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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

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

SUBJECT: The Chicago Housing Authority, Chicago, Illinois, Needs to Improve Its Controls over the Enforcement of Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the Chicago Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program) under its Moving to Work Demonstration program. The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and its program administrative plan regarding the enforcement of housing quality standards abatement actions and rent reasonableness determinations. This is the fourth of multiple audit reports that may be issued regarding the Authority's program.

What We Found

The Authority's program administration regarding the effectiveness of its abatement process, rent reasonableness determinations, and the recovery of overpayments of housing assistance and utility allowances to multiple owners for a single household was inadequate. Of the 98 program households statistically selected for review, the Authority failed to properly abate program units that

failed housing quality standards inspections. As result, it overpaid more than \$49,000 in housing assistance and utility allowances and allowed tenants to reside in units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$1.4 million in housing assistance for units that are in a failed status.

The Authority did not properly determine or document the reasonableness of program rents before approving housing assistance contracts and rent increases. It received more than \$63,000 in program administrative fees related to the 133 households for which contract rents were inadequately determined to be reasonable.

Further, the Authority failed to ensure that owners did not receive multiple housing assistance payments for a single household. Of the 105 households reviewed, 12 owners received more than \$64,000 in improper housing assistance and utility allowances.

We informed the Authority's chief executive officer and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated September 23, 2009.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of more than \$117,000 in program funds, provide documentation or reimburse its program more than \$63,000, and implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$1.4 million in program funds from being spent on units that are not in compliance with HUD's housing quality standards.

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

Auditee's Response

We provided our supporting schedules to the Director of HUD's Chicago Office of Public Housing and the Authority's chief executive officer during the audit. We also provided our discussion draft audit report to the Authority's chief executive officer, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's staff on September 9, 2009.

We asked the Authority's chief executive officer to provide comments on our discussion draft audit report by September 25, 2009. The Authority's chief executive officer provided written comments, dated September 25, 2009. The chief executive officer generally agreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this report except for 53 pages of attachments and five binders of additional documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the Director of HUD's Chicago Office of Public Housing.

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BACKGROUND AND OBJECTIVE

The Chicago Housing Authority (Authority) was established in April 1934 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a 10-member board of commissioners (board) appointed by the mayor of Chicago, Illinois, to five-year staggered terms. The board's responsibilities include overseeing the Authority's operations, as well as the review and approval of its policies. The mayor also appoints the Authority's chief executive officer. The chief executive officer is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

In May 1995, the U.S. Department of Housing and Urban Development (HUD) assumed control of the Authority due to years of management problems and deteriorated living conditions at the Authority's developments. HUD selected Quadel Consulting Corporation (Quadel) to administer, manage, and operate the Authority's Section 8 Housing Choice Voucher program (program) in October 1995. The contractor created a subsidiary, CHAC, Inc., which formally took over the Authority's program administration in December 1995.

In 1996, Congress authorized the Moving to Work Demonstration (Moving to Work) program as a program under HUD. The Authority was accepted into the Moving to Work program on February 6, 2000, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement (agreement). Moving to Work allows certain housing authorities to design and test ways to promote self-sufficiency among assisted families, achieve programmatic efficiency, reduce costs, and increase housing choices for low-income households. Congress exempted the Moving to Work participants from much of the United States Housing Act of 1937 and associated regulations. The agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 and the annual contributions contract, except as necessary for the Authority to implement its Moving to Work demonstration initiatives.

In April 2007, the Authority issued a request for proposal to provide administration and operation of the Authority's program. The two respondents to the request for proposal were Quadel, the Authority's administrator of the program at the time, and CVR Associates, Incorporated (CVR). Through a series of meetings and negotiations with both vendors, the evaluation committee determined that it was in the best interest of the Authority to divide the administration and operations of the program between the two vendors. The division of the program commenced in June 2008. Although the contractors administer the program, the Authority is ultimately responsible to HUD for program operations.

CVR began administering and operating the housing quality standards inspections portion of the Authority's program after the division. It used a subcontractor, McCright and Associates (McCright), to conduct housing quality standards inspections beginning in June 2008. As a result and after the division, CVR through McCright was responsible for determining the abatement actions and the rent reasonableness determination. As of June 30, 2009, the Authority had 49,338 vouchers funded under the annual contributions contract with HUD totaling more

than \$445 million in program funds. The Authority paid its contractors more than 90 percent of its administrative fee to operate the program.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) properly abated housing assistance payments to owners whose units failed inspection, (2) correctly performed and documented rent reasonableness determinations at initial lease-up and for requested rent increases, and (3) recovered the overpayment of housing assistance erroneously paid to landlords because of multiple identification numbers assigned to a single household. This is the fourth of multiple audit reports that may be issued regarding the Authority's program (see report number 2008-CH-1017, issued September 30, 2008; report number 2009-CH-1005, issued February 19, 2009; and report number 2009-CH-1009, issued May 19, 2009).

RESULTS OF AUDIT

Finding 1: The Authority Did Not Accurately Abate Housing Assistance Payments

The Authority's contractors did not appropriately abate housing assistance payments after their inspectors determined that program units did not meet housing quality standards. We reviewed 98 program households whose units failed the Authority's housing quality standards inspections and determined that for 68 units needing abatement, 20 were not abated, and 18 were not abated correctly. This condition occurred because the Authority failed to adequately monitor and provide oversight of its contractors to ensure that HUD's regulations and its program administrative plan were appropriately followed. As a result, the Authority improperly paid \$49,098 in housing assistance for units that were not abated, and households were subjected to units that were not decent, safe, and sanitary. We estimate that over the next year, the Authority will pay more than \$1.4 million in housing assistance for units for which the Authority should have abated the payments.

The Authority's Contractors Failed to Abate Housing Assistance for Units Failing Reinspections

The Authority divided the administration and operations of its program between CVR and Quadel beginning in June 2008. This division resulted in CVR being responsible for and performing the inspections, but both contractors were responsible for administering a portion of the housing vouchers and operating the program, which included placing and lifting abatements.

According to HUD regulations at 24 CFR [*Code of Federal Regulations*] 982.404(a), if the owner fails to maintain the dwelling unit in accordance with housing quality standards, the public housing authority must take prompt and vigorous action to enforce the owner's obligations. The public housing authority must not make housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the public housing authority and the authority verifies the correction. If a defect is life threatening, the owner must correct the defect within 24 hours. For other defects, the owner must correct the defect within 30 calendar days (or any public housing authority-approved extension).

From the 5,334 program households whose units failed reinspections between January 1 and December 31, 2008, we statistically selected 98 units for review

using data mining software. Of the 98 units reviewed, 68 needed abatement. Of the 68 units that needed abatement, 20 were not abated and 18 were not abated correctly. Three of the units contained two incorrect abatements, resulting in 41 abatements that were not processed in accordance with the Authority's administrative plan and HUD's requirements. Accordingly, the contractors failed to abate payments for 20 units, incorrectly calculated the abated housing assistance for 11 units, abated seven units but incorrectly repaid the housing assistance, and incorrectly abated three units.

The following are examples of housing assistance that was incorrectly abated by the contractors:

- Household 0910026 failed an annual inspection on August 22, 2008, and did not pass before the abatement period began on October 1, 2008. The unit should have been abated from October 1, 2008, through January 31, 2009, totaling \$2,260; however, as of March 16, 2009, the abatement had not been processed.
- Household 9721822 failed an annual inspection on April 15, 2008, and did not pass before the abatement period began on June 1, 2008. The unit should have been abated from June 1 through July 15, 2008, totaling \$1,735. The unit passed inspection on July 16, 2008; however, the abatement was from July 1 through July 15, 2008, for \$566, but the housing assistance for June 2008 was not abated, totaling \$1,169 (\$1,735 minus \$566).
- Household 0962568 failed an annual inspection on December 7, 2007, and did not pass before the abatement period began on February 1, 2008. The unit should have been abated from February 1 through July 6, 2008, totaling \$6,025. The unit passed inspection on July 7, 2008; however, this amount was initially abated but was later paid back. There was no documentation to support this decision, and in addition, the unit failed three more times after February 1, 2008; therefore, it should not have received housing assistance.

According to the Authority's administrative plan, when an owner fails to correct cited repairs within the specified timeframe, housing assistance payments will be abated effective the first of the month following the month in which the failed reinspection occurred, and the abatement will continue until such time as the owner corrects the deficiencies. The housing assistance payments may be resumed as of the pass inspection date unless the housing assistance payments contract expires or is terminated. The Authority will not resume housing assistance payments until the owner corrects the deficiencies and the unit passes inspection. No retroactive payments will be made for the period during which the

rent abatement occurred. The Authority did not follow its administrative plan when it incorrectly processed the abatements for 38 program units.

As a result, households resided in units that were not decent, safe, and sanitary.

The Authority's Procedures and Controls over Its Contractors Had Weaknesses

The weaknesses in the abatement process occurred because the Authority did not provide adequate supervision and oversight of its contractors. There were no formal quality control reviews performed by the Authority to examine the performance of its contractors in relation to the abatement process during our audit period. As of February 2009, the Authority was developing a quality control department for the purpose of contractor oversight.

Further, the process of entering abatements into the Authority's Yardi system was a manual process as was the process of lifting abatements and, therefore, subject to user error. For this reason, proper oversight and control of this process was vital to ensure that it was performed correctly.

CVR mistakenly released more than \$1 million in program assistance that was properly abated back to program landlords in March and April 2009. As a result, landlords who were not scheduled to receive program assistance received the abated assistance. This problem occurred when CVR attempted to manually clean up abatements that were open on accounts in which the tenant no longer resided in the unit with open abatements, including units in abatement for 60 days or more. In the process of performing the manual cleanup the Authority's Yardi system inadvertently released the abatements.

Of the more than \$1 million improperly paid, the Authority worked with its bank and stopped payment on \$301,462 so that the landlords did not receive payment. The Authority also recaptured \$165,087 from various landlords and as of July 9, 2009, was recapturing \$172,031 from landlords who had units on its program. The Authority had not recaptured the remaining \$378,505 (\$1,017,085 minus \$301,462 minus \$165,087 minus \$172,031) from 54 landlords who did not have households on the program; however, the Authority sent the landlords a final notice, dated June 4, 2009, requesting repayment immediately.

The Authority's senior vice president of the program said that as of June 29, 2009, the Authority had upgraded to a new version of Yardi that automatically closes abatements when a household moves.

As previously mentioned, after June 2008 when the contract to administer the Authority's program was divided, CVR was responsible for the housing quality standards inspection portion of the program. CVR subcontracted this function to McCright. McCright used its eMIMS system to maintain and track the inspection results. An additional function of the eMIMS system was an abatement report, which provided CVR and Quadel with a daily report of the units that might need to be abated or terminated and/or need further review. The abatement actions that the eMIMS abatement report determines were produced from the abatement matrix logic that is built into the eMIMS system. This abatement matrix, which consists of different abatement actions depending upon the inspection type and result, was agreed to by the Authority and the contractors. The original abatement matrix logic that was implemented in June 2008 did not correctly identify all units that needed to be abated. As a result, some units needing abatement were not included in the abatement report and did not have an abatement correctly processed. Effective December 1, 2008, the updated abatement matrix logic was entered into the eMIMS system and was further updated in January 2009 in an attempt to resolve the problems with the eMIMS abatement report.

Although the Authority updated its system to correct this problem, we did not review any household files after the Authority implemented its new procedures. Therefore, we could not determine whether the new procedures reduced the Authority's weaknesses.

Further, adequate documentation of requested and approved inspection extensions and deadlines, other documentation approving inspection-related issues that relate to abatements, and documentation showing why abatements were initially placed correctly and then later reversed was not always available. Documentation to support these decisions must be available, and procedures must exist that govern these situations. According to HUD's Housing Choice Voucher Guidebook 7420.10, public housing authorities should have an established policy and procedure for receiving and processing requests regarding housing quality standards compliance deadlines, including the conditions under which extensions will be granted.

From June 2008 through December 2008, the Authority's contractor Quadel did not perform the procedures in its established quality control plan for abatements. For example, Quadel was to review 50 failed inspections monthly to determine whether they were processed correctly and abatements were placed if needed; however, Quadel only reviewed 52 failed inspections during this seven month period rather than 50 monthly.

Conclusion

As a result of control weaknesses in the abatement and reinspection processes, the Authority's landlords received housing assistance payments for units that were not in compliance with HUD's housing quality standards. The 38 units that were not properly abated resulted in \$49,098 in housing assistance payments to landlords whose units contained housing quality standards deficiencies that were not corrected in a timely manner.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to enforce HUD's housing quality standards. The Authority received \$3,662 in associated administrative fees for the period during which the housing assistance payments were improperly made for the 38 units.

If the Authority does not implement adequate procedures and controls regarding its housing assistance payments abatements to ensure compliance with HUD's regulations and its administrative plan, we estimate that over the next year, more than \$1.4 million in future housing assistance will not be properly abated for units that failed inspection. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 1A. Reimburse its program \$52,760 from nonfederal funds (\$49,098 for housing assistance payments plus \$3,662 in associated administrative fees) for the 38 units that were not properly abated.
- 1B. Implement adequate procedures and controls regarding its abatement process to include but not be limited to supervisory review of all abatement actions performed in the Yardi system and independent monitoring of the contractors' performance to ensure that \$1,455,654 in housing assistance payments are properly abated in accordance with HUD regulations and the Authority's administrative plan over the next year.
- 1C. Ensure that the abatement report generated from McCright's eMIMS system is properly designed and tested to include the agreed-upon abatement matrix logic before implementation.

- 1D. Ensure that adequate documentation is maintained to support inspection extensions and other determinations regarding the abatement of housing assistance payments.
- 1E. Ensure that it collects the remaining housing assistance from the 54 landlords that were improperly paid.

Finding 2: The Authority's Rent Reasonableness Procedures Were Inadequate

The Authority's contractors did not determine the reasonableness of program unit rents in accordance with the Authority's administrative plan or HUD's requirements. The contractors also failed to maintain required documentation to support the reasonableness determinations. This condition occurred because the Authority and its contractors lacked adequate procedures and controls regarding the Authority's rent reasonableness process. As a result, HUD and the Authority lacked assurance that contract rents were reasonable.

The Authority's Contractors Did Not Adequately Determine Initial Rent Reasonableness

From the 8,071 households who moved into a new unit, either by new admission or transfer, between January 1, 2008, and January 31, 2009, we statistically selected 67 households to review to determine whether the initial rent reasonableness decision was accurately determined and adequately documented. We performed our review in accordance with the Authority's rent reasonableness procedures in place during the audit period. Before June 2008, Quadel handled the rent reasonableness determinations. Beginning June 2, 2008, CVR assumed responsibility for the rent reasonableness determinations, which were handled by its subcontractor McCright. Both CVR and Quadel failed to document the rent reasonableness determinations for units leased under the program when households initially moved into the unit. As a result, 37 of the 67 (55 percent) initial rent reasonableness determinations reviewed had incorrect contract rent amounts. Of the 67 initial rent reasonableness determinations,

- 39 did not have the gross rent range sheet documented and did not use it in determining the contract rent,
- 34 did not have the rent reasonableness certification form documented showing the decision made,
- 13 were completed after the lease effective date, and
- 11 did not have the rent burden sheet documented.

The Authority's Contractors Did Not Adequately Determine the Reasonableness of Rent Increases

From the 1,911 households whose landlords requested and were granted a rent increase effective between January 1, 2008, and February 1, 2009, we statistically

selected 66 households to determine whether the reasonableness of rent increase decisions was accurately determined and adequately documented. One of the households reviewed had two rent increases during the period, resulting in 67 rent increases reviewed. We performed our review according to the Authority's rent reasonableness procedures effective during the audit period. Both CVR and Quadel failed to correctly calculate and document the rent reasonableness determination for units leased under the program when owners requested and were granted rent increases. As a result, 31 of the 67 (46 percent) rent increases reviewed resulted in an incorrect contract rent amount. Of the 67 rent increases reviewed,

- Nine did not have the rent increase request documented,
- Eight did not have the rent reasonableness certification form documented showing the decision made, and
- Six did not have the corresponding housing assistance payments contract documented.

The Authority's Contractors' Procedures and Controls Had Weaknesses

In 2002, Quadel decided to change its rent reasonableness determinations by no longer comparing requested rents for program units directly to comparable unassisted unit rents. Rather, it implemented a rent range methodology in which each requested rent was compared to a similar sample of nonsubsidized units. The rent ranges consisted of reasonable gross rents (contract rents/rent to owner plus utilities) of apartment units by community area, number of bedrooms, and unit quality.

From July 2003 through January 2004, Quadel collected market rent data for more than 14,000 unassisted units from across the 77 community areas within the city. The data were used to generate the gross rent maximum sheet, effective August 30, 2004. Quadel's program director said that nearly a quarter of the 77 community areas were to be reviewed quarterly to determine whether the gross rent maximum sheet needed to be updated. However, according to the Authority's administrative plan, the Authority maintains market survey information on rents for comparable units in the area for 24 months. Survey information that was more than 24 months old was not used for determining rent reasonableness. Thus, the gross rent maximum sheet was updated every two years. Conversely, the Authority lacked procedures on how and when to update the gross rent maximum sheet. In addition, the comparable unassisted unit data used to determine whether the sheet needed updating was only partially available. The comparable data provided did not include information for all of the 77 community areas, and the accompanying timeframes fluctuated.

The gross rent maximum sheet was again updated by Quadel, effective May 15, 2006. This was the gross rent maximum sheet that was used to determine whether owner-requested rents were reasonable during our audit period; however, it was not supported by market survey information as required by the Authority's administrative plan. In addition, many of the amounts on the May 15, 2006, gross rent maximum sheet remained the same as on the 2004 sheet. As previously mentioned, market survey information that was more than 24 months old was not to be used for determining rent reasonableness. Further, because the gross rent maximum sheet was determined based on gross rents of apartments, additional amounts were added to units if they were single-family homes or town houses/row houses to reflect increased rent amounts. However, the increases were not supported by underlying data or procedures.

The Authority's former program director said that due to the difficulties with the rental market and the impending contract split, the May 15, 2006, gross rent maximum sheets would continue to be used. This information was only communicated verbally; there was no written communication of this directive to the staff.

However, McCright failed to consider the gross rent maximum sheet, effective May 15, 2006, in its initial rent reasonableness determinations. Instead, McCright used gross rent data contained in the Authority's ETL system. The gross rent data from the ETL system had not been previously used by Quadel as part of its rent reasonableness determination procedures and should not have been used in the rent reasonableness determination. McCright's manager of operations said that his firm assumed that the ETL gross rent data were current and did not reconcile those data to the data on the May 15, 2006, sheet. Because it was stressed that ETL was the system of record for initial rent determinations, when McCright began using the ETL gross rent data, it did not consider the possibility that the data might not be accurate.

Further, Quadel and CVR granted rent increases despite the fact that the requested rent amount plus the household's utility allowance exceeded the gross rent amount from the gross rent maximum sheet in effect. The contractors also used the incorrect utility allowance, which resulted in the rent amount being incorrectly calculated. Moreover, there was no documentation to verify that bedroom size discrepancies between the rent increase request and the Authority's Yardi system were satisfied and the correct bedroom size was used.

Conclusion

The weaknesses in the rent reasonableness process occurred because the Authority did not provide adequate supervision and oversight of its contractors. There were no formal quality control reviews performed by the Authority to

examine the performance of its contractors in relation to the rent reasonableness process during our audit period. Although CVR had quality control procedures for rent reasonableness determinations, it only checked to ensure that rent reasonableness determinations were made and documented but not whether they were done according to the procedures in place and whether the correct rent amount was determined.

Further, the Authority's contractors failed to comply with the Authority's program administrative plan and HUD's requirements when determining the rent reasonableness for program units. As a result, HUD and the Authority lacked assurance that the contract rents were reasonable.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to perform its administrative responsibilities correctly or adequately under the program. The Authority received \$31,655 in program administrative fees related to the 67 households for which initial contract rents were inadequately determined to be reasonable and \$32,126 in program administrative fees related to the 66 households for which rent increase contract rents were inadequately determined to be reasonable.

Recommendations

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

- 2A. Provide support or reimburse its program \$63,781 (\$31,655 in initial plus \$32,126 in rent increases) from nonfederal funds for the administrative fees related to the 133 (67 initial plus 66 rent increases) households cited in this finding.
- 2B. Implement adequate procedures and controls regarding its rent reasonableness process to include but not be limited to verifying the reasonableness of rents before executing housing assistance payments contracts with owners and maintaining complete and accurate documentation of the decisions.
- 2C. Ensure that market survey information on rents for comparable units is maintained and verified within the timeframe specified in the Authority's administrative plan.

Finding 3: Controls over Recovery of Erroneous Housing Assistance and Utility Allowance Payments to Landlords Need Improvement

The Authority's contractors incorrectly paid housing assistance to more than one landlord on behalf of a single household. They also did not comply with the Authority's program administrative plan regarding repayment agreements with households' landlords. These conditions occurred because the Authority and its contractors lacked adequate procedures and controls to ensure that the Authority's program administrative plan was appropriately followed. As a result, the Authority overpaid more than \$64,000 in housing assistance and utility allowances.

The Authority Did Not Recover Housing Assistance and Utility Allowance Payments of More Than \$64,000

During our review of the rent reasonableness determinations (finding 2), we determined that there were households with multiple identification numbers that resulted in the previous and current landlord receiving housing assistance payments during the same period. A review of 35,097 active program households as of January 31, 2009, revealed 105 suspected cases in which multiple landlords could have received housing assistance payments for a single household. The 105 household files were reviewed to determine whether the Authority inappropriately provided housing assistance to landlords and if so, whether a repayment agreement was executed to recapture any overpayment of housing assistance. Our review was limited to the information maintained by the Authority in its household files. The 105 households were managed by both Quadel and CVR from January 1, 2008, through June 19, 2009.

As a result of our review, we discovered the following problems with 31 households:

- 23 needed housing assistance payments recaptured,
- 21 needed the move-out date and/or lease-end date for the previous unit added in Yardi, and
- One needed its identification number cancelled in Yardi.

Quadel's program director said that Quadel received data from the ETL system to determine which households were in the move process and needed contracts to be sent out. The process of determining which household needed contracts to be sent out, sending the contracts out, receiving them back, and finalizing the move process can sometimes take two to three months to complete. During this time, the landlord of the household's prior unit continues to receive housing assistance

payments. Once the contract was finalized and the move-out date for the old unit and move-in date for the new unit were determined, Quadel went into the Yardi system and recaptured the appropriate amount that was overpaid to the household's prior landlord. Sometimes there was a disconnect in this process because of the time it took and the two different systems, ETL and Yardi, which resulted in the household's prior unit landlord's housing assistance payment not being correctly stopped.

The program director also said that placing the lease-end date on the incorrect form HUD-50058 for the household's prior unit would cause the prior landlord to continue to receive housing assistance payments. Also, Yardi inadvertently added an incorrect lease-end date to the subsidy schedule, allowing the prior landlord to continue to receive housing assistance payments after the household moved out.

Of the 23 landlords that received overpaid housing assistance, 21 payments were the result of a household's moving from one unit to another and the old and new landlords both being paid housing assistance for the same period. Also, 13 of the 23 households questioned did not have a lease end date in the Yardi system. In addition, two of the households reviewed had multiple household identification numbers, but the household was the same; therefore, the same landlord received multiple program assistance.

The housing assistance overpayments for the 23 households totaled \$96,877. Of this amount, the Authority was recapturing \$26,587 for 11 households through the reduction in the landlords' rental assistance. However, as of June 19, 2009, the Authority had not entered into its account tracking system to automatically deduct the overpayment amounts from the landlords' current housing assistance payments or entered into a formal repayment agreement to recapture the remaining \$64,700 for the 12 remaining households.

According to the Authority's administrative plan, if it determines that a household received excess rental assistance, the Authority was responsible for seeking repayment. Repayment may include tenant repayment of excess assistance in full, tenant repayment of excess assistance through a repayment agreement, a decrease in prospective rental assistance without the use of a formal repayment agreement, or repayment through legal action.

The Authority's System Produced Multiple Identification Numbers Resulting in Incorrect Housing Assistance Payments

The Authority's Yardi system had, as part of its core functionality, the assignment of multiple household identification numbers to individual households for tracking purposes. The initial numbers, statically assigned at a bulk data load or automatically system assigned at individual data entry, remained with the household. If a household should change property, it retained the initial number at the new property, and the system assigned another identifier to the historic record at the previous property.

Actions that resulted in the generation of a historic record were moving from the waiting list into a program, moving from one program to another, or moving from a unit in one contractor's portfolio to a unit in the other contractor's portfolio. As a result of the multiple household identification numbers, sometimes the historic identification number and the current identification number both had housing assistance payments associated with them, one going to the household's current landlord and one going to the household's prior landlord.

Conclusion

The Authority did not use its program funds efficiently and effectively when it provided landlords housing assistance that they were not entitled to receive. It overpaid 12 landlords \$64,700 in housing assistance on behalf of a household who had multiple household identification numbers.

If the Authority does not implement adequate procedures and controls over the household transfer process to ensure that housing assistance to the households' prior unit owner is terminated, it will continue to provide housing assistance to landlords that they are not entitled to receive.

Recommendations

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

- 3A. Reimburse its program from nonfederal funds or recapture from the landlords \$64,700 for the 12 households for which housing assistance was overpaid due to multiple household identification numbers.

- 3B. Implement adequate procedures and controls to ensure the identification number for the household's prior unit is properly cancelled in the system and is not active in the program generating housing assistance, the move out date and/or lease end date is properly added in the system for the household's prior unit, and funds paid related to households with multiple identification numbers are collected according to its administrative plan.

- 3C. Review all households that transferred to new units between July 1, 2008, and June 30, 2009, to ensure that the households' prior landlords were not issued housing assistance payments beyond the month in which the households moved out and initiate actions to recover any housing assistance overpayments.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws and regulations, the Authority's 2006 program administrative plan, HUD's program requirements at 24 CFR Part 982, HUD Public and Indian Housing Notice 2001-41, and HUD's Housing Choice Voucher Guidebook 7420.10G.
- The Authority's household files, policies and procedures, board meeting minutes for January 2007 through March 2008, program annual contributions contract with HUD, and the contracts between the Authority and its contractors.

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

Finding 1

Using data mining software, we statistically selected 98 of the 5,334 program households whose units had multiple failed housing quality standards inspections between January 1 and December 31, 2008. The 98 program households were selected to determine whether the Authority's abatements of housing assistance payments were in accordance with established procedures to enforce HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 7 percent.

Our sampling results determined that 38 of the 68 program households whose units needed abatement were not abated correctly from January 1, 2008, through January 31, 2009. Based on our sample review results, using difference estimation, we are 95 percent confident that the amount of housing assistance overpaid due to incorrect abatements was at least \$1,455,654. This amount was determined by adjusting the estimated difference lower limit of overpaid housing assistance to one year. We divided the estimated difference lower limit of \$1,576,958 by 13 months and then multiplied by 12 months. This estimate is presented solely to demonstrate the annual amount of program funds that will be correctly abated over the next year for units that are in a failed status if the Authority implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Finding 2

From the 8,071 households who moved into a new unit, either by new admission or transfer, between January 1, 2008, and January 31, 2009, we statistically selected 67 households using data mining software. The 67 households were reviewed to determine whether the initial rent reasonableness decision was accurately determined and adequately documented by the Authority's contractors. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

From the 1,911 households whose landlords requested and were granted a rent increase, effective between January 1, 2008, and February 1, 2009, we statistically selected 66 households to review using data mining software. The 66 households were reviewed to determine whether the rent increase rent reasonableness decision was accurately determined and adequately documented by the Authority's contractors. One of the households reviewed had two rent increases within the period, resulting in 67 rent increases reviewed. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

We performed our on-site audit work between February and June 2009 at the Authority's offices located at 60 East Van Buren, Chicago, Illinois. The audit covered the period January 1, 2008, through January 31, 2009, but was expanded as determined 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 findings and conclusions based on our audit objective.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of data – Policies, procedures, and practices that management has implemented to provide reasonable assurance that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.
- Safeguarding of assets and resources – Policies and procedures that management has implemented to prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe that the following items are significant weaknesses

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding the enforcement of housing quality standards and oversight of its contractors. Abatement actions were not taken, abatements placed were for the incorrect amounts, and correctly placed abatements were later reversed without documentation (see finding 1).
- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding the determination and documentation of the rent reasonableness decision and oversight of its contractors. The rent reasonableness procedures in place were not followed (see finding 2).
- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding the issuance of housing assistance payments and entering into repayment agreements where housing assistance was overpaid due to multiple household identification numbers. Housing assistance was provided to landlords that they were not entitled to receive and repayment agreements were not entered into (see finding 3).

Separate Communication of Minor Deficiencies

We informed the Authority's chief executive officer and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated September 23, 2009.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$52,760		
1B			<u>\$1,455,654</u>
2A		<u>\$63,781</u>	
3A	<u>64,700</u>		
Totals	<u>\$117,460</u>	<u>\$63,781</u>	<u>\$1,455,654</u>

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

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

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendation, it will cease to expend housing assistance funds for units that are in a failed status and, instead, will abate those funds in accordance with HUD's requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

CHANGE. CHICAGO HOUSING AUTHORITY

Martin Nesbitt
Chairperson

Board of Commissioners
Hallie Amey
Deverra Beverly
Dr. Mildred Harris
Michael Ivers
Myra King
Carlos Ponce
Bridget Reidy
Sandra Young

Lewis A. Jordan
Chief Executive Officer

Scott W. Ammarell
General Counsel

September 24, 2009

Heath Wolfe, Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region V
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Subject: OIG Audit Report 2009-CH-101X

Dear Mr. Wolfe:

This letter and attachments represent the Chicago Housing Authority's (CHA) response to the Phase II Discussion Draft Audit Report 2009-CH-101X, dated September 1, 2009.

The Chicago Housing Authority recognizes the value of the OIG audit process and supports the assessment of our procedures related to Abatements, Rent Reasonableness and Duplicate HAP payments. While we don't agree with each case finding, we acknowledge that the report identifies opportunities for improvement in our management of these program areas.

Additionally, CHA maintains an ongoing commitment to enhance the policies, procedures and internal controls which govern our administration of the Housing Choice Voucher Program.

We look forward to working with OIG to resolve matters related to these and other audit findings.

Sincerely,



Lewis A. Jordan
President/Chief Executive Officer

cc: Kris Warren, Executive VP, Asset Management/COO, CHA
Scott Ammarell, Executive VP, General Counsel, CHA

Comment 1

Finding 1:

The Authority Did Not Accurately Abate Housing Assistance Payments

Recommendations:

1A: Reimburse its program \$52,760 from nonfederal funds (\$49,098 for housing assistance payments and \$3,662 in associated administrative fees) for the 38 units that were not properly abated.

Comments: In general, CHA agrees with this recommendation but has provided documentation and comments to dispute some of the OIG's specific case findings.

Corrective Action:

OIG selected 98 units for review to determine whether abatements were properly administered. According to OIG, of the 98 units reviewed, 68 needed abatement. Of the 68 units that needed abatement, 20 were not abated at all and 18 were not abated properly, resulting in 38 errors.

CHA has reviewed the cases cited in the Draft Audit Report and agrees that 68 of the 98 units in OIG's sample required abatement. Of the 68 units that needed abatement, CHA concludes that 13 were not abated and 8 were not abated properly, resulting in 21 errors vs. the 38 errors cited by OIG. For the remaining 17 cases, supporting documentation is included in his response to show that the abatements were administered properly or had circumstances surrounding the inspection events that differed from the OIG's findings.

(See the attached summary spreadsheet and the supporting case details in Binder #1)

1C: Implement adequate procedures and controls regarding its abatement process to include, but not be limited to, supervisory review of all abatement actions performed in the Yardi system and independent monitoring of the contractor's performance to ensure that \$1,455,654 in housing assistance payments are properly abated in accordance with HUD regulations and the Authority's administrative plan over the next year.

Comments: Agree

Corrective Action:

CHA is currently refining its abatement procedures and systems to strengthen the internal controls for this HCVP function.

To-date the following actions have occurred:

- Effective June 2009, CHA issued a Program Advisory to all HCV Staff to communicate and/or reinforce the following:

Ref to OIG Evaluation

Auditee Comments

Comment 2

- Staff must close abatements on an old unit as a part of the transfer process to the new unit
- Staff must utilize a Lease End Date to terminate HAP Contracts for vacant units
- Staff must only place abatements for Housing Quality Standards violations that are the owner's responsibility

- CHA and its vendors will conduct Quality Control reviews on the placement and lifting of abatements in accordance with their respective Quality Control Plans

(See CHA's attached QA Plan for Abatements)

- Effective June 29, 2009, CHA upgraded to Yardi version 6.0. This version provides enhancements and greater system controls, reporting tools and audit functionality, which will enable staff to regularly review outstanding abatements.
- Effective July 2009, CHA's contractors began to use the eMIMS report solely as a guide to determine if and when abatement activity is required and must reference actual results in an inspection series to initiate abatement placement and lifting actions. As part of CHA's Quality Assurance Plan, the effectiveness of this process will be monitored monthly.
- Effective June 2009, CHA's Finance Department implemented a monthly abatement check run report, to identify landlords who receive \$5,000 or more and/or landlords who receive payments for a property/tenant for three months or more.

While CHA generally agrees with the OIG's draft findings and acknowledges areas for improvement in its abatement process, some key events surrounding the erroneous overpayment of abatements during March and April 2009, are not accurately represented in the Draft Audit Report.

The Authority's Procedures and Controls over its Contractors Had Weakness (Page 9)

While CHA acknowledges that the abatement payments were mistakenly released, it does not attribute the error to the direct actions of the CVR employee. Although the erroneous payments resulted from the process of closing open abatements, CHA's research indicates that the CVR employee followed procedures for closing out such abatements and CHA did not uncover any missteps by the CVR employee in its review process of this event.

In its attempts to determine the root cause for the overpayment, CHA requested a summary of the risk assessment steps that were taken by CVR, prior to closing the open abatements.

The following steps were taken:

1. Review the 50058 to confirm that a lease end date was properly entered.
2. Review the resident subsidy schedule before lifting the abatement to confirm that payments were stopped in accordance with the posted abatement.
3. Lift the abatement to correspond with the move out date.
4. Again review the resident subsidy schedule, after the abatement was lifted, to confirm that the payments had not resumed.

Ref to OIG Evaluation

Auditee Comments

Further, CHA acknowledges the efforts by CVR to assist in all matters related to the discovery and remedy of this event, including prompt notification to affected owners and the recovery of overpaid housing assistance payments.

1D: Ensure that the abatement report generated from McCright's eMIMS system is properly designed and tested to include the agreed-upon abatement matrix logic before implementation.

Comments: Agree

Corrective Action:

CHA will no longer utilize the eMIMS report as an abatement enforcement tool, since it was not developed for that purpose. Additionally, CHA has begun the process of analysis to enable the migration of its core inspections data into its primary data system (Yardi). This effort will centralize all of CHA's inspections-related activity, including abatements. The target date for complete implementation of this initiative is to be determined. However, CHA will provide an update in a subsequent audit response. In the interim, the methodology within the eMIMS system has been refined to identify properties where a re-inspection is required but has not been properly scheduled. As part of CHA's Quality Assurance initiatives, the effectiveness of this report will be monitored monthly.

1E: Ensure that adequate documentation is maintained to support inspection extensions and other determinations regarding the abatement of housing assistance payments.

Comments: Agree

Corrective Action:

CHA has refined its inspection extension protocols, to include revisions to its official extension request form, its extension approval process and the process by which such authorizations are archived in its HCVP document repository, FileNet.

An update version of the *CHA Universal Deferral Request Form*, which includes its related procedures, is attached for consideration.

(See attached document, CHA Universal Deferral Request Form)

1F: Ensure that it collects the remaining housing assistance from the 54 landlords that were improperly paid.

Comments: Agree

Corrective Action:

CHA has continued its efforts to recover funds from the 54 owners who were cited in this finding. The OIG Discussion Draft Audit Report includes disbursement and recovery details based on information that was provided to the OIG shortly after the event occurred. CHA has monitored the recovery effort closely since that time and offers the following revised financial impact summary for consideration by OIG:

A total of \$1,007,286 was released in abatement overpayments. Of this total, \$305,686 was never received by owners, due to a Stop Payment effort and \$337,118 was recaptured via CHA's collection efforts. Therefore, the sum total recovered is \$642,804 and a balance of \$364,482 is outstanding. On August 27, 2009, CHA's Legal Department sent letters via Certified Mail, to 51 of the 54 landlords, in a final collection effort, before filing a lawsuit against each owner. Letters to the remaining 3 owners will be mailed, upon the retrieval of their HAP Contracts from CHA's storage facility.

(See the attached summary spreadsheet and copies of the CHA's collection letters in Binder # 1)

Finding 2:

The Authority's Rent Reasonableness Procedures Were Inadequate

Recommendations:

2A: Provide support or reimburse its program \$63,781 (\$35,655 in initial plus \$32,126 in rent increases) from nonfederal funds for the administrative fees related to the 133 (67 initial plus 66 rent increases) households cited in this finding.

Comments: In general, CHA agrees with this recommendation, but has provided documentation and comments to dispute some of the OIG's specific case findings.

Corrective Action:

CHA has reviewed the 133 (67 Initial and 66 Rent Increases) rent determinations for the households that were cited in this finding. The results of our review are provided in the attached spreadsheet, which includes detailed comments to denote CHA's concurrence or non-concurrence with the OIG's specific case findings.

A brief summary of these findings is provided below:

Initial Rent:

Of the 67 Initial Rent determinations cited in this finding, CHA agrees that 36 were not properly determined and has concluded that 31 were properly determined and/or supported.

Rent Increases:

Comment 3

Ref to OIG Evaluation

Auditee Comments

Comment 4

Comment 5

Of the 67 Rent Increase determinations that were reviewed for this finding, CHA concludes that 15 were not properly determined and has concluded that 42 were properly determined and/or supported.

Additionally, where OIG has cited that rent determinations were not properly supported by documentation, CHA has provided documents for the OIG's consideration as an attachment to this response.

(See the attached summary spreadsheet and supporting documentation in Binder # 2)

2B: Implement adequate procedures and controls regarding its rent reasonableness process to include but not be limited to verifying the reasonableness of rents before executing housing assistance payments contracts with owners and maintaining complete and accurate documentation of the decisions.

Comments: Agree

Corrective Action:

Effective March 09, 2009, CHA adopted the use of McCright and Associates' Rent Reasonableness (RR) model to remedy inconsistencies inherent in the previous model. The McCright RR model utilizes a unit-to-unit comparison in determining rent reasonableness. The rent reasonableness decision is captured in the eMIMS system and is data entered into ETL and Yardi (annuals). All relevant documentation is archived in FileNet, CHA's HCVP document repository.

2C: Ensure that market survey information on rents for comparable units is maintained and verified within the timeframe specified in the Authority's Administrative Plan.

Comments: Agree

Corrective Action:

McCright's RR model builds its comparable database using information from a multiple sources. McCright verifies each comparable property prior to use and records the verification dates in the comparable record. McCright's Rent Study Report compares the subject property to the three comparable properties. Before use, each comparable is checked to ensure its data was updated within the previous 12 months. If the comparable is not current, it is updated or replaced with a different and current comparable property. McCright's report generation system then compares the subject property with the three selected comparables and makes appropriate adjustments using the criteria within 24 CFR 982 – specifically, the unit location, quality, size, type, age, amenities, housing services, maintenance, and utilities the owner must provide, under the lease.

CHA's Administrative Plan requires the agency to only use market data that has been verified within the previous 12 months. As part of CHA's ongoing QA initiative, CHA will ensure that McCright's RR model consistently meets this requirement and will monitor compliance on a monthly basis.

(See CHA's attached QA Plan for Rent Reasonableness)

Finding 3:

Controls Over Recovery of Erroneous Housing Assistance and Utility Allowance Payments to Landlords Need Improvement

Recommendations:

3A: Reimburse its program from nonfederal funds or recapture from the landlords \$64,700 for the 12 households for which housing assistance was overpaid due to multiple household identification numbers.

Comments: Agree

Corrective Action:

CHA has reviewed the 12 households cited in this recommendation and agrees that HAP was overpaid to each owner. For one owner, CHA was asked by OIG to refrain from pursuing repayment of the overpaid funds, pending an investigation by an investigative branch of HUD. Prior to receiving this recommendation, CHA had already recaptured \$3,221 of the \$15,444 total, but has not pursued the remaining balance of \$12,223 for this owner.

For the remaining 11 owners, CHA has determined that 7 are no longer participating in the Housing Choice Voucher Program. Therefore, the overpayments may not be recovered through HAP payments for other HCVP families. Consequently, CHA has mailed Initial and Final Notice collection letters to each of the owners, to recapture the overpaid funds. The overpayment total for the 11 owners is \$65,332. To-date, \$10,253 has been repaid, with a balance of \$ 55,079 remaining. Copies of the collection letters to each owner are attached for consideration in this finding.

(See attached spreadsheet and copies of Initial and Final Notice letters in Binder # 3)

3B: Implement adequate procedures and controls to ensure the identification number for the household's prior unit is properly cancelled in the system and is not active in the program generating housing assistance, the move out date and/or lease end date is properly added in the system for the household's prior unit and funds paid related to households with multiple identification numbers are collected according to its administrative plan.

Comments: Agree

Corrective Action:

Ref to OIG Evaluation

Auditee Comments

CHA has implemented both technological and procedural initiatives to minimize risk in this area going forward. In June 2009, CHA upgraded its primary HCVP data system (Yardi) to version 6.0, which includes improved functionality for the unit transfer process. With its previous version of the system, HAP payments for mid-month moves were automatically pro-rated, which required CHA to generate a manual adjustment to pay each owner for the full month, in accordance with its Administrative Plan.

Additionally, this new version includes a Landlord Overpayment Process, which will enhance CHA's ability to readily identify landlord overpayments through detailed reporting tools. On September 8th, the CHA published a Request for Proposals for the Outstanding Debt Collection. The CHA intends to utilize the services of a third party to recover outstanding debt owed to the agency by both former tenants and owners.

Finally, on July 31, 2009, CHA issued a Program Advisory to all HCVP staff, which requires families to give CHA and their Owners notice before vacating a unit. This policy will help to ensure that lease ending dates are known prior to vacancy and that they are accurately captured during the unit transfer process.

(See attached copy of CHA Program Advisory to All HCV Staff)

3C: Review all households that transferred to new units between July 1, 2008 and June 30, 2009, to ensure that the households' prior landlords were not issued housing assistance payments beyond the month in which the households moved out and initiate actions to recover any housing assistance overpayments.

Comments: Agree

Corrective Action:

In response to this recommendation, CHA has taken initial steps to determine whether housing assistance payments were not made to prior owners following unit transfers and to recover any overpaid housing assistance, if such instances exist. To date the following actions have occurred:

- Identified the universe of households that have transferred to new units from July 1, 2008 – June 30, 2009. The total number of households is **6,148**.
- CHA is currently defining data script parameters to determine whether there are additional instances of duplicate Tenant ID numbers, which may have resulted in the housing assistance payments to owners for which they were not entitled.
- CHA is also defining data script parameters to determine whether outstanding housing assistance payment receivables exist, relative to unit transfers, which have not been recaptured through CHA's routine administration of unit transfers.

Ref to OIG Evaluation

Auditee Comments

- Effective June 29, 2009, CHA upgraded to Yardi version 6.0. This version has improved functionality, efficiencies and reporting tools relative to the administration of unit transfers.

CHA requests that OIG also consider that it has been CHA's standard practice to process moves retroactively, after a Lease End Date for the former unit has been determined. Inherent in this process, is the occasional overpayment of HAP to the owner of the prior unit, which is routinely recaptured, following notification of the tenant's actual date of departure from the unit. Additionally, CHA has taken preliminary steps to utilize the services of a collection agency to establish a formal collection process. This will enable CHA to recover payments from owners who owe money to CHA, but are no longer participants in the Housing Choice Voucher Program. CHA will provide an update on this initiative, in its response to the final OIG Audit Report.

In conclusion, CHA is committed to providing the administrative oversight that is necessary to guide ongoing quality improvement. We look forward to working with you to bring closure to these and other audit findings.

Thank you for your consideration of the comments and corrective actions noted in this letter.

Sincerely,

Lewis A. Jordan

President/Chief Executive Officer

cc: Kris Warren, Executive VP, Asset Management/COO, CHA

Scott Ammarell, Executive VP, General Counsel, CHA

OIG Evaluation of Auditee Comments

- Comment 1** The Authority did not provide sufficient documentation with its written comments to support that only 13 units were not abated and that eight were not abated properly, resulting in 21 errors.
- Comment 2** We adjusted the report based on the documentation provided by the Authority to accurately reflect the Authority's actions.
- Comment 3** We disagree with the Authority's assertion that 31 of the 67 initial rent determinations were properly determined. Documentation and comments provided by the Authority did not support its assertion.
- Comment 4** We disagree with the Authority's assertion that 42 of the 67 rent increase rent determinations were properly determined. However, we adjusted the audit report based upon the additional documentation provided by the Authority. It resulted in two additional rent increase determinations being properly determined by the Authority; therefore, 31 rent increase rent determinations were not properly determined instead of 33 as initially report.
- Comment 5** The Authority provided sufficient documentation with its written comments to support that one initial rent determination household file contained the rent reasonableness certification form showing the decision made. Also for the rent increase rent determination, the Authority provided the rent increase request document and the rent reasonableness certification form showing the decision made for one household.

Appendix C

HUD REGULATIONS AND THE AUTHORITY'S POLICIES

Finding 1

HUD's regulations at 24 CFR 982.1 state that HUD's Housing Choice Voucher program pays rental subsidies so eligible families can afford decent, safe, and sanitary housing. Section 982.52(a) requires the Authority to comply with HUD regulations and other HUD requirements for the program.

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

HUD's regulations at 24 CFR 982.401(a)(3) state that all program housing must meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the assisted tenancy.

HUD's regulations at 24 CFR 982.453(a) state that any of the following actions by the owner (including a principal or other interested party) is a breach of the housing assistance payments contract by the owner: "(1) If the owner has violated any obligation under the housing assistance payment contract for the dwelling unit, including the owner's obligation to maintain the unit in accordance with the housing quality standards. (b) The public housing authority rights and remedies against the owner under the housing assistance payment contract include recovery of overpayments, abatement or other reduction of housing assistance payments, termination of housing assistance payments, and termination of the housing assistance payment contract."

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 10, page 10-28, states that the public housing authority must abate housing assistance payments to owners that do not comply with notifications to correct housing quality standards deficiencies within the specified period: 24 hours or 30 days depending upon the nature of the deficiency. For valid reasons, the public housing authority may extend the period. Placement of abatement must occur by the first of the month following expiration of the notice.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 10, page 10-34, states that for fairness and consistency, public housing authorities should have an established policy and procedure for receiving and processing requests regarding housing quality standards compliance deadlines, including the conditions under which extensions will be granted. It is not advisable to grant extensions without just cause or to grant verbal extensions as this can be construed as circumvention of the Section Eight Management Assessment Program requirement.

The Authority's administrative plans, effective December 19, 2006, and updated July 15, 2008, page 36, state that when an owner fails to correct cited repairs within the specified timeframe, housing assistance payments will be abated, effective the first of the month following the month

in which the failed reinspection occurred, and the abatement will continue until such time as the owner corrects the deficiencies (but no longer than 90 calendar days, at which time the housing assistance payments contract will be cancelled. An extension in one or more increments, not to exceed an additional 90 calendar days, may be granted for severe weather-related items (effective July 15, 2008)). The housing assistance payments may be resumed as of the pass inspection date unless the housing assistance payments contract expires or is terminated. Housing assistance payments contracts automatically expire if no payments are made for six continuous months. The Authority will not resume housing assistance payments until the owner has corrected the deficiencies and the unit passes inspection. No retroactive payments will be made for the period during which the rent abatement occurred. When the deficiencies are corrected, however, a prorated housing assistance payment may be provided to the owner for the period commencing with the date an Authority inspector certified that the required work was completed.

Finding 2

HUD's regulations at 24 CFR 982.158(f)(7) state that the public housing authority must keep the following records for at least three years: records to document the basis for public housing authority determination that rent to the owner is a reasonable rent (initially and during the term of a housing assistance payments contract).

HUD's regulations at 24 CFR 982.305(a)(4) state that the public housing authority may not give approval for the family of the assisted tenancy or execute a housing assistance payments contract until the public housing authority has determined that all of the following meet program requirements: the rent to the owner is reasonable.

HUD's regulations at 24 CFR 982.507(a) and (b) state: "(a)(1) the public housing authority may not approve a lease until the public housing authority determines that the initial rent to owner is a reasonable rent. (2) The public housing authority must redetermine the reasonable rent: (i) Before any increase in the rent to owner; (ii) If there is a five percent decrease in the published fair market rent in effect 60 days before the contract anniversary (for the unit size rented by the family) as compared with the fair market rent in effect 1 year before the contract anniversary; or (iii) If directed by HUD. (3) The public housing authority may also redetermine the reasonable rent at any other time. (4) At all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or redetermined by the public housing authority. (b) The public housing authority must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the public housing authority must consider: (1) The location, quality, size, unit type, and age of the contract unit; and (2) Any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease."

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 9, page 9-3, states that in each case in which the public housing authority is required to determine rent reasonableness, it must document its decision and the basis for it (i.e., information on the unassisted units compared) in

the household's file. This documentation should identify who conducted the rent reasonableness determination and when.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 9, page 9-7, states that by updating these listings periodically, public housing authorities may be able to avoid having to conduct a more expensive, comprehensive survey. The work involved in updating the database could be spread out (e.g., geographically or by listing site), with some updating occurring each month. Public housing authorities should always indicate in their documentation the date of the data collection, so that they know how old it is when using or updating the data. How often the data should be updated depends upon market conditions. In some communities, it may be adequate to update the information every two years. For rapidly changing markets, however, it may be appropriate to update the database quarterly.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 9, page 9-11, states that there should be written guidance describing how the database will be maintained and how rent reasonableness determinations will be made and documented. Clear performance standards should be set, and there should be monitoring and quality control throughout the year, with training and feedback regarding both good and inadequate performance.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 9, page 9-11, states that public housing authorities should implement a program of quality control reviews of rent reasonableness decisions. The review should also ensure that all determinations are consistent with public housing authority procedures and properly documented in the files. If the public housing authority assigns responsibility for maintaining the database, it should also require periodic reviews of the size and representation of the database in comparison to established public housing authority standards. It is important for program managers to remain involved in the rent reasonableness process and to ensure that staff is performing in accordance with public housing authority and HUD requirements.

The Authority's administrative plans, effective December 19, 2006, and updated July 15, 2008, page 25, state that rent reasonableness is determined for all new leases and rent increases. A reasonable rent to the owner is defined as not more than rent charged (a) for comparable units in the private unassisted market and (b) for comparable unassisted units in the premises. The Authority will not approve a subsidized tenancy until a determination has been made that the initial rent to the owner is reasonable. The Authority uses rents based on amounts charged for nonassisted rents in the 77 neighborhoods in Chicago. The comparability review takes into consideration the following factors:

- Location
- Quality
- Size
- Unit type
- Age of the contract unit
- Amenities
- Housing services

- Maintenance
- Utilities provided by the owner in accordance with the lease

The Authority maintains market survey information on rents for comparable units in the area. Market survey information that is more than 24 months old is not used for determining rent reasonableness. If the Authority determines that the amount of rent requested by the owner is not reasonable, a reasonable rent will be computed, and a counteroffer will be made to the owner.

The Authority's administrative plans, effective December 19, 2006, and updated July 15, 2008, page 35, state that at all times during the assisted tenancy, the rent to the owner may not exceed the reasonable rent as most recently determined or redetermined by the Authority. The Authority will redetermine the reasonableness of the rent (1) before any increase in the rent to the owner, (2) if there is a 5 percent decrease in the published fair market rent in effect 60 days before the contract anniversary (for the unit size rented by the family) as compared with the fair market rent in effect one year before the contract anniversary, or (3) if directed by HUD. Rent increases will not be approved unless the rent is comparable; the unit is in decent, safe, and sanitary condition; and the owner is in compliance with the terms of the housing assistance payments contract and lease. The contract rent may not be increased during the initial term of the lease. After the initial term, owners may request an increase at any time but must provide written notice of any proposed increase to the family, in accordance with the lease and contract, and to the Authority. The increase will not be approved unless the increased rent meets rent reasonableness requirements and the family agrees to the increase.

The Authority's Owners Reference Manual, page 22, states that all rent increases take effect the first of the month following a 60-day processing period.

Finding 3

HUD's regulations at 24 CFR 982.311(a) state that housing assistance payments are paid to the owner in accordance with the terms of the housing assistance payments contract. Housing assistance payments may only be paid to the owner during the lease term and while the family is residing in the unit. "(c) Housing assistance payments terminate if: (1) The lease terminates; (2) The housing assistance payment contract terminates; or (3) The public housing authority terminates assistance for the family. (d)(1) If the family moves out of the unit, the public housing authority may not make any housing assistance payment to the owner for any month after the month when the family moves out. The owner may keep the housing assistance payment for the month when the family moves out of the unit. (2) If a participant family moves from an assisted unit with continued household-based assistance, the term of the assisted lease for the new assisted unit may begin during the month the family moves out of the first assisted unit."

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 11, page 11-4, states that the housing assistance payments contract and the housing assistance payments made under the housing assistance payments contract terminate automatically in each of the following situations:

- Owner or household terminates the lease,
- Lease expires,
- Public housing authority terminates the housing assistance payments contract,
- Public housing authority terminates assistance for the family, or
- Family moves from the unit. The owner is entitled to keep the housing assistance payment for the month when the family moves out of the unit. The term of a new housing assistance payments contract for a new unit may begin in the same month in which the participant moves out of the previously assisted unit. This is not considered a duplicative subsidy.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 11, page 11-5, states that the public housing authority must make housing assistance payments to the owner in accordance with the terms of the housing assistance payments contract and the owner must comply with the provisions of the housing assistance payments contract to receive such payments. The housing assistance payments contract specifies that payments are to be made monthly at the beginning of each month. Housing assistance payments must be made only during the lease term and while the family is residing in the unit. When a lease term begins after the first of the month, the housing assistance payment for the first month is prorated for a partial month. The monthly housing assistance payment by the public housing authority is credited toward the monthly rent to the owner under the family's lease. The total of the rent paid by the household plus the public housing authority housing assistance payment may not be more than the rent to the owner. The owner must immediately return any excess payment to the public housing authority.