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Audit Report Number	2010-CH-1015
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TO: Shawn Sweet, Director of Public Housing Hub, 5DPH

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

SUBJECT: The Lake Metropolitan Housing Authority, Painesville, OH, Needs To Improve Its Administration of Its Section 8 Housing Choice Voucher Program

## **HIGHLIGHTS**

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

We audited the Lake Metropolitan Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The Authority was selected for audit based upon a congressional request from the Honorable Steven C. LaTourette. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and its program administrative plan and policies. The objective includes determining whether the Authority followed its procurement policy when obtaining contracted services for its program, adequately monitored zero-income households, and adequately administered its family self-sufficiency program. This is the third of three audit reports on the Authority's program.

### **What We Found**

The Authority's program administration regarding its program procurement and zero-income households was inadequate, but it generally complied with the family self-sufficiency program requirements. It failed to follow its procurement and ethical policies regarding possible conflicts of interest when obtaining contracted services for its program. We identified deficiencies in all 13 contractual agreements reviewed. As a result, full and open competition was

hindered, and the Authority paid more than \$64,000 in unsupported contract expenses and more than \$3,000 in inappropriate contract expenses.

Further, the Authority failed to comply with its program administrative plan regarding zero-income household reviews. Of the 58 zero-income households reviewed, 29 had either excluded or unreported income that affected their housing assistance payments. As a result, the Authority overpaid housing assistance and utility allowances totaling more than \$36,000 for households that were required to meet their rental obligations. It generally complied with the family self-sufficiency program requirements. However, of the 32 participants with escrow balances reviewed, 20 contained errors in one or more of the escrow credit applications, resulting in more than \$14,000 in escrow credit overpayments and more than \$3,000 in escrow credit underpayments.

### **What We Recommend**

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to (1) provide documentation or reimburse its program more than \$64,000 from non-Federal funds for the unsupported payments cited in this audit report; (2) reimburse its program from non-Federal funds for the improper use of more than \$68,000 in program funds; and (3) implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$19,000 in program funds from being spent on excessive escrow credits, housing assistance and utility allowance payments, and contract payments.

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 audit results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's executive director during the audit. We also provided our discussion draft audit report to the Authority's executive director, its board chairperson, and HUD's staff during the audit. We held an exit conference with the executive director on September 24, 2010.

We asked the executive director to provide written comments on our discussion draft audit report by September 25, 2010. The executive director provided written comments, dated September 24, 2010. The Authority disagreed with finding 1, but generally agreed with findings 2 and 3. The complete text of the written comments, except for 1,208 pages of documentation that were not necessary to understand the Authority's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided the Director of HUD's

Cleveland Office of Public Housing with a complete copy of the Authority's written comments plus the 1,208 pages of documentation.

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## BACKGROUND AND OBJECTIVE

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The Lake Metropolitan Housing Authority (Authority) was created in October 1965 pursuant to Section 3735.01 of the Ohio Revised Code to provide safe and sanitary housing to low-income families. In 1977, the Authority began administering Federal housing programs, beginning with the Section 8 rental housing assistance program. The Authority's jurisdiction was expanded to include all of Lake County, OH, in 1982. The Authority is a political subdivision of the State of Ohio and is governed by a seven-member board of commissioners appointed for 5-year terms by local elected officials. 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 its Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of May 1, 2010, the Authority had 1,389 units under contract with annual housing assistance payments totaling more than \$9 million in program funds.

The Authority certified to troubled status on its Section Eight Management Assessment Program rating for the fiscal year ending June 30, 2008. As a result, HUD conducted an on-site review in February 2009 to determine why the Authority was in noncompliance with program performance requirements. HUD and the Authority executed a corrective action plan, effective February 2009, to correct the deficiencies cited in the confirmatory review. This audit addressed areas that were not covered by the corrective action plan.

The congressional request involved complaints against the Authority regarding the following issues: (1) conflicts of interest between its program staff and its program participants; (2) failure of its board of commissioners to address declarations made against its staff; (3) its hiring practices; (4) failure to enforce tenant and landlord fraud; (5) its procurement practices; (6) its board of commissioners changing Federal regulations; (7) its inspection procedures; and (8) its rent reasonableness procedures. These complaints involved both the Authority's program and its Public Housing program. Because we concluded that the majority of the complaints involved the Authority's program, this is where we focused our reviews. Our audit review and audit report number 2009-CH-1012 addressed complaints 1, 2, 3, 4, and 6. Our audit review and audit report number 2010-CH-1001 addressed complaints 3, 7, and 8. And this audit review and audit report addressed complaints 3, 4, and 5. Based upon our reviews, we did not identify any reportable conditions for complaints 1, 2, and 6.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) obtained program services in accordance with its procurement policy, (2) monitored zero-income households in accordance with its program administrative plan, and (3) operated its family self-sufficiency program in accordance with HUD regulations. This is the third of three reports on the Authority's program (see report number 2009-CH-1012, issued on August 14, 2009, and report number 2010-CH-1001, issued on October 28, 2009).

## RESULTS OF AUDIT

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### Finding 1: The Authority Failed To Follow Procurement Requirements for Contracted Services for Its Program

The Authority failed to follow its procurement requirements when obtaining contracted services for the administration of its program. This deficiency occurred because the Authority lacked adequate procedures and controls to ensure that its procurement and ethical policies regarding possible conflicts of interest were followed. Further, it did not have an adequate contract administration system. As a result, the Authority hindered full and open competition, paid more than \$64,000 in unsupported contract expenses, and paid more than \$3,000 in improper contract expenses.

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#### **The Authority Did Not Use the Proper Method of Procurement**

The Authority entered into 13 contractual agreements that related to its program between July 1, 2007, and February 28, 2010. We reviewed the procurement process for the 13 agreements to determine whether the Authority obtained the contracted services in accordance with its procurement and ethical policies. We identified deficiencies with the Authority's method of procurement, scope of services requested, method of soliciting bids, evaluation of bids, and contract type determination.

The Authority's procurement policy defines various methods of procurement, depending upon the purchase price and the type of services requested. The Authority failed to use the proper method of procurement for 8 of the 11 procurement transactions reviewed, which resulted in the 13 agreements, contrary to section III, paragraphs B, D, and E, of its procurement policy (see appendix C in this audit report, finding 1). For instance, the large purchases method of procurement should have been used for request for proposal 2009-1<sup>1</sup> since this was an umbrella request that listed services for (1) the family self-sufficiency grant submission, (2) technical assistance with the program's operations, and (3) technical assistance with the housing quality standards inspection process.

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<sup>1</sup> Section III.B of the Authority's procurement policy, dated November 2004, states the following regarding the large purchases method of procurement: "For purchases in excess of \$25,000, the sealed bids procedure set forth in section III.C. will be adhered to after public advertisement, and the board of commissioners' approval will be required for contract award. The award shall be made to the lowest responsive and responsible bidder unless justified in writing based on price and other specified factors, such as for architect-engineer and other professional services contracts. If non-price factors are used, they shall be specified in the bidding documents. The names, addresses, and/or telephone numbers of the offerors and persons contracted, and the date and amount of each quotation shall be recorded and maintained as a public record." Section III.C states that for professional services contracts, sealed bidding should not be used. Section III.D states that competitive proposals are the preferred method for contracting for professional services.

Further, the work orders issued as of April 2010 totaled more than \$40,000. However, the Authority did not follow its procurement policy, which required publicizing the upcoming procurement (e.g., advertising in local newspapers or trade journals), preparing both an independent cost estimate and a technical evaluation plan for analyzing proposals received, and preparing and issuing the request for proposals to the respondents to the public notice and those on its mailing list for competitive proposals (i.e., purchases more than \$25,000).

### **Deficiencies in the Scope of Services Requested**

The scope of services requested by the Authority was not in accordance with section VI, paragraph A, of its procurement policy (see appendix C of this audit report, finding 1) for 2 of the 11 procurement transactions reviewed due to their detailed, duplicative, and/or unnecessary nature. The level of detail in the scope of services requested for these two procurement transactions did not promote competition because it did not allow the bidders to explain how their products and services would meet the Authority's needs. Therefore, the bidders' response to the request for proposals tended to almost exactly mirror the requested scope of services, aside from minor details.

For 6 of the 11 procurement transactions, the Authority's files did not contain a written description of the requested scope of services because the services were sole-sourced and the specifications were outlined in the contractual agreement. However, a review of all contracted services indicated that the Authority obtained duplicative services in the following areas: Section Eight Management Assessment Program and quality control reviews; file organization, third-party tracking and verifications; wait list management; file corrections required by various auditing entities; training; and housing quality standards inspections. We acknowledge that some of the duplicative services were appropriate but not all.

### **Deficiencies with the Bid Solicitation Process**

The Authority failed to use the proper method of soliciting bids for 11 of the 13 contractual agreements in accordance with (1) section II, paragraph B; section III, paragraph B; section IV, paragraph C; and section VI, paragraphs A and B, of its procurement policy; (2) board resolution 24-2009; and (3) its ethical policy (see appendix C of this audit report, finding 1). For example, a contract was sole-sourced to the program manager of the Parma Public Housing Authority in October 2008 to provide technical assistance with processing and organizing files, third-party tracking, sending out verifications, opening the waiting list, pulling applicants from the waiting list, and office organization. The Authority sole-sourced contracts to this program manager again in January 2009 to open the waiting list and in May 2009 to process and organize files. However, the Authority's procurement policy, dated November 2004, stated that small

purchases below \$2,500 “must be distributed equitably among qualified sources. If practicable, a quotation shall be solicited from other than the previous source before placing a repeat order.”

The Authority’s executive director had a prior business relationship with the following contractors that were awarded program contracts:

- Bids were solicited from CGI for 6 of the 13 contractual agreements reviewed, and CGI was awarded 5 contracts totaling \$78,352, in which \$51,291 had been paid as of April 2010. The executive director was a previous manager for CGI in its Government Services Division. In approximately 15 months during his employment at CGI, the executive director had provided assistance to approximately four public housing agencies, including the Parma Public Housing Authority. Further, the executive director served as the housing quality standards supervisor and section 8 director during the same period that CGI provided consultant services to the Akron Metropolitan Housing Authority.
- Bids were solicited from the program manager of the Parma Public Housing Authority for 5 of the 13 contractual agreements reviewed, and this contractor was awarded 4 contracts totaling \$23,020, in which \$7,175 had been paid as of April 2010. The Authority’s executive director worked with this contractor while managing the Parma Housing Authority assignment during his employment with CGI. The Authority did not ensure that the contractor had the ability to provide the requested services before awarding the contracts, contrary to section IV, paragraph A of its procurement policy (see appendix C of this audit report, finding 1). As a result, the Authority received and paid for indecipherable information from this contractor.
- Bids were solicited from Advantageous Consulting for 2 of the 13 contractual agreements reviewed, and this contractor was awarded both contracts totaling \$7,275, in which the entire amount had been paid as of April 2010. The Authority’s executive director worked at the Akron Metropolitan Housing Authority during the same period as this contractor and served as the contractor’s manager.

The Authority’s executive director disclosed on his conflict-of-interest statement for the Authority, dated October 29, 2009, that he (1) previously worked at CGI, (2) worked as a consultant with the program manager at the Parma Public Housing Authority, and (3) worked at the Akron Metropolitan Housing Authority with Advantageous Consulting. However, the Authority was unable to provide documentation to support the full disclosure of information before the awarding of these contracts. The executive director said that the Authority generally solicited bids from three area contractors because these were the companies that were local to the Authority, especially since the services that were sought were for such a unique program. He also said that due to the tumultuous state of the Authority and the extenuating circumstances, the Authority solicited bids from



contractors with which it was familiar and which it presumed had a lower cost. This was a limitation used by the Authority, although section VI, paragraph B, of its procurement policy indicates that geographic restriction limitations should be avoided and that firms shall not be precluded from qualifying during the solicitation period. As a result, firms were precluded from bidding on the Authority's contracted services.

### **Deficiencies with the Process of Evaluating Bids and/or Awarding Contracts**

The Authority failed to evaluate bids or provide an adequate rationale for awarding contracts in accordance with section II, paragraph B, and section III, paragraph F, of its procurement policy for 12 of the 13 contractual agreements reviewed due to the following: the bid opening occurred before the submission deadline for one request for proposal, the scoring criteria were vague and generic for two requests for proposals, and the Authority did not use the scoring criteria for another request for proposal. Further, the Authority's executive director said that he participated in the contract awards for the 12 contractual agreements, although HUD's regulations and the Authority's ethical policy regarding possible conflicts of interest prohibited this conduct (see appendix C of this audit report, finding 1). HUD's regulations at 24 CFR (Code of Federal Regulations) 982.161 state that neither the Authority nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any of the following classes of persons has any interest, direct or indirect, during tenure or for one year thereafter: (1) any present or former member or officer of the Authority and (2) any employee of the Authority, or any contractor, subcontractor or agent of the Authority, who formulates policy or who influences decisions with respect to the programs. The ethical policy states that an employee is prohibited from authorizing, voting on, or otherwise using the authority or influence of the office to secure approval of a public contract in which the official, a family member, or a business associate has an interest. Employees are prohibited from having an interest in a public contract with their public entity or an agency with which they are connected, even if they do not participate in the issuance of the contract. The exemptions indicated in the ethical policy did not apply in these cases because the contracted services were obtainable elsewhere. We identified (1) other potential bidders that could have provided the contracted services that the Authority received and (2) Web sites that would have allowed the Authority to advertise its requests for proposals and other requested services to gain full and open competition.

### **Contract Type Deficiencies**

The Authority failed to (1) identify the contract type for 7 of the 13 contractual agreements reviewed, (2) maintain written documentation that no other contract was suitable for 5 time-and-materials contractual agreements, and (3) include a

ceiling price that the contractor exceeds at its own risk for one time-and-materials contractual agreement in accordance with section V, paragraphs A and C, of its procurement policy (see appendix C of this audit report, finding 1). Further, the Authority failed to maintain written contract modifications for one contractual agreement in accordance with section II, paragraph B, of its procurement policy.

We did not identify indications that the Authority's executive director personally benefitted from awarding these contractual services to his former employer and business associates. However, based upon the deficiencies discussed above regarding the method of procurement, scope of services requested, method of soliciting bids, evaluation of bids, and contract type determination, an appearance of a conflict of interest existed. These deficiencies resulted in unsupported contract expenses totaling \$64,264, improper contract expenses totaling \$3,652, and misallocated contract expenses totaling \$431.

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

The noncompliance occurred because the Authority lacked adequate procedures and controls to ensure that its procurement and ethical policies were followed. The Authority failed to engage in an annual planning process to ensure efficient and economical purchasing for all 13 contractual agreements reviewed in accordance with section II, paragraph B, of its procurement policy. Its executive director said that the technical assistance and consultant services were obtained because shortly after coming aboard, he realized that the Authority was in or headed into troubled status and at risk of being taken into receivership by HUD. He said that the Authority was in an emergency or crisis mode that could not have been planned for and because of this position; he had to determine what would give the Authority the most benefit for the dollar. Therefore, he wanted to obtain an independent assessment of the Authority's condition. He also realized soon after coming to the Authority that the program administrative plan was outdated and in need of revision.

The Authority's executive director said that consultants were also brought in when the Authority experienced a change in program managers to assist in the transition period and to assist the managers in meeting their responsibilities. During our audit period, the Authority had three full-time program managers and one interim program manager, and the executive director took on the responsibilities of this role between managers. Further, since the Authority did not have enough staff to address the audit findings identified in our prior audits (report numbers 2009-CH-1012 and 2010-CH-1001) while still performing its day-to-day job responsibilities, contractors were acquired to handle these additional responsibilities.

The executive director said that there was no official delegation of powers regarding the contracting officer position, as described in section II, paragraph A of the Authority's procurement policy (see appendix C of this audit report, finding

1). He further stated that because the former assistant director and the administrative office manager were sent to procurement training, this indicated the intent to have these employees involved in the procurement process. The executive director said that he was involved in all of the procurement transactions due to the limited knowledge and understanding of his staff. As indicated in the procurement policy, part of the executive director's job responsibilities is to oversee the procurement process (see appendix C of this audit report, finding 1).

In addition, the Authority did not perform adequate contract management of its contracted services in accordance with section II, paragraph B, and section V, paragraph D, of its procurement policy as follows:

- It failed to inspect the work performed by its contractors before payment was made for 8 of the 13 contractual agreements. We identified discrepancies in the quality control universes that were pulled by two contractors and identified indecipherable information that was provided to the Authority by another contractor.
- It improperly allocated expenses to both the Section 8 and its Public Housing programs.
- It allowed both CGI and Advantageous Consulting to provide technical assistance for its program and then evaluate their own procedures and guidance by performing quarterly and year-end Section Eight Management Assessment Program reviews.
- It obtained and paid for services that were not included in a contract agreement and did not ensure that all of the services that were indicated in the contract agreement were provided for another contractor.
- It allowed work to be performed without written approval via work orders or board resolutions for another contractual agreement with CGI.
- It continued its contractual agreement with one contractor, although our prior audit (report number 2010-CH-1001) identified discrepancies in the contractor's quality control inspections.

During the course of our audit, the Authority took the following measures to improve its procurement process:

- In February 2010, the Authority revised its procurement policy, and
- In February 2010, the Authority established procedures to review contractors' invoices and acknowledge that all receipts were present before payment was made.

- In August 2010, the Authority's executive director and administrative office manager received procurement training.
- In September 2010, the Authority appointed a contracting officer.

We did not review procurement transactions since the Authority implemented its new procedures in February 2010 because it did not obtain additional contracted services for its program before our audit fieldwork was completed in May 2010. Therefore, we did not determine whether the new procedures had lessened the Authority's weaknesses.

## Conclusion

As a result of the weaknesses in its procedures and controls, the Authority (1) hindered full and open competition; (2) paid \$3,652 in inappropriate expenses due to the improper allocation of costs, duplicate payments, and use of the incorrect hourly rate for services provided; (3) paid \$64,264 in unsupported expenses for the contracted services that were obtained without following its procurement policy; (4) improperly allocated \$431 in expenses to its Public Housing program; and (5) risked expending excessive program funds by not requiring a ceiling price on all time-and-material contracts.

## Recommendations

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

- 1A. Reimburse its program \$3,652 from non-Federal funds for the ineligible expenses cited in this finding.
- 1B. Provide documentation to support the reasonableness of the expenses or reimburse its program \$64,264 from non-Federal funds for the unsupported costs cited in this finding.
- 1C. Reimburse its Public Housing program \$431 due to the improper allocation of expenses.
- 1D. Evaluate the effectiveness of its procurement policy that was adopted in February 2010 and make any adjustments, if applicable.
- 1E. Implement an adequate contract administration system to ensure that contracts are awarded in accordance with the Authority's procurement policy and that contractors perform in accordance with their contracts.
- 1F. Ensure that its board of commissioners enforces the Authority's procurement policy and provides proper oversight.

## Finding 2: Controls over Zero-Income Households Had Weaknesses

The Authority did not effectively use HUD's Enterprise Income Verification system (system) or other verification methods to determine that reported zero-income households had unreported income. These conditions occurred because the Authority lacked adequate procedures and controls to perform appropriate income verification. As a result, it overpaid housing assistance and utility allowances totaling more than \$36,000 for households that were required to meet their rental obligations. Further, we estimate that the Authority will overpay nearly \$12,000 in housing assistance and utility allowances over the next year.

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### **Reported Income Was Not Accurately Calculated**

We performed a 100 percent review of the 58 households that were reported in the Authority's PHA-Web software program as having zero income as of November 19, 2009. The 58 household files were reviewed to determine whether the households had income during the period July 1, 2007, through February 28, 2010, and other periods as necessary. We reviewed the files to determine whether the Authority was aware of any income identified and appropriately incorporated the income into the households' subsidy determination. Our review was limited to the information maintained in the household files and HUD's system. We only reviewed the examination periods in which the households were reported as having zero income.

Of the 58 households reviewed, 29 (50 percent) had either excluded or unreported income that affected their housing assistance payments. Therefore, the Authority provided excessive housing assistance and utility allowance payments for the 29 households. Three of the households had both excluded and unreported income. The housing assistance and utility allowance payment errors identified during this review do not overlap the errors identified in audit report number 2009-CH-1012.

The Authority failed to determine income and/or perform interim examinations for 15 of the 58 households that reported zero income. It was aware of the increases in income that were reported by the 15 households but it failed to recalculate the households' subsidy determinations based upon the increases in income contrary to its administrative plans.

The following is an example of a household for which the Authority was aware of the reported income but excluded the income in the subsidy determination:

- Household 19 had employment income, which was reported to the Authority and maintained in the household file. However, the Authority failed to perform proper third-party verification and incorporate this increase in income into a subsidy determination in accordance with its program administrative plan (see appendix C in this audit report, finding 2). Since the household had

income, the Authority overpaid \$606 in housing assistance from September 1, 2009, through February 28, 2010.

As a result, the Authority overpaid \$17,896 in housing assistance and utility allowances for the 15 households.

### **Households Had Unreported Income**

In addition, 17 of the 58 households had unreported income because they did not report their increases in income to the Authority in a timely manner or at all. For 11 of the 17 households, the Authority had information obtained from HUD's system or other verifications indicating that the household had income, but the Authority failed to pursue overpaid assistance due to the unreported income.

The following are examples of households that had unreported income:

- Household 13 had income, according to HUD's system, totaling \$9,373. Since the household had unreported income, the Authority overpaid \$1,639 in housing assistance from June 15, 2009, through March 31, 2010. If the Authority had conducted periodic reviews every 3 months as required by its program administrative plan (see appendix C in this audit report, finding 2), it would have identified the unreported income and been able to verify the household's employment status by performing a third-party verification.
- Household 49 had employment income, which was confirmed through HUD's system and third-party verification, totaling \$7,252. The household file contained a third-party employment verification received by the Authority on approximately October 14, 2009, stating that a household member was employed from October 20, 2008, through October 14, 2009. However, the Authority did not attempt to recover the overpaid housing assistance in accordance with its program administrative plan (see appendix C in this audit report, finding 2). Since the household had income, the Authority overpaid \$1,284 in housing assistance from January 1 through December 31, 2009.

As a result, the Authority overpaid \$18,181 in housing assistance and utility allowances for the 17 households.

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

The Authority overpaid housing assistance and utility allowances for reported zero-income households that had excluded and/or unreported income because it lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan were followed.

The cause of the majority of the errors in the zero-income household review (i.e., annual income calculation errors) mirrored the cause of errors discussed in audit report number 2009-CH-1012 since annual income is one of the driving factors in determining the accuracy of housing assistance and utility allowance payments. In audit report number 2009-CH-1012, we identified causes related to insufficient guidance, inadequate training, and inadequate quality control reviews. We identified the following additional causes during this audit:

- The Authority implemented an updated administrative plan, effective April 2009. However, the administrative plan contained inconsistent and contradictory guidance regarding performing interim reexaminations, which resulted in the Authority's staff not always recalculating the subsidy after a zero-income household began receiving income.
- The Authority lacked standard procedures for monitoring zero-income households. Although the Authority's administrative plans indicated that written certifications of income status and/or periodic interim examinations were to be performed for the zero-income households, neither the administrative plans nor program procedures outlined how the Authority's certification specialists should accomplish these tasks. Therefore, the certification specialists indicated that they developed their own methods.
- The Authority's program staff made inadvertent errors. Due to their caseloads, program staff members said that they had limited time to monitor zero-income households as well as they should to prevent overpayments of housing assistance to households that were required to meet their rental obligations. Over the course of our audit period, caseloads increased from approximately 250 households to approximately 480 households per certification specialist. The job responsibilities of the certification specialists include scheduling and conducting appointments for all households for their annual recertification, verifying the households' income information and other factors, and processing the annual reexaminations. In addition, the certification specialists perform the necessary interim reexaminations; process change of unit examinations when households want to move; and engage in other miscellaneous tasks such as providing input to help the Authority revise its administrative plan which was updated in April 2009. Although they generally accessed HUD's system to obtain income reports at each annual recertification, the reports were not always used to identify or pursue overpaid assistance. Therefore, the program staff was not surprised by the errors identified in our zero-income household review. The Authority's executive director and program manager acknowledged that there were deficiencies in their monitoring of zero-income households.
- The Authority performed inadequate quality control reviews. It did not perform quality control reviews that specifically related to the monitoring of zero-income households, including ensuring that written certifications



were obtained, interim reexaminations were performed, and overpaid assistance was pursued once unreported income was identified.

- The Authority's program manager said that she had not received formal training for her position since August 2009 when the executive director suggested that she transfer from the position of administrative office manager to program manager. She said she was denied executive management training although she ran the Authority's largest program. As of April 2010, she was scheduled to receive executive management training. However, she was no longer employed with the Authority as of May 2010.

As of September 2010, the Authority was in the process of revising its program administrative plan. In addition, it planned to obtain technical assistance from its software provider PHA-Web to enhance the functions of its software by either embedding a reminder or notification within the system to assist staff in performing regular, periodic reviews of zero-income households or some other means.

## Conclusion

As a result of the weaknesses in the Authority's procedures and controls, the Authority overpaid \$36,077 in housing assistance and utility allowances to the 29 households due to excluded and unreported income.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$3,720 in administrative fees for the 15 households for which it excluded income, and it received \$3,087 in administrative fees for the 11 households that had unreported income for which it failed to pursue overpaid assistance.

Unless the Authority implements adequate procedures and controls regarding its monitoring of zero-income households to ensure compliance with HUD's regulations and its program administrative plan, we estimate that nearly \$12,000 in payments will be misspent 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 in place to ensure the accuracy of housing assistance and utility allowance payments to its zero-income households.

## Recommendations

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



- 2A. Pursue collection from the applicable households or reimburse its program \$18,181 from non-Federal funds for the overpayment of housing assistance and utility allowances for the 17 households with unreported income cited in this finding.
- 2B. Reimburse its program \$17,896 from non-Federal funds for the overpayment of housing assistance and utility allowances for the 15 households with excluded income cited in this finding.
- 2C. Reimburse its program \$6,807 (\$3,720 plus \$3,087) from non-Federal funds for the improper administrative fees related to the 25 households cited in this finding.
- 2D. Revise its program administrative plan (1) to ensure that its procedures and controls are uniform and consistent regarding its zero-income households and (2) to ensure Public and Indian Housing Notice 2010-19, Administrative Guidance for Effective and Mandated Use of the Enterprise Income Verification System, is incorporated.
- 2E. Implement adequate procedures and controls to properly monitor zero-income households and ensure that households that report zero income do not have income that would result in an overpayment of housing and utility assistance. By implementing adequate procedures and controls, the Authority should help to ensure that \$11,752 in program funds is appropriately used for future payments.
- 2F. Ensure that its staff responsible for monitoring zero-income households is knowledgeable of HUD's and its program policies and procedures by providing adequate training.
- 2G. Ensure that its staff responsible for performing quality controls is knowledgeable of HUD's and its program policies and procedures to ensure that proper monitoring of zero-income households is not overlooked and households that receive income pay their appropriate share of their rent.
- 2H. Analyze its staffing levels for the program based upon the job requirements for each position to determine the need for additional staff.

### Finding 3: The Authority Generally Complied with Family Self-Sufficiency Program Requirements

The Authority generally complied with HUD's requirements, its program administrative plan, and its family self-sufficiency action plan. However, it failed to consistently compute participants' escrow credits and maintain their escrow accounts accurately. These conditions occurred because the Authority lacked adequate procedures and controls to ensure that HUD's regulations, its program administrative plan, and its family self-sufficiency action plan regarding maintaining escrow accounts were followed. As a result, it overpaid more than \$14,000 and underpaid more than \$3,000 in escrow credit. Further, we estimate that the Authority will overpay more than \$4,000 in escrow credit over the next year.

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#### **The Authority Made Incorrect Escrow Credit Payments**

We performed a 100 percent review of the 32 family self-sufficiency participants with escrow account balances as of September 30, 2009. The 32 files were reviewed to determine whether the Authority maintained the required documentation and correctly calculated and applied the family self-sufficiency program participants' escrow credits for our audit period of July 1, 2007, through September 30, 2009, and other periods as necessary. Our review was limited to the information maintained by the Authority in its participants' files.

The Authority appropriately maintained the contracts of participation and the individual training and service plans for all 32 participants reviewed, and it appropriately distributed annual statements to the participants that had an escrow balance at fiscal year-end in 2008 and 2009. However, the Authority did not always properly authorize interim escrow disbursements. Of the five interim escrow disbursements reviewed, four were improperly authorized due to (1) lack of written approval, (2) lack of an escrow withdrawal request from the participant, and/or (3) inappropriate distribution of the disbursement check to the participant instead of the agency or business that would be accepting the payment. Since the participants' files did contain documentation that indicated that the interim disbursements were for approved purposes as indicated in the Authority's family self-sufficiency action plan, we did not question the amount of the disbursements. Further, we did not want to double count the questioned costs since at least three of the disbursements were affected during our review of the escrow credit accuracy.

Further, the Authority's miscalculations and its failure to comply with program requirements resulted in escrow credit overpayments of \$14,544 and underpayments of \$3,347. Twenty (63 percent) of the 32 files reviewed contained errors in one or more of the escrow credit applications. These files included 11 participant files with overpayments and 9 participant files with underpayments. The 20 files contained the following errors:

- 14 had calculation errors relating to annual income for the current income certification,
- 6 had calculation errors relating to annual income for the income certification applicable at commencement of the family self-sufficiency program,
- 3 had incorrect income limits used in their escrow credit calculation,
- 2 had incorrect posting of the escrow credit in the subsidiary ledger,
- 2 had understated escrow credits due to the Authority's failure to determine an escrow credit since the participant did not reside in an assisted unit,
- 1 had the incorrect amount of earned income and total tenant payment at program commencement used in the escrow credit calculation,
- 1 had the incorrect amount of current earned income in the escrow credit calculation, and
- 1 incorrectly had escrow credits determined although there was no increase in earned income (see appendix C for finding 3 in this audit report).

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

The Authority lacked adequate procedures and controls to ensure that HUD's regulations, its program administrative plan, and its family self-sufficiency action plan regarding maintaining escrow accounts were followed. The cause of the majority of the errors in the escrow credits and escrow account balances (i.e., annual income errors) occurred because the Authority did not appropriately calculate participants housing assistance and utility allowance, as were the cause of errors discussed in audit report number 2009-CH-1012 since annual income is a driving factor in determining both housing assistance payments and escrow credits. For the family self-sufficiency program review, we identified annual income calculation errors in both the current examination and the examination used to enroll the participant in the family self-sufficiency program. Since the escrow credit is based upon increases in earned income and is a calculated difference in earned income and total tenant payment at program commencement rather than the current examination, annual income errors at program commencement generally will affect the escrow credit amount during the term of the participant's family self-sufficiency contract. In audit report number 2009-CH-1012, we identified causes related to insufficient guidance, inadequate training, and inadequate quality control reviews. We identified the following additional causes during this audit.

The Authority performed inadequate quality control reviews because it failed to identify errors that were specific to the participants' escrow credits and/or escrow accounts and did not ensure that errors affecting the escrow were corrected.

In addition, the Authority's housing choice voucher manager said that not all staff assigned to perform the family self-sufficiency coordinator responsibilities was

qualified or well equipped to perform the duties. She said that this condition existed because the background for being a good coordinator was having strong interviewing (or rent calculation) skills. The Authority made staff changes in its family self-sufficiency department during and following our audit period. As discussed in finding 2 of this report, the Authority's program manager said that she had not received formal training for her position.

During the course of the audit, the Authority took the following measures to improve its program:

- The Authority implemented an updated administrative plan, effective April 2009. We performed a comparison of errors in the escrow credits that occurred before the implementation of the administrative plan, effective April 2009, rather than after the implementation of the plan, and we noted a decrease in the percentage of errors from 26 to 14 percent.
- Program staff attended training for the family self-sufficiency program.
- The Authority was developing a new family self-sufficiency action plan.
- As of June 2010, the Authority had addressed the escrow credit and account errors that we identified.

## Conclusion

As a result of the weaknesses in the Authority's procedures and controls, it overpaid \$14,544 and underpaid \$3,347 in escrow credit.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$7,480 in program administrative fees for the 20 households with incorrect escrow account balances. The ineligible administrative fees related to the escrow credit errors identified during this review do not overlap the ineligible administrative fees identified in audit report number 2009-CH-1012.

Unless the Authority implements adequate procedures and controls regarding its escrow payments to ensure compliance with HUD's regulations, its program administrative plan, and its family self-sufficiency action plan, we estimate that more than \$4,000 in payments will be misspent 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 in place to ensure the accuracy of the escrow payments.

## Recommendations

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

- 3A. Reimburse its program \$14,544 and correct the applicable escrow accounts for the overfunding of the family self-sufficiency program participants' escrow accounts cited in this finding.
- 3B. Reimburse the appropriate family self-sufficiency program participants' escrow accounts \$3,347 for the underpayments cited in this finding.
- 3C. Reimburse its program \$7,480 from non-Federal funds for the improper administrative fees related to the 20 households cited in this finding.
- 3D. Implement adequate procedures and controls to ensure that staff properly calculates family self-sufficiency program participants' escrow credits and properly maintains the participants' escrow accounts. By implementing adequate procedures and controls, the Authority should help to ensure that \$4,043 in net program funds is appropriately used for future payments.
- 3E. Ensure that its staff responsible for administering the family self-sufficiency program is knowledgeable of both the program and the family self-sufficiency program, including HUD's and its program policies and procedures.
- 3F. Ensure that its staff responsible for performing quality control reviews includes reviews that ensure that escrow credits received under the family self-sufficiency program are accurate.
- 3G. Provide documentation to support the implementation of its quality controls over the program to ensure proper supervision and oversight over its family self-sufficiency program participants.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws and regulations; and HUD's program requirements at 24 CFR Parts 5, 982, and 984; HUD's Public and Indian Housing Notice 2004-1; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records; general ledgers; bank statements; board resolutions from August 2003, November 2004, and June 2006 through February 2010; organizational chart; program household files; procurement files; program policies and procedures; procurement policy; ethical policy; and program administrative plans, effective January 2000 and April 2009.
- HUD's reports and files for the Authority's program.

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

### **Finding 1**

We performed a 100 percent review of the 13 contractual agreements entered into by the Authority during the period July 1, 2007, through October 2009, that specifically related to the program. We reviewed the procurement process for the 13 agreements to determine whether the Authority obtained the contracted services in accordance with its procurement and ethical policies.

### **Finding 2**

We performed a 100 percent review of the 58 households reported as having zero income as of November 19, 2009. The 58 household files were reviewed to determine whether the households had income while showing zero income during the period July 1, 2007, through February 28, 2010, and other periods as necessary to determine whether the Authority was aware of any income identified and appropriately incorporated the income in the households' subsidy determination. Our review was limited to the information maintained in the household files and HUD's system.

Unless the Authority implements adequate procedures and controls regarding its monitoring of zero-income households to ensure compliance with HUD's regulations and its program administrative plan, we estimate that more than \$12,000 in payments will be misspent over the next year. Using information provided by the Authority regarding the program retention rate for the 5-year period July 1, 2005, through June 30, 2010, we determined that 97 percent of the audited households would remain on the program over the next year. Since our audit period covered multiple years, we determined that a 1-year period would represent 38 percent of our error rate. Although some errors identified during our audit expanded beyond our audit scope of July 1, 2007, through February 28, 2010, we only used the errors identified within the audit scope to estimate funds to be put to better use. We multiplied (1) the retention rate of 97 percent

by (2) the 38 percentage rate for the 1-year period and (3) the net error amount of \$32,308 to determine funds to be put to better use totaling \$11,752.

### **Finding 3**

We performed a 100 percent review of the 32 family self-sufficiency participants with escrow account balances as of September 30, 2009. The 32 files were reviewed to determine whether the Authority correctly calculated and applied the participants' escrow credits for the audit period July 1, 2007, through September 30, 2009, and other periods as necessary. Our review was limited to the information maintained by the Authority in its participants' files.

Unless the Authority implements adequate procedures and controls regarding its escrow payments to ensure compliance with HUD's regulations, its program administrative plan, and its family self-sufficiency action plan, we estimate that more than \$4,000 in payments will be misspent over the next year. Using information provided by the Authority regarding the family self-sufficiency program retention rate for the 5-year period July 1, 2005, through June 30, 2010, we determined that 82 percent of the audited participants would remain on the program over the next year. Since our audit period covered multiple years, we determined that a 1-year period would represent 44 percent of our error rate. Although some errors identified during our audit expanded beyond the audit scope of July 1, 2007, through September 30, 2009, we only used the errors identified within the audit scope to estimate funds to be put to better use. We multiplied (1) the retention rate of 82 percent by (2) the 44 percentage rate for the 1-year period and (3) the net error amount of \$11,092 to determine funds to be put to better use totaling \$4,043.

We performed our on-site audit work from October 2009 through May 2010 at the Authority's program office located at 189 First Street, Painesville, OH. The audit covered the period January 1, 2007, through September 30, 2009, but was expanded as necessary.

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 finding and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting - 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 applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws or regulations on a timely basis.



## Significant Deficiency

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

- The Authority lacked adequate procedures and controls over its family self-sufficiency escrow credits, zero-income households, and contracted services (see findings 1, 2, and 3).

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$3,652		
1B		<u>\$64,264</u>	
1C			\$431
2A	18,181		
2B	17,896		
2C	6,807		
2E			11,752
3A	14,544		
3B			3,347
3C	<u>7,480</u>		
3D			<u>4,043</u>
Totals	<u>\$68,560</u>	<u>\$64,264</u>	<u>\$19,573</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.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

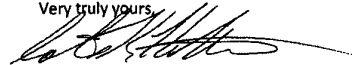
	<b>Lake Metropolitan Housing Authority</b> 189 First Street • Painesville, Ohio 44077 440-354-3347 • 440-354-5008 fax	
<p>September 24, 2010</p> <p>Mr. Heath Wolfe Regional Inspector General for Audit, Region V US Department of Housing and Urban Development Ralph H. Metcalfe Federal Building 77 West Jackson Blvd, Suite 2646 Chicago, IL 60604-3507</p> <p>RE: OIG Phase III Draft Audit Report</p> <p>Dear Mr. Wolfe,</p> <p>This letter represents the Lake Metropolitan Housing Authority's (LMHA) response to the phase 3 discussion draft audit report of HUD's Office of Inspector General for Audit. The discussion draft audit report was electrically sent to the LMHA offices on Saturday, September 11, 2010. The hard copy was received on Tuesday September 14, 2010. While LMHA has provided a response to this report, there is serious concern for the timeline that has been established for the issuance of this report on September 30, 2010.</p> <p>The entrance conference for Phase 3 was held on October 15, 2009. It was my understanding that the original draft release was scheduled for June 2010. With the actual Phase 3 findings being submitted to LMHA on September 11<sup>th</sup>, with no extension for LMHA's response being considered, it has placed an unrealistic burden on the Agency to submit a well documented, comprehensive response to the OIG by September 25, 2010. Furthermore, I have additional concerns that the planned issuance date of September 30, 2010 would only give the OIG four business days to review LMHA's findings. Given the four plus months that was required to complete the discussion draft document, is it realistic to believe that a thorough review of LMHA's response can be completed within such a short time period?</p> <p>While I believe there is common ground and mutual understanding within this discussion draft, I feel that it is my responsibility to defend the agency where appropriate. Our initial review of the findings has identified several areas that warrant a response. Again, given the time that was required by the Office of the Inspector General to assemble this draft audit report, I must reiterate that ten business days to compile all of the documentation needed to formulate a cohesive response has placed a tremendous burden on the agency. Furthermore, with a four day period of time to review the LMHA response, one wonders if there will be adequate time for a substantive assessment of the response prior to issuance.</p> <p>Please understand that LMHA has complied with the deadline of September 25, 2010, however, we wanted to take the opportunity to express our concerns for the very narrow window of opportunity to address, and potentially seek redress, the findings being issued in this report. The Office of Inspector</p>		

General began phase III on October 15, 2009. This provided almost a year to complete the on-site investigation phase, as well as the writing of the draft report. With the voluminous amount of information and material that has been covered in the draft audit report, it is the belief of LMHA that additional time to develop an appropriate response is warranted.

LMHA appreciates the OIG statement acknowledging the cooperation that it received from the staff of the Authority. It was the goal of LMHA to have a positive work relationship with the OIG investigators and to assist in the audit process. LMHA staff continuously provided the OIG and HUD with all necessary documentation and information in a timely manner. LMHA has found many of the recommendations helpful, and as a result of the audit, LMHA has implemented policy changes that have continued to improve the administration of the agency's programs.

My staff and I have worked diligently to present our attached official response to the draft audit report within the 10 business day deadline given. I look forward to the completion of the Phase 3 portion of the OIG audit, and I am anxious to bring a close to this audit so that we can continue to focus on building a premier Public Housing Agency in Lake County.

Very truly yours,



Steven Knotts  
Executive Director

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**BACKGROUND AND OBJECTIVE**

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The Lake Metropolitan Housing Authority (LMHA) is a municipal corporation which was formed under the United States Housing Act of 1937. LMHA administers housing assistance for Lake County, Ohio through two federal housing programs, the Housing Choice Voucher Program (formally known as Section 8) and the Public Housing Program. These programs offer low-income households the opportunity to rent or own affordable, decent and safe housing. More importantly, they provide these households a stable living environment so that they may live securely and work towards their own economic self-sufficiency. The Housing Authority provides publicly assisted housing, comprised of 241 traditional public housing units, and has issued 1457 Housing Choice vouchers.

LMHA self certified to troubled status on its Section Eight Management Assessment Program (SEMAP) rating for the fiscal year ending June 30, 2008. Recognizing that LMHA had severe systemic problems within the HCV program, it was important to notify the Cleveland Field Office of the true condition of the HCV program. The SEMAP troubled status report was made by LMHA prior to the HUD conducted on-site review and before the OIG audit. Understanding the seriousness of the troubled status, LMHA has worked with the Cleveland Field Office and the OIG investigators to: resolve deficiencies within the program, correct errors, and institute changes to the program administration that will result in LMHA being recognized as the premiere agency within Lake County.

LMHA has reviewed the OIG's discussion draft, and has detailed the following responses in accordance with the findings listed within the draft document. LMHA has submitted responses to the allegations that (1) the Authority failed to follow procurement requirements for contracted services for its program (2) the authority had weak controls over zero-income households (3) the authorities administration of the family self-sufficiency program was inadequate.

LMHA's objective is to provide a detailed and documented response to the allegations indicated within the OIG audit report. Within this response, LMHA will provide information supporting some of the OIG's findings, where applicable. It is the goal of LMHA to be a high performer and a premier Housing Authority. In order to improve and move the agency forward, self reflection and corrective action is required. We look to the OIG findings, coupled with LMHA's findings (documented in this response), to discover common ground and a common understanding of the true program deficiencies and the appropriate corrective actions required.

**LMHA AUDIT RESPONSE**

**Finding 1: The Authority Failed to Followed Procurement Requirements for Contracted Services for its Program**

The Authority failed to follow its procurement requirements when obtaining contracted services for the administration of its program. This deficiency occurred because the Authority lacked adequate procedures and controls to ensure that its procurement and ethical policies regarding possible conflicts of interest were followed. Further, it did not have an adequate contract administration system. As a result, the Authority hindered full and open competition, paid more than \$64,000 in unsupported contract expenses, and paid more than \$3,000 in improper contract expenses.

**HISTORICAL BACKGROUND**

The previous Executive Director had held the position for only nine months before he was terminated. There were backlogs of paper work that had not been completed during the absence of any kind of leadership. Additionally, the entire 2007 CFP grant for LMHA was in jeopardy of being recaptured. This would have been a loss of nearly \$300,000 to the agency. With multiple issues in all of the agency's departments, a poorly trained staff, and an ineffective management team, it was imperative that action be taken to prevent the agency from imploding. These are just a sampling of the many issues facing LMHA at the time of the new executive directors hire.

Following is a list of just some of the issues that faced LMHA in 2007:

- The agency required an updated and revised Personnel Policy Manual
- The agency required an updated and revised Administrative Plan
- The agency required an updated and revised ACOP
- The agency required updated and clearly defined job descriptions
- The agency required an updated and revised Procurement Policy
- The agency required an updated Tenant Handbook
- The agency required an updated Tenant Charge List
- The agency required Management level training & support for new managers
- The agency required training for HCV staff members for HQS, rent calculations, SEMAP, FSS
- The agency required a HUD compliant Rent Reasonableness program

The current Executive Director was hired in September of 2007. He was selected to take over the agency following an exhaustive executive search. With an extensive background in the affordable housing industry, the executive director has the background and experience required to address the multitude of issues facing LMHA.

Before joining LMHA, the Executive Director was a manager with CGI. Prior to working at CGI/AMS Inc., the executive director was the Section 8 Director for the Akron Metropolitan Housing Authority. While employed at AMHA, he oversaw all aspects of management of the Section 8 program. His efforts played a key role in bringing the department from a standard Section Eight Management Assessment Program status to a high performer score in 2004.

Comment 1  
Comment 2

The combination of work experience and affordable housing industry accomplishments along with a high degree of professional integrity were some of the reasons that the Executive Director was the appropriate candidate for the position at LMHA. With the many issues facing LMHA in the fall of 2007, the Executive Director's working experience within the affordable housing industry, as well as his contacts within other organizations, played a key role in the agencies removal from troubled SEMAP status.

With very limited experience in the HUD procurement arena, the Executive Director relied on the existing staff to complete much of the procurement functions. Like many of the issues facing LMHA, it quickly became clear that the Authority lacked the knowledge and experience to perform these procurement activities effectively. With extensive problems in both of the Authority's programs, it became increasingly difficult to expect that the new executive director could successfully lead the organization without professional assistance from outside of the agency. In an effort to turn the Authority around, LMHA engaged in the use of limited and targeted consulting. Many agencies in SEMAP troubled status will contract with vendors, and some will outsource the administration of the entire HCV program until out of SEMAP troubled status. It was decided by LMHA that vendors would be utilized in a limited and targeted manner, mainly for the purpose of staff training, and to assist in compliance issues, as raised by the OIG's on site inspectors.

Since September of 2007, LMHA has experienced significant employee and management turnover. The agency has coped with a turnover rate of 70% due to the termination or resignation of 19 staff members. Many of these staffers were dismissed for failing to perform the duties for which they were hired, incompetence, or because they lacked the qualifications for their positions. This is a clear indication that many of the staff, as of September 2007, did not possess the tools and skills necessary to improve the agencies position. LMHA would also like to note that the OIG has reviewed personnel files on three separate occasions during each of the three phases of their investigation. With no findings mentioned in any of the three OIG reports, it must be noted that the hiring practices at LMHA, during the review period, have been appropriate and beyond reproach.

Comment 3

One of the many challenges facing the agency and the new executive director was the LMHA Procurement Policy. As of 2007, the agency had no less than three separate procurement policies that it was utilizing for procurement. This is an item that was corrected through board resolution to ensure that future procurement practices are conducted in a manner consistent with LMHA and HUD policy.

The OIG investigation was primarily focused on 13 contractual agreements that related to the HCV program. These agreements were for the time period of July 1, 2007 through February 28, 2010. Prior to 2008, LMHA had been self certified as a high performing agency with reported SEMAP scores above 90%. With an actual SEMAP score of 38%, the new Executive Director, working with the Board of Commissioners, recognized that the condition of the agency was grave. These concerns were verified by Phase I and Phase II OIG Audit Findings. It is also important to note we improved the HCV program and within one year (two years are allowed), was no longer in "troubled" status with a HUD confirmed, SEMAP score of 69%, a standard rating. The last FY we have submitted a SEMAP rating of 79% which shows our continued improvement. This was accomplished while closing out all of the OIG findings from phase 1 and 2, within appropriate time frames. This clearly validates the value of assistance from outside vendors.



**Comment 1**

The majority of the contracts listed below were the direct result of, or in anticipation of, the OIG's phase I or II audit findings and the self certified SEMAP troubled status. Contractors were utilized to close out the many findings reported in the Phase I and Phase II Audit reports. These on-site audits began June 30, 2008 and continued through May 2010. Complying with the OIG phase I and II audit results created additional workloads in addition to the already grievous situation the agency was in. Through the use of targeted vendor services, the Authority reduced the amount of the OIG findings in phase 1 by over \$821,000, along with receiving no findings in 2 of the 3 areas reviewed in the OIG phase 2 audit, clearly demonstrating the deliverables that LMHA received from these agreements.

The following is a detailed listing of the contractual agreements reviewed:

**Comment 4**

Contract Date	RFP No.	Description of Services Rendered	Awarded To	Total Contract Amount	LMHA Comment
3/14/08	None	SEMAP Tech. Assistance	Advantageous Consulting	\$4,350	Confirmed the Authority's SEMAP score of 38%. Identified systemic problems within the program mgmt. This followed a 90% SEMAP score submitted by LMHA
	None	Staff Analysis, File Organization, Wait List mgmt, Rent Reasonableness, Third Party Review, Contract Administration with HAP, Voucher Issuance tracking, Training	CGI	\$7,462	Services required following 38% SEMAP. Only vendor able to provide adequate assistance for the volume of help required. OIG confirmed need for services in Phase I report.
7/17/08	2008-5	SEMAP Year End Cert.	Advantageous Consulting	\$2,925	Provided third party verification of the true SEMAP score. This was to ensure an unbiased and accurate scoring for the program. LMHA previously self certified at 90% SEMAP. Services were not duplicated from 3/14/08 contract.
8/26/08	2008-5	SEMAP Quarterly Review	CGI	\$7,750	Provided third party verification of the true quarterly SEMAP score. This was to ensure an unbiased and accurate scoring for the program. LMHA previously self certified at 90% SEMAP.

Comment 5

Comment 6

					Services were not duplicated from 3/14/08 contract
1/26/09	2008-7	Technical Assistance for Management of Maintenance Division and HCV HQS Inspection Process	CGI	\$8,320	Authority received three quotes to ensure competition. Services were duplicated when new mgrs were hired to replace previously trained mgrs. Agency paid for only those services that were needed.
8/26/08	None	Administrative Plan	CGI	\$2,400	With the many issues facing the program a clear over haul of the Admin Plan was required. This could not be anticipated prior to the proper reporting of the SEMAP score of 38%. It was not practical to enter into multiple agreements with multiple vendors for these services because CGI was already familiar with the program deficiencies.
3/1/09	2008-8	Rent Reasonableness Software	Market Vision Partners, LLC	\$12,750 over 3 yrs	OIG wrongly asserts Public Housing does not perform rent reasonableness. Per the ACOP, PH is required to utilize the HCV system to perform rent reasonables. These services were procured in advance of the OIG's Phase II Audit. No OIG findings were indicated as a result of this software procurement.
10/14/08	None	Technical Assistance with Processing and Organizing Files, Third Party Tracking, Sending out Verifications, Wait List Pulls, Opening the Wait List, Office Organization	PPH Manager	\$1,800	Authority could not conduct annual planning for these services as they were the direct result of OIG Phase I findings. These services were not duplicated in previous contracts since they were in direct response to

Ref to OIG Evaluation

Auditee Comments

Comment 7

Comment 8

					specific OIG findings.
1/17/09	None	Technical Assistance with File Corrections Required by Various Auditing Entities, SEMAP Indicator #2 File Audit and Corrections, Preparing Documents needed to open HCV Wait List	PPH Manager	\$1,800	OIG asserts that purchases must be distributed among qualified sources. This requirement pertains to inventory (i.e. stoves, refrigerators) not technical services agreements. The Authority contracted these services as a direct result of OIG findings. The need for these services could not have been planned for or anticipated.
4/29/09	2009-1	Technical Assistance with Housing Choice Voucher Operations, Project 2-HCV Certification Staff Augmentation and Project 3 HQS Inspection Staff Augmentation	CGI	\$50,620	Total contract price exceeded expected total as a result of OIG findings and LMHA's attempt to comply with program requirements. Additional HQS inspection services were required resulting from 59 OIG 24 hour violations reported and 77 total unit inspection failures. These services could not be planned for in advance as they resulted from the OIG audit. OIG investigation was the direct cause for these services to exceed the small purchase threshold.
3/26/09	2009-1	Technical Assistance with Housing Choice Voucher Operations. Project 1 FSS Grant submission	McKay Mgmt Services	\$1,800	Contracted to have vendor submit FSS Grant in an attempt to expand LMHA FSS Services.
5/14/09	None	Technical Assistance with Processing and Organizing Files, Auditing Files, Making Corrections as a Result of Audited Files; Training Staff on	PPH Manager	\$9,360	Services contracted as a result of the OIG audit. Procured needed assistance to bring program into compliance based on OIG findings. Equitable distribution of

		Specific SEMAP indicators; Obtaining Full Points for Specified SEMAP Indicators, Building all necessary Letters into Software System; File Organization			contracts does not apply in this situation (as explained above). The Authority only paid out \$742.50 of this contract once it was determined that the services were not required.
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**LMHA'S FINDING 1 RESPONSE**

**The Authority Did Not Use the Proper Method of Procurement**

With a self certified SEMAP score of 38%, LMHA looked to contract with service providers to support the agency and to implement training across the entire program. During the audit period, LMHA endured the dismissal of seven members of the management staff. The Authority attempted to recruit competent management professionals from other housing authorities, but given the overall condition of the Authority it was not possible to persuade any of these individuals to join LMHA. Additionally, the financial resources of the agency were a prohibitive factor in the hiring process. See attached letter within backup documentation of confirmation of a HCV coordinator from another northern Ohio PHA declining a job offer made for \$65,000, it is also important to note this is far above any managerial level pay rate within our agency, then or now.

All new managers hired during this time period had no relevant low income housing experience. With nearly 100% turn over at the management level, coupled with a poorly defined procurement policy, it is not surprising that technical mistakes were made in the procurement process. Procurement activities were undertaken by managers with minimal experience and little understanding of the various methods of HUD procurement. However, all efforts were made to insure that appropriate and competitive pricing was received from multiple vendors for similar services.

While LMHA acknowledges errors in its method of procurement, it should be noted that there have been no OIG findings of fraud or theft within the procurement process. In no way did LMHA attempt to restrict competition, and at no time did LMHA misappropriate or over spend agency funds. LMHA received competitive pricing from responsible bidders for services requested within the RFP documents. LMHA further stipulates that the proper method of procurement for most of these services should have been the Invitation for Bids method. This would have been a more relevant form of procurement as the nature of the contracted services was similar, and the main evaluation factor was price.

With price being the main criteria for evaluating these proposals, and because none of the contracts were "anticipated" to be valued at more than \$25,000, LMHA was not required to advertise for these proposals as per Section III, paragraph B, as identified within the OIG Report Appendix C, which states that "any contract not exceeding \$25,000 may be made in accordance with the small purchase procedures authorized in this section...For purchases in excess of \$10,000 but less than \$25,000, a minimum of three price quotations submitted in writing is required."

Comment 9

Comment 10

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 8**

None of the 13 agreements reviewed by the OIG was thought to exceed the \$25,000 threshold at the time of award, which was the reason LMHA was not required to advertise in local newspapers or on Web sites. We would stipulate that the Authority was in error for not identifying the contract type, and for not setting a maximum ceiling price, below \$25,000, for the services that were provided by CGI under RFP 2009-1. As a result, the total contract amount escalated beyond the small purchase threshold. This escalation in contract price was the direct result of compliance findings identified in the Phase II OIG investigation. It is important to recognize that the HUD threshold for small purchases is \$100,000 or less. It is the LMHA procurement policy that has capped the small purchase amount at \$25,000.

**Comment 11**

Because LMHA was evaluating the RFP's based on price, LMHA was under no obligation to prepare an evaluation plan for the proposals that it received. There was, however, a clearly defined evaluation system published in the RFP document that was provided to the bidders. The evaluation system indicated the point system that would be utilized to analyze the proposals. Because the primary factor for evaluation was price, this was not a necessary step needed in the procurement of these contracts.

**Comment 12**

During the OIG review period, LMHA has provided the current Operations Manager, the current Administrative Office Manager and the Executive Director with formal procurement training. The training has provided the Authority with multiple members of management who have a working knowledge of the procurement process. It is LMHA's belief that having several staff members versed in procurement will help the Authority to maintain a record of compliance in the procurement process. Furthermore, the agency has identified the Operations Manager as the Contracting Officer for procurement at LMHA.

Since February 5, 2009, the Cleveland Field Office has conducted two on-site reviews of the procurement for services relating to the ARRA Grants. All of the ARRA funded projects have been approved, by HUD, for the method of procurement, scope of services requested, method of soliciting bids, evaluation of bids and contract type. These HUD reviews are seen by LMHA as a clear demonstration of the Authority's commitment to improve all areas of operations. These HUD procurement reviews have shown that LMHA's commitment to improvement is producing positive results.

**Dependencies in the Scope of Services Requested**

**Comment 9**

LMHA has previously stipulated that the agency utilized the wrong method of procurement for some of the contracted services that were procured. With proper training in the procurement process, LMHA has recognized that the proper method for these contracts would have been an Invitation for Bid (IFB). However, with this understanding, it is important to point out that the allegations that LMHA failed to promote competition because the Authority failed to allow bidders to explain how their products and services would meet the Authority's needs are not relevant. While LMHA used a Request for Proposal to receive responsible bids, the main evaluation factor for the proposals that were received was price. Because the Authority was soliciting bids for similar services where price was the main criteria that differentiates each of the bidders, there was no need for proposers to explain how their products would meet the Authorities needs. Additionally, the proposers scope of services tended to mirror the requested scope of services outlined in the RFP because the services are all similar. Again, this is explained by the OIG's primary allegation that the Authority utilized the wrong method of procurement. Once again, this audit finding is the result of LMHA utilizing an RFP document instead of an Invitation to

**Comment 11**

Bid. However, it is important to note that there are no OIG allegations of fraud or theft with these contracts. Furthermore, no members of the LMHA staff, or any of the contracting vendors, were inappropriately benefitted by the agreements entered into by the Authority.

Moreover, LMHA utilized multiple contractors to assist with compliance issues within the HCV program. The use of different vendors was the result of pricing decisions, as well as vendor capacity. By providing contracts to several vendors, the Authority has taken advantage of the competitive bid process. And while the procurement method was flawed, the intent to insure fair competition was present.

**[REDACTED]**  
**[REDACTED]**

Comment 9

LMHA stipulates that it utilized the wrong method of procurement. The Authority would further defend that the remaining findings are the result of LMHA's substitution of an RFP document for an Invitation for Bid document. Again, the main factor for contractor selection was price. If the Authority was to substitute an IFB in lieu of the RFP used to procure these services, the cascading findings within this report would not be relevant.

Comment 13

The OIG reports that: *"the Authority did not ensure the contractor had the ability to provide the requested services before awarding the contracts"*. In reference to the agreement between LMHA and the program manager from Parma Housing Authority, a copy of the program manager resume was received which details the experience and expertise that this contractor was able to provide. With nine years of experience as a FSS coordinator, an occupancy specialist and an HCV Program Manager; this contractor offered hands on experience in the areas that LMHA was lacking. As supporting documentation, the Authority has provided a copy of the contractor's resume within the attachments section.

Comment 14

LMHA strenuously objects to the allegations that are implied within the OIG findings that the Executive Director had prior relationships with contractors that were awarded program contracts. A review of the Executive Director's employment file clearly shows the disclosure of his employment history on his resume that was submitted to the Board of Commissioners prior to his hire. Also the Cleveland HUD field office was well aware of the E.D.'s background as well as the verbal disclosure to the OIG's on site representatives. Additionally, LMHA staff was well aware of the Executive Director's previous employment history and his relationships with the vendors. This issue was made clear to everyone associated with the award of these contracts. All of the information alleged in the OIG findings was taken directly from the Executive Director's resume which was made available to the on-site investigator. Furthermore, the same information was reported on the executive director's conflict of interest statement, which was implemented at the urging of the OIG investigators. The attached board resolutions approving the contracts should serve as further evidence that these contracts were approved by the board of commissioners.

Comment 15

Comment 15

LMHA's Executive Director has no vested interest in any individual or company that has done business with the Authority. To imply that any of these contracts had been improperly steered or awarded because of the previous work history of the executive director is unfounded and inappropriate. The OIG has been unable to provide any documentation that the Executive Director personally benefitted from the agreements that were entered into with the various contractors. The Executive Director has offered

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**Comment 16**  
**Comment 1**

OIG investigators the opportunity to review his personal financial records to satisfy the groundless implication.

As previously stated in this response, CGI is the largest Performance Based Contractor for the Department of Housing and Urban Development. CGI is a worldwide company with over 25,000 employees. They are one of the largest HUD Contract Administrators processing over \$1.5 billion annually. Clearly, HUD recognizes the expertise that CGI offers to the subsidized housing industry. With the overall condition of the Authority, at the time of the OIG audit, it was imperative that LMHA receive expert assistance from a qualified and competent vendor. CGI's expertise in turning around troubled HCV programs has been documented by their being utilized by two of the largest PHAs in northern Ohio within the last ten years.

LMHA also objects to the assertion that there was anything inappropriate regarding the contract award with the manager of the Parma Public Housing Authority, CGI and Advantageous Consulting. Excluding bids from any member of a business or organization that had prior contact with the Executive Director would have significantly restricted competition. It was the executive director's work with these agencies and organizations that provided him with the necessary experience to be considered qualified for the position of executive director. It has also been alleged by the OIG report that the Executive Director's previous experience was all that was require to manage the agencies programs, however, it is that same experience that is being called into question. It is LMHA's contention that due to the specialized nature of the low income housing industry; and the relatively small number of Housing Authorities, very few qualified Executive Directors could be found who do not have previous contact with vendors or other housing authority staffers.

**Comment 7**

The OIG has asserted that the Authority sole sourced contracts to the program manager from the Parma Public Housing Authority. The finding as quoted in the report states small purchases below \$2,500 "must be distributed equitably among qualified sources. If practicable, a quotation shall be solicited from other than previous sources before placing a repeat order." This provision in the procurement policy is more pertinent to the purchase of identical goods that can be obtained from multiple sources. In addition, the term "if practical" leaves this determination to the Authority as to whether it is practical to enter into multiple agreements with vendors who are providing specific services. LMHA had determined that it was not practical to have additional vendors, not familiar with the program and its issues, to be awarded contracts for these multiple work orders.

**Comment 3**

LMHA would also like to address the allegation that competition was limited by the geographic restrictions used in the solicitation of bids. As indicated in the historical background, the LMHA procurement policy was in need of review and updating. Because the Authority had three versions of a procurement policy during this review period, the Executive Director worked to have a revised policy approved by the board of commissioners. A draft revision of the LMHA procurement policy was provided to the OIG which clearly omits the provision that states geographic limitations should be avoided. Under this version, LMHA believed that the geographic limitations were appropriate to save the Authority money while contracting for these services.

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Comment 17  
Comment 9

**Deficiencies With the Process of  
Awarding Contracts**

LMHA has stipulated that the method of procurement was improper. The OIG findings at the beginning of this section have indicated this, and LMHA is in agreement. However, the error that has been properly indicated is the method of procurement. It is the same deficiency and we object to the manner in which the OIG reports characterizes it as an additional deficiency. LMHA used an RFP document as the method of procurement, instead of an Invitation to Bid. LMHA evaluated the proposals that it received as if they were in fact Invitations to Bid. The same error that was reported, and agreed upon by LMHA, has continued to be erroneously reported as additional deficiencies.

Comment 9  
Comment 1

LMHA evaluated the submitted proposals based on price. Because LMHA was evaluating an RFP as an invitation to Bid, the proper evaluation method was being utilized. Award decisions were made primarily on price. The Authority would object to the additional finds that were the result of the mislabeling of the form of procurement. Recognizing that the method of procurement was flawed, the OIG has incorrectly created a cascading report of findings based on only one accurate error.

Comment 15

Within this section, the OIG has implied that the procurement of these services was in violation of the Authority's Ethical Policy. Again, the OIG was offered the opportunity to review the personal financial records of the Executive Director to make certain that there was no financial interest between the Executive Director and the contracted vendors. LMHA did not contract with any companies who were owned or operated by any family members, officials or business associates of LMHA staff. The implication that any possible ethics violation resulted from these contacts is patently false. **Without any specific allegations of ethics violations, it is completely improper that any appearance of impropriety should be alluded to within this OIG audit report.** The Authority takes great exception with the attempt to besmirch the reputation of the executive director in this manner.

Comment 1  
Comment 18  
Comment 19

**Contract Types/Deficiencies**

The OIG report alleges that "the Authority failed to (1) identify the contract type for 7 of the 13 contractual agreements, (2) maintain written documentation that no other contract was suitable for 5, time and materials contractual agreements, and (3) include a ceiling price that the contractor exceeds at its own risk for 1, time and materials contractual agreement." LMHA's review of these contractual agreements has shown that the OIG on-site investigator has not accurately represented the nature of the agreements, and the services provided. In the OIG's own report, 9 of the 13 agreements were determined to have provided the Authority the deliverables as outlined in the contractual agreement. Three of the agreements were found to have provided some of the deliverables as outlined in the contractual agreements. The Authority made only partial payments on the total contract amounts, which is a reflection of the contract management function that was in place during this time period. The Authority paid vendors for only those services and deliverables that were provided under the terms of the agreements.

Comment 19  
Comment 17  
Comment 20

Because this section of the report was vague and unclear as to its content, LMHA is unable to respond effectively. With the draft report issued to LMHA on Saturday, September 11, 2010, with a response submission deadline of September 25, 2010, ten days was not adequate time to seek clarification from the OIG pertaining to these allegations. LMHA reserves the right to provide additional response to these



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**Comment 15**

ambiguous claims of findings, should the OIG wish to provide specific documentation to the alleged errors that may (or may not) have occurred.

Finally, the Authority appreciates the OIG's acknowledgement that the Executive Director did not personally benefit from awarding these contracts. With no allegations of impropriety, the inflammatory characterizations regarding to the Executive Director should be stricken from this report. Furthermore, the OIG's on-site Investigator's detailed report which lists the Executive Director's conflict of interest as a cause to consider these contract payments ineligible is completely improper. The fact that no wrong doing was found and therefore the comments of an "appearance of a conflict" should be stricken from the final report.

~~The Authority's procedures and controls had weaknesses~~

**Comment 21**

The finding that the Authority failed to engage in an annual planning process to ensure efficient and economical purchasing for all 13 contractual agreements in accordance with its procurement policy is not particularly relevant to the contractual agreements under review. The contracted services were in response to the Authority's self certification of SEMAP trouble status and the OIG phase I and phase II auditing. Again the Authority had previously been reporting SEMAP scores of 90%, and as a result, the need for contracted services was unforeseeable and therefore was not an item that would have been outlined in an Annual Plan.

**Comment 1**

The Authority is responding to misleading assertions within the OIG report that state the need for contracted services resulted from improper staffing issues. The Authority believed that it would not be reasonable for the current staff to be expected to attend training, amend their current mode of operation and deal with OIG compliance findings. The staff was working to correct deficiencies within the program administration, while vendors were utilized to help address OIG compliance issues. Many of the service agreements were the direct result of the OIG investigation.

**Comment 22  
Comment 1**

Furthermore, many of the services were contracted following the termination of staff members and the program managers. Again, these issues were unforeseeable, as the agency was in crisis. Therefore the allegation that the Authority failed to engage in an annual planning process to ensure efficient and economical purchases for all 13 contracts is illogical. As indicated in the OIG findings, the program manager position was filled by three different employees and one interim manager. Additional services were retained to assist with compliance issues that resulted from the on-site OIG investigation. As the extent of the program's deficiencies were revealed, it became imperative to make swift and decisive decisions for the survival of the Authority.

**Comment 19**

This draft report also finds the Authority failed to perform adequate contract management of its contracted services in accordance with its procurement policies. Because the referenced deficiencies are not specific in nature, it is difficult to provide a concise response to the allegations. However, it should be pointed out that many of these services were carried out while the OIG's on-site inspectors were working in the Authority's Administrative Offices. The vendors provided tangible services and produced actual product to assist the Authority in meeting its compliance issues.

Comment 9

Conclusion

LMHA respectfully agrees with the OIG findings which indicate that the Authority used the wrong method of procurement when soliciting for program services. LMHA understands that by using the RFP method for procurement instead of the Invitation for Bid (IFB) method has resulted in the misinterpretation of the resulting contracts. The use of an RFP to contract for these services was incorrect; however, if one were to review the RFP document as an Invitation for Bid, LMHA will show that the evaluation and award processes were acceptable for the IFB form of procurement.

Comment 23  
Comment 19

LMHA respectfully requests that the OIG provide more specific information, or specific documentation, for the request to reimburse the program \$3,652 for ineligible expenses cited in the finding. The OIG report is not clear what expenses have been deemed ineligible. The OIG's on-site investigator's report originally indicated that \$67,915.95 of these expenses was ineligible. The draft report now indicates that \$3,652 is ineligible (with no explanation) and \$64,264 is unsupported costs.

Comment 24  
Comment 1

However, we are in agreement with the investigator's detailed report which clearly identifies that the Authority did receive the deliverables for which the Authority contracted. This key acknowledgement is important to point out because the OIG has recommended that the program be reimbursed for services that the Authority did not receive. The detailed report shows that each of the contracted provided the deliverables as outlined in the bid documents. The only deliverables that were not received were for services that the Authority determined were not necessary and therefore the Authority did not pay the remaining contract balances. LMHA would request additional clarification for the recommended HAP reimbursement under this rationale.

Comment 24  
Comment 25

Once again, it is not clear to the Authority what is unsupported about the above mentioned costs since the OIG investigator has indicated the need for these services, as reported in Findings 2 & 3 of this OIG report. The Authority contends that the services were required and supported, and as the OIG has concluded in its detailed on-site report, the Authority received the services for which it contracted. The Authority submits within the attachments provided, the OIG detailed summary of the 13 contractual agreements that are in question. LMHA would have requested additional clarification as to the allegation that this are ineligible or unsupported costs, however, this report was issued September 11, 2010, and there was not adequate time to receive elucidation from the OIG inspectors.

Comment 26  
Comment 1

It would have been appropriate for the OIG report to address the Authority's need for duplicative services. During the OIG's on-site investigation, LMHA worked with the HUD Field Office and OIG investigators to provide any and all relevant information that was applicable for their scope of review. As compliance issues were revealed, the Authority moved quickly to correct deficiencies within the program administration. As an example, during the Phase II investigation, the OIG's on-site investigators conducted HQS inspections of 80 program units. Following the OIG's HQS inspections, the Authority was provided with batch reports which detailed 24 hour emergency fails. The following details the reports received by LMHA from the OIG investigators:

**Comment 26  
Comment 1**

Date Report Received (MM/DD/YYYY)	Time OIG Report was Provided	Date OIG Inspected (MM/DD/YYYY)	Total Number of Deficiencies Reported
7/16/2009	9:32 p.m.	7/14, 7/15, 7/16	19
7/20/2009	9:12 p.m.	7/17, 7/20	11
7/23/2009	8:43 a.m.	7/21, 7/22	12
7/27/2009	4:47 p.m.	7/23, 7/24, 7/27	17

The OIG procurement report fails to identify the need for outside service providers to deal with the emergent work load created from these OIG HQS inspections. Each of these batch reports required immediate follow up from the Authority to ensure that the 24 hour health and safety issues were resolved in a timely manner. The sheer volume of work created by these reports was enough to overwhelm the LMHA inspection department. Because the OIG failed to report the 24 hour violations to LMHA in a judicious manner, the Authority could have been out of compliance with timely landlord follow up for these violations. These were the conditions that necessitated the need to contract with vendors for additional HQS inspection services. Clearly, this is not a duplication of contracted services.

**Comment 27**

Additional mischaracterizations of duplicative services can be seen in the training of management staff. As reported in Findings 2 & 3 of this report, OIG on-site investigators allege that program managers did not receive adequate training and that Authority staff lacked proper support. Under the duplicative services finding, it was not noted by OIG investigators that contractors provided training for 3 separate HCV program managers who were hired during the review period. Also, the Authority provided contracted training, of a similar nature, to 2 operations managers that were hired during the review period. If the OIG wishes to contend that a lack of training is cause for management deficiencies, as indicated in subsequent findings, then certainly they would be able to acknowledge that providing duplicative services for newly hired staff and managers would be appropriate and required. A deficiency for procured services that are duplicative or unsupported in Finding 1 cannot be a finding in subsequent sections of the same report. Under the procurement findings, the OIG report indicates duplicative or unsupported costs for items like training services, staff augmentation and technical assistance; while citing the Authority for not providing adequate training, staff support and proper staffing levels within findings 2 and 3 of the same report. The OIG report indicates that the Authority has undergone significant staff and management turnover, so it would have to agree that the need for duplicating many of these services would be required, and that the need for the services truly existed.

**Comment 1  
Comment 16  
Comment 24**

It is also important to note that contractual agreements between LMHA and CGI totaled \$78,352, in which \$51,291 was paid; the Parma Housing Authority was awarded \$23,020, in which \$7,175 was paid. Utilizing these contractors for only those functions that were imperative to the success of the agency reduced the number of dollars spent on assistance. LMHA utilized only the amount of services required. Furthermore, the use of employees from other PHAs has provided the LMHA staff with the industry expertise at a significantly lower cost. Payments to vendors for less than the total contract award amounts is clear evidence of the contract management function being exercised.

**Comment 1  
Comment 18  
Comment 24**

With many of the contracts being the direct result of OIG findings, it is difficult to rationalize that LMHA did not receive value for the awarded contracts. It is unclear to the Authority; due to the lack of specificity in the OIG audit report, what costs are unsupported. LMHA disagrees with the recommendation that the program be reimbursed \$64,264 for unsupported costs. It has been demonstrated within this response that the Authority had a need for contracted services, and those

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Comment 1  
Comment 18

services were provided. The Authority has attached copies of all deliverables received from the various agreements.

LMHA would like to emphasize that the OIG's on site auditors for Phase 1, 2, and 3 were present for many of the projects that were completed by outside contractors. The auditors reviewed all of the deliverables that were obtained through these agreements. For this reason, the Authority strongly disagrees with the notion that LMHA did not receive good value for the procured services.

Comment 1  
Comment 16  
Comment 18  
Comment 24

It is vital to point out that following the OIG's Phase I & Phase II auditing, LMHA faced a \$910,000 penalty. As a result of the contracts that LMHA entered into, the agency was able to reduce the original penalty to an amount less than \$89,000, a reduction of \$821,000. Again this occurred while the OIG auditors were on site and reviewing the corrections that resulted from these contracted services. Again the improved SEMAP score from 38%, to 69% and for the most recent FY a 79% while closing out all findings from both OIG phase 1 and 2 within allotted time frames validates the improvement LMHA has made with the targeted assistance from these contracts. The prudent use of outside vendors proved to be a cost effective way to respond to OIG findings, limited the agency's financial liability and provided much needed training to front line staff and management and increase compliance. These results show a clear indication that the Authority received good value and defined deliverables from these contracts.

Comment 12  
Comment 28

Follow Up

During the OIG review period, LMHA has provided the current Operations Manager, the current Administrative Office Manager and the Executive Director with formal procurement training. Furthermore, the agency has identified the Operations Manager as the Contracting Officer for procurement. Since February 5, 2009, the Cleveland Field Office has conducted two on-site reviews of the procurement for services relating to the ARRA Grants. All of the ARRA funded projects have been approved by HUD for the method of procurement, scope of services requested, method of soliciting bids, evaluation of bids and contract type.

**LMHA AUDIT RESPONSE**

**Finding 2: Controls over Zero-Income Households Had Weaknesses**

The Authority did not effectively use HUD's Enterprise Income Verification system or other verification methods to determine that reported zero-income households had unreported income. These conditions occurred because the Authority lacked adequate procedures and controls to perform appropriate income verification. As a result, it overpaid housing assistance and utility allowances totaling more than \$45,000 for households that were required to meet their rental obligations. Further, we estimate that the Authority will overpay more than \$15,000 in housing assistance and utility allowances over the next year.

**HISTORICAL BACKGROUND**

As reflected in LMHA's self certified SEMAP score of 38% for fiscal year end 2008, the Authority recognized that there were gross deficiencies in the administration of the HCV program. As a result of the SEMAP scores, the Authority embarked on the task of updating and revising the Agency's Administrative Plan. The previous Administrative Plan, dated January of 2000, consisted of 138 pages of policies related to the administration of the HCV program. The new Administrative Plan, instituted in April 2009, contains 446 pages of additional policies and procedures of the proper administration of the program. This is just one of many critical documents that needed updating.

The systemic problems facing the program included inadequately trained staff, inadequate quality control measures, and insufficient guidance. It is during this time period that the Authority recognized the need for professional assistance to properly train staff and implement the necessary changes to the program. For this reason, LMHA contracted with vendors like CGI, Advantages Consulting, Market Vision and Parma Housing Authority. During the transition period from one Admin Plan to another, LMHA worked to provide professional training to the front line staff, as well as the program managers. It was to be anticipated that errors would result during this transitional period.

**[REDACTED]**  
**[REDACTED]**

LMHA accepts the findings within the OIG report which confirm that the Authority failed to determine income and/or perform interim examinations for 15 families that reported a change in their zero income status. These errors are a direct result of the confusion among staffers as to the proper handling of zero-income calculations. As a result of these errors, the Authority acknowledges that housing assistance and utility over payments were made. The Authority has worked to correct these errors and has been working with the various households to enter into repayment agreements for the over payments.

**Comment 29**

According to the current Administrative Plan:

**14-II.D. PHA-CAUSED ERRORS OR PROGRAM ABUSE**

*The responsibilities and expectations of PHA staff with respect to normal program administration are discussed throughout this plan. This section specifically addresses actions of a PHA staff member that are considered errors or program abuse related to the HCV program. Additional standards of conduct may be provided in the PHA personnel policy.*

*PHA-caused incorrect subsidy determinations include (1) failing to correctly apply HCV rules regarding family composition, income, assets, and expenses, (2) assigning the incorrect voucher size to a family, and (3) errors in calculation.*

**Repayment to the PHA**

*Neither a family nor an owner is required to repay an overpayment of subsidy if the error or program abuse is caused by PHA staff [HCV GB. 22-12].*

**Households with Unreported Income**

As a result of the new Administrative Plan, LMHA has instituted new policies for dealing with households with unreported income. We are in the process of entering into repayment agreements with the program households as a result of unreported income.

**Professional Services**

LMHA **strongly agrees** with the OIG findings in this section of the report. The OIG investigators have determined that errors were made as the result of *“insufficient guidance, inadequate training, and inadequate quality control reviews.”* It is for these very same reasons that the Authority entered into contractual agreements with professional service providers for the HCV program. The deficiencies noted in this OIG report support LMHA’s findings, as reported in the self certified SEMAP score of 38% for 2008. This finding also provides further validation to the Authority’s contention that the \$64,264 spent for professional services are not unsupported costs.

The OIG asserts that the revised Administrative Plan, effective April 2009, *“contained inconsistent and contradictory guidance regarding performing interim reexamination.”* Again, LMHA agrees with the OIG findings. During the OIG on-site investigation, LMHA was in the process of amending the Administrative Plan to deal with the inconsistencies and the contradictions that were contained within the document. It is, once again, to be expected that errors would occur during the review and implementation process.

*“The Authority lacked standard procedures for monitoring zero-income households,” and “the Authority performed inadequate quality control reviews.”* These are additional findings within the OIG report. Once again, LMHA must agree with the findings. As indicated within the OIG report, these issues are not addressed within any of the Administrative Plans employed by LMHA. Because there was no official

Comment 30

Comment 24

Comment 31

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Comment 32

policy or procedure for handling these issues, there was an inconsistent approach in dealing with these issues. However, it is difficult to hold the staff and management responsible for not performing activities that are not mandated by a specific CFR or the Authority's Administrative Plan.

LMHA would like to take the opportunity to address the inaccurate finding within the OIG report concerning the errors resulting from staff caseloads. *"Due to their caseloads, program staff members said that they had limited time to monitor zero-income households..."* This OIG finding shows that the on-site investigator did not have a complete understanding of the LMHA organizational chart that had been provided. Based on the HUD Housing Choice Voucher Program Guidebook, Chapter 21, page 5;

Generally, programs with the occupancy specialist function have caseloads ranging from 400 to 600 clients, depending on a number of factors. Most important are the functions assigned to the staff members, the extent to which the automated systems assist in document and letter production, the quality of the monitoring systems, the amount of clerical support, program requirements for tenants to report interim changes, program turnover, and the number of participant moves.

Current staffing levels will show that LMHA has four (4) full time certification staff members responsible for the certification administration of 1457 vouchers. With a caseload of 366 households, LMHA would be considered to be over staffed in this department based on the HUD standards quoted above. However, to improve the Authority's error rates, and to provide better customer service, LMHA has developed specialization within the program. With better defined responsibilities for the certification specialists, LMHA will benefit from staffers who have more expertise in their positions.

We have been proactive with the creation of an assistant HCV manager position. This is in addition to the certification personnel. This position was created to try and provide enhanced compliance and customer service. A large portion of this position is to perform internal Quality Control. With any new position, proper training has been required to make the new assistant manager fully functional. With a newly created position, and newly created responsibilities; there will be some time required before the agency realizes the positive effects of this change. Therefore, it is not a surprise that there were additional issues within the client files for zero income.

Comment 33

LMHA would like to have the assertion that the HCV program manager did not receive formal training for her position more clearly reported. The manager in question was provided the opportunity to receive training in several areas. As the Administrative Office Manager, she attended HCV and Public Housing Rent Calculation Training in May 2009. However, because the manager did not attend all of the training sessions, she opted to not take the exam at the end of the course and was therefore not properly certified in rent calculation. In July of 2009, she was scheduled to attend Procurement and Contract Management training in San Antonio. This training was intended to help the Authority improve its procurement practices. This training was subsequently cancelled at her request, so that she could attend Public Housing Management training in Philadelphia. LMHA can only confirm that travel and hotel reservations for this trip were booked and paid for with LMHA funds; however, there is no confirmation in her employee file to indicate the successful completion of the training.

Comment 33

After taking over as the HCV program manager, she was scheduled to attend FSS training in Las Vegas in September of 2009. LMHA has been unable to confirm actual attendance at the September 2009 training. Nan McKay has no record of any LMHA employee registering or attending this training. LMHA has confirmed that the program manager was in Las Vegas during the time of the training. LMHA paid

**Comment 33**

for the airline tickets and the hotel stay for the time period in question. It should also be noted that an unauthorized room upgrade was recorded. The manager was registered to attend a grant writing seminar in October of 2009, but opted not to attend. In November 2009, the program manager attended HQS inspection training in Cleveland. Once again, LMHA does not have verification that the course was successfully completed, or that the manager passed the training exam. The manager did participate in a webcast covering HCV Program Financial Management & Accounting Basics in December of 2009. The HCV program manager was terminated in May 2010, prior to attending scheduled training for HCVP Specialist and HCV Executive Management. (As a side note: LMHA has requested, through former HCV program manager's attorney, clarification concerning her attendance at the Las Vegas Training. Furthermore, LMHA intends to seek reimbursement for travel expenses fraudulently billed to the Authority). LMHA legal counsel would insist that the unsupported assertions about the program manager's lack of training be completely redacted from the final report. With the understanding that there is a taint over the origin of the information that was provided to the OIG, there is a cloud regarding the accuracy and validity of the information, and as such, the OIG wrongly impugns the integrity of the Authority and its commitment to proper training.

It is the understanding of the Authority that the former HCV program manager provided the OIG on-site investigators with erroneous and misleading information. The Authority and its legal counsel have been working to ascertain whether any improper contact between the former program manager and OIG investigators took place. Many of the assertions made by the former manager have already been addressed within this response, and therefore require no additional comment.

**Conclusion**

**Comment 34**

The Authority has found that errors in the calculation of housing assistance and utility allowances have been made to some families due to excluded or unreported income. However, the Authority would disagree with the reported total indicated in the OIG report. LMHA looks forward to the opportunity to work with the HUD Field office and the OIG to determine the true amount of the calculation errors so that the program will be 100% compliant.

**Comment 35**

The Authority would also like to address the OIG contention that administrative fees totaling \$6,807 should be reimbursed to the program. While the Authority has stipulated that errors were made, none of the OIG findings allege fraud or theft on the part of any LMHA staff, the landlords or the tenants. Confusion within the department, a recently revised Administrative Plan and staff turnover resulted in program errors. However, LMHA staff did provide services for all of the tenants that reported zero-income.

**Comment 36**

Following the OIG investigation, the Authority has implemented plans to continue the revision of its Administrative Plan to ensure that proper procedures and controls are uniform and consistent regarding zero-income households. Additionally, the staff training and the creation of the assistant HCV manager position will ensure that zero-income households are properly monitored in the future.



**LMHA AUDIT RESPONSE**

**Finding 3: The Authority Generally Complied with Family Self-Sufficiency Program Requirements**

The Authority generally complied with HUD's requirements. Its program administrative plan, and its family self-sufficiency action plan. However, it failed to consistently compute participants' escrow credits and maintain their escrow accounts accurately. These conditions occurred because the Authority lacked adequate procedures and controls to ensure that HUD's regulations, its program administrative plan, and its family self-sufficiency action plan regarding maintaining escrow accounts were followed. As a result, it overpaid more than \$14,000 and underpaid more than \$3,000 in escrow credit. Further, we estimate that the Authority will overpay more than \$4,000 in escrow credit over the next year.

**Redaction: Administrative Plan**

Comment 37

The Authority would affirm many of the findings within this section of the OIG report. The Authority has recognized that miscalculations resulting in the overpayment of escrow accounts. Upon closer review of the FSS files, the bulk of these overpayments were made to four households. Additionally, the vast majority of the calculation errors were found to be handled by the same FSS coordinator. Again, this was a clear indication of the need for staff training, clarification of the program rules and revisions to the Administrative Plan.

Comment 38

LMHA reserves the right to comment further on the finding that interim escrow disbursements were not always properly authorized. There is not enough specific information contained within the written report, and with only ten days to respond, there is not adequate time to seek clarification from the OIG. It should be noted that any disbursements require the signature of the program manager and the executive director on all checks prior to being issued. This procedure ensures that all appropriate documentation is present when approving payments. With no findings that require a reimbursement to the program, it is believed that the OIG investigator did not have reason to believe that any improper payments resulted from the Authority's disbursement practices.

**Redaction: Administrative Plan**

Comment 37

The OIG findings indicate that *"the Authority lacked adequate procedures and controls to ensure that HUD's regulations, its program administrative plan, and its family self-sufficiency action plan regarding maintaining escrow credits and escrow account were followed."* Once again, the Authority maintains that the administration of the HCV and FSS programs had serious flaws. This was the condition of the program prior to 2009, which resulted on a self certified SEMAP score of 38%. It was the lack of controls and procedures which necessitated the service contracts that LMHA entered into. Furthermore, in audit report number 2009-CH-1012: the OIG refers to *"causes related to insufficient guidance, inadequate training, and inadequate quality control reviews"*. Once again, LMHA and the OIG find common ground in the understanding of the root cause for the system failures that were rampant prior to OIG review period.

Ref to OIG Evaluation

Auditee Comments

Comment 37

The OIG report identified the lack of quality control reviews, as they pertain to participant's escrow credits and/or escrow accounts. LMHA has also identified this as an error of omission from its Administrative Plan, which never addressed this issue. From a best practices stand point, LMHA recognizes the importance of a quality control mechanism in this area, and has worked to incorporate controls and procedures to ensure that proper monitoring of escrow credits and accounts takes place.

Comment 33

The former HCV program manager's assertions that not all staff was well equipped to perform the duties of an FSS coordinator were correct. With a high staff turnover, it was incumbent upon the executive director to provide appropriate training and staff support to the program. To date, the current FSS coordinators have received formal HCV specialist training, FSS coordinator training and Homeownership training. The allegations that the program manager had not received formal training have been addressed in Finding 2, page 14; and therefore she does not merit any further discussion within the portion of the response.

**Conclusion**

Comment 37

The Authority has recognized that escrow over payments have been made as a result of miscalculations. As a result, the Authority is working to make corrections to the applicable escrow accounts to reimburse the program for the overfunding. Upon review of the participant files, it is believed that the agency has overfunded escrow accounts by approximately \$14,500. All appropriate financial adjustments will be made to make the program and its participants compliant.

Comment 37

The Authority also acknowledges the underfunding of participants' escrow accounts by more than \$3,000. Once again, the Authority will work to make all necessary financial adjustments to the escrow accounts to bring the program and its participants in compliance.

Comment 35

LMHA would strongly disagree with the findings that the agency improperly received \$7,480 in administrative fees related to the households cited in this finding. All of these households received services from LMHA. All of these households will receive proper compensation for any agency errors that are related to their accounts. Furthermore, the Authority has assumed financial responsibility for any adverse expenses that have resulted from agency errors. To assess the Authority for administrative fees would amount to penalizing the agency twice for the same findings.

Currently, the FSS program is being administered by fully trained and competent staffers. The Authority has sent them to formal training to ensure that they are knowledgeable about the program and the HUD policies and procedures for administering the program. Additionally, the HCV program manager and the assistant manager continue to work to implement quality control and review functions for the program. These QC functions will ensure proper supervision and oversight of the program and its participants.

LMHA has tried to foster a professional working relationship with the HUD Field Office and the representatives of the OIG. With an audit that has extended over 25 months and taken an estimated 7,000 hours of OIG personnel time to review, no findings of fraud or theft have been indicated. The staff of LMHA has worked diligently with the OIG and HUD to correct the deficiencies within our agency. It is very concerning that this report does not accurately portray the facts and has consistently reported information out of context. This would lead the reader to have a false impression of the positive efforts underway at LMHA.

## OIG Evaluation of Auditee Comments

- Comment 1** The audit report evaluates whether the contracted services were obtained in accordance with the Authority's procurement and ethical policies.
- Comment 2** The Authority indicated that the services were needed, in part due to its "ineffective management staff," yet the executive director deferred the procurement responsibilities to this same management staff. Further, the Authority's board-approved procurement policy, dated November 2004, and its ethical policy, dated August 2003, were available to both the executive director and his management staff to ensure that the contracted services met its procurement requirements.
- Comment 3** We based our procurement review on the Authority's procurement policy, dated November 9, 2004. A review of the Authority's board resolutions from 2006 through 2010 did not reflect the adoption or implementation of the two additional procurement policies, which were later provided by the executive director on June 8, 2010. These two procurement policies did not reflect an effective date or board approval date. On June 8, 2010, the executive director provided an additional copy of the procurement policy that was dated November 9, 2004, which was previously provided to OIG in July 2008 and March 2010. An office memorandum, dated February 15, 2007, indicated that the 2004 procurement policy was still in effect and should be followed. There were no exceptions to this policy. Since the two undated procurement policies did not obtain board approval, we did not use these policies as criteria in evaluating the Authority's procurement procedures.
- Comment 4** The procurement file indicated that the Authority only contacted one other contractor (Advantageous Consulting) regarding these contracted services. Therefore, full and open competition was hindered. Further, the Authority failed to maintain adequate documentation to support that these services were obtained in accordance with its procurement policy.
- Comment 5** The Authority failed to provide adequate documentation to support the claim that according to its admissions and continued occupancy policy, the public housing program is required to utilize the program system to perform rent reasonableness.
- Comment 6** This contract was dated October 14, 2008. File documentation provided by the Authority indicated that it had decided to contract with the program manager of the Parma Housing Authority between October 9 and 10, 2008. We held a survey briefing with the Authority on October 14, 2008, where we informed the Authority of our survey results and audit plans. However, we did not review the Authority's waiting list, nor did we evaluate the Authority's office organization. The verification and third-party tracking process was not discussed with the Authority before the survey results briefing since we had only performed a limited file review. Further, based upon a review performed by CGI in June 2008, the Authority had new written policies regarding file organization and maintenance. Guidance was provided by CGI to assist the staff in determining what should be maintained in the tenant files. Therefore, the contractual agreement with the Parma Program Manager in October 2008 and again in May 2009 for file organization appeared to be

duplicated and unnecessary since the Authority already received this technical assistance from CGI.

- Comment 7** The Authority's procurement policy in effect during the awarding of this contract, dated November 9, 2004, did not exclude technical service agreements from the requirement that "purchases must be distributed amongst qualified sources."
- Comment 8** Once the Authority realized that it had exceeded the small purchase threshold, which was revised to \$25,000 effective April 14, 2009, it failed to rebid the contract. Instead, the Authority proceeded to issue work orders and contract modifications from this contract even after it completed its responses to us. For instance, in September and October 2009, CGI performed quality control inspections and provided technical assistance with the Section Eight Management Assessment Program report to the Authority that did not pertain to our findings. In addition, the total expected contract price was not documented in the procurement file. Since the contract with CGI did not contain a ceiling price, it opened the way for the services to exceed the small purchase threshold. Therefore, the Authority failed to maintain adequate documentation to support that these services were obtained in accordance with its procurement policy.
- Comment 9** According to section III, paragraph C, of the Authority's procurement policy, dated November 2004, the invitation for bids method of procurement is a type of sealed bid. However, this section further states that for professional service contracts, sealed bidding should not be used.
- Comment 10** Section III, paragraph B, of the Authority's procurement policy, dated November 2004, was included because it pertained to the umbrella contract with CGI, whose contract modifications and work orders exceeded the \$25,000 threshold. It is the Authority's responsibility to follow its own requirements, including its procurement policy.
- Comment 11** As stated in this audit report, the Authority did not use the scoring criteria for request for proposal 2009-1. This is the same request for proposal that should have used the large purchase method of procurement, specifically the competitive proposals method. Section II, paragraph B, of the Authority's procurement policy, dated November 2004, states that contract award is made to the offeror whose proposal is most advantageous to the Authority, considering price, technical, and other factors as specified in the solicitation (for contracts awarded based on competitive proposals). Request for proposal 2009-1 stated that "the selection committee will score each proposal according to the criteria listed in this request for proposal....The project scoring sheet...documents the evaluation factors being used, the criteria for each factor, and the maximum point value assigned to each factor. The firm receiving the highest number of points will be asked to negotiate and finalize a contract with the Agency. If contract negotiations are not successful with the highest ranked firm, the firm with the next highest number of points will be chosen to negotiate. The process will repeat until a contract can be successfully negotiated." Therefore, since the request for proposal issued by the Authority indicated selection criteria, these criteria should have been used.

- Comment 12** We acknowledge the improvements made by the Authority in its procurement process.
- Comment 13** The contractor's resume was not provided during our review of the Authority's procurement files. The resume was subsequently provided to us on September 27, 2010. However, the Authority did not ensure that the contractor had the ability to provide the requested services before awarding the contracts.
- Comment 14** The executive director's resume did disclose his employment with CGI, including the technical assistance he provided to the Parma Public Housing Authority and with the Akron Metropolitan Housing Authority. However, this resume did not provide full disclosure of his relationship with Advantageous Consulting or the program manager of the Parma Public Housing Authority to the Authority's board of commissioners before awarding contracts to these individuals. In addition, these relationships give the appearance of a conflict of interest, which is prohibited by the Authority's ethical policy and HUD's regulations.
- Comment 15** The Authority's ethical policy, dated August 2003, states that employees or members may not participate in matters that involve their own financial interests or those of their family or business associates. Employees or members may not use or authorize the use of their public position to benefit themselves or others in circumstances that create a conflict of interest where their objectivity could be impaired. Employees and members must avoid situations in which they might gain personally as a result of the decisions they make or influence they possess as public servants. Public officials or employees are also prohibited from using their position to benefit others, such as business associates and family members, because their relationship with those individuals could impair their objectivity in their public duties. An employee or member should avoid all conduct that creates the appearance of impropriety. Further, the employee should report any such conduct to the employee's supervisor. A member should report any such conduct to the membership of the Authority. This requirement was added to this audit report.
- Comment 16** As stated in this audit report, section IV, paragraph C, of the Authority's procurement policy, dated November 2004, states that firms shall not be precluded from qualifying during the solicitation period. Section VI, paragraph B, further states that specification limitations, including geographic restrictions, shall be avoided. See comment 1.
- Comment 17** As stated in this audit report, section II, paragraph B, of the Authority's procurement policy, dated November 2004, states that the executive director or his/her designee shall ensure that contracts and modifications are in writing, clearly specifying the desired supplies, services, or construction, and are supported by sufficient documentation regarding the history of the procurement, including as a minimum the method of procurement chosen, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price. See comment 9.
- Comment 18** Although the deliverables may have been provided, there were deficiencies in the procurement process for all 13 agreements. Failure to identify the contract type

on the contract agreement was one of the deficiencies determined based upon our review. In addition, failure to maintain adequate contract management was determined to be one of the causes of this deficiency. Therefore, the Authority failed to maintain adequate documentation to support that these services were obtained in accordance with its procurement policy.

- Comment 19** Our draft finding outline provided to the Authority on May 28, 2010, and the supporting documentation provided on June 1, 2010, provide details to the contract type deficiencies and the description of the inadequate contract management. The Authority was invited to ask questions when the draft finding outline was issued. However, no inquiries were made until we held our exit conference on September 24, 2010.
- Comment 20** As stated in this audit report, section V, paragraph A, and section V, paragraph C, of the Authority's procurement policy, dated November 2004, support the cited deficiency. These requirements were from the Authority's policies and were included in our draft finding outline submitted to the Authority in May.
- Comment 21** The contractual agreements that were reviewed spanned more than 1 year, and at least two of the contracts reviewed did not include definite terms of the agreement. In addition, the Authority did obtain duplicate contracted services. We acknowledged that some duplicate services were appropriate, but not all. Had the Authority engaged in an annual planning process, it could have ensured efficient and economical purchasing for the services it obtained.
- Comment 22** Despite the Authority being in a crisis mode, its procurement policy, dated November 2004, was still in effect and provided the Authority the basis to obtain the needed services in accordance with its own requirements. See comment 1.
- Comment 23** While the classification of questioned costs changed from ineligible in our draft finding outline to unsupported in our discussion draft audit report, the total amount of questioned costs did not change. See comment 19.
- Comment 24** As this report indicates, the Authority failed to maintain support that the services were obtained in accordance with its procurement policy. The recommendation is for the Authority's program to be reimbursed for services that it did not receive in accordance with its procurement policy. See comment 1.
- Comment 25** Appendix A, Schedule of Questioned Costs and Funds To Be Put to Better Use, of our draft audit report issued to the Authority on September 11, 2010, defined both ineligible expenses and unsupported costs.
- Comment 26** This audit report states that "we acknowledge that some of the duplicative services were appropriate but not all." Regardless of the need for the housing quality standards services or the services obtained, the Authority allowed the work to be performed without written approval via work orders or board resolutions, which is contrary to the Authority's procurement policy and the contractual agreement. See comment 1.

- Comment 27** This audit report states that “we acknowledge that some of the duplicative services were appropriate but not all.” As indicated in comment 1, we evaluated whether the services were obtained in accordance with the Authority’s procurement and ethical policies. As this report states, the Authority failed to maintain support that the services were obtained in accordance with its procurement policy.
- Comment 28** We reviewed the Authority’s procurement process for the administration of its program. The Authority’s Recovery Act procurement process was outside the scope of our review.
- Comment 29** The Authority agreed with our finding that it overpaid housing assistance and utility allowance to 15 households that had excluded income.
- Comment 30** We acknowledge the improvements made by the Authority to monitor its zero-income households.
- Comment 31** As indicated in this audit report, the requirements in Public and Indian Housing Notice 2004-1 support the statement that the Authority lacked standard procedures for monitoring zero-income households. Regarding the quality control reviews, we did not repeat the requirements discussed in our prior audit report (report #2009-CH-1012), which discusses the requirements in chapter 6 of HUD’s Public and Indian Housing Rental Integrity Summit Manual.
- Comment 32** As stated in this audit report, it was the Authority’s program staff members who stated that it was their caseloads that contributed to the errors with the zero-income households. We included all issues determined to contribute to the errors with the zero-income households.
- Comment 33** The Authority failed to provide adequate documentation to confirm these statements. However, we revised the statement made by the program manager to clarify the training issue.
- Comment 34** On September 24, 2010, the Authority provided us with additional verifications it obtained in July 2010. Based upon this information, we modified the total questioned costs due to unreported income in finding 2 of this report.
- Comment 35** As stated in this audit report, 24 CFR 981.152(d) allows HUD to reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program.
- Comment 36** The Authority’s plan to revise its program administrative plan was already noted in this report; however, we revised the date.
- Comment 37** The Authority agreed with our finding that it miscalculated the Family Self-Sufficiency program participants’ escrow credits.

**Comment 38** Since the participants' files contained documentation showing interim disbursements were for approved purposes as indicated in the Authority's Family Self-Sufficiency program action plan, we did not question the amount of the disbursements. Further, we did not want to double count the questioned costs since at least three of the disbursements were affected during our review of the escrow credit accuracy. This statement was added to this report.



## Appendix C

### FEDERAL REQUIREMENTS AND AUTHORITY'S POLICIES

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#### Finding 1

HUD's regulations at 24 CFR 982.152(a)(3) state that "housing authority administrative fees may only be used to cover costs incurred to perform administrative responsibilities for the program in accordance with HUD regulations and requirements."

HUD's regulations at 24 CFR 982.161 state that "neither the public housing authority nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any of the following classes of persons has any interest, direct or indirect, during tenure or for one year thereafter: (1) any present or former member or officer of the public housing authority (except a participant commissioner) and (2) any employee of the public housing authority, or any contractor, subcontractor, or agent of the public housing authority, who formulates policy or who influences decisions with respect to the programs."

The Authority's procurement policy, dated November 9, 2004, states the following:

- Section II, paragraph A, states that "all procurement transactions shall be administered by the contracting officer, who shall be the executive director or other individual he or she has authorized in writing. Authorization of any employee will state clearly the limitations on the appointee's procurement authority. The executive director shall issue procurement procedures to implement this statement, which shall be based on HUD Handbook 7460.8."
- Section II, paragraph B, states that "the executive director or his/her designee shall ensure that:
  1. Procurement requirements are subject to an annual planning process to assure efficient and economical purchasing;
  2. Contracts and modifications are in writing, clearly specifying the desired supplies, services or construction, and are supported by sufficient documentation regarding the history of the procurement, including as a minimum the method of procurement chosen, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price;
  3. For procurements other than small purchases, public notice is given of each upcoming procurement at least 10 days before a solicitation is issued; responses to notices are honored to the maximum extent practical; a minimum of 15 days is provided for preparation and submission of bids or proposals; and notice of contract awards is made available to the public;
  4. Solicitation procedures are conducted in full compliance with Federal standards stated in 24 CFR 85.36, and applicable State and local laws and regulations provided they are consistent with 24 CFR 85.36;
  5. An independent cost estimate is prepared before solicitation issuance and is appropriately safeguarded for each procurement above the small purchase limitation,

- and a cost or price analysis is conducted of the responses received for all procurements;
6. Contract award is made to the low bidder who is responsive and responsible to perform the work (for sealed bid contracts) or to the offeror whose proposal is most advantageous to the Authority, considering price, technical and other factors as specified in the solicitation (for contracts awarded based on competitive proposals): unsuccessful firms are notified within ten days after contract award;
  7. Work is inspected before payment, and payment is made promptly for contract work performed and accepted; and
  8. The Authority complies with applicable HUD review requirements, as provided in the operational procedures supplementing this statement.”
- Section III, paragraph B, states that “any contract not exceeding \$25,000 may be made in accordance with the small purchase procedures authorized in this section. Contract requirements shall not be artificially divided so as to constitute a small purchase under this section, (except as may be reasonably necessary to comply with section VIII of this statement). After evaluating quotations, the Authority may award a purchase order to the lowest acceptable quoter. For small purchases below \$2,500, only one quotation need be solicited if the price received is reasonable. Such purchases must be distributed equitably among qualified sources. If practicable, a quotation shall be solicited from other than the previous source before placing a repeat order. The executive director’s written approval is required for small purchases of \$2,500 or less. For small purchases in excess of \$2,500 but not exceeding \$10,000 no less than three offerors shall be solicited to submit price quotations, which may be obtained orally by telephone. (Telephone quotations must be kept or recorded in written form for documentation). For purchases in excess of \$10,000 but less than \$25,000, a minimum of three price quotations submitted in writing is required. No public advertisement will be necessary, and the executive director’s written approval is required. For purchases in excess of \$25,000, the sealed bids procedure set forth in section III.C. will be adhered to after public advertisement and the board of commissioners’ approval will be required for contract award. The award shall be made to the lowest responsive and responsible bidder, unless justified in writing based on price and other specified factors, such as for architect-engineer and other professional services contracts. If non-price factors are used, they shall be specified in the bidding documents. The names, addresses, and/or telephone numbers of the offerors and persons contracted and the date and amount of each quotation shall be recorded and maintained as a public record.”
  - Section III, paragraph C, states that “for professional services contracts, sealed bidding should not be used.”
  - Section III, paragraph D, states that “competitive proposals may be used if there is an adequate method of evaluating technical proposals and the Authority determines that conditions are not appropriate for the use of sealed bids. An adequate number of qualified sources shall be solicited. Competitive proposals are the preferred method for contracting for professional services. The Authority begins the process by describing its needs in a statement of work, publicizing the upcoming procurement (e.g., advertising in local newspapers or trade journals), and preparing both an independent cost estimate and a technical evaluation plan for analyzing proposals received. The Authority then

prepares a request for proposals, which identifies the technical and price evaluation factors and the format for submitting technical and price proposals. The request for proposals is issued to the respondents to the public notice and those on the mailing list. Proposals shall be kept confidential and not be publicly opened. The Authority evaluates the proposals from both a technical and price standpoint, documents the evaluation in a written report, and establishes a range of offerors who have a reasonable chance of receiving a contract. The proposals shall be evaluated only on the evaluation factors stated in the request for proposals.”

- Section III, paragraph E, states that “procurements shall be conducted competitively as often as possible. Procurement by non-competitive proposals may be used only when the award of a contract is not feasible using small purchase procedures, sealed bids or competitive proposals, and one of the following applies: (a) The item is available only from a single source. (b) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation. In such cases, there must be an immediate and serious need for supplies, services, or construction such that the need cannot be met through any other procurement methods. The emergency procurement shall be limited to those supplies, services or construction necessary to meet the emergency; (c) HUD authorizes non-competitive proposals; or (d) after solicitation of a number of sources, competition is determined inadequate. Each procurement based on noncompetitive proposals shall be supported by a written justification for using such procedures. The justification shall be approved in writing by the executive director. Any approval required by HUD must be obtained before proceeding with a non-competitive proposal. The reasonableness of the price for all procurements based on noncompetitive proposals shall be determined by performing cost analysis, as described in section III.F.”
- Section III, paragraph F, states that “a cost or price analysis shall be performed for every procurement, including contract modifications. The extent of the analysis depends on the dollar value and complexity of the procurement. The method of analysis shall be determined as follows. When competition is not obtained, a change order or other modification is being negotiated, the procurement is for a complex item such as professional services, or for other procurements as deemed necessary by the Authority, the offeror shall be required to submit a cost breakdown analyzing the labor, material, indirect costs and proposed profit or commercial pricing and sales information, sufficient to enable the Authority to verify the reasonableness of the proposed price as a catalog or market price of a commercial product sold in substantial quantities to the general public or documentation showing that the offered price is set by law or regulation. Cost analysis shall be performed if an offeror/contractor is required to submit a cost breakdown as part of its proposal. When a cost breakdown is submitted, a cost analysis shall be performed of the individual cost elements, and profit shall be analyzed separately. In establishing profit, the Authority shall consider factors such as the complexity and risk of the work involved, the contractor’s investment and productivity, the amount of subcontracting, the quality of past performance, and industry profit rates in the area for similar work. A comparison of prices shall be used in all cases other than those described in subsection III.F.3.”
- Section III, paragraph G, states that “a solicitation may be canceled and all bids or proposals that have already been received may be rejected if the supplies, services, or

construction are no longer required; ambiguous or otherwise inadequate specifications were part of the solicitation; the solicitation did not provide for consideration of all factors of significance to the Authority; prices exceed available funds and it would not be appropriate to adjust quantities to come within available funds, as determined by the Authority; there is reason to believe that bids or proposals may not have been independently arrived at in open competition, may have been collusive, or may have been submitted in bad faith; or for good cause of a similar nature when it is in the best interests of the Authority. The reasons for cancellation shall be documented in the procurement file and the reasons for cancellation and/or rejection shall be provided upon request to any offeror solicited.”

- Section IV, paragraph A, states that “procurements shall be conducted only with responsible contractors (i.e., those who have the technical and financial competence to perform and have a satisfactory record of integrity). Before awarding a contract, the Authority shall review the proposed contractor’s ability to perform the contract successfully, considering factors such as the contractor’s integrity, compliance with public policy, record of past performance, and financial and technical resources. If a prospective contractor is found to be non-responsible, a written determination of non-responsibility shall be prepared and included in the contract file, and the prospective contractor shall be advised of the reasons for the determination.”
- Section IV, paragraph C, states that “interested businesses shall be given an opportunity to be included on qualified bidders’ lists. Any prequalified lists of persons, firms, or products, which are used in the procurement of supplies and services, shall be kept current and shall include enough qualified sources to ensure competition. Firms shall not be precluded from qualifying during the solicitation period. Solicitation mailing lists of potential contractors shall include, but not be limited to, such pre-qualified suppliers. Such businesses shall meet the requirements set forth in paragraph IV.A.”
- Section V, paragraph A, states that “any type of contract which is appropriate to the procurement and which will promote the best interests of the Authority may be used, provided that the cost-plus-a-percentage-of-cost and percentage-of-construction-cost methods are prohibited. All procurements shall include the clauses and provisions necessary to define the rights and responsibilities of the parties. A cost reimbursement contract shall not be used unless it is likely to be less costly or it is impracticable to satisfy the Authority’s needs otherwise, and the proposed contractor’s accounting system is adequate to allocate cost in accordance with applicable costs principles. A time-and-materials contract may be used only if a written determination is made that no other contract type is suitable, and the contract includes a ceiling price that the contractor exceeds at its own risk.”
- Section V, paragraph C, states that “in addition to containing a clause identifying the contract type, all contracts shall include any clauses required by Federal statutes, Executive Orders, and their implementing regulations, as provided in 24 CFR 85.36(i), including but not limited to “General Conditions of the Contract for Construction: Public Housing Programs,” form HUD-5370 (April/2002), “General Contract Conditions, Non-Construction,” and/or such other forms as are required by law.”

- Section V, paragraph D, states that “a contract administration system designed to insure that contractors perform in accordance with their contracts and purchase orders shall be maintained. The operational procedures required by section II. A shall contain guidelines for inspection of supplies, services, or construction, as well as monitoring contractor performance, status reporting on construction contracts, and similar matters.”
- Section VI, paragraph A, states that “all specifications shall be drafted so as to promote overall economy for the purposes intended and to encourage competition in satisfying the Authority’s needs. Specifications shall be reviewed prior to solicitation to ensure that they are not unduly restrictive or represent unnecessary or duplicative items. Functional or performance specifications are preferred. Detailed product specifications shall be avoided whenever possible. Consideration shall be given to consolidating or breaking out procurements to obtain a more economical purchase (but see section VIII).”
- Section VI, paragraph B, states that “the following specification limitations shall be avoided: geographic restrictions not mandated or encouraged by applicable Federal law, unnecessary bonding or experience requirement, brand name specifications (unless written determination is made that only the identified item will satisfy the Authority’s needs), and brand name or equal specifications (unless they list the minimum essential characteristics and standards to which the item must conform to satisfy its intended use). Nothing in this procurement policy shall pre-empt any State licensing laws. Specifications shall be scrutinized to ensure that organizational conflicts of interest do not occur (for example, having a consultant perform a study of the Authority’s computer needs and then allowing that consultant to compete for the subsequent contract for the computers).”

Board Resolution 24-2009, effective April 14, 2009, states that for small purchases in excess of \$2,500 but not exceeding \$25,000, no less than three offerors shall be solicited to submit price quotations, which may be obtained orally by telephone (telephone quotations must be kept or recorded in written form for documentation). For purchases in excess of \$25,000, all requirements for competitive bidding applicable to county and municipal political subdivisions shall be strictly observed.

The Authority’s ethical policy, dated August 12, 2003, states that “employees or members may not participate in matters that involve their own financial interests, or those of their family or business associates. Employees or members may not use or authorize the use of their public position to benefit themselves or others in circumstances that create a conflict of interest where their objectivity could be impaired. Employees and members must avoid situations in which they might gain personally as a result of the decisions they make, or influence they possess, as public servants. Public officials or employees are also prohibited from using their position to benefit others, such as business associates and family members, because their relationship with those individuals could impair their objectivity in their public duties. An employee or member should avoid all conduct that creates the appearance of impropriety. Further, the employee should report any such conduct to the employee’s supervisor. A member should report any such conduct to the membership of the Authority. A public contract includes any purchases or acquisition of goods or services, including employment, by or for the use of a public agency. Specifically, a public official or employee is prohibited from authorizing, voting on, or otherwise using the authority or influence of the office to secure approval of a public contract in which the

official, a family member, or a business associate has an interest. Employees are also prohibited from having an interest in a public contract with their public entity, or an agency with which they are connected, even if they do not participate in the issuance of the contract. Exemptions are: The employee takes no part in the deliberations and decisions of the transaction. The employee informs his public agency of the interest. The contract involves necessary supplies or services that are not obtainable elsewhere at the same or lower cost or that are part of a contract established before the employee was hired.”

## **Finding 2**

HUD’s regulations at 24 CFR 5.236 state that upon receiving income information from a State wage information collection agency or a Federal agency, HUD or, when applicable, the public housing agency shall compare the information with the information about a family’s income that was provided by the assistance applicant or participant to the authority. 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 agency 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 (i)(B) the responsible entity (as defined in section 5.100) in the case of the public housing program or any Section 8 program. (ii) HUD or the public housing agency 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 and the public housing agency 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 5.240(c) state that 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.

HUD’s regulations at 24 CFR 5.609(a) state that annual income means all amounts, monetary or not, which (1) go to or on behalf of the family head or spouse (even if temporarily absent) or to any other family member or (2) are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date, and (3) which are not specifically excluded in paragraph (c) of this section. (4) Annual income also means amounts derived (during the 12-month period) from assets to which any member of the family has access.

HUD’s regulations at 24 CFR 982.54 state that the public housing agency must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements. The administrative plan and any revisions of the plan must be formally adopted by the public housing agency’s board of commissioners or other authorized public housing agency officials. The administrative plan states policy on matters for which the public

housing agency has discretion to establish local policies. The administrative plan must be in accordance with HUD regulations and requirements. The public housing agency must revise the administrative plan if needed to comply with HUD requirements. The public housing agency must administer the program in accordance with the administrative plan. The administrative plan must cover policies on subjects including interim redeterminations of family income and composition.

HUD's regulations at 24 CFR 982.516 require the authority "to conduct a reexamination of family income and composition at least annually. The authority must obtain and document in the client file third-party verification of the following factors or must document in the client file why third-party verification was not available: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income, and (iv) other factors that affect the determination of adjusted income. At any time, the authority may conduct an interim reexamination of family income and composition. Interim examinations must be conducted in accordance with policies in the authority's administrative plan. The public housing agency must adopt policies prescribing when and under what conditions the family must report a change in family income or composition and prescribing how to determine the effective date of a change in the housing assistance payment resulting from an interim redetermination. At the effective date of a regular or interim reexamination, the public housing agency must make appropriate adjustments in the housing assistance payment. Family income must include income of all family members, including family members not related by blood or marriage. If any new family member is added, family income must include any income of the additional family member. The public housing agency must conduct a reexamination to determine such additional income, and must make appropriate adjustments in the housing assistance payment. Procedures must be established that are appropriate and necessary to assure that income data provided by applicant or participant families is complete and accurate."

HUD's regulations at 24 CFR 982.551(b) state that the family must supply any information requested by the public housing agency or HUD for use in a regularly scheduled reexamination or interim reexamination of family income and composition in accordance with HUD requirements. Any information supplied by the family must be true and complete.

Public and Indian Housing Notice 2005-9, paragraph 4(e), states that public housing agencies can require families to report all increases in income between reexaminations, and conduct more frequent interim income reviews for families reporting no income. The effective date of an annual or interim reexamination of family income is dependent upon public housing agency policies.

The verification guidance included in Public and Indian Housing Notice 2004-1, section II, Income and Rent Determination Policies, states that "the public housing agency should provide detailed verification procedures in its written policies so that participants are thoroughly informed of the verification process. This will clarify the steps to be taken in the independent validation of income and deter falsification of information. While the high level of details of the verification process is not a mandatory component of the administrative plan, public housing agencies are strongly encouraged to demonstrate their ability to effectively manage and account for government funds appropriated for low-income housing programs. A detailed statement of the rent determination policies, including verification procedures, is an important step towards demonstrating the public housing agency's ability to establish management controls geared to

reducing subsidy overpayment errors. In addition to inclusion of verification procedures in its policies, public housing agencies should ensure that staff interviewers are trained to explain the types of information that will be verified during interviews, and the methods of verification that will be used, including upfront income verification and computer matching. The public housing agency should include its general policy on verification in its administrative plan. The policy should also provide information on the following components of rent determination: (1) what must be verified, (2) the type of verification methods that will be used by the public housing agency (including computer matching), (3) require all family members 18 years of age or older to sign a consent form to authorize the release of information, (4) applicant's/tenant's responsibility to provide documents at the request of the public housing agency, (5) minimum rent, and (6) interim reexamination procedures.”

The verification guidance included in Public and Indian Housing Notice 2004-1, section VII, Verification of Income, states that the verification methods that a public housing agency may use in determining a family's total tenant payment: (1) upfront income verification, (2) written third-party verification, (3) oral third-party verification, (4) document review, and (5) tenant certification.

The verification guidance included in Public and Indian Housing Notice 2004-1, section VIII, Levels of Verification Methods, states that public housing agencies should begin with the highest level of verification methods. The use of lower level verification methods will place a higher burden on the authority to justify its use of that particular verification method rather than a higher level of verification methods. Public housing agencies may be required to provide documentation for each case.

The Authority's administrative plan, dated January 2000, states the following:

- Chapter 6, Factors Related to Total Tenant Payment and Family Share Determination, section E, states that families who report zero income are required to complete a written certification every 60 days. The families will be required to provide information regarding their means of basic subsistence such as food, utilities, transportation, etc.
- Chapter 7, Verification Procedures, section A, states that “the Authority will verify information through the five methods of verification acceptable to HUD in the following order: (1) enterprise information verification [system] whenever available, (2) third-party written verification, (3) third-party oral verification, (4) review of documents, and (5) self-certification. The Authority will allow 14 days for return of third-party verifications and will submit a second request on day 15 if no response. The Authority will allow an additional 14 days for return of third-party verifications with the second request and will resort to a lower form of verification if no response by day 29. The Authority will document the file as to why third party written verification was not used. For applicants, verifications may not be more than 60 days old at the time of voucher issuance. For participants, verifications are valid for 120 days from date of receipt.” Section C, Computer Matching, states that “the Authority will utilize the HUD established computer-based Tenant Eligibility Verification System tool for obtaining Social Security, Supplemental Security Income, benefit history, and tenant income discrepancy reports from the Social Security Administration. When the computer matching results in a discrepancy with the Authority's records, the Authority will follow up with the family and the verification sources to resolve the discrepancy. If the



family has unreported or underreported income, the Authority will follow the procedures in the program integrity addendum of the administrative plan.” Section E, Verification of Information, states that “families claiming to have no income will be required to execute verification forms to determine that forms of income such as unemployment benefits, temporary aid for needy families, and Social Supplemental Income, etc. are not being received by the household. The Authority will request information from the Internal Revenue Service. The Authority may check the records of other departments in the jurisdiction that have information about the income sources of customers.”

- Chapter 12, Recertifications, section C, states that “the Authority will conduct an interim reexamination when the family has an increase in income and had been reporting zero income previously. Families will be required to report all increases in income/assets within 10 days of the increase. Participants may report a decrease in income and other changes that would reduce the amount of tenant rent, such as an increase in allowances or deductions. The Authority must calculate the change if a decrease in income is reported. If the Authority makes a calculation error at admission to the program or at an annual reexamination, an interim reexamination will be conducted, if necessary, to correct the error, but the family will not be charged retroactively. Families will be given decreases, when applicable; retroactive to when the decrease for the change would have been effective if calculated correctly. Section G requires that families report interim changes to the Authority within 10 calendar days of when the change occurs. Any information, document or signature needed from the family that is needed to verify the change must be provided within 30 calendar days of the change. If the change is not reported within the required time period, or if the family fails to provide documentation or signatures, it will be considered untimely reporting. The Authority will notify the family and the owner of any change in the housing assistance payment to be effective according to the following guidelines: Increases in the tenant rent are effective on the first of the month following at least 30 days notice. Decreases in the tenant rent are effective the first of the month following that in which the change is reported. However, no rent reductions will be processed until all the facts have been verified, even if a retroactive adjustment results. The change may be implemented based on documentation provided by the family, pending third-party written verification. If the family does not report the change as described under Timely Reporting, the family will have caused an unreasonable delay in the interim reexamination processing and the following guidelines will apply: [The] increase in tenant rent will be effective retroactive to the date it would have been effective had it been reported on a timely basis. The family will be liable for any overpaid housing assistance and may be required to sign a repayment agreement or make a lump sum payment. [The] decrease in tenant rent will be effective on the first of the month following the month that the change was reported. “Processed in a timely manner” means that the change goes into effect on the date it should when the family reports the change in a timely manner. If the change cannot be made effective on that date, the change is not processed by the Authority in a timely manner. In this case, an increase will be effective after the required 30 days notice prior to the first of the month after completion of processing by the Authority. If the change resulted in a decrease, the overpayment by the family will be calculated retroactively to the date it should have been effective, and the family will be credited for the amount.”

The Authority’s administrative plan, dated April 2009, states the following:

- Chapter 7 states that “the Authority must verify all information that is used to establish the family’s eligibility and level of assistance and is required to obtain the family’s consent to collect the information. Applicants and program participants must cooperate with the verification process as a condition of receiving assistance. The Authority will follow the verification guidance provided by HUD in Public and Indian Housing Notice 2004-01 and any subsequent guidance issued by HUD. In order of priority, the forms of verification that the authority will use are: up-front income verification whenever available, third-party written verification, third-party oral verification, review of documents, and self-certification. The Authority must document in the file how the figures used in income and rent calculations were determined. All verification attempts, information obtained, and decisions reached during the verification process will be recorded in the family’s file in sufficient detail to demonstrate that the Authority has followed all of the verification policies set forth in this plan.” Section 7-I.C states that “tenant income data reports will be used in interim reexaminations when it is necessary to verify and calculate earned income, unemployment benefits, Social Security and/or Supplemental Security Income benefits, and to verify that families claiming zero income are not receiving income from any of these sources. When the Authority determines through tenant income data reports and third-party verification that a family has concealed or under-reported income, corrective action will be taken pursuant to the policies in chapter 14, Program Integrity.” Section 7-I.D states that “the Authority will diligently seek third-party verification using a combination of written and oral requests to verification sources. Information received orally from third parties may be used either to clarify information provided in writing by the third party or as independent verification when written third-party verification is not received in a timely fashion. The Authority may mail, fax, e-mail, or hand deliver third-party written verification requests and will accept third-party responses using any of these methods. The Authority will send a written request for verification to each required source within 5 business days of securing a family’s authorization for the release of the information and give the source 10 business days to respond in writing. If a response has not been received by the 11th business day, the Authority will request third-party oral verification. The Authority will make a minimum of two attempts, one of which may be oral, to obtain third-party verification. A record of each attempt to contact the third-party source (including no-answer calls) and all contacts with the source will be documented in the file. Regarding third-party oral verification, program staff will record in the family’s file the name and title of the person contacted, the date and time of the conversation (or attempt), the telephone number used, and the facts provided. When any source responds verbally to the initial written request for verification the Authority will accept the verbal response as oral verification but will also request that the source complete and return any verification forms that were provided. If a third party agrees to confirm in writing the information provided orally, the Authority will wait no more than 5 business days for the information to be provided. If the information is not provided by the 6th business day, the Authority will use any information provided orally in combination with reviewing family-provided documents. When third-party verification has been requested and the timeframes for submission have been exceeded, the Authority will use the information from documents on a provisional basis. If the Authority later receives third-party verification that differs from the amounts used in income and rent determinations and it is past the deadline for processing the reexamination, the Authority will conduct an interim reexamination to adjust the figures used for the reexamination, regardless of the interim reexamination policy.” Section 7-

III.I states that “the Authority will check up-front income verification sources and/or request information from third-party sources to verify that certain forms of income such as unemployment benefits, temporary assistance for needy families, Supplemental Security Income, etc., are not being received by families claiming to have zero annual income.”

- Chapter 11, Reexaminations, section 11-II.A, states that “when an interim reexamination is conducted, only those factors that have changed are verified and adjusted.” Section 11-II.C states that “if the family has reported zero income, the Authority will conduct an interim reexamination every 3 months as long as the family continues to report that they have no income. If at the time of the annual reexamination, it is not feasible to anticipate a level of income for the next 12 months (e.g., seasonal or cyclic income), the Authority will schedule an interim reexamination to coincide with the end of the period for which it is feasible to project income. If at the time of the annual reexamination, tenant-provided documents were used on a provisional basis due to the lack of third-party verification, and third-party verification becomes available, the Authority will conduct an interim reexamination. The Authority must adopt policies prescribing when and under what conditions the family must report changes in family income or expenses. Families are required to report all increases in earned income, including new employment, within 10 business days of the date the change takes effect. The Authority will only conduct interim reexaminations for families participating in the family self-sufficiency program and families that qualify for the earned income disallowance when the family’s share of rent will change as a result of the increase. In all other cases, the Authority will note the information in the tenant file but will not conduct an interim reexamination. Families are not required to report any other changes in income or expenses. The family may request an interim reexamination any time the family has experienced a change in circumstances since the last determination. The Authority must process the request if the family reports a change that will result in a reduced family income. If a family reports a change that it was not required to report and that would result in an increase in the family share of the rent, the Authority will note the information in the tenant file, but will not conduct an interim reexamination. If a family reports a change that it was not required to report and that would result in a decrease in the family share of rent, the Authority will conduct an interim reexamination. Families may report changes in income or expenses at any time.” Section 11-II.D states that “the family may notify the Authority of changes either orally or in writing. If the family provides oral notice, the Authority may also require the family to submit the changes in writing. Based on the type of change reported, the Authority will determine the documentation the family will be required to submit. The family must submit any required information or documents within 10 business days of receiving a request from the Authority. This time frame may be extended for good cause with approval. The Authority will accept required documentation by mail, by fax, or in person. The Authority must establish the time frames in which any changes that result from an interim reexamination will take effect. The changes may be applied either retroactively or prospectively, depending on whether there is to be an increase or a decrease in the family share of the rent, and whether the family reported any required information within the required time frames. If the family share of the rent is to increase: The increase generally will be effective on the first of the month following 30 days’ notice to the family. If a family fails to report a change within the required time frames, or fails to provide all required information within the required time frames, the increase

will be applied retroactively, to the date it would have been effective had the information been provided on a timely basis. The family will be responsible for any overpaid subsidy and may be offered a repayment agreement in accordance with the policies in chapter 16. If the family share of the rent is to decrease, the decrease will be effective on the first day of the month following the month in which the change was reported and all required documentation was submitted. In cases where the change cannot be verified until after the date the change would have become effective, the change will be made retroactively.”

- Chapter 14, Program Integrity covers policies designed to prevent, detect, investigate, and resolve instances of program abuse or fraud. It also describes the actions that will be taken in the case of unintentional errors and omissions. “The Authority will investigate inconsistent information related to the family that is identified through file reviews and the verification process. For each investigation, the Authority will determine (1) whether an error or program abuse has occurred, (2) whether any amount of money is owed the Authority, and (3) what corrective measures or penalties will be assessed. A subsidy under- or overpayment includes (1) an incorrect housing assistance payment to the owner, (2) an incorrect family share established for the family, and (3) an incorrect utility reimbursement to a family. Whether the incorrect subsidy determination is an overpayment or underpayment of subsidy, the Authority must promptly correct the housing assistance payment, family share, and any utility reimbursement prospectively. Increases in the family share will be implemented only after the family has received 30 days’ notice. Any decreases in family share will become effective the first of the month following the discovery of the error. Whether the family is required to reimburse the Authority or the Authority is required to make retroactive subsidy payments to the family depends upon which party is responsible for the incorrect subsidy payment and whether the action taken was an error or program abuse. An incorrect subsidy determination caused by a family generally would be the result of incorrect reporting of family composition, income, assets, or expenses, but also would include instances in which the family knowingly allows the Authority to use incorrect information provided by a third party. In the case of family-caused errors or program abuse, the family will be required to repay any excess subsidy received. The Authority may, but is not required to, offer the family a repayment agreement in accordance with chapter 16. If the family fails to repay the excess subsidy, the Authority will terminate the family’s assistance in accordance with the policies in chapter 12. Any of the following will be considered evidence of family program abuse: intentional misreporting of family information or circumstances (e.g., income, family composition) and omitted facts that were obviously known by a family member (e.g., not reporting employment income). In the case of program abuse caused by a family the Authority may, at its discretion, impose any of the following remedies: require the family to repay excess subsidy amounts paid by the Authority; require, as a condition of receiving or continuing assistance, that a culpable family member not reside in the unit; deny or terminate the family’s assistance; or refer the family for State or Federal criminal prosecution. Authority-caused incorrect subsidy determinations include (1) failing to correctly apply housing choice voucher rules regarding family composition, income, assets, and expenses...and (3) errors in calculation. Neither a family nor an owner is required to repay an overpayment of subsidy if the error or program abuse is caused by program staff. The Authority must reimburse a family for any underpayment of subsidy, regardless of whether the underpayment was the result of staff-caused error or staff or owner program abuse.

Errors will be calculated retroactive to the family's most recent annual re-certification. Funds for this reimbursement must come from the Authority's administrative fee reserves."

- Chapter 16, Program Administration, states that "any amount due to the Authority by a [program] participant must be repaid by the family. If the family is unable to repay the debt within 30 days, the Authority will offer to enter into a repayment agreement in accordance with the policies below. If the family refuses to repay the debt, enter into a repayment agreement, or breaches a repayment agreement, the Authority will terminate the assistance upon notification to the family and pursue other modes of collection."

### **Finding 3**

HUD's regulations at 24 CFR 982.54(a) 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 public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

HUD's regulations at 24 CFR 984.305(a)(2) state that "during the term of the contract of participation, the public housing agency shall credit periodically, but not less than annually, to each family's [escrow] account, the amount of the [escrow] credit determined in accordance with paragraph (b) of this section." Paragraph (b) state that "for purposes of determining the [escrow] credit, "family rent" is: for the rental voucher program, 30 percent of adjusted monthly income. The [escrow] credit shall be computed as follows: For families who are very low-income families, the [escrow] credit shall be the amount which is the lesser of: Thirty percent of current monthly adjusted income less the family rent, which is obtained by disregarding any increases in earned income (as defined in 24 CFR 984.103) from the effective date of the contract of participation; or the current family rent less the family rent at the time of the effective date of the contract of participation. For families who are low-income families but not very low-income families, the [escrow] credit shall be the amount determined according to paragraph (b)(1)(i) of this section, but which shall not exceed the amount computed for 50 percent of median income. Families who are not low-income families shall not be entitled to any [escrow] credit. The public housing authority shall not make any additional credits to the family's [escrow] account when the family has completed the contract of participation, as defined in 24 CFR 984.303(g), or when the contract of participation is terminated or otherwise nullified."

Form HUD-52650, Family Self-Sufficiency Contract of Participation, states that" the [housing authority] will establish an escrow account for the family. A portion of the increases in the family's rent because of increases in earned income will be credited to the escrow account in accordance with HUD requirements. The family's annual income, earned income, and family rent when the family begins the family self-sufficiency program...will be used to determine the amount credited to the family's escrow account because of future increases in earned income. [Housing authority] responsibilities [include the following:] Establish an escrow account for the family, invest the escrow account funds, and give the family a report on the amount in the escrow account at least once a year. Determine which, if any, interim goals must be completed before any escrow funds may be paid to the family; and pay a portion of the escrow account to

the family if the [housing authority] determines that the family has met these specific interim goals and needs the funds from the escrow account to complete the contract. Determine if the family has completed this contract. Pay the family the amount in its escrow account, if the family has completed the contract and the head of the family has provided written certification that no member of the family is receiving welfare assistance. Completion of the contract occurs when the [housing authority] determines that: (1) the family has fulfilled all of its responsibilities under the contract; or (2) 30 percent of the family's monthly adjusted income equals or is greater than the fair market rent amount for the unit size for which the family qualifies. The income and rent numbers to be inserted on page one may be taken from the amounts on the last reexamination or interim determination before the family's initial participation in the family self-sufficiency program, unless more than 120 days will pass between the effective date of the reexamination and the effective date of the contract of participation. If it has been more than 120 days, the [housing authority] must conduct a new reexamination or interim redetermination. If a family moves under program portability procedures and is going to participate in the receiving [housing authority's] family self-sufficiency program, the receiving [housing authority] must use the amounts listed for annual income, earned income, and family rent on page one of the contract between the initial [housing authority] and the family."

Form HUD-52652, Family Self-Sufficiency Program Escrow Account Credit Worksheet, states that an escrow credit must be determined at each reexamination and interim determination occurring after the effective date of the contract of participation while the family is participating in the family self-sufficiency program. The amount of the escrow credit will vary depending on the income level of each family and is based on increases of earned income since the effective date of the contract of participation. If the family's adjusted income exceeds the lower-income limit in the jurisdiction in which the family is living (the amount on line 3 is greater than the amount on line 2), the family does not qualify for an escrow credit. In such cases, lines 4-22 of form HUD-52652 will not be completed. Line 2, Applicable Lower-Income Limit, states, "Enter the current lower-income limit for the jurisdiction in which the family is living." Line 19, Applicable Very Low-Income Limit, states, "Enter the current very low-income limit for the jurisdiction in which the family is living."

Chapter 23 of HUD's Housing Choice Voucher Guidebook, 7420.10G, states that the amount of the escrow credit is based on increases in the family's total tenant payment resulting from increases in the family's earned income during the term of the family self-sufficiency contract. As a family's income increases, the housing authority calculates rent and the family pays increased rent, as does any other subsidized tenant. The housing authority then makes deposits to an escrow account in the appropriate amount. The housing authority must compute escrow credit any time it conducts an annual or interim reexamination of income for a family during the term of the contract of participation in the family self-sufficiency program.