



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

## Housing Choice Voucher Program



**To:** Patricia S. Tyus, Director of Public Housing Hub, 5HPR  
//signed//

**From:** Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

**Subject:** The Housing Authority of the City of Muncie, Muncie, IN, Did Not Always Comply With HUD's Requirements and Its Own Policies Regarding the Administration of Its Housing Choice Voucher 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 Housing Authority of the City of Muncie, IN's 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 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.



**Audit Report Number: 2016-CH-1006**

**Date: August 23, 2016**

**The Housing Authority of the City of Muncie, Muncie, IN, Did Not Always Comply With HUD's Requirements and Its Own Policies Regarding the Administration of Its Housing Choice Voucher Program**

## Highlights

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### What We Audited and Why

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We audited the Housing Authority of the City of Muncie's Housing Choice Voucher program based on the activities included in our 2016 annual audit plan and our analysis of risk factors related to the public housing agencies in Region 5's jurisdiction. Our audit objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements.

### What We Found

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The Authority did not always administer its program in accordance with HUD's and its own requirements. It did not (1) obtain and maintain required eligibility documentation and (2) correctly calculate and pay housing assistance and utility allowances. As a result of these weaknesses, HUD and the Authority lacked assurance that more than \$587,000 in program funds was used appropriately. If the Authority does not correct its certification process, we estimate that it could overpay nearly \$251,000 in housing assistance over the next year.

In addition, it did not appropriately use HUD's Enterprise Income Verification system to identify program households with unreported or underreported income to recapture overpaid housing assistance and utility allowances. As a result, nearly \$76,000 in program funds was not available for other program use.

The Authority also did not appropriately manage its Family Self-Sufficiency program. As a result, HUD and the Authority lacked assurance that (1) program participants benefited from the program or had made progress toward self-sufficiency and (2) more than \$100,000 in program funds was used appropriately.

### What We Recommend

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We recommend that the Director of HUD's Indianapolis Office of Public and Indian Housing require the Authority to (1) support or reimburse its program more than \$617,000 from non-Federal funds for the unsupported housing assistance payments and Family Self-Sufficiency program escrow fund activities, (2) reimburse its program more than \$88,000 from non-Federal funds for the ineligible housing assistance payments, (3) reimburse its program households more than \$2,300 for the overpayment of housing assistance, (4) transfer more than \$55,000 to its Housing Choice Voucher program, and (5) implement adequate controls to address the findings cited in this audit report.

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# Background and Objective

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The Housing Authority of the City of Muncie is a public housing agency created in 1938 under the laws of the State of Indiana. The Authority is governed by a seven-member board of commissioners appointed by the mayor. The board's responsibilities include performing the duties and functions required by the Authority's bylaws and any other duties or functions established by resolution of the board. The board appoints the Authority's executive director. The executive director is responsible for providing general supervision over the administration of the Authority's affairs in accordance with the operational, fiscal, personnel, and other policies adopted by the board and all other laws. In addition, the executive director is responsible for maintaining all records of the Authority.

The Authority administers the Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). The program allows very low-income families to choose and lease or purchase safe, decent, and affordable privately owned rental housing. In fiscal year 2015, the Authority had 864 vouchers and was authorized to receive more than \$4.3 million in program funds. In addition to program funding, HUD provides administrative fees to public housing agencies to cover costs incurred for the performance of administrative responsibilities under the program in accordance with HUD's requirements. During the period November 1, 2013, through October 31, 2015 the Authority earned nearly \$715,000 in administrative fees. Further, the Authority received a Section 8 Management Assessment program<sup>1</sup> score of 130 out of 145 (90 percent) which classified it as a high performer.

The Family Self-Sufficiency program enables HUD-assisted families to increase their earned income and reduce their dependency on welfare assistance and rental subsidies. Public housing agencies work in collaboration with a program coordinating committee to secure commitments of public and private resources for the operation of the program, to develop the Authority's program action plan, and to implement the program. Once an eligible family is selected to participate in the program, the Authority and the head of each participating family execute a contract of participation that specifies the rights and responsibilities of both parties. The contract also incorporates the family's individual training and services plan, which records the plan for the family, including intermediate and long-term goals, the steps the family needs to take, and the services and resources the family may need to access to achieve those goals. An interest-bearing escrow account is established by the Authority for each participating family. Any increases in the family's rent as a result of increased earned income during the family's participation in the program result in a credit to the family's escrow account. Once a family graduates from the program, it may access the escrow and use it for any purpose.

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<sup>1</sup> SEMAP establishes a system for HUD to measure public housing authorities' performance in key Section 8 program areas and to assign performance ratings.

Our audit 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) obtained and maintained required documentation to support household eligibility, (2) correctly calculated and paid housing assistance and utility allowances, (3) appropriately used HUD's Enterprise Income Verification system for the recovery of overpaid housing assistance, and (4) appropriately administered its Family Self-Sufficiency program.

# Results of Audit

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## **Finding 1: The Authority Did Not Always Comply With HUD's and Its Own Requirements for Housing Choice Voucher Program Files**

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The Authority did not always ensure that it (1) maintained required eligibility documentation, (2) correctly calculated and paid housing assistance and utility allowances, and (3) conducted interim reexaminations for zero-income households. It also did not ensure that (1) duplicate housing assistance payments were not made to program landlords and (2) program households were not charged inappropriate fees. The weaknesses occurred because the Authority failed to implement a quality control process and disregarded HUD's and its own requirements. As a result, the Authority was unable to support more than \$467,000 in housing assistance. In addition it overpaid more than \$76,000 and underpaid more than \$600 in housing assistance.

### **The Authority Lacked Documentation To Support Households' Eligibility**

We reviewed 93 of the Authority's household files to determine whether it maintained the required documentation<sup>2</sup> to support households' eligibility for the program. Of the 93 household files reviewed, all 93 (100 percent) were missing 1 or more documents needed to determine household eligibility. The 93 household files were missing the following eligibility documentation:

- 93 were missing support showing that background checks were performed,
- 28 were missing birth certificates for 1 or more household members,
- 22 were missing landlord ownership documents,
- 20 were missing citizenship declarations,
- 10 were missing a current form HUD-9886, Request for Authorizations for the Release of Information,
- 7 were missing signed lead-based paint disclosure forms for the units built before 1978,
- 6 were missing Social Security number verifications,
- 1 was missing an executed lease, and
- 1 was missing a housing assistance payments contract.

During the audit, the Authority was able to provide copies of eligibility documentation that was initially missing from the files. However, the 93 household files were still missing 1 or more required eligibility documentation as of August 1, 2016. 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.

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<sup>2</sup> See appendix C for criteria.

| Document   | Originally unsupported | Provided during audit | Remaining unsupported |
|--|------------------------|-----------------------|-----------------------|
| Criminal background check  | 93                     | 0                     | 93                    |
| Full support for household members                                     | 28                     | 24                    | 4                     |
| Landlord ownership document  | 22                     | 17                    | 5                     |
| Citizenship Declaration  | 20                     | 8                     | 12                    |
| HUD form 9886 Request for Authorization for the Release of Information | 10                     | 6                     | 4                     |
| Signed lead-based paint certification                                  | 7                      | 6                     | 1                     |
| Social Security numbers  | 6                      | 2                     | 4                     |
| Executed lease   | 1                      | 1                     | 0                     |
| Housing assistance payments contract                                   | 1                      | 1                     | 0                     |
| <b>Totals</b>  | <b>188</b>             | <b>65</b>             | <b>123</b>            |

Because the 93 household files were missing required eligibility documentation, HUD and the Authority lacked assurance that the households were eligible for the program. As a result, \$467,426 in housing assistance provided for the households and \$28,715 in administrative fees received by the Authority were unsupported.<sup>3</sup>

Further, contrary to HUD’s regulations at 24 CFR 982.508, the Authority allowed one household to move into a unit that was not affordable.<sup>4</sup> The household’s contribution towards rent exceeded 40 percent of the adjusted monthly income, when the household initially moved into the unit. As a result, the household made rental payments totaling \$936 in excess of 40 percent of the adjusted monthly income.

### **The Authority Miscalculated Housing Assistance Payments**

We reviewed 95 statistically selected<sup>5</sup> certifications for 93 of the Authority’s program household files to determine whether the Authority correctly calculated housing assistance payments for the

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<sup>3</sup> Public housing agencies receive administrative fees for correctly administering its program. Since we were unable to determine whether the 93 households were eligible for the program, the Authority receipts of these fees are also unsupported.

<sup>4</sup> 24 CFR 982.508

<sup>5</sup> Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

period November 1, 2013, through October 31, 2015. Our review was limited to the information maintained by the Authority in its household files.

For the 95 certifications, 36 (38 percent) had incorrectly calculated housing assistance. The 36 certifications contained 1 or more of the following deficiencies:

- 34 had incorrect income calculations,
- 6 had incorrect utility allowances,
- 2 had incorrect dependent or disability allowances, and
- 2 had incorrect payment standards.

In addition, of the 95 certifications reviewed, 6 contained errors that had no impact on the housing assistance. The errors included incorrect income calculations, utility allowances, and minimum rent determinations.

As a result of the Authority's calculation errors, it overpaid \$51,536 and underpaid \$623 in housing assistance. In addition, it was unable to support its calculations of housing assistance, resulting in \$444 in unsupported payments. Because the housing assistance was incorrectly calculated, the Authority inappropriately received \$9,236 in administrative fees. If the Authority does not correct its certification process, we estimate that it could overpay nearly \$251,000 in housing assistance over the next year.<sup>6</sup>

#### **The Authority Did Not Perform Interim Reexaminations for Zero-Income Households**

Contrary to its administrative plan,<sup>7</sup> the Authority did not conduct interim reexaminations every 3 months for households that had zero income. We reviewed files for 3 of the Authority's 38 households that reported zero income as of October 31, 2015. All three (100 percent) households had income that had not been reported to the Authority. Had the Authority performed interim reexaminations, it likely would have identified that these households had income. As a result of this noncompliance, \$18,718 in housing assistance was overpaid to the households, and the Authority inappropriately received \$2,770 in administrative fees.

#### **The Authority Made Duplicate Housing Assistance Payments to Landlords**

We reviewed the Authority's housing assistance payment register for the period November 1, 2013, through October 31, 2015. The Authority made 16 duplicate housing assistance payments totaling \$7,354 to 12 program landlords. As a result of our audit, the Authority collected \$2,158 from two of the landlords; however, \$5,891 had not been collected.

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<sup>6</sup> Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

<sup>7</sup> Paragraph 11-II.C of the Authority's 2005 program administrative plan

### **The Authority Inappropriately Charged Its Program Households for Missed Inspections**

Contrary to HUD's requirements,<sup>8</sup> the Authority charged households a fee for each missed scheduled housing quality standards inspection. According to the Authority's accounting specialist, intake specialist, and housing quality standards assistant, the contractor that performed housing quality standard inspections charged the Authority a \$22 fee when a household was not available for a scheduled inspection. Therefore, the Authority would charge the fee to the household. For the period November 1, 2013, through October 31, 2015, the Authority inappropriately charged 34 program households a total of \$748 (34 households x \$22) for missed inspections.

### **The Authority Failed To Implement a Quality Control Process and Disregarded HUD's Requirements**

The Authority failed to implement a quality control process. The Authority's acting executive director and the Housing Choice Voucher program manager said that they believed the incorrect housing assistance payment calculations were generally caused by a former Housing Choice Voucher program staff person. While reviewing the Authority staff's caseloads, we determined that of the 36 program household files with calculation errors, 21 (58 percent) were the responsibility of the former staff person. However, the Authority also did not have a quality control process that would have mitigated the deficiencies identified in its household files.

In addition, the Authority's finance accounting specialist was not aware of the duplicate housing assistance payments. As a result of our audit, the Authority started recapturing the duplicate payments from its program landlords.

The Authority also disregarded HUD's and its own requirements. The Authority was aware of the requirements for program eligibility and interim examinations; however, according to its Housing Choice Voucher program manager, the Authority did not perform household background checks, which included both a criminal and sex offender registry check, because they were too expensive. The Authority stated that it met with the board of commissioners and plans to complete background checks in the near future. However, the Authority did not provide documentation such as a board resolution or effective date of this procedure to support its assertion. In addition, the Authority's staff was not consistent in performing interim reexaminations every 3 months for zero-income households as required.

### **Conclusion**

The weaknesses described above occurred because the Authority failed to implement a quality control process and disregarded HUD's and its own requirements. As a result, it (1) was unable to support more than \$467,870 (\$467,426 + \$444) in housing assistance payments and (2) overpaid more than \$76,145 (\$51,536 + \$18,718 + \$5,891) and underpaid more than \$623 in housing assistance. Further, its households paid \$1,684 (\$936 + \$748) for units that were not affordable or missed inspections.

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<sup>8</sup> 24 CFR 982.405(e)

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 \$40,721 (\$28,715 + \$9,236 + \$2,770) in program administrative fees related to the unsupported and inappropriate housing assistance payments for the 93 program households with missing eligibility documentation, 36 program households with incorrectly calculated housing assistance, and 3 program households with unreported income.

If the Authority does not correct its certification process, we estimate that it could overpay \$250,500 in housing assistance over the next year.<sup>9</sup> 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 Director of HUD's Indianapolis Office of Public and Indian Housing require the Authority to

- 1A. Support or reimburse its program \$496,585 from non-Federal funds (\$467,426 + \$444 in housing assistance payments + \$28,715 in administrative fees) for the missing eligibility documentation and unsupported housing assistance payments.
- 1B. Complete background checks for program household members that are 18 years of age or older and ensure that all households receive a criminal background and sex offender registry check before admission to the program.
- 1C. Reimburse the appropriate household \$936 from non-Federal funds for the rent amount paid in excess of 40 percent of the adjusted monthly income for the unit that was not affordable.
- 1D. For the household residing in a unit that was not affordable, renegotiate the rent to the owner or require the household to move into a unit that is affordable.
- 1E. Implement adequate procedures and controls to ensure that (1) required eligibility documentation is obtained and maintained and (2) program households reside in units that are affordable.
- 1F. Reimburse its program \$63,542 from non-Federal funds (\$51,536 in housing assistance overpayments + \$9,236 + \$2,770 in associated administrative fees) for the inappropriate payments.
- 1G. Reimburse the appropriate households \$623 from program funds for the underpayment of housing assistance.

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<sup>9</sup> Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

- 1H. Implement procedures and controls to ensure that housing assistance is correctly calculated and paid and that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that \$250,500 in overpayment of program funds is appropriately used for future payments.
- 1I. Pursue collection from the applicable households or reimburse its program \$18,718 from non-Federal funds for the overpayment of housing assistance due to unreported or underreported income.
- 1J. Review the remaining 35 (38-3) zero-income households to determine whether additional households had income and if so, take appropriate actions to recover any overpaid housing assistance and utility allowance payments.
- 1K. Pursue collection from the applicable landlords or reimburse its program \$7,354 (of which \$5,891 had not been collected or reimbursed) from non-Federal funds for the duplicate housing assistance payments.
- 1L. Implement adequate procedures and controls to ensure that duplicate payments of housing assistance are not made to program landlords.
- 1M. Reimburse the appropriate households \$748 from program funds for inspection fees cited in this finding.
- 1N. Implement adequate procedures and controls to ensure that fees for missed housing quality standards inspections are not charged to the program households.

## **Finding 2: The Authority Did Not Appropriately Use HUD’s Enterprise Income Verification System Income Discrepancy Reports**

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The Authority did not appropriately use HUD’s Enterprise Income Verification system to identify program households with unreported or underreported income to recapture overpaid housing assistance. The noncompliance occurred because the Authority lacked adequate procedures and controls to ensure that its program staff complied with HUD’s requirements for repayment of overpaid housing assistance due to unreported or underreported household income. As a result, more than \$66,000 in program funds was not available for other program use. Further, the Authority inappropriately earned nearly \$9,400 in administrative fees for the overpayments.

### **The Authority Failed To Recapture Overpaid Housing Assistance**

According to the Authority’s income discrepancy report from HUD’s system, as of March 15, 2016, 68 households had income discrepancies. Of the 68 households, 58 had income discrepancies above HUD’s \$2,400 annual income discrepancy threshold<sup>10</sup> totaling \$395,885, and 12 households had income discrepancies of \$10,000 or more per year.

We reviewed the 12 households with a combined annual income of \$175,435 to determine whether the identified income discrepancies were valid because of unreported or underreported income. Of the 12 households, 10 (83 percent) had valid income discrepancies. As a result, the Authority overpaid \$66,236 in housing assistance and utility allowances. As of June 21, 2016, it had not established repayment agreements to recapture the overpaid assistance in keeping with HUD’s and its own requirements.<sup>11</sup> Therefore, the Authority inappropriately received \$9,383 in program administrative fees for the 10 households that had overpaid housing assistance and utility allowances during the period November 1, 2013, through October 31, 2015.

### **The Authority Lacked Adequate Procedures and Controls**

The Authority lacked adequate procedures and controls to ensure that its staff complied with HUD’s and its own requirements to recapture overpaid housing assistance due to households’ unreported or underreported income. According to the Authority’s Housing Choice Voucher program manager, the staff was aware of HUD’s system income discrepancy reports; however, it used them only during the reexamination process to ensure that households with unreported or underreported income correctly reported their income on their next certification. The reports were not used to assist in the recovery of overpaid housing assistance as required. Therefore, the Authority failed to determine and collect housing assistance that was previously overpaid.

### **Conclusion**

The Authority lacked adequate procedures and controls to ensure that its staff complied with HUD’s and its own requirements to recapture overpaid housing assistance due to unreported or

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<sup>10</sup>Public and Indian Housing (PIH) Notice PIH 2010-19, number 15

<sup>11</sup> Notice PIH 2010-19, number 16, and paragraph 14-II.b of the Authority’s administrative plan

underreported household income. As a result, more than \$66,236 in program funds was not available for other program use. Further, the Authority inappropriately earned nearly \$9,400 in administrative fees for the overpayments.

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 \$9,383 in program administrative fees related to 10 program households with unreported or underreported income.

### **Recommendations**

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

- 2A. Take the appropriate actions to resolve the income discrepancies and pursue collection from the applicable households or reimburse its program \$75,619 (\$66,236 in housing assistance payments + \$9,383 in administrative fees) from non-Federal funds for the overpayment of housing assistance cited in this finding.
- 2B. Ensure that its staff is appropriately trained and familiar with HUD's requirements and its administrative plan regarding unreported or underreported income.
- 2C. Implement adequate procedures and controls to ensure that the Authority reviews HUD's system report during the reexamination process and that appropriate actions are taken when income discrepancies exceeding HUD's threshold are discovered during the examination process or during its review of the individual income reports.
- 2D. Review the remaining 46 (58-12) households on HUD's system income discrepancy report to determine whether additional households have valid income discrepancies and if so, take appropriate actions to recover any overpaid housing assistance and utility allowance payments.

### **Finding 3: The Authority Did Not Appropriately Manage Its Family Self-Sufficiency Program**

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The Authority did not appropriately manage its Family Self-Sufficiency program. Specifically, it did not (1) establish a program coordinating committee; (2) maintain complete and accurate records for its active, graduated, and terminated program participants; and (3) appropriately maintain its program bank account. The weaknesses occurred because the Authority failed to exercise proper supervision and oversight of its program. As a result, HUD and the Authority lacked assurance that program participants benefited from the program or had made progress toward self-sufficiency. Further, (1) more than \$8,000 in program participants' escrow balances was unsupported and (2) more than \$55,000 was not available for its Housing Choice Voucher program. In addition, HUD and the Authority lacked assurance that the Authority appropriately (1) used more than \$36,000 in program funds and (2) deposited \$1,000 into its program account.

#### **The Authority Did Not Establish a Coordinating Committee and Maintain Complete and Accurate Records**

Contrary to HUD's requirements at 24 CFR 984.202(a), the Authority did not establish a program coordinating committee to assist in (1) securing commitments of public and private resources for the operations of the program and (2) developing the program action plan and implementation of the program.

In addition, when we attempted to review the Authority's program participant information for our audit period of November 1, 2013, through October 31, 2015, it was unable to provide a list or identify the participants that had graduated or been terminated from its program. For its active participants, the Authority provided three lists<sup>12</sup> with conflicting information. According to the Authority's participant subsidiary ledgers, 19 program participants had escrow balances totaling \$63,520 as of September 30, 2015. When we reconciled the information, we determined that its program had approximately 12 active participants.

In reviewing the 12 active program participants' files, we determined that the files were missing 1 or more required documents:

- 12 were missing individual training and service plans that contained specific interim goals and completion dates,
- 5 individual training and services plans were missing the final goal to seek and maintain suitable employment, and
- 3 were missing program applications that included a family needs assessment.

Further, a Housing Choice Voucher program household member signed a letter stating that she was interested in participating in the program. The Authority enrolled the household based only

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<sup>12</sup> The Authority provided three separate lists. The first list had 33 participants, the second list had 21 participants, and the third list had 32 participants.

on the letter of interest and did not create or execute (1) a contract of participation, (2) an individual training and service plan, or (3) any other documents needed for participation in the program. The Authority also failed to establish escrow accounts for 9 of the 12 active program participants.

### **The Authority Failed To Appropriately Maintain Its Program Bank Account**

As stated above, according to the Authority's participant subsidiary ledgers, 19 program participants had escrow balances totaling \$63,520 as of September 30, 2015. We reviewed the information in the participants' files and determined that the subsidiary ledgers included escrow balances for 16 participants that had expired contracts of participation. Contrary to HUD's regulations,<sup>13</sup> the Authority failed to (1) remove these participants from its list of active participants and (2) transfer \$55,297 in forfeited escrow funds from its program bank account into its Housing Choice Voucher program bank account.

In addition, the Authority's program escrow bank account statements for the period November 1, 2013, through October 31, 2015, contained two transactions, aside from earned interest, for which the Authority's staff could not provide support. The first transaction was a withdrawal of \$36,038, and the second was a deposit of \$1,000. According to the Authority's fee accountant, the journal entry for the withdrawal included a note stating that the (1) withdrawal was to force balance the account and (2) funds were deposited into the Authority's Housing Choice Voucher program account. However, she did not have information regarding the deposit.

### **The Authority Failed To Exercise Proper Supervision and Oversight of Its Program**

The Authority failed to exercise proper supervision and oversight of its Family Self-Sufficiency program. The Authority's acting executive director and housing manager said that they believed the program had not been fully implemented or appropriately administered since 2011. In addition, the previous staff person responsible for a majority of the housing assistance payments' calculation errors (finding 1) was also responsible for managing the Authority's program. Therefore, the Authority was aware that there were deficiencies with its program; however, it had not implemented corrective actions. The Authority received 5 out of 10 points for its Section 8 Management Assessment program regarding the administration of its Family Self-Sufficiency program. However, based on the deficiencies cited in the finding, HUD may need to reevaluate the Authority's score.

### **Conclusion**

The weaknesses described above occurred because the Authority failed to exercise proper supervision and oversight of its program. As a result, HUD and the Authority lacked assurance that the program participants benefited from the program or had made progress toward self-sufficiency. Further, (1) more than \$8,000 in program participants' escrow balances was unsupported, and (2) more than \$55,000 was not available for its Housing Choice Voucher program. In addition, HUD and the Authority lacked assurance that the Authority appropriately (1) used more than \$36,000 in program funds and (2) deposited \$1,000 into its program account.

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<sup>13</sup> 24 CFR 984.305(f)

## **Recommendations**

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

- 3A. Establish a program coordinating committee.
- 3B. Determine the actual number of active, graduated, and terminated participants on its program and provide the documentation to HUD for review.
- 3C. Support or reimburse its Housing Choice Voucher program \$8,223 for the unsupported escrow balances cited in this finding.
- 3D. Transfer \$55,297 in forfeitures from its program account to its Housing Choice Voucher program account.
- 3E. Complete program applications and family needs assessments and execute appropriate (1) contracts of participation and (2) individual training and services plans for all active program participants.
- 3F. Implement adequate procedures and controls to ensure that all required documentation is complete, accurate, and maintained in the participants' files to support program eligibility.
- 3G. Support or reimburse its program bank account \$36,038 from its Housing Choice Voucher program bank account for the withdrawal to force balance the program bank account.
- 3H. Support or reimburse its Housing Choice Voucher program bank account for the \$1,000 deposit to the program escrow bank account cited in this finding.
- 3I. Ensure that its staff responsible for administering and monitoring its program is knowledgeable and complies with HUD's and its own program requirements.
- 3J. Implement adequate procedures and controls and a corrective action plan for its program to ensure that the program is appropriately administered, including but not limited to ensuring that (1) escrow accounts are appropriately established, (2) monthly escrows are appropriately calculated and entered into the Authority's subsidiary ledgers, (3) forfeited escrow balances are returned to the Housing Choice Voucher program bank account timely, and (4) its program bank account is appropriately maintained.

We also recommend that the Director of HUD's Indianapolis Office of Public Housing

3K. Review the Authority's Section 8 Management Assessment Program results and consider revising its designation and if warranted, conduct a confirmatory review of its scoring process.

# Scope and Methodology

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We performed our onsite audit work between December 2015 and May 2016 at the Authority's main office located at 409 East 1<sup>st</sup> Street, Muncie, IN. The audit covered the period November 1, 2013, through October 31, 2015, but was expanded as determined necessary.

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

- Applicable laws; HUD's regulations at 24 CFR Parts 5, 908, 982, and 984; Office of Public and Indian Housing notices; and HUD's Guidebook 7420.10G.
- The Authority's program administrative plan as of January 2005; annual audited financial statements for 2013, 2014, and 2015; accounting records; bank statements; policies and procedures; board meeting minutes for November 2013 through October 2015; organizational chart; payment standards; household and landlord reports; housing assistance payment register; program household files; Family Self-Sufficiency participant files; and Family Self-Sufficiency program action plan.

## **Finding 1**

We statistically selected a stratified random sample of 95 monthly housing assistance payments<sup>14</sup> from the Authority's 18,240 monthly disbursements to landlords from November 2013 through October 2015 (24 months). We used a statistical sample so the audit results could be projected to the universe. Based on the 95 randomly selected housing assistance payments from the audit universe of 18,240 housing assistance payments, we found that the overpayment per household was an average of \$46<sup>15</sup> per tenant per month. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can still say, with a one-sided confidence interval of 95 percent, that this amounts to at least \$27<sup>16</sup> in overpayments per tenant per month. Therefore, projecting this amount to the audit universe of 18,240 housing assistance payments and 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 \$501,000 in housing assistance in the universe was overpaid. Over the next year, this is equivalent to an additional overpayment of \$250,500 ( $\$501,000 \times 12 \text{ months} / 24 \text{ months}$ ) 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.

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<sup>14</sup> The 95 monthly housing assistance payments were from the 95 household certifications, which represent 93 households.

<sup>15</sup> This amount was rounded for reporting purposes.

<sup>16</sup> This amount was rounded for reporting purposes.

We limited the inappropriate administrative fees to the amounts of housing assistance payment calculation errors for the household files that had administrative fees exceeding the housing assistance payment errors.

We ran an ad hoc report from HUD's Public and Indian Housing Information Center system and determined that 38 of the Authority's program households had zero income as of October 31, 2015. We selected a random sample of 3 of the Authority's 38 households to review and determine whether (1) the households had unreported income and (2) the Authority adequately managed its zero-income households. Because we did not select a statistical sample, we are unable to project our results to the universe of the 38 households that had zero income.

### **Finding 2**

We reviewed the income discrepancy report from HUD's Enterprise Income Verification system for the Authority as of March 15, 2016. The report identified 68 households that had income discrepancies and may have unreported or underreported their income. Of the 68 households, 58 had income discrepancies above HUD's \$2,400 annual income discrepancy threshold<sup>17</sup> totaling \$395,885. We reviewed the 12 of the 58 households that had individual income discrepancies. The 12 households had individual income discrepancies totaling \$10,000 or more per year. Because we did not select a statistical sample, we are unable to project our results to the universe of the 58 households that had income discrepancies above HUD's threshold.

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 housing assistance payment calculation errors for the household files that had administrative fees exceeding the housing assistance payment errors.

### **Data, Review Results, and Generally Accepted Government Auditing Standards**

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 Director of HUD's Indianapolis Office of Public Housing and the Authority's acting 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.

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<sup>17</sup> Notice PIH 2010-19, number 15 (See appendix C for criteria.)

# 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.
- 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 Deficiencies**

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

- The Authority failed to implement a quality control process and disregarded HUD's and its own requirements regarding the administration of its program household files (finding 1).
- The Authority lacked adequate procedures and controls to ensure that its staff complied with HUD's and its own requirements for the recapture of overpaid housing assistance due to unreported or underreported household income (finding 2).

- The Authority failed to exercise proper supervision and oversight of its Family Self-Sufficiency program to ensure that program participants benefited from the program or had made progress toward self-sufficiency (finding 3).

# Appendixes

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## Appendix A

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**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                    |                      | \$496,585             |                                  |
| 1C                    |                      |                       | \$936                            |
| 1F                    | \$63,542             |                       |                                  |
| 1G                    |                      |                       | 623                              |
| 1H                    |                      |                       | 250,500                          |
| 1I                    | 18,718               |                       |                                  |
| 1K                    | <u>5,891</u>         |                       |                                  |
| 1M                    |                      |                       | 748                              |
| 2A                    |                      | 75,619                |                                  |
| 3C                    |                      | 8,223                 |                                  |
| 3D                    |                      |                       | <u>55,297</u>                    |
| 3G                    |                      | 36,038                |                                  |
| 3H                    |                      | <u>1,000</u>          |                                  |
| <b>Total</b>          | <b><u>88,151</u></b> | <b><u>617,465</u></b> | <b><u>308,104</u></b>            |

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendations, it will (1) ensure that funds are available to provide assistance to eligible households and (2) stop incurring program costs for the overpayment and underpayment of housing assistance and, instead, will spend those funds in accordance with HUD's requirements and its program administrative plan. Once the Authority 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

|  |
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|  <p>409 East First Street<br/>Muncie, Indiana 47302<br/><a href="http://www.muncieha.com">http://www.muncieha.com</a></p> <p>July 25, 2016</p> <p>Kelly Anderson<br/>Regional Inspector General for Audit-Region 5<br/>Ralph H. Metcalfe Federal Building<br/>77 West Jackson Blvd Suite 2201<br/>Chicago, IL 60604</p> <p>Dear Ms. Anderson,</p> <p>Enclosed are the comments to the draft audit report for the City of Muncie Housing Authority's Housing Choice Voucher Program. Per our conversation on the phone Friday, July 22<sup>nd</sup>, I am sending the support documentation to your office via FedEx overnight. The tracking number is 7768 3440 8418.</p> <p>If you have any questions, please contact me directly at 765-741-7307 or <a href="mailto:jbost@muncieha.com">jbost@muncieha.com</a>.</p> <p>Respectfully submitted,</p>  <p>Jerri Bost, Interim Chief Executive Officer/<br/>Chief Financial Officer<br/>Housing Authority of the City of Muncie</p>  <p>Office (765) 288-9242 • Fax (765) 741-7308 • TDD (765) 281-1582<br/><i>The Muncie Housing Authority is an Equal Opportunity Employer</i></p> <p>Page 1 of 1</p> |
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## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 1  
Comment 2

Comment 3  
Comment 4

Comment 5  
Comment 6  
Comment 7  
Comment 8  
Comment 9  
Comment 10

Comment 11



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#### **Finding 1:**

The Authority did not always ensure that it (1) maintained required eligibility documentation, (2) correctly calculated and paid housing assistance and utility allowances, and (3) conducted interim reexaminations for zero-income households. It also did not ensure that (1) duplicate housing assistance payments were not made to program landlords and (2) program households were not charged inappropriate fees. The weaknesses occurred because the Authority failed to implement a control process and disregarded HUD's and its own requirements.

#### **Recommendation 1A:**

MHA disagrees with this recommendation. After looking through the files reviewed on Eligibility, MHA noted the following:

- Identification Number S2 and A70 is the same tenant.
- With the exception of 5 households, member support and SSN verifications were found in the files. The 5 households were contacted and received documents for 3 of the 5. We will continue to follow up with the 2 remaining households.
- With the exception of 1 household, Citizenship Declarations were found in the files. The remaining household came in signed the Citizen Declaration needed.
- MHA was unaware of the regulation requiring HCV participant background checks. When it was brought to our attention, the policy was changed and a board resolution was signed. See Exhibit A. The Authority has always been attentive to criminal activities within the participants units. We have good working relationships with the landlords and property managers of our participants. As soon as any criminal activity is known, a letter of Proposed Termination is sent to the participant & owner.
- A current Form 9886 has been supplied for participants who did not have one signed for the audit period.
- Landlord ownerships were found in the files.
- The missing Lease was found in the file.
- The HAP Contract was found in the file.
- Lead paint disclosures were found in the files.

The 2 Unaffordable participants were found to be living in affordable units by MHA because neither participant was were paying rent over their 40% of adjusted monthly income. See Exhibit B, Identification numbers A51 & A73.

See Exhibit B attached for the above stated supporting documentation.

After reviewing the supporting documentation for Eligibility, The City of Muncie Housing Authority requests that the amount of reimbursement be recalculated for a lower repayment of housing assistant payments and administration fees.



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## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 10

Recommendation 1B:  
MHA disagrees with this finding as stated in Recommendation 1A. See Exhibit B, Identification numbers A51 & A73.

Comment 12  
Comment 12

Recommendation 1C:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1D:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1E:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1F:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1G:  
MHA agrees with this recommendation.

Comment 13

Recommendation 1H:  
MHA agrees with this recommendation.

Comment 10

Recommendation 1I:  
MHA disagrees with this recommendation. The policy was changed and a Board Resolution was signed on May 10, 2016. MHA recommends that the current participants be grandfathered in and will begin doing Criminal Background Checks on New Admissions going forward.

Comment 12

Recommendation 1J:  
MHA disagrees with this recommendation. MHA found both households to be Affordable.

Comment 12

Recommendation 1K:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1L:  
MHA agrees with this recommendation.

Comment 12

Recommendation 1M:  
MHA agrees with this recommendation.

Recommendation 1N:  
MHA agrees with this recommendation.

**Finding 2:**

The Authority did not appropriately use HUD's Enterprise Income Verification system to identify program households with unreported or underreported income to recapture overpaid housing assistance. The noncompliance occurred because the Authority lacked adequate procedures and controls to ensure that its program staff complied with HUD's requirements for repayment of overpaid housing assistance due to unreported or underreported household income.



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## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 12

Recommendation 2A:  
MHA agrees with this recommendation.

Comment 12

Recommendation 2B:  
MHA agrees with this recommendation.

Comment 12

Recommendation 2C:  
MHA agrees with this recommendation.

Comment 12

Recommendation 2D:  
MHA agrees with this recommendation.

Comment 12

**Finding 3:**  
The Authority did not appropriately manage its Family Self-Sufficiency program. Specifically, it did not (1) establish a program coordinating committee; (2) maintain complete and accurate records for its active, graduated, and terminated program participants; and (3) appropriately maintain its program bank account. The weaknesses occurred because the Authority failed to exercise proper supervision and oversight of its program.

Comment 12

Recommendation 3A:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3B:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3C:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3D:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3E:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3F:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3G:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3H:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3I:  
MHA agrees with this recommendation.

Comment 12

Recommendation 3J:  
MHA agrees with this recommendation.



## OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that household numbers S2 and A70 are the same household. We agree. As cited in the scope and methodology section of this report, we statistically selected a stratified random sample of 95 monthly housing assistance payments. The 95 monthly housing assistance payments represent 93 households. Therefore, the housing assistance payments for two households were reviewed for more than 1 month, during different recertification periods. Please see the Scope and Methodology section of this report for details regarding the sampling techniques used.
- Comment 2 The Authority contends that member support and Social Security number verifications were provided for all but two households. We disagree. We reviewed the documentation provided by the Authority along with its comments and determined that (1) four files still lacked member support for all household members and (2) four files lacked support that each household members' Social Security number had been verified. We adjusted the report to reflect the documents provided; however, the Authority should work with HUD to resolve the remaining issues cited in the finding. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include these documents in the report because they were too voluminous; however, it is available upon request.
- Comment 3 The Authority contends that it found all Citizenship Declarations in the files, except for one. We disagree. Of the 20 files that did not contain Citizenship Declarations for all households, the Authority provided support of Citizenship Declarations for 8. Of the eight documents provided, four were dated July 21, 2016, three were dated July 20, 2016, and one was dated May 3, 2016. Therefore, these documents were not in the household files when we were onsite at the Authority. However, we adjusted the report to reflect the receipt of the provided documents. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include these documents in the report because they were too voluminous; however, it is available upon request.
- Comment 4 The Authority contends that it was not aware of HUD's requirement to complete criminal background checks for households before admission to its program. We disagree. The Authority's Housing Choice Voucher program manager said that Authority did not perform household background checks, which included both a criminal and sex offender registry check, because they were too expensive. Nonetheless, the Authority should work with HUD to ensure its updated policies are fully implemented to ensure that criminal background checks are conducted for all households currently on its program as well as new admissions. In addition to the Authority's response in appendix B of this report, it provided

documentation contained in its exhibit A. We did not include this in the report; however, it is available upon request.

- Comment 5 The Authority stated that it has provided a current HUD form 9886 for the participants that did not have one signed during the audit period. We acknowledge that the Authority provided current forms for all households. However, only six HUD forms 9886 were applicable based on the effective dates of the certifications that were reviewed. The remaining four household files cited in the finding had missing or expired forms. The Authority should work with HUD to resolve the remaining issues cited in the finding. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 6 The Authority contends that the landlord ownership documentation was located in the household files. Of the 22 files that were missing support for landlord ownership, the Authority provided documentation to support 17. Of the remaining five files the Authority (1) provided incorrect landlord ownership forms for three and (2) failed to provide documentation for two. We adjusted the report to reflect the documents provided. The Authority should work with HUD to resolve the remaining issues cited in the finding. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 7 The Authority contends that the one missing lease was found in the file and provided the document with its comments. We acknowledge receipt of the missing lease and adjusted the report accordingly. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 8 The Authority contends that the one missing housing assistance payment contract was found in the file and provided. We acknowledge receipt of the missing contract and adjusted the report accordingly. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 9 The Authority contends that the lead based paint certifications were found in the file and provided. We disagree. The Authority provided documentation to support six of the seven missing lead based paint certifications. We adjusted the report to reflect the receipt of the documents. The Authority should work with HUD to resolve the remaining issues cited in the finding. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.

- Comment 10 The Authority contends that the two households we cited in the report for residing in units that were not affordable were actually living in units that were affordable. We disagree. HUD's Regulations at 24 CFR 982.508 state that at the time the public housing agency approves initial occupancy of a dwelling unit, the family share must not exceed 40 percent of the family's adjusted monthly income. The Authority provided documentation to support that one of two households was in an affordable unit; therefore, we adjusted the report accordingly. However for the remaining household cited in the finding, at initial occupancy the unit was not affordable and the household's share exceeded 40 percent of the adjusted monthly income. In addition to the Authority's response in appendix B of this report, it provided documentation contained in its exhibit B. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 11 The Authority requested that we recalculate the amount of reimbursement for the unsupported documents. We updated the report to reflect the receipt of the documents provided. However, all 93 files were still missing 1 or more documents to support the households' eligibility and continued assistance on the program. Therefore, the Authority should work with HUD to resolve the remaining missing support documentation.
- Comment 12 We acknowledge the Authority's agreement with our recommendation. It should work with HUD to resolve the recommendation (s) during the audit resolution process.
- Comment 13 For recommendation 1L, the Authority stated that it has updated its policy and obtained board approval on May 10, 2016. We acknowledge that the Authority provided (1) a copy of its updated policy and (2) evidence that its board approved the updated policy. The Authority also contends that the policy should be implemented going forward and current households on its program should be "grandfathered in". We disagree. HUD's Regulations at 24 CFR 5.856 states 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. The Authority should work with HUD to ensure that it (1) fully implements its updated policy and (2) completes criminal background checks for all households currently on its program as well as new admissions.

## Appendix C

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### Federal and Authority 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, rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

Regulations at 24 CFR 5.855(a) state that a public housing agency may prohibit the admission of a household to federally assisted housing under its standards if it determines that any household member is 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, 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 908.101 state that applicable program entities must retain at a minimum, the last 3 years of the form HUD-50058 and supporting documentation, during the term of each assisted lease and for a period of at least 3 years from the end of the participation date, to support billings to HUD and permit an effective audit.

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. Paragraph (f) states that the agency must keep the following records for at least 3 years: lead-based paint records and records to document the basis for the determination that the rent to the owner is a reasonable rent (initially and during the term of a housing assistance payments contract).

Regulations at 24 CFR 982.302(c) state that the family must submit to the agency a request for approval of the tenancy and a copy of the lease, including the HUD-prescribed tenancy addendum.

Regulations at 24 CFR 982.305(c) state that the housing assistance payments contract must be executed no later than 60 calendar days from the beginning of the lease term. Any contract

executed after the 60-day period is void, and the agency may not make any housing assistance payments to the owner.

Regulations at 24 CFR 982.308(b) state that the tenant and the owner must enter into a written lease for the unit. The lease must be executed by the owner and the tenant.

Regulations at 24 CFR 982.516(a) state that the public housing agency must reexamine family income and composition at least annually. The agency must obtain and document in the tenant file third-party verification of the following factors or must document in the tenant file why third-party verification was not available: reported family annual income, the value of assets, expenses related to deductions from annual income, and other factors that affect the determination of adjusted income. Paragraph (f) states that the agency must establish procedures that are appropriate and necessary to ensure that income data provided by an applicant or participating families are complete and accurate.

Regulations at 24 CFR 982.508 state that at the time the public housing agency approves initial occupancy of a dwelling unit, the family share must not exceed 40 percent of the family's adjusted monthly income.

Regulations at 24 CFR 982.517(d)(2) state that at reexamination, the public housing agency must use the agency's current utility allowance schedule.

HUD's Housing Choice Voucher Guidebook, 7420.10G, section 11.4, states that the most important objectives of the public housing agency regarding the processing of housing assistance payments are to issue checks to owners on time and for the correct amount.

HUD's Housing Choice Voucher Guidebook, 7420.10G, section 22.3, states that quality control should include a review of the housing assistance payments processing function to detect and prevent recurring errors, omissions, fraud, or abuse. The objective of this review is to first determine whether the housing assistance payment to the owner is correct, based on the payment standard and family contribution. Second, this review ensures that the payment being made to the owner matches the amount shown on the agency's housing assistance payment register. Third, it also confirms that any change in rent resulting from a recertification or interim change is properly reflected in the housing assistance payment to the owner. Fourth, it protects against payments being made on a housing assistance payments contract that has been terminated. Finally, this review protects against payments for a unit that has failed to meet HUD's housing quality standards and when the owner has not corrected the deficiency.

Paragraph 11-II.C of the Authority's program administrative plan states that if a household reports zero income, the Authority will conduct an interim reexamination every 3 months as long as the household continues to report that it has no income.

## **Finding 2**

Regulations at 24 CFR 5.233(a)(2) state that processing entities must use HUD's Enterprise Income Verification system in its entirety "(i) as a third party source to verify tenant employment

and income information during mandatory reexaminations or recertification of family composition and income and administrative guidance issued by HUD; and (ii) to reduce administrative and subsidy payment errors in accordance with HUD administrative guidance.”

Regulations at 24 CFR 5.233(b) state that failure to use the Enterprise Income Verification system in its entirety may result in the imposition of sanctions, the assessment of disallowed costs associated with any resulting incorrect subsidy or tenant rent calculations, or both.

Regulations at 24 CFR 5.236(b)(2) state that upon receiving income information from a State wage information collection agency or a Federal agency, HUD or when applicable, the public housing agency should compare the information with the information about a family’s income that was “(i) provided by the assistance applicant or participant to the public housing agency.”

Regulations at 24 CFR 5.236(b)(3) state that when the income information reveals an employer or other income source that was not disclosed by the assistance applicant or participant or when the income information differs substantially from the information received from the assistance applicant or participant or from his or her employer, “(i) HUD or, as applicable or directed by HUD, the public housing authority should request the undisclosed employer or other income source to furnish any information necessary to establish an assistance applicant’s or participant’s eligibility for or level of assistance in a covered program. This information should be furnished in writing, as directed to: (B) the responsible entity (as defined in 24 CFR part 5.100) in the case of the public housing program or any Section 8 program; or (ii) HUD or the public housing authority may verify the income information directly with an assistance applicant or participant. Such verification procedures should not include any disclosure of income information prohibited under paragraph (b)(6) of this section.”

Public and Indian Housing Notice 2010-19,<sup>18</sup> number 3, states that on December 29, 2009, HUD issued the final rule, entitled Refinement of Income and Rent Determination Requirements in Public and Assisted Housing Programs: Implementation of the Enterprise Income Verification System - Amendments, which requires public housing agencies to use the system in its entirety to verify tenant employment and income information during mandatory reexaminations of family composition and income and reduce administrative and subsidy payment errors.

Public and Indian Housing Notice 2010-19, number 6, states that all public housing agencies are required to review the system income report of each family before or during mandatory annual and interim reexaminations of family income and composition to reduce tenant underreporting of income and improper subsidy payments. The system also provides various reports to assist public housing agencies with “(d) identifying tenants who may not have reported complete and accurate income information and (e) identifying tenants who have started a new job.”

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<sup>18</sup> Notice PIH 2015-02 (HA), issued, January 9, 2015, extends Notice PIH 2010-19.

Public and Indian Housing Notice 2010-19, number 14, states that to ensure that public housing agencies are aware of potential subsidy payment errors, they are required to monitor HUD's Enterprise Income Verification system "(1) income discrepancy report quarterly."

Public and Indian Housing Notice 2010-19, number 15, explains how to use HUD's Enterprise Income Verification system income report as a third-party source to verify tenant employment and income information. All system income reports contain the date the report was generated and by whom and the date the system received each type of information. To minimize tenant underreporting of income, public housing agencies are required to obtain a system income report for each family any time the public housing agency conducts an annual or interim reexamination of family income and composition. In accordance with 24 CFR 5.236(b)(2)(3), public housing agencies are required to compare the information on the system report with the family-reported information. If the system report reveals an income source that was not reported by the tenant or a substantial difference in the reported income information, the public housing agency is required to take the following actions:

1. Discuss the income discrepancy with the tenant;
2. Request that the tenant provide any documentation to confirm or dispute the unreported or underreported income and income sources;
3. If the tenant is unable to provide acceptable documentation to resolve the income discrepancy, request from the third-party source any information necessary to resolve the income discrepancy;
4. If applicable, determine the tenant's underpayment of rent as a result of unreported or underreported income, retroactively;\* and
5. Take any other appropriate action as directed by HUD or the public housing agency's administrative policies.

\*The public housing agency is required to determine the retroactive rent as far back as the existence of complete file documentation (form HUD-50058 and supporting documentation) to support such retroactive rent determinations. A substantial difference is defined as an amount equal to or greater than \$2,400 annually.

Public and Indian Housing Notice 2010-19, number 16, states that tenants are required to reimburse the public housing agency if they were charged less rent than required by HUD's rent formula due to the tenant's underreporting or failure to report income. The tenant is required to reimburse the public housing agency for the difference between the tenant rent that should have been paid and the tenant rent that was charged. This rent underpayment is commonly referred to as retroactive rent. If the tenant refuses to enter into a repayment agreement or fails to make payments on an existing or new repayment agreement, the public housing agency must terminate the family's tenancy or assistance or both. HUD does not authorize public housing agency-sponsored amnesty or debt forgiveness programs. All repayment agreements must be in writing, dated, and signed by both the tenant and the public housing agency and include the total retroactive rent amount owed, the amount of lump-sum payment made at time of execution if applicable, and the monthly repayment amount.

Public housing agencies are required to determine the retroactive rent amount as far back as the public housing agency has documentation of family-reported income. For example, if the public housing agency determines that the family has not reported income for a period of 5 years and has documentation for only the last 3 years, the public housing agency is able determine retroactive rent only for the 3 years for which documentation is available. The monthly retroactive rent payment plus the amount of rent the tenant pays at the time the repayment agreement is executed should be affordable and not exceed 40 percent of the family's monthly adjusted income. However, public housing agencies have the discretion to establish thresholds and policies for repayment agreements in addition to HUD-required procedures.

### **Finding 3**

Regulations at 24 CFR 984.103 define an individual training and services plan as a written plan that is prepared for the head of the family and each adult member of the family who elects to participate in the program by the public housing agency in consultation with the family member and which sets forth

- (1) The supportive services to be provided to the family member,
- (2) The activities to be completed by that family member, and
- (3) The agreed-upon completion dates for the services and activities. Each individual training and services plan must be signed by the public housing agency and the participating family member and is attached to and incorporated as part of the contract of participation. An individual training and services plan must be prepared for the head of the family.

Regulations at 24 CFR 984.305(a)(1) state that the public housing agency must deposit the Family Self-Sufficiency account funds of all families participating in the public housing agency's Family Self-Sufficiency program into a single depository account. The public housing agency must deposit the Family Self-Sufficiency account funds into one or more of the HUD-approved investments.

Regulations at 24 CFR 984.305(a)(2)(i) state that the total of the combined Family Self-Sufficiency account funds will be supported in the public housing agency's accounting records by a subsidiary ledger showing the balance applicable to each Family Self-Sufficiency family. During the term of the contract of participation, the public housing agency should credit periodically but not less than annually to each family's Family Self-Sufficiency account the amount of the Family Self-Sufficiency credit determined in accordance with paragraph (b) of this section.

Regulations at 24 CFR 984.305(f)(1) state that the amount in the Family Self-Sufficiency account should be forfeited upon the occurrence of the following:

- “(i) The contract of participation is terminated, or
- (ii) The contract of participation is completed by the family but the family is receiving welfare assistance at the time of expiration of the term of the contract of participation, including any extension thereof.”

Regulations at 24 CFR 984.305(f)(2)(ii) state that the family self-sufficiency account funds forfeited by the family will be treated as program receipts for payment of program expenses under the public housing agency's budget for the applicable Housing Choice Voucher program and should be used in accordance with HUD requirements governing the use of program receipts.

Form HUD-52650, Program Contract of Participation, states that the contract must include an individual training and services plan for the head of the family.

Form HUD-52650, Program Contract of Participation, states that interim goals must be specified along with the activities and services needed to achieve them.

Form HUD-52650, Program Contract of Participation, states that the final goal listed on the individual training and services plan of the head of the family must include getting and maintaining suitable employment specific to that individual's skills, education, job training, and the available job opportunities in the area.

Regulations at 24 CFR 984.305(f) state that the amounts in the program account should be forfeited upon termination of the contract of participation.

Regulations at 24 CFR 984.202(a) state that each participating public housing agency must establish a program coordinating committee to assist the public housing agency in securing commitments of public and private resources for the operations of the program within the public housing agency's jurisdiction, including assistance in developing the action plan and implementing the program.