



Issue Date November 22, 2010
Audit Report Number 2011-AT-1002

TO: Ada Holloway, Director, Atlanta Office of Public Housing, 4APH

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The East Point Housing Authority Made Excessive Housing Assistance Payments for a Zero-Income Tenant and Its Units Did Not Meet Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the East Point Housing Authority (Authority) Housing Choice Voucher program. We selected the Authority due to the lack of onsite monitoring performed by the Office of Public Housing, Georgia State Office, over the past 10 years and the fact that the number of program tenants had more than doubled over the past few years.

Our audit objectives were to determine (1) whether the Authority established procedures to ensure that tenants were eligible for rental subsidies and that the amount of their subsidy calculation was properly supported and (2) whether its units met the U.S. Department of Housing and Urban Development's (HUD) housing quality standards.

What We Found

The Authority generally computed accurate housing assistance payments. However, it made excessive housing assistance payments of \$38,447 on behalf of a zero-income tenant who underreported her income and did not provide proof of

financial assistance. This condition occurred because the Authority's Housing Choice Voucher program staff did not follow its policies for zero-income tenants.

The Authority's physical inspection process was not effective. The inspections did not accurately identify the deficiencies. Also, the quality control inspections were not performed on a timely basis, and the results were not communicated to the inspector. This occurred because the Authority's workload increased.

What We Recommend

We recommend that the Director of Public Housing require the Authority to reimburse the Housing Choice Voucher program the \$38,447 that was paid in ineligible housing assistance and implement its policies and procedures to ensure that its program operates in compliance with HUD's requirements. We further recommend that the Director of Public Housing require the Authority to (1) reinspect the units and ensure that all deficiencies identified have been corrected, (2) evaluate the inspector's workload and make the necessary adjustments to ensure that housing quality standards deficiencies are properly identified and corrected, (3) implement its policy and ensure that all quality control reviews are performed within the 3-month timeframe, and (4) establish and implement procedures to ensure that its quality control review deficiencies are communicated to the inspector.

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

Auditee's Response

We discussed our review results with Authority officials during the audit. We provided a copy of the draft report to the Authority on October 12, 2010, for its comments and discussed the report with Authority officials at an exit conference on October 27, 2010. The Authority provided written comments on November 8, 2010.

The auditee generally agreed with our report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The East Point Housing Authority (Authority) was established in 1949 to provide decent, safe, and sanitary housing. It is a not-for-profit agency providing affordable housing and family self-sufficiency services. The Authority is governed by a six-person board of commissioners appointed by the mayor of East Point. The Authority's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

The Authority administers a Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of April 30, 2010, the Authority had 794 housing assistance vouchers under contract in East Point, GA, and surrounding communities. The annual housing assistance payments and administrative fees approved for fiscal year 2010 totaled \$2.6 million.

HUD's Georgia State Office of Public Housing in Atlanta, GA, is responsible for overseeing the Authority.

Our audit objectives were to determine (1) whether the Authority established procedures to ensure that tenants were eligible for rental subsidies and that the amount of their subsidy calculation was properly supported and (2) whether its units met HUD's housing quality standards.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Follow Its Procedures When Dealing With a Zero-Income Tenant

The Authority generally computed accurate housing assistance payments. However, it made excessive housing assistance payments of \$38,447 on behalf of a zero-income tenant who underreported her income and did not provide proof of financial assistance. This condition occurred because the Authority's Housing Choice Voucher program staff did not follow its policies for zero-income tenants. As a result, HUD lacked assurance that the Authority was properly verifying income to ensure its program funds were spent on eligible tenants.

Proof of Financial Support Was Not Provided

We reviewed 14 randomly selected tenant files and noted that one tenant did not provide documentation required by the Authority. In this case, the tenant, who lived with her adult daughter, had claimed to be a zero-income family for the past 2 years. On the tenant's recertification application, she stated that no one in the household was receiving any income; however, she stated that her mother provided her \$100 to \$150 per month to assist with the utilities. The tenant did not provide proof of this financial support, and the Authority did not take appropriate action to obtain the necessary documentation as required by its action plan.

The Authority's action plan states that zero-income families may only remain in a zero-income status for a maximum of 60 days. After 60 days, but before 90 days, the family must provide proof of financial support (for basic subsistence, such as food, utilities, transportation, etc.), such as family, government, or private agency contributions, which will be used to calculate the family's rent. Failure to provide proof of financial support will result in termination from the program.

Excessive Housing Assistance Payments of \$38,447 Were Made

We informed the Authority that the lack of support violated their action plan and requested them to review the tenant files and reverify the income to determine the employment status and income of the tenant and her daughter. The Authority discovered that they both had been working since December 1, 2003 and did not report any income. Based on the underreported household income, the Authority recalculated the tenant's portion of the rent from February 1, 2004, to May 1,

2010. The Authority determined that it made excessive housing assistance payments of \$38,447. On June 9, 2010, the Authority gave the tenant notice of its proposal to terminate her program assistance. On June 28, 2010, it notified the tenant that she owed the Authority \$38,447 in retroactive rent and requested that she pay it immediately.

Recommendations

We recommend that the Director of the Atlanta Office of Public Housing

- 1A. Require the Authority to reimburse the Housing Choice Voucher program \$38,447 for ineligible housing assistance payments.
- 1B. Require the Authority to implement its policies and procedures to ensure that it properly verifies tenant income for zero-income families.

Finding 2: The Authority's Inspection Process Was Not Effective

The Authority's inspection process was not effective. The inspections did not accurately identify the housing quality standards deficiencies, quality control inspections were not performed on a timely basis, and the results of the quality control inspections were not communicated to the inspector. This occurred because the Authority's workload increased. As a result, there were units in the Housing Choice Voucher program that did not meet HUD's housing quality standards

10 of 14 Units Inspected Failed To Meet HUD's Housing Quality Standards

Regulations at 24 CFR (Code of Federal Regulations) 982.401(a) (3) provide that all program housing must meet housing quality standards performance requirements both at the commencement of assisted occupancy and throughout the assisted tenancy.

The Authority had 794 units under lease and one inspector to perform all initial, annual, and follow-up inspections. Due to his significant workload, a number of housing quality standards violations were not properly identified or corrected. We randomly selected 14 of the most recently inspected units to inspect. Ten units did not meet HUD's housing quality standards. For the 10 units, we identified 44 deficiencies. Of the 44 deficiencies identified, 10 were identified by the inspector during his initial inspections but passed on his follow-up inspections, although the deficiencies had not been corrected. The inspector also failed to identify 12 deficiencies that existed at the time of his initial inspections. We identified an additional 22 deficiencies during our inspections that we could not determine whether the deficiencies existed at the time of the inspector's initial visit.

The deficiencies identified included ground fault interrupters that were either missing or not working properly, smoke detectors that were not working, windows that would not lock or stay up when opened, missing or broken window and vent screens, roach infestation, an exterior hand rail that was not installed, interior rails that were loose, stoves that were not working, and a dryer that was vented to the inside of the kitchen.

One of the units we inspected had serious deficiencies. These deficiencies included a broken support beam on the front porch that weakened the roof, causing it to sag; old roofing tiles scattered over the yard from previous repairs; leaks in the kitchen and walls that were mildewed; and mold and mildew in other parts of the house. The executive director personally inspected the unit and had taken action to terminate the contract with the owner and relocate the tenant.

Quality Control Inspections Were Ineffective

Regulations at 24 CFR 982.405(b) provide that the Housing Choice Voucher program supervisor will perform quality control inspections on the number of files required by the Section Eight Management Assessment Program (SEMAP). According to SEMAP, the Authority was required to perform 18 inspections per year. The purpose of the inspections is to determine that each inspector conducts accurate and complete inspections and to ensure that there is consistency among the inspectors in the application of housing quality standards. The sampling will include recently completed inspections (within the prior 3 months), a cross section of neighborhoods, and a cross section of inspectors.

The Authority had performed 11 quality control inspections by April 30, 2010. We reviewed the inspections to determine whether they were performed within the required 3-month period, the number of units that passed the inspections and whether the results of the inspections were formally provided to the inspector.

Six of the eleven inspections were performed on a timely basis. The remaining five inspections were performed between 5 and 8 months after the initial inspections. Due to an increased workload, the quality control inspections were not performed timely. Only 2 of the 11 units passed the quality control inspections, and none of the results of the quality control inspections were provided to the inspector. The Authority's policy did not require communicating the inspection results to the inspector. Therefore, by not performing timely inspections and not formally informing the inspector of the results of the inspections, the Authority's system was ineffective.

Overall, in relation to the workload, the Authority's operations manager stated that the Authority always had three specialists and one inspector; however, one of the specialists was promoted and was not replaced. She also said that the Authority recognized that the department was understaffed. She stated that a temporary inspector was contracted to assist with the inspection workload, and the Authority planned to add a full-time inspector to its staff on October 1, 2010. The Authority has not decided on hiring an additional specialist.

Recommendations

We recommend that the Director of the Atlanta Office of Public Housing

- 2A. Require the Authority to reinspect the units and ensure that all deficiencies identified have been corrected.

- 2B. Require the Authority to evaluate its workload and make the necessary adjustments to ensure that housing quality standards deficiencies are properly identified and corrected.
- 2C. Require the Authority to implement its policy and ensure that all quality control reviews are performed within the 3-month timeframe.
- 2D. Require the Authority to establish and implement procedures to communicate its quality control review deficiencies to the inspector.

SCOPE AND METHODOLOGY

Our audit objectives were to determine (1) whether the Authority established procedures to ensure that tenants were eligible for rental subsidies and the amount of their subsidy calculation was properly supported and (2) whether its units met HUD's housing quality standards. To accomplish our objectives, we

- Researched HUD handbooks, the Code of Federal Regulations, and other requirements and directives that govern the Housing Choice Voucher program;
- Interviewed HUD and Authority staff;
- Reviewed HUD's program files for the Authority; and
- Reviewed the Authority's procedures and controls used to administer the Housing Choice Voucher program.

We conducted our audit from May through September 2010 at both the Atlanta, GA, HUD office and the Authority located at 3056 Norman Berry Drive, East Point, GA. Our audit period was May 1, 2009, through April 30, 2010. We expanded our audit period as needed to accomplish our objectives.

We obtained the tenant recertification reports from September 2009 through May 2010, which contained a total of 794 tenants. We narrowed our scope to recertifications completed between February and April 2010. This reduced our universe to 162 tenants. From this universe, we randomly selected 14 tenants, using the random function formula in Microsoft Excel.

We did not review and assess general and application controls over the Authority's information systems. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included but were not limited to comparisons of computer-processed data to invoices and other supporting documentation. We did not place reliance on the Authority's information systems and used other documentation for the activities reviewed.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the 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.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that its resources are used in accordance 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 or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- The Authority's controls and procedures to verify tenant income and ensure that rental units meet HUD's housing quality standards were not effective in preventing and detecting ineligible costs in its Housing Choice Voucher program and ensuring that the Authority's units provide safe, decent, and sanitary housing (see findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>
1A	\$38,447


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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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Board of Commissioners
Barbara Collins, *Chair*
Keith Brayton, *Vice Chair*
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Charles Barlow, *Commissioner*
Julie Broadus, *Commissioner*
Pam Smith, *Commissioner*

Kimberly A. Lemish
Executive Director

November 8, 2010

Mr. James D. McKay
District Office of Inspector General
Office of Audit, Box 42
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388

Subject: Response to OIG Draft Audit Report

Dear Mr. McKay:

The Housing Authority of the City of East Point, Georgia (HACEPG) respectfully submits for your review our comments for the draft OIG audit report received October 20, 2011.

- **Finding 1:** The Authority Did Not Follow Its Procedures When Dealing With a Zero-Income Tenant
Sub-Category: Proof of Financial Support Was Not Provided
Response: The HACEPG accepts the Auditor's statement that the Authority, in the case management of HCV participant [REDACTED], did not follow-up to obtain verification of the reported family contribution or investigate the earnings of [REDACTED] reported in EIV, did not calculate correctly the participants rental portion based on information in the file and failed to follow the HCV Administrative Plan of the Authority regarding zero-income families.

The HACEPG does want to correct the auditor's statement that [REDACTED] had claimed to be a zero-income family for 4 years. [REDACTED] first claimed zero-income in May 2008 when her unemployment ended.

Sub-Category: Excessive Housing Assistance Payments of \$38,447 Were Made
Response: The HACEPG accepts the auditor's statement that an overpayment in the amount of \$38,447 was made on behalf of [REDACTED] and needs to be repaid to the HCV program, however, HACEPG does not agree that one error file out of 14 files audited constitutes a significant program deficiency; a pervasive problem with file documentation and rent calculation would have been identified through our annual audits.

Corrective Actions (completed or being performed):

- 1) Program repayment of \$38,447; HACEPG has moved \$38,447 from Acct# 3.2800.000.00 (Unrestricted Net Assets – A/F Reserve) to Acct# 3.2806.0000.00 (Restricted Net Assets Balance – HAP Reserve) (see attached);
- 2) 5 new families identified to be assisted for 12 months with the \$38,447 repaid (families to be absorbed after 12 months);

Page 1

Comment 1

Comment 2

- 3) In-house quality control review of HCV caseloads;
- 4) Termination of HCV Specialist from caseload for failing to comply with program guidelines, federal regulations and policies (Admin Plan) of the Authority;
- 5) Temporary contractor to assist with HCV caseload and file reviews until full-time specialist hired;
- 6) In-house review of quality control procedures and formulation/implementation of new monthly QC file review plan;
- 7) In-house review with HCV staff of the HCV Administrative Plan specific to rent calculation, verification procedures, treatment of zero-income families and processing EIV reported income discrepancies;
- 8) Increased HCV Specialist staff by one effective 10/1/10;
- 9) HCV Specialist training and certification for new staff (certification for occupancy and rent calculation).

□ **Finding 2:** The Authority's Inspection Process Was Not Effective

Sub-Category: 10 of 14 Units Inspected Failed To Meet HUD's Housing Quality Standards

Response to Finding: The HACEPG accepts the Auditor's statement that the inspector's significant workload affected his ability to properly identify and correct all HQS deficiencies.

Of the auditor's noted 45 deficiencies in 10 units, 23 deficiencies could not be identified as previously existing in the units at the time of the Authority's inspection and should not be considered in the final audit determination.

Sub-Category: Quality Control Inspections Were Ineffective

Response: The HACEPG agrees with the Auditor's statement that due to an increased workload five QC inspections were not performed timely and results of QC inspections were not being forwarded to the HCV inspector.

Corrective Actions (completed or being performed):

- 1) HQS Inspector reinspected properties and performed follow-up for completion of failed items; 3 participants moved to qualified units; follow-up continues on 2 occupied units under abatement;
- 2) QC inspections were performed; follow-up QC scheduled for 2 abated units;
- 3) Temporary contractor used to decrease workload of existing HCV Inspector;
- 4) Increased HCV Inspection staff by one effective 10/1/10;
- 5) HQS update training for existing inspector and HCV Coordinator; new HQS Inspector attended training 10/1 – 10/4/10; results of certification testing pending;
- 6) In-house review of HQS quality control inspection procedures and formulation/implementation of new monthly QC inspection plan;
- 7) New handheld inspection equipment and HQS specific software being used; generates notices and schedules follow-up appointments for passed/failed inspections.

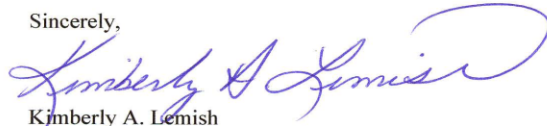
The staffing levels of the Authority have always been at a minimum due to underfunding; however, program performance and compliance were maintained. The HCV staff work load has been exacerbated by the Authority's public housing relocation process. Over the last 18 months, 200 additional vouchers participants have been added to the HCV program affecting caseload management, HQS inspections and Quality Control performance measures. Appropriate steps have been taken to correct stated deficiencies and will continue to be taken to prevent future deficiencies.

Comment 3

Comment 4

The Board of Commissioners understands the needs of the program sometime exceed the funding being provided. The Board has approved HACEPG's HCV program to operate at a temporary deficit (costs to be covered by reserves) and will reevaluate program funding and available resources annually.

Sincerely,



Kimberly A. Lemish
Executive Director

Cc. SLucas
AHolloway
KWoodard
BCollins
GFurin

OIG Evaluation of Auditee Comments

- Comment 1** The Authority stated that the Section 8 tenant first claimed zero-income in May 2008 when her unemployment ended and not for the past 4 years. We verified the documentation provided by the Authority and made the necessary corrections.
- Comment 2** The Authority stated that one error file out of 14 does not constitute a significant program deficiency and a pervasive problem with the file documentation and rent calculation would have been identified through its annual audits. However, the issue has continued for the past two years and was not identified resulting in an overpayment of \$38,447.
- Comment 3** The Authority stated that the 23 deficiencies that could not be identified as existing at the time of the latest Authority inspection should not be considered in the audit. Although, we could not determine if the deficiencies existed at the time of the latest Authority inspection, they still represent violations of HUD's housing quality standards and should be corrected. Therefore, we included them in the report to assure that the violations were corrected immediately by the Authority instead of waiting until the next annual inspection.
- Comment 4** The Authority generally agreed with the finding and recommendations and has started implementing procedures to correct the issues.