 4 were missing proof of a criminal background check,
- 3 were missing signed U.S. citizenship certifications,
- 3 were missing birth certificates,
- 3 were missing Social Security cards, and
- 2 were missing HUD Form 9986, *Authorization for the Release of Informant and Privacy Act Notice*.

**Comment 3**

**CMHA Response**

CMHA is able to provide the documentation for 27 of the 31 files reported by the OIG to be missing documentation, or to contain incomplete or late documents. Because of the influx of new tenants caused by the HCV Program merger between CMHA and Hamilton County and limited filing space, a number of tenant files were divided, and older information was archived to make space in the file room. Some documents, such as original HAP Contracts, original tenant leases, and original applications were located in the archived files. Copies of these documents are attached. Other documents were found in the audited files, and copies of these have also been attached and marked as exhibits "B-xxx", with the "xxx" being the sample number of the audited file.

**Comment 4**

Disclosure of lead-based paint hazards is the responsibility of property owners. CMHA passes out the EPA's pamphlet, *Protect Your Family from Lead in Your Home*, at all briefings and again at each recertification appointment. CMHA works closely with the City of Cincinnati Health Department to track units with outstanding lead orders to ensure that such units do not pass inspection until such time as the Health Department releases such orders. Additionally the HCV Guidebook states that it is the owner's responsibility to disclose lead based paint hazards to a tenant prior to the lease signing. See exhibit "C".

CMHA agrees with OIG findings on the remaining 4 files.



Ron Farrell  
April 30, 2009

**The Authority's Procedures And Controls Had Weaknesses**

The OIG report states that weakness regarding incorrect calculations, inappropriate payments and missing documentation occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD regulations and CMHA's administrative plan. Although the Authority's process for performing certifications gave its housing specialists discretion to review previous file documentation, it did not require them to do so. Therefore, if an error was made on a prior certification, that error could continue from one certification to another. However, this was not the only cause for the incorrect calculations of HAP and utility allowances. Fifty-two (52) errors were made in calculating household income for one or more certifications as a result of the collection and completion of appropriate eligibility documentation.

It further states that CMHA conducted peer review of 50% of initial certifications and 33% of recertifications. These reviews were performed in the same manner as the certifications that the housing specialists performed. CMHA randomly chose certifications for review instead of performing a full file review. It ensured that all new housing specialists received formal training and extensive training with a supervisor and shadowed experienced housing specialists before performing certifications. Also, CMHA conducted training with all housing specialists using the results of peer and supervisory reviews. Although the Authority had external and internal training processes and performed monitoring reviews of the certifications, the certification errors occurred. Therefore, additional procedures and controls are needed to ensure full implementation of HUD's regulations and the Authority's program administrative plan.

**CMHA Response**

CMHA believes that since only 4 out of 106 of the OIG's findings (or less than 4%) were from 2008, the peer review audits, which begun in late 2007, have made a tremendous positive impact on the quality of HCV tenant files and on HAP calculations.

**RECOMMENDATIONS**

- 1A. Reimburse its program \$52,927 (\$47,763 in HAP and utility allowance payments and \$5,164 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.

**CMHA Response**

CMHA disagrees with HAP calculations made by the OIG in 25 instances, finding that no error was made in 11 out of the 62 instances cited, and the calculation of overpaid HAP totals \$17,277 and appropriate administrative fees.

**Comment 5**

**Comment 6**



Ron Farrell  
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**Comment 7**

- 1B. Pursue collection of the \$6,508 from the three households cited in this finding or reimburse its program the applicable amount from nonfederal funds for the overpaid housing assistance and utility allowances.

**CMHA Response**

CMHA maintains that the three households cited in this finding were overpaid \$1,563, not the \$6,508 cited by the OIG. CMHA is in the process of executing retro-rent charges and setting up repayment agreements with these tenants to collect the \$1,563 overpaid.

**Comment 8**

- 1C. Reimburse the appropriate households \$13,048 for the underpayment of housing assistance and utility allowances cited in this finding.

**CMHA Response**

By CMHA's calculations, \$6,228 was underpaid for housing assistance and utility allowances, and CMHA will take the steps necessary to reimburse the appropriate households.

**Comment 1**

- 1D. Provide supporting documentation or reimburse its program \$215,865 in nonfederal funds for the unsupported payments related to the 31 households cited in this finding.

**CMHA Response**

CMHA found and has attached the missed documentation in 27 of the 31 files cited in this finding; the documents related to the 4 remaining households total \$12,406.

**Comment 9**

- 1E. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and CMHA's administrative plan. By implementing adequate procedures and controls, CMHA should help ensure that \$1,332,248 in program funds is appropriately used for future payments.

**CMHA Response**

As stated above, CMHA believes that the peer review audits, which began in late 2007, and subsequent targeted staff training constitute adequate procedures and controls to ensure that program funds are appropriately used for future payments. CMHA's staff has completed the HCV Rent Calculation Training and is certified by one of the nation's leading trainers in the housing industry. Staff also undergoes monthly training conducted by management focusing on rent calculations.



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**Finding 2: Controls Over the Section 8 Project-Based Certificate Contract Were Inadequate**

**CMHA Failed To Properly Manage Its Project-Based Certificate Program**

The OIG report states that CMHA did not properly manage its Section 8 project-based certificate contract, and cites several instances of this improper management.

**CMHA Response**

CMHA agrees that it made some technical errors in the management of one of its Project Based contracts.

**CMHA Lacked Adequate Procedures and Controls**

The OIG's report states that CMHA's failure to manage its contract correctly occurred because of a lack of adequate procedures and controls within its Special Programs Section.

**CMHA Response**

CMHA discovered the error with the Project-Based Certificate program prior to the OIG audit and had contacted HUD regarding the error. CMHA has taken appropriate action to correct the mistake and prevent the error from occurring in the future. As directed by HUD, CMHA converted the households under this project-based certificate program to tenant-based housing choice vouchers.

**Comment 10**

**RECOMMENDATIONS**

- 2A. Reimburse its program \$87,130 in program administrative fees related to the improper administration of its Section 8 Project-Based certificate contract cited in the OIG finding.

**CMHA Response**

CMHA agrees that former employees of CMHA made a technical mistake with the contract renewal, but when the mistake was uncovered by current CMHA employees HUD was notified without delay by CMHA and corrective action steps were immediately started to resolve the mistake and at this time the mistake has been completely solved. CMHA contends that while a technical error was made with the contract the fact remains that CMHA appropriately administrated housing to low to very low income families, as even the OIG confirms in its report, and all the proper administrative work involved was completed by staff. The families were housed in units that were HQS compliant, families were recertified annually and HAP was paid on

**Comment 11**



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behalf of an eligible family residing in an eligible unit. CMHA requests that the recommended reimbursement of administrative fees in the amount of \$87,130 be reduced to \$5,000 in recognition that even though a technical error was made by CMHA, the work and efforts of CMHA staff that housed low to very low income eligible families should not be disregarded in whole.

- 2B. Provide supporting documentation or reimburse its program \$21,917 in nonfederal funds for the payments cited in the OIG finding.

**CMHA Response**

CMHA is in agreement that an error was made by former CMHA employees, but once the error was recognized, CMHA made every effort to correct the mistake quickly with HUD's assistance and in a manner that ensured the families being served were not adversely affected. These families were absorbed under the HCV program and CMHA continued to make housing assistance payments to the landlord on behalf of these families. Again we are in agreement that we made a technical error, but the on-going actions of both parties (the landlord and CMHA) does constitutes a binding contract and housing assistance payments were made to house eligible families. We respectfully request that the \$21,917 recommended reimbursement be removed in whole as it represents valid housing assistance payments that were made on behalf of eligible low income families.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard S. Rust, IV".

Richard S. Rust, IV  
Executive Director

Enclosure

cc: Lisa Isham, Acting Director of HCV Program  
James Olson, OIG, Senior Auditor

**Comment 12**



## OIG Evaluation of Auditee Comments

- Comment 1** We reviewed the supporting documentation that the Authority provided concerning the housing assistance payment calculations and the household eligibility documents and revised our audit report accordingly.
- Comment 2** We agree that four files had the correct housing assistance payment calculations. However, the other seven files contained calculation errors. Using the documentation provided by the Authority, we adjusted the files in error from 65 to 61 files containing incorrect calculations and adjusted our audit report accordingly.
- Comment 3** The Authority provided acceptable new or original documentation for 12 of the 31 household files after we notified it of the missing or incomplete documents during our audit. As previously stated in finding 1, we revised our audit report accordingly.
- Comment 4** Lead-based paint disclosure forms are required to be signed by the tenant according to 24 CFR 982.305(b)(1) which states that before the beginning of the initial term of the lease for a unit, the landlord and the tenant must have executed the lease (including the HUD-prescribed tenancy addendum) and the lead-based paint disclosure as required in section 35.92(b) of this title.
- Comment 5** We reviewed nine files for households that entered the program in 2008. Three (33 percent) of the nine files contained missing or incomplete documentation. We disagree with the Authority's perception that its peer review audits have made a tremendous positive impact on the quality of the household files and the housing assistance payment calculations.
- Comment 6** We revised the number of files with errors from 62 to 58, the overpayment of housing assistance and utility allowance payments, and the corresponding administrative fees.
- Comment 7** We acknowledge that the Authority pursued collection of the \$1,563 in unreported income. We agreed with the supporting documentation provided for one of the three households cited. However, the amount of reimbursement was increased for another household because the Authority confirmed that the household failed to report income after receiving a warning letter stating that the Authority would remove the household from the program.
- Comment 8** We disagree with the Authority's calculations. However, we did revise the amount of the underpayment of housing assistance and utility allowances based upon the documentation provided by the Authority.
- Comment 9** We disagree with the Authority's assessment that its peer review audits were adequately addressing its file errors.

**Comment 10** We do not dispute the fact that the Authority was aware of the problems with its project-based certificate program since its executive director was legal counsel at the time when the contract expired. However, no corrective actions were taken until we identified the issue during our phase 1 audit in April and May 2008. We contacted HUD's Cleveland Office of Public Housing and it directed the Authority to issue housing choice vouchers to the affected households.

**Comment 11** The Authority made more than \$800,000 in housing assistance payments without a housing assistance payments contract. It was required to operate its program in accordance its annual contributions contract with HUD. Section 10 of its annual contributions contract requires the Authority to comply with the Housing Act of 1937, all HUD regulations, its administrative plan and use the program forms required by HUD. See comment 11.

**Comment 12** HUD regulations at 24 CFR 305(c)(2) state that the public housing authority may not pay any housing assistance payments to the owner until the housing assistance payments contract has been executed. The Authority contends that every effort was made to correct the mistake quickly. However, to date, the Authority has not provided an executed housing assistance contract with the landlord.

## Appendix C

### FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

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#### Finding 1

HUD's regulations at 24 CFR 5.216(a) state that each assistance applicant must submit the complete and accurate Social Security number assigned to the applicant and to each member of the household who is at least six years of age. The documentation necessary to verify the Social Security number of an individual is a valid Social Security number issued by the Social Security Administration or such evidence of the Social Security number as HUD and, where applicable, the authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR 5.508(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or Section 8 housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 5.508(a) and (b) require each family member, regardless of age, to submit the following evidence to the responsible entity:

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

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

(3) For all other noncitizens, the evidence consists of a signed declaration of eligible immigration status, one of the documents referred to in section 5.510, and a signed verification consent form.

(c) Declaration: (1) For each family member who contends that he or she is a U.S. citizen or a noncitizen with eligible immigration status, the family must submit to the responsible entity a written declaration, signed under penalty of perjury, by which the family member declares whether he or she is a U.S. citizen or a noncitizen with eligible immigration status. For each adult, the declaration must be signed by the adult. For each child, the declaration must be signed by an adult residing in the assisted dwelling unit who is responsible for the child.

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

HUD's regulations at 24 CFR 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit. During the term of each assisted lease and for at least three years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family. The authority must keep the following records for at least three years: records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants; unit inspection reports; lead-based paint records as required by part 35, subpart B, of this title; records to document the basis for authority determination that rent to owner is a reasonable rent (initially and during the term of a contract); and other records specified by HUD.

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

HUD's regulations at 24 CFR 982.305(b)(1) state that before the beginning of the initial term of the lease for a unit, the landlord and the tenant must have executed the lease (including the HUD-prescribed tenancy addendum) and the lead-based paint disclosure as required in section 35.92(b) of this title.

HUD's regulations at 24 CFR 982.305(c) state that when a housing assistance payments contract is executed, the public housing authority must use its best efforts to execute the housing assistance payments contract before the beginning of the lease term. The housing assistance payments contract must be executed no later than 60 calendar days from the beginning of the lease term. The public housing authority may not make any housing assistance payments to the owner until the housing assistance payments contract has been executed. Any housing assistance payments contract executed after the 60-day period is void, and the public housing authority may not make any housing assistance payments to the owner.

HUD's regulations at 24 CFR 982.451(a)(2) state that the term of the housing assistance payments contract is the same as the term of the lease.

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

HUD's regulations at 24 CFR 982.516(a)(1) require the public housing authority to conduct a reexamination of family income and composition at least annually. The public housing authority must obtain and document in the client file third-party verification of the following factors or must document in the client file why third-party verification was not available: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income, and other factors that affect the determination of adjusted income. At any time, the public housing authority may conduct an interim reexamination of family income and

composition. Interim examinations must be conducted in accordance with policies in the public housing authority's administrative plan.

HUD's regulations at 24 CFR 982.54(a) state that the public housing authority must administer the program in accordance with its administrative plan.

The Authority's administrative plan states:

Chapter 8, Section B, Disallowance of Earned Income from Rent Determinations for Persons with Disabilities. The amount that is subject to the disallowance is the amount of incremental increase in income of a family member who is a person with disabilities. The incremental increase in income is calculated by comparing the amount of the family member's income before the beginning of qualifying employment or increase in earned income to the amount of such income after the beginning of employment or increase in earned income.

Chapter 8, Section R, Seasonal Employment. The Authority will annualize current income and then conduct an interim reexamination when income changes.

Chapter 12, Section C, Rent Adjustments.

Failure to Report Accurate Information. If it is found the resident has misrepresented or failed to report to their Housing Specialist the facts upon which his/her rent is based so that the rent being paid is less than what should have been charged, then the increase in rent will be made retroactive. Failure to report accurate information is also grounds for termination in accordance with the Authority's administrative plan.

Chapter 12, Section G, Timely Reporting of Changes in Income (and Assets). Standard for Timely Reporting of Changes. The Authority requires that families report interim changes to the Authority within 10 business days of when a change occurs. Any information, documentation, or signature needed from the family which is needed to verify the change must be provided within 10 business days of the change.

Procedures When the Change Is Reported in a Timely Manner. The Authority will notify the family and the owner of any change in the housing assistance payment to be effective according to the following guidelines: increases in the tenant rent are effective on the first of the month following at least 30 days notice and decreases in the tenant rent are effective the first month following that in which the change was reported. However, no rent reductions will be processed until all the facts have been verified, even if a retroactive adjustment results.

## **Finding 2**

HUD's regulations at 24 CFR 982.152(d) state that 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.

HUD Section 8 Housing Assistance Payments Program, Section 8 Certificate Program Project Based Assistance, Part 1, Housing Assistance Payments Contract, Contract Number PBA-00-1.

Section 1.1 Effective Date, Term and Contents of Contract. The term of this contract for each stage is three years beginning on the effective date of the contract for that stage. Stage one – June 1, 1991. The last day of the Contract term for each stage shall not be later than April 30, 1994.

Section 1.1.C, Renewal of Contract. If the public housing authority determines that there are sufficient funds, the Owner may renew the Contract after the end of the initial term up to two additional terms of five years per term. To renew the Contract, the Owner must give written notice to the public housing authority, in the form prescribed by the public housing authority, not less than 90 days before the end of the term to be renewed.

Section 1.4, Leasing of Units, Section A.3, Selection of Tenants. All vacant contract units must be rented by the owner to eligible families on the public housing authority waiting list referred by the public housing authority. However, if the public housing authority does not refer a sufficient number of interested applicants to the owner within 30 days of the owner's notification to the public housing authority of a vacancy, the owner may advertise for or solicit applications from very low income, or if authorized by the public housing authority in accordance with HUD requirements, lower income families. The owner must refer the families to the public housing authority to determine eligibility.

Section 1.10, Notice of Contract Termination by Owner. Not less than 90 days before termination of this Contract, the Owner must give notice of the proposed termination in accordance with HUD requirements to the public housing authority, HUD, and each assisted tenant. The Owner's notice must specify the reasons for the termination with sufficient detail to enable HUD to evaluate whether the termination is lawful and whether there are additional actions that can be taken by HUD to avoid the termination. For purposes of this section, "termination" means expiration of the Contract at the end of the Contract term (including expiration of the Contract because the Owner does not renew the Contract pursuant to section 1.1.C).

Section 1.19.A, Transfer of the Contract or Property. The Owner agrees that the Owner has not made and will not make any transfer in any form, including sale or assignment, of this Contract or the property without prior written consent of the public housing authority.

Section 1.26, HUD Requirements. The Agreement and Contract must be interpreted and implemented in accordance with HUD requirements.

Section 1.28, Entire Agreement. The Agreement to Enter Into Housing Assistance Payments Contract and this Contract, including exhibits, are the entire Agreement between the public housing authority and the Owner. No changes in this Contract may be made except in writing signed by both the Owner and the public housing authority.