



Issue Date October 6, 2009

Audit Report Number 2010-PH-1002

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

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Philadelphia Housing Authority, Philadelphia, Pennsylvania, Needs to Improve Its Controls over Housing Assistance Payments

HIGHLIGHTS

What We Audited and Why

We audited the Philadelphia Housing Authority's (Authority) administration of its housing assistance payments for leased housing under its Moving to Work Demonstration program (Moving to Work) as part of our fiscal year 2009 audit plan. This is the first of two audit reports that we plan to issue on the Authority's leased housing program. The audit objective addressed in this report was to determine whether the Authority maintained adequate documentation to support housing assistance and utility allowance payments and accurately calculated them.

What We Found

The Authority generally maintained adequate documentation to support its housing assistance and utility allowance payments but did not always accurately calculate them. We found housing assistance and utility allowance calculation errors in 30 of 41 files reviewed resulting in overpayments and underpayments. The Authority was proactive and began to correct some of the overpayments and underpayments the audit identified. By implementing improved procedures and

controls the Authority can ensure it makes accurate housing assistance and utility allowance payments and thereby avoids overpaying an estimated \$2.3 million over the next year.

What We Recommend

We recommend that U.S. Department of Housing and Urban Development (HUD) require the Authority to correct the errors in the tenant files identified by the audit, reimburse its leased housing program for the remaining ineligible overpayments, reimburse applicable tenants for the remaining underpayments of housing assistance and utility allowances, provide documentation or reimburse the program from nonfederal funds for unsupported payments, and implement improved procedures and controls to prevent it from overpaying an estimated \$2.3 million in program funds over the next year.

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

Auditee's Response

We discussed the audit results with the Authority and HUD officials throughout the audit and at an exit conference on July 13, 2009. Following the exit conference, we provided an updated draft report to the Authority on July 17, 2009. The Authority provided written comments to our draft report on July 24, 2009. It generally disagreed with our findings and recommendations. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The U.S. Housing Act of 1937 initiated the nation's public housing program. That same year, the City of Philadelphia established the Philadelphia Housing Authority (Authority) under the laws of the Commonwealth of Pennsylvania to address housing issues affecting low-income persons. A five-member board of commissioners governs the Authority. The current executive director is Carl R. Greene. The Authority's main administrative office is located at 12 South 23rd Street, Philadelphia, Pennsylvania.

In 1996, Congress authorized the Moving to Work Demonstration program (Moving to Work) as a U.S. Department of Housing and Urban Development (HUD) demonstration program. This program allowed certain housing authorities to design and test ways to promote self-sufficiency among assisted households, achieve programmatic efficiency, reduce costs, and increase housing choice for low-income households. Congress exempted participating housing authorities from much of the Housing Act of 1937 and associated regulations as outlined in the Moving to Work agreements. Participating housing authorities have considerable flexibility in determining how to use federal funds. For example, participating authorities may combine operating subsidies provided under Sections 8, 9, and 14 of the U.S. Housing Act of 1937¹ to fund HUD-approved Moving to Work activities. In December 2000, the Authority submitted an application to HUD to enter the program, and in February 2002, HUD signed a seven-year agreement with the Authority that was retroactive to April 2001. Although the Authority's Moving to Work agreement included a Section 8 component, the agreement marked the end of the Authority's traditional Section 8 program until April 2008. From April to October 2008, the Authority continued to operate under a HUD-developed plan to transition back to traditional HUD program regulations because the term of its Moving to Work agreement had expired. However, in October 2008, HUD entered into a new 10-year Moving to Work agreement with the Authority. The expiration date of the Authority's new agreement is March 2018.

Under the Section 8 Housing Choice Voucher program, HUD authorized the Authority to provide leased housing assistance payments to more than 13,600 eligible households. HUD authorized the Authority the following financial assistance for housing choice vouchers:

Fiscal year	Annual budget authority	Disbursed funds
2006	\$144,144,373	\$142,173,656
2007	\$147,066,278	\$147,066,278
2008	\$178,940,566	\$178,890,410

The audit objective addressed in this report was to determine whether the Authority maintained adequate documentation to support housing assistance and utility allowance payments and accurately calculated them.

¹ Funds provided under Section 8 are for leased housing assistance funds; Section 9 funds are for housing authority operations; and Section 14 funds are for public housing modernization.

RESULTS OF AUDIT

Finding: The Authority Did Not Always Calculate Housing Assistance Payments Accurately

The Authority generally maintained adequate documentation to support its housing assistance and utility allowance payments but did not always accurately calculate them. This occurred because the Authority needed to implement improved procedures and controls to make sure it complied with HUD requirements and its own program administrative plan regarding payments. The Authority made more than \$50,000 in overpayments, underpaid tenants more than \$1,000, and was unable to support nearly \$6,000 in payments during the audit period. By implementing improved procedures and controls the Authority can ensure it does not overpay an estimated \$2.3 million in housing assistance and utility allowance payments over the next year.

The Authority Generally Maintained Adequate Documentation

For the most part, the Authority's tenant files were in proper order and contained the required documentation to support payments. However, some improvements were needed. Of the 41 household files we statistically selected for review, four files (10 percent) lacked at least some of the documentation required to support payments totaling \$5,718.

- Two files lacked third-party verification of income. HUD regulations at 24 CFR [*Code of Federal Regulations*] 982.516 require the Authority to obtain and document in the tenant file third-party verification of reported family income.
- One file lacked a copy of the housing assistance payments contract for part of the lease term. HUD regulations at 24 CFR 982.158 require the Authority to keep a copy of the housing assistance payments contract during the term of the assisted lease and for at least three years thereafter.
- One file lacked verification that a household member was employed at least 20 hours per week to qualify for a working family income deduction. The Authority's administrative plan allows a \$500 deduction for working households with one or more members employed either full time or part time for at least 20 hours per week.

Appendix C of this report shows the detailed results of our file reviews.

The Authority Made Incorrect Housing Assistance and Utility Allowance Payments

We statistically selected and reviewed 41 household files from a universe of 10,569 households that received housing assistance payments during the period October 1, 2006, through September 30, 2008. In 30 cases, the Authority made inaccurate and ineligible housing assistance and utility allowance payments. The Authority's miscalculations and errors resulted in overpayments of \$50,102 and underpayments of \$1,496. To its credit, the Authority informed us it took immediate action to recover or make payment for \$25,519² of the questioned costs and refer some files to its inspector general for review and action. The payments were incorrect because

- In 13 files, the Authority did not abate the housing assistance payments as required although the units failed housing quality standards inspections and remained in failed condition for more than 30 days. HUD regulations at 24 CFR 982.404(a) state that public housing authorities must not make any housing assistance payments for a unit that fails to meet housing quality standards within no more than 30 calendar days unless the authority has specified a timeframe for correcting violations. The Authority's administrative plan states that it may abate or reduce payment to the owner or terminate the assistance contract if the unit fails inspection unless the owner corrects the deficiencies within the period specified by the Authority. The Authority indicated that it had taken action to recoup \$16,431 of the overpayments for 11 of the 13 files.
- In 11 files, the Authority made erroneous assistance payments. It paid amounts that did not coincide with the effective dates of changes in the assistance amounts, paid the tenant's share of the rent, paid a tenant's security deposit, made unnecessary payments because of data entry errors, made unexplained payments and credit adjustments, and did not make a routine monthly utility allowance payment. The Authority indicated that it had taken action to recoup \$7,837 of the overpayments and make a \$17 payment for seven of the 11 files and that it was researching the payments associated with the remaining four files.
- In 11 files, the Authority increased the rent without justification as required. The Authority's administrative plan for its leased housing program requires the owner to request proposed changes to the contract rent approximately 120 days before the lease anniversary date. HUD regulations at 24 CFR 982.54(c) require the Authority to administer the

² \$17,846 verified to date by the Office of the Inspector General.

program in accordance with its administrative plan. In these cases, the owners did not request changes to the rent.

- In three files, the Authority did not include all household income in its assistance calculations although there was evidence of the income in the files. To correctly calculate the assistance payment, the Authority needs to include all income in its calculations.
- In two files, the Authority used the wrong utility allowance schedule. In these cases, the Authority used a utility allowance schedule created for a unit structure type that was not the same as that of the assisted unit. The Authority indicated that it had taken action to recoup \$338 of the overpayments for one of the two files.
- In two files, the Authority did not enforce its requirement that households claiming zero income recertify to the zero income every 90 days. In these two cases the households had income. The Authority's administrative plan requires households to verify zero-income status every 90 days unless the adult household member claiming zero income is a full-time student (other than head of household or spouse), disabled, or elderly.
- In one file, the Authority did not adjust the assistance payment for an overhoused family to what the Authority would have paid for a proper-size unit. The Authority's administrative plan requires tenants to pay a greater portion of rent and/or utilities if they do not relocate to a proper-size unit. The Authority indicated that it had taken action to recoup the \$612 overpayment.
- In one file, the Authority did not inspect the unit for compliance with housing quality standards annually as required. The Authority did not inspect the unit for more than 16 months, and it failed the next inspection in April 2008. HUD regulations at 24 CFR 982.405(a) require public housing authorities to perform unit inspections at least annually. HUD regulations at 24 CFR 982.401 require that all program housing meet HUD's housing quality standards at the beginning of the assisted occupancy and throughout the tenancy. The Authority's administrative plan also requires the Authority to inspect each unit at least annually during the assisted tenancy.
- In one file, the Authority paid a rent that exceeded its payment standard. HUD regulations at 24 CFR 982.503 require the Authority to adopt a payment standard schedule that establishes voucher payment standard amounts. The payment standard amounts are used to calculate the monthly housing assistance payment.

- In one file, the Authority used the wrong household size in the total tenant payment calculation. The Authority incorrectly used a household size of five rather than the correct household size of six. The Authority indicated that it took action to correct the \$120 underpayment.
- In one file, the Authority overstated the household income. The Authority used the amount of child support ordered by the court in its calculations rather than the actual amount of child support being received by the tenant, which was lower than the amount ordered by the court. The definition of income in the Authority's administrative plan includes payments for support of a minor.
- In one file, the Authority did not include a working family income deduction in its calculations. The Authority's administrative plan allows a \$500 deduction for working households with one or more members employed either full time or part time for at least 20 hours per week. The Authority indicated that it allowed the deduction and made a \$164 adjustment to correct the underpayment.

Appendix C of this report shows the detailed results of our file reviews.

HUD's Enterprise Income Verification Indicated Other Overpayments

Although HUD does not require housing authorities to use the income information in the Enterprise Income Verification System, it is a valid basis for further review and verification of the household income. For 8 of the 41 household files we statistically selected for review, HUD's Enterprise Income Verification system indicated that the households had income that they did not report. We recalculated the housing assistance payments for these households using the income reported in the system and determined that the Authority may have overpaid as much as \$13,895 during the audit period. To its credit, the Authority took immediate action and referred five of these eight files to its inspector general for review and action, and indicated that it sent out termination notices to the tenants for two of the remaining three files. Appendix C of this report shows the detailed results of our file reviews.

Since our statistical sample of tenant files showed potential problems with unreported income, we also analyzed the Authority's automated data files for all household members participating in the Authority's leased housing program during the period October 2006 through September 2008. The Authority worked collaboratively with us and determined that 18 of the households that reported zero income did in fact have income. The Authority informed us that it sent third-party income verifications to employers for seven households, notified two

households to schedule an appointment to discuss the issue, referred one household to its inspector general for action, and terminated a household from the program. The following shows the action the Authority reported that it has taken or planned for the 18 households that it determined did in fact have unreported income.

Action taken or planned by the Authority	Number of households	Potential overpayments
Action not yet determined	7	\$ 64,734
Third-party verification requested	7	\$ 48,933
Referred to its inspector general	1	\$ 10,954
Interview being scheduled	2	\$ 4,814
Household terminated	1	\$ 5,688
Total	18	\$135,123

The Authority will need to complete its analysis of the \$149,018 (\$13,895 + \$135,123) in potential overpayments identified through the Enterprise Income Verification System.

The Authority Needs to Implement Improved Controls

The weakness regarding overpayments and underpayments and missing documentation occurred because the Authority did not implement sufficient controls with regard to calculations of households' housing assistance and utility allowance payments and household file documentation. The Authority acknowledged that it did in fact need to improve its procedures and controls.

The Authority informed us that it took some action to improve its controls during the audit by beginning to use HUD's Enterprise Income Verification System. Before that it relied on the zero-income declarations of the household members. Although HUD has not yet required public housing authorities to use its system, we commend the Authority for using this system to improve its controls and help it to significantly reduce its overpayments. The Authority will need to provide evidence that it developed an implementation plan, standard operating procedures and schedules with milestones and actual completion dates regarding mandatory use of the system to show that it is fully implemented. The Authority also informed us that during the audit it implemented an improved automated scheduling, inspection reporting, and enforcement system. After the exit conference, the Authority provided its implementation plan and other related documentation for the system. However, the documentation did not include standard operating procedures and actual completion dates for the milestones in the implementation plan to demonstrate that the system had been put into use. The documentation indicated that the system would not be fully implemented

until March 2009. Since the system was not operational during the audit period we did not audit it and therefore did not evaluate its effectiveness.

Conclusion

The Authority generally maintained adequate documentation to support its housing assistance and utility allowance payments but did not always accurately calculate them. It made overpayments of more than \$50,000 and underpayments of more than \$1,000 in housing assistance and utility allowances and made nearly \$6,000 in unsupported housing assistance payments. To its credit, the Authority began taking action to address deficiencies in the files identified by the audit and informed us it had taken action to recover or make payment for \$25,519 of the questioned costs during the audit, and referred some files to its inspector general for review and action. The Authority could also recover \$149,018 in potential overpayments identified through the Enterprise Income Verification System. If the Authority implements improved controls and procedures, it will avoid overpaying an estimated \$2.3 million over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this report.

Recommendations

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

- 1A. Correct the errors in the tenant files identified by the audit.
- 1B. Provide support or reimburse its leased housing program \$5,718 from nonfederal funds for the unsupported housing assistance payments identified by the audit.
- 1C. Repay its leased housing program \$50,102 from nonfederal funds for the ineligible overpayment of housing assistance.
- 1D. Reimburse the appropriate tenants \$1,496 from program funds for the housing assistance underpayments.
- 1E. Improve its controls by implementing procedures to help reduce and/or prevent recurring deficiencies in its payment calculation process, thereby helping to put to better use an estimated \$2.3 million in ineligible payments over the next year.
- 1F. Complete its analysis of the \$149,018 in potential overpayments identified through the Enterprise Income Verification System. For households that received excessive housing assistance and utility allowance payments,

pursue collection and/or terminate housing assistance for the applicable households.

SCOPE AND METHODOLOGY

We performed our on-site audit work between October 2008 and July 2009 at the Authority's office located at 642 North Broad Street, Philadelphia, Pennsylvania. The audit covered the period October 1, 2006, through September 30, 2008, and was expanded when necessary to include other periods.

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

- Applicable laws; regulations; the Authority's administrative plan; HUD's program requirements at 24 CFR Parts 5, 35, and 982; HUD's Public and Indian Housing Notice 2004-01; HUD's Housing Inspection Manual 7420.8; and HUD's Housing Choice Voucher Guidebook 7420.10G;
- The Authority's accounting records; annual audited financial statements for 2006 and 2007; tenant files; computerized databases including housing assistance payment and family data; board meeting minutes; organizational chart; and Moving to Work documents including the agreement, plans, and reports; and
- HUD's monitoring reports for the Authority.

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

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

We statistically selected 41 of the tenants who received housing assistance payments during our audit period using a variable statistical sampling method developed by our computer audit specialist. The sampling criteria used a variable sampling methodology with a 90 percent confidence level and 10 percent precision. Our universe included 10,569 households that received more than \$142.6 million in housing assistance payments.

The Authority made ineligible payments in the amount of \$50,102 for the period October 1, 2006, through September 30, 2008. The \$50,102 represents the sum of overpayments from incorrect housing assistance and utility allowance calculations and erroneous payments in 28 cases. Unless the Authority improves its housing assistance payment calculation process, we estimate that it could make nearly \$2.3 million in ineligible housing assistance and utility allowance payments over the next year.

To determine our estimate of \$2.3 million in potential ineligible payments over the next year, we used difference estimation techniques to project the sample results. This process yielded a point estimate of \$12,529,678 in housing assistance and utility allowance overpayments during our two-year audit period with overpayments of \$4,669,761 and \$20,389,595 based on the lower and

upper limits, respectively. For reporting purposes, we annualized the lower limit (\$4,669,761 divided by the audit period of two years) to obtain a one-year estimate of \$2,334,881. The lower limit provides the most conservative estimate of potential ineligible payments over the next year. The estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use if the Authority implements our recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We analyzed an automated data file that the Authority provided containing information for all household members participating in its leased housing program during the period October 2006 through September 2008. We determined that 197 households reported zero income. We reviewed the household income reported in HUD's Enterprise Income Verification system and the system indicated that 137 of the 197 households had income during the period. Using the tenant data that the Authority provided, we identified the effective date of the most recent certification/recertification and matched it to the payment data that the Authority provided. The results showed that we had payment data for 101 of the 137 households. We quantified the assistance payments that the Authority made for those households from the date of the most recent certification/recertification forward. The Authority made housing assistance payments totaling \$653,892 for these 101 households. The Authority agreed that there was potential unreported income in 38 of the files. Of the 38, 18 represented \$135,123 of the \$653,892 in assistance identified by the audit.

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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and 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 objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that it calculates housing assistance payments correctly and properly maintains documentation in its tenant files.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if 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 did not implement sufficient controls to ensure compliance with HUD requirements and/or its program administrative plan with regard to making correct housing assistance and utility allowance payments and maintaining documentation to support payments (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B		\$5,718	
1C	\$50,102 (1)		
1D			\$1,496 (2)
1E			\$2,334,881
1F		\$149,018	
Totals	\$50,102	\$154,736	\$2,336,377

(1) The Authority recovered \$17,829 of this amount. It needs to recover the remaining \$32,273.

(2) The Authority paid \$17 of this amount. It needs to pay the remaining \$1,479.

- 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 our recommendations, it will use \$1,496 in program funds to serve its purpose of assisting eligible households and prevent approximately \$2.3 million in program funds from being spent on ineligible housing assistance and utility allowance payments annually. 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



Philadelphia Housing Authority
Building Beyond Expectations

July 24, 2009

Mr. John P. Buck
Regional Inspector General for Audit
Philadelphia Region, 3AGA
Wanamaker Building
100 Penn Square East, Suite 1005
Philadelphia, PA 19107-3380

Re: OIG Audit of the Philadelphia Housing Authority Housing Choice Voucher Program

Dear Mr. Buck:

Enclosed please find the response of the Philadelphia Housing Authority ("PHA") to the above referenced draft audit issued by your office on July 17, 2009. I appreciate your willingness to revise the initial draft audit following our exit conference, however, I remain concerned about a number of the findings and I have described those concerns in more detail in the response. PHA will continue to work cooperatively with your office and HUD to resolve any outstanding issues.

Please do not hesitate to contact me with any additional questions.

Sincerely,

Carl R. Greene
Executive Director

12 S. 23rd Street, Philadelphia, PA 19103
p: 215.684.4000 www.pha.phila.gov

**PHILADELPHIA HOUSING AUTHORITY'S RESPONSE
TO JULY 17, 2009 DRAFT OIG AUDIT REPORT**

The Philadelphia Housing Authority ("PHA") is pleased that the HUD Office of Inspector General ("OIG") recognized PHA's effective system for complying with HUD requirements in its draft audit report regarding its Housing Choice Voucher ("HCV") program issued on July 17, 2009 ("Draft Audit"). PHA appreciates the OIG complimenting the agency for making proactive enhancements to its already compliant procedures and for quickly resolving issues as they were identified during the audit process. The small number of minor errors identified in the audit clearly shows that the 100 percent quality control file review system and other protocols used by PHA are effective in ensuring PHA's HCV program is well run.

Regardless, PHA disagrees strongly with some of the other findings in the Draft Audit. Of particular concern are the findings based on information uncovered by the OIG using HUD's electronic Employment Information Verification ("EIV") system to which PHA had no access during the audit period. As described in more detail in the following response, PHA believes that the OIG's findings related to "funds that could be put to better use" are particularly problematic and not supported by the facts. PHA also has not received sufficient information from the OIG to determine whether all of the OIG's findings are valid, despite repeated requests. PHA hopes that the OIG will reconsider its position and modify the Draft Audit to ensure it is supported and accurate.

RESPONSE TO SPECIFIC FINDINGS

Finding 1A: The Authority Generally Maintained Adequate Documentation

1. Insufficient Backup Information Provided for Alleged Unsupported Assistance Amounts

(a) Issue

The Draft Audit does not contain sufficient detail to enable PHA to provide a full response regarding the amounts of assistance that the OIG has claimed are unsupported, despite PHA's repeated requests. Appendix C to the audit report combines amounts for all issues related to each tenant file. PHA requested information regarding the amounts associated with each issue and also an explanation of how the OIG arrived at these amounts, as well as copies of the OIG's work papers. Only July 22, 2009, the OIG provided a spreadsheet containing a breakdown of the amounts for each issue (referred to herein as the "Appendix C Detail"). While this information is helpful, PHA does not have information regarding how the OIG calculated its findings in many cases. PHA has requested this information, but was told that it could not be provided until after this response was due to be submitted and that the response date would not be extended. As a result, PHA's responses are not based on complete information.

(b) Resolution

The OIG should provide the remaining requested information and allow PHA to submit a supplemental response to the Draft Audit based upon the information.

2. Third-Party Verification of Income

Comment 1

Comment 2

(a) Issue

The Draft Audit states that two files lacked third-party verification of income. The OIG auditors did not raise this issue with PHA during the almost nine months of back and forth during the audit and only raised the matter orally at the very end of its discussions with PHA.

The OIG has not identified in writing which files are supposedly lacking third-party verification of income. From a discussion with the OIG, PHA believes that the OIG is referring to Tenant Files 13 and 25. PHA was not given the opportunity to discuss these conclusions with the OIG or to provide the documentation that the OIG believes is missing. As such, PHA was not offered an opportunity to supply the documentation or to offer an alternative. Also, the OIG has not supplied any information as to how the amounts claimed to be unsupported as a result of the supposed lack of third-party verification have been calculated.

(b) Resolution

The findings regarding lack of third-party verification of income documentation should be removed from the audit report.

3. HAP Contract

(a) Issue

Comment 3

The Draft Audit states that one file “lacked a copy of the housing assistance payment contract.” This is incorrect. One file (Tenant File 17) did not contain a copy of the *original* HAP contract, but there was a copy of the HAP contract in place for all but four and a half months of the audit period. The original HAP contract was executed in 1996, well before audit period. The files does contain a HAP contract dated February 16, 2007. There was a gap in time for which the file did not contain an applicable HAP contract, but the statement that the file “lacked” a copy of the HAP contract is not accurate and misleading. Even without the original HAP contract, there was sufficient documentation to justify the payments. Moreover, the OIG has not provided PHA with information regarding how the amount attributable to this issue was calculated.

(b) Resolution

The Draft Audit should be revised to state that one file did not have a copy of the HAP contract covering the entire audit period but that there was a HAP contract dated February 16, 2007, and the payments were otherwise supported. The OIG should provide PHA with information regarding how the amount attributable to this issue was calculated, and it should provide PHA with an opportunity to provide a supplemental response based upon this information.

4. Working Family Deduction

(a) Issue

Comment 4

The Draft Audit states that one file lacked verification that a household member was employed at least 20 hours per week to qualify for a working family income deduction. The

OIG is apparently referring to Tenant File 35. There is no HUD or PHA Administrative Plan requirement that a file contain any such documentation. As PHA has already explained to the OIG, PHA followed its policy and properly implemented the working family deduction. When third-party verification of income was not returned, PHA relied on the tenant's pay and annualized her income. The OIG should have closed out this finding based upon the information provided.

(b) Resolution

This finding should be removed from the Draft Audit.

Finding 1B: The Authority Made Incorrect Housing Assistance and Utility Allowance Payments

1. The Statement that PHA Made Errors in 30 Cases Is Incorrect

(a) Issue

The statement that 30 of the 41 files reviewed had "errors" is not accurate. The OIG first identified 30 files where it questioned documents and calculations. In many cases, the information was already in the file and just not understood by the auditor. In other cases, PHA answered the questions and was able to provide documents to support the calculations. The auditor accepted some explanations but did not accept others, without justification. PHA has spent countless hours discussing each case and providing supporting documentation; however, much of this information is not reflected in the Draft Audit. There are many findings that should have been closed by the auditors based upon the information that was provided but were not.

(b) Resolution

The OIG should ensure that all information provided by PHA is taken into consideration in preparing the final audit. All issues where sufficient information and documentation was provided should not be reported as findings.

2. The OIG's Discussion Regarding Recoupment Requires Clarification

(a) Issue

The Draft Audit states that PHA informed the OIG that it took action to recover or make payment for \$25,624 but that the OIG has only verified \$17,951 to date. The amount that PHA has recouped to date relating to this finding is \$28,503. PHA has provided sufficient documentation to the OIG for the OIG to verify this entire amount, in several cases more than once. In other cases, PHA simply disagrees that recoupment is warranted.

(b) Resolution

The audit report should be revised to change \$25,624 to \$28,503 and to state that this amount has actually been recouped. The reference to only a portion having been verified to date should be deleted.

Comment 1

Comment 5

Comment 1

3. Insufficient Backup Information Provided for Alleged Incorrect Assistance Amounts

(a) Issue

The Draft Audit does not contain sufficient detail to enable PHA to provide a full response regarding the amounts of assistance that the OIG has claimed are incorrect despite PHA's repeated requests. See discussion on page 1, above, in connection with Finding 1A, unsupported assistance payments.

(b) Resolution

The OIG should provide the remaining requested information and allow PHA to submit a supplemental response to the Draft Audit based upon the information.

4. Extrapolation of "Funds to Be Put to Better Use"

(a) Issue

The Draft Audit states that PHA must implement improved procedures and controls over the next year to avoid overpaying an estimated \$2.4 million in housing assistance payments and recommends that PHA improve its controls in order to put to better use nearly \$2.4 million of potential ineligible payments over the next year.

Comment 6

There is no support for the OIG's conclusion that \$2.4 million in HCV funds could be put to better use over the next year. As PHA repeatedly explained to the OIG both orally and in writing, PHA's protocols changed in at least two fundamental ways since the audit period and before the OIG made its recommendations: (1) the EIV system is now available to PHA, whereas it was not available during the audit period; and (2) PHA has implemented a new automated system for tracking inspections and implementing abatements, which replaces the prior manual system that was subject to clerical errors. Virtually all of the occasional overpayments cited by the OIG during the audit period were related to these two areas – income verification problems uncovered by the new EIV system and missed or late landlord abatements. The risk of these issues occurring in the coming year has been reduced substantially as a result of PHA's new systems. Accordingly, there is no basis for OIG's claim that these would be issues moving forward or for the OIG's extrapolation of the error rates during the audit period when new systems are already in use. Moreover, to the extent that the extrapolated amount is based upon PHA's implementation of a 2% rent increase, that was a one-time occurrence that is not expected to occur again, so projecting these amounts into the future is not statistically valid.

Comment 7

Comment 8

Comment 9

Comment 8

PHA provided information to the OIG regarding its implementation of EIV and its new inspection and abatement system multiple times during the course of the audit; however, this information is not reflected in the Draft Audit. PHA also discussed this issue with the OIG at the exit conference. PHA provided additional documents on its implementation of these systems following the exit conference within 48 hours of the OIG's request. Documentation previously provided to the OIG regarding the implementation of the Elite system is attached as Exhibit 1. In addition, PHA invited the OIG to witness a demonstration of these systems in practice. The Draft Audit states that PHA "needs to provide evidence" that it has implemented these systems, despite the fact that such evidence has already been submitted.

Comment 6

Not only is the \$2.4 million extrapolated figure unsupported, but the Draft Audit's categorization of this amount as "funds to be put to better use" is inconsistent with the OIG's own protocols. Section 3-17 of the OIG Audit Operations Manual, OIGM 2000, dated August 2006 ("Audit Operations Manual"), states that "recommendations that funds be put to better use quantify savings from management actions, in response to OIG recommendations that prevent improper obligations or expenditures of agency funds or avoid unnecessary expenditures." In this case, the implementation of EIV and the new abatement system were already in process when the audit began. As a result, it is not appropriate to consider funds that might be saved from PHA's use of EIV and an automated abatement system "funds to be put to better use."

Even if it were appropriate to identify "funds to be put to better use" in this case, the \$2.4 million cited is a gross exaggeration and thus should not be included in the audit report. The Audit Operations Manual, Section 3-17 also states that "[q]uestioned costs and recommendations that funds be put to better use should be reasonably precise about the dollar amount involved. If the auditors are uncertain about the monetary impact, they should leave the amount open rather than overstate the case by claiming the cost for the whole contract, project, or line item." The \$2.4 million is based on amounts called into question before the EIV and abatement systems were put in place. Given that these systems are now in place, the findings from the audit do not serve as a valid basis to extrapolate with any precision amounts that could be put to better use in the coming year. The \$2.4 million figure assumes that the same error rate as occurred based on the OIG's sample review would occur moving forward, which OIG acknowledges will be reduced with the use of these systems. As a result, the \$2.4 million is not a reliable number and should be removed.

Furthermore, we note that this extrapolation method has not been used in similar audits of other housing authorities. No such figures appeared in the most recent OIG report on the HCV program of the Pittsburgh Housing Authority, Report Number 2008-PH-1014, the only other housing authority in Pennsylvania of a size comparable to PHA. Nor does the most recent audit of the Richmond Redevelopment and Housing Authority, issued on July 10, 2009, Number 2009-PH-1009, contain such numbers. PHA cannot understand why it has been singled out for different treatment from other large housing authorities, especially when the facts in this case so clearly indicate that changes to its systems have already been made.

(b) Resolution

All statements regarding extrapolation of "funds to be put to better use" and references to a figure of \$2.4 million should be stricken from the report, because they have no factual or statistical support and are unnecessarily inflammatory.

5. Abatement of HAP

(a) Issue #1

The Draft Audit's discussion of PHA's abatement of housing assistance payments does not include the information that PHA provided to the OIG during the audit and after the exit conference regarding its implementation of a new, automated "Elite" software system for inspections and abatements, which replaces the prior, manual system. As explained repeatedly to

Comment 8

the OIG, this system automatically implements the abatement and deducts it from the next payment.

(b) Resolution

The audit report should be revised to state that PHA has already implemented a new system that ensures that abatements are implemented in a timely fashion.

(c) Issue #2

The Draft Audit states that PHA indicated it had taken action to recoup \$16,431 of the overpayments for 11 of the 13 files. The amount that PHA has recouped to date is \$16,618 for 11 of the 13 files.

(d) Resolution

The audit should be revised to state that PHA has recouped \$16,618 of the overpayments for 11 of the 13 files.

(e) Issue #3

PHA disagrees with the OIG's findings regarding abatement for Tenant Files 7, 14, 24, and 26, as follows:

Comment 5

Comment 10

Comment 1

Comment 10

- Tenant File 7 – Appendix C indicates that the amount that should have been abated was \$2,154, but this amount differs from the number previously provided by the OIG during the audit, and the OIG has not provided an explanation of how this revised amount was calculated. PHA has recouped \$979, which PHA believes is the correct amount.
- Tenant File 14 – The Appendix C Detail indicates that the amount that should have been abated was \$393, but the OIG has not provided an explanation for how this amount was calculated. PHA provided documentation to the OIG to show that the HAP was abated from 11/27/07 to 12/12/07 in the amount of \$298. Per spreadsheets provided by the OIG auditors during the audit, the OIG appears to believe that the HAP should have been abated commencing on 11/21/07 versus 11/27/07. PHA explained to the OIG that the 11/21/07 date contained in the spreadsheet appeared to be a typographical error, but the OIG never responded to this comment. This finding should have been closed by the auditors.
- Tenant File 24 – Appendix C indicates that the amount that should have been abated was \$713, but this conflicts with information previously provided during the audit, and the OIG has not provided any information regarding how this

Comment 1

new amount was calculated. PHA has recouped \$312, which PHA believes is the correct amount.

- Tenant File 26 – The Appendix C Detail indicates that the amount that should have been abated was \$268, but the OIG has not provided an explanation of how this amount was calculated. PHA provided inspection documentation to OIG as requested, and the OIG never followed up seeking additional information, so this finding should have been closed.

(f) Resolution

The findings regarding Tenant Files 14 and 26 should be removed from the Draft Audit. The overpayment amounts for Tenant Files 7 and 24 should be revised to \$979 and \$312, respectively.

6. “Erroneous” Payments

(a) Issue #1

The Draft Audit states that PHA indicated it had taken action to recoup \$7,982 of the overpayments. This amount is incorrect. PHA has recouped \$10,635.

(b) Resolution

The Draft Audit should be revised to include the correct amount.

(c) Issue #2

PHA disagrees with the OIG’s findings for two of the tenant files and has provided sufficient information to the OIG regarding the payments associated with these files to show that these payments were proper and calculated correctly, as follows:

Comment 5

Comment 11

- Tenant 26 – The OIG claims that there was an overpayment of \$526 for this tenant. We provided information to the OIG that demonstrated that the adjustment in question reflects the difference between the new HAP contract amount and the prior HAP contract amount for two months and thus was proper. This finding should have been closed.

Comment 1

- Tenant File 37 – Based on PHA’s discussions with the OIG auditors, the OIG’s claim with respect to this tenant file is that PHA made an ineligible payment of \$615 for a security deposit. PHA disagrees that this payment was ineligible, because it was made in connection with the relocation of a public housing resident. PHA submitted documentation to the OIG sufficient to close out this finding.

Comment 9

(d) Resolution

The findings regarding Tenant Files 26 and 37 should be removed.

7. PHA Rent Increase

(a) Issue

The Draft Audit concludes that in 11 files, PHA increased rent “without justification as required,” because in those files, the owner had not requested changes to the rent, as is required under PHA’s Administrative Plan. This finding pertains to PHA’s implementation of a one-time rent freeze and subsequent increase. PHA was clearly authorized to make this adjustment without prior HUD approval or a request by the owner under its Moving to Work (“MTW”) agreement.

In November 2004, in response to severe under-funding of the Section 8 program, PHA implemented a rent freeze, which was done in accordance with HUD PIH Notice 2004-7 (April 22, 2004). Once funding was restored for the program, PHA instituted a 2% rent increase for owners who had units under lease during calendar years 2005, 2006, and 2007.

This rent increase was permitted by PHA’s MTW Agreement, which gives PHA the authority to take certain actions that deviate from certain HUD regulations in accordance with the agreement. PHA provided the OIG with the portion of the MTW Agreement that clearly authorizes PHA to make adjustments to the rent structure without prior HUD approval. The agreement states:

Provided that PHA complies with all HUD requirements regarding rent reasonableness the PHA is authorized to develop its own Local Rent Subsidy Program that may include exceptions to the standard Section 8 Program rules and regulations.

(First Amendment to MTW Agreement.) This clearly states that this action could be done without prior HUD approval. Despite this clear authorization, the OIG has continued to question PHA’s authority to implement these changes.

PHA complied with all of the procedural requirements necessary to implement this MTW rent increase policy, including conducting a rent impact analysis that was included in PHA’s Annual MTW Report approved by HUD and the PHA Board of Commissioners. As we have explained, this rent increase was instituted in order to correct disparities in the rent structure that resulted in landlords – especially those in better neighborhoods – threatening to leave the program. Thus, the rent increase was instituted to ensure that PHA’s local rent subsidy program included “stable landlords, high quality properties and mixed income neighborhoods,” as its MTW Agreement requires. Furthermore, PHA conducted an individual rent reasonableness evaluation for each property and determined on a property by property basis that the increased rent was reasonable.

PHA repeatedly explained this history to the OIG during the course of the audit and provided written documentation showing that the rent increase was authorized under the

MTW program. PHA also provided the OIG with a copy of the first amendment to its MTW Agreement which clearly authorizes PHA to make changes to its rent structure without prior HUD approval. The Draft Audit calls into question the rent increase because the impacted owners did not request changes to the rent despite the fact that PHA's actions were authorized under its MTW Agreement.

(b) Resolution

The OIG's findings with respect to the 11 files in which PHA implemented the two-percent rent increase should be removed from the audit report.

8. Income Not Included

(a) Issue #1

The Draft Audit states that in three files, PHA did not include all household income in calculating assistance payments. The tenant files at issue are Tenant Files 13, 25, and 31. PHA disagrees with the OIG's findings as to these three files, as detailed below:

Comment 12

- Tenant File 13 – The OIG has not explained how it calculated the \$1,179 contained in the Appendix C Detail. In discussions with the OIG, the OIG stated that PHA had made an overpayment of \$2,112 for failure to include child support income. As PHA previously explained to the OIG, and as was clear from the documentation in the file, the applicant crossed out the child support income she had mistakenly included on the application form. As such, PHA had no basis to include child support income in its payment calculations, and there was no overpayment based upon a failure to include child support income. This finding should have been closed by the auditors.

Comment 13

- Tenant File 25 – The Appendix C Detail indicates that the amount associated with this deficiency was not included in the total because it was included in other categories, so we do not know what amount the OIG believes to be associated with this issue.
 - First issue: During the audit, the OIG provided a spreadsheet indicating that there was an overpayment of \$1,842 for failure to include and verify employment income. PHA provided documentation to the OIG showing that the tenant was on public assistance and that this income was verified and included. PHA also provided documentation to the OIG showing that the tenant was in a Welfare to Work Program so employment income is properly excluded. Accordingly, there

Comment 13

was no overpayment for failure to include and verify employment income.

- Second issue: The OIG also provided a spreadsheet indicating that there was an overpayment of \$144 for failure to include additional child support amounts. PHA provided information to the OIG showing that it had properly relied on the tenant's self-certification of income, and it explained to the OIG that when other information came in showing a different amount, the difference was less than \$200, so no action was required. As such, there was no overpayment for failure to include additional child support amounts.

Comment 14

This finding should have been closed by the auditors.

- Tenant File 31 – The Appendix C Detail lists a \$50 overpayment. In discussions with the OIG, the OIG indicated that the \$50 overpayment was due to the failure to include student income. In order to make this determination, the OIG relied on EIV, which was not available to PHA. As such, there was no overpayment, and this finding should have been closed by the auditors. Moreover, once the issue was brought to PHA's attention, PHA included the student income at the next zero income follow up, which took place on June 9, 2009.

(b) Resolution

The findings for Tenant Files 13, 25, and 31 should be removed.

9. Incorrect Utility Allowance Used

(a) Issue

The Draft Audit states that PHA used the wrong utility allowance in two tenant files. PHA disagrees with the OIG's findings for both tenants, as detailed below:

Comment 15

- Tenant File 22 – PHA addressed this issue in discussions with the OIG and provided documentation to the OIG to close out this finding, and the OIG indicated during those discussions that the finding was closed. Accordingly, the finding should not be included in the audit report.

Comment 16

- Tenant File 38 – PHA disagrees with the \$494 in the Appendix C Details and believes the correct amount is \$130. Also, the Draft Audit indicates that PHA has taken

action to recoup \$338 in overpayments. This amount is incorrect. PHA has recouped \$130 for Tenant File 38 for providing a utility allowance for a "Detached" unit when the unit was an "Inner Row," as a result of a clerical error.

(b) Resolution

The finding as to Tenant File 22 should be deleted from the final audit. The audit report should be corrected to reflect an amount of \$130 and a recoupment of \$130 for Tenant File 38.

10. Zero Income Not Recertified

(a) Issue

The Draft Audit states that in two files, PHA did not enforce its requirement that households claiming zero income recertify zero income every 90 days. The 90-day recertification requirement is not a HUD requirement, but rather something that PHA included in its Administrative Plan, which is above and beyond HUD requirements, in order to be more diligent in monitoring income for those claiming zero income. By finding PHA at fault for failing to comply with this higher standard it has set for itself, especially where there were only two files with issues, the OIG creates a disincentive for housing authorities to set requirements above the minimum.

Moreover, PHA disagrees with the findings as to these two files, as detailed below:

- Tenant File 5 – Appendix C indicates that PHA made an overpayment of \$15,504. There is no basis for concluding that if re-certifications had been completed in 90 days, the tenant would have reported income. PHA did not have access to EIV, so it would not have discovered the income. PHA took all appropriate action. The client is pending termination and the file has been referred to PHA OIG for further investigation. As such, the claim that there was an overpayment of \$15,504 is unsupported. Moreover, it appears that this amount of \$15,504 may have also been included in the OIG's finding that there were \$151,217 in potential overpayments relating to EIV (Finding 1C). If so, this would constitute double-counting.
- Tenant File 30 – According to the Appendix C Detail, the two instances of supposed failure to recertify zero income resulted in an overpayment of \$1,809. The OIG has not explained how it calculated this number. With respect to the first instance, the OIG is relying on EIV, which was not available at the time, and PHA took all appropriate action. Therefore, there was no overpayment. Moreover, the

Comment 17

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Comment 18

tenant is pending termination, and the file has been referred to PHA's inspector general for further investigation.

(b) Resolution

The findings as to Tenant Files 5 and 30 should be removed from the audit report.

11. Annual inspection

(a) Issue

The Draft Audit states that in one file, PHA did not inspect the unit for compliance with housing quality standards annually as required. This finding relates to Tenant File 38. The Appendix C Detail indicates that the OIG has determined that this supposed inspection issue resulted in an overpayment of \$1,012, but the OIG has not explained how it arrived at this amount.

PHA explained to the OIG and provided backup information to the OIG demonstrating that PHA scheduled the annual inspection for December 27, 2007, but the client requested that it be re-scheduled. As such, PHA acted properly and in compliance with HUD requirements, and there was no overpayment, and this finding should have been closed by the auditors.

(b) Resolution

The finding as to Tenant File 38 should be removed from the final audit.

12. Reasonable rent

(a) Issue

The Draft Audit states that in one file, PHA paid a contract rent that exceeded the reasonable rent. This finding relates to Tenant File 14. The OIG has not specified what portion of the amount contained in Appendix C for this file is attributed to this issue. In Tenant File 14, PHA followed its policy of not decreasing rent for an existing landlord from what was offered initial lease up, unless there is a significant difference. As such, the rent was reasonable, and this finding should have been closed by the auditors.

Moreover, the Appendix C Detail provided by the OIG does not contain a column pertaining to the reasonable rent issue, so PHA can only assume that the OIG's discussion of this issue in the Draft Audit and its inclusion in Appendix C were in error.

(b) Resolution

The finding as to Tenant File 14 should be removed from the audit report.

13. Payment standard

(a) Issue

Comment 19

Comment 20

The Draft Audit states that in one file, PHA paid a rent that exceeded its payment standard. This finding relates to Tenant File 13. The Appendix C Detail indicates that the OIG has determined that this resulted in an overpayment of \$210, but this amount differs from the amount provided during the audit, and the OIG has not explained how it calculated this revised amount.

PHA provided information to the OIG to demonstrate that it used the correct payment standard under PHA's Administrative Plan and Desk Manual when calculating rent at the May 1, 2008 interim recertification, which was the standard from the most recent *regular* recertification. The Administrative Plan states: "During an interim recertification, PHA will apply the utility allowance and the payment standard in effect at the last regular recertification." (Page 63.) This finding should have been closed by the auditors.

(b) Resolution

The finding as to Tenant File 13 should be removed from the final audit.

(c) Resolution

14. Household income overstated

(a) Issue

The Draft Audit states that in one file, PHA overstated household income. This finding relates to Tenant File 8. PHA provided documentation to the OIG to demonstrate that child support income was properly calculated, so this issue should have been closed by the auditors.

(b) Resolution

The finding as to Tenant File 8 should be removed from the final audit.

15. Working family deduction

(a) Issue

The Draft Audit indicates that in one file there was an underpayment for the failure to include the Working Family Deduction. This finding relates to Tenant File 29. PHA agrees that it did not include the Working Family Deduction, and it made an adjustment to reimburse the tenant for the amount the tenant overpaid as a result of this clerical error. But PHA disagrees that there was any underpayment to the landlord for this file. The landlord received the proper amount, so no further action on the part of PHA is required.

(b) Resolution

The finding as to Tenant File 29 should be removed from the final audit.

Comment 21

Finding 1C: HUD's Enterprise Income Verification System Indicated Other Overpayments

1. Findings as to Eight Files Audited by OIG

(a) Issue

The OIG found eight files where EIV indicated that the households had income that they did not report. The OIG calculated what the HAP payments would have been for these households using the income reported in EIV and determined that PHA may have overpaid as much as \$16,094 during the audit period and that these payments were unsupported.

The EIV system was not available to PHA until November 2008 and was not fully implemented until December 2008, which is substantially after the close of the audit period on September 30, 2008. Even after PHA had access to EIV, the system continued to experience reliability issues.

During the audit period, PHA, like other housing authorities, relied upon other methods for determining client income, such as third-party verifications and tenant certifications, which was in compliance with HUD requirements and the PHA HCV Administrative Plan. As PHA did not have access to EIV at the time of the audit, and the payments were supported by the alternative methods for income verification in accordance with HUD requirements, these payments were not unsupported.

(b) Resolution

The discussion regarding the eight files should be removed from the final audit.

2. Further Analysis of 197 Households Not Audited by OIG

The Draft Audit also discusses a further analysis performed by the OIG of all 197 households in the PHA HCV program who reported zero income during the audit period using EIV and other databases. The OIG concludes that PHA needs to continue to complete its analysis of \$151,217 in potential overpayments identified in EIV for these 197 households. PHA was told repeatedly by the OIG that the information provided regarding these 197 households was provided to PHA as a courtesy so that PHA could investigate these files and that this information would not appear as a finding in the audit. PHA is surprised and concerned that it is now being held accountable for an audit finding based on EIV and other information it did not and could not have had during the audit period.

(a) Issue #1

OIG has acknowledged that PHA did not have access to EIV during the audit period and did not have additional access to other databases that the OIG used to collect the information regarding the 197 households. PHA's payments were supported by the alternative methods for income verification in accordance with HUD requirements. Moreover, PHA has already undertaken a review of the matter, and it intends to continue its review in an effort to resolve as many cases as possible. To date, PHA has already moved to terminate some families

Comment 22

Comment 23

Comment 23

from the program, once it verifies the information provided by OIG. In other cases, PHA has determined that the OIG's information regarding income was incorrect.

(b) Resolution

The discussion regarding the OIG's further analysis of 197 files should be removed from the audit report.

(c) Issue #2

The Draft Audit does not give PHA sufficient information to respond to the finding that PHA may have made \$151,217 in potential overpayments. The spreadsheet attached to the report as Appendix C does not address EIV overpayments, and PHA's efforts to obtain information from the OIG as to how the \$151,217 was calculated have been unsuccessful.

It appears that this figure might have been incorrectly calculated. For example, we believe that \$15,504 alleged to have been improperly paid in connection with Tenant File 05 was included in both the \$50,471 in alleged "overpaid" assistance as well as in the \$151,207, which would be double-counting. Also, the OIG has not provided any information to explain the calculations contained in the table on page 9 of the Draft Audit, and PHA has been unable to confirm the information contained in the table.

(d) Resolution

The OIG should provide PHA with additional information and an opportunity to submit a supplemental response.

(e) Issue #3

The OIG did not audit the files for the 197 households reporting zero income. Accordingly, any conclusions regarding these files is not appropriate for inclusion in an audit report.

(f) Resolution

The discussion regarding the OIG's further analysis of 197 files should be removed from the audit report.

Comment 23

Comment 24

Comment 25

Finding 1D: The Authority Needs to Implement Improved Controls

1. There Is No Basis for the Finding that PHA Needs to Implement Improved Controls

(a) Issue

The Draft Audit states that the supposed “weaknesses” regarding overpayments and underpayments and “missing” documentation occurred because PHA did not implement sufficient controls. There is no basis for this general conclusion.

The only categories where the OIG found re-occurring issues were abatements, the one-time rent increase, and zero income.¹ PHA agrees that its prior manual system for abatements was not effective and has already implemented a new, automated system. The one-time rent increase had nothing to do with controls but rather the implementation of a policy. To the extent there were issues with zero income during the audit period, they were not due to the failure to implement sufficient controls but rather due to the limited means at the time to detect income, including an inability to access HUD’s EIV system. PHA now has access to EIV and is using it to assist in reducing zero income issues.

While the implementation of any system can always be improved, even the results of the OIG’s review show that the remaining instances where there were errors are few and very minor, especially given the size and complexity of PHA’s programs. OIG provides no examples of where it believes PHA lacks adequate systems. In fact, the OIG auditor commented several times during the audit process that he was impressed with PHA’s procedures and systems.

(b) Resolution

The finding regarding PHA’s need to implement controls should be removed from the audit report.

2. The Draft Audit Does Not Fully Reflect PHA’s Implementation of New Improved Systems

(a) Issue

The Draft Audit states that PHA informed the OIG that it had implemented a new system for inspections and abatements but that PHA “will need to provide evidence” that it developed implementation plans, operating procedures, etc., and that the systems have been fully implemented. As explained above, PHA has already provided this information to the OIG. PHA received no response to its submissions. Moreover, invited the OIG to personally review the system. The OIG auditors never scheduled a time to do so.

¹ The “erroneous assistance payments” category combines a number of different types of issues.

Comment 26

(b) Resolution

The audit report should be revised to fully reflect PHA's implementation of new improved systems.

Recommendations

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

1A – PHA does not believe that all of the tenant file issues identified by the audit were “errors.” Nevertheless, PHA agrees to correct any remaining issues to the extent possible.

1B – PHA believes that it has already provided support for the allegedly unsupported housing assistance payments identified by the audit. PHA disagrees with any reimbursement.

1C – This Recommendation should be revised to reflect the fact that PHA has already recouped \$28,503 for overpayments of housing assistance. PHA does not believe that any further recoupment is warranted.

1D – PHA has already reimbursed the appropriate tenants for housing assistance underpayments. PHA does not believe that any further reimbursement is warranted.

1E – PHA does not believe that any further improvements to its controls are necessary. PHA has already implemented EIV and a new automated system for tracking and implementing inspections and abatements. The discussion of \$2.4 million should be removed from the audit report.

1F – PHA does not believe that the audit report should contain any discussion of the \$151,217 in purported overpayments. Nevertheless, PHA is continuing its analysis of zero income households and will take the appropriate action against any households who are determined to have failed to disclose income.

CONCLUSION

While PHA is pleased that the OIG was complimentary of the controls it has put in place in its HCV program, the agency strongly disagrees with a number of the OIG's findings. Most troubling is the \$ 2.4 million in “funds to be put to better use,” which is not supported by the facts in this case and should not have been included in the Draft Audit based on the OIG's own procedures manual. This finding, and other unsupported findings noted above, should be removed from the final audit. Nonetheless, PHA will continue to work cooperatively with HUD and the OIG to resolve any outstanding issues identified in this audit.

Comment 1

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Comment 22

Comment 23

Comment 1

Comment 6

OIG Evaluation of Auditee Comments

Comment 1 We do not agree with the Authority's assertion. The auditors maintained an ongoing dialog with the Authority throughout the audit and formally met with the Authority's General Manager of Client Services and numerous members of its outside legal counsel more than 20 times between December 12, 2008, and June 16, 2009, to discuss the status of the audit and questions and issues raised by the auditors. During these discussions, the auditors identified over 150 questions and issues related to the tenant files and provided their questions, issues, and calculations to Authority representatives. The Authority itself acknowledges that there were continued "back and forth" discussions throughout the audit and that it "has spent countless hours discussing each case." During our discussions with Authority representatives, there were general and specific questions and issues with which the auditors and the Authority representatives disagreed including regulatory requirements, calculations, and sufficiency of the explanations and supporting documentation that the Authority provided. The auditors repeatedly explained the type and nature of acceptable documentation that they requested from the Authority to adequately support the Authority's position with regards to the issues and calculations. The auditors reviewed and evaluated the explanations and supporting documentation that the Authority provided and researched pertinent regulations and available guidance for clarification of the issues. In most cases the auditors had to request additional explanation and/or documentation from the Authority in order to understand and evaluate the Authority's position. This process often involved a significant amount of time. In many cases, these professional exchanges helped to clarify and resolve the issues or caused acceptable changes to the issues and related calculations. In some cases, however, while the process aided in clarifying the issues, disagreements remained unresolved. In some cases, the auditors' requests for additional explanation and/or documentation went unanswered leaving the issue neither clarified nor resolved.

We have adjusted the audit report to reflect the finalized amounts related to the specific issues based on additional analysis that we performed after the exit conference. We provided the Authority with our calculations.

As part of the audit process, the Authority will have further opportunity to provide additional supporting documentation to HUD staff who will work with the Authority to resolve the issues with which the Authority does not agree.

The Authority's response included a 27-page exhibit consisting of a June 16, 2009, document from a contractor providing an overview of the Authority's automated annual housing quality standards inspection system, an implementation plan for the system, and training documentation. We considered the exhibit in our evaluation, but did not include it in the final audit report.

Comment 2 We disagree with the Authority's contention. On March 18, 2009, the auditors provided the Authority with a detailed listing, via email, of questions and issues which included unverified income as Issue 1 for tenant 13. The Authority, in its response to this issue, disagreed with the auditors and asserted that there was no overpayment. Also see Comment 1.

On April 29, 2009, prior to the last discussion of audit questions and issues with the Authority, the auditors provided the Authority with a detailed listing, via email, of questions and issues which included unverified income as Issue 1 for tenant 25. The Authority, in its response to this issue disagreed with the auditors and asserted that there was no overpayment. Also see Comment 1.

Comment 3 We have considered the Authority's response and revised the wording of the finding and the amount of payments that we consider unsupported. We changed the amount to reflect HAP for the four and one-half months for which the Authority has not provided a contract. Regulations at 24 CFR 982.311 state that housing assistance payments are paid to owners in accordance with the terms of the HAP contract. Thus, without a contract covering the payment period, the payments are unsupported. Also see Comment 1.

Comment 4 We disagree with the Authority's assertion. The file did not contain, and the Authority has not provided, any documentation to support its determination that the family was eligible for the working family deduction. The pay that the Authority claims was the basis for the deduction was obtained from check stubs that did not contain any information, expressed or implied, as to the number of hours worked, hourly rate, or other information with which to reasonably determine the number of hours worked per week. The Authority's administrative plan requires the Authority to "obtain and document, in the family files, verification of ... factors that affect the determination of adjusted income, rent and eligibility." Furthermore, regulations at 24 CFR 982.158 require the Authority to maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits quick and effective audit. The Authority did not meet these requirements because it did not have adequate documentation to support the working family deduction for tenant 35. Also see Comment 1.

Comment 5 As stated in our report, we acknowledge the Authority's actions to recover or make payments based on issues arising from the audit. However, we do not agree with the amount that the Authority asserts should be reported as verified. A portion of the amount on which the Authority has taken action relates to transactions outside of the audit period. We have not included overpayments or recoveries associated with transactions occurring outside of the audit period in our report. Furthermore, in some cases, the Authority indicated that it had not completed the recoupment transaction and could not provide adequate documentation for verification purposes. In another case, the Authority initially stated that it had recouped overpayments, but later said that it disagreed that

overpayments were made and that it had not taken recovery action. Also see Comment 1.

- Comment 6** We disagree with the Authority's assertion that there is no support for the OIG's conclusion that housing choice voucher funds could be put to better use over the next year. The calculation of funds that could be put to better use is a function of conditions occurring during the audit period and observed during the audit. The audit was conducted in accordance with generally accepted government auditing standards. The calculation of funds to be put to better use is based on the results of our audit of a random sample of tenant files that statistically represents the population from which it was drawn. The process is contained in the Scope and Methodology section of the audit report. We were conservative in our methodology for calculating the estimate. Since we have adjusted the audit report to reflect the finalized amounts related to the specific issues based on additional analysis that we performed after the exit conference, we also adjusted the calculation of funds that could be put to better use.
- Comment 7** The Authority's statement that income verification problems were included in the calculation of funds to be put to better use is inaccurate. We did not include any amounts resulting solely from our comparison of tenant income documented in the tenant file to data in the EIV system. There were, however, two instances in which the Authority failed to have the family members recertify their zero income status every 90 days, and our comparison of tenant income to the EIV system data also disclosed problems. In these instances we used the EIV information to conservatively estimate the impact of the Authority's failure to enforce its requirement to have the family members recertify.
- Comment 8** We do not agree with the Authority's assertion that, because of its implementation of the HUD EIV system and the Elite system (for housing quality standards inspection scheduling, reporting, and enforcement), there is no basis for our concern that these would be issues moving forward or for our extrapolation of the error rates during the audit period now that the new systems have been put into use. The Authority, in its response, states: "The EIV system... was not fully implemented until December 2008, which is substantially after the close of the audit period on September 30, 2008." Moreover, we did not include income verification problems related to EIV in our calculation of funds to be put to better use. Regarding housing quality standards inspection scheduling, reporting, and enforcement, the executive director stated at the exit conference that the Authority implemented a new system of controls during the audit. However, the documentation that the Authority provided regarding the system does not show that abatement of housing assistance payments was included in the implementation plan for the new system. The abatement of housing assistance payments was only identified in the contractor's June 2009 document (see Comment 1) which was after the audit identified problems with the Authority's abatement of housing assistance payments. We did not audit the systems that the Authority implemented subsequent to the audit period. Thus, we did not render

an opinion on them. However, we changed the report to reflect that the Authority implemented its inspection system and the EIV system after the audit period. We commend the Authority for recognizing the need for and taking action to improve its internal controls in those two important areas.

Comment 9 We do not agree with the Authority’s assertion that the rent increase in question was in accordance with provisions of its Moving to Work Agreement. The Authority cites Amendment #1 to its Moving to Work Agreement as the basis for its assertion. However, the portion of the agreement that the Authority cites goes on to say in the next sentence that, “PHA will use procedural requirements consistent with those described in Article I., Section I, of this agreement in adopting and implementing the Local Rent Subsidy Program.” Article I., Section I, of the agreement sets forth actions that the Authority must take in adopting and implementing policies for setting rents for tenant-based assistance. Included is a requirement for the Authority’s board to approve the policy and any material changes. However, the Authority provided no documentation to demonstrate that this occurred; no documentation regarding the implementation of the rent freeze; no documentation regarding its decision to end the rent freeze; and no documentation regarding its implementation of the rent increase other than a single paragraph on an undated, unsigned, memorandum to the file from the Authority’s General Manager of Client Services. Further, we did not find any reference to a 2 percent rent increase for owners who had units under lease during calendar years 2005, 2006, and 2007, in the Authority’s annual Moving to Work plans or reports to demonstrate that the Authority complied with the requirements of the Moving to Work Agreement.

Additionally, the Authority increased the rent without a request from the owners, as required by its administrative plan. HUD regulations at 24 CFR 982.54(c) and 24 CFR 982.153 require the Authority to comply with and administer the program in accordance with its administrative plan.

Comment 10 We have adjusted the audit report to reflect the finalized amount related to the specific issue raised, based on additional analysis that we performed after the exit conference. We have provided the Authority with our calculations. Also see Comment 1.

Comment 11 We disagree with the Authority’s assertion. During the audit, the Authority stated that it made the payments because it had not given the tenant 30-day notice of the increase to the tenant portion of the rent. According to HUD’s Housing Choice Voucher Guidebook 7420.10G, in cases where error or omission is the fault of the authority, the family and owner are not responsible for repayment. It also states that HUD expects authorities to repay HUD the amount of overpaid subsidy due to its error. Since the Authority failed to comply with its own procedures it should reimburse its program \$526 from nonfederal funds for the overpayment of housing assistance. Also see Comment 1.

Comment 12 We disagree with the Authority's assertion. The child support amount and source of income that the applicant included on the application form were not cross-out and therefore should have been included in family income. Further, other documentation in the file indicated that the child support income started in 2002 and continued through 2007. We have adjusted the audit report to reflect the finalized amount related to the specific issue raised based on additional analysis which we performed after the exit conference. Also see Comment 1.

Comment 13 We disagree with the Authority's assertion. We have not received documentation showing that the tenant was in a Welfare to Work Program.

The Authority's reliance on the self-certification did not comply with the requirements of its administrative plan which requires two failed attempts to retrieve third party verification before using self-certification and that the Authority document the two attempts in the file. Additionally, the Authority's administrative plan states that if third party verification does not significantly differ from tenant provided documents, it will use the higher of the two income figures. Also see Comment 1.

Comment 14 The Authority failed to adequately verify the student status of an adult family member. As a result, the Authority did not include an appropriate portion of the adult family member's income in its calculations. We used the EIV information to conservatively estimate the income that the Authority failed to include as a result of the individual's status. Also see Comment 1.

Comment 15 We do not agree with the Authority's assertion. In response to our questions and comments regarding this issue, the Authority agreed with our finding and also agreed that it resulted in a \$10 per month overpayment for utilities. Furthermore, after we brought this issue to the Authority's attention, it conducted an interim recertification in March 2009 and cited its use of the wrong utility allowance schedule as the reason for conducting the interim recertification. Also see Comment 1.

Comment 16 We disagree with the Authority's assertion. Based on additional analysis that we performed after the exit conference, we adjusted the amount of overpaid housing assistance in the audit report resulting from the Authority's use of incorrect utility allowances. Also see Comments 1 and 5.

Comment 17 HUD regulations at 24 CFR 982.54(c) and 24 CFR 982.153 require the Authority to comply with and administer the program in accordance with its administrative plan. The Authority failed to enforce its requirement that family members claiming zero income recertify that status every 90 days. We used the EIV information to conservatively estimate the impact of the Authority's failure to enforce the requirement. Contrary to the Authority's assertion, we did not include these amounts in the section of the finding where we discussed other overpayments that were indicated by EIV. Also see Comment 7.

- Comment 18** We disagree with the Authority's assertion. As stated in the audit report, the Authority did not inspect the unit for more than 16 months, and it failed the next inspection in April 2008. Based on additional analysis that we performed after the exit conference, we adjusted the amount in the audit report. Also see Comment 1.
- Comment 19** We removed the text from the audit report.
- Comment 20** We disagree with the Authority's assertion. The payment standard in effect at the last regular recertification was \$1,116 and not \$1,158 which the Authority used in its May 1, 2008, interim recertification. Also see Comment 1.
- Comment 21** We disagree with the Authority's assertion. The Authority included in the family income calculation \$284 per month based a court document showing \$284 as the obligation of the payor. However, a verification of public assistance income form completed by the Department of Public Welfare for the same time period showed the tenant was being paid \$37 per month in child support. Also see Comment 1.
- Comment 22** We disagree with the Authority's contention that the discussion regarding the eight files should be removed from the final audit report. The results for these eight files are based on our results of a random sample of files which is statistically representative of the population from which it was drawn. Our purpose in reporting this issue was to bring to the Authority's attention reportable conditions observed during the audit. As stated in the audit report, the Authority took action on seven of the eight files during the audit.
- Comment 23** Our purpose in reporting this issue is to bring to the Authority's attention reportable conditions observed during the audit. While we acknowledge that the EIV system was not fully available to the Authority during the audit period, that fact does not relieve the Authority of its obligation to take appropriate remedial action when it is advised of reportable conditions. Based on additional analysis that we performed after the exit conference, we adjusted the amount and provided the Authority our calculation. As part of the normal audit process, the Authority will have the opportunity to provide the complete results of its analysis to HUD to close-out the recommendation. Contrary to the Authority's assertion, we did not double-count the questioned costs for tenant file 5.
- Comment 24** The audit was conducted in accordance with generally accepted government auditing standards. The auditors exercised professional judgment in the planning and conduct of the audit and in the application of appropriate tests and analyses to satisfy the objectives of the audit. We conducted a cursory review of families that reported zero-income and found a significant number of families with potential assistance overpayments due to unreported income. We provided the Authority with the results of our limited testing for further evaluation. Our purpose in reporting these conditions is to meet our obligation to report conditions observed

during the audit that, in this case, may be the result of fraud or abuse. Our findings are fully supported and our recommendation is appropriate.

Comment 25 We disagree with the Authority's assertion. Policies and procedures are significant control activities within the overall system of internal controls. However, even though an organization's policies and procedures may be adequate, a lack of compliance with them by the organization's operating activities can result in a material control weakness. We found recurring deficiencies with the Authority's assistance payment calculations that resulted in housing assistance overpayments and underpayments. Based on the reportable conditions that we observed, we concluded that the Authority needed to implement improved controls. The Authority acknowledged that it needed to improve its procedures and controls.

Comment 26 The Authority provided its implementation plan and other related documentation for its new automated scheduling, inspection reporting, and enforcement system. However, the documentation did not include standard operating procedures and actual completion dates for the milestones in the implementation plan to demonstrate that the system had been put into use. The documentation indicated that the system would not be fully implemented until March 2009. Since the system was not operational during the audit period we did not audit it and therefore did not evaluate its effectiveness. Also see Comment 8.

Appendix C

RESULTS OF TENANT FILE REVIEWS

Tenant file	Housing assistance was not abated	Erroneous payments	Unauthorized rent increase	Unreported income	Income not included	Incorrect utility allowance used	Zero income not recertified	Household overhoused	Annual inspection not conducted	Housing assistance exceeded payment standard	Incorrect household size for total tenant payment	Household income overstated	Working family income deduction not allowed	Lack of documentation to support payments	Unsupported housing assistance*	Underpaid housing assistance	Overpaid housing assistance*
03		X															\$5,868
05				X			X										\$15,504
06	X																\$7,644
07	X																\$2,227
08		X										X				\$1,195	
09			X	X											\$3,220		\$64
10			X														\$50
11			X														\$54
12	X	X															\$434
13					XX					X				X	\$1,232		\$1,011
14	X																\$393
15	X			X													\$3,094
17		XX	X	X										X	\$3,226	\$17	\$56
18				XX											\$7,981		
19			X														\$54
20	X	X															\$525
22			X			X											\$393
24	XX																\$321
25	X				XX									X	\$1,212		\$898
26	X	X	X														\$833
27			X														\$198
28	X	X						X									\$1,138
29	X												X			\$164	\$441
30				X			XX										\$1,809
31	X				X												\$438
32		X	X														\$554
35			X											X	\$48		\$44
36											X					\$120	
37		X															\$615
38	X	XX	X	X		X			X						\$870		\$4,419
40		X		XX											\$1,824		\$1,023
Totals	13	11	11	8	3	2	2	1	1	1	1	1	1	4	\$19,613	\$1,496	\$50,102

NOTE: An "X" identifies a deficiency in the file. More than one "X" represents multiple occurrences of the deficiency.

* To avoid double counting, we did not report questioned costs both as overpayments and unsupported costs.