



**Moline Housing Authority
Moline, IL**

Section 8 Housing Choice Voucher Program



Issue Date: July 14, 2014

Audit Report Number: 2014-CH-1004

TO: Eleny Ladas, Acting Director of Public Housing Hub, 5APH

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Moline Housing Authority, Moline, IL, Did Not Always Follow HUD's Requirements and Its Own Policies Regarding the Administration of Its Program

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 Moline Housing Authority's Section 8 Housing Choice Voucher program.

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 the OIG post its publicly available reports on the OIG Web site. 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) 353-7832.



July 14, 2014

The Moline Housing Authority, Moline, IL, Did Not Always Follow HUD's Requirements and Its Own Policies Regarding the Administration of Its Program

Highlights

Audit Report 2014-CH-1004

What We Audited and Why

We audited the Moline Housing Authority's Section 8 program as part of the activities in our fiscal year 2013 annual audit plan. We selected the Authority based on a citizen's complaint to our office. 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) and its own requirements.

What We Recommend

We recommend that the Acting Director of HUD's Chicago Office of Public Housing require the Authority to (1) reimburse its program nearly \$70,000 from non-Federal funds, (2) support or reimburse its program nearly \$221,000 from non-Federal funds, (3) pursue repayment or reimburse its program nearly \$8,000 from non-Federal funds, (4) reimburse its households or landlords more than \$32,000, and (5) implement adequate controls to address the findings cited in this audit report.

What We Found

The Authority did not always comply with HUD's requirements and its own administrative plan regarding the administration of its Section 8 program. Specifically, it did not (1) correctly calculate and process housing assistance payments, (2) maintain required eligibility documentation, and (3) ensure that assisted units were affordable. As a result of the Authority's noncompliance, it had (1) more than \$47,000 in overpayments, (2) nearly \$221,000 in unsupported payments, and (3) more than \$6,000 in underpayments. Further, households paid nearly \$26,000 for assisted units that were not affordable.

The Authority inappropriately used Federal funds to pay ineligible expenditures. As a result, more than \$31,000 in Federal funds was not available for eligible program use.

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BACKGROUND AND OBJECTIVE

The Moline Housing Authority was established under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a five-member board of commissioners appointed by the mayor of Moline, IL, to 5-year staggered terms. The board's responsibilities include setting policies and appointing the Authority's executive director. The executive director is responsible for ensuring that policies are implemented and managing the day-to-day operations of the Authority's programs.

The Authority administers public housing and Section 8 Housing Choice Voucher programs funded by the U.S. Department of Housing and Urban Development (HUD). The Section 8 Housing Choice Voucher program 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 September 2013, the Authority had 234 units under contract and was authorized to receive \$1.06 million in program funds for the fiscal year.

We audited the Authority based upon a complaint alleging a lack of oversight and poor administration of the Authority's Section 8 program. Our objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority (1) correctly calculated housing assistance and utility allowance payments, (2) obtained and maintained documents required to determine household eligibility, and (3) used Federal funds for eligible expenses.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Always Comply With HUD's and Its Own Requirements for Its Section 8 Program

The Authority did not always comply with HUD's requirements and its own administrative plan regarding the administration of its Section 8 program. Specifically, it did not (1) correctly calculate and process housing assistance payments, (2) maintain required eligibility documentation, and (3) ensure that assisted units were affordable. The weakness occurred because the Authority lacked an understanding of HUD's and its own requirements and failed to implement an adequate quality control process. As a result, it overpaid more than \$227,000 and underpaid more than \$6,000 in housing assistance and utility allowances. Further, the Authority received more than \$40,000 in administrative fees for the inappropriate overpayments. Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than \$13,000 and underpay more than \$6,000 in housing assistance.

The Authority Miscalculated Housing Assistance Payments

We reviewed 69 of the Authority's program household files, containing 304 certifications, to determine whether it correctly calculated housing assistance payments for the period April 2011 through August 2013. Our review was limited to the information maintained by the Authority in its household files.

For the 69 household files, 47 (68 percent) had 1 or more certifications with incorrectly calculated housing assistance. The 47 household files contained 135 certifications with the following deficiencies:

- 78 certifications had incorrect utility allowances,
- 29 certifications had income incorrectly calculated,
- 26 certifications had incorrect payment standards, and
- 7 certifications had medical expenses incorrectly calculated.

In addition, 49 of the 69 household files reviewed contained 153 certifications with errors that had no impact on the housing assistance calculation. The errors included incorrect structure types, asset values, incomes, medical expenses, payment standards, and utility allowances.

Further, of the 69 household files reviewed, 8 contained documentation showing that the households had unreported or underreported income. However, contrary

to its administrative plan,¹ the Authority failed to seek repayment for the overpaid subsidy for the eight households. The administrative plan stated that in the case of family-caused errors or program abuse, the family would be required to repay any excess subsidy received.²

The Authority did not properly use program funds when it failed to correctly calculate housing assistance payments for the 47 household files in accordance with HUD's requirements and its administrative plan. The errors, as stated above, resulted in \$21,546 in overpayments and \$5,308 in underpayments of housing assistance. In addition, the Authority had unsupported calculations, which resulted in unsupported overpayments of \$70. Further, the Authority's failure to take action on unreported income documented in the eight household files, resulted in overpayments of \$5,599 in housing assistance.

Because the housing assistance was incorrectly calculated, the Authority inappropriately received \$18,059 in administrative fees. If the Authority does not correct its certification process, we estimate that it could overpay \$13,007 and underpay \$6,013 in housing assistance over the next year.³

The Authority Incorrectly Processed Housing Assistance and Utility Allowance Payments

For the 69 household files reviewed, we compared the housing assistance and utility allowance payments from the Authority's payments register to the amounts calculated on the annual and interim certifications. Based on our review, the Authority made housing assistance and utility allowance payments that did not agree with its calculations and housing assistance payment contracts for 12 of the 69 households. As a result, it overpaid housing assistance by \$2,095 and utility allowances by \$26 for eight households and underpaid housing assistance by \$1,143 for four households from April 2011 through August 2013.

The Authority Lacked Documentation To Support Households' Eligibility

We reviewed 69 of the Authority's household files to determine whether it maintained the required documentation to support the households' eligibility for the program. Of the 69 household files reviewed, 63 (91 percent) were missing 1

¹ The Authority's administrative plan, chapter 16, part IV.B

² The Authority's administrative plan, chapter 14, part II.B

³ Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

or more documents needed to determine household eligibility. The 63 household files were missing the following eligibility documentation:

- 61 files were missing proof that 1 or more landlords owned the assisted units,
- 29 files were missing appropriate rent reasonableness determinations,
- 25 files were missing support that criminal background checks were performed,
- 17 files were missing copies of the original household applications,
- 7 files were missing lead-based paint certifications,
- 5 files were missing executed leases,
- 4 files were missing requests for tenancy approval,
- 3 files were missing full support for household members,
- 2 files were missing citizenship declarations,
- 1 file was missing a Social Security number,
- 1 file was missing an authorization for release of information, and
- 1 file was missing a housing assistance payments contract.

During the audit, the Authority was able to provide copies of unsupported eligibility documentation. However, 20 of the 63 household files were still missing 1 or more required eligibility documents as of July 14, 2014. For each household file reviewed, the table below shows the number of documents originally unsupported, documents provided during the audit, and documents that remained unsupported.

Document	Originally unsupported	Provided during audit	Remaining unsupported
Proof of landlord ownership	61	56	5
Appropriate rent reasonableness determinations	29	29	0
Criminal background checks	25	22	3
Original applications	17	7	10
Lead-based paint disclosures	7	5	2
Executed leases	5	3	2
Requests for tenancy approval	4	2	2
Full support for household members	3	2	1
Citizenship declarations	2	0	2
Social Security number	1	0	1
Authorization for release of information	1	0	1
Housing assistance payments contract	1	1	0

Because the 20 household files were missing required eligibility documentation, HUD and the Authority lacked assurance that the households were eligible for the program. As a result, there was \$197,906 in unsupported housing assistance for the households. In addition, because there was no support showing that the

Authority ensured that the household members were eligible for the program in accordance with HUD's requirements, \$22,702 in administrative fees received by the Authority was unsupported.

The Authority Allowed Households To Move Into Unaffordable Units

The Authority allowed 13 households to move into units that were not affordable. For these households, their contributions to rent exceeded the initial maximum of 40 percent of their adjusted monthly income. According to HUD regulations, the Authority may not execute a housing assistance payments contract until it has determined that the household's share does not exceed 40 percent of its monthly adjusted income at the time the family initially occupies a unit.⁴ The 13 households made payments toward rent totaling \$25,767 in excess of 40 percent of their adjusted monthly incomes.

The Authority Lacked an Understanding of HUD's and Its Own Requirements

The housing assistance was incorrectly calculated, and the files were missing the required eligibility documentation because the Authority lacked a sufficient understanding of HUD's and its own requirements and failed to implement an adequate quality control process. The executive director said he reviewed the household files for completeness. However, the quality control checklists used during his reviews did not include all of the eligibility documents that the Authority was required to maintain. In addition, the executive director said he did not perform quality control reviews of the housing assistance calculations. As a result of our audit, the Authority updated the checklists to include all of the required eligibility documents and planned to implement a quality control review process to ensure the accuracy of its housing assistance payments' calculations.

Conclusion

The weaknesses described above occurred because the Authority lacked adequate quality control procedures and sufficient understanding of HUD's and its own requirements. As a result, HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid \$27,145 (\$21,546 + \$5,599) and underpaid \$5,308 in housing assistance. In addition, the Authority incorrectly processed housing assistance payments for 12 households, which

⁴ 24 CFR (Code of Federal Regulations) 982.305(a)5

resulted in overpayments of \$2,095 and underpayments of \$1,143. Further, it had unsupported overpayments of \$198,002 (\$70 + \$197,906 + \$26), due to unsupported housing assistance calculations, missing eligibility documentation, and incorrectly processed utility allowance payments, and allowed 13 households to pay \$25,767 in excess of 40 percent of their adjusted monthly income for units that were not affordable.

In accordance with 24 CFR (Code of Federal Regulations) 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 \$40,761 (\$18,059 + \$22,702) in program administrative fees related to the inappropriate and unsupported housing assistance payments for the 47 program households with incorrectly calculated housing assistance, 12 households with incorrectly processed housing assistance and utility allowance payments, and 20 program households with missing eligibility documentation.

If the Authority does not correct its certification process, we estimate that it could overpay \$13,007 and underpay \$6,013 in housing assistance over the next year. These funds could be put to better use if proper procedures and controls are put into place to ensure the accuracy of housing assistance payments.

Recommendations

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

- 1A. Reimburse its program \$39,605 (\$21,546 in housing assistance payments + \$18,059 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance due to inappropriate calculations of housing assistance payments.
- 1B. Reimburse the appropriate households \$5,308 from program funds for the underpayment of housing assistance due to inappropriate calculations.
- 1C. Pursue collection from the applicable households or reimburse its program \$5,599 from non-Federal funds for the overpayment of housing assistance due to unreported income.
- 1D. Pursue collection from the applicable landlords or reimburse its program \$2,095 in housing assistance from non-Federal funds for the overpayment of housing assistance due to discrepancies in the housing assistance payments register.

- 1E. Reimburse the appropriate landlords \$1,143 in housing assistance from program funds for the underpayment of housing assistance due to discrepancies in the housing assistance payments register.
- 1F. Support or reimburse its program \$220,704 (\$70 + \$197,906 in housing assistance payments + \$26 in utility allowances + \$22,702 in associated administrative fees) from non-Federal funds for the unsupported overpayment of housing assistance due to unsupported calculations, missing eligibility documentation, and discrepancies in the housing assistance payments register.
- 1G. Reimburse the appropriate households \$25,767 from non-Federal funds for the rent amounts paid in excess of 40 percent of their adjusted monthly income for units that were not affordable.
- 1H. Review the remaining household files to ensure that additional households are not residing in units that are not affordable.
- 1I. For households currently residing in units that are not affordable, renegotiate the rents to owner or require the households to move to units that are affordable.
- 1J. Ensure that its staff is trained and familiar with HUD's regulations and the Authority's own policies.
- 1K. Implement adequate procedures and controls to ensure that housing assistance is correctly calculated and repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that \$19,020 (\$13,007 in overpayments + \$6,013 in underpayments) in program funds is appropriately used for future payments.
- 1L. Implement adequate procedures and controls to ensure that required eligibility documentation is obtained and maintained to support households' admission to and continued assistance on the program.

Finding 2: The Authority Inappropriately Used Federal Funds

The Authority inappropriately used Federal funds to pay ineligible expenditures. This weakness occurred because the Authority lacked an understanding of HUD's requirements. As a result, more than \$31,000 in Federal funds was not available for eligible program use.

The Authority Had Ineligible Expenditures

We reviewed the Authority's public housing and Section 8 program disbursement report, credit card statements, and petty cash expenditures for April 2011 through August 2013 to determine whether funds were used for allowable program expenditures. The Authority used \$31,204 for 273 ineligible expenditures. The ineligible expenditures included

- Coffee,
- Bottled water,
- Refreshments,
- In-town meals (for meetings),
- Meals for tenants (including holiday parties),
- Plaques and gift cards (for tenants and Authority employees),
- Amusement park trip for tenants,
- Billboard advertisements, and
- Tent and photo booth rentals for tenant parties.

The Authority's executive director said the purchases of coffee, bottled water, and meals for meetings were part of the Authority's standard practice when he was hired. Therefore, he continued the practice to improve employee morale. However, Office of Management and Budget (OMB) guidance at 2 CFR Part 225 states that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.⁵ Therefore, purchases of coffee, bottled water, and meals for meetings should not be a standard practice but should be reserved for times when such purchases are necessary.⁶ Further, HUD's Section 8 annual contributions contract with the Authority states that program receipts may be used only to pay program expenditures to provide decent, safe, and sanitary housing for eligible families.⁷

Conclusion

⁵ OMB's guidance at 2 CFR Part 225 was formerly located in OMB Circular A-87.

⁶ 2 CFR 225 Appendix B, number 27 and HUD's PIH Notice 2001-3.

⁷ HUD's annual contributions contract, section 11

The Authority inappropriately used Federal funds to pay 273 ineligible expenditures because it lacked a sufficient understanding of HUD's requirements. As a result, more than \$31,000 in Federal funds was not available for eligible program use.

Recommendations

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

- 2A. Reimburse its program \$31,204 from non-Federal funds for the ineligible expenditures cited in this finding.
- 2B. Implement procedures and controls to ensure that all program funds are used for eligible activities and ensure that its staff is trained and familiar with HUD's regulations regarding allowable program expenditures.

SCOPE AND METHODOLOGY

We performed onsite audit work between September 2013 and April 2014 at the Authority's offices located at 4141 11th Avenue A, Moline, IL. The audit covered the period April 1, 2011, through August 31, 2013, but was adjusted as determined necessary.

To accomplish our objectives, we reviewed

- Applicable laws; OMB's guidance at 2 CFR Part 225; HUD's regulations at 24 CFR Parts 5, 964, and 982; Office of Public and Indian Housing notices; and HUD Guidebooks 7420.10G and 7510.1.
- The Authority's accounting records; bank statements; general ledger; 5-year and annual plans; annual audited financial statements for 2010, 2011, and 2012; computerized databases; policies and procedures; board meeting minutes for April 2011 through August 2013; organizational chart; and program annual contributions contract with HUD.
- HUD's files for the Authority.

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

Finding 1

We statistically selected a random sample of 69 files from the Authority's 266 households that received housing assistance from April 2011 through August 2013 (853 days). Based on our review of the 69 files, we found that the overpayment per household was an average of \$248. Therefore, projecting this amount to the audit universe of 266 program participants, the overpayments totaled \$66,192. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state with a confidence interval of 95 percent that at least \$30,397 in housing assistance in the universe was overpaid. Over the next year, this amount is equivalent to an additional overpayment of \$13,007 ($\$30,397 \times 365 \text{ days} / 853 \text{ days}$) in housing assistance.

In addition, based on our review of the 69 files, we found that the underpayment per household was an average of \$74. Therefore, projecting this amount to the audit universe of 266 program participants, the underpayments totaled \$19,923. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can state with a confidence interval of 95 percent that at least \$14,052 in housing assistance in the universe was underpaid. Over the next year, this amount is equivalent to an additional underpayment of \$6,013 ($\$14,052 \times 365 \text{ days} / 853 \text{ days}$) in housing assistance.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid and household eligibility was unsupported. We limited the inappropriate administrative fees to the amounts of the housing assistance payment calculation errors.

Finding 2

We reviewed the Authority's disbursement report, credit card statements, and petty cash expenditures for the period April 2011 through August 2013. For the questionable expenditures, we reviewed the supporting documentation and interviewed the Authority's staff to determine whether the expenditures were eligible under the program regulations.

We relied in part on data maintained by the Authority in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. We provided our review results and supporting schedules to the Acting Director of HUD's Chicago 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

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.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness 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 adequate procedures and controls to ensure compliance with HUD's and its own requirements regarding (1) the calculation and processing of housing assistance payments and (2) maintenance of required eligibility documentation (see finding 1).

Separate Communication of Minor Deficiencies

We informed the Authority's executive director and the Acting Director of HUD's Chicago office of Public Housing of minor deficiencies through a memorandum, dated July 14, 2014.

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	\$39,605		
1B			\$5,308
1C	5,599		
1D	2,095		
1E			1,143
1F		<u>\$220,704</u>	
1G			25,767
1K			<u>19,020</u>
2A	<u>31,204</u>		
Total	<u>\$78,503</u>	<u>\$220,704</u>	<u>\$51,238</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 these instances, if the Authority implements our recommendations, it will cease to incur program costs for the overpayment and underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and the Authority's program administrative plan. 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

Moline Housing Authority
4141 11th Avenue a • Moline, Illinois 61265
Phone (309) 764-1819 • Fax (309) 764-2120



June 9, 2014

Ms. Kelly Anderson
Regional Inspector for Audit-Region 5
Ralph H. Metcalfe Federal Building
77 West Jackson BLVD, Suite 2201
Chicago, IL 60604

EXECUTIVE DIRECTOR
John Afoun


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Re: Written Response – OIG's Audit Report

Dear Ms. Kelly,

Further to your letter of May29th 2014 and subsequent exit conference, please find attached MHA's response to the Audit findings. Attached to this letter are the following:

- 1) MHA's general response
- 2) Response to Ineligible/Unsupported Funds with supporting documents.
- 3) Response to: Payment Number (s) 36727(\$47.95), 36756(\$55.36),36756 (\$22.31)36756(\$77.82) 36756 (\$28.34) It should be noted that these expenses were in relation to French class program which was approved by HUD, and enclosed is a copy of the said approving .

Sincerely,

John Afoun
Executive Director

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4

MOLINE HOUSING AUTHORITY
RESPONSE TO HUD-OIG AUDIT OF MHA'S SECTION 8 PROGRAM
JUNE 9, 2014

I. Response to HUD-OIG Findings

A. HUD-OIG Finding 1: The Authority Did Not Always Comply with HUD's and Its Own Requirements for Its Section 8 Program.

MHA Response: The Authority disagrees with this finding, in part. [The Authority acknowledges the calculation errors as to its housing assistance programs, unreported income, discrepancies in the housing assistance payments register, and issues regarding unaffordable housing units.]

However, the Authority disagrees with the drafts report's finding that there has been any significant unsupported overpayment. Specifically, out the initial 63 files that the auditors identify as lacking adequate documentation, nearly half of those deficiencies were corrected during the audit itself.

Further, the documentation issues identified by the draft reports, when presented in the aggregate, do not accurately reflect the current policies and procedures in place at the Authority. The files lacking documentation, on the whole, are those files whose residents have received housing assistance the longest, and whose initial applications, in some cases, were submitted more than _20_ years ago. Notably, the newer files reviewed for this draft report has far fewer defects. This is the direct result of the Authority having a new Board of Commissioners, a new Executive Director, and a new Section 8 Manager, who have worked together to improve the management and operation of the Authority over the past several years. The Authority has implemented several measures to ensure effective and efficient program administration and proper oversight. These measures include increased quality control, monthly one-on-one supervision and program reviews, monthly operational reports produced for the review and consideration of the Board, and a weekly management meeting.

It is relevant that the draft report reveals no file where the resident was found to be ineligible for assistance. At most, as the draft report acknowledges, there is an absence of documentation, which the Authority believes to have resulted from the inadvertent loss or destruction of the applicable documents. Requiring reimbursement under the report's recommendation, based on an assumption that such documentation never existed, is inappropriate where it is highly likely that the actual issue was a past deficiency in the Authority's document retention practices, an issue that has now been corrected even prior to the present audit. The Authority anticipates that the issues related to eligibility documentation has already been remedied by the above measures, and that such issues will not arise in the future.

Ref to OIG Evaluation

Auditee Comments

Comment 5

B. HUD-OIG Finding 2: The Authority Inappropriately Used Federal Funds.

MHA Response: The Authority disagrees with this finding, in part. "First" expenditures made for coffee, bottled water, and meals for meetings should be considered under the OMB guidance for the time period applicable to the present audit. During the time period reviewed as part of the audit, Budget Circular A-87, Attachment B, paragraph 13 (later located at 2 CFR Part 225), specifically included expenses incurred "in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance." As the current Executive Director indicated to the auditors, provision of coffee, water, and meals for meetings was an established practice and custom of the Authority prior to his arrival. Such custom was implemented, and continued, for the purpose of improving employer-employee relations and employee morale. The auditors' position, as related to the Executive Director was that the Authority was not "conservative enough" in its interpretation on this provision. Regardless of this position, the Authority's decision to establish and continue this practice was a reasoned, good faith interpretation of the existing guidance, and was made after careful consideration of such guidance.

Comments 5 and 6

Since December 26, 2013, the applicable guidance at Budget Circular A-87/2 CFR Part 225 has been superseded by guidance published in the *Federal Register*, as indicated in 78 FR 78590. This new guidance identified that there had been significant confusion as to whether employee morale costs, insofar as they could potentially be considered ineligible entertainment costs, would allowable costs. The presence of confusion suggests that the Housing Authority's interpretation was a good faith interpretation, based on a longstanding custom and practice, and was designed to improve employer-employee relations and to boost employee morale. The "confusion," further suggests that this issue is not limited to the Authority, and that other agencies and local governments have made interpretations similar to that the Authority made here.

78 FR 78590 removes the phrase "employee morale" from what was paragraph 13 of Budget Circular A-87 and makes clear that going forward costs associated with such phrase as not allowable. This clarification is helpful, and the Authority has already terminated its practice in accordance with the new guidance. Nonetheless, the new guidance should not be retroactively applied to prohibit a practice that was otherwise made pursuant to then-applicable guidance.

Comment 7

"Second, regarding the expenditure on "billboard advertisements." The Authority specifically obtained authority from the Illinois State Office of Public Housing to purchase such advertisements. The billboard was designed and displayed for the express purpose of recruiting landlords to participate in the Authority's Section 8 Voucher program, and to specifically invite such landlords to a specific information meeting. The Authority's reputation had suffered under prior administration, and the

Ref to OIG Evaluation

Auditee Comments

Comment 8

billboard was necessary, in part, to recruit the services of additional landlords as partners in more effectively fulfilling HUD Section 8 grants. OMB guidance specifically allows for such expenditures related to the procurement of goods and services for the performance of a Federal award. Without a sufficient number of landlords and housing units, the Authority is severely limited in its ability to fulfill its obligations under its Section 8 program. The associated advertising cost, therefore, should be considered allowable.

“Thirdly, regarding the expenditure on “Limited English Proficiency Classes for MHA staff” the Authority specifically obtained authority from the Illinois State Office of Public Housing to do this. The Limited English Proficiency classes were designed for the express purpose of training MHA staff to better communicate and under the large population of MHA’s residents whose have Limited English Proficiency. The associated LEP costs, therefore, should be considered allowable.”

II. Response to HUD-OIG Recommendations

A. HUD-OIG Recommendation 1A: Reimburse its program \$38,151 (\$20,047 in housing assistance payments + \$18,104 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance due to inappropriate calculations of housing assistance programs.

Comment 9

MHA Response: [MHA will comply. However, it should be noted that MHA does not have the funds to do so]

B. HUD-OIG Recommendation 1B: Reimburse the appropriate households \$5,719 from program funds for the underpayment of housing assistance due to inappropriate calculations.

Comment 9

MHA Response: [MHA will comply, subject to above]

C. HUD-OIG Recommendation 1C: Pursue collection from the applicable landlords or reimburse its program \$5,599 from non-Federal funds for the overpayment of housing assistance due to unreported income.

Comment 10

MHA Response: [MHA will comply?]

D. HUD-OIG Recommendation 1D: Pursue collection from the applicable landlords or reimburse its program \$2,095 in housing assistance from non-Federal funds for the overpayment of housing assistance due to discrepancies in the housing assistance payments register.

Comment 10

MHA Response: [MHA will comply?]

Ref to OIG Evaluation

Auditee Comments

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Comment 10

E. HUD-OIG Recommendation 1E: Reimburse the appropriate landlords \$1,143 in housing assistance from program funds for the underpayment of housing assistance due to discrepancies in the housing assistance payments register.

MHA Response: [MHA will comply?]

Comment 1

F. HUD-OIG Recommendation 1F: Support or reimburse its program \$354,578 (\$1,335 + \$317,613 in housing assistance payments + \$26 in utility allowances + \$35,604 in associated administrative fees) from non-Federal funds for the unsupported overpayment of housing assistance due to unsupported calculations, missing eligibility documentation, and discrepancies in the housing assistance payments register.

MHA Response: As noted above, the Authority disagrees with the draft report's finding as it relates to eligibility documentation, and therefore disagrees with this Recommendation. The Authority denies that there has been any significant unsupported overpayment, and any unsupported documentation is an historical, and not current, deficiency that been corrected since prior to the present audit.

Comment 11

Required reimbursement will serve only to further limit the Authority in its ability to fulfill its mission and provide affordable housing to low-income residents. The draft report and findings do not demonstrate that the Authority willfully accepted residents that were not qualified to receive assistance. The Authority has already taken action both prior to, and subsequent to, this audit to address the issues identified within the draft report. Therefore, the Authority respectfully requests reconsideration of any reimbursement of administrative fees and reconsideration and requests HUD to consider a significant reduction in the recommended reimbursement based on such corrective action already taken.

Comment 4

Comment 4 and 9

G. HUD-OIG Recommendation 1G: Reimburse the appropriate households \$25,767 from non-Federal funds for the rent amounts paid in excess of 40 percent of their adjusted monthly income for units that were not affordable.

Comment 10

MHA Response: [MHA will comply?]

Comment 10

H. HUD-OIG Recommendation 1H: Review the remaining household files to ensure that additional households are not residing in units that are not affordable.

MHA Response: [MHA will comply?]

Comment 10

I. HUD-OIG Recommendation 1I: For households currently residing in units that are not affordable, renegotiate the rents to owner or require the households to move to units that are affordable.

MHA Response: [MHA will comply?]

Ref to OIG Evaluation

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Comment 3

J. HUD-OIG Recommendation 1J: Ensure that its staff is trained and familiar with HUD's regulations and the Authority's own policies.

MHA Response: The Authority has already taken these steps and implemented measures, as noted above, to ensure that its management and staff execute their responsibilities in accordance with HUD regulations and Authority policies.

Comment 10

K. HUD-OIG Recommendation 1K: Implement adequate procedures and controls to ensure that housing assistance is correctly calculated and repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that \$19,020 (\$13,007 in overpayments + \$6,013 in underpayments) in program funds is appropriately used for future payments.

MHA Response: [MHA will comply?]

Comment 3

L. HUD-OIG Recommendation 1L: Implement adequate procedures and controls to ensure that required eligibility documentation is obtained and maintained to support households' admission to and continued assistance on the program.

MHA Response: As noted above, the Authority has already taken such steps prior to the present audit, and will continue to review and improve its policies and procedures to ensure such documentation is obtained and property maintained.

Comment 6

M. HUD-OIG Recommendation 2A: Reimburse its program \$31,204 from non-Federal funds for the ineligible expenditures cited in this finding.

MHA Response: As stated above, the Authority disagrees that the entire amount indicated in Recommendation 2A is constituted of ineligible expenditure. For the reasons above, the Authority respectfully requests reconsideration of the eligibility of the Authority's "employer- employee relations and employee morale" expenditure and its billboard advertising expenditures and that HUD therefore considers a corresponding reduction in the amount to be reimbursed."

Comment 3

N. HUD-OIG Recommendation 2B: Implement procedures and controls to ensure that all program funds are used to eligible activities and ensure that its staff is trained and familiar with HUD's regulations regarding allowable program expenditures.

MHA Response: As noted above, the Authority has already taken steps, in accordance with the new guidance contained at 78 FR 78590, to terminate those expenditures that are now clearly identified as ineligible, and has educated management and staff on the new guidance and allowable program expenditures.

OIG's Evaluation of Auditee Comments

- Comment 1** The Authority acknowledged that it made calculation errors as to its housing assistance programs, unreported income, discrepancies in its housing assistance payments register, and issues regarding units being unaffordable. However, it disagreed that it made any significant unsupported overpayments since half of the unsupported documentation was provided during the audit. The report acknowledged that the Authority was able to provide some documents that were initially missing from its household files during the audit. However, the household files that were still missing significant documentation represent nearly 30 percent of the household files reviewed.
- Comment 2** The Authority contends that the documentation issues when presented in the aggregate do not accurately reflect the current policies and procedures in place and the current files had fewer defects. We agree that the files for the more recent households which were admitted in the Authority's program contained fewer errors. However, the Authority did not always follow its current policies and procedures. Further, according to HUD's regulations at 24 CFR 982.158(e) states that during the term of each assisted lease, and for at least three years thereafter, the Authority must keep: (1) a copy of the executed lease; (2) the housing assistance payments contract; and (3) the application from the family. Therefore, documentation, including initial applications, was required to be maintained.
- Comment 3** The Authority contends that it had implemented several measures to ensure effective and efficient program administration and proper oversight. We commend the Authority for implementing measures to ensure proper oversight. In addressing the recommendations, the Authority should provide copies of its actions or procedures to HUD.
- Comment 4** The Authority contends that the draft report revealed no findings where the resident was found to be ineligible for assistance. Further, it contends that requiring reimbursement under the report's assumption that such records never existed, is inappropriate. We disagree. The household files identified in the report were missing required eligibility documentation. Without the required documentation, HUD and the Authority lacked assurance that the households were eligible for the program.
- Comment 5** The Authority contends that expenditures made for coffee, bottled water, and meals for meetings should be considered under OMB circular A-87, attachment B, paragraph 12 (later relocated 2 CFR part 225). Office of Management and Budget (OMB) guidance at 2 CFR Part 225 appendix B, number 27 states that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Coffee, bottled water, and meals are not necessary and reasonable for the proper and efficient performance of the Authority's program. Further, section 11 of HUD's Section 8 annual

contributions contract with the Authority states that program receipts may be used only to pay program expenditures to provide decent, safe, and sanitary housing for eligible families. In addition, the Authority should contact its local HUD field office when it has questions regarding or interpreting HUD and Federal regulations.

- Comment 6** The Authority contends that the new guidance published in the Federal Register identified that there was confusion regarding costs incurred for employee morale as present in the former guidance at 2 CFR part 225. Further, the presence of confusion suggested that the Authority's interpretation of the guidance was in good faith. Our review of the Authority's expenditures was from April 1, 2011, through August 31, 2013. The Federal Register Notice 78 FR 78590, cited by the Authority, was implemented December 26, 2013, after the period of our review. We held the Authority to the requirements applicable during the period of our review.
- Comment 7** The Authority contends that it obtained authority from the Illinois State Office of Public Housing to purchase billboard advertisements to assist in the recruitment of landlords to participate in its Section 8 program. The Authority did not provide a copy of the approval from the Illinois State Office of Public Housing stating its purchase of billboard advertisement was appropriate. In addition, the Authority allocated the cost to both its public housing and Section 8 programs. However, the Authority stated that the billboard advertisements were to attract landlords to its Section 8 program. According to HUD's Public and Indian Housing Low Rent Technical Accounting Guidebook 7510.1G chapter 2-16, public housing operating funds provided by HUD are to be used only for the purposes which the funds are authorized. Public Housing program funds are not fungible. In addition, the Authority cites OMB guidance as its basis for purchasing the advertising. The Office of Management and Budget (OMB) guidance at 2 CFR 225 appendix B.1 C is not applicable to the Section 8 program.
- Comment 8** The Authority contends that it obtained authority from the Illinois State Office of Public Housing to expend funds on English proficiency classes. The Authority did not provide documentation, such as an agenda stating the dates, times, and attendees of the training. However, we are not questioning the cost of the classes. The Authority included an email from HUD granting approval for the classes with its written response to the draft report. In the email the Authority stated that it would allocate the costs of the meals for the training between its central office cost center and the appropriate public housing asset management project. However during our review, we determined that the Authority did not maintain a central office cost center, as confirmed by both the executive director and the controller.
- Comment 9** The Authority stated that it would comply. However, it contends that it does not have funds to reimburse its program. The Authority should work with HUD for

the repayment of funds that were used for ineligible purposes as cited in this report. In addition, section 6a of HUD's annual contributions contract with the Authority states that if HUD determines that the Authority has failed to comply with any obligations under the consolidated annual contributions contract, HUD may reduce to an amount determined by HUD (1) The amount of the HUD payment for any funding increment or (2) The contract authority or budget authority for any funding increment.

Comment 10 The Authority stated that it would comply based on its written response and subsequent discussions to clarify its response. The Authority should work with HUD to determine the appropriate actions needed to satisfy these recommendations.

Comment 11 The Authority contends that reimbursement will serve only to limit the Authority in its ability to fulfill its mission and provide affordable housing to low-income residents. We disagree. The audit report recommends reimbursing its program landlords, households, or its own program; thus benefiting its low-income residents.

Appendix C

FEDERAL AND THE AUTHORITY'S REQUIREMENTS

Finding 1

Regulations at 24 CFR 5.210(a) state that applicants for and participants in covered HUD programs are required to disclose and submit documentation to verify their Social Security numbers.

Regulations at 24 CFR 5.240(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

Regulations at 24 CFR 5.508(b)(1) state that for U.S. citizens or U.S. nationals, the evidence of citizenship or eligible immigration status consists of a signed declaration of U.S. citizenship or U.S. nationality. The responsible entity may request verification of the declaration by requiring presentation of a U.S. passport or other appropriate documentation.

Regulations at 24 CFR 5.603(b) state that medical expenses, including medical insurance premiums, are anticipated expenses during the period for which annual income is computed and which are not covered by insurance.

Regulations at 24 CFR 5.855(a) state that a public housing agency may prohibit admission of a household to federally assisted housing under its standards if it determines that any household member is currently engaging in or has engaged in during a reasonable time before the admission decision (1) drug-related criminal activity; (2) violent criminal activity; (3) other criminal activity that would threaten the health, safety, or right to peaceful enjoyment of the premises by other residents; or (4) other criminal activity that would threaten the health or safety of the agency or owner or any employee.

Regulations at 24 CFR 5.856 state that standards must be established to prohibit admission to federally assisted housing if any member of the household is subject to a lifetime registration requirement under a State sex offender registration program. In the screening of applicants, necessary criminal history background checks must be performed in the State where the housing is located and in other States where the household members are known to have resided.

Regulations at 24 CFR 982.54(1) state that the public housing agency must adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. (b) The administrative plan must be in accordance with

HUD regulations and requirements. (c) The public housing agency must administer the program in accordance with its administrative plan.

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

Regulations at 24 CFR 982.305(a) state that the public housing agency may not give approval for the family of the assisted tenancy or execute a housing assistance payments contract until the agency has determined that at the time a family initially receives tenant-based assistance for occupancy of a dwelling unit and when the gross rent of the unit exceeds the applicable payment standard for the family, the family share does not exceed 40 percent of the family's monthly adjusted income.

Regulations at 24 CFR 982.308(g)(2) state that if there are any changes in lease requirements governing tenant or owner responsibilities for utilities or appliances, tenant-based assistance should not be continued unless the agency has approved a new tenancy in accordance with program requirements and has executed a new housing assistance payments contract with the owner.

Regulations at 24 CFR 982.402(a)(1) state that the public housing agency must establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions. (b)(1) The subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding. (3) The subsidy standards must be applied consistently for all families of like size and composition.

Regulations at 24 CFR 982.516(g)(1) state that as a condition of admission to or continued assistance under the program, the public housing agency must require the family head and such other family members as the agency designates to execute a HUD-approved release and consent form.

Regulations at 24 CFR 982.517(b)(2)(ii) state that the public housing agency must provide a utility allowance for tenant-paid air conditioning costs if the majority of housing units in the market provide centrally air-conditioned units or there is appropriate wiring for tenant-installed air conditioners.

HUD's Housing Choice Voucher Guidebook 7420.10G, Chapter 5 section 3, states that although full-time students 18 years of age or older are technically identified as dependents, a small amount of their earned income will be counted. Only earned income up to a maximum of \$480 per year should be counted.

HUD's Housing Choice Voucher Guidebook 7420.10G, Chapter 5 section 5, states that reasonable child care expenses for the care of children age 12 and younger may be deducted from annual income if the care is necessary to enable the family member to work, look for work, or further education.

The Authority's administrative plan, chapter 5, part II.B, states that the Authority will assign one bedroom for each two persons within the household except persons of the opposite sex (other than spouses and children under age 3), live-in aides, and children with an age difference of 3 years.

The Authority's administrative plan, chapter 7, part II.A, states that the Authority will require families to furnish verification of legal identity for each household member, to include certificates of birth.

The Authority's administrative plan, chapter 13, part I.D, states that the Authority will enter into a contractual relationship only with the legal owner of a qualified unit. No tenancy will be approved without acceptable documentation of legal ownership.

The Authority's administrative plan, chapter 14, part II.B, states that in the case of family-caused errors or program abuse, the family will be required to repay any excess subsidy received.

The Authority's administrative plan, chapter 16, part IV.B, states that any amount owed to the Authority by a participating family must be repaid by the family.

Finding 2

Regulations at 2 CFR Part 225, appendix A.C.1, state that to be allowable under Federal awards, costs must (a) be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Regulations at 2 CFR Part 225, appendix B.1(C), state that the only allowable advertising costs are those that are solely for (1) the recruitment of personnel required for the performance by the governmental unit of obligations arising under a Federal award, (2) the procurement of goods and services for the performance of a Federal award, (3) the disposal of scrap or surplus materials acquired in the performance of a Federal award except when governmental units are reimbursed for disposal costs at a predetermined amount, or (4) other specific purposes necessary to meet the requirements of the Federal award.

Regulations at 2 CFR Part 225, appendix B.14, state that costs of entertainment, including amusement, diversion, and social activities, and any cost directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Regulations at 2 CFR Part 225, appendix B.27, state that Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see section 14 of this appendix.

Regulations at 24 CFR 964.100 state that the role of a resident council is to improve the quality of life and resident satisfaction and participate in self-help initiatives to enable residents to create a positive living environment for families living in public housing.

HUD's Public and Indian Housing Notice 2001-3 states that minimal refreshment costs that are directly related to resident meetings for allowed activities are eligible uses of resident participation funds. Refreshment costs associated with entertainment must be prohibited under this funding.

HUD's Public and Indian Housing Notice 2001-3 states that activities ineligible for resident participation funds include but are not limited to entertainment, including associated costs such as food and beverages; the payment of fees for lobbying services; any expenditures that are incurred contrary to HUD or OMB directives; and any cost for which funds are provided from other HUD sources.

HUD's Public and Indian Housing Notice 2013-21 details the allowable activities for the use of tenant participation funds, which include reasonable refreshment and light snack costs that are directly related to resident meetings.

HUD's annual contributions contract, section 11, states that the housing agency must use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may be used only to pay program expenditures.