



# Housing Authority of the City of Evansville, Evansville, IN

## Rental Assistance Demonstration Program

**Office of Audit, Region 5  
Chicago, IL**

**Audit Report Number: 2018-CH-1003  
August 2, 2018**





**To:** Catherine D. Lamberg, Director of Public Housing, 5HPH

**From:** //signed//  
Kelly Anderson, Regional Inspector General for Audit, 5AGA

**Subject:** The Housing Authority of the City of Evansville, Evansville, IN, Did Not Follow HUD's and Its Own Requirements for Units Converted Under the Rental Assistance Demonstration

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the City of Evansville's Rental Assistance Demonstration Program conversion.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 913-8499.



**Audit Report Number: 2018-CH-1003**

**Date: August 2, 2018**

**The Housing Authority of the City of Evansville, Evansville, IN, Did Not Follow HUD's and Its Own Requirements for Units Converted Under the Rental Assistance Demonstration**

## Highlights

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### What We Audited and Why

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We audited the Housing Authority of the City of Evansville's Rental Assistance Demonstration Program (RAD) conversion based on the activities included in our 2018 annual audit plan and our analysis of the housing agencies participating in RAD in Region 5's jurisdiction (States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin). Our audit objective was to determine whether the Authority complied with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements for the units converted under the program.

### What We Found

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The Authority did not follow HUD's and its own requirements for the units converted under RAD. Specifically, it (1) did not ensure that units complied with HUD's housing quality standards before it entered into a housing assistance payments contract, (2) failed to obtain the services of a HUD-approved independent third party to perform housing quality standards inspections for units owned by entities it substantially controlled, and (3) did not apply the correct contract rents for the converted units. As a result, the Authority could not support the eligibility of more than \$1 million in housing assistance payments to the entities and more than \$10,000 in program funds paid to a contractor for housing quality standards inspection services. Further, the application of incorrect rents led to the underpayment of housing assistance payments to the entities, so these funds were not available for the administration of the Authority's Project-Based Voucher program.

### What We Recommend

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We recommend that the Director of HUD's Indianapolis Office of Public Housing require the Authority to (1) support that units met HUD's housing quality standards or reimburse its program more than \$1 million for the initial inspections of converted units that did not ensure compliance with the standards, (2) seek retroactive approval or reimburse its program more than \$10,000 in program funds paid to contractors for unsupported housing quality standards inspection services completed by contractors that were not approved by HUD, and (3) implement adequate procedures and controls to address the findings cited in this audit report.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>5</b>
<b>Finding: The Authority Did Not Follow HUD’s and Its Own Requirements for Its     RAD-Converted Units .....</b>	<b>5</b>
<b>Scope and Methodology.....</b>	<b>9</b>
<b>Internal Controls.....</b>	<b>11</b>
<b>Appendixes.....</b>	<b>12</b>
<b>A. Schedule of Questioned Costs .....</b>	<b>12</b>
<b>B. Auditee Comments and OIG’s Evaluation.....</b>	<b>13</b>
<b>C. Federal and the Authority's Requirements .....</b>	<b>21</b>

# Background and Objective

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The Housing Authority of the City of Evansville was established in 1942 under the Indiana Housing Authorities Act of 1937. Its mission is to enhance the community by creating and sustaining decent, safe, and affordable living environments that foster stability and increase self-sufficiency for people with low incomes. It is governed by a seven-member board of commissioners appointed by the City's mayor to 4-year staggered terms. The board of commissioners' responsibilities include overseeing the operations of the Authority as well reviewing its policies. The Authority's board of commissioners appoints the executive director, who is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

In 2012, Congress authorized the Rental Assistance Demonstration program (RAD) to test a new way of meeting the large and growing capital improvement needs of the Nation's aging public housing stock. Through RAD, properties convert their assistance to long-term, project-based Section 8 contracts. These new contracts provide a more reliable source of operating subsidies that allow public housing agencies and owners to safely leverage private capital – typically debt and equity – to finance the property rehabilitation or replacement. The contracts, as well as underlying use restrictions, must be renewed each time they expire, ensuring the long-term affordability of the improved properties.

As of June 1, 2016, the Authority had converted 559 units from the public housing program to the Project-Based Voucher program under RAD. The projects with public housing units converted under RAD are listed in the table below.

<b>RAD-converted property</b>	<b>Development type</b>	<b>Number of converted units</b>
Caldwell Homes	Rehabilitation	121
Buckner Towers	Rehabilitation	108
Kennedy Towers	Rehabilitation	100
Schnute Apartments	Rehabilitation	115
White Oak Manor	Rehabilitation	115
<b>Total</b>		<b>559</b>

The Project-Based Voucher program is a component of the Housing Choice Voucher program, and some of the regulatory requirements of the Housing Choice Voucher program also apply to the Project-Based Voucher program. Under the Project-Based Voucher program, a housing subsidy is paid to the project owner by the public housing agency on behalf of the participating family. The family then pays the difference between the actual rent charged by the owner and the amount subsidized by the program. The public housing agency must reexamine the family's income and composition at least annually and must inspect each unit at least annually to ensure that it meets the minimum housing quality standards.

Our objective was to determine whether the Authority complied with HUD's and its own requirements for the units converted under the program. Specifically, we wanted to determine whether the Authority appropriately (1) ensured that the converted units complied with HUD's housing quality standards before entering into a housing assistance payments contract, (2) used a HUD-approved contractor to perform the housing quality standards inspections for the program units, and (3) applied the correct contract rent for units converted under RAD.

# Results of Audit

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## **Finding: The Authority Did Not Follow HUD's and Its Own Requirements for Its RAD-Converted Units**

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The Authority did not follow HUD's and its own requirements for the units converted under the program. Specifically, it (1) did not ensure that units complied with HUD's housing quality standards before it entered into a housing assistance payments contract, (2) failed to obtain the services of a HUD-approved independent third party to perform housing quality standards inspections for units owned by entities it substantially controlled, and (3) did not apply the correct contract rents for the converted units. These weaknesses occurred because the Authority lacked a sufficient understanding of HUD's requirements for housing quality standards and conflicts of interest. It also lacked an adequate quality control process. As a result, the Authority could not support the eligibility of more than \$1 million in housing assistance payments to the entities and more than \$10,000 in program funds paid to a contractor for housing quality standards inspection services. Further, the application of incorrect rents led to the underpayment of housing assistance payments to the entities, so these funds were not available for the administration of the Authority's Project-Based Voucher program.

### **The Authority Did Not Ensure That Converted Units Complied With HUD's Housing Quality Standards**

The Authority did not ensure that units converted under RAD complied with HUD's housing quality standards. Contrary to 24 CFR (Code of Federal Regulations) 983.204(a),<sup>1</sup> the Authority executed housing assistance payments contracts without determining whether the RAD-converted units complied with housing quality standards. After completing the rehabilitation work for the units, the Authority failed to perform the initial housing quality standards inspection. In lieu of the housing quality standards inspection, it accepted the unit inspections performed by an architect when the units were near completion and before occupancy. The architect issued certificates of substantial completion for the converted units, stating that the work performed under the contract had been reviewed and found to be substantially complete. However, the certificates did not state whether the units met HUD's housing quality standards.

### **The Authority Did Not Obtain the Services of a HUD-Approved Contractor**

Advantix Development, Inc.,<sup>2</sup> the Authority's nonprofit, owns a controlling interest in EHA RAD I (Buckner, Kennedy, Schnute, and White Oak) and EHA RAD II (Caldwell Homes).<sup>3</sup> The Authority is the registered agent and has a controlling interest in 438 units of housing at

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<sup>1</sup> See appendix C for criteria.

<sup>2</sup> Advantix Development, Inc., is a nonprofit corporation in which the Authority has financial accountability for and control over its board of directors and management.

<sup>3</sup> EHA RAD I and RAD II, L.P., are limited partnerships for which the Authority is financially accountable; however, it does not have full ownership of these entities.

RAD I and 121 units at RAD II for a total of 559 units.

We reviewed the annual and special inspections for the 559 program units at the projects from June 1, 2016, through February 19, 2018.<sup>4</sup> Contrary to HUD's conflict-of-interest requirements,<sup>5</sup> the Authority failed to obtain HUD's approval for the contractor that performed the housing quality standards inspections for the 559 units owned by entities it substantially controlled.

The Authority paid more than \$1 million in housing assistance for the units without having an initial housing quality standards inspection and a HUD-approved contractor for the housing quality standards inspections completed. The table below shows the amount of housing assistance payments inappropriately received by the Authority by property.

Property name	Housing assistance payments	Administrative fee
Caldwell Homes	\$381,794	\$39,506
Buckner Towers	138,385	22,842
Kennedy Towers	137,100	22,365
Schnute Apartments	212,424	30,935
White Oak Manor	183,915	36,780
<b>Totals</b>	<b>1,053,618</b>	<b>152,428</b>

In addition, the Authority paid \$10,124 in program funds to the contractor for housing quality standards inspection services.

### **The Authority Did Not Apply Correct Contract Rents for Its RAD-Converted Units**

Contrary to HUD's requirements,<sup>6</sup> the Authority did not apply the correct contract rents for 256 units in the projects converted under RAD. Specifically, the Authority did not apply the correct contract rents, effective as of June 1, 2017, for households with anniversary dates effective in June through December 2017. Instead, it applied 2016 contract rents to all annual certifications performed after May 31, 2017, for the converted units. As of January 2018, the Authority was using 2016 contract rents for the units. Because it applied the incorrect contract rents, it underpaid housing assistance payments to its non-profit entities. Therefore, these funds were not available for the administration of the Authority's Project-Based Voucher program.

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<sup>4</sup> A household may have had more than one inspection during the period.

<sup>5</sup> Regulations at 24 CFR 983.103(f)(1) state that in the case of public housing agency-owned units, the required inspections must be performed by an independent agency.

<sup>6</sup> See appendix C for criteria.

### **The Authority Lacked a Sufficient Understanding of HUD's Requirements and an Adequate Quality Control Process**

The Authority lacked a sufficient understanding of HUD's requirements. Its executive director believed that the RAD-converted units complied with housing quality standards because the architect inspected the units in accordance with the Indiana Building Code. However, other than the certificates of substantial completion issued by the architect, the Authority was unable to provide support showing that the initial inspections by the architect met HUD's housing quality standards.

Further, according to the Authority, it was aware that HUD had to approve the independent third party contractor for housing quality standards inspection services, but it did not seek HUD's approval until December 6, 2017, as a result of our audit. On February 20, 2018, HUD approved the Authority to continue using its contracted inspector for its RAD-assisted units going forward. However, the approval was not retroactive.

The Authority also lacked an adequate quality control process to ensure that it applied the correct contract rents for the units converted under the program in accordance with HUD's and its own requirements. According to the Authority, it may have overlooked the original notice released by HUD in November 2016 for the 2017 contract rents. Although the Authority's staff members received training on how to calculate housing assistance payments before the units were converted, they used the wrong contract rents. In addition, the application of the incorrect contract rents was not detected because the Authority's staff members "spot-checked" each other's work and the executive director performed only a cursory review of their work.

According to the Authority, it had attempted to correct the contract rents by downloading the adjustment tool from HUD's website, but it received an error message stating that the file had been corrupted. Therefore, the Authority reached out to HUD representatives for assistance in November 2017 and immediately began implementing the adjusted contract rents for annual recertifications going forward. In addition, it made retroactive adjustments to correct contract rents for annual certifications that had been processed with effective dates beginning June 1, 2017.

### **Conclusion**

The weaknesses described above occurred because the Authority lacked a sufficient understanding of HUD's requirements for housing quality standards and conflicts of interest. It also lacked an adequate quality control process. As a result, the Authority could not support the eligibility of more than \$1 million in housing assistance payments to the entities and more than \$10,000 in program funds paid to a contractor for housing quality standards inspection services. Further, the application of incorrect rents led to the underpayment of housing assistance payments to the entities, so these funds were not available for the administration of the Authority's Project-Based Voucher program.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to perform its administrative responsibilities correctly or adequately under the program. The Authority received \$152,428 in

program administrative fees related to the housing quality standards inspection services completed by a contractor without HUD's approval.

### **Recommendations**

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

- 1A. Support that the converted units met HUD's housing quality standards or reimburse its program \$1,206,046 from non-Federal funds (\$1,053,618 in housing assistance payments + \$152,428 in administrative fees).
- 1B. Seek retroactive approval or reimburse its program \$10,124 for program funds paid to the contractor not approved by HUD for the housing quality standards inspections for units owned by entities substantially controlled by the Authority.
- 1C. Implement adequate procedures and controls to ensure that the Authority complies with HUD's conflict-of-interest requirements, including but not limited to ensuring that (1) its staff is appropriately trained and familiar with HUD's requirements for units owned by entities it substantially controls and (2) future contracts to perform housing quality standards inspections for program units owned by entities substantially controlled by the Authority are with a HUD-approved independent third party.
- 1D. Implement adequate procedures and controls, including but not limited to providing guidance to its program staff on how to apply the correct contract rents and developing an effective quality control process.

# Scope and Methodology

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We performed our onsite audit work between October 2017 and March 2018 at the Authority's office located at 411 SE 8<sup>th</sup> Street, Evansville, IN. The audit covered the period December 1, 2012, through September 30, 2017, but was expanded as necessary.<sup>7</sup>

To accomplish our audit objective, we interviewed HUD program staff and the Authority's staff. In addition, we obtained and reviewed the following:

- Applicable laws; HUD's regulations at 24 CFR Parts 5, 982, and 983; HUD's Office of Public and Indian Housing notices; and HUD's Guidebook 7420.10G.
- The Authority's program administrative plan, annual audited financial statements for fiscal years 2012 through 2016, accounting records, bank statements, policies and procedures, board meeting minutes for January 2013 through October 2017, organizational chart, and annual plans.

We reviewed the independent audit reports and incorporating documents to determine whether the Authority owned or substantially controlled units that received housing assistance payments from June 2016 through February 2018.

We determined that all inspections were completed for the units owned by an entity substantially controlled by the Authority in which program households resided between June 1, 2016, and September 30, 2017. We reviewed 100 percent of the inspections<sup>8</sup> for the units owned by an entity substantially controlled by the Authority. The universe was small enough to allow for a 100 percent review; therefore, no projection of our results was necessary. Further, we performed a cursory review of the projects' units, but this limited review was not detailed enough to determine the condition of the units.

We reviewed the housing assistance payments registers for the months of June 1 through December 31, 2017, to determine whether the Authority had applied the correct contract rents.

To achieve our audit objective, we relied in part on computer-processed data. We used the data to assess changes to tenant rents, identify tenants who had moved, and select units to observe for completed renovations. Although we did not perform a detailed assessment of the reliability of

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<sup>7</sup> We expanded our scope for the conflicts-of-interest review to February 2018 to account for any adjustments to the housing assistance paid to entities substantially controlled by the Authority and ensure the accuracy of the reported amounts. We also expanded our scope for the application of contract rents review to December 2017 to determine whether the Authority correctly applied the 2017 contract rents.

<sup>8</sup> The inspections included 235 housing quality standards inspections and 121 unit walkthroughs documented in the inspection reports and AIA Certifications of Substantial Completion, respectively.

the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

We provided our review results and supporting schedules to the Director of HUD's Indianapolis Office of Public Housing and the Authority's executive director during the audit.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- 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.

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 lacked a sufficient understanding of HUD's requirements for housing quality standards and conflicts of interest and an adequate quality control process regarding the application of contract rents (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
1A	\$1,206,046
1B	10,124
<b>Totals</b>	<b>1,216,170</b>


- 1/ 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.

# Appendix B


## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments



**THE HOUSING AUTHORITY  
OF THE CITY OF EVANSVILLE**



Rick Moore  
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Mildred Thacker, Commissioner

July 16, 2018

Marcie Ibizugbe  
Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General – Office of Audit  
Ralph H. Metcalfe Federal Building  
77 West Jackson Boulevard, Room 2201  
Chicago, Illinois 60604

**RE: HOUSING AUTHORITY OF THE CITY OF EVANSVILLE – AUDIT REPORT**

Dear Ms. Ibizugbe:

The Housing Authority of the City of Evansville (the "Housing Authority") is in receipt of the Discussion Draft Audit Report Number 2018-CH-10XX from the U.S. Department of Housing and Urban Development ("HUD") Office of Inspector General, Office of Audit ("OIG") dated July 3, 2018 (the "Report"). The Report contains three findings by the OIG with respect to the Housing Authority's compliance with guidelines related to certain units converted under HUD's Rental Assistance Demonstration ("RAD") program at the developments known as EHA RAD I and EHA RAD II (the "RAD Units"), as well as certain recommendations based upon those findings.

While the Housing Authority strongly disputes each of the findings in the Report and believes that none of the recommendations are necessary, the Housing Authority appreciates the

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Comment 1

## Auditee Comments

### Ref to OIG Evaluation

#### Comment 1

opportunity to advise the OIG on how the Housing Authority complied with all applicable HUD regulations and has already rectified any noncompliance that may have existed. Moreover, the Housing Authority is pleased to confirm that no harm or negative consequences have resulted from the alleged noncompliance. The Housing Authority also looks forward to working with HUD to ensure complete compliance in the future.

#### Compliance with HUD's Housing Quality Standards

#### Comment 2

The Housing Authority utilizes its best efforts to comply fully with all regulations related to Housing Quality Standards ("HQS") and inspections of the RAD Units. The Report takes a sweeping overview of the Housing Authority's RAD program and then jumps to conclusions it cannot support. The Report alleges that the Housing Authority failed to perform initial HQS inspections and entered into Housing Assistance Payment ("HAP") contracts without determining whether the RAD Units complied with the HQS. Based on the OIG's perceived failures by the Housing Authority, and without determining if any harm resulted, the OIG recommends that the Director of HUD's Indianapolis Office of Public Housing require the Housing Authority to "[s]upport that the converted units met HUD's housing quality standards or reimburse its program \$1,206,046 from non-federal funds."

#### Comment 3

#### Comment 4

In the Report, the OIG interprets 24 CFR §§ 983.204 and 983.103(f) as requiring initial HQS inspections of Housing Authority-owned units by an independent entity prior to the Housing Authority entering into any HAP contract. The Housing Authority, in good faith, operated under a different interpretation of the regulations. Specifically, pursuant to 24 CFR § 983.204(c), "[i]n the case of newly constructed or rehabilitated housing the HAP contract must be executed after **the PHA has inspected the completed units and has determined that the units have been completed in accordance with the Agreement** and the owner has furnished all required evidence of completion." (Emphasis added). Considering the plain language of Section

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**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 4

983.204(c), the Housing Authority relied upon a certification from the project architect confirming that the newly rehabilitated units had “been completed in accordance with the Agreement.” At the time the architect issued certificates of substantial completion, the Housing Authority believed that it had fulfilled its inspection obligations under 24 CFR § 983.204.

Comment 5

In addition to the Housing Authority and its architect, [REDACTED] there were a number of third parties that also inspected the units— [REDACTED] (HUD Multifamily Construction Analyst), [REDACTED] (Construction & Design Review Analyst for the Indiana Housing and Community Development Authority), [REDACTED] (Construction Manager), and [REDACTED] (Evansville-Vanderburgh County Building Commission). The City of Evansville inspected the units and issued certificates of occupancy. The Housing Authority engaged a third party, [REDACTED], that certified the units as meeting HQS. Moreover, the tax credit investor and the lender had third party inspectors inspect and approve the units.

Comment 6

Despite the certificates of substantial completion, certificates of occupancy, investor and lender inspections, the OIG determined that the Housing Authority was required, but failed, to perform HQS inspections. In addition to the Housing Authority’s position that it complied with the requirements of 24 CFR § 983.204, the Housing Authority maintains that the OIG’s recommendation is not reasonable because: (a) the converted units were newly renovated and complied with the HQS; (b) the Housing Authority is willing to seek retroactive approval that the units met HQS prior to the effective date of any housing assistance payment contract; (c) the local HUD office has agreed to grant retroactive HQS approval; (d) numerous entities and third parties inspected the units and passed them in order to obtain required certificates; and (e) neither the tenants nor HUD suffered any harm as a result of the Housing Authority’s alleged failure to perform HQS inspections.

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## Auditee Comments

### Ref to OIG Evaluation

#### Comment 7

The deficiencies alleged by the OIG were, at most, a technical issue of when and how to conduct HQS inspections of the RAD Units that did not result in any detriment to residents. In reality, the residents of the RAD Units received newly-renovated, quality units certified by an architect, all of which ultimately passed HQS inspection. Accordingly, the Housing Authority should be given the opportunity to obtain retroactive approval that that all units met HQS prior to the effective date of into any HAP contract. The OIG also should recommend that the Director of HUD's Indianapolis Office of Public Housing provide the Housing Authority with the support necessary to obtain retroactive HQS approvals.

#### Use of HUD-Approved Contractor

HUD regulations regarding the inspection of PHA-owned units provide, in part: "In the case of PHA-owned units, the following program services may not be performed by the PHA, but must be performed instead by an independent entity approved by HUD [...] (3) [i]nspection of PHA-owned units as required by § 983.103(f)." 24 CFR § 983.59(b). In the Report, the OIG found that the Housing Authority "failed to obtain HUD's approval for the contractor who performed the housing quality standards inspections for the 559 units owned by entities it substantially controlled." The OIG also concluded that this failure was due to the Housing Authority's alleged lack of sufficient understanding of HUD's requirements for HQS inspections and the conflict of interest requirements.

#### Comment 8

On December 6, 2017 the Housing Authority requested HUD approval to continue using [REDACTED] for the HQS inspections of the RAD Units. Ultimately, [REDACTED] was approved by HUD. Given that [REDACTED] is now an approved contractor, the Housing Authority commits that it will apply to HUD for retroactive certification of the units inspected by [REDACTED] as suggested by the OIG in the recommendations. To this end, OIG should recommend that the Director of HUD's Indianapolis Office of Public Housing provide the Housing Authority with the support necessary to obtain retroactive approval of the RAD Units previously inspected by [REDACTED]

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## Auditee Comments

### Ref to OIG Evaluation

### Comment 9

#### Contract Rents for RAD Units

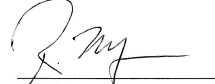
The final point raised in the Report is that the Housing Authority did not apply the correct contract rents for 256 units converted under the RAD program. As stated in the Report, when the Housing Authority attempted to download the “adjustment tool” from HUD’s website, it received an error message. At that time, the Housing Authority reached out to HUD for assistance, but HUD was unable to remedy the problem in a timely manner. As a result, applied 2016 contract rates during 2017. When HUD finally resolved the problem, the Housing Authority promptly updated the contract rents. Although the Housing Authority is aware of this issue and will continue to take steps to ensure that the correct contract rents are applied in the future, the Housing Authority’s application of outdated contract rates did not result in any harm to HUD or the residents of the RAD Units. Furthermore, the OIG’s adverse “finding” against the Housing Authority is unfairly prejudicial because it completely ignores the circumstances which created the issue (i.e., the failure of HUD’s own computer program).

#### Conclusions

The Housing Authority appreciates the OIG’s input and looks forward to coordinating with HUD to ensure that all units meet HQS and that the correct contract rates are applied in the future.

Please do not hesitate to contact me if you have any questions or concerns, or if additional information is required.

Sincerely,



Rick Moore  
Executive Director  
Housing Authority of the City of Evansville

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## OIG Evaluation of Auditee Comments

Comment 1 The Authority strongly disputes each of the findings in the report and believes that none of the recommendations are necessary. It also states that no harm or negative consequences resulted from the “alleged” noncompliance.

We disagree. The effective implementation of the recommendations, which are necessary due to the deficiencies noted, would assist the Authority with ensuring that it meets its own and HUD’s mission of enhancing the community by creating and sustaining decent, safe, and affordable living environments. Further, the Authority did not provide support for its assertion that the noncompliance did not result in any harm or negative consequences.

We acknowledge the Authority’s plan to work with HUD to ensure compliance in the future.

Comment 2 The Authority states that the audit report took a sweeping overview of the Authority’s program and jumped to conclusions that could not be supported.

We disagree. We maintain and can support our conclusions. For instance, the Authority acknowledges that it would seek retroactive approval for its noncompliance with HUD’s requirements. Therefore, our conclusion that the Authority failed to perform initial housing quality standards inspections and entered into housing assistance payments contracts without determining that the RAD units complied with housing quality standards are supported by the Authority’s planned actions.

Comment 3 The Authority asserts that the audit team did not determine whether any harm resulted from the Authority’s failure to perform initial housing quality standards inspections and determine whether the RAD-converted units complied with the housing quality standards before entering into housing assistance payments contracts.

We disagree. HUD’s regulations at 24 CFR 983.204 state that the public housing agency may not enter into a housing assistance payments contract for any contract unit until the housing agency has determined that the unit complies with the housing quality standards. Further, HUD’s regulations at 24 CFR 983.208(b) state that the public housing agency may not make any housing assistance payment to the owner for a contract unit covering any period during which the contract unit does not comply with the housing quality standards. As a result, the Authority was unable to support the eligibility of more than \$1 million in housing assistance payments to the entities. Further, without confirmation or support that the units met housing quality standards, HUD lacks assurance that these units for which it paid housing assistance provided decent, safe, and sanitary housing to the families that occupied the units.

Comment 4 The Authority states that its interpretation of HUD's regulations was different from the audit team's interpretation. Specifically, the Authority considered HUD's regulations at 24 CFR 983.204(c), which state that in the case of newly constructed or rehabilitated housing, the housing assistance payments contract must be executed after the public housing agency has inspected the completed units and has determined that the units have been completed in accordance with the housing assistance payment contract agreement and the owner has furnished all required evidence of completion. Therefore, it relied on the certificates of substantial completion issued by the project architect and believed that it had fulfilled its inspection obligations.

HUD's regulations at 24 CFR 983.204(c) refer to sections 24 CFR 983.155 and 983.156, which require (1) the owner to certify that the work had been completed in accordance with the housing quality standards and all requirements of the agreement and (2) the Authority to inspect the work to determine if the housing has been completed in accordance with the agreement, including compliance with housing quality standards and any additional requirement imposed by the Authority under the agreement. Further, the certificates of substantial completion did not support that the RAD-converted units met HUD's housing quality standards before the Authority executed the housing assistance payments contracts.

Comment 5 The Authority states that it had a number of third parties, including the City of Evansville, to inspect the units and it engaged a third party contractor that certified the units as meeting housing quality standards.

The Authority did not provide documentation supporting that it ensured that the units met housing quality standards before the housing assistance payments contracts had been executed. In addition, the Authority did not receive HUD's approval for the third party contractor that performed the housing quality standards inspections until February 20, 2018. We redacted names in the Authority's comments for privacy reasons.

Comment 6 The Authority contends that our recommendation regarding the inspection of units was not reasonable.

We disagree. HUD's regulations at 24 CFR 983.103(b) require the Authority to inspect each contract unit before executing the housing assistance payments contracts. However, since the units are substantially controlled by the Authority, they should have been inspected by an independent third party. Further, the Authority may not enter into a housing assistance payments contract covering a unit until the unit fully complies with housing quality inspections. Therefore, the recommendation cited in the report was reasonable.

Comment 7 The Authority contends that the deficiencies we “alleged” were at most a technical issue of when and how to conduct housing quality standards inspections of the RAD units that did not result in any detriment to residents. Further, it contends that the units ultimately passed the housing quality standards inspection.

The Authority was required to ensure that the units met housing quality standards before it executed the housing assistance payments contracts or no later than the date of completion of initial repairs as required by HUD. It also did not provide documentation supporting its assertion that the newly renovated units ultimately complied with the housing quality standards. The Authority should work with HUD on the resolution of the recommendation to ensure the cited issues are appropriately addressed.

Comment 8 The Authority contends that it had requested HUD’s approval to continue using a third party contractor for housing quality standards inspections of the RAD units and that its request had been approved by HUD.

We acknowledge that the Authority requested approval from HUD on December 6, 2017. However, this occurred after we requested the documentation supporting HUD’s approval of the third party contractor performing the housing quality standards inspections. HUD granted its approval of the third party contractor effective February 20, 2018. The Authority should work with HUD on the resolution of the recommendation. We redacted names in the Authority’s comments for privacy reasons.

Comment 9 The Authority stated that the “finding” is unfairly prejudicial against it because we completely ignored the circumstances which created the issue; the failure of HUD’s computer program.

We disagree. The finding regarding the application of the correct contract rents was not unfair nor was it prejudicial against the Authority. We did not ignore the circumstances surrounding the cited finding. On the contrary, as noted by the Authority in its comments, the audit report mentions the Authority’s attempt to download the adjustment tool from HUD’s Web site. We also acknowledged the corrections the Authority made to the contract rents. However, it is not accurate to state that HUD’s computer program created the issue of misapplication of the contract rents. For instance, according to the Authority, it may have overlooked the original HUD notice released in November 2016 for the 2017 contract rents. Further, the Authority did not attempt to download the adjustment tool until after the audit team started its onsite audit work. If the Authority had an adequate quality control process, it would have detected earlier that it was applying the incorrect contract rents for 2017.

## Appendix C

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### Federal and the Authority's Requirements

HUD's regulations at 24 CFR 983.59(b)(3) state that in the case of public housing agency-owned units, the inspection of public housing agency-owned units may not be performed by the public housing agency but must be performed instead by an independent entity approved by HUD for inspections of public housing agency-owned units as required by 24 CFR 983.103(f).

HUD's regulations at 24 CFR 983.204 state that before execution of the housing assistance payments contract, the public housing agency must inspect each contract unit in accordance with 24 CFR 983.103(b). The public housing agency may not enter into a housing assistance payments contract for any contract unit until the public housing agency has determined that the unit complies with the housing quality standards. Further, in the case of newly constructed or rehabilitated housing, the housing assistance payments contract must be executed after the public housing agency has inspected the completed units and has determined that the units have been completed in accordance with the housing assistance payment contract agreement and the owner has furnished all required evidence of completion (see 24 CFR 983.155 and 24 CFR 983.156).

Chapter 24 of the Authority's administrative plan states that under 24 CFR 983.204(a)(2), a public housing agency may not enter into a housing assistance payments contract for any unit until the public housing agency has determined that the unit complies with housing quality standards. It is the responsibility of the contract administrator to perform this initial inspection (unless the units being inspected are public housing agency-owned, in which case the inspection must be performed by an independent entity as required by 24 CFR 983.103(f)). The RAD rider to the Project-Based Voucher housing assistance payments contract provides for some flexibility on this requirement to accommodate the use of project-based voucher assistance to finance needed repairs. Specifically, the RAD Project-Based Voucher housing assistance payments contract provides that an owner may certify that all units will meet housing quality standards "no later than the date of completion of initial repairs."

HUD's Office of Public and Indian Housing Notice 2012-32, REV-2, paragraph 1.6(B)(6), states that contract rents will be adjusted annually by HUD's operating cost adjustment factor at each anniversary of the housing assistance payments contract, subject to the availability of appropriations for each year of the contract term.<sup>9</sup> Therefore, section 8(o)(13)(I) of the United States Housing Act of 1937 and 24 CFR 983.301 and 983.302, concerning rent determinations, should not apply when adjusting rents.

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<sup>9</sup> Operating cost adjustment factors are calculated and published in the Federal Register each year by HUD and are applied to the portion of a contract rent that is not committed to debt service payment to calculate the contract rent for the project in the following fiscal year.