




Issue Date	May 14, 2010
Audit Report Number	2010-CH-1007

TO: Lucia M. Clausen, Acting Director of Public Housing Hub, 5FPH

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

SUBJECT: The Michigan State Housing Development Authority, Lansing, MI, Needs To Improve Its Controls Over Section 8 Project-Based Housing Assistance Payments

HIGHLIGHTS

What We Audited and Why

We audited the Michigan State Housing Development Authority's (Authority) Section 8 Project-Based Voucher program (program). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Authority's program based upon our analysis of the housing authorities' programs in Region V's jurisdiction and as part of our internal audit of the U.S. Department of Housing and Urban Development's (HUD) oversight of the program. Our objective was to determine whether the Authority operated its program in accordance with HUD's and its requirements. This is the second of two audit reports on the Authority's program.

What We Found

The Authority's program administration regarding documentation of households' eligibility and housing assistance and utility allowance payment calculations was inadequate. The Authority did not ensure that its household files contained the required documentation to support households' admission to and continued assistance on the program. Of the 89 files statistically selected for review, all 89

were missing documentation required by HUD and the Authority's program administrative plan to support nearly \$629,000 in housing assistance and utility allowance payments and associated administrative fees.

In addition, the Authority did not effectively manage its housing assistance calculation and payment process in accordance with HUD requirements and its program administrative plan, resulting in nearly \$23,000 in overpayments for 25 households and more than \$3,000 in underpayments for 29 households for the period September 1, 2007, through August 31, 2009. Further, it received nearly \$33,000 (\$16,417 in administrative fees related to the overpayments and \$16,572 in administrative fees related to the underpayments) in program administrative fees for the households with incorrect housing assistance payments. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$25,000 and underpay more than \$5,000 in housing assistance and utility allowance payments due to calculation errors.

The Authority also inappropriately made more than \$47,000 in overpayments of housing assistance and utility allowances for units when it failed to ensure that units receiving program housing assistance payments were under an executed housing assistance payments contract. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$56,000 in housing assistance and utility allowances for units not under housing assistance payments contracts.

The Authority did not effectively use HUD's Enterprise Income Verification system (system) Income Discrepancy Report (report) to recover or reimburse program housing assistance and utility allowance payments for households with unreported, underreported, or overestimated income, resulting in more than \$32,000 in overpayments and more than \$1,700 in underpayments of housing assistance and utility allowances. Further, the Authority did not remove six deceased individuals from its program and did not recover more than \$6,000 in housing assistance and utility allowance payments from the properties' owners.

What We Recommend

We recommend that the Acting Director of HUD's Detroit Office of Public Housing require the Authority to (1) reimburse its program from non-Federal funds for the improper use of nearly \$118,000 in program funds, (2) provide documentation or reimburse its program more than \$757,000 from non-Federal funds for the unsupported payments cited in this audit report, and (3) implement adequate procedures and controls to address the findings cited in this audit report to prevent nearly \$89,000 in program funds from being spent on excessive housing assistance and utility allowance payments 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 Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on May 7, 2010.

We asked the executive director to provide comments on our discussion draft audit report by May 7, 2010. The executive director provided written comments, dated May 5, 2010. The executive director substantially agreed with our findings and recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. A complete copy of the Authority's comments was provided to the acting Director of HUD's Detroit Office of Public Housing.

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BACKGROUND AND OBJECTIVE

The Michigan State Housing Development Authority (Authority) is a nonprofit governmental entity created by the Michigan State Housing Development Act of 1966 to provide decent, safe, and sanitary housing for low-income people. The Authority operates with oversight by the Michigan Department of Commerce. The Authority's jurisdiction includes the entire State of Michigan. An eight-member board of commissioners governs the Authority. The board members consist of the director of Michigan's Department of Labor and Economic Growth, the director of Michigan's Department of Human Services, the Michigan State treasurer, and four persons appointed by the governor, which include one tenant representative. As of March 31, 2010, one board member position was vacant. The Authority's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

The Authority administers a Section 8 Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of February 28, 2010, the Authority had 22,600 units under contract with annual housing assistance payments totaling more than \$131 million in program funds. Of the 22,600 units, 554 were assisted under its Section 8 Project-Based Voucher program (program).

The Authority's director of housing voucher programs said that there are 83 counties in the State of Michigan and that the Authority operates the Section 8 Housing Choice Voucher program in every county. The Authority's program is operated solely by independent contractors called housing agents, and its staff oversees the agents. Housing agents are responsible for the program household applications, waiting lists, household income documentation, leases, and housing assistance and utility allowance payments calculations. The housing agents also are responsible for entering the program household information on Form HUD-50058 family reports and uploading the report into the Authority's computer system.

This is the second of two audit reports on the Authority's program. Our objective was to determine whether the Authority operated its program in accordance with HUD's and its requirements to include determining whether the Authority (1) accurately computed housing assistance and utility allowance payments for program households and maintained the appropriate eligibility documentation, (2) paid program housing assistance only for units under housing assistance payments contracts, (3) appropriately recovered housing assistance and utility allowance payments for households with income discrepancies, and (4) appropriately recovered housing assistance and utility allowance payments paid for deceased individuals.

RESULTS OF AUDIT

Finding 1: The Authority Needs to Improve the Administration of Its Housing Assistance and Utility Allowance Payments

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It failed to maintain documentation to support payments to owners and households and consistently compute payments accurately. These deficiencies occurred because the Authority and its housing agents lacked adequate program knowledge and procedures and controls to ensure that they maintained documentation to support that program households were eligible, that their calculations were accurate, and that HUD's requirements and the Authority's program administrative plan were appropriately followed. As a result, the Authority was unable to support nearly \$629,000 in housing assistance and utility allowance payments and overpaid more than \$23,000 and underpaid more than \$3,000 in housing assistance and utility allowances. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$25,000 and underpay more than \$5,300 in housing assistance and utility allowances.

Household Files Lacked Eligibility Documentation

We statistically selected 89 household files with a total of \$650,930 in housing assistance and utility allowance payments from a universe of 617 households receiving program housing assistance payments totaling more than \$4.2 million during the period September 1, 2007, through August 31, 2009, using data mining software. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent. The 89 files were reviewed to determine whether the Authority had documentation for and correctly calculated households' housing assistance and utility allowance payments for the period September 1, 2007, through August 31, 2009. Our review was expanded as necessary and was limited to the information maintained by the Authority in its household files and in HUD's Enterprise Income Verification System (system).

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$628,710 for the period September 1, 2007, through August 31, 2009. Of the 89 household files statistically selected for review, 89 (100 percent) were missing the following support documentation:

- 89 were missing the program tenancy addendum,
- 87 were missing Form HUD-52578b, Statement of Family Responsibility,
- 51 were missing the rent reasonableness documentation,
- 50 were missing the Authority-required waiting list documentation,

- 40 were missing the request for tenancy approval,
- 37 were missing the original application,
- 28 were missing the lead-based paint certification,
- 15 were missing the Authority-required briefing packet,
- 9 were missing Form HUD-9886, Authorization for Release of Information,
- 6 were missing the lease with the owner,
- 2 were missing evidence that a criminal background check was conducted,
- 2 were missing the Authority-required copy of the birth certificate, and
- 1 was missing the Social Security number documentation.

The Authority did not use the appropriate program tenancy addendum for its 89 program households. However, it did maintain the Section 8 Housing Choice Voucher program tenant-based tenancy addendum in each household file. The Authority did not require 87 of its program households to sign Form HUD-52578b, Statement of Family Responsibility.

The Authority also did not use the appropriate section (section 11) of HUD's 50058 family report for 61 households in one or more certifications. Section 11 of the 50058 family report ensures that households will not pay more than 30 percent of their adjusted income for rent as required by HUD's program regulations. The Authority corrected 19 of the 61 50058 family reports when we brought the matter to its attention during the audit. As of March 31, the Authority had not corrected the remaining 42 (61 minus 19) 50058 family reports.

The Authority obtained new or original documentation for 36 of the 89 household files after we notified it of the missing documents during the audit. This action resulted in a reduction in recommendation 1A of \$275,351 (\$243,126 in housing assistance and utility allowance payments and \$32,225 in associated administrative fees). As a result, the questioned cost in recommendation 1A only reflects the missing documentation for the remaining 53 files (85 minus 36).

The Authority Made Incorrect Housing Assistance and Utility Allowance Payments

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

The Authority's calculation errors resulted in overpayments of \$23,181 and underpayments of \$3,092 in housing assistance and utility allowances. The

Authority incorrectly calculated housing assistance and utility allowance payments for 46 (52 percent) households in one or more certifications. The files contained errors in the calculation of household annual income, disability allowance, and/or utility allowances.

The 46 files contained the following errors:

- 22 had annual income calculation errors by the Authority for 1 or more certifications,
- 19 had incorrect disability allowances for 1 or more certifications,
- 9 had errors related to the use of the incorrect section of HUD's 50058 family report for 1 or more certifications,
- 8 had incorrect utility allowance calculations for 1 or more certifications, and
- 5 had adjustment errors.

The Authority received \$16,417 in program administrative fees related to the 25 households that were overpaid housing assistance and utility allowances for the period September 1, 2007, through August 31, 2009. It also received \$16,572 in program administrative fees related to the 29 households that were underpaid housing assistance and utility allowances for the period September 1, 2007, through August 31, 2009.

After we notified the Authority of the incorrect calculations, it provided documentation for one household, which reduced the overpayments by \$96 from \$23,181 for 25 households to \$23,085 (\$23,181 minus \$96) for 24 households. This reduction is reflected in recommendation 1B. The Authority also provided documentation for one household, which increased the underpayment by \$90 from \$3,092 for 29 households to \$3,182 (\$3,092 plus \$90) for the same 29 households. This increase is reflected in recommendation 1C. The Authority also took steps to correct \$1,674 in underpayments for 17 households and \$51 in overpayments for 2 households but had not provided documentation to show that the appropriate households and/or owners had been reimbursed as of May 13, 2010.

As of May 12, 2010, the Authority provided household reimbursement documentation for five households. This action resulted in a reduction in recommendation 1C of \$740. As a result, the questioned cost in recommendation 1C only reflects the calculation error for the remaining 24 files (29 minus 5).

The Authority's Procedures and Controls Had Weaknesses

The documents were missing from the household files because the Authority and its housing agents lacked adequate program knowledge and procedures and controls to ensure that the required documents were completed and maintained in

the household files to determine household eligibility in accordance with HUD's and its own requirements.

The Authority's regional manager said that if a household was residing in a unit at the time a housing assistance payments contract was signed, the household was considered an in-place household. If the household was eligible for the program, the Authority did not require the household to fill out an initial application or be placed on the waiting list before receiving program assistance. During our audit, it updated its policies and procedures to require that all new admission households fill out an initial application and be placed on the waiting list before receiving program assistance.

The Authority used Form HUD-52646, Voucher, in place of the Form HUD-52578b, Statement of Family Responsibility. Until a recent alert from Nan McKay, the Authority was not aware that the program tenancy addendum and statement of family responsibility forms existed. The alert provided a list of updated forms as of September 30, 2009. The Authority was revising its checklists to include the appropriate forms for the program households as of March 31, 2010.

The Authority did not require its housing agents to print a copy of the rent reasonableness determination and maintain the document in the household files. The Authority's Elite System can print the initial and annual rent reasonableness determinations, so the housing agents were not required to print a paper copy of the document. The Authority's regional manager said that the Authority would be able to provide a paper copy of the rent reasonableness upon request. The Authority provided 48 of the 51 missing rent reasonableness documents. She said that the Authority had been reviewing its program policies, procedures, and forms since our phase one audit to ensure that they were appropriate.

The incorrect calculations of housing assistance and utility allowance payments occurred because the Authority lacked program knowledge and adequate procedures and controls to ensure that it appropriately followed HUD's requirements and its program administrative plan.

The Authority contacted HUD's Detroit Office of Public Housing before our audits and requested assistance in its administration of the program. The Detroit office planned to provide training to the Authority and its staff, but it cancelled the training due to budget constraints.

As previously mentioned, the Authority hires independent contractors, housing agents, to maintain its household files. It selects household files to monitor randomly based upon the number of households allocated to each housing agent. It had updated its monitoring documents as of December 11, 2009, and January 16, 2010. Before December 2009, when a new project was accepted into the

program, the Authority would have a startup meeting with the project owners and housing agents. It would go over each party's roles and responsibilities. However, the housing agents did not receive specific program training. In December 2009, the Authority provided program training to its housing agents.

Conclusion

The Authority did not properly use program funds when it failed to comply with HUD's requirements and its program administrative plan. As a result, HUD and the Authority lacked assurance that program funds were used efficiently and effectively. In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

The Authority disbursed \$628,710 in program housing assistance payments for households without proper documentation. In addition, it received \$82,265 in administrative fees directly related to the months the documentation was missing from the household files during the audit period.

The Authority overpaid \$23,181 in housing assistance and utility allowances and underpaid \$3,092 in housing assistance and utility allowances. It also received \$32,989 in program administrative fees (\$16,417 related to the households receiving overpayments and \$16,572 related to the households receiving underpayments) for the incorrectly calculated housing assistance and utility allowance payments.

HUD lacked assurance that the Authority used its program funds efficiently and effectively. If the Authority does not implement adequate procedures and controls so its program operations comply with HUD's requirements and its program administrative plan, we estimate that it could overpay \$24,767 and underpay \$5,322 in housing assistance and utility allowances over the next year. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put into place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 1A. Provide supporting documentation or reimburse its program \$710,975 (\$628,710 in housing assistance and utility allowance payments plus

\$82,265 in administrative fees) from non-Federal funds for the unsupported payments and associated administrative fees cited in this finding, of which \$435,624 (\$385,584 in housing assistance and utility allowance payments and \$50,040 in associated administrative fees) remains to be supported or reimbursed.

- 1B. Reimburse its program \$39,598 (\$23,181 in housing assistance and utility allowance payments plus \$16,417 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance and utility allowances cited in this finding, of which \$39,255 (23,085 in housing assistance and utility allowance payments plus \$16,170 in associated administrative fees) for the remaining overpayments cited in this finding.
- 1C. Reimburse the appropriate households \$3,182 (\$3,092 plus \$90 identified by the Authority during the audit) for the underpayment of housing assistance and utility allowances cited in this finding, of which \$2,442 remains to be reimbursed.
- 1D. Reimburse its program \$16,572 in associated administrative fees from non-Federal funds for the underpayment of housing assistance and utility allowances cited in this finding, of which \$14,411 remains for the 24 underpayments.
- 1E. Implement adequate procedures and controls so that its program operations comply with HUD's requirements and its program administrative plan to ensure that an estimated \$30,089 (\$24,767 plus \$5,322) in program funds is appropriately used for future payments.

Finding 2: The Authority Paid Housing Assistance and Utility Allowances for Units Not Under Program Contracts

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It inappropriately made housing assistance and utility allowance payments when it failed to ensure that units receiving program housing assistance payments were under an executed housing assistance payments contract. This deficiency occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements and its own policies and procedures. As a result, it inappropriately paid more than \$47,000 in housing assistance and utility allowances for units not under program contracts. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$56,000 in housing assistance and utility allowances for units not under housing assistance payments contracts.

The Authority Failed To Ensure That Assisted Units Were Under Program Contracts

We used the statistical sample as described in finding 1 to determine whether housing assistance payments contracts were executed for program units receiving housing assistance and utility allowance payments for the period September 1, 2007, through August 31, 2009. Our review was expanded as necessary and was limited to the information maintained by the Authority in its household files and housing assistance payments contracts and contract amendments.

Of the 89 files reviewed, the Authority incorrectly paid housing assistance and/or utility allowance payments for 7 units that were not under a housing assistance payments contract in 1 or more of the certifications reviewed. It made inappropriate housing assistance payments totaling \$47,731 and received \$6,963 in program administrative fees for the seven units not under executed housing assistance payments contracts from September 1, 2007, through August 31, 2009.

The Authority's Procedures and Controls Had Weaknesses

The Authority made housing assistance and utility allowance payments for units not under housing assistance payments contracts because it lacked adequate procedures and controls to ensure that it appropriately followed HUD's and its own requirements. It did not ensure that seven units receiving \$47,371 in program housing assistance payments were under an executed housing assistance payments contract. The housing assistance was paid by the Authority contrary to HUD's requirements. The Authority could have amended its contracts to include

the seven units; however, it did not take the necessary actions to comply with HUD's requirements.

The Authority made housing assistance payments for units not under a housing assistance payments contract because of a communication problem. When the housing assistance payments contract was signed for a program project, a housing agent was assigned to the project. The Authority then provided the housing agent with a copy of the housing assistance payments contract and the exhibit, which listed the units that were under contract. It also required the housing agents to include a copy of the housing assistance payments contract in each program household file. The Authority believed that the project management provided a different listing of contract units to the housing agents. It also believed that the housing agents used the unit listing provided by the project management instead of contacting the Authority to verify whether an amendment to the housing assistance payments contract had occurred.

The Authority created an amended housing assistance payments contract for one of the seven units that were not originally under a housing assistance payments contract. This action resulted in a reduction in recommendation 2A of \$6,291 (\$42,411 in housing assistance and utility allowance payments and \$5,632 in associated administrative fees). As a result, the questioned cost in recommendation 2A only reflects the inappropriate housing assistance payments for the remaining six units (7 minus 1).

Conclusion

As a result of the previously mentioned deficiency, HUD and the Authority lacked assurance that program funds were used efficiently and effectively. The Authority did not properly use program funds when it failed to comply with HUD's requirements. In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

The Authority paid inappropriate housing assistance payments totaling \$47,371 and received \$6,963 in program administrative fees for program units that were not under a housing assistance payments contract.

HUD lacked assurance that the Authority used its program funds efficiently and effectively. If the Authority does not implement adequate procedures and controls to ensure that housing assistance is paid to units that are on the housing assistance payments contracts, we estimate that it could overpay \$55,510 in housing assistance and utility allowances over the next year. Our methodology

for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put into place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 2A. Reimburse its program \$54,334 (\$47,371 in housing assistance and utility allowance payments plus \$6,963 in associated administrative fees) from non-Federal funds for the housing assistance payments made to owners for the units that were not under a housing assistance payments contract, of which \$48,043 (\$42,411 in housing assistance and utility allowance payments plus \$5,632 in associated administrative fees) remains to be reimbursed.
- 2B. Implement adequate procedures and controls to ensure that housing assistance is paid to units that are on the housing assistance payments contracts to ensure that an estimated \$55,510 in program funds is appropriately used for future payments.
- 2C. Ensure that units receiving program assistance are included on an executed housing assistance payments contract.

Finding 3: The Authority Needs to Improve Its Process for Reviewing Income Discrepancies Reported in HUD's System

The Authority did not effectively use HUD's system Income Discrepancy Report (report) to recover or reimburse program housing assistance and utility allowance payments for households with unreported, underreported, or overestimated income. This deficiency occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's and its requirements. As a result, the Authority overpaid more than \$32,000 and underpaid more than \$1,700 in housing assistance and utility allowances.

The Authority Failed To Resolve Income Discrepancies

As required by its program policies and procedures manual, the Authority must verify any income discrepancies with a gross income difference of \$200 or more per month (\$2,400 per year). However, it did not effectively use HUD's system report to recover or reimburse program housing assistance and utility allowance payments for households with unreported, underreported, or overestimated income. It also did not ensure that its housing agents used the system report during the recertification process.

From the Authority's 2,694 Section 8 households that had an income discrepancy as of September 20, 2009, 49 were program participants. We reviewed the income discrepancy information for the 49 household files. Our review was limited to the information in HUD's system and the information entered in HUD's Public and Indian Housing Information Center database by the Authority.

Of the 49 files reviewed, 25 (51 percent) had unreported, underreported, or overestimated income totaling \$176,749 according to HUD's system. Sixteen households were new admissions to the program and the income discrepancy was before the households' participation in the program, six households had valid income discrepancies totaling \$7,041 but did not meet the individual \$2,400 income discrepancy threshold set by HUD, and two households did not have a valid income discrepancy for the period September 1, 2007, through June 30, 2009.

The Authority overpaid \$32,047 in housing assistance and utility allowances to the 24 households that had unreported or underreported income and underpaid \$1,746 in housing assistance and utility allowances to the two households for which the Authority overestimated their income. One household had underreported income for one or more certifications and overestimated income for one certification.

The Authority received \$11,552 in program administrative fees related to the 24 households with overpayments and received \$881 in program administrative fees related to the 2 households with underpayments for the period September 1, 2007, through June 30, 2009.

The Authority's Procedures and Controls Had Weaknesses

The overpayments and underpayments of housing assistance and utility allowances occurred because the Authority lacked adequate monitoring procedures and controls to ensure that it appropriately followed HUD's requirements and its program policies and procedures manual. The Authority lacked controls to perform appropriate income verifications and ensure that periodic reviews were performed. In addition, it did not ensure that its housing agents took appropriate steps to recover or reimburse overpaid and underpaid housing assistance when unreported, underreported, or overestimated income was determined during the recertification process.

The Authority's compliance enforcement coordinator stated that she ran the system report at least twice annually. Each time the system income discrepancy report was generated, there were nearly 3,000 households with income discrepancies. She looked at the largest income discrepancies first and stated that there were many issues with the reports including false positives. The compliance enforcement coordinator also said that the Authority's housing agents were to use the system during each recertification. She stated that the income discrepancies should have been resolved by the housing agents during the recertification process.

HUD's system report is a useful tool to assist the Authority in identifying income discrepancies. It should ensure that its housing agents use the information during the recertification process to identify unreported, underreported, or overestimated income for households.

Conclusion

As a result, HUD and the Authority lacked assurance that program funds were used efficiently and effectively. The Authority did not properly use program funds when it failed to comply with HUD's requirements and its program policies and procedures manual. In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

The Authority overpaid \$32,047 in housing assistance and utility allowances related to the households with unreported or underreported income and underpaid \$1,746 in housing assistance and utility allowances to the households with overestimated income. It also received \$12,433 in program administrative fees (\$11,552 related to the households receiving overpayments plus \$881 related to the households receiving underpayments) for the incorrectly calculated housing assistance and utility allowance payments.

As of January 20, 2010, the Authority had entered into a repayment agreement with one household for a total of \$2,676. The total overpaid housing assistance and utility allowances of \$32,047 do not include the \$2,676 in housing assistance that was overpaid and under the repayment agreement.

Recommendations

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

- 3A. Take appropriate action to determine whether the income discrepancies are valid and if so, pursue collection from the applicable households or reimburse its program \$43,599 (\$32,047 in housing assistance payments plus \$11,552 in administrative fees) from non-Federal funds for the overpayment of housing assistance cited in this finding.
- 3B. Take the appropriate actions to determine whether the income discrepancies are valid and if so, reimburse the appropriate households \$1,746 for the underpayment of housing assistance and utility allowances cited in this finding.
- 3C. Reimburse its program \$881 in associated program administrative fees from non-Federal funds for the underpayment of housing assistance and utility allowances cited in this finding after the appropriate actions are taken to determine whether the income discrepancies are valid.
- 3D. Implement adequate monitoring procedures and controls to ensure that appropriate actions are taken when income discrepancies exceeding HUD's and its threshold are discovered during the recertification process or during its review of the system report to ensure that it complies with HUD's requirements and its program administrative plan.

Finding 4: The Authority's Policies and Procedures for Deceased Program Participants Were Inappropriate

The Authority did not comply with HUD's requirements regarding the removal of deceased individuals from its program and the collection of inappropriate housing assistance and utility allowance payments for deceased individuals. These deficiencies occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements. As a result, it overpaid more than \$6,000 in housing assistance and utility allowances.

The Authority Did Not Recover Housing Assistance and Utility Allowance Payments for Deceased Individuals

A review of the Social Security numbers of the 617 active program households receiving program housing assistance payments totaling more than \$4.2 million during the period September 1, 2007, through August 31, 2009, revealed that 10 households were associated with deceased individuals. Six of these households received housing assistance payments for 1 or more months after the household became deceased, which resulted in the overpayment of \$6,449 in housing assistance and utility allowance payments. For the one household with a remaining family member, the Authority failed to remove the deceased individual and the individual's associated income for more than 6 months. The Authority received \$805 in program administrative fees related to the six households that were overpaid housing assistance and utility allowances for the period September 1, 2007, through August 31, 2009.

The Authority has the discretion in its program housing assistance payments contracts with the owners to allow vacancy loss payments for program households for up to 2 full months after the household leaves the program unit, including the death of the head of household. The Authority chose not to include the vacancy loss provision in its program housing assistance payments contracts executed before January 1, 2008. After January 1, 2008, the Authority determined that it would allow the vacancy loss payment provision on a case-by-case basis.

As of April 1, 2010, the Authority had created contract termination notices for the deceased individuals. The Authority had also taken steps to correct the inappropriate housing assistance and utility allowance payments but had not provided documentation to show that the appropriate reimbursements had been completed. For the one household with a remaining family member, the Authority completed an interim recertification removing the deceased individual from the household. The Authority also recalculated the housing assistance and utility allowance payments

for the remaining member but did not provide the income documentation to support its calculations.

The Authority's Procedures and Controls Were Contrary to HUD's Requirements

The overpayment of housing assistance and utility allowance occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements.

The Authority's compliance department runs the deceased household report from HUD's system at least once per month. The compliance department then determines whether the household is actually deceased and takes the appropriate actions. However, the Authority's policies and procedures required it to make the deceased individual's end of participation date the date the individual's belongings were removed from the unit. This policy is contrary to HUD's requirements.

The Authority agreed that its policies and procedures were the reason that housing assistance payments were paid for deceased households for months after the program participant was deceased. The Authority believed that it could pay housing assistance for the unit until the household's items were removed from the unit.

Conclusion

As a result of the Authority's failure to comply with HUD's requirements, it improperly used program funds. Specifically, the Authority failed to collect \$6,449 in housing assistance and utility allowance payments. It also improperly received \$805 in associated program administrative fees for the households cited in this finding.

In accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

Recommendations

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

- 4A. Collect the \$6,449 in overpaid housing assistance and utility allowances from the owners or reimburse its program the applicable amount from non-Federal funds.
- 4B. Reimburse its program \$805 from non-Federal funds for the inappropriate program administrative fees received for the households cited in this finding.
- 4C. Implement adequate procedures and controls to ensure that program funds paid related to deceased tenants are collected and interim certifications are performed when household members are reported as deceased.
- 4D. Implement procedures and controls to ensure that it complies with all Federal requirements for the payment of housing assistance and utility allowances.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; Federal Register notices; HUD's program requirements at 24 CFR Parts 5, 35, 58, 908, 982, and 983; Public and Indian Housing Notices 2001-04, 2004-01, 2005-29, and 2007-27; HUD Guidebook 7420.10G, HUD's Voucher Management System, HUD's Public and Indian Housing Information Center database; and HUD's system.
- The Authority's accounting records, annual audited financial statements for fiscal years 2007 and 2008, program administrative plans, program household files, computerized databases, policies and procedures, board meeting minutes pertinent to the program, and organizational chart.
- HUD's files for the Authority.

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

Finding 1

Using data mining software, we statistically selected 89 household files from the 617 households receiving housing assistance payments between September 1, 2007, and August 31, 2009. The 89 files were reviewed to determine whether the Authority had documented and correctly calculated households' housing assistance and utility allowance payments for the period September 1, 2007, through August 31, 2009. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent.

Our sampling results determined that the housing assistance and/or utility allowance payments were miscalculated for 47 households in 1 or more of the certifications reviewed. Of these 47 household files with calculation errors, 25 resulted in overpaid housing assistance and utility allowances, and 29 resulted in underpaid housing assistance and utility allowances for 1 or more certifications.

Based on our sample review results, using difference estimation methodology, we are 95 percent confident that the amount of overpaid housing assistance and utility allowances due to calculation errors over the next year will be at least \$24,767. This amount was determined by limiting the estimated difference lower limit of overpaid housing assistance to 1 year. We divided the estimated difference lower limit of \$49,534 by 24 months and then multiplied by 12 months. In addition, we are 95 percent confident that the amount of underpaid housing assistance and utility allowances due to calculation errors over the next year will be at least \$5,322. This amount was determined by limiting the estimated difference upper limit of underpaid housing assistance to 1 year. We divided the estimated difference lower limit of \$10,645 by 24 months and then multiplied by 12 months. The total funds to be put to better use are \$30,089 (\$24,767 for overpayments plus \$5,322 for underpayments).

Finding 2

Using data mining software, we statistically selected 89 household files from the 617 households receiving housing assistance payments between September 1, 2007, and August 31, 2009. The 89 files were reviewed to determine whether housing assistance payments contracts were executed for program units receiving housing assistance and utility allowance payments for the period September 1, 2007, through August 31, 2009. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent.

Our sampling results determined that the housing assistance and/or utility allowance payments were incorrectly paid for seven households in one or more of the certifications reviewed. Of the 89 households that received program housing assistance and utility allowance payments, 7 units were not identified in the Authority's housing assistance payments contracts and resulted in overpaid housing assistance and utility allowance payments.

Based on our sample review results, using difference estimation methodology, we are 95 percent confident that the amount of overpaid housing assistance and utility allowances due to calculation errors over the next year will be at least \$55,510. This amount was determined by limiting the estimated difference lower limit of overpaid housing assistance to 1 year. We divided the estimated difference lower limit of \$111,020 by 24 months and then multiplied by 12 months.

Finding 3

We obtained HUD's system report. The report contained 2,694 Section 8 households that had an income discrepancy as of September 20, 2009. Of the 2,694 households, 49 were program participants. We reviewed the income discrepancy information for the 49 household files.

Our results determined that of the 49 files reviewed, 25 (51 percent) had unreported, underreported, or overestimated income totaling \$176,749 according to HUD's system; 16 households were new admissions to the program and the income discrepancy was before the households' participation in the program; 6 households had valid income discrepancies totaling \$7,041 but did not meet the \$2,400 income discrepancy threshold set by HUD; and 2 households did not have a valid income discrepancy for the period September 1, 2007, through June 30, 2009.

The Authority overpaid \$32,047 in housing assistance and utility allowances to the 24 households that had unreported or underreported income. The Authority underpaid \$1,746 in housing assistance and utility allowance payments to the two households for which the Authority overestimated the households' income.

Finding 4

Our review of the Social Security numbers for the 617 active program households receiving housing assistance payments during the period September 1, 2007, through August 31, 2009, revealed that 10 households were associated with deceased individuals. Of the 10 deceased households, 6 households received housing assistance payments for 1 or more months after the

household became deceased, which resulted in the overpayment of \$6,449 in housing assistance and utility allowances.

We relied on computer-processed data contained in HUD's Enterprise Income Verification System and the Authority's Elite accounting system used for its Section 8 Housing Choice Voucher program. We performed sufficient tests of the data, and based on the assessment and testing, we concluded that the data were sufficiently reliable to be used in meeting our objectives.

We performed our onsite audit work during October 2009 at the Authority's office located at 735 East Michigan Avenue, Lansing, MI, and HUD's Detroit field office. The audit covered the period September 1, 2007, through August 31, 2009, but was expanded when necessary to include other periods.

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

INTERNAL CONTROLS

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

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding (1) household eligibility, (2) the calculation of household income and housing assistance and utility allowance payments, (3) ensuring that assisted units are under housing assistance payments contracts, (4) the use of HUD's system for the recovery or repayment of overpaid and underpaid housing assistance and utility allowances, and (5) the recovery of overpaid housing assistance and utility allowances for deceased individuals (see findings 1, 2, 3, and 4).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$710,975	
1B	\$39,598		
1C			\$3,182
1D	16,572		
1E			30,089
2A	54,334		
2B			55,510
3A		<u>43,599</u>	
3B			<u>1,746</u>
3C	881		
4A	6,449		
4B	<u>805</u>		
Totals	<u>\$118,639</u>	<u>\$754,574</u>	<u>\$90,527</u>

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

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


3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements the recommendations, it will ensure that program funds are spent according to Federal requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimates reflect only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



STATE OF MICHIGAN
JENNIFER M. GRANHOLM GOVERNOR MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY KEITH VOLIN EXECUTIVE DIRECTOR
LANSING

May 5, 2010

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

DELIVERED VIA E-MAIL ONLY

Re: Michigan State Housing Development Authority Response to HUD's Office of Inspector General Phase 2 Discussion Draft Audit Report of the Michigan State Housing Development Authority's Section 8 Project-Based Voucher Program

Dear Mr. Farrell:

This letter will outline our thoughts and responses to the HUD OIG discussion draft audit report issued on April 9, 2010.


Finding 1: The Authority needs to improve the administration of its Housing Assistance and Utility Allowance Payments.

A) Response to Household Files Lacked Eligibility Documentation

The Authority acknowledges that training was requested from the Detroit Field Office on several occasions, but training was never scheduled due to HUD's stated budget constraints.

The Authority does not require the contractual housing agents to print the initial, special and annual rent reasonable determination. The Authority's Elite system can print a required rent reasonable determination. A copy of all rent reasonable certification was scanned and sent to HUD OIG on February 17, 2010.

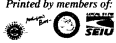
According to 24 CFR 35.115, only target housing shall require a lead warning statement for housing built before 1978. Units that are Single Room Occupancy (SRO), efficiencies or zero bedrooms are not considered target housing and therefore a lead disclosure is not required. A lead disclosure is not necessary for any unit at:



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Printed by members of:



Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

323 South Division Street, Grand Rapids
8 Peterboro Place, Detroit
60 South Division Street, Grand Rapids

Comment 3

The Authority recognizes the HUD program Tenancy Addendum and Statement of Family Responsibility forms were missing from the household files at the time of audit. However, the Authority feels that reasonable alternative documentation was present in the file that provided the same substance that can be found in the Tenancy Addendum and Statement of Family Responsibility forms. Historically, the Voucher was used in place of the Statement of Family Responsibility and the Lease and HAP Contract replace the Tenancy Addendum. In acknowledgment of the OIG findings, the Authority held trainings on December 2, 2009 with contractual housing agents and December 21, 2009 with Authority staff to ensure that all required file documents are complete, accurate and maintained in the file. Effective December 2009, the Tenancy Addendum and Statement of Family Responsibility are mandatory and will be included in all new tenant files.

Comment 4

Since May 2009, the Authority has developed a tool, the Complete Review Checklist, to verify if all required documents are executed and maintained in each tenant file. In February 2010, the Authority implemented a Waiting List audit to be used by Authority staff to review all New Admissions to ensure that all required documentation is present in the file.

Comment 5

The Authority anticipates having 100% of the missing documents identified in the OIG findings submitted to the MSHDA office by close of business June 30, 2010 for immediate transfer to the HUD Field Office. The waiting list documents will not be submitted as the Authority believes reasonable alternative documentation can be provided with a Waiting List affidavit to demonstrate that the waiting list process was followed. As the Authority anticipates all of these cases will be corrected by close of business June 30, 2010, financial penalties should not be assessed.

HUD Required Documents	MSHDA Provided Alternative Documents
Waiting List Documentation	Waiting List Affidavit or HUD required documents

B) Response Incorrect Housing Assistance and Utility Allowance Payments

The OHVP has reviewed each case in detail to verify or dispute the audited findings. Overall, the OHVP staff is in agreement with the audit findings and is in the process of making the appropriate corrections to each case. As the Authority anticipates all of these cases will be corrected by close of business June 30, 2010, financial penalties should not be assessed.

Finding 2: The Authority Paid Housing Assistance and Utility Allowances for Units Not Under Program Contracts.

Comment 6

The Authority acknowledges that seven (7) units identified in two (2) Housing Assistance Payment (HAP) Contracts contained inaccurate unit numbers due to a clerical error at the time the HAP contract was executed. The Authority has amended the appropriate contracts to reflect the proper unit numbers for both developments (On the River and Herkimer Apartments). In both cases, the units listed on the original HAP

Ref to OIG Evaluation

Auditee Comments

Comment 7

contract and the units substituted via the Amendment were of comparable size and quality. The Authority fundamentally met the goals of the program as the program and the tenants were not negatively impacted by the clerical errors.

Since March 2010, the Authority has added an additional tool to the Complete Review Checklist. Housing Agents, Resource Specialists, and Departmental Techs are instructed to verify that the unit address listed on the PBV HAP Contract matches the unit for each tenant that is contracted.

Finding 3: The Authority Needs to Improve Its Process for Reviewing Income Discrepancies Reported in HUD's System.

The Authority believes that this finding is unsubstantiated. The financial penalties assessed by HUD OIG were not acquired through a complete analysis. Their review was limited to the information obtained via EIV and PIC and no further third party verification was completed to substantiate the discrepancy.

The Authority took an aggressive approach to implementing the use of EIV in May 2005. The Authority manages the voucher program for 24,000 Michigan tenants. The Authority is limited to one staff member who is responsible for monitoring compliance issues which includes the review of the Income Discrepancy report cited by the OIG audit. In spite of the staffing challenge, the Authority has collected over \$1.5 million in repayment and have over \$5 million in Accounts Receivable from signed repayment agreements. The Authority had implemented all of the current HUD procedures ahead of the mandatory HUD implementation date of January 31, 2010.

The EIV Discrepancy Report is reviewed monthly. Consistently, there are approximately 3,000 families appearing on this list each month. The 3,000 families listed are reviewed, however many of the families do not require repayment agreements because the income discrepancies are unsubstantiated. In some cases, the names appear on the report because of identity theft, keypunch payroll errors entered by the employer, and lag time in reported income by employers and SSA. Out of necessity and due to limited staffing, the names selected from the list for action are those with the significant discrepancies.

The Authority believes that we are in full compliance with the HUD EIV requirements and disputes the finding that income discrepancies are not researched and resolved. The Authority and Contracted Partners will review the 49 cases cited in the OIG audit and recapture overpaid subsidy when the income discrepancy thresholds are met. The Authority will continue to prioritize the use of EIV data and monitor income discrepancies through periodic reviews by Authority staff and improved reporting.

Finding 4: The Authority's Policies and Procedures for Deceased Program Participants Were Inappropriate.

The Authority now recognizes that its policies and procedures related to ending housing assistance (HAP) and utility allowance (UAP) payments one month beyond the month of the date of death of the deceased individuals are contrary to HUD's requirements. It was the Authority's practice to allow these payments to be made one month beyond the date of death so that landlords participating in the program would receive a 30-day notice of the ending of the HAP. The Authority's policies have been updated to comply with HUD regulations.

Ref to OIG Evaluation

Auditee Comments

Comment 8

In addition, the Authority's Compliance department is now running the EIV Deceased Tenants report monthly, prior to HAP Generation, and an employee has been assigned to make immediate corrections for each reported instance.

The 10 cases identified in the OIG audit have been corrected. The Authority disputes the \$6,449 in overpaid HAP identified in the report. Nine of the cases were single tenant household and one was a remaining tenant. After calculating the 10 cases, the overpayment was only \$2,039. As all of these cases have been corrected, the Authority believes that the Administrative Fee penalties should not be assessed.

Comment 9

Final Statements

We believe that the net result of imposing the outlined penalties would reduce the ability of both MSHDA and HUD to serve needy families through the continuing implementation of the Section 8 Housing Choice Voucher Program. Without the ability to utilize Project Based Vouchers, which in our opinion is a critical tool to house the neediest persons and populations in the state, many persons and families would be at loss or at potential loss of quality housing opportunities in Michigan.

Thank you for your time, counsel, and participation in and during the audit process.

We look forward to concluding the audit process with you on Friday, May 7, 2010.

Regards,



Keith Momm
Executive Director
Michigan State Housing Development Authority

OIG Evaluation of Auditee Comments

- Comment 1** We acknowledge that the Authority did not require the rent reasonableness documents to be printed and maintained in its household files. We requested the Authority to provide the documents to support its statements that the Authority's Elite system maintains the information. As of May 13, 2010, the Authority provided all but 1 of the 51 missing rent reasonableness determinations.
- Comment 2** HUD's regulations at 24 CFR 983.101(c)(2) state that the Lead-based Paint Poisoning Prevention Act, the Residential Lead-based Paint Hazard Reduction Act of, and implementing regulations at 24 CFR Part 35, subparts A, B, H, and R, apply to the project-based voucher program. HUD's regulations at 24 CFR 35.92(b) are listed under subpart A. The Authority provided three specific program projects that it believed did not require a lead-based paint certification. We reviewed the household files for the 24 households residing in the three program projects. Of the 24 household files reviewed, the Authority was initially unable to provide 15 lead-based paint certifications. After we received the Authority's comments to the discussion draft audit report, the Authority provided an additional eight lead-based paint certifications for the households in the program projects. As a result, the Authority did not provide the required remaining seven lead-based paint certifications for the households residing in the program projects.
- Comment 3** The documentation in the Authority's files was not reasonable alternative documentation as required by HUD regulations. HUD's regulations at 24 CFR 983.56(b)(2)(ii)(B) state that at the time of initial lease execution between the family and the owner, the family and the authority must sign a statement of family responsibility. The statement of family responsibility must contain all family obligations including the family's participation in a service program under this section. HUD's regulations at 24 CFR 983.256(b)(3) states that in all cases, the lease must include a HUD-required tenancy addendum. The tenancy addendum must include, word-for-word, all provisions required by HUD.
- Comment 4** The Authority's proposed actions should improve its program operations, if fully implemented.
- Comment 5** We acknowledge the receipt of the waiting list affidavits. However, the Authority's regional manager said that if a household was residing in a unit at the time that a housing assistance payments contract was executed, the household was considered an in-place household. If the household was eligible for the program, the Authority did not require the household to fill out an initial application, or be placed on the waiting list, before receiving program assistance. Therefore, the Authority should provide documentation to show whether the households were in place at the time they were assisted. If the households were in place, the validity

of the affidavits are questionable since they state that the prospective households were selected from the Authority's waiting list.

- Comment 6** The Authority only provided documentation to support that the housing assistance payments contract for Herkimer Apartments was amended. As such, we revised recommendation 2A to reflect the documentation that was provided.
- Comment 7** The Authority is responsible to take appropriate action to determine whether the income discrepancies are valid. We agree that the Authority has policies and procedures in place for reviewing the income discrepancies reported in HUD's system. The Authority's housing agents are not reviewing the income discrepancy reports. We believe that if the Authority implements adequate monitoring policies, requiring the housing agents to review the income discrepancy reports, it would alleviate some of the burden on its staff member devoted to reviewing the income discrepancies. We revised recommendation 3D to reflect the changes discussed in this paragraph.
- Comment 8** The Authority failed to provide adequate documentation to support that this finding has been corrected.
- Comment 9** As discussed with the Authority during the audit, in accordance with HUD's regulations at 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

Appendix C

FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM 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. However, sections (b) and (c) of this section describe the provisions that do not apply to the Project-Based Voucher program. Therefore, the rest of Part 982 applies to the program.

HUD's regulations at 24 CFR 908.101 state that the purpose of this part is to require public housing authorities that operate public housing; Indian housing; or Section 8 Rental Certificate, Housing Choice Voucher, and Moderate Rehabilitation programs to electronically submit certain data to HUD for those programs. These electronically submitted data are required for HUD Forms HUD-50058, Family Report, and HUD-50058-FSS, Family Self-Sufficiency Addendum.

Public and Indian Housing Notice 2005-29 states that the authority must enter data for program vouchers into section 11 of Form HUD-50058, Family Report. The authority must also continue entering information on families receiving program certificate assistance into section 11 of Form HUD-50058.

HUD's regulations at 24 CFR 5.901(a) include requirements that apply to criminal conviction background checks by public housing agencies that administer the Section 8 and public housing programs when they obtain criminal conviction records, under the authority of section 6(q) of the United States Housing Act of 1937 (42 U.S.C. (United States Code) 1437d(q), from a law enforcement agency to prevent admission of criminals to public housing and Section 8 housing and to assist in lease enforcement and eviction.

HUD's regulations at 24 CFR 5.902(b) define covered housing as public housing, project-based assistance under Section 8 (including new construction and substantial rehabilitation projects), and tenant-based assistance under Section 8.

HUD's regulations at 24 CFR 5.216(a) state that each assistance applicant must submit to the processing entity when the assistance applicant's eligibility under the program involved is being determined (ii) the documentation referred to in paragraph (f)(1) of this section to verify the Social Security numbers. Part 5.216(f)(1) states that the documentation necessary to verify the Social Security number of an individual who is required to disclose his or her Social Security number under paragraphs (a) through (d) of this section is a valid Social Security number card issued by the Social Security Administration or such other evidence of the Social Security number as HUD and, where applicable, the public housing authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR 982.158(e) state that during the term of each assisted lease and for at least 3 years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family.

HUD's regulations at 24 CFR 982.158(f) state that the authority must keep the following records for at least 3 years: (1) records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants; (2) an application from each ineligible family and notice that the applicant is not eligible; (3) HUD-required reports; (4) unit inspection reports; (5) lead-based paint records as required by part 35, subpart B, of this title; (6) accounts and other records supporting the public housing authority budget and financial statements for the program; (7) records to document the basis for the public housing authority determination that rent to owner is a reasonable rent (initially and during the term of a housing assistance payments contract); and (8) other records specified by HUD.

HUD's regulations at 24 CFR 35.92(b) state that each contract to lease target housing shall include, as an attachment or within the contract, the following elements in the language of the contract: (1) A lead warning statement with the following language: housing built before 1978 may contain lead-based paint. Lead from paint, paint chips, and dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young children and pregnant women. Before renting pre-1978 housing, lessors must disclose the presence of lead-based paint and/or lead-based paint hazards in the dwelling. Lessees must also receive a federally approved pamphlet on lead poisoning prevention. (2) A statement by the lessor disclosing the presence of known lead-based paint and/or lead-based paint hazards in the target housing being leased or indicating no knowledge of the presence of lead-based paint and/or lead-based paint hazards. The lessor shall also disclose any additional information available concerning the known lead-based paint and/or lead-based paint hazards, such as the basis for the determination that lead-based paint and/or lead-based paint hazards exist in the housing, the location of the lead-based paint and/or lead-based paint hazards, and the condition of the painted surfaces. (3) A list of any records or reports available to the lessor pertaining to lead-based paint and/or lead-based paint hazards in the housing that have been provided to the lessee. If no such records or reports are available, the lessor shall so indicate. (4) A statement by the lessee affirming receipt of the information set out in paragraphs (b)(2) and (b)(3) of this section and the lead hazard information pamphlet required under 15 U.S.C. 2696. (5) When any agent is involved in the transaction to lease target housing on behalf of the lessor, a statement that (i) the agent has informed the lessor of the lessor's obligations under 42 U.S.C. 4852d and (ii) the agent is aware of his/her duty to ensure compliance with the requirements of this subpart. (6) The signatures of the lessors, agents, and lessees certifying to the accuracy of their statements to the best of their knowledge, along with the dates of signature. (c) Retention of certification and acknowledgment information. (1) The seller and any agent shall retain a copy of the completed attachment required under paragraph (a) of this section for no less than 3 years from the completion date of the sale. The lessor and any agent shall retain a copy of the completed attachment or lease contract containing the information required under paragraph (b) of this section for no less than 3 years from the commencement of the leasing period.

HUD's regulations at 24 CFR 983.256(b)(1) state that the tenant and the owner must enter a written lease for the unit. The lease must be executed by the owner and the tenant. (2) If the

owner uses a standard lease form for rental to unassisted tenants in the locality or the premises, the lease must be in such standard form. (3) In all cases, the lease must include a HUD-required tenancy addendum. The tenancy addendum must include, word-for-word, all provisions required by HUD.

HUD's regulations at 24 CFR 983.256(b)(3) state that in all cases, the lease must include a HUD-required tenancy addendum. The tenancy addendum must include, word-for-word, all provisions required by HUD.

HUD's regulations at 24 CFR 983.256(c)(1) state that the lease must specify the names of the owner and the tenant.

HUD's regulations at 24 CFR 5.212(b) state that all assistance applicants shall be provided with a Privacy Act notice at the time of application. All participants shall be provided with a Privacy Act notice at each annual income recertification.

HUD's regulations at 24 CFR 983.56(b)(2)(ii)(B) state that at the time of initial lease execution between the family and the owner, the family and the authority must sign a statement of family responsibility. The statement of family responsibility must contain all family obligations including the family's participation in a service program under this section. Failure by the family without good cause to fulfill its service obligation will require the Authority to terminate assistance.

HUD's regulations at 24 CFR 983.251(b)(2) state that in order to minimize displacement of in-place families, if a unit to be placed under contract that is either an existing unit or one requiring rehabilitation is occupied by an eligible family on the proposal selection date, the in-place family must be placed on the authority's waiting list (if the family is not already on the list) and, once its continued eligibility is determined, given an absolute selection preference and referred to the project owner for an appropriate-size program unit in the project.

HUD's regulations at 24 CFR 983.251(c)(1) state that applicants who will occupy program units must be selected by the authority from the authority's waiting list. The authority must select applicants from the waiting list in accordance with the policies in the authority's administrative plan.

Chapter 7, section I, of the Authority's program administrative plan states that the Authority will require applicants to furnish verification of legal identity for all family members. The documents listed below will be considered acceptable verification of legal identity for adults. Acceptable proof of identity must include a) the individual's name and b) the individual's date of birth. If a document submitted by a family is illegible or otherwise questionable, more than one of these documents may be required. Certificate of birth, naturalization papers, hospital records, a letter from a local government identifying why a birth certificate is not available, or third-party verification of birth (e.g., a letter from the Social Security Administration).

Chapter 8, Section F, of the Authority's program administrative plan states that during the briefing session, each household will be issued a voucher which represents a contractual agreement between the authority and the family specifying the rights and responsibilities of each party. It does not constitute admission to the program, which occurs when the lease and contract become effective. The voucher is valid for a period of at least 60 calendar days from the date of issuance. The family must submit a Rental Unit Information Form (Michigan State Housing Development Authority (MSHDA) 51b) within the 60-day period unless an extension has been granted by the authority.

The Authority's Housing Voucher Programs Policies and Procedures Manual, chapter III, Section G2, states that all briefing sessions for new applicants must take place in person and issuance of the authority form number 145 to each voucher recipient is mandatory. The voucher must be physically issued to the applicant as part of the briefing session. The authority must complete, sign, and date the briefing packet cover sheet. The applicant must also sign, acknowledging receipt of the packet. The Authority should retain the original for the applicant file.

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

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

HUD's regulations at 24 CFR 982.516(f) state that the authority must establish procedures that are appropriate and necessary to ensure that income data provided by applicant or participant families are complete and accurate.

HUD's regulations at 24 CFR 982.517(d) state that the authority must use the appropriate utility allowance for the size of dwelling unit leased by the family.

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

HUD's regulations at 24 CFR 5.609(a)(2) state that annual income means all amounts, monetary or not, which are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date.

HUD's regulations at 24 CFR 5.611(a)(2) state that in determining adjusted income, the responsible entity must deduct from annual income \$400 for any elderly family or disabled family.

Public and Indian Housing Notice 2005-29 states that public housing authorities must enter data for program vouchers into section 11 of Form HUD-50058, Family Report. The authority must

also continue entering information on families receiving project-based certificate assistance into section 11 of Form HUD-50058.

Chapter IV, section E2, of the Authority's Housing Voucher Programs Policies and Procedures Manual states that a \$400 per household allowance is granted when the head, cohead, or spouse is elderly or disabled. The head, cohead, or spouse must be age 62 or over, currently receive Federal Supplemental Security Income or Social Security Disability Income payments, or have a valid verification of disability and/or special medical needs, completed by a licensed health care provider, to receive the allowance. Only one allowance is granted per family, even if both the head and spouse are disabled. Receipt of monthly Federal Supplemental Security Income or Social Security Disability Income is sufficient verification of disability for the recipient in determining eligibility for the disability allowance, provided the recipient is under age 62. In addition, acceptable verification of disability includes a HUD system report showing that the disability box is checked as disabled.

Finding 2

HUD's regulations at 24 CFR 983.209 state that by execution of the housing assistance payments contract, the owner certifies that at such execution and at all times during the term of the housing assistance payments contract (a) all contract units are in good and tenantable condition. (b) The owner is providing all of the services, maintenance, equipment, and utilities as agreed to under the housing assistance payments contract and the leases with assisted families. (c) Each contract unit for which the owner is receiving housing assistance payments is leased to an eligible family referred by the authority, and the lease is in accordance with the housing assistance payments contract and HUD requirements. (d) To the best of the owner's knowledge, the members of the family reside in each contract unit for which the owner is receiving housing assistance payments, and the unit is the family's only residence. (e) The amount of the housing assistance payment is the correct amount due under the housing assistance payments contract. (f) The rent to owner for each contract unit does not exceed rents charged by the owner for other comparable unassisted units. (g) Except for the housing assistance payment and the tenant rent as provided under the housing assistance payments contract, the owner has not received and will not receive any payment or other consideration for rental of the contract unit.

HUD's regulations at 24 CFR 983.351(a)(1) state that during the term of the housing assistance payments contract, the authority shall make housing assistance payments to the owner in accordance with the terms of the housing assistance payments contract. The payments shall be made for the months during which a contract unit is leased to and actually occupied by an eligible family.

HUD's regulations at 24 CFR 983.351(e) state that in order to receive housing assistance payments in accordance with the housing assistance payments contract, the owner must comply with all the provisions of the housing assistance payments contract. Unless the owner complies with all the provisions of the housing assistance payments contract, the owner does not have a right to receive housing assistance payments.

HUD's regulations at 24 CFR 983.206(a) state that at the discretion of the authority and subject to all program requirements, the housing assistance payments contract may be amended to

substitute a different unit with the same number of bedrooms in the same building for a previously covered contract unit.

HUD's regulations at 24 CFR 983.206(b) state that at the discretion of the authority, a housing assistance payments contract may be amended during the 3-year period immediately following the execution date of the housing assistance payments contract to add additional program contract units in the same building. An amendment to the housing assistance payments contract is subject to all program requirements, except that a new program request for proposal is not required. The anniversary and expiration dates of the housing assistance payments contract for the additional units must be the same as the anniversary and expiration dates of the housing assistance payments contract term for the program units originally placed under housing assistance payments contract.

The Authority's Housing Voucher Programs Policies and Procedures Manual, chapter XXII, section D, states that at the time the housing assistance payments contract is executed, the owner will identify the specific units that will be assisted under the contract. A copy of the housing assistance payments contract will be required in a tenant file. Each tenant will have a lease with the owner for the specified unit.

Finding 3

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

HUD's regulations at 24 CFR 5.236(b)(1) state that any determination or redetermination of family income verified in accordance with this paragraph must be carried out in accordance with the requirements and procedures applicable to the individual covered program. Independent verification of information obtained from a State wage information collection agency or a Federal agency may be (i) by HUD; (ii) in the case of the public housing program, by a public housing authority; or (iii) in the case of any Section 8 program, by a public housing authority acting as contract administrator under an annual contributions contract.

HUD's regulations at 24 CFR 5.236(b)(2) state that upon receiving income information from a State wage information collection agency or a Federal agency, HUD or, when applicable, the public housing authority shall compare the information with the information about a family's income that was (i) provided by the assistance applicant or participant to the public housing authority.

HUD's regulations at 24 CFR 5.236(b)(3) state that when the income information reveals an employer or other income source that was not disclosed by the assistance applicant or participant or when the income information differs substantially from the information received from the assistance applicant or participant or from his or her employer, (i) HUD or, as applicable or directed by HUD, the public housing authority shall request the undisclosed employer or other income source to furnish any information necessary to establish an assistance applicant's or participant's eligibility for or level of assistance in a covered program. This information shall be

furnished in writing, as directed to (B) the responsible entity (as defined in 24 CFR 5.100) in the case of the public housing program or any Section 8 program, or (ii) HUD or the public housing authority may verify the income information directly with an assistance applicant or participant. Such verification procedures shall not include any disclosure of income information prohibited under paragraph (b)(6) of this section.

HUD's regulations at 24 CFR 5.236(b)(4) state that HUD and the public housing authority shall not be required to pursue these verification procedures when the sums of money at issue are too small to raise an inference of fraud or justify the expense of independent verification and the procedures related to termination, denial, suspension, or reduction of assistance.

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

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

HUD's regulations at 24 CFR 982.516(f) state that the authority must establish procedures that are appropriate and necessary to ensure that income data provided by applicant or participant families are complete and accurate.

HUD's regulations at 24 CFR 5.609(a)(2) state that annual income means all amounts, monetary or not, which are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date.

Public and Indian Housing Notice 2005-29 states that public housing authorities must enter data for program vouchers into section 11 of Form HUD-50058, Family Report. The authority must also continue entering information on families receiving project-based certificate assistance into section 11 of Form HUD-50058.

Office of Management and Budget Circular A-133 states that under budgetary guidance and Public Law No. 107-300, Federal agencies are required to review Federal awards and as applicable provide an estimate of improper payments. This includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements and includes any payment to an ineligible recipient; any payments for an ineligible service, duplicate payments, or payments for services not received; and any payment that does not account for credit for applicable discounts.

The Authority's Housing Choice Voucher Policies and Procedures Manual, chapter IV, section 3, number 1, states that the Exceeds Threshold Report within HUD's system generates a list of families with income discrepancies exceeding a percentage selected by the user. This report will be generated and used primarily by the Authority's system discrepancy coordinator.

Section 3, number 3, of the Authority's Housing Choice Voucher Policies and Procedures Manual, chapter IV, states that HUD has established the criteria for what constitutes a "substantial difference" in cases in which system income data differ from household-provided and/or other verified income information. HUD defines a "substantial difference" as one that has a gross income difference of \$200 or more per month (\$2,400 per year). In addition to projecting household income, the Authority must review the historical data on the system form for unreported and underreported income. The Authority must pursue the verification of all unreported income that is discovered through the system. If participant withheld information at his or her last annual reexamination or failed to report additional income, the participant will be required to enter into a repayment agreement.

The Authority's Housing Choice Voucher Policies and Procedures Manual, chapter VI, section A, states that verifications for all income, assets, and deductions must be obtained using the third-party verification system hierarchy. HUD's system is not available to use for initial verifications for applicants because there is no database established against which to compare data. After an initial contract has been completed, housing agents must pull an Enterprise Income Verification Tenant Income Data Report at the end of the first 6-month period to check for unreported income.

Finding 4

HUD's regulations at 24 CFR 982.311(a) state that housing assistance payments are paid to the owner in accordance with the terms of the housing assistance payments contract. Housing assistance payments may only be paid to the owner during the lease term and while the family is residing in the unit.

HUD's regulations at 24 CFR 983.351(a)(1) state that during the term of the housing assistance payments contract, the authority shall make housing assistance payments to the owner in accordance with the terms of the housing assistance payments contract. The payments shall be made for the months during which a contract unit is leased to and actually occupied by an eligible family.

HUD's regulations at 24 CFR 983.351(a)(2) state that except for discretionary vacancy payments in accordance with 24 CFR 983.352, the authority may not make any housing assistance payment to the owner for any month after the month when the family moves out of the unit (even if household goods or property are left in the unit).

HUD's regulations at 24 CFR 983.351(b) state that each month the authority shall make a housing assistance payment to the owner for each contract unit that complies with the housing quality standards and is leased to and occupied by an eligible family in accordance with the housing assistance payments contract.

HUD's regulations at 24 CFR 983.352(a) state if an assisted family moves out of the unit, the owner may keep the housing assistance payment payable for the calendar month when the family moves out.

HUD's regulations at 24 CFR 983.352(b)(1) state that at the discretion of the authority, the housing assistance payments contract may provide for vacancy payments to the owner extending from the beginning of the first calendar month after the move-out month for a period not exceeding 2 full months following the move-out month.

The Authority's Housing Voucher Programs Policies and Procedures Manual, chapter XIV, section B5, states that upon notification of the death of the tenant, the Authority should contact the owner to determine the end of participation date. If removal of a deceased tenant's belongings from the rental unit occurs within the month of death, the Authority should make the end of participation effective date at the end of the current month. If a deceased tenant's belongings cannot be removed within the month of death, the Authority should make the end of participation effective date the end of the following month.