



Issue Date	November 24, 2009
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Audit Report Number	2010-CH-1003
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TO: Tom Lacey, Acting Director of Public Housing Hub, 5FPH

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

SUBJECT: The Grand Rapids Housing Commission, Grand Rapids, Michigan, Needs to Improve Its Administration of Its Section 8 Project-Based Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Grand Rapids Housing Commission's (Commission) Section 8 Project-Based Voucher program (program). The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the Commission's program based upon our internal audit survey of the U.S. Department of Housing and Urban Development's (HUD) oversight of the program and our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Commission effectively administered its program in accordance with HUD's and its own requirements.

What We Found

The Commission's administration of its program was inadequate. It lacked documentation to support its selection and approval of program projects and provided housing assistance for units without appropriate housing assistance payments contracts. As a result, it could not support that its eight projects were eligible for more than \$2.8 million in program assistance, overpaid more than \$84,000 in program funds, and lacked support that more than \$210,000 in program administrative fees received were appropriate. We estimate that over the

next 12 months, the Commission will receive nearly \$130,000 in improper administrative fees.

The Commission provided housing assistance for improper households. It failed to ensure that six of its program participants met program eligibility requirements. As a result, it overpaid nearly \$30,000 in program funds and received more than \$3,000 in administrative fees contrary to HUD's and its requirements.

The Commission made improper adjustments to housing assistance payments for 78 households. Of those adjustments, duplicate adjustments were made for 61 households, adjustments were incorrectly calculated for 19 households, and two of the households' adjustments lacked supporting documents. As a result, the Commission overpaid nearly \$10,000 and underpaid more than \$10,000 in housing assistance.

The Commission provided improper housing assistance for vacant units. It failed to follow its administrative plan in providing vacancy payments for 24 households, resulting in more than \$5,500 in overpayments and more than \$1,300 in underpayments.

We informed the Commission's executive director and the Acting Director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum, dated November 19, 2009.

What We Recommend

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Commission to reimburse its program from nonfederal funds for the improper use of more than \$102,000 in program funds, provide documentation or reimburse its program more than \$3 million from nonfederal funds for the unsupported payments cited in this audit report, and implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$140,000 in program funds and administrative fees from being used improperly 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 provided our review results and supporting schedules to the Acting Director of HUD's Detroit Office of Public Housing and the Commission's executive

director during the audit. We provided our discussion draft audit report to the Commission's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on November 6, 2009.

We asked the executive director to provide comments on our discussion draft audit report by November 18, 2009. The executive director provided written comments, dated November 16, 2009. The executive director generally disagreed with our findings but agreed with our recommendations. The complete text of the written comments, except for redacted program household names that the executive director included in his comments, and six pages of documentation that were not necessary to understand the executive director's comments, along with our evaluation of that response, can be found in appendix B of this audit report.

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BACKGROUND AND OBJECTIVE

The Grand Rapids Housing Commission (Commission) was established by the Grand Rapids City Commission in 1966, in accordance with the State of Michigan's Housing Facilities Act 18 of 1933, to provide affordable housing for low-income residents and to eliminate substandard housing conditions. Funded primarily through the U.S. Department of Housing and Urban Development (HUD), the Commission is administered independently of the City of Grand Rapids and is governed by a five-member board appointed by the city manager and approved by the Grand Rapids City Commission.

The Commission's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Commission's day-to-day operations.

Congress passed an act on December 14, 1993, permitting the conversion of one Commission-owned property from a HUD Section 23 leased housing project of 125 units to a Section 8 project-based voucher project.

In September 2002, the Commission's board approved an initial limit of 200 program units that provided rental assistance for eligible families who live in specific developments or units. On December 1, 2002, the Commission executed its first Project-Based Voucher program (program) housing assistance payments contract. The Commission may use up to 20 percent of its Section 8 Housing Choice Voucher program funding for its program. It is permitted to provide program funds to newly constructed, existing, or rehabilitated units. Families must live in the unit for a minimum of one year. After the initial year, the family may join the Section 8 Housing Choice Voucher program, provided there is a voucher available. During August 2004, the Commission's board increased the initial limit of 200 to 300 units for the program in seven projects. From January 2007 through December 2008, the Commission made housing assistance and utility allowance payments totaling more than \$2 million to program projects.

Our objective was to determine whether the Commission effectively administered its program in accordance with HUD's and its own requirements to include determining whether the Commission (1) appropriately administered its program; (2) accepted only qualified applicants; (3) made appropriate adjustments to payments; and (4) followed its administrative plan in providing assistance for vacant units.

RESULTS OF AUDIT

Finding 1: The Commission Needs to Improve the Administration of Its Program

The Commission administered its program contrary to HUD's requirements. The problems occurred because the Commission lacked an understanding of the applicable program requirements. As a result, it was unable to support more than \$3 million in housing assistance payments and associated administrative fees and overpaid more than \$84,000 in housing assistance payments. We estimate that over the next year, the Commission will receive nearly \$130,000 in administrative fees for the improper administration of its program.

The Commission Lacked Documentation to Support Project Eligibility

We reviewed 100 percent of the project files for the Commission's eight project-based properties. The files were reviewed to determine whether the Commission appropriately selected the projects, obtained HUD approval, and administered its program in accordance with HUD's regulations. Our review was limited to the information maintained by the Commission in its project files. The Commission failed to ensure that

- 425 units in eight projects had a proper rent reasonableness determination,
- 263 units in five projects had a subsidy layering review,
- 239 units in two projects had appropriate annual housing quality standards inspections,
- 218 units in four projects had initial housing quality standards inspections conducted before the execution of the housing assistance payments contract,
- 200 units in five projects executed the correct housing assistance payments contract form,
- 147 units in two projects had housing assistance payments provided for the units included on the housing assistance payments contract,
- 100 units in two projects had appropriate agreements to enter into a housing assistance payments contract,
- 72 units in two projects were located in non-qualified census tracts, and
- 45 units in one of the Commission-owned projects were approved by HUD.

Approximately seven months after its selection and four months after its execution of the housing assistance payments contract in March 2005, the Commission requested HUD to approve the selection of 45 units owned by it. However, HUD failed to provide a decision regarding the Commission's request. The Commission

executed a housing assistance payments contract in November 2004 for the 45 units to be effective on January 1, 2006. As of October 9, 2009, the Commission requested a waiver from HUD for executing a housing assistance payments contract for the 45 units owned by the Commission without the required HUD approval.

The Commission Did Not Make Payments In Accordance With Its Contract

The Commission provided program housing assistance payments without executing a contract for 50 households in one project owned by the Commission. According to HUD's regulations at 24 CFR 983.202(b)(2), the housing assistance is paid for contract units leased and occupied by eligible families during the housing assistance payments contract term. However, housing assistance of \$77,246 was provided from July through December 2005 before the housing assistance payments contract was executed.

In addition, the Commission provided program housing assistance contrary to the contract term for 22 households in one project owned by the Commission. Although the contract was effective on January 1, 2006, payments of \$7,449 were made in November and December 2005.

Further, for both of these newly constructed projects, the Commission did not execute agreements to enter into housing assistance payments contracts contrary to HUD's requirements.

The Commission Lacked an Adequate Understanding of HUD's Requirements

The Commission lacked an adequate understanding of HUD's program requirements for selecting, approving, and administering its projects. Specifically, the Commission's director of program management did not have a clear understanding of the regulations for determining rent reasonableness. Contrary to the program's requirements at 24 CFR Part 983, the Commission referenced HUD's regulations for multifamily projects when determining the rent reasonableness for its program units. In addition, it did not seek and obtain subsidy-layering reviews of its projects because it thought the review was not required. Further, it failed to execute an agreement to enter into a housing assistance payments contract and execute the correct type of housing assistance payments contract for three projects because it could not locate the form, although the forms were available from HUD.

The Commission did not conduct a separate initial housing quality standards inspection for 214 units in three projects. Instead the Commission relied on the certificate of occupancies issued by the city and inspections conducted by the Michigan State Housing Development Authority in regards to the low-income housing tax credit program as proof that the units were inspected and suitable for occupancy. In addition, the Commission failed to conduct the initial housing quality standards inspections prior to the execution of the housing assistance payments contract for four units in one project as required by HUD.

The Commission lacked adequate procedures and controls over its housing assistance payments to ensure payments were provided in accordance with the housing assistance payments contract term.

Conclusion

Because the Commission lacked an adequate understanding of HUD's requirements for the program, it disbursed \$2,835,905 in housing assistance payments for program units without the required supporting documentation and made improper payments of program funds totaling \$84,695 (\$77,246 plus \$7,449).

In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$210,229 in administrative fees from January 1, 2007, through December 31, 2008, while improperly administering its program. In addition, we estimate that nearly \$130,000 in Section 8 administrative fees could be improperly received by the Commission over the next 12 months for these project-based units. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Commission to

- 1A. Provide supporting documentation or reimburse its program \$3,046,134 (\$2,835,905 in housing assistance payments plus \$210,229 in administrative fees) from nonfederal funds for the improper housing assistance payments and associated administrative fees cited in this finding.

- 1B. Reimburse its program \$84,695 from nonfederal funds for the improper housing assistance payments relating to the two projects cited in this finding.
- 1C. Implement adequate procedures and controls to ensure compliance with all HUD requirements for the operation of its program to prevent administrative fees totaling \$128,459 from being improperly received over the next 12 months.

Finding 2: The Commission Provided Housing Assistance to Improper Households

The Commission did not comply with HUD's requirements and its program administration plan regarding household eligibility. It provided housing assistance to households that did not qualify for assistance under its program requirements. This condition occurred because the Commission failed to ensure households met program eligibility in accordance with HUD's and its program administrative plan. As a result, it was unable to support nearly \$30,000 in housing assistance and utility allowance payments.

Housing Assistance Was Not Provided to Elderly or Disabled Households

We reviewed initial family reports for all 324 of the households receiving program assistance as of March 19, 2009. The initial family reports were reviewed to verify whether the Commission properly determined program eligibility. Our review was limited to the information provided by the Commission and HUD's Public and Indian Housing Information Center system.

According to the Commission's director of housing management and the program application, a household member must be age 55 or older and disabled or age 62 or older for the household to receive program rental subsidy at the time of admission. In addition, the household members must be eligible immigrants or citizens of the United States. However, the Commission provided housing assistance to six households that did not meet its program eligibility requirements as follows:

- For four households with members between the ages of 55 and 62, there was no evidence that the disability requirement was met,
- One household with members between the ages of 55 and 62 did not meet the disability requirement, and
- One household had no evidence to support the citizenship eligibility requirement was met.

Housing assistance was provided to inappropriate households in three of the Commission-owned projects.

In response to our draft finding outline, the Commission provided documentation for five of the six households. For one household where the Commission provided new or original documentation to support the household's disability status at the time of admission, it failed to appropriately identify the household as disabled on the family report and calculate a disability allowance during the

period January 1, 2007, through December 31, 2008. This resulted in underpayments of \$100 in housing assistance.

The Commission Failed to Ensure That Households Met Program Eligibility Requirements

The Commission lacked controls over its program eligibility determination. Based on the documentation available in HUD's system as submitted by the Commission or the documents provided by the Commission, the disability status was not identified on the initial family report.

In February 2009, the Commission's main office staff's review of project-based household files at the Commission-owned properties found a high error rate compared to the error rate in household files at other properties. Of the 19 program file reviews completed for households living in units not owned by the Commission, three files (15 percent) contained errors. However, of the 18 program file reviews completed for households living in units owned by the Commission, 14 files (77 percent) contained errors.

In addition, according to one of the Commission's Section 8 managers, the Section 8 managers used to perform household file reviews, but since one manager was laid off during the previous year, the housing coordinators had been performing the reviews.

Conclusion

The Commission disbursed \$3,573 in housing assistance and utility allowance payments without the required documentation to support the program household eligibility.

The housing assistance payments contract provisions or HUD's regulations did not prohibit an amendment of the contract to remove units or change how many units were designated as elderly/disabled.

In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the applicable housing agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$371 in program administrative fees during our audit period of January 1, 2007, through December 31, 2008, while providing housing assistance to improper households.

Recommendations

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Commission to

- 2A. Provide support or reimburse its program \$3,944 (\$3,573 in housing assistance payments and utility allowances plus \$371 in associated administrative fees) from nonfederal funds for the unsupported payments and associated administrative fees cited in this finding.
- 2B. Reimburse the appropriate household \$100 in program funds for the underpayment of housing assistance and utility allowances cited in this finding.

Finding 3: The Commission Made Improper Adjustments to Housing Assistance Payments

The Commission did not follow HUD's requirements and its program administrative plan when it made improper housing assistance payment adjustments for 78 (30 percent) of the 261 households during the period January 2007 through December 2008. This condition occurred because the Commission lacked controls over its housing assistance payments process to prevent duplicate and incorrect adjustments. As a result, the Commission overpaid nearly \$10,000 and underpaid more than \$10,000 in housing assistance and utility allowances.

Duplicate and Incorrect Adjustments Were Made to Housing Assistance Payments

We reviewed 100 percent of the financial adjustments made during the period January 1, 2007, through December 31, 2008. The adjustments were reviewed to determine whether accurate rent adjustments were provided in accordance with HUD's requirements and the Commission's program administrative plan. Our review was limited to the information provided by the Commission.

Of the improper adjustments made for the 78 households during the period January 1, 2007, through December 31, 2008, the Commission

- Made duplicate adjustments to housing assistance payments for 61 (78 percent) households, which resulted in \$7,856 in housing assistance being overpaid and \$4,528 being underpaid.
- Made incorrect housing assistance payment adjustments for 19 (24 percent) additional households relating to the households' move-in, move-out, or interim reexaminations, resulting in overpayments of \$1,932 and underpayments of \$6,366 in housing assistance.
- Failed to provide supporting documents for two households in which a positive adjustment of \$475 and a negative adjustment of \$308 in housing assistance payments were made.

In response to our draft finding outline, the Commission provided documentation for two households in which it agreed that the positive adjustment of \$475 was improperly made. Also, based on the documents provided by the Commission, the negative adjustment of \$308 should have been a negative adjustment of \$607. These improper payments are included in recommendation 3B of this audit report.

The Commission Lacked Adequate Controls over Its Housing Assistance Payments

The Commission lacked adequate controls over its housing assistance payments process to prevent duplicate and incorrect adjustments. The duplicate adjustments were made as a result of staff generating manual adjustments in addition to automated entries. The incorrect adjustments occurred because the staff did not prorate the housing assistance payments in accordance with the households' move-in/move-out or an interim reexamination and improperly calculated the adjustments.

According to the Commission's finance manager, although the Commission's computer system had the capability to automatically adjust housing assistance and utility allowance payments based on move-in, move-out, and changes in subsidy, the Commission decided to make all adjustments manually. However, duplicate adjustments were made if the housing coordinator processing the family report did not instruct the system to not make an adjustment. Specifically, the previous housing assistant at one of the Commission-owned projects said she understood that she was to record all adjustments on the spreadsheet used to make manual adjustments regardless of whether the computer made the adjustment.

Because of our audit, the Commission implemented controls in January 2009 to ensure the accuracy of housing assistance payments when adjustments are made. According to its Section 8 manager, the procedures for reviewing housing assistance payment adjustments were changed to ensure that manual adjustments made to the housing assistance payments register were consistent with the applicable income examination. In addition, according to the director of program management, the staff received training to ensure that the correct procedures would be followed when processing adjustments.

Conclusion

As a result of the Commission's failure to maintain adequate controls to prevent improper housing assistance payment adjustments, it overpaid \$9,788 (\$7,856 plus \$1,932) and underpaid \$10,894 (\$4,528 plus \$6,366) in housing assistance for adjustments that were duplicated and incorrectly determined during the period January 1, 2007, through December 31, 2008.

In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the applicable housing agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$1,624 in program administrative fees for making

duplicate, improper, and incorrect housing assistance payment adjustments for the 78 households.

Recommendations

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Commission to

- 3A. Reimburse its program \$9,788 from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 3B. Reimburse the appropriate households \$10,894 for the underpayment of housing assistance and utility allowances.
- 3C. Reimburse its program \$1,624 from nonfederal funds for the inappropriate administrative fees related to the 78 households cited in this finding.
- 3D. Implement adequate procedures and controls to ensure compliance with HUD's and its requirements for housing assistance payments.

Finding 4: The Commission Provided Improper Housing Assistance for Vacant Units

The Commission did not follow its program administrative plan when it made improper housing assistance payments for 24 of the 101 units vacant during the period January 1, 2007, through December 31, 2008. This condition occurred because the Commission failed to provide vacancy payments in accordance with its program administrative plan. As a result, it overpaid nearly \$6,000 and underpaid more than \$1,300 in housing assistance and utility allowances.

Improper Housing Assistance Was Provided for 24 Vacant Units

We reviewed 100 percent of the payments provided for households that vacated a unit and left the program during the period January 1, 2007, through December 31, 2008. The payments were reviewed to determine whether accurate vacancy payments were provided in accordance with HUD's regulations and the Commission's program administrative plan. Our review was limited to the information provided by the Commission and HUD's Public and Indian Housing Information Center system.

Although a vacancy claim was not filed by the owners, the Commission provided housing assistance payments for vacant units for at least one month after 17 of the 101 households moved out of the units, which resulted in the overpayment of housing assistance of \$5,646 for the period January 1, 2007, through December 31, 2008.

The Commission failed to accurately prorate the housing assistance payments for eight additional households when a proper vacancy notice was not provided. Contrary to its administrative plan, the Commission prorated the housing assistance payments for the month in which eight of the 101 households moved out, resulting in \$1,313 in underpayment of housing assistance during the period January 1, 2007, through December 31, 2008.

The Commission Did Not Follow Its Administrative Plan

Improper housing assistance payments were provided for vacant units because the Commission failed to provide vacancy payments in accordance with its Section 8 administrative plan. The Commission agreed a vacancy claim was not filed for the households cited in this finding and the payment for an additional month should not have been provided.

According to the Commission's director of program management, the Commission did not prorate the housing assistance payments for the month in which the household moved out of the unit. However, according to the Commission's administrative plan, in a move, assistance stops at the old unit at the end of the month in which the tenant ceased to occupy, unless proper notice was given to end a lease midmonth. When we inquired about the requirement in its administrative plan, the director stated it was the normal procedure to prorate rental amounts at move-out (for its public housing program). Staff used the same practice with the program housing assistance payments. The director further stated that the staff will be instructed to not prorate the rental amounts at move-out. In addition, the director said that as a result of our audit, the Commission planned to revise its program administrative plan to reflect the revised procedures.

Conclusion

As a result of the Commission's failure to provide vacancy payments in accordance with its administrative plan, it overpaid \$5,646 and underpaid \$1,313 in housing assistance for vacant units during the period January 1, 2007, through December 31, 2008.

In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the applicable housing agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$526 in program administrative fees for making 24 improper housing assistance payments for vacant units.

Recommendations

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Commission to

- 4A. Reimburse its program \$5,646 from nonfederal funds for the overpayment of housing assistance and utility allowance cited in this finding.
- 4B. Reimburse the appropriate households \$1,313 for the underpayment of housing assistance and utility allowances cited in this finding.
- 4C. Reimburse its program \$526 from nonfederal funds for the improper administrative fees related to the 24 housing assistance payments cited in this finding.
- 4D. Revise its program administrative plan to address how payments for vacant units will be provided.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; the Commission's program administrative plans effective March 2006 and December 2007; HUD's program requirements at 24 CFR Parts 5, 982, and 983; *Federal Register* Notice, Volume 66, Number 10, dated January 16, 2001; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Agency's accounting records, annual audited financial statements for 2006 and 2007, program household files, computerized databases, policies and procedures, organizational chart, and program annual contributions contract.
- HUD's files for the Agency.

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

Finding 1

Between January 1, 2007, and December 31, 2008, the Commission received an average administrative fee of \$21.06 per unit for units owned by the Commission and \$41.46 per unit each month for its program units while administering an average of 531 households for the same period. The eight projects had a total of 425 project-based units; 339 of which were owned by the Commission. We estimate over the next 12 months the Commission will receive \$128,459 (\$21.06 per unit times 339 Commission-owned units times 12 months and \$41.46 per unit times 86 units times 12 months) in administrative fees. This estimate is solely to demonstrate the annual amount of program funds that could be put to better use if the Commission implements our recommendation.

The housing assistance payments and administrative fees questioned in finding 1 are exclusive of the housing assistance payments and administrative fees questioned in findings 2, 3, and 4.

We performed our on-site audit work between February and July 2009 at the Commission's central office located at 1420 Fuller Avenue Southeast, Grand Rapids, Michigan. The audit covered the period January 1, 2007, through December 31, 2008, but was expanded when necessary to include other periods.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives 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 a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The Commission lacked adequate procedures and controls to ensure compliance with federal requirements and/or its program administrative plan regarding project selection, approval, and administration; household eligibility; financial adjustments; and vacancy payments (see findings 1, 2, 3, and 4).

Separate Communication of Minor Deficiencies

We informed the Commission's executive director and the Acting Director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum, dated November 19, 2009.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$3,046,134	
1B	\$84,695		
1C			\$128,459
2A		<u>3,944</u>	
2B			100
3A	9,788		
3B			10,894
3C	1,624		
4A	5,646		
4B			<u>1,313</u>
4C	<u>526</u>		
Totals	<u>\$102,279</u>	<u>\$3,050,078</u>	<u>\$140,766</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowed by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. 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 these instances, if the Commission implements our recommendation 1C, it will cease to incur program costs for the overpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and the Commission's program administrative plan. Once the Commission 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



GRAND RAPIDS HOUSING COMMISSION

November 16, 2009

Mr. Heath Wolfe
Regional Inspector General for Audit, Region V
HUD Office of Inspector General

Mr. Ronald Farrell
Assistant Regional Inspector General for Audit, Region V
HUD Office of Inspector General

Mr. Zakia J. Hanef
Senior Auditor, Region V
HUD Office of Inspector General - Office of Audit

RE: GRAND RAPIDS HOUSING COMMISSION RESPONSE TO HUD'S OFFICE OF INSPECTOR GENERAL DISCUSSION DRAFT AUDIT REPORT OF THE GRAND RAPIDS HOUSING COMMISSION'S SECTION 8 PROJECT BASE VOUCHER PROGRAM

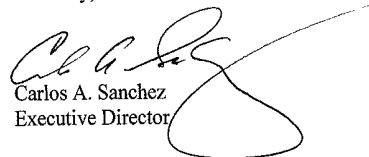
Dear Auditors:

Please find the attached documents for the Grand Rapids Housing Commission's initial written comments of the HUD/OIG Discussion Draft Audit Report.

We want to express our appreciation to you and your staff's time and patience during the audit process and we look forward to concluding the audit process.

If you have any further questions or concerns, please feel free to contact me.

Sincerely,


Carlos A. Sanchez
Executive Director

CAS/bc

Attachment

**GRAND RAPIDS HOUSING COMMISSION RESPONSES
TO HUD OIG DRAFT AUDIT REPORT**

Finding #1 The Commission needs to improve the administration of its program.

Comment 1

The HUD OIG Draft Report finds that the Grand Rapids Housing Commission made unsupported housing assistance payments for all Grand Rapids Housing Commission project based developments (425 units) and that the program was administered contrary to HUD's requirements.

The Grand Rapids Housing Commission disagrees that the project based program was administered contrary to HUD's requirements which would result in the OIG recommendation that 100% of the Housing Assistance Payment and Administrative Fee for all developments for the period reviewed by the OIG of 1/1/07 – 12/31/08 be reimbursed. The Grand Rapids Housing Commission disputes the finding and believes the Grand Rapids Housing Commission substantially complied with the HUD requirements. The OIG report overstates the remedies for deficiency cited by the report considering there was only one tenant cited by the OIG report that was ineligible for a two month period out of the 425 tenants receiving housing assistance during the period being reviewed. Although the Grand Rapids Housing Commission disputes the finding, it will work closely with the local HUD office to provide the necessary supporting documentation to address the finding cited in this audit report.

Leonard Terrace Project Base (125 Units)

Comment 2

The Grand Rapids Housing Commission created the Leonard Terrace Housing Corporation in 1991 for the purpose of owning and operating the 125 unit apartment known as Leonard Terrace. Congress passed Public Law 103-195 providing the conversion of the Housing Commission owned property from a HUD Section 23 leased housing project to a Section 8 project based voucher project. The Detroit local HUD office was provided instruction for the conversion by the Office of Assistant Secretary for Public and Indian Housing on June 22, 1994. The initial HAP Contract and ACC were prepared by the local HUD office which included the approval of the initial rents per Section 882.714(b)(2)(i). The Grand Rapids Housing Commission received an approval letter from HUD dated July 22, 1994. HUD's regulation 24 CFR 983 effective 1995 were not applicable to the

Ref to OIG Evaluation

Auditee Comments

conversion of Leonard Terrace to project based since this was approved prior to this date.

The Grand Rapids Housing Commission has obtained HUD approval and is administering Leonard Terrace in accordance with the HUD regulation. Local HUD office approved the initial rents and determined the rents to be reasonable, the subsidy layering review was not applicable, the existing facility was inspected by the City of Grand Rapids with Certificate of Compliance exceeding HQS standard, the Housing Assistance Payment Contract was prepared and approved by HUD for the Housing Commission owned project.

During the period of the OIG review of 1/1/07 – 12/31/08, appropriate annual HQS inspections were conducted on 9/17/2007 and 9/12/2008 and the City of Grand Rapids Certificate of Compliance inspection (exceeding HQS) were issued 1/17/2007 and 9/9/2009. On April 22, 2005, the Grand Rapids Housing Commission submitted to Robert Nelson, Director of Public Housing in Detroit for approval of a rental increase as required by 24 CFR 983.59. The proposed rents were within the FMR and supported by a market study submitted to HUD. The Grand Rapids Housing Commission followed up with a letter dated July 1, 2005 regarding the April 22, 2005 request and informed HUD that the Grand Rapids Housing Commission would assume the rent increase are HUD approved and the Grand Rapids Housing Commission would implement the change effective September 1, 2005 if HUD did not respond within 10 days of our second request. As a result, the Grand Rapids Housing Commission proceeded with the HUD approved rental increase for the Leonard Terrace development.

In May 2007, the Grand Rapids Housing Commission obtained a Rent Comparable Study for various PHA owned project lease developments including Leonard Terrace from an independent entity, Allen & Associates. The rent comparability study did not support a rental increase for Leonard Terrace and therefore the existing 2005 HUD approved rents remain in effect which do not exceed FMR.

Of the 125 units, the OIG report did not cite any ineligible tenant during the period of review. As a result, the HAP payment of \$815,035 and the Administrative Fee for the period cited by the OIG for the period 1/1/07 - 12/31/08 were appropriate for Leonard Terrace.

Comment 3

Comment 1

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Comment 4

Comment 5

Comment 6

First Round Project Base (200 Units)

The Grand Rapids Housing Commission received local HUD approval on July 24, 2002 to request proposals for 200 project based units per 24 CFR 983. On September 30, 2002, the Grand Rapids Housing Commission submitted to HUD for their review and approval the selection and ranking of the projects under the RFP. This included the Oroquis (27 units), Emerald Creek (4 units) and two Housing Commission owned developments, Mount Mercy I (114 units) and Mt. Mercy II (55 units). In addition to ranking the submission included the application which included the initial rents, sources and uses and identified the Grand Rapids Housing Commission owned developments. All developments are LIHTC projects administered by the Michigan State Housing Development Authority. The Grand Rapids Housing Commission relied on the independent Market Study conducted as part of LIHTC for rent reasonableness and the initial rents are within FMR. For the initial HQS inspections per 24 CFR 983.101 and 983.155(6)(2), at the discretion of the Housing Commission, the Grand Rapids Housing Commission relied on the City of Grand Rapids Certificate of Occupancy (exceeding HQS) and initial HQS inspection conducted by MSHDA to determine the units complied with HQS. In accordance with 24 CFR 983 subsidy layering reviews are to be conducted by HUD or a housing credit agency. MSHDA provided the certification for the Emerald Creek Apartments. The Mt. Mercy I (114 units) was an existing development. The initial guidelines for project based voucher dated January 16, 2001 which was in effect at the time does not indicate that a subsidy layering review is required for an existing project. The other two would have been completed by HUD as part of their review and approval process. The Grand Rapids Housing Commission did receive approval for the first round from the local HUD office on November 18, 2002. Therefore the initial rents were reasonable and within FMR, subsidy layering reviews would be conducted by HUD and initial inspections were completed.

During the period of the OIG review of 1/1/07 – 12/31/08, appropriate annual HQS inspection were conducted and the City of Grand Rapids Certificate of Compliance were issued (exceeding HQS) and for Grand Rapids Housing Commission owned projects the annual inspections were conducted by Roslanic an independent inspector. In addition, MSHDA conducted Physical Inspections/HQS as part of the LIHTC monitoring. The rent comparability study conducted by Allen & Associates dated May 22, 2009 confirmed that the rents for Mt. Mercy I and II (GRHC Owned) were

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Comment 1

within comparable to unassisted units. Of the 200 units, the OIG report did not cite any ineligible tenants during the period of review. As a result, the \$1,424,658 HAP payments and the administrative fee for the period cited by the OIG for the period 1/1/07 – 12/31/08 were appropriate for Mt. Mercy I, Mt. Mercy II, Oroquis, and Emerald Creek.

Second Round Project Base (100 Units)

On March 16, 2004, the Grand Rapids Housing Commission submitted a request to the Detroit Public Housing Director Stephen Schuller to expand the project base program by 100 units utilizing the HUD approved RFP for the first round. On March 24, 2005, the Grand Rapids Housing Commission submitted to Robert Nelson, the new Public Housing Director at HUD Detroit for their review and approval the selection and ranking of the projects under the RFP. This included the Heron Manor (22 units), Heron Court (33 units) and one Housing Commission owned development, Sheldon (45 units). The submission to HUD included the ranking, and the applications which included initial rents, sources and uses and identification that the Sheldon Development was a Housing Commission owned development. All developments are LIHTC developments administered by the Michigan State Housing Development Authority. The Grand Rapids Housing Commission relied on the independent marketing study conducted as part of the LIHTC for rent reasonableness and the rents are within FMR.

Comment 5

Comment 6

For the initial HQS inspection per 24 CFR 983.101 and 983.155(b)(2), at the discretion of the Housing Commission we relied on the City of Grand Rapids Certificate of Occupancy (exceeding HQS) and initial inspection conducted by MSHDA to determine that the units complied with HQS. In accordance with 24 CFR 983 subsidy layering reviews are to be conducted by either HUD or a housing credit agency (MSHDA). MSHDA provided the Certificate for Heron Courtyard but was unable to locate the other two. HUD would perform the subsidy layering for the remaining two as part of their review. We informed HUD that these were LIHTC with tight timelines and required HUD response to our March 24, 2005 approval request particularly the Sheldon development. We were assured by HUD that they would be approved and the Grand Rapids Housing Commission moved forward to meet the LIHTC deadlines. The Grand Rapids Housing Commission also submitted a letter dated December 16, 2004 to David Vargas in Washington DC requesting approval of the units. In reviewing our records, we found that HUD had not formally responded to our 2005 or

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Comment 7

2004 request and therefore sent a letter on April 2009 to Robert Nelson requesting a follow up response. The Grand Rapids Housing Commission again submitted a request to the Acting Director, Tom Lacey regarding a written response on September 29, 2009. We have been assured by HUD that the request had been reviewed and approvals would be forthcoming. The Grand Rapids Housing Commission will continue to work with the local HUD office to obtain the necessary documents for these developments.

The HUD approved 2004 and 2005 HUD Agency Plan identifies the Grand Rapids Housing Commission project based programs and Hope VI. The Sheldon development was part of Phase I of the Hope VI revitalization plan for Campau Commons public housing redevelopment. Although the Grand Rapids Housing Commission did not receive Hope VI funding, we were able to complete two phases, Phase I Sheldon development utilizing LIHTC and project based vouchers and Phase II the Campau Commons revitalization. During the period of review of the OIG of 1/1/07 – 12/31/08, appropriate annual HQS inspections were conducted by Housing Commission staff, City of Grand Rapids Certificate of Compliance were issued (exceeding HQS) and the Housing Commission owned projects inspections were conducted by an independent inspector Roslanic. In addition, MSHDA conducted physical inspections/HQS as part of LIHTC monitoring. Also, a rent comparability study was conducted by Allen & Associates in May 2007 which confirmed the rents for Sheldon (GRHC owned) was within comparable rents to unassisted units.

Comment 1

Of the 100 units, the OIG cited one family at Sheldon Apartments that was not eligible for rental assistance according to age for a two month period during the review period (Finding 2A). As a result, the HAP payments and admin. fee for the period cited by the OIG for the period 1/1/07 – 12/31/08 were appropriate for Heron Courtyard for \$266,425 and Sheldon \$329,787 and associated fees for these developments have also been appropriately earned.

Recommendation 1A

Comment 1

The Grand Rapids Housing Commission disagrees that the project based program was administered contrary to HUD requirements resulting in reimbursement for improper housing assistance and associated fees. Since this was only one tenant ineligible for a two month period during the period of review, the OIG overstates the remedy for the deficiency cited by the

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Comment 8

report. Although the Grand Rapids Housing Commission disputes the finding, it will closely work with the local HUD office to provide the necessary supporting documents to address the findings cited in this report.

Recommendation 1B

The Grand Rapids Housing Commission entered into a HAP contract with effective date that covered the housing assistance paid for the Mt. Mercy II development. From July through December, the units were occupied by eligible families and the units passed HQS. Therefore, the \$77,246 provided was appropriate.

Comment 9

The Grand Rapids Housing Commission entered into a HAP contract with an effective date of January 2006 for the LIHTC Sheldon Development. There were 22 eligible households that moved in November and the units met HQS resulting in housing assistance payments of \$7,449. The Grand Rapids Housing Commission and the owner had intended to revise the HAP contract to change the effective date to cover the eligible tenants that had moved in early. The Grand Rapids Housing Commission will revise the HAP contract as agreed by the Grand Rapids Housing Commission and Owner to cover these eligible tenants.

Recommendation 1C

The Grand Rapids Housing Commission will implement adequate controls, procedures and maintain files to support that it will be in compliance with HUD requirements for the operation of its programs.

Finding #2 The Commission Provided Housing Assistance to Improper Households

Comment 10

The Grand Rapids Housing Commission reviewed the findings that six households were ineligible to receive Project Based Voucher housing assistance. The Grand Rapids Housing Commission provided appropriate documentation to show that five of the households were income and age or disabled eligible and properly admitted to the Project-Based Voucher program. The sixth family, [REDACTED] was eligible to move into the Sheldon Apartments for the Low Income Housing Tax Credit but was not eligible for Project-Based Voucher assistance according to age. We have reviewed his file and could not find documents that indicated a disability or

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would indicate that there was an error in documenting his age. [REDACTED] passed away in December 2007 and the manager of the Sheldon site is no longer employed at the Grand Rapids Housing Commission, and therefore the Grand Rapids Housing Commission was unable to ascertain whether [REDACTED] was disabled at the time of admission. [REDACTED] achieved the age of 62 in February 2007 and was eligible for the voucher assistance for 3/2007 – 12/2007. During the scope of this review, the Grand Rapids Housing Commission paid two months of housing assistance for [REDACTED] when he was not eligible. The amount of these payments equal \$330.00 for January and February 2007.

In the second case cited, [REDACTED] was appropriately admitted to the Project-Based Program according to income and disability criteria as she was disabled, but staff failed to appropriately indicate this status on page one of the HUD Form 50058. However, Social Security benefits were listed as income on page five of HUD Form 50058. As a result, [REDACTED] did not receive the appropriate deduction for her disability status. This resulted in charging [REDACTED] an extra \$10.00 for rent for ten (10) months until staff corrected the error. The Grand Rapids Housing Commission will refund the \$100.00 to [REDACTED]

The Grand Rapids Housing Commission has proper controls regarding program eligibility determination. The Commission provides regular reviews of Project Based Voucher cases to ensure proper eligibility and correct income calculations. The Director of Housing Management does 100% review of all initial certifications for Grand Rapids Housing Commission owned units (339). The Section 8 teams reviews 100% of initial certifications for the non-Commissioned owned units (86). The Section 8 team also reviews 20% of all existing Project Based Voucher cases that are being recertified. The Grand Rapids Housing Commission has made arrangements so the Project Based Voucher cases that are initiated by the Section 8 Coordinator for the non-commissioned owned cases are reviewed by a different staff person.

Recommendation 2A

The Grand Rapids Housing Commission will reimburse the Project Based Voucher Program \$330.00 for the [REDACTED] Household for the two months that he was ineligible to receive assistance, January and February 2007.

Comment 10

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Comment 11

Recommendation 2B

The Grand Rapids Housing Commission will reimburse the [REDACTED] household for \$100.00 that represents a \$10.00 disabled deduction for 10 months.

Recommendation 2C

The Grand Rapids Housing Commission was being cited for this finding since the total number of vouchers identified in the HAP contract was not being assisted with voucher funds. This occurred because the units were occupied by residents who while being income eligible for the program, their income yielded a tenant rent portion that exceeded the contract rent charged resulting in a zero housing assistance payment. In order to accommodate the changes, the Grand Rapids Housing Commission would have to rewrite the HAP contract whenever a resident had an income change that yielded a tenant rent that exceeded the contract rent charged at the site.

During the exit interview with Inspector General staff, Ron Farrell and Zakia Haneef, determined that amending the HAP contract for every change in household eligibility is not feasible. Therefore, the Grand Rapids Housing Commission does not intend to amend the HAP contracts to change the number or the type of unit.

Finding #3 The Commission made improper adjustments to Housing Assistance Payments.

The Grand Rapids Housing Commission has reviewed the adjustments and has agreed that 61 adjustments were in error due to duplication of staff efforts. The duplications were discovered December 2008 by staff who were refining the monthly review procedure for the Grand Rapids Housing Commission site HAP requests. At that time, the site staff was instructed to not use the automatic software feature concerning these adjustments. As part of the updated review procedure, the Section 8 Manager now audits the Project Based monthly HAP request twice, once before the HAP register is prepared and once after the HAP payments have been made to the sites. This practice has allowed the Grand Rapids Housing Commission to avoid a repeat of this type of duplication.

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Comment 12

Since implementing the new procedures, the system ensures the Grand Rapids Housing Commission that duplicate adjustments are not occurring. The Grand Rapids Housing Commission does have adequate controls in place. There were 19 errors made due to household changes, move-in and move-out pro rations. The Commission has reviewed these errors and has made the appropriate adjustments.

Recommendation 3A

The Grand Rapids Housing Commission will make the adjustments to reimburse the Project Based Voucher program in the amount of \$9,788 for the overpayment of housing assistance and utility allowances.

Recommendation 3B

The Grand Rapids Housing Commission will make the adjustments to reimburse the appropriate households for \$10,894 for the underpayment of the housing assistance and utility allowances.

Recommendation 3C

The Grand Rapids Housing Commission had made the appropriate adjustments and therefore the administrative fees were proper.

Recommendation 3D

In December 2008, the Grand Rapids Housing Commission instituted a monthly review of the Commission owned site HAP requests in order to improve the accuracy of HAP payments. By reviewing this monthly spreadsheet combined with the 100% review of all initial certifications by the Director of Housing Management and the review of 20% of recertified files by the Section 8 team, the Grand Rapids Housing Commission currently has procedures that insure that HAP payments are correct and address the concerns of the Inspector General's Office.

Finding #4 The Commission provided improper housing assistance for vacant units.

The Grand Rapids Housing Commission agrees with the finding that HAP was paid to the sites for 17 residents who were no longer in occupancy.

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This resulted in an overpayment of housing assistance of \$5,646 for the period of January 1, 2007 through December 31, 2008.

The Commission also agrees with the finding that the Commission improperly prorated housing assistance payments for the month in which eight households moved out. This resulted in \$1,313 in under payment of housing assistance during the period January 1, 2007 through December 31, 2008. In December 2008, the Commission implemented a new review procedure to ensure the accuracy of the HAP payments. This procedure will identify the over and under payments.

As part of the updated review procedure, the Section 8 Manager audits the Project Based HAP request twice, once before the HAP register is prepared and once after the HAP payments have been made to the sites.

Recommendation 4A

The Grand Rapids Housing Commission will reimburse its program \$5,646 for the overpayment of housing assistance and utility allowance cited in this finding.

Recommendation 4B

The Grand Rapids Housing Commission will reimburse the appropriate households \$1,313 for the underpayment of housing assistance and utility allowances cited in this finding.

Recommendation 4C

The Grand Rapids Housing Commission has made the appropriate adjustments and the administrative fees earned are proper.

Recommendation 4D

The Grand Rapids Housing Commission will include language in its next revision of the Administrative Plan that will address how payments for vacant units will be provided.

Comment 13

OIG Evaluation of Auditee Comments

- Comment 1** The projects must meet HUD's requirements for project-based voucher assistance prior to receiving any rental subsidy assistance. Finding 1 of this report relates to the projects' eligibility where we reviewed the selection, approval, and administration of the projects by the Commission under its program. As identified in finding 1, the Commission could not provide documentation to support that it correctly administered the program in accordance with HUD's requirements.
- Comment 2** Our review did consider the HUD requirements that were in effect for the respective dates of the Commission's program.
- Comment 3** The market study utilized in 2005 did not identify the comparable units as required by HUD.
- Comment 4** The program has requirements for determining rent reasonableness that were not followed by the Commission.
- Comment 5** While HUD's regulations do permit the use of a certificate of occupancy as evidence that the construction was completed, 24 CFR 983.103(a)(2) requires the Commission to inspect all units and determine that the proposed project-based units comply with HUD's housing quality standards before executing a housing assistance payments contract.
- Comment 6** HUD's regulations at 24 CFR 983.257(b), effective 1995 until October 12, 2005, state that the public housing agency may only approve or assist a project in accordance with HUD's regulations and guidelines designed to ensure that participants do not receive excessive compensation by combining HUD program assistance with assistance from other HUD, state, or local agencies or with low-income housing tax credits. In addition, under HUD's regulations at 24 CFR 983.55(b), the public housing agency must seek and obtain subsidy-layering contract rent reviews from HUD or a housing credit agency. Therefore, the Commission was required to ensure the subsidy-layering reviews were completed.
- Comment 7** Although the annual inspections were conducted during the period January 1, 2007, through December 31, 2008, the initial inspections were not conducted in accordance with HUD's regulations. Also, the rent comparability study for the initial rents in 2006 and the increase in rent in 2007 were not conducted by a state-certified appraiser and/or the results were not provided to HUD.
- Comment 8** Contrary to HUD's regulations, the housing assistance payments were provided without an executed contract for the period July through December 2005.

- Comment 9** In addition to amending the housing assistance payments contract, the Commission must reimburse its program \$7,449 from nonfederal funds for the improper housing assistance payments.
- Comment 10** Because the household was not eligible under the program at the time of admission, the household should not have been on the program. Therefore, the housing assistance payments provided from the date of admission through the household's end of participation were improper. The Commission should reimburse its program \$3,944 in housing assistance payments and associated administrative fees from nonfederal funds for the improper payments.
- Comment 11** We removed this recommendation from our final audit report.
- Comment 12** Although the Commission may have made the appropriate adjustments now, the Commission failed to carry out its administrative responsibilities adequately when it made improper adjustments to housing assistance payments. Therefore, in accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the applicable housing agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$1,624 in program administrative fees for making duplicate, improper, and incorrect housing assistance payments adjustments for the 78 households.
- Comment 13** Although the Commission may have made the appropriate adjustments now, the Commission failed to carry out its administrative responsibilities adequately when it provided improper payments for vacant units. Therefore, in accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to a public housing agency, in the amount determined by HUD, if the applicable housing agency fails to perform its administrative responsibilities correctly or adequately under the program. The Commission received \$526 in program administrative fees for making 24 improper housing assistance payments for vacant units.

Appendix C

FEDERAL REQUIREMENTS AND COMMISSION'S ADMINISTRATIVE PLAN

Finding 1

HUD's regulations at 24 CFR 983.2 (a) state that part 982 is the basic regulation for the tenant-based voucher program. Paragraphs (b) and (c) of this section describe the provision of part 982 that do not apply to the Project-Based Voucher program. The rest of part 982 applies to the program.

HUD's regulations at 983.12(b)(2) state during the housing assistance payments contract term and for at least three years thereafter, the public housing agency must keep a copy of records to document the basis for determination of the initial rent to owner and for the agency determination that the rent to owner is a reasonable rent (initially and during the term of the housing assistance payments contract).

HUD's regulations at 24 CFR 983.256(b)(1) and (2) state that public housing agency must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the commission must consider: the location, quality, size, unit type, and age of the contract unit; and any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease.

HUD's regulations at 24 CFR 983.256(c)(1)(i, ii, iii) state that to determine that the initial rent to owner is reasonable, the public housing agency must use a qualified state-certified appraiser who has no direct or indirect interest in the property or otherwise. For each unit type, the appraiser must submit a complete comparability analysis on Form HUD-92273 (Estimates of Market Rent by Comparison). The appraisal must use at least three comparable units in the private unassisted market. The agency must certify to HUD that the initial rent to owner for a unit does not exceed the reasonable rent.

HUD's regulations at 24 CFR 983.303(f)(1) and (2) state for public housing agency-owned units, the amount of the reasonable rent must be determined by an independent agency approved by HUD in accordance with 983.58 rather than by the agency. Reasonable rent must be determined in accordance with this section. The independent entity must furnish a copy of its determination of reasonable rent for agency-owned units and to the HUD field office where the project is located.

HUD's regulations at 24 CFR 983.52(c), effective 1995 until October 12, 2005, state that for rehabilitation, before executing an agreement, the public housing agency must obtain subsidy-layering contract rent reviews from HUD or a housing credit agency.

HUD's regulations at 24 CFR 983.53(a), effective 1995 until October 12, 2005, state that HUD or a housing credit agency must also conduct subsidy-layering contract rent reviews.

HUD's regulations at 24 CFR 983.55(b), effective 1995 until October 12, 2005, state that for new construction, before executing an agreement, the public housing agency must seek and obtain subsidy-layering contract rent reviews from HUD or a housing credit agency.

HUD's regulations at 24 CFR 983.55(b), effective October 13, 2005, state that the public housing agency may not enter an agreement or housing assistance payments contract until HUD or an independent entity approved by HUD has conducted any required subsidy-layering review and determined that the project-based voucher assistance is in accordance with HUD's subsidy-layering requirements.

HUD's regulations at 24 CFR 983.257(b), effective 1995 until October 12, 2005, state that the public housing agency may only approve or assist a project in accordance with HUD regulations and guidelines designed to ensure that participants do not receive excessive compensation by combining HUD program assistance with assistance from other HUD, state, or local agencies or with low-income housing tax credits.

HUD's regulations at 24 CFR 983.103(d)(1) provide that at least annually during the term of the housing assistance payments contract, the public housing agency must inspect a random sample, consisting of at least 20 percent of the contract units in each building, to determine whether the contract units and the premises are maintained in accordance with the housing quality standards.

HUD's *Federal Register* notice, effective January 16, 2001, states that a housing assistance payments contract must be in a form prescribed by HUD.

HUD's regulations at 24 CFR 983.103(a)(2) require the public housing agency to inspect all units and determine that the proposed project-based units comply with housing quality standards before executing a housing assistance payments contract.

HUD's regulations at 24 CFR 983.152(a) require that owners lease all assisted units under housing assistance payments contract to eligible families. Leasing of vacant, assisted units to ineligible tenants is a violation of the housing assistance payments contract and grounds for all available legal remedies, including suspension or debarment from HUD program and reduction of the number of units under the housing assistance payments contract.

HUD's regulations at 983.3(b) state that an agreement to enter into housing assistance payments contract is a written contract between the public housing agency and the owner in the form prescribed by HUD. The agreement defines requirements for development of housing to be assisted under this section. When development is completed by the owner in accordance with the agreement, the agency enters into a housing assistance payments contract with the owner.

HUD's regulations at 24 CFR 983.57(a) and (b)(1) require that project-based assistance be consistent with the goal of deconcentrating poverty and expanding economic opportunity while avoiding undue concentration of low-income persons. If the poverty rate in the proposed project

area is greater than 20 percent, the public housing agency should consider whether in the past five years there has been an overall decline in the poverty rate.

HUD's regulations at 24 CFR 983.7(f)(1)(ii) state that the HUD field office selects the public housing agency-owned unit pursuant to the competitive ranking and rating process specified in the agency's HUD-approved unit selection policy.

HUD's regulations at 24 CFR 983.51 state that a public housing agency-owned unit may be assisted under the Project-Based Voucher program only if the HUD field office or HUD-approved independent entity reviews the selection process and determines that the agency-owned units were appropriately selected based on the selection procedures specified in the agency's administrative plan.

HUD's regulations at 24 CFR 983.202(b)(2) state that the public housing agency makes housing assistance payments to the owner in accordance with the housing assistance payments contract. Housing assistance is paid for contract units leased and occupied by eligible families during the housing assistance payments contract term.

Finding 2

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

HUD's Housing Choice Voucher Guidebook, chapter 5, exhibit 5-1, under primary verification (c)(1), states that primary verification of the immigration status of the person is conducted by the responsible entity through the Immigration and Naturalization Service's (INS) automated system (INS Systematic Alien Verification for Entitlements).

The Commission's administrative plan, chapter 23, section I, states the Section 8 project-based program is targeted to meet the needs of (1) elderly families and (2) disabled families.

The Commission's program application states that, for projects owned by the Commission, the households must contain members that are age 55 or older and disabled or age 62 or older to receive rental subsidy.

Finding 3

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

The Commission's administrative plan, chapter 12, Introduction, states that families will be provided accurate annual and interim rent adjustments.

Finding 4

The Commission's administrative plan, chapter 13, Procedures for Moves, states that in a move, assistance stops at the old unit at the end of the month in which the tenant ceased to occupy, unless proper notice was given to end a lease midmonth. Assistance will start on the new unit on the effective date of the lease and contract. Assistance payments may overlap for the month in which the family moves.

The Commission's administrative plan, chapter 23, Vacancy Payments, states that for project-based units only, the Commission will issue vacancy payments up to 60 days if the vacancy is determined to not be the fault of the owner.