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TO: Shawn Sweet, Director of Cleveland's Public Housing Hub, 5DPH  
Maurice McGough, Director of Fair Housing and Equal Opportunity Hub,  
5AEH

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

SUBJECT: Cuyahoga Metropolitan Housing Authority, Cleveland, OH, Did Not Operate Its  
Section 8 Housing Choice Voucher Program According to HUD's  
Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Cuyahoga Metropolitan Housing Authority's Section 8 Housing Choice Voucher program. The audit was part of the activities in our fiscal year 2012 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's<sup>1</sup> jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements and the Authority's program administrative plan to include determining whether the Authority (1) correctly analyzed households' income and performed subsidy determinations in accordance with Federal and its requirements, (2) appropriately followed HUD's and its conflict-of-interest requirements, and (3) administered its program waiting list in accordance with Federal and its requirements. This is the second of two planned audit reports on the Authority's program.

<sup>1</sup>Region V includes the States of Indiana, Illinois, Ohio, Michigan, Minnesota, and Wisconsin.

## What We Found

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It failed to consistently compute payments accurately and maintain documentation to support all payments to program owners and households. The Authority incorrectly calculated housing assistance and utility allowances for 47 (58.8 percent) households in one or more certifications. Of the 80 household files statistically selected for review, 35 files (43.8 percent) were missing or contained incomplete or late documents. Based upon our statistical sample, we estimate that over the next year, the Authority will overpay more than \$1.4 million in housing assistance and utility allowances.

The Authority did not follow HUD's and its requirements and the Ohio Revised Code regarding conflict-of-interest provisions. The Authority's employees failed to identify conflicts of interest with themselves, relatives, business associates, and close friends who were participants in the Authority's Housing Choice Voucher program as landlords or tenants. Also, the Authority failed to ensure that a third-party inspector performed inspections of Authority-owned units.

The Authority did not follow HUD's requirements regarding its waiting list. It inappropriately added applicants to a closed waiting list. The Authority failed to appropriately comply with the voluntary compliance agreement made between HUD's Fair Housing and Equal Opportunity Division and the Authority. Also, its internal controls for access to the waiting list did not ensure that the waiting list was reasonably safeguarded against unauthorized use.

## What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to (1) reimburse its program from non-Federal funds for the improper use of more than \$274,000 in program funds, (2) provide documentation or reimburse its program more than \$390,000 from non-Federal funds for the unsupported housing assistance payments, and (3) implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$1.4 million in program funds from being spent on excessive housing assistance payments over the next year.

We also recommend that the Director of HUD's Columbus Office of Fair Housing and Equal Opportunity review the Authority's household selections to ensure that the Authority complies with HUD's requirements. If the Authority fails to comply with HUD's requirements, the Director should take appropriate action against the Authority and its employee(s). We further recommend that the Director (1) conduct a compliance and technical assistance review for the voluntary compliance agreement to ensure that HUD and the Authority

understand the expectations of the agreement and appropriately comply with it and (2) require the Authority to submit a status update of its Money Follows the Person Rebalancing Initiative and 5-year mainstream housing choice vouchers.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence issued because of the audit.

### Auditee's Response

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's interim chief executive officer during the audit. We provided our discussion draft audit report to the Authority's interim chief executive officer, its board chairman, and HUD's staff during the audit. We held an exit conference with the interim chief executive officer on February 27, 2012.

We asked the interim chief executive officer to provide comments on our discussion draft audit report by March 14, 2012. The interim chief executive officer provided written comments, dated March 14, 2012. The executive director disagreed with our findings and recommendations. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report except for 150 pages of documentation that was not necessary for understanding the Authority's comments.

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## **BACKGROUND AND OBJECTIVE**

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The Cuyahoga County, OH, Metropolitan Housing Authority, established in 1933 pursuant to sections 3735.27 and 3735.50 of the Ohio Revised Code, was the Nation's first public housing authority to provide safe and sanitary housing to low-income families. The passage of the United States Housing Act in 1937 enabled the Authority to provide federally subsidized housing. Following the passage of the Federal Housing Act of 1974, the Authority began administering the Section 8 rental housing assistance program. The Authority's jurisdiction includes all of Cuyahoga County, except for Chagrin Falls Township. The Authority is a political subdivision of the State of Ohio and is governed by a five-member board of commissioners appointed for 3-year terms by local elected officials. The board governs the business, policies, and transactions of the Authority. The chief executive officer is appointed by the board and has the overall responsibility of carrying out the board's policies and managing the Authority's day-to-day operations. The Authority's is located at 8120 Kinsman Road, Cleveland, OH. As of December 31, 2011, the Authority had 13,912 Section 8 voucher units under contract (96.5 percent) of its authorized 14,418 vouchers and the annual housing assistance payments totaled more than \$90.5 million in program funds.

With regards to the fiscal year 2012 Appropriations Act, the Authority has net restricted assets of \$11 million, as calculated by HUD and confirmed by the Authority.

HUD's Quality Control for Rental Assistance Subsidies Determinations Study; Final Report for FY 2009; prepared by: ICF Macro International Calverton, Maryland determined that the rate of rent overpayments and underpayments was at 21 percent in the PHA-administered Section 8 program. This study provided national estimates for the extent, severity, costs, and sources of rent errors in tenant subsidies for the public housing authority administered Section 8 Housing Choice Voucher program. This study did not involve an audit of individual public housing authorities or projects, nor did it monitor the implementation of housing programs. Its focus was on identifying households where an error was made when calculating the amount of household's rent and providing nationally representative findings related to those errors. The Study identified that the Authority had a 15.6 percent overpayment error rate.

Our objective was to determine whether the Authority administered its Section 8 Housing Choice Voucher program in accordance with HUD's requirements and its program administrative plan to include determining whether it (1) correctly performed income analysis and subsidy determination according to Federal and its requirements, (2) followed HUD's and its conflict-of-interest requirements, and (3) administered its program waiting list according to Federal and its requirements.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Comply With HUD's Requirements and Its Program Administrative Plan

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It failed to consistently compute payments accurately and maintain documentation to support all payments to program owners and households. These deficiencies occurred because the Authority lacked adequate procedures and controls to ensure that its calculations were accurate and that HUD's requirements and its plan were appropriately followed. As a result, it overpaid nearly \$56,000 and underpaid nearly \$11,000 in housing assistance and utility allowances and was unable to support more than \$390,000 in housing assistance and utility allowances paid. Based upon our statistical sample, we estimate that over the next year, the Authority will overpay more than \$1.4 million in housing assistance and utility allowances.

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#### **The Authority Made Incorrect Housing Assistance and Utility Allowance Payments**

We statistically selected 80 household files from a universe of 16,100 households that received housing assistance payments during the period January 2009 through September 2010, using data-mining software. The 80 files were reviewed to determine whether the Authority accurately verified and calculated the income information received from households for their housing assistance and utility allowances for the period March 1, 2008, through August 30, 2011. Our review was limited to the information maintained by the Authority in its household files.

According to HUD's regulations at 24 CFR (Code of Federal Regulations) 5.240(c), public housing authorities must verify the accuracy of the income information received from program households and change the amount of the total household payment, household rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

The Authority incorrectly calculated housing assistance and utility allowances for 47 (58.8 percent) of the 80 households in one or more certifications. This error rate is nearly three times the error rate established in HUD's Quality Control for Rental Assistance Subsidies Determinations Study, final report for fiscal year 2009. The report identified the national error rate to be 21 percent for the program. The 47 files contained miscalculations of the households' annual income and income deductions and the use of an incorrect utility reimbursement schedule and incorrect payment standard. The Authority's miscalculations

resulted in overpayments of \$55,775 and underpayments of \$10,915 in housing assistance and utility allowances.

Of the \$55,667 in overpaid housing assistance and utility allowances, \$32,419 (29 households) was a result of the Authority's calculation errors, and \$23,011 (7 households) was a result of households' underreporting income to the Authority. However, the Authority's files contained the correct income information for the seven households. The files contained reports from HUD's Enterprise Income Verification system, child support verification reports, third-party income verifications, or payroll stubs showing the correct income information. The \$10,915 (21 households) in underpaid housing assistance and utility allowances was a result of the Authority's calculation errors.

The 47 files contained the following errors:

- 38 had annual income calculation errors by the Authority for 1 or more certifications,
- 21 had incorrect income verifications for 1 or more certifications,
- 18 had incorrect income adjustments for 1 or more certifications,
- 7 had unreported income by the households for 1 or more certifications,
- 4 had incorrect payment standards for 1 or more certifications,
- 2 had incorrect voucher size for 1 or more certifications, and
- 1 failed to identify a tenant's disabilities.

The Authority received \$5,924 in program administrative fees related to the 47 households that were overpaid housing assistance and utility allowances due to its errors for the period March 1, 2008, through August 30, 2011. In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program.

### **Household Files Lacked Eligibility Documentation**

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$390,463 for the period March 1, 2008, through August 30, 2011. Of the 80 household files statistically selected for review, 35 files (43.8 percent) were missing or contained incomplete or late documents as follows:

- 26 had annual certifications that were late for one or more certifications;
- 18 did not have the lease and housing assistance payments contract executed within 60 days of each other;
- 14 were missing the lease;
- 14 were missing evidence of criminal background checks;

- 13 were missing a rent reasonableness determination for the leased unit;
- 12 were missing a housing assistance payments contract;
- 11 were missing the form HUD-52517, Request for Tenancy Approval;
- 10 were missing the original application;
- 6 were missing the lead-based paint form;
- 3 were missing Social Security cards, birth certificates, and forms HUD-214 for those claiming to be U.S. citizens; and
- 2 were missing authorization of release of information.

The 35 files did not include documentation required by HUD's regulations and the Authority's program administrative plan. Of the required documentation to support housing assistance payments and utility allowances, the disclosure of information on lead-based paint and the original application were not a determining factor in the computation of the unsupported housing assistance payments cited in this audit report.

The Authority replaced HUD's Request for Tenancy Approval, form HUD-52517, with its own form without obtaining HUD approval. When this matter was brought to the attention of the Authority and HUD's Cleveland Office of Public Housing during the audit, the field office issued an approval to use the form. However, HUD headquarters stated that it had not delegated the authority for approving changes to HUD-required forms to its field offices. In a future release of the regulations, HUD will add language to the regulations to clarify that this form is required since 24 CFR 982.302(d) can be misunderstood to mean that a public housing authority may create its own form for this purpose. The Cleveland Office of Public Housing said that it would forward the request for approval of the form HUD-52517 to HUD headquarters. Therefore, we did not take exception with the Authority for using its request for tenancy approval form.

### **The Authority's Management Did Not Protect HUD's Interest**

The weaknesses regarding incorrect calculations, inappropriate payments, and missing documentation occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its program plan. Although the Authority's process for performing certifications required its eligibility specialists to review previous file documentation, it did not require them to review for errors. Therefore, if an error was made on a prior certification, that error could continue from one certification to the next. However, this was not the only cause for the incorrect calculations of housing assistance payments and utility allowances. Thirty-eight errors were made in calculating household income for one or more certifications as a result of the failure to collect and complete the appropriate eligibility documentation.

The Authority conducted peer reviews, and its supervisors conducted monitoring reviews of the certifications. The supervisory reviews were performed in the

same manner as the certifications that the housing specialists performed. Although the Authority had external and internal training processes and performed monitoring reviews of the certifications, the certification errors occurred. Therefore, additional procedures and controls are needed to ensure full implementation of HUD's regulations and the Authority's program plan. According to its Section 8 Management Assessment Program (SEMAP), the Authority rated itself as a high performer. Based upon the deficiencies discussed in this finding, it should reassess its program performance and its scores adjusted as necessary.

## Conclusion

As a result of the procedural and control weaknesses described above, the Authority overpaid \$55,667 and underpaid \$10,915 in housing assistance and utility allowances and disbursed \$390,463 in housing assistance and utility allowance payments without supporting documentation. If the Authority implements adequate procedures and controls regarding its housing assistance and utility allowances to ensure compliance with HUD's regulations and its program plan, we estimate that more than \$1.4 million in overpayments of housing assistance will be put to better use over the next year based on the error rate found in our sample.

## Recommendations

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

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- 1A. Reimburse its program \$61,591 (\$55,667 in housing assistance and utility allowance payments and \$5,924 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 1B. Pursue collection of the \$23,011 from the seven households cited in this finding for the overpaid housing assistance and utility allowances due to unreported income.
- 1C. Reimburse the appropriate households \$10,915 from program funds for the underpayment of housing assistance and utility allowances cited in this finding.
- 1D. Provide supporting documentation or reimburse its program \$390,463 from non-Federal funds for the unsupported payments related to the 35 households cited in this finding, of which \$307,269 remains to be supported or should be reimbursed from non-Federal funds.

- 1E. Review its Section 8 Management Assessment Program (SEMAP) scores and adjust as necessary according to the deficiencies noted in this finding.
- 1F. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and its plan. By implementing adequate procedures and controls, the Authority should help ensure that \$1,422,978 in overpayments of program funds is appropriately used for future payments over the next year.

## Finding 2: The Authority Did Not Follow HUD's, the State of Ohio's, and Its Requirements Concerning Conflicts of Interest

The Authority did not follow HUD's and its requirements and the State of Ohio Revised Code regarding conflict-of-interest provisions. It failed to ensure that its employees disclosed conflicts of interest regarding the Authority's Housing Choice Voucher program as required by Federal requirements, the Authority's employee manual, and the Ohio Revised Code. Employees failed to identify themselves, relatives, business associates, and close friends who were potential participants in the program as landlords or tenants. It also failed to ensure that a third-party inspector performed inspections of Authority-owned units. As a result, more than \$1.2 million in program funds was paid to employees, relatives, business associates, or close friends of employees who held a position in formulating policy and making decisions with respect to the program. Additionally, the Authority paid more than \$109,000 in program funds for Authority-owned units for which it failed to ensure that a third-party inspector performed the inspections.

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### **The Authority Lacked Documentation Ensuring That Conflicts of Interest Were Properly Disclosed**

We reviewed 100 percent of the Authority's employees that had a decision-making position for the program. We reviewed the employees' possible relationships with employees, relatives, business associates, and close friends in LexisNexis Accurint. The housing assistance payments register was reviewed to determine the employee's potential relatives, business associates, and close friends who received assistance through the program from January 1, 2009, through September 30, 2010. The employees were interviewed to ensure that the relationships were accurate. Our review was limited to the information maintained by Accurint, the housing assistance payments register, the Cuyahoga County auditor's Web site for property ownership, and the employees interviewed.

HUD's regulations at 24 CFR 982.161 state that neither the public housing authority nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any of the following classes of persons has any interest, direct or indirect, during the tenure or for 1 year thereafter: any present or former member or officer of the public housing authority or any employee, contractor, subcontractor, or agent of the public housing authority, who formulates policy or who influences decisions with respect to the programs.

The Authority's inspections department was responsible for the oversight, scheduling, and conducting of housing quality standards inspections for all program-assisted units. The unit inspection determines whether a landlord's property met the appropriate standards to allow contracting the unit for a tenant

receiving program assistance. The inspection department had 39 employees. We identified 11 employees that had a total of 21 relatives, business associates, or close friends or were, themselves, participating in the program. Of the 11 employees, two employees in the inspection department were landlords in the program, and one employee had a spouse who was a landlord who participated in the program. One of the inspectors was identified as a landlord of multiple properties in the program. This inspector operated under a company name that was different from her name. Additionally, we identified four inspectors who performed inspections on the units of their relatives. The 11 tenants and 10 landlords that participated in the program received \$698,197 in housing assistance and utility allowance payments.

The applications and contracting department was responsible for receiving and verifying background data, determining participants' eligibility, processing housing assistance payments contracts in an expedited manner, determining rent and rent reasonableness, and communicating with the tenant and landlord to ensure the accurate and timely completion of housing assistance payments contracts. The applications and contracting department had 22 employees. We identified 8 employees who had a total of 26 relatives, business associates, or close friends participating in the program. The 17 tenants and 9 landlords received \$304,677 in housing assistance and utility allowance payments.

The client service department was responsible for determining the housing assistance payments that the tenants and landlords would receive; determining participant eligibility; and requesting, receiving, and verifying income and background data. The client service department had 41 employees. We identified 12 employees who had a total of 19 relatives, business associates, or close friends participating in the program. The 13 tenants and 6 landlords received \$164,131 in housing assistance and utility allowance payments.

The finance department was responsible for the abatements, housing assistance payments, check runs, adjustments, rent increases and decreases, setup of new landlords, preparation and distribution of miscellaneous income tax form 1099 for landlords, and reconciling the disbursement of program funds. The program's finance department had seven employees. We identified one employee who had a total of two relatives, business associates, or close friends participating in the program. The two tenants received \$24,397 in housing assistance and utility allowance payments.

The waiting list was used to ensure that families were placed in the proper order and properly selected for admission to the program. The accuracy of the waiting list ensures that qualified applicants are available so that program funds are used in a timely manner on qualified participants. We reviewed 45 employees who had authorization to make changes to the waiting list from January 1, 2009, through December 6, 2011. We identified five employees who had a total of eight relatives, business associates, or close friends participating in the program. The four tenants and four landlords received \$34,237 in housing assistance and utility allowance payments.

The following table identifies the housing assistance and utility allowance payments made to relatives and associates of the employees of the Authority.

Summary of employee conflicts				
Department	Housing assistance paid to relatives or associates of employees			Total
	Tenant	Landlord	Number of relatives or associates	
Executive	\$0	\$0	0	\$0
Board of commissioners	0	0	0	0
Inspection	684,803	13,394	23	698,197
Applications and contracting	279,874	24,803	26	304,677
Client services	154,510	9,621	19	164,131
Budget	0	0	0	0
Finance	22,215	2,182	2	24,397
Administrative affairs	0	0	0	0
Contract administration	0	0	0	0
Waiting list authorization	30,311	3,926	8	34,237
<b>Totals</b>	<b>\$1,171,713</b>	<b>\$53,926</b>	<b>76</b>	<b>\$1,225,639</b>

We interviewed 77 employees who held a decision-making position at the Authority and who were identified in LexisNexis Accurint as having potential relatives, business associates, or close friends participating in the program. None of the 77 employees interviewed received training for disclosing a conflict-of-interest, and 45 (58 percent) stated that they did not disclose to the Authority any or all of the relationships they had with others in the program. Four of the forty-five employees held management, supervisory, or team lead positions. Thirty-one employees (40 percent) stated that they had not been given instructions for proceeding with their jobs upon disclosure of a conflict-of-interest relationship, three of which were employees who held management, supervisory, or team lead positions.

The Authority's employee manual requires employees to report in writing to the internal audit director whether they have a possible conflict of interest. On August 11, 2011, the previous internal control director stated that she did not have departmental conflict-of-interest disclosures in writing. She later provided two disclosure forms from the acting chief executive officer and the program director that were provided on July 25 and September 15, 2011, respectively. As of December 15, 2011, the Authority was revising its conflict-of-interest policy, which would include a formal written disclosure form for its employees.

## The Authority Inspected Its Own Properties

The Authority owned an interest in 90 units that received program assistance under a tenant-based or project-based contract. We reviewed 100 percent of the Authority-owned units to identify units that were not inspected by a third-party inspector. The Authority used another contracted third-party entity to perform the rent reasonableness determinations using a market study database.

The Authority had an interest in 37 units through the Cleveland Housing Network, 16 units through Woody Woods, 32 units through Historic Newton Avenue Apartments, and 5 units through Valleyview Associates. On November 6, 2007, the Authority received approval from HUD's Cleveland field office to use an independent agency to perform housing quality standards inspections when program participants leased units in which the Authority had an ownership interest. Of the 90 units in which the Authority had an interest, 41 had inspections performed by the Authority's inspectors and received program assistance totaling \$109,396 from January 1, 2009, through September 30, 2010. This number did not include quality control inspections since the Authority was required to ensure that all inspections were conducted in accordance with HUD's and its requirements.

The following table identifies the vendor name, the number of units in which the Authority had an interest, the number of units inspected by Authority inspectors, and the housing assistance and utility allowance payments.

Vendor name	Number of units		Housing assistance payment	Utility allowance payment	Total assistance
	The Authority had an interest	Inspected by Authority inspectors			
Cleveland Housing Network	37	31	\$57,142	\$19,154	\$76,296
Woody Woods	16	5	3,683	1,148	4,831
Historic Newton Avenue Apartments	32	4	21,684	6,090	27,774
Valleyview Associates	5	1	255	240	495
Totals	90	41	82,764	\$26,632	\$109,396

The program's director was aware that the Authority conducted inspections on its units. At that time, the Authority's third-party inspectors did not complete inspections in a timely manner, and violations were not being properly identified. As of March 2011, the Authority had entered into a new contract to perform its

third-party inspections. Even with the newly established contract, there were doubts that the inspections would be completed in a timely manner.

## The Authority's Procedures and Controls Had Weaknesses

The Authority lacked adequate procedures and controls to ensure that it followed HUD's, the State of Ohio's, and its requirements concerning the conflict-of-interest policy. The program director stated that she did not know the details of the Authority's Administrative Order 11 in reference to conflicts of interest. She directed managers to handle possible conflicts of interest in the same way she would, which was to treat relatives who were landlords the same as any other landlord. In her opinion, this approach would resolve any appearance of special treatment. The program director also stated that the conflict-of-interest policy addressed only current employees and no indirect relationship, although Administrative Order 11, section B-XIII, part A, states that no employee must have any interest, directly or indirectly, in any contract for property, materials, or services to be acquired by the Authority. The Authority's previous internal audit director stated that the program director attended a meeting at which conflict of interest was discussed. Therefore, she was aware of the disclosure requirement for a potential conflict of interest. Also, employees were required to sign a statement that they had received Administrative Order 11 and were responsible for knowing what was in the order. The Authority's management staff members stated that they did not know about the order; therefore, it could not be expected that the Authority's employees should be aware of the order.

The acting chief executive officer and the program director failed to disclose the appearance of conflicts of interest with relatives until Administrative Order 11, HUD's requirements, and the Ohio Revised Code were explained to them. Afterward, they provided written disclosures to the Authority's internal audit director but did not direct other Authority employees to do so.

With the high-profile issues the Authority had encountered in the past, ensuring that proper procedures and controls were followed is an important factor for maintaining community support for the Authority. Its former chief executive officer was indicted for allegedly accepting bribes to include golf outings, tickets to sporting events, and air conditioning for his home. The investigation was ongoing for 2 years before his arrest. As of January 19, 2012, the chief executive officer had been convicted of lying to Federal Bureau of Investigation agents and fired by the Authority's board of commissioners at their regular January meeting. Two inspectors for the program were indicted for accepting money from landlords to provide passing housing quality standards inspections of program units, and one was sentenced to 4 years in prison. The Authority's management ignored its responsibility to focus on ensuring that it followed Federal requirements and Ohio's Revised Code, much less its requirements. As of January 12, 2012, the Authority had not enforced its conflict-of-interest policy, and its internal audit director had yet to receive additional written disclosures.

## **Conclusion**

The Authority's management staff failed to comply with HUD's requirements, the Ohio Revised Code, and its administrative plan's conflict-of-interest provisions. It did not obtain from its employees written confirmation of any potential conflicts of interest. Further, it did not use a third party to inspect properties in which it had an interest.

As a result of these weaknesses, the Authority used program funds to make more than \$1.2 million in housing assistance and utility allowance payments for the Authority's employees and their relatives, business associates, and close friends that were not properly disclosed. Also, the Authority used \$109,396 in program funds for 41 units in which it had an interest and did not have a third party perform the inspections.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$5,563 in program administrative fees for the 41 units in which it had an interest and did not have a third party perform the housing quality inspections.

## **Recommendations**

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

- 2A. Reimburse its program \$114,961 (\$109,398 in program funds and \$5,563 in associated administrative fees) from non-Federal funds for the 41 units in which the Authority had an interest and did not require a third party to perform inspections.
- 2B. Conduct an independent reexamination of the families that resided in the Authority owned units.
- 2C. Implement adequate procedures and controls to ensure that the Authority follows HUD's, the State's, and its requirements for program conflicts of interest. The procedures and controls should contain a matrix of penalties for violating the conflict of interest requirements.

## Finding 3: Controls Over the Authority's Waiting List Were Not Adequate

The Authority did not follow HUD's requirements regarding its waiting list. It (1) inappropriately added applicants to a closed waiting list and failed to open the waiting list, allowing applicants for the Money Follows the Person Rebalancing Initiative and the Gateway Advisory Board to be placed on its program's closed waiting list against the Initiative's and program requirements; and (2) failed to appropriately comply with its voluntary compliance agreement with HUD's Office of Fair Housing and Equal Opportunity. Also, its internal controls for access to the waiting list did not ensure that the waiting list was reasonably safeguarded against unauthorized use. These deficiencies occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements and its program plan. As a result, the Authority (1) allowed 310 households entry onto its closed waiting list, (2) failed to ensure that it followed its voluntary compliance agreement with HUD, (3) inappropriately funded more than \$88,000 in housing assistance for participants in the Initiative, (4) failed to ensure adequate controls to prevent unauthorized changes to the waiting list, and (5) paid more than \$2.8 million in housing assistance for the Authority's supportive services program.

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### **The Authority Inappropriately Added Applicants to a Closed Waiting List**

We reviewed the waiting list, which closed in October 2006; the agreement between HUD's Fair Housing and Equal Opportunity Division and the Authority; and contracts with the Gateway Advisory Board. We requested and received explanations from HUD headquarters' Office of Operations Management and Office of Fair Housing and Equal Opportunity. The waiting list was closed, but the Authority continued placing applicants onto it. This action violated 24 CFR 982.206(a), which states that when an authority opens a waiting list, it must give public notice that families may apply for tenant-based assistance. The public notice must state where and when to apply. The authority must give the public notice by publication in a local newspaper of general circulation and also by minority media and other suitable means. The notice must comply with HUD's fair housing requirements. All housing choice vouchers must be issued either to applicants on the waiting list or under special authority from HUD, which is unit specific.

The Authority had violated its waiting list 295 times since the closing of the waiting list in 2006 for the Gateway Advisory Board, a special program initiated by the Authority. The Board was approved and supported by HUD and was available to assist up to 1,308 housing choice vouchers. The Authority had more than 1,100 vouchers assisted through this program. The program director stated that the Authority and HUD worked closely on the development and initiation of this program and that she was unaware of not following Federal requirements

since HUD approved the program. HUD's Cleveland field office was not aware that the Authority was adding applicants to a closed waiting list. HUD headquarters stated that since the Authority was transparent concerning the special program, a monetary value should not be placed on the violation of the Federal requirements. The 295 persons housed from October 2006 through September 2011 by the Authority through the program received more than \$2.8 million in Federal funds. As of January 10, 2012, the Authority was continuing to add applicants to its closed waiting list.



### **The Authority's Housing Choice Voucher Program Failed To Follow the Voluntary Compliance Agreement**

The Authority entered into an agreement with the Office of Fair Housing and Equal Opportunity at HUD headquarters in July 2008. The agreement was entered into after the Office of Fair Housing and Equal Opportunity conducted a review of the Authority's compliance with the Rehabilitation Act of 1973, Section 504, and Title II of the Americans with Disabilities Act of 1990. Under the agreement, the Authority's housing choice voucher department agreed to participate in the Initiative and effectively house nonelderly persons under the 5-year mainstream voucher program. The Authority was required to report to the HUD Columbus field office's Fair Housing and Equal Opportunity Division on its progress toward compliance with the agreement.

The Initiative required the Authority to institute a special program to house disabled persons leaving nursing homes and living in the local area. It was agreed to by HUD and the Authority through the agreement. The Initiative required housing choice vouchers to be issued for rental assistance for qualifying individuals. The qualified individuals must be added to the waiting list. As vouchers become available, selected individuals receive vouchers. To add applicants to the waiting list, the Authority was required to have the waiting list opened for this special program. The Authority failed to appropriately open the waiting list for the program. It followed the same process as its special program, the Gateway Advisory Board. The Initiative was a special program that was a requirement of the Authority's voluntary compliance agreement with HUD.

The Authority's Housing Choice Voucher program director stated that she was unaware of the requirement to advertise that the waiting list would remain open for its special programs. She stated that the agreement's conditions were not followed because the Authority did not receive a grant for the Initiative. The Authority housed 17 persons with housing choice vouchers between July 2008 and September 2011 for the Initiative, 15 of whom were added to the closed waiting list. The 15 applicants were inappropriately placed into the program, and more than \$88,000 in program funds was inappropriately paid for housing assistance.

The agreement required the Authority to report quarterly and semiannually. The Authority failed to report on section F, paragraph 9, Supportive Services Referral. This section required the Authority to continue issuing 5-year mainstream vouchers to house nonelderly disabled families. The Authority was unaware of this section since its voluntary compliance agreement compliance officer did not fully understand the agreement and HUD's Fair Housing Equal Opportunity Division report recipient also did not fully understand this section of the agreement.

### **The Authority Was Informed Before the Start of Our Audit**

We informed the Authority during the survey stage of our audit in December 2010 that it had inappropriately placed applicants onto a closed waiting list. The Authority changed its administrative plan to state that the waiting list would remain open for families referred in accordance with the supportive service referral process. This was not a public notice as required in 24 CFR 982.206(a). The Authority failed to advertise the opening of the waiting list for these special programs. HUD's Office of Housing Choice Voucher Management and Operations stated that the Authority should be required to revise its administrative plan to comply with regulations and advertise the opening of the waiting list for the special populations. HUD also stated that the Authority worked closely with HUD in developing the Gateway Advisory Board and was transparent in what it did. Closing the waiting list for this program was not an intentional violation of HUD's regulations. The Authority did not provide a voucher to anyone who was not eligible for housing assistance; therefore, HUD did not view this as a serious violation and would not recommend attaching a dollar value to such an error. HUD's regulations at 24 CFR 982.204(a) state that participants must be selected from the waiting list. Therefore, the applicants who were inappropriately placed onto the closed waiting list were not eligible for housing assistance.

### **The Authority's Controls Over the Waiting List Were Weak**

The Authority failed to ensure that internal controls were appropriately instituted for its waiting list. The waiting list could not be tracked for unauthorized changes. We determined that 46 public housing and housing choice voucher employees had edit access to the waiting lists and had the ability to change the sequence and application dates for applicants on the waiting lists. Changing these dates would allow an applicant to move forward or backward on the waiting list. From our review of the waiting list, we identified three applicants who were removed from the housing choice voucher waiting list by public housing officials and then placed back onto the waiting list by the housing choice voucher department when it discovered what had happened, more than a year later. When discussing this matter with the Authority, an employee stated that this sort of thing happened regularly.

The Authority maintained its Housing Choice Voucher and public housing programs' waiting lists in its Elite software module. The Authority's information technology director stated that he did not have the ability to identify whether field changes were made without severely degrading the Authority's computer services. Therefore, the Authority could not identify whether the sequence number or application dates had been changed and who made the change. When these issues were discussed with the information technology director, he removed all employee access to change the sequence and application dates. The Authority had instituted a change whereby only three managers in both the housing choice voucher and the public housing departments would have the ability to change the sequence and application dates in the waiting list module. Also, the Authority was working with its information technology software contractor to determine whether it was feasible to track changes, identifying field changes without severe degradation of the computer services. Therefore, the Authority was working to ensure that the internal controls for the waiting list were greatly improved.

### **The Authority's Management Did Not Protect HUD's Interest**

The weaknesses regarding the waiting list and the agreement occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements and its program plan. The Authority was unaware of Federal requirements and failed to request a further understanding of the agreement.

In August 2009, the Authority asked to bypass HUD's requirements for its program project-based vouchers. HUD's regulations at 24 CFR 982.206(a)(2) state that when a public housing authority opens its waiting list, it must give the public notice by publication in a local newspaper of general circulation and also by minority media and other suitable means. The notice must comply with HUD's fair housing requirements. The Authority's request was signed by the former chief executive officer, and a copy was sent to the program director. In August 2009, HUD's Deputy Assistant Secretary for Public Housing and Voucher Programs replied that full access to this notification of a waiting list opening would not be available to everyone. Therefore, HUD would not waive its requirement for the waiting list. The Authority's program director was aware of HUD's requirements concerning the waiting list opening and closing but failed to ensure that they were followed. The director stated that the vouchers were for project-based, not tenant-based, voucher assistance so the requirements were different. The Authority was trying not to advertise the waiting list since it expected thousands of respondents who would not qualify for the special programs.

The weakness regarding the internal controls for the waiting list occurred because the Authority failed to implement adequate procedures and controls concerning employee access to its waiting list. Also, the Authority was unaware of the

impact that unauthorized changes to the waiting list would create. When we discussed this issue with the Authority, it began to address improvements in its procedures and controls for safeguarding applicants' positions on the waiting list.

## Conclusion

The weaknesses cited above resulted in the Authority's admitting 310 households onto its waiting list since the waiting list closed in 2006 and 3 applicants to be erroneously placed at the end of the waiting list for more than a year. Each waiting list violation could produce discrimination and fair housing violations as well as the repayment of housing assistance for the assisted voucher. The Authority failed to abide by the Initiative requirements as agreed upon in its voluntary compliance agreement, inappropriately funded \$88,109 in housing assistance for participants in the Initiative by admitting 15 households onto its closed waiting list, and failed to appropriately report to HUD its 5-year mainstream compliance. It also failed to ensure adequate controls to prevent unauthorized changes in the waiting list. Additionally, the Authority had paid more than \$2.8 million in housing assistance for its supportive services program, the Gateway Advisory Board, since February 2007 for the 295 waiting list violations.

In accordance with 24 CFR 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$9,376 in program administrative fees for the 15 applicants added to the closed waiting list for the initiative.

## Recommendation

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

- 3A. Reimburse its program \$97,485 (\$88,109 in housing assistance payments and \$9,376 in administrative fees) from non-Federal funds for the housing assistance and administrative fees paid for the households cited in this finding.
- 3B. Implement adequate procedures and controls to ensure that it appropriately follows Federal and its requirements for its special programs.
- 3C. Advertise opening its waiting list for its special programs in accordance with Federal requirements.
- 3D. Implement adequate procedures and controls to ensure that the 5-year mainstream vouchers comply with the voluntary compliance agreement.

- 3E. Implement adequate procedures and controls to ensure that the integrity of the waiting list is maintained, preventing unauthorized changes.

We also recommend that the Director of HUD's Columbus Office of Fair Housing and Equal Opportunity

- 3F. Review the Authority's household selections to ensure that the Authority complies with HUD's requirements. If the Authority fails to comply with HUD's requirements, the Director should take appropriate action against the Authority and its employee(s).
- 3G. Conduct a compliance and technical assistance review of the voluntary compliance agreement to ensure that HUD and the Authority understand the expectations of the agreement and appropriately comply with it.
- 3H. Require the Authority to submit a status update of its Money Follows the Person Rebalancing Initiative and 5-year mainstream housing choice vouchers.

## **SCOPE AND METHODOLOGY**

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To accomplish our objective, we reviewed

- Applicable laws, HUD's program requirements at 24 CFR Parts 5 and 982, public and Indian housing notices, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's program administrative plan from 2009 through 2011; Administrative Order 11; accounting records; annual audited financial statements for 2008, 2009, and 2010; program household files; computerized databases; policies and procedures; board meeting minutes for 2007, 2008, and 2009; organizational chart; program annual contributions contract; and voluntary compliance agreement with HUD.
- HUD's files for the Authority.

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

### **Finding 1**

We statistically selected 80 of the Authority's program household files from the 16,100 households that received housing assistance payments from January 1, 2009, through September 30, 2010, using data-mining software. Our analysis was performed to ensure that the Authority had improved its household file maintenance and housing assistance payments calculations. The 80 household files were selected to determine whether the Authority appropriately calculated the households' housing assistance and utility allowance payments and maintained documentation to support households' program eligibility.

We extended our audit period to ensure that we covered the full audit timeframe as well as reporting the most current errors possible. To include the audit period, we used certifications from 2008. If the certification was performed after January 2009, we reviewed the latest 2008 certification. Also, we extended the period of file reviews from September 2010 to August 2011. For statistical purposes, the projections for our sample used only the timeframe from which the sample was taken, January 1, 2009, through September 30, 2010. We documented and reported all errors we found up to August 2011.

Our sampling method was variable with a projected one-sided 95 percent confidence interval. The sample results support an estimate that the Authority overpaid nearly \$2.9 million and underpaid nearly \$782,000 to its program participants during our audit period.

Our sampling results determined that 43 households had miscalculations that were material enough to result in a miscalculation of housing assistance payments. The miscalculations resulted in overpayments for 30 households and underpayments for 19 households. The average overpayment was \$434.76 per client, and the average underpayment was \$90.99 per client within the sample period. We reduced the overpayments by the amount of the underpayments for an average of \$343.77 per tenant in program funds which could have been put to better use. For the

Authority's 16,100 households, this projects to \$1,422,978.38 in funds to be put to better use as noted in the adjacent tables.

<i>Summary for difference values (population = 16,100; sample size = 80)</i>						
<b>Variable</b>	<b>Label</b>	<b>No.</b>	<b>Mean</b>	<b>Standard error of mean</b>	<b>90 percent confidence level of the mean</b>	
<b>Total difference</b>	FTBPTBU	80	343.787500	155.249929	85.393957	602.181043
<b>Overpayments</b>	Overpayments	80	434.775000	151.404559	182.781580	686.768420
<b>Underpayments</b>	Underpayments	80	90.987500	25.789692	48.063875	133.911125
<b>Number</b>	16,100					

Projected Cost Impact of Findings			
	Measure		
	Overpayments	Underpayments	Total Projected Funds
<b>Average per Household</b>	\$434.76	\$90.99	\$343.77
<b>Standard Error</b>	\$151.40	\$25.79	\$155.25
<b>- (1.645 X Standard Error)</b>	-\$249.05	-\$42.42	-\$255.39
<b>Projected dollars per household</b>	\$185.71	\$48.57	\$88.38
<b>Total Universe of Households</b>	16,100	16,100	16,100
<b>Total Projected Dollars</b>	<b>\$2,989,882.70</b>	<b>\$781,903.75</b>	<b>\$1,422,978.38</b>

Unless the Authority implements adequate procedures and controls regarding the disbursement of housing assistance and utility allowance payments to ensure compliance with HUD's regulations and its program administrative plan, we estimate that more than \$1.4 million in payments will be misspent over the next year. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use for appropriate payments if the Authority implements our recommendation. While these benefits could recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

## Finding 2

We reviewed 100 percent of the Authority's employees that held a position in formulating policy and making decisions with respect to the program that could present a conflict of interest. We reviewed the employees' possible relationships with relatives, business associates, and close friends in LexisNexis Accurint. The housing assistance payments register was reviewed to determine the employees and their potential relatives, business associates, and close friends who received assistance on the program from January 1, 2009, through September 30, 2010. The employees were interviewed to ensure that the relationships were accurate. Our review was limited to the information maintained by Accurint, the housing assistance payments register, Cuyahoga County's auditor's Web site for property ownership, and the employees interviewed.

We also reviewed 100 percent of the Authority-owned units to identify units that were not inspected by a third-party inspector. We reviewed the addresses of the Authority-owned units and reviewed the Authority's inspection list from January 1, 2009, through September 30, 2010,

to determine the addresses of the Authority-owned units that were not inspected by a third-party inspector.

### **Finding 3**

We performed a 100 percent review of the waiting list regarding the Initiative and the Gateway Advisory Board from October 2006 through September 2011. The waiting list was reviewed to identify applicants who were added to the waiting list after it was closed.

We performed our onsite audit work between August and December 2011 at the Authority's office located at 8120 Kinsman Road, Cleveland, OH. The audit covered the period January 1, 2009, through September 30, 2010, but was expanded when necessary to include other periods.

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

# **INTERNAL CONTROLS**

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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.

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## **Relevant Internal Controls**

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

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.
- 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 lacked adequate procedures and controls to ensure compliance with HUD's requirements and its program administrative plan regarding households' income analysis and subsidy determinations (see finding 1).
- The Authority lacked adequate procedures and controls to ensure compliance with HUD's and its requirements and the Ohio Revised Code regarding conflicts of interest (see finding 2).
- The Authority lacked adequate procedures and controls regarding the administration of its waiting list (see finding 3).

## APPENDIXES

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### Appendix A

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

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Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$61,591		
1C			10,915
1D		\$390,463	
1E			<u>\$1,422,978</u>
2A	\$114,961		
3A	<u>97,485</u>		
Totals	<u>\$274,037</u>	<u>\$390,463</u>	<u>\$1,433,893</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendation, it will cease to incur program costs for the overpayment and underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and/or 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

<u>Ref to OIG Evaluation</u>	<u>Auditee Comments</u>
<p><b>Comment 1</b></p> <p><b>Comment 2</b></p>	<p><b>EXECUTIVE OFFICE</b></p> <p>The logo for CMHA (Cuyahoga Metropolitan Housing Authority) features a stylized yellow house above three blue stylized figures, with the text "CMHA" in large bold letters and "ENRICHING LIVES SINCE 1933" below it.</p> <p>8120 Kinsman Road      T - 216-348-5911 Cleveland, OH 44104      F - 216-348-4925</p> <p>March 14, 2012</p> <p>Kelly Anderson Regional Inspector General for Audit, 5AGA HUD/OIG 77 West Jackson Blvd, Room 2201 Chicago, IL 60604-3507.</p> <p>Dear Mr. Anderson:</p> <p>This letter contains Cuyahoga Metropolitan Housing Authority's ("CMHA") response to the draft audit report received by CMHA on February 10, 2012. We ask that our entire response be included in the published Audit Report. CMHA continually seeks ways to improve its operations and believes some of the observations in the draft audit report will assist us in that regard. This letter will address the findings and recommendations in the order you have made them in the report. We will point out improvements to our procedures and process that have been made both before and after your commencement of the audit and further improvements that we intend to make which will help overcome shortcomings addressed in the audit.</p> <p><i>Finding 1: The Authority Did not Comply with HUD's Requirements and Its Program Administrative Plan</i></p> <p class="list-item-l1">1. <i>The Authority Made Incorrect Housing Assistance and Utility Allowance Payments</i></p> <p>CMHA does not question the scientific integrity of the sample methodology (80 samples from a total of 16,100 files), however the fact that CMHA has been a high performer under SEMAP for the past six years with only a small number of file errors indicates that the findings from the OIG's sample do not accurately portray CMHA's operations. Moreover, as pointed out in the draft report, in HUD's Quality Control For Rental Assistance Subsidies Determinations Study; Final Report for 2009; prepared by: ICF Macro International Calverton, Maryland ("ICF"), the average nationwide overpayment error rate was 21 percent for the PHA-administered Section 8 program while ICF identified CMHA's error rate at 15.6 percent, substantially below the national average and significantly below this audit reports overpayment error rate.</p> <p>The audit report states that CMHA incorrectly calculated housing assistance and utility allowances for 60 percent of the 80 files inspected (48 files). These cited 48 files reflect an overpayment total of \$57,570. Only \$34,214 were actual findings by the auditor of overpaid housing assistance and utility allowances as cited in the Audit Report, page 7,</p> <p>Jeffery K. Patterson, Acting Chief Executive Officer, Cuyahoga Metropolitan Housing Authority</p> <p>CMHA provides reasonable accommodations to persons with disabilities. If you need an accommodation, including auxiliary aids and/or services, please contact CMHA's Section 504/ADA Coordinator at 216-348-5000 (voice) or 1-860-750-0750 (Ohio Relay Service).</p>

**Ref to OIG Evaluation****Auditee Comments****Comment 3**

paragraph 1. The \$23,356 was double counted in both Recommendation 1A and 1B and is addressed by CMHA in Recommendation 1B. CMHA reviewed the auditor's tenant file review findings and found 27 files with errors rather than 48 which resulted in a monetary impact as follows:

Overpaid Housing Assistance Payments (HAP): \$10,216  
 Overpaid Utility Allowance Payments (UAP): \$2,642  
 Underpaid HAP: \$7,099  
 Underpaid UAP: \$1,427

**Comment 4**

Pursuant to the agency's HAP register, \$861,571 was spent in HAP and UAP for the 48 participants with errors as cited by the auditor for years 2008, 2009, and 2010 (see Attachment 1 - HAP Register Summary). The percentage of overpaid HAP/UAP based on the actual program dollars expended for the 48 cases cited represents 4% (utilizing the auditor's monetary error calculation of \$34,214). Utilizing CMHA's actual overpaid HAP/UAP amount of \$12,180, the percentage of overpayments is 1%. Upon CMHA review of the 48 files cited as having errors, only 27 files contained errors and 21 contained no housing assistance calculation or utility allowance error. Specifics are detailed in the tenant file review spreadsheet and summarized below:

**Comment 5**

<u>Audit Report Finding</u>	<u>CMHA Review</u>	All supporting documentation may be found in the separate spreadsheet.
38 had annual income calculation errors by the Authority for 1 or more certifications	24 had annual income calculations errors	14
21 had incorrect income verifications for 1 or more certifications	4 had incorrect income verifications	17
18 had incorrect income adjustments for 1 or more certifications	11 had incorrect income adjustments	7
8 had unreported income by the households for 1 or more certifications	7 had unreported income that will be collected from the participants; five were already identified by the HA; all are in process of review/determination. 1 citing (#79) was found to have exempt income, had no monetary impact, and is	1

**Ref to OIG Evaluation****Auditee Comments**

<u>Audit Report Finding</u>	<u>CMHA Review</u>	All supporting documentation may be found in the separate spreadsheet.
	not a valid finding. See detail in Recommendation 1B response.	
5 had incorrect payment standards for 1 or more certifications	2 had incorrect payment standards	3
2 had incorrect voucher size for 1 or more certifications	1 had incorrect voucher size	1
1 failed to identify tenant's disability	0 failed to identify tenant's disability	1

**Comment 6**

This difference in cited errors in the Audit Report and agency findings is due primarily to calculation of income using the auditor's own method versus use of the agency standard method of calculating income and incorrect application of the utility allowance schedules by the auditor. In addition, the agency's written third party verification procedures were followed for verification of income versus the audit report determination that other documents should have been used; use of those documents were contradictory to the agency's and CMHA's third party verification procedure in place at the time the certification was processed by the housing authority. CMHA's third party verification procedures for each year are based on the verification hierarchy mandated by HUD.

Overpaid Housing Assistance Findings:

Pursuant to Chapter 5 of HUD's Housing Choice Voucher Program Guidebook "PHAs may choose among several methods to determine the anticipated annual income. The following is an acceptable method of calculating annual income:

- "Calculating projected annual income by annualizing current income (and subsequently conducting an interim reexamination if income changes);..."

CMHA utilized this method of projecting income in all cases.

**Comment 7**

In 2008, CMHA approved a calculation method for child support for 2008 and 2009 whereby child support from the last 3 months was averaged and annualized. As shown in the cited findings for child support, this method was supported by HUD's guidebook and this information was shared with the auditor. The auditor chose to use a different method of calculation which resulted in a different annualized projection of income. These

**Ref to OIG Evaluation****Auditee Comments****Comment 8**

differences are not calculation errors by CMHA. (This relates to 10 files on the OIG report.)

**Comment 9**

In cases where there were no pay stubs to verify income, CMHA used third party written verification from the employer or oral verification to verify hours worked per week and hourly rate. This is in accordance with the CMHA's third party verification procedure. (This relates to 8 files on the OIG report.) This is pursuant to Chapter 5 of HUD's Housing Choice Voucher Program Guidebook. "PHAs may choose among several methods to determine the anticipated annual income."

**Comment 10**

In cases where the pay stub annualized amount differed from the amount from the Work Number or EIV, the higher income was used for the certification. This is in accordance with CMHA's third party verification procedure. (This relates to 1 file on the OIG report.) This is pursuant to Chapter 5 of HUD's Housing Choice Voucher Program Guidebook. "PHAs may choose among several methods to determine the anticipated annual income."

**Utility Allowance Findings:**

There were 21 tenant files cited for incorrect income verification due to utility allowances. CMHA noted that only 4 files had actual utility allowance errors, which resulted in incorrect income calculations.

It has always been CMHA's practice to update participants' utility allowances at their respective annual reexamination as identified in our Section 8 Administrative Plan ("Admin Plan").

**2011 Admin Plan, Page 6-13**

"...Revised utility allowances will be applied in a participant family's rent calculation at their next annual reexamination."

In 2008, CMHA requested a waiver from HUD to allow us to update utility allowances via an interim update due to our funding limitations and rising per unit costs. This was a one-time request and we were to return back to our regular schedule of implementing them at the annual certification.

Our local HUD office,

"concluded that a waiver of 24CFR 982.517 (d) (2) is not necessary. The regulation indicates that the PHA must use the current utility allowance schedule at reexamination. The type of re-exam is not limited to annual or regular reexamination. Therefore, PHAs have the discretion to implement the schedule at interim re-exam."

**Ref to OIG Evaluation****Auditee Comments****Comment 11**

And further, "This office will advise CMHA that a waiver is not necessary, and that we support this one time deviation from practice as an appropriate measure to reduce the PUC and avoid termination of families from the program due to insufficient funds. The waiver request is therefore withdrawn." (See attachment 2.)

Payment Standards Findings:**Comment 12**

According to HUD regulations, whenever a PHA decreases its payment standard it is decreased at the participant's second annual reexamination after the decrease. See 24 CFR 982.505(3)(iii).

*2. Household Files Lacked Eligibility Documentation***Comment 13**

The auditor cited 34 files that were missing documentation for a total of \$377,156 in HAP subsidy. CMHA reviewed the auditor's missing document file review findings and found 13 files were missing some form of documentation. The specific missing documentation is indicated below:

<u>Audit Report Findings</u>	<u>CMHA Review</u>	All supporting documentation may be found in the separate spreadsheet
26 files had annual certifications that were late for one or more certifications.	26	Indicator #9 parameters for late recertifications. SEMAP points are: 10 points for 0%-4%, 5 points for 5%-9%, and 0 points for 10% or higher late recertifications. In 2008, the agency earned 10 points (3%). In 2009, the agency earned 5 points (5%). In 2010 and 2011, the agency earned the full 10 points for late recertifications (1% for both years). HUD mandates for SEMAP a Reporting Rate of at least 95 percent by the PHA's fiscal year end. In some instances, late recertifications are caused by the clients not showing up for the reexamination appointments and CMHA

**Ref to OIG Evaluation****Auditee Comments**

<u>Audit Report Findings</u>	<u>CMHA Review</u>	All supporting documentation may be found in the separate spreadsheet
		having to reschedule the reexamination appointment 2-3 times.
18 did not have the lease and housing assistance payments contract executed within 60 days of each other	9 leases and housing assistance payments contract executed within 60 days of each other payment contracts weren't executed timely	9
14 were missing the lease	8 files were missing the leases. The Agency has contacted the participant and landlord in an attempt to retrieve the 8 leases.	6
14 were missing evidence of criminal background checks	4 were missing evidence of criminal background checks	10
13 were missing a rent reasonableness determination	6 were missing a rent reasonableness determination for the leased unit. The Agency is reviewing our rent reasonableness system in an attempt to retrieve the rent reasonableness determination for the leased units.	7
12 were missing a HAP Contract	8 were missing a HAP Contract The Agency has contacted participant and landlord in an attempt to retrieve the HAP Contract.	4
11 were missing Request For Tenancy Approval form	8 were missing the Request for Tenancy Approval form	3
10 were missing the original application	5 were missing the original applications	5
6 were missing the lead base paint form	6 were missing the lead base paint form. The Agency has contacted the participant and landlord in an attempt to get the lead paint form.	0
3 were missing social security cards, birth certificates, and HUD form-214 claiming to be US citizens, and missing Social Security cards, birth	3 were missing social security cards, birth certificates and HUD form-214.	0

**Ref to OIG Evaluation****Auditee Comments**

<u>Audit Report Findings</u>	<u>CMHA Review</u>	All supporting documentation may be found in the separate spreadsheet
certificates have been located and/or retrieved from clients		
2 were missing authorization of release of Information	2 were missing authorization of release of Information	0

See specific attachments on the tenant review spreadsheet for the items noted above.

**Comment 12**

The difference in cited missing documents in the Audit Report and CMHA findings was 21 files had the documentation.

**Comment 14**

In response to the lease and housing assistance contract being executed within 60 days of the lease term, the Audit Report indicated that 18 housing assistance contracts weren't executed within 60 days of the date the lease was signed. However, according to 24CFR §982.305 (c) when the HAP contract is executed (1) The PHA must use best efforts to execute the HAP contract before the beginning of the lease term. The HAP contract must be executed no later than 60 calendar days from the beginning of the lease term. The audit findings used the date the lease was signed, as opposed to the lease term date. The Agency provided documentation showing that the HAP Contracts were executed within 60 calendar days from the beginning of the lease term for 9 housing assistance payment contracts. The Agency provided the supporting documentation for 9 of the files.

**Comment 15**

To the extent that documents were missing could be explained in part by the fact that on January 11, 2011 the Authority's 14,000 plus HCVP tenant files along with miscellaneous supporting documentation pending to be filed or in the process of being worked by the eligibility specialists were taken and not returned until August 24, 2011.

*3. The CMHA Management Did not Protect HUD's Interest***Comment 16**

CMHA does work diligently to protect HUD's interest, and has already begun taking additional steps to ensure that this does occur. While CMHA does have procedures and controls in place over housing assistance payments, we will continue to look for ways to make the process even more efficient. To that end, the tenant files are audited monthly by the internal auditor. All deficiencies are documented, tracked, and reported to the HCVP management staff. In turn these deficiencies are a basis for how CMHA develops their training tools. It should also be noted that Internal Audit now performs a larger monthly sample test of the tenant files and has noted significant improvement in the accuracy of the files since the 2008 to 2009 sample period reviewed by the OIG.

In addition to the monthly review by the Internal Audit department and the annual audit by external auditors, we now have the Supervisors of Client Services in the HCV

**Ref to OIG Evaluation****Auditee Comments****Comment 2**

Program randomly select files monthly to perform quality control. This results in more accurate tenant file information. Occasionally, facts differ from predictions resulting in retroactive findings of errors. CMHA believes that its increased monitoring of tenant files has resulted in a significant decrease in errors.

CMHA will continue to review its training methodology of staff, revisit its Quality Control criteria, revise our QC forms by both department and function, and updating all processing procedures to ensure that we capture all required documents needed and that we are using the appropriate tools to accurately calculate income.

*Recommendations*

*1A. Reimburse its program \$63,696 (\$57,570 in housing assistance and utility allowance payments and \$6,126 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance and utility allowances cited in this finding.*

**Comment 17**

The auditor cited 48 files for a total of \$57,570. Only \$34,214 were actual findings by the auditor of overpaid housing assistance and utility allowances as cited in the Audit Report. \$23,356 is double counted in both Recommendation 1A and 1B and is addressed fully by CMHA in Recommendation 1B. CMHA reviewed the auditor's tenant file review findings and found 27 files with errors which resulted in a monetary impact:

Overpaid HAP: \$10,216  
 Overpaid UAP: \$2,642  
 Underpaid HAP: \$7,099  
 Underpaid UAP: \$1,427

**Comment 18**

CMHA respectfully requests that the recommendation of recapture of the foregoing Overpayments be deleted. Such amounts are clearly within any reasonable threshold for error in a complex system. CMHA will seek to identify the underpaid landlords or tenants and provide them with the appropriate subsidy.

*1B. Pursue collection of the \$23,356 from the eight households cited in this finding or reimburse its program the applicable amount from non-Federal funds for the overpaid housing assistance and utility allowances due to unreported income.*

CMHA continues to vigorously pursue collection from participants and landlords who commit fraud and underreporting of income. The first policy and procedure for unreported income was developed in 2005 with continuous revisions (Attachment 3).

Since 2005, CMHA has pursued unreported income and fraud cases with the assistance of various agents from the OIG and the CMHA Police Department for cases at \$5,000 and above. Beginning in 2005, the housing authority has reviewed and investigated participants listed on the EIV Discrepancy Report in PIC. The investigations resulted in

**Ref to OIG Evaluation****Auditee Comments****Comment 19**

prosecutions, repayment agreements, and terminations from the HCVP program. In 2008, a HCVP employee and a dedicated officer from the CMHA Police Department were assigned full time to work HCVP fraud and unreported income cases. In January 2011, a Fraud Review Committee (FRC) was established to coordinate the cases between the Housing Authority, CMHA PD, and the OIG. Prior to establishment of this committee, the housing authority had identified and pursued 127 participants underreporting income in a total dollar amount of \$992,883. Methods of pursuing collection include prosecution, repayment agreement, and/or termination of participation.

In 2011, the efforts of the FRC resulted in identification of unreported income or fraudulent activity resulting in overpayment of \$470,007 HAP/UAP, resolution of 160 cases, and collection of \$62,222.51 via repayment agreements and \$29,790 via prosecution. To date this year, 21 unreported income cases were resolved in 2012 resulting in collection of \$5,151.

There are currently 181 cases of fraud and/or underreported income identified. These cases are in some phase of research, verification, investigation, or completion of a repayment agreement. These include 23 cases, totaling \$309,750 of overpaid HAP subsidy, with finalized investigations that are pending prosecution.

Cases totaling \$4,999 and below have been resolved through a repayment agreement between the Housing Authority and the participant, termination, and reporting to the PIC debts owed system. Cases where the participant has been terminated from the program and still owes the overpaid HAP/UAP will be referred to our current collection agency to pursue the outstanding debts.

**Comment 20**

Of the eight cases cited in the OIG audit, five were already identified by CMHA prior to the OIG auditor's identification. As of this writing, seven are being processed pursuant to the Fraud Procedure (Attachment 4) to determine validity and amount of the overpayment and the collection method to pursue. One OIG finding (#79) was found to be exempt income, had no monetary impact, and is not a valid underreported income finding. Detailed information can be located per the attachment noted on the tenant file review spreadsheet. Agency projections of HAP/UAP overpayments owed by the participant include changes in utility allowances and payment standards during the period of the underreported income. A summary of CMHA's review of the cited unreported income cases is attached as (Attachment 5).

As CMHA is and has been actively pursuing the collection of these amounts, it respectfully requests this recommendation 1B be deleted from the Audit Report.

*1C. . Reimburse the appropriate households \$11,604 from program funds for the underpayment of housing assistance and utility allowances cited in this finding.*

**Comment 21**

As noted in our response to recommendation 1A above, the correct amounts of underpayments is less than that noted in the audit report. All files with errors have been

## **Ref to OIG Evaluation**

## **Auditee Comments**

### **Comment 22**

corrected by CMHA. See the OIG Auditor Tenant File Review Spreadsheet which details specifics for each cited participant and the corresponding justification document showing the change has been made. Corrected actions, where applicable, were made through February 2012.

Pending review of our response to these findings, the CMHA will make the necessary reimbursements to the landlords and tenants and provide the OIG Auditor with a copy of the check register or remittance evidence if requested.

*ID. Provide supporting documentation or reimburse its program \$377,156 from non-Federal funds for the unsupported payments related to the 34 households cited in this finding.*

### **Comment 23**

The audit report cited 34 files that were missing documentation for a total of \$377,156 in HAP subsidy. CMHA reviewed the auditor's missing document file review findings and found 13 files were missing some form of documentation. The specific missing documentation is indicated in the discussion above. CMHA respectfully requests that this recommendation be deleted from the audit report in that there is no finding that any missing documentation supports a finding of ineligibility. CMHA will continue to locate missing documents and in the event a found document establishes ineligibility, it will take appropriate action and reimburse the program with non-Federal funds.

*IE. Review its Section 8 Management Assessment Program (SEMAP) scores and adjust as necessary according to the deficiencies noted in this finding.*

### **Comment 24**

Given the fact that the extent of the findings has been significantly reduced by CMHA's review of the audit report makes this recommendation unnecessary and we request that it be removed. As a December 31 fiscal year end agency, our 2011 SEMAP report was due to HUD not later than February 29<sup>th</sup> 2012. We submitted our report on Friday, February 24, 2012.

*IF. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and its plan. By implementing adequate procedures and controls, the Authority should help ensure that \$1,791,022 in overpayments of program funds is appropriately used for future payments over the next year.*

Based upon the foregoing we respectfully request that this recommendation be removed from the audit report. CMHA believes that its procedures and controls regarding its housing assistance and utility allowance payments do ensure that it complies with HUD's regulations and its plan. As noted, such procedures are constantly being reviewed and improved. If the OIG has specific recommendations with regard to any particular procedure or control CMHA maintains, CMHA would openly receive it.

**Ref to OIG Evaluation****Auditee Comments****Comment 25**

*1G. Provide a memorandum to the Deputy Assistant Secretary for Public Housing and Voucher Programs regarding the Authority's default of its annual contributions contract with HUD.*

Based upon the foregoing we respectfully request that this recommendation be removed from the audit report. Taking into consideration the corrections to the audit report based on CMHA's review, an error rate of subsidy calculations of one percent or misplaced documentation in files that would likely not result in ineligibility when found. This should not result in a memorandum to the Deputy Assistant Secretary of Public Housing regarding a default under the ACC.

*Finding 2: The Authority Did Not Follow HUD's, The State of Ohio's and Its Requirements Concerning Conflicts of Interest*

*2A. The Authority Lacked Documentation Ensuring that Conflicts of Interest Were Properly Disclosed*

**Comment 26**

CMHA takes conflicts of interest very seriously and is committed to ensuring that our programs are not tainted by the presence or perceptions of conflicts of interest. CMHA's policy prohibits employees from engaging in any activity, practice or act that conflicts with the interests of CMHA. The policy further requires every employee to report conflicts to management so that they can be properly addressed.

Conflict-of-interest disclosures are provided every year by each member of the Board of Commissioners, executive and senior management to the independent public accountants as part of our required financial audit. Beginning this year such disclosures will be required by mid-managers and supervisors. In addition CMHA will implement a conflict disclosure form that will be required to be completed by all employees .

We appreciate the auditors bringing to our attention the potential employee conflicts that were discovered during the review. We have followed up on each instance and will take the appropriate actions.

*2B. The Authority Inspected Its Own Properties*

**Comment 27**

CMHA was aware of this issue, and corrected the problem in October 2010, prior to the OIG onsite field work. Subsequent to CMHA's discovery that PHA-owned units had not been properly inspected by an independent third party, we had an in-house report created via our processing system that flagged all PHA-owned units to prevent this from occurring in the future. This listing was forwarded to an independent entity and as a result all 2011 inspections of PHA-owned units were appropriately conducted.  
(Attachment 6) are copies of all Housing Quality Standards inspection books identifying the subsequent inspection completion dates by the independent third party contractor.)  
We believe that it is important to note that the HQS books demonstrate that all units

## **Ref to OIG Evaluation**

## **Auditee Comments**

### **Comment 26**

passed inspection, thereby ensuring that families were occupying eligible and approved units that adhered to HUD regulatory requirements.

CMHA also believes it is important to note that this error occurred because of our staff's desire to ensure that all units were inspected when required to ensure that they met HQS standards. CMHA owns approximately 90 of the total 14,417 units in the voucher inventory. CMHA has had difficulty in procuring an independent third party to conduct the required inspections because most vendors are unwilling to enter into a contract for such a small number of units. Consequently, CMHA's own inspectors were dispatched to conduct the inspections in order to ensure that the families residing in these units were living in housing that did comply with HQS standards and thereby ensuring the units were safe, sound and sanitary and eligible to be subsidized. While we recognize the error, the error occurred because of the desire to meet the inspection requirements.

#### *2C. The Authority's Procedures and Controls Had Weaknesses*

In light of recent events and this review, CMHA is revising its conflict of interest policy to make it more clear and concise, to give our employees better guidance on identifying and addressing conflicts of interest, and to clarify how conflicts are to be reported. The policy will require the disclosure of any conflict and will establish milestones for when disclosures are to be made, e.g., upon date of hire, date of job description change, anniversary date, and, of course, upon the discovery of an actual or potential conflict. Employees will be tested to assure their understanding of the policy. It will note the HUD conflict of interest provisions and their applicability, found in 24 CFR 85.36, and 24 CFR 982.161, and the conflict of interest provisions in the consolidated ACC and the project based voucher ACC. In addition the policy will note the applicability of the Ohio Public Contracts state law provisions. The policy will be clear on additional "covered persons" beyond HUD and State requirements such as "significant others". The policy will describe examples of conflicts of interest under the various funding programs that are prohibited in all events and those which may be waived by CMHA and, if applicable, HUD. It will describe the procedure for obtaining such waivers. The policy will describe the remedies that are available upon the disclosure of a real or potential conflict ranging from discharge to seeking appropriate waivers and providing for opportunities to eliminate the conflict. Willful conflicts will be dealt with more harshly than non-willful conflicts. CMHA will conduct comprehensive training on the revised policy for all of our employees and annually thereafter.

#### *Recommendations*

*2A. Reimburse its program \$114,961 (\$109,398 in program funds and \$5,563 in associated administrative fees) from non-Federal funds for the 41 units in which the Authority had an interest and did not require a third party to perform inspections.*

### **Comment 27**

CMHA requests that this recommendation be removed from the audit report. The inspections by CMHA occurred because the agency was unable to identify independent

**Ref to OIG Evaluation****Auditee Comments****Comment 28**

third party inspectors to perform the work in a timely manner. CMHA undertook the inspection to assure that the units met HQS and continued to be eligible for subsidy. Indeed, when third party inspectors were identified CMHA had them perform inspections on the units CMHA had inspected, which inspections confirmed CMHA's finding that the units were eligible. Because all units were properly inspected and found to meet program requirements, we do not believe that repayment of subsidy or administrative fee is warranted.

*2B. Conduct an independent reexamination of the families that resided in the Authority owned units.*

CMHA requests that this recommendation be removed from the audit report. The units that had been inspected by CMHA because it was unable to identify an independent inspector who could undertake the inspections were subsequently inspected by an independent inspector and found to be eligible. Further inspection and reexamination of the tenants in these units is unnecessary. Families will be reexamined on an annual basis.

*2C. Implement adequate procedures and controls to ensure that the Authority follows HUD's, the State's, and its requirements for program conflicts of interest. The procedures and controls should contain a matrix of penalties for violating the conflict of interest requirements.*

**Comment 29**

CMHA agrees that its procedures and controls require improvement and is in the process of revising its conflict of interest provisions in its personnel policy. When complete, CMHA will undertake comprehensive training on conflicts of interest for all applicable persons.

***Finding 3: Controls Over the Authority's Waiting List Were Not Adequate***

*3A. The Authority Inappropriately Added Applicants to a Closed Waiting List*

**Comment 30**

CMHA did close its waiting list in 2006 to general applicants. CMHA did not realize that it was in violation of HUD's regulations requiring advertising because CMHA never regarded the waiting list to be closed to referrals from the Gateway Advisory Board. It simply continued to accept those referrals as if nothing had changed. CMHA's only error was that it failed to clarify when it closed its waiting list that it would keep the waiting list for the Gateway program open and continue to accept referrals of disabled households from the Gateway Advisory Board. CMHA will follow all appropriate steps to rectify this issue and ensure that its waiting lists are appropriately opened and closed.

*3B. The Authority's Housing Choice Voucher Program Failed to Follow the Voluntary Compliance Agreement*

## Ref to OIG Evaluation

## Auditee Comments

### **Comment 31**

CMHA is in compliance with the Voluntary Compliance Agreement (VCA). While not part of the VCA, CMHA has used its 5-year mainstream voucher program to house disabled families. When CMHA failed to obtain Money Follows the Person (MFP) vouchers in the lottery conducted by HUD, CMHA allocated 25 vouchers from its general voucher pool for the MFP program in order to achieve compliance with the VCA. Because this program was similar (but not related to) the Gateway program, CMHA incorrectly assumed that it had the authority to house disabled households referred to it in the same manner as the Gateway program. As stated above, CMHA did not equate the closing of the waiting list in 2006 as a universal closing, and thus did not reopen it for the special class of disabled households since CMHA believed the waiting list was still open to that class of households. CMHA notes that the 15 disabled households inappropriately placed on the waiting list and identified by the OIG, were otherwise eligible to receive Section 8 voucher assistance, and assisting these households furthered compliance with the VCA. CMHA will take all steps necessary to ensure a waiting list for special programs is appropriately opened and that the full waiting list is appropriately closed.

#### *3C. The Authority Was Informed Before the Start of Our Audit*

### **Comment 32**

CMHA acknowledges that it was informed that the OIG believed that persons were added to a closed waiting list and consequently it amended the Administrative Plan to state that the waiting list would remain open for families referred in accordance with the supportive service referral process. CMHA believed it was simply coming into technical compliance of keeping the waiting list open on a retroactive basis and did not understand that it was opening a closed list for a limited class of tenants. As a result CMHA did not believe it was required to adhere to the regulations and guidance on advertising. However, it is important to note that but for the failure to advertise, the households served are otherwise eligible. CMHA believes that failure to advertise that the waiting list was open for persons referred by Gateway or the MFP program is of no substantive effect since referrals are made regardless of whether the opening is advertised. In the future CMHA will take all steps necessary to ensure the waiting list for special programs is appropriately opened and that the full waiting list is appropriately closed.

#### *3D. The Authority's Controls Over the Waiting List Were Weak*

CMHA appreciates the OIG's acknowledgement that CMHA has effectively improved its controls over the waiting list.

#### *3E. The Authority's Management Did Not Protect HUD's Interest*

### **Comment 33**

CMHA maintains that management does protect HUD's Interest. As discussed above, CMHA did not believe the closing of the waiting list to the general public in 2006 affected the referral program known as Gateway and subsequently the program known as MFP. As a consequence it did not advertise that the waiting list remained open to the special class served by those families. Moreover, CMHA was in continuous communication with HUD on this issue and HUD was aware of CMHA's operation of these special programs. Importantly, HUD has recommended that no monetary value be

**Ref to OIG Evaluation****Auditee Comments****Comment 34**

placed on this violation because of the transparency between CMHA and HUD on this issue.

**Comment 35**

The fact that three households were moved to the bottom of the waiting list does not demonstrate a failure to protect HUD's interest or that it occurred regularly. Before the improvements being made to waiting list administration as a result of discussions with the OIG auditors, CMHA maintained a creditable process to uncover abuse. The Supervisor of Applications and Contracting review the first 200 applicants on a monthly basis to ensure that unauthorized applicants weren't added to the top of the waiting list. As part of this process the supervisor would review the names, sequence date, and time and compare that information to the master waiting list. This action occurred monthly. It also occurred prior to scheduling final eligibility appointments and voucher briefings. This process was audited by Internal Audit Department, with no exceptions reported.

*Recommendations*

*3A. Reimburse its program \$97,485 (\$88,109 in housing assistance payments and \$9,376 in administrative fees) from non-Federal funds for the housing assistance and administrative fees paid for the household cited in this finding.*

**Comment 36**

CMHA respectfully requests that this recommendation be removed from the Audit Report. The failure to advertise the reopening of the waiting list to a special class of residents occurred because CMHA did not realize the waiting list would also be closed to that class of households or that the waiting list applied to the Gateway or MFP programs because participants were awarded assistance based on a referral process. The same applicants would have been served whether the advertisement took place or not. The intended eligible households were served.

*3B. Implement adequate procedures and controls to ensure that it appropriately follows Federal and its requirements for its special programs.*

CMHA will take all steps necessary to ensure the waiting list for special programs is appropriately opened and that the full waiting list is appropriately closed. CMHA will follow regulations pertaining to advertising when opening and closing its waiting list for the Gateway and MFP programs.

*3C. Advertise opening its waiting list for its special programs in accordance with Federal requirements.*

See CMHA's response to recommendation 3B.

**Ref to OIG Evaluation****Auditee Comments****Comment 37**

*3D. Implement adequate procedures and controls to ensure that the 5-year mainstream vouchers comply with the voluntary compliance agreement.*

It should be noted that 5-year Mainstream vouchers are NOT part of the VCA agreement and CMHA will ensure that the language in the VCA is updated to reflect the actual vouchers being used to support Money Follows the Person. Upon turnover, mainstream vouchers are promptly issued to eligible disabled families. (See Attachments 8 and 9 for a record of our compliance during the 2009—2010 audit period.) All families housed under the 5-year mainstream program are reported as such on the form HUD 50058.

*3E. Implement adequate procedures and controls to ensure that the integrity of the waiting list is maintained, preventing unauthorized changes.*

**Comment 38**

As a proactive measure to limit end-user ability to change the waiting list key fields, the Information Technology director changed an Elite policy restricting the editing of the key waiting list information to four designated supervisors. He is also looking at a third party auditing software that will allow tracking and reporting of changes to key fields. CMHA believes these changes are adequate to address the concerns of this OIG recommendation.

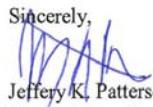
*3F. Provide a memorandum to the Deputy Assistant Secretary for Public Housing and Voucher Programs regarding the Authority's default of its annual contributions contract.*

**Comment 39**

CMHA requests that this recommendation be removed since there has not been a substantial violation or default under the ACC. All violations were technical in nature and did not prevent eligible households from being served in accordance with the ACC and the VCA. Moreover, HUD has stated that it does not believe that CMHA should be subject to monetary findings on this issue.

*3G—3I.*

CMHA has no comment on these recommendations. CMHA is in compliance with the VCA.

Sincerely,  
  
Jeffery K. Patterson  
Interim Executive Director

## **OIG Evaluation of Auditee Comments**

- Comment 1** The Section Eight Management Assessment Program (SEMAP) is a self evaluation by the Authority of its Housing Choice Voucher Section 8 program. HUD's Quality Control For Rental Assistance Subsidies Determinations; Final Report for 2009 was a nationwide review of the program's certifications. One certification was reviewed for each of the Authority's 32 files selected. We reviewed 252 certifications for the 80 files in our sample. The certifications were completed by the Authority from 2008 to 2011. The larger sample size allowed for a more accurate error rate over time.
- Comment 2** The actual dollar findings for Finding 1 in our report were \$55,667 in overpayments. There were seven files that contained documentation to support that \$23,011 in overpayments was made due to unreported income. The unreported income was identified from the documentation contained in the files. The Authority is responsible for identifying when a household fails to report their income. Therefore the Authority is responsible for the overpayments cited in recommendation 1A. We revised Recommendation 1B to state that the Authority pursues collection of the overpaid funds from the households. The Authority could then repay its non-Federal fund account. We did not double count any funds since Recommendation 1B is not included in Appendix A, the Schedule of Questioned Costs and Funds To Be Put To Better Use.
- Comment 3** We reviewed the documentation and calculations submitted by the Authority for the over and under payments in the report. We determined that the Authority's documentation did not support the changes it states. We determined the changes were as follows:
- Tenant file review errors were changed from 48 to 47 files, overpaid housing assistance and utility allowance payments totaled: \$55,667, and underpaid housing assistance and utility allowance payments totaled: \$10,915.
- Of the above mentioned payments, the utility allowance payments for the households were overpaid \$12,129 and underpaid \$1,511. These payments were stated in our supporting documentation for the Authority's assistance in reviewing the documentation submitted to them by us. These amounts are contained in the total amounts listed.
- Comment 4** The Authority determined our statistical sample evaluation for only the sample we reviewed. It did not project the sample across the universe of households. Therefore, the errors appear small. However, projecting the audit results across the program universe shows that the Authority had an error rate of 58.75 percent, or we are 95 percent confident that the Authority would have 9,459 households out of a universe of 16,100 with errors in calculating the housing assistance and utility allowance payments received by its households. Over the next year, if the Authority implements our recommendation, it will cease to incur more than \$1.4

million in program costs for the overpayment and underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and/or the Authority's program administrative plan.

**Comment 5** The 47 files contained the following errors:

- 38 had annual income calculation errors by the Authority for 1 or more certifications,
- 21 had incorrect income verifications for 1 or more certifications,
- 18 had incorrect income adjustments for 1 or more certifications,
- 7 had unreported income by the households for 1 or more certifications,
- 4 had incorrect payment standards for 1 or more certifications,
- 2 had incorrect voucher size for 1 or more certifications, and
- 1 failed to identify a tenant's disabilities.

**Comment 6** The auditor requested and received the utility allowance schedule from the Authority that was used for all calculations. Additionally, we verified our process of reviewing the household files with the Authority so we would be using its process within HUD's requirements.

The Authority failed to appropriately interpret HUD's requirements for income verification. HUD's Housing Choice Voucher Program Guidebook, section 5.6 states that accurate determination of income eligibility, allowances, and family rent can occur only with full verification of all factors related to income and family circumstances. The Authority does not have an established procedure in its administrative plan for determining income but does have an established verification of income procedures in its administrative plan.

**Comment 7** We used the method prescribed to us by an applications department supervisor. We determined that the Authority did not consistently use this method to calculate child support income. It used the last three months of a year to annualize the income in instances where the child services' verification was available.

**Comment 8** We agree with the Authority and made appropriate corrections to the certifications.

**Comment 9** We agree that Chapter 5 of HUD's Housing Choice Voucher Program Guidebook states that authorities may choose among several methods to determine the anticipated annual income. The following are two acceptable methods of calculating annual income: calculating projected annual income by annualizing *current* income (and subsequently conducting an interim reexamination if income changes); or using information available to average anticipated *income from* all known sources when the sources are expected to change during the year. The Guidebook does not state to use the higher income for a certification.

**Comment 10** We disagree with the Authority concerning the utility allowance errors. We did adjust utility allowances for which the Authority provided sufficient documentary

evidence to support changes to our utility allowance determinations. The Authority also submitted attachments that had a conflicting utility allowance schedule from the schedule originally provided by the Authority for 2008. HUD will need to determine why the conflicting schedules existed and make a determination as to the correct utility allowance schedule to use.

**Comment 11** We agree with the Authority.

**Comment 12** We disagree with the Authority. From our review of the supporting documentation provided by the Authority, we determined that of the 80 household files statistically selected for review, 28 files (34.6 percent) were missing or contained incomplete or late documents as follows:

- 24 had annual certifications that were late for one or more certifications;
- 14 were missing evidence of criminal background checks;
- 13 did not have the lease and housing assistance payments contract executed within 60 days of each other;
- 11 were missing the lease and a housing assistance payments contract;
- 8 were missing the form HUD-52517, Request for Tenancy Approval;
- 7 were missing a rent reasonableness determination for the leased unit and the original application;
- 6 were missing the lead-based paint form;
- 2 were missing authorization of release of information; and
- 1 was missing birth certificates.

**Comment 13** We reviewed the files and found one file was annotated that the tenant did not show for their annual certification, we did not consider this late annual as the Authority's error.

**Comment 14** We agree that the lease term begins when the lease states the beginning of the term. We agreed with 3 household files and made the adjustments. The other supporting documentation did not support that the lease and the housing assistance payments contract were executed within 60 days of the beginning of the lease term.

**Comment 15** As discussed at the exit conference, we agree that documents may be missing due to the files being taken from the Authority by other parties. The Authority should ensure that it updates its records with each certification. This will ensure that the files contain the appropriate documentation.

**Comment 16** We commend the Authority for taking steps to ensure that identified weaknesses are corrected. Also, the Authority would benefit from ensuring that reviews of previous certification and documentation supports the current documentation provided by the participants. This would decrease the number of errors and unreported income incidents.

**Comment 17** The overpayments (\$55,667) represent an error rate of nearly 6.5% of the total housing assistance and utility allowance payments (\$861,571) reviewed. With the growing scarcity of available program funding, as evidenced by Congress' mandated recapture of program net restricted assets for fiscal year 2012, no misuse of Federal funds should be considered reasonable. Additionally, as detailed in the Scope and Methodology section, we estimate that nearly \$3 million in overpayments of housing assistance will be made over the next year based on the error rate found in our sample.

**Comment 18** The Authority should seek reimbursement from the households, or it may choose to make repayment from non-Federal funds.

**Comment 19** We commend the Authority for its pursuit of unreported income by participants on the program.

**Comment 20** We received sufficient documentation to adjust one household file in the report. We agree that the work study program is considered financial aid and adjusted unreported income household files identified from eight to seven households. Our concern was that the Authority's files contained the correct income information for the seven households but it was not included in the calculations for housing assistance and utility allowance payments.

**Comment 21** Of the \$11,604 we identified, we received sufficient evidence to support a reduction to \$10,915.

**Comment 22** From our review of the supporting documentation submitted by the Authority, we determined that it provided sufficient evidence to reduce the amount of unsupported funds from \$390,463 to \$307,269. It also reduced the total files with incomplete documentation from 35 to 28 files. The Authority will reimburse funds only for households that sufficient documentation is not provided to support the households' eligibility for assistance.

**Comment 23** The finding has not been significantly reduced. Therefore, our stance is that HUD needs to review the Authority's Section Eight Assessment Program report and adjust it as necessary.

**Comment 24** The projected amount was reduced to reflect the one file that we incorrectly cited during our audit. The significance of the finding is intact.

**Comment 25** We removed the recommendation.

**Comment 26** We commend the Authority for its action on this serious issue. HUD will need to ensure that sufficient procedures and controls have been implemented.

**Comment 27** The Authority did request HUD's approval to contract with a third party inspector. However, when it encountered issues with the contractor, the Authority

inspected its own units. The Authority should have contacted HUD and informed HUD of the issue with its third party inspector. Also, the inspection reports provided showed that many of the units failed the first inspection conducted by the third party entity. The inspection reports provided by the Authority did not always show that corrective action was completed by the landlord.

**Comment 28** We disagree with the Authority. This process ensures that the Authority has conducted itself appropriately in regards to administering its own units.

**Comment 29** The Authority's proposed actions should improve its program operations, if fully implemented.

**Comment 30** We disagree with the Authority. The Authority did not advertise the opening of the waiting list for its special programs. Since the waiting was closed in 2006, the Authority has been adding applicants to a closed waiting list in violation of HUD's requirement.

**Comment 31** The Authority's actions certainly appear to be in violation of its voluntary compliance agreement with HUD. HUD's Fair Housing and Equal Opportunity office stated that it would proceed with a compliance and technical assistance review of the Authority to ensure that both the Authority and HUD are in agreement with what is expected from the Authority and HUD concerning the voluntary compliance agreement.

**Comment 32** The Authority's failure to advertise the opening of its waiting list may preclude persons that are not aware of Gateway and the Money Follows the Person from being added to its waiting list. It needs to follow Federal requirements to ensure equal housing opportunity for all persons within Cuyahoga County.

**Comment 33** We do not agree that the Authority has effectively improved its controls over its waiting list. The Authority needs to ensure it complies with all program requirements for its waiting list.

**Comment 34** The Authority was aware of HUD's requirements regarding advertising the opening of the waiting list prior to adding applicants to the waiting list. We disagree that the waiver dealt with creating a single waiting list for project based vouchers. The waiver was submitted to HUD on July 15, 2009. The subject of the waiver requested by the Authority stated that it was requesting a waiver of 24 CFR 982.206(a)(2) – Waiting List. The Authority also stated in the waiver request that the regulation states that the public housing authority must give the public notice by publication in a local newspaper of general circulation, and also by minority media and other suitable means. The notice must comply with HUD fair housing requirements. The Authority was aware of HUD requirements regarding advertising the opening of the waiting list prior to adding applicants to the waiting list. We do agree that the Authority can have a separate waiting list for its project-based vouchers.

- Comment 35** The issue that three households were erroneously moved to the end of the waiting list combined with the rest of the finding shows that the Authority failed to protect HUD's interest. The three households stated in the report were discovered by the Applications and Contracting department over a year after the applicants were moved to the end of the waiting list. These households were moved by the public housing department without the housing choice voucher department's knowledge. A manager at the housing authority stated to us that this occurs regularly.
- Comment 36** The Authority should have been aware of HUD requirements. The Authority operates a program which receives over \$90 million dollars. The Authority received a denial to bypass a waiting list from HUD headquarters. Per HUD requirements to be eligible for a voucher, the Authority is required to select applicants on the waiting list. Also, the waiting list needs to be opened to add applicants or referrals to the waiting list. Therefore, HUD and the Authority lacked assurance that program applicants were selected fairly and consistently and in accordance with HUD regulations.
- Comment 37** HUD Headquarters stated that the agreement requires the Authority to continue using the 5-year mainstream vouchers for non-elderly disabled persons and families. Since this was unclear HUD's Fair Housing and Equal Opportunity office stated that it would proceed with a compliance and technical assistance review of the Authority to ensure that both the Authority and HUD are in agreement with what is expected from them in regards to the voluntary compliance agreement.
- Comment 38** We commend the Authority. HUD will have to confirm the implementation of adequate procedures and controls.
- Comment 39** We removed the recommendation.

## **Appendix C**

### **FEDERAL REQUIREMENTS AND THE AUTHORITY'S ADMINISTRATIVE PLAN**

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#### **Finding 1**

HUD's regulations at 24 CFR 982.54(a) state that the public housing authority must administer the program in accordance with its administrative plan.

HUD's regulations at 24 CFR 982.153 state that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

HUD's regulations at 24 CFR 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit. The authority must prepare a unit inspection report. During the term of each assisted lease and for at least 3 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. The authority must keep the following records for at least 3 years: records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants; unit inspection reports; lead-based paint records as required by part 35, subpart B, of this title; records to document the basis for authority determination that the rent to the owner is a reasonable rent (initially and during the term of a contract); and other records specified by HUD.

HUD's regulations at 24 CFR 5.216(a) state that each assistance applicant must submit the complete and accurate Social Security number assigned to the applicant and to each member of the household who is at least 6 years of age. The documentation necessary to verify the Social Security number of an individual is a valid Social Security number issued by the Social Security Administration or such evidence of the Social Security number as HUD and, when applicable, the authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR 5.240(c) state that public housing authorities must verify the accuracy of the income information received from program households and change the amount of the total household payment, household rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 982.305(a) state that the public housing authority may not give approval for the family of the assisted tenancy or approve a housing assistance contract until the authority has determined that the following meet program requirements: the unit is eligible, the unit has been inspected by the authority and meets HUD's housing quality standards, and the rent to the owner is reasonable.

HUD's regulations at 24 CFR 982.305(b)(1) state that before the beginning of the initial term of the lease for a unit, the landlord and the tenant must have executed the lease (including the HUD-prescribed tenancy addendum) and the lead-based paint disclosure as required in section 35.92(b) of this title.

HUD's regulations at 24 CFR 982.305(c) state that when a housing assistance payments contract is executed, the public housing authority must use its best efforts to execute the contract before the beginning of the lease term. The contract must be executed no later than 60 calendar days from the beginning of the lease term. The authority may not make any housing assistance payments to the owner until the contract has been executed. Any housing assistance payments contract executed after the 60-day period is void, and the authority may not make any housing assistance payments to the owner.

HUD's regulations at 24 CFR 982.451(a)(2) state that the term of the housing assistance payments contract is the same as the term of the lease.

HUD's regulations at 24 CFR 982.505(b)(4) state that if the payment standard amount is increased during the term of the contract, the increased payment standard must be used to calculate the monthly housing assistance payment for the family beginning at the effective date of the family's first regular reexamination on or after the effective date of the increase in the payment standard amount.

HUD's regulations at 24 CFR 5.508(a) and (b) require each family member, regardless of age, to submit the following evidence to the responsible entity:

(1) For U.S. citizens or U.S. nationals, the evidence 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 as specified in HUD guidance.

(2) For noncitizens who are 62 years of age or older or who will be 62 years of age or older and were receiving assistance under a Section 214-covered program on September 30, 1996, or applied for assistance on or after that date, the evidence consists of a signed declaration of eligible immigration status and proof of age document.

(3) For all other noncitizens, the evidence consists of a signed declaration of eligible immigration status, one of the documents referred to in section 5.510, and a signed verification consent form.

"(c) Declaration: (1) For each family member who contends that he or she is a U.S. citizen or a noncitizen with eligible immigration status, the family must submit to the responsible entity a written declaration, signed under penalty of perjury, by which the family member declares whether he or she is a U.S. citizen or a noncitizen with eligible immigration status. For each adult, the declaration must be signed by the adult. For each child, the declaration must be signed by an adult residing in the assisted dwelling unit who is responsible for the child.

HUD's regulations at 24 CFR 5.508(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 Section 8 housing assistance payment or terminate assistance, as appropriate, based on such information.”

HUD’s regulations at 24 CFR 982.516(a)(1) require the public housing authority to conduct a reexamination of family income and composition at least annually. The authority must obtain and document in the client file third-party verification of the following factors or must document in the client file why third-party verification was not available: (1) reported family annual income, (2) the value of assets, (3) expenses related to deductions from annual income, and (4) other factors that affect the determination of adjusted income. At any time, the authority may conduct an interim reexamination of family income and composition. Interim reexaminations must be conducted in accordance with policies in the authority’s administrative plan.

## **Finding 2**

HUD’s regulations at 24 CFR 982.161(a) state that neither the public housing authority nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any of the following classes of persons has any interest, direct or indirect, during tenure or for 1 year thereafter: any present or former member or officer of the authority (except a participant commissioner); any employee of the authority; or any contractor, subcontractor, or agent of the authority, who formulates policy or who influences decisions with respect to the programs.

The Ohio Revised Code at 2921.42, paragraph A, states that no public official should have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected or have an interest in the profits or benefits of a public contract that is not led by competitive bidding if required by law and that involves more \$150.

The Ohio Revised Code at 3735.29 states that no member or employee of an authority should have any interest, directly or indirectly, in any contract for property, materials, or services to be acquired by said authority.

The Authority’s Administrative Order 11, section B-XIII, part A, states that it is the policy of the Authority to prohibit its employees from engaging in any activity, practice, or act, which conflicts with the interests of the Authority. No employee should have a conflict of interest in any aspect of his or her employment. No employee should become involved in any business activities that give rise to an actual or an apparent conflict of interest. All employees have the duty to be entirely free from the influence of any conflict of interest when they represent the Authority in any business dealings or make any recommendations which may influence an action of the Authority. No employee should have any interest, directly or indirectly, in any contract for property, materials, or services to be acquired by the Authority.

Part D states that in cases in which any actual, potential, apparent, or implied conflict arises, the employee has a duty to immediately disclose, in writing, such conflict to the director of internal audit. The employee is obligated to discontinue his or her involvement in the area of conflict until otherwise advised. The director of internal audit or his or her designee must review such

statements and make any additional investigation in cooperation with the director of the department. All of those instances which appear to present the possibility of material conflicts of interest must be reported to the director of human resources, the chief general counsel, and the chief of staff and operations, who must review the final disposition of each situation and maintain appropriate records. In the event that there is disagreement, the case will be presented to the chief executive officer for resolution. If an employee has any doubt about whether his or her situation poses a conflict of interest, the employee should exercise the utmost caution, report the potential conflict, and cease engaging in the activity until a resolution is reached.

Part E states that failure to disclose any actual, potential, apparent, or implied conflicts of interest, as set forth in this policy, should result in disciplinary action up to and including immediate discharge. Part F states that periodically, employees may be asked to submit a formal statement to the Authority asking for disclosure of any information relating to the possibility of a conflict of interest. Part G states that the monitoring of the conflict-of-interest policy must be under the surveillance of the audit committee of the board of commissioners of the Authority. At least once each year, the chief executive officer, his designee, or the director of internal audit should inform the audit committee of the Authority's administrative activity and all significant events relating to this policy, which occurred during that year.

### **Finding 3**

HUD regulations at 24 CFR 982.204(a) state that except for special admissions, participants must be selected from the public housing authority waiting list. The authority must select participants from the waiting list in accordance with admission policies in the authority's administrative plan.

HUD regulations at 24 CFR 982.206(a) state that when the public housing authority opens a waiting list, it must give public notice that families may apply for tenant-based assistance. The public notice must state where and when to apply. The authority must give the public notice by publication in a local newspaper of general circulation and also by minority media and other suitable means. The notice must comply with HUD fair housing requirements. The public notice must state any limitations on who may apply for available slots in the program. Subparagraph (b) provides criteria defining what families may apply. According to subparagraph (b), the authority may adopt criteria defining what families may apply for assistance under a public notice. If the waiting list is open, the authority must accept applications from families for whom the list is open unless there is good cause for not accepting the application. Subparagraph (c) addresses closing the waiting list. According to subparagraph (c), if the authority determines that the existing waiting list contains an adequate pool for use of available program funding, it may stop accepting new applications or may accept only applications meeting criteria adopted by it.

HUD regulations at 24 CFR 982.207(a) state that the public housing authority may establish a system of local preferences for selection of families admitted to the program. Authority selection preferences must be described in the authority's administrative plan. The authority's system of local preferences must be based on local housing needs and priorities, as determined by the authority. In determining such needs and priorities, the authority must use generally

accepted data sources. The authority may limit the number of applicants that may qualify for any local preference.

Subparagraph (b)(3) states that the public housing authority may adopt a preference for admission of families that includes a person with disabilities. However, the authority may not adopt a preference for admission of persons with a specific disability.

Subparagraph (c) states that the public housing authority's system of preferences may use either of the following to select among applicants on the waiting list with the same preference status: date and time of application or a drawing or other random choice technique.

Subparagraph (e) states that the method for selecting applicants from a preference category must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.

According to the Authority's voluntary compliance agreement with HUD, section F, paragraph 8, Participation in Money Follows the Person Initiative, the Authority agrees, as part of its overall efforts to provide affordable, accessible housing for persons with disabilities in its serving communities, to become an active coordinating agency in the Money Follows the Person Rebalancing Initiative funded through the Centers for Medicare and Medicare Services and to participate in the Initiative work group created by the Ohio Department of Jobs and Family Services. The Authority will work closely with the local Money Follows the Person Initiative network to facilitate applications by or on behalf of disabled individuals eligible for participation in the Money Follows the Person Initiative. The Authority will incorporate the necessary preferences and other written policies, including but not limited to provisions and a Housing Choice Voucher program administrative plan that will grant the highest priority for available housing for individuals eligible for participation in the Money Follows the Person Initiative. The deadlines for these activities will be consistent with correspondence deadlines for modifying admissions- and occupancy-related documents specified in this agreement. As part of its quarterly and semiannual reporting requirements, the Authority will provide HUD with updated information on participation in the Money Follows the Person Initiative.

Paragraph 9, Supportive Service Referral Process, states that the Authority is obligated to continue any and all special purpose vouchers it has received to otherwise qualified disabled families. The Authority must continue, to the extent practicable, to issue vouchers to nonelderly disabled families upon turnover. "To the extent practicable" means that all nonelderly disabled families on the Authority's waiting list have been issued these turnover vouchers and public housing authority outreach efforts specifically directed to nonelderly disabled families has yielded no eligible applicants. Failure to serve disabled families as required will result in forfeiture of the voucher. The Authority must also enter information regarding the issuance of vouchers to participating families under this program on the family report (form HUD-50058) using the assigned special codes. The Authority must maintain these special program codes on any and all future submissions for families issued such vouchers and participating in the special programs.