



Issue Date	January 25, 2007
------------	------------------

Audit Report Number	2007-CH-1002
---------------------	--------------

TO: Robert E. Nelson, Director of Public Housing Hub, 5FPH

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Benton Harbor Housing Commission, Benton Harbor, Michigan, Did Not Effectively Manage Its Public Housing Program and Has Not Used Special Purpose Grant Funds It Received More Than Nine Years Ago

HIGHLIGHTS

What We Audited and Why

We audited the Benton Harbor Housing Commission's (Commission) public housing program (program) and its home ownership program funded with Special Purpose Grant (Grant) funds from the City of Benton Harbor (City). The audit was conducted based upon a request from the U.S. Department of Housing and Urban Development's (HUD) Detroit Office of Public Housing. Our objectives were to determine whether the Commission effectively maintained its program units in accordance with applicable requirements and appropriately used its program operating subsidies and the City's Grant funds. This is the second of two audit reports on the Commission.

What We Found

The Commission did not maintain the 42 program units statistically selected for inspection in good repair, order, and condition. There were 1,079 deficiencies, including 167 which HUD requires to be corrected within 24 hours, in the 42 units (average of 25.71 deficiencies per unit). In addition, the Commission did not always conduct its annual program unit inspections within one year. Based on our statistical sample, we estimate that over the next year HUD will pay more than \$153,000 in program operating subsidies for the Commission's units that are not maintained in good repair, order, and condition.

The Commission did not comply with HUD's requirements and its policies in administering its program's admission and occupancy process. It was unable to support nearly \$167,000 in program operating subsidies received, did not receive total household payments of nearly \$2,900, received excess total household payments of \$218, underpaid more than \$1,500 in utility allowance payments, and was unable to support more than \$7,500 in total household payments received.

The Commission lacked an effective maintenance process to ensure program unit deficiencies were identified and repaired in a timely manner. It did not have an approved maintenance policy, implement a preventive maintenance program, complete work orders in accordance with HUD's requirements and/or its maintenance policy, and turn around 98 program units in a timely manner. In addition, the Commission inappropriately received nearly \$10,000 in excess program operating subsidies for eight units that were vacant for more than 12 months. We estimate that over the next year the Commission will not receive nearly \$50,000 in household payments due to program units being vacant more than 30 days.

The Commission failed to properly administer its home ownership program in accordance with its master participation agreement with eight lending institutions. As a result, the City's residents have not benefited from more than \$1 million in financing for the purchase and rehabilitation of family residential owner-occupied homes as of November 2006. In addition, the Commission has not used \$240,000 in Grant funds it received from the City more than nine years ago for the home ownership program and nearly \$83,000 in interest earned on the Grant funds.

We informed the Authority's executive director and the director of HUD's Detroit Office of Public Housing of minor deficiencies through a memorandum, dated January 22, 2007.

What We Recommend

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to reimburse its program from nonfederal funds for the improper use of funds, provide support or reimburse its program from nonfederal funds for the unsupported payments, and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that nearly \$203,000 in program funds is spent according to HUD's requirements.

We also recommend that the director of HUD's Detroit Office of Public Housing, in coordination with the director of HUD's Detroit Office of Multifamily Housing, require the Commission to reimburse the City \$240,000 from its home ownership program's accounts so the City can use the Grant funds to support housing rehabilitation, transfer to its general fund nearly \$83,000 from its home ownership program's accounts so it can use the funds to provide housing services in accordance with the Michigan Compiled Laws, and provide support or transfer

more than \$60,000 from its home ownership program's accounts so it can use the monies to provide housing services in accordance with the Michigan Compiled Laws.

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

Auditee's Response

We provided our discussion draft audit report to the Commission's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the Commission's executive director on January 3, 2007.

We asked the Commission's executive director to provide comments on our discussion draft audit report by January 10, 2007. The executive director provided written comments, dated January 9, 2007. The executive director generally agreed with our findings. The complete text of the written comments, except for 303 pages of supporting documentation that were not necessary to understand the executive director's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided HUD's director of the Detroit Office of Public Housing with a complete copy of the Authority's written comments plus the 303 pages of supporting documentation.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: The Commission’s Program Units Were Not in Good Repair, Order, and Condition	7
Finding 2: Controls over the Program’s Admission and Occupancy Processes Were Inadequate	14
Finding 3: The Commission Lacked an Effective Maintenance Program	19
Finding 4: The Commission Has Not Used Grant Funds It Received More Than Nine Years Ago	24
Scope and Methodology	27
Internal Controls	29
Followup on Prior Audits	31
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	32
B. Auditee Comments and OIG’s Evaluation	33
C. Criteria	37
D. Household File Reviews – Missing or Incomplete Documentation	42

BACKGROUND AND OBJECTIVES

The Benton Harbor Housing Commission (Commission) is a municipal corporation established by the City of Benton Harbor, Michigan (City), in 1946 under section 125.653 of the Michigan Compiled Laws to provide decent, safe, and sanitary housing for low-income families under the United States Housing Act of 1937. The Commission is governed by a five-member board of commissioners (board) appointed by the City's mayor to five-year staggered terms. The board's responsibilities include overseeing the Commission's operations, as well as the review and approval of its policies. The board appoints the Commission's executive director, who serves as the board's secretary. The executive director is responsible for fulfilling the goals and objectives established by the board.

The Commission administers a public housing program (program) funded by the U.S. Department of Housing and Urban Development (HUD) in the City through program operating subsidies. The Commission provides assistance to low-income individuals seeking decent, safe, and sanitary housing. It currently manages 276 federally assisted program units in two complexes and scattered sites. It received more than \$1.3 million in program operating subsidies between October 2004 and February 2006.

HUD assessed the Commission's program performance for fiscal year 2003, October 2002 through September 2003, based on HUD's regulations at 24 CFR [*Code of Federal Regulations*] Part 902. The assessment included a management review conducted from July through September 2004. HUD scored the Commission's program at 68. However, HUD scored the Commission's financial condition as substandard. As a result, HUD executed a memorandum of agreement with the Commission, dated October 2004, requiring it to improve its program performance. HUD assessed the Commission's program performance for fiscal year 2004 and scored it at less than 60, making the Commission a troubled housing authority. In addition, HUD had a consulting firm, MDStrum Housing Services, Inc. (MDStrum), conduct an independent assessment of the Commission from March 28 through April 1, 2005, to identify key issues/problems or concerns affecting the Commission. MDStrum identified problems affecting the Commission's physical, financial, management, and resident service conditions. As a result, HUD executed an amended memorandum of agreement with the Commission, dated August 2005, requiring the Commission to improve its score to 60 or above within a two year period. HUD scored the Commission's program performance for fiscal year 2005 as a 43, maintaining the Commission's status as a troubled housing authority.

The U.S. House of Representatives' Conference Report 102-226 set aside \$500,000 in Special Purpose Grant (Grant) funds to support housing rehabilitation in the City. In March 1994, HUD awarded the City a \$500,000 Grant, MI28-SPG-25, for housing rehabilitation of existing structures in the City to be administered by the City's Community Development Department and closely coordinated with Property Management Corporation and other housing entities in the community. HUD approved an amended budget for \$360,000 of the Grant funds in February 1997. The following table contains the changes to the budget.

<i>Expense item</i>	<i>Budget amount</i>	
	<i>Original</i>	<i>Amended</i>
Rehabilitation financing	\$330,000	
Security systems	<u>30,000</u>	
Loan loss reserve fund		\$150,000
Downpayment assistance		120,000
Secondary mortgage pool for housing rehabilitation		<u>90,000</u>
<i>Totals</i>	<u>\$360,000</u>	<u>\$360,000</u>

The loan loss reserve fund and secondary mortgage pool for housing rehabilitation were for a home ownership program to be administered by the Commission. The home ownership program target was 30 projects in its first year. The Commission and eight lending institutions entered into a master participation agreement (agreement) in September 1997 to establish the home ownership program with a \$1 million loan fund to be used to finance in whole, or in part, the purchase and rehabilitation of family residential owner-occupied homes in the City.

Our objectives were to determine whether the Commission effectively maintained its program units in accordance with applicable requirements and appropriately used its program operating subsidies and the City's Grant funds. This is the second of two audit reports on the Commission.

RESULTS OF AUDIT

Finding 1: The Commission's Program Units Were Not in Good Repair, Order, and Condition

The Commission did not maintain its program units in good repair, order, and condition. All 42 program units statistically selected for inspection were not in good repair, order, and condition. We identified 1,079 deficiencies, including 167 which HUD requires to be corrected within 24 hours, in the 42 units. Our appraiser estimated that the units needed more than \$120,000 in required repairs to be in good repair, order, and condition. In addition, the Commission did not always conduct its annual program unit inspections within one year. The deficiencies existed because the Commission failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's uniform physical condition standards (standards) and the 2003 International Property Maintenance Code (Code). As a result, nearly \$30,000 in program operating subsidies was not used efficiently and effectively, and program households lived in units that were not in good repair, order, and condition. Based on our statistical sample, we estimate that over the next year HUD will pay more than \$153,000 in subsidies for program units that are not maintained in good repair, order, and condition.

The Commission Did Not Maintain Program Units in Good Repair, Order, and Condition

From the 109 program units the Commission inspected between March 22 and June 16, 2006, we statistically selected 42 program units for inspection using the U.S. Army Audit Agency's Statistical Sampling System software. Our appraiser inspected the 42 units from June 26 through July 14, 2006, to determine whether the Commission ensured that its units met HUD's standards and the Code.

The 42 program units we inspected had 1,079 deficiencies, including 167 which HUD requires to be corrected within 24 hours, indicating that the units were not in good repair, order, and condition. The 42 units had 834 deficiencies that existed before the Commission's previous inspections. The Commission noted 239 of the 834 deficiencies in its previous inspections and/or work orders. All 42 of the units were considered to be in material noncompliance since they had multiple preexisting deficiencies and/or the deficiencies were noted in the Commission's previous inspections and/or work orders but not corrected. Our appraiser estimated that the units needed more than \$120,000 in required repairs to be in good repair, order, and condition. The following table categorizes the 1,079 standards and/or Code deficiencies in the 42 units.

Types of deficiencies	Number of deficiencies
Doors, windows, and screens	174
Electrical fixtures and systems	156
Cabinets, doors, closets, and hardware	122
Smoke detectors	84
Exterior walls and foundations	73
Painting	68
Walls and ceilings	65
Floors, carpets, and tiles	39
Heating and air conditioning	37
Refrigerators and ranges	34
Roofs, flashing, and vents	31
Exterior lighting	29
Plumbing fixtures and systems	29
Exterior painting	22
Caulking and weather-stripping	22
Lawns and plantings	17
Exterminating	14
Stairs, walkways, and community spaces	14
Hot water systems/boiler rooms	12
Storm doors and windows	7
Garbage disposal and exhaust fans	7
Fences, walls, and gates	6
Laundry rooms	5
Gutters, downspouts, and splash blocks	4
Walks, steps, and guardrails	4
Drives, parking lots, paving, and curbs	3
Underground gas, water, and sewage	1
Total	<u>1,079</u>

We provided our inspection results to the director of HUD's Detroit Office of Public Housing and the Commission's executive director.

Units Had Door, Window, and Screen Deficiencies

One hundred seventy-four exterior door, window, and screen deficiencies were present in 35 of the Commission's 42 program units inspected. The following items are examples of deficiencies listed in the table: windows not locking, entrance doors unable to be opened, broken doorjambs, entrance doors and frames with peeling paint, torn or missing screens in windows and entrance storm doors, and bent window screen frames. The following pictures are examples of exterior door- window- and screen-related deficiencies identified in the Commission's program units inspected.

Unit #007-0718: broken doorjamb.



Unit #002-0096: bent window screen frame.



Units Had Electrical Fixture and System Deficiencies

One hundred fifty-six electrical fixture and system deficiencies were present in 39 of the Commission's 42 program units inspected. The following items are examples of electrical deficiencies listed in the table: outlets with open grounds; ground fault circuit interrupter outlets not tripping; light fixtures hanging by wires; light fixtures missing protective globes; missing light switch plates; broken and missing electrical outlet cover plates; loose electrical outlets; missing circuit breaker covers, exposing electrical contacts; and missing knockout plugs, exposing electrical contacts. The

following pictures are example of the electrical deficiencies identified in the Commission's program units inspected.

Unit #005-0419: exterior light hanging from wires with exposed electrical contacts.



Unit #005-0437: missing outlet cover plate and outlet, exposing electrical contacts.



Units Had Cabinet, Door, Closet, and Hardware Deficiencies

One hundred twenty-two cabinet, door, closet, and hardware deficiencies were present in 33 of the Commission's 42 program units inspected. The following items are examples of cabinet, door, closet, and hardware deficiencies listed in the table: loose doorframes, broken doorjamb, closet doors off hinges and leaning against openings, holes in bedroom doors, missing door latches and strike plates,

deteriorated doors and fronts of sink cabinets, broken kitchen cabinets drawers, and failed hinges on cabinet doors. The following pictures are examples of cabinet-, door-, closet-, and hardware-related deficiencies identified in the Commission's program units inspected.

Unit #007-0732: broken doorjamb, missing strike plate, and loose doorknob.



Unit #007-0722: cabinet door broken at hinge and will not close properly.



HUD's 2004 management review identified that the Commission's units contained deficiencies similar to the ones cited in this finding. HUD noted multiple deficiencies for 27 (97 percent) out of a sample of 28 units. In addition, HUD's report stated that the Commission did not adequately maintain its units to provide decent, safe, and sanitary housing for households, and that in general, the units were in deplorable condition. In addition, HUD's agreement with the Commission, dated August 2005, states the Commission's properties are in poor condition and that the

properties must meet HUD's standards. The Commission has been aware of the unit conditions since 2004. As previously discussed, the condition of the Commission's units is still a problem.

The Commission Did Not Conduct Annual Inspections in a Timely Manner

The Commission did not always perform its annual inspections within one year. Of the 202 units the Commission inspected during calendar year 2006, 18 (8.9 percent) inspections were not conducted in accordance with the annual requirement. Of the 18 late annual inspections, 16 were less than 30 days late, one was more than 30 days late, and another had not been inspected as of November 6, 2006, 194 days overdue.

HUD's 2004 management review identified that the Commission was not conducting annual inspections within one year. HUD stated that the Authority had not performed an annual inspection for 181 (53 percent) of 341 units as of July 2004. In addition, the Authority's last annual inspection for 110 of the 181 units was before January 2003.

Deficiencies Were Caused by Procedures and Control Weaknesses

The standards and/or Code deficiencies existed because the Commission failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's standards and the Code. The Commission did not have qualified housing inspectors to conduct inspections of the program units. Its housing managers conducted the inspections. In addition, the Commission did not ensure that its housing managers and supervisors received adequate standards and Code training, and supervisors did not perform quality control reviews of the inspections. Further, the Commission scheduled more than 95 percent of its inspections within April and June, rather than inspecting units throughout the year, and did not have an effective maintenance program (see finding 3).

The Commission plans to provide its maintenance staff training on HUD's standards once HUD approves the Commission's training budget. In addition, the Commission had the U.S. Inspection Group, Inc., to inspect its program units for deficiencies and plans to correct the deficiencies, before HUD's inspections in March 2007.

The late annual inspections occurred because the Commission lacked adequate procedures and controls to track the timeliness of inspections and identify the units that needed to be inspected.

Conclusion

The Commission's households were subjected to deficiencies that HUD requires to be corrected within 24 hours, and the Commission did not properly use its program operating subsidies when it failed to ensure that program units complied with HUD's standards and the Code. The Commission received \$29,570 in operating subsidies from HUD for the 42 units that were in material noncompliance.

If the Commission implements adequate procedures and controls over its program unit inspections to ensure compliance with HUD's standards and the Code, we estimate that it will receive \$153,036 in future program operating subsidies for units that are in good repair, order, and condition. We determined this amount by multiplying 109 units (our sample universe) by \$234 (the Commission's per unit month program operating subsidy) and 50 percent (our sample error rate). We then annualized this amount to obtain a total estimate.

Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 1A. Reimburse its program \$29,570 from nonfederal funds for the 42 units cited in this finding that were in material noncompliance.
- 1B. Implement adequate procedures and controls over its inspection process to ensure that all units meet HUD's standards and the Code to prevent HUD from providing the Commission \$153,036 in program operating subsidies for units that are not in good repair, order, and condition for the next 12 months.
- 1C. Implement adequate procedures and controls to ensure that inspection supervisors assure that program units are inspected at least annually to meet HUD's standards and the Code.
- 1D. Repair and certify that it repaired the standards and Code deficiencies for the 42 program units cited in this finding.
- 1E. Conduct complete inspections of all of its program units not cited in this finding to identify deficiencies and perform the necessary repairs to correct the deficiencies.

We also recommend that the director of HUD's Detroit Office of Public Housing

- 1F. Revise the August 2005 memorandum of agreement with the Commission to ensure that it encompasses the recommendations cited in this finding.

Finding 2: Controls over the Program's Admission and Occupancy Processes Were Inadequate

The Commission did not comply with HUD's requirements and its program admission and continued occupancy policies (policies) in managing its program's admission and occupancy processes. It lacked documentation to support that households were eligible, incorrectly calculated households' total household payments and utility allowances, and made inaccurate utility allowance payments because it lacked adequate procedures and controls to ensure that HUD's requirements and its program policies were appropriately followed. As a result, it was unable to support nearly \$167,000 in program operating subsidies received, did not receive total household payments of nearly \$2,900, received excess total household payments of \$218, underpaid more than \$1,500 in utility allowance payments, and was unable to support more than \$7,500 in total household payments received.

The Commission Lacked Documentation to Support Nearly \$167,000 in Program Operating Subsidies Received

The Commission lacked documentation to support that \$166,782 in program operating subsidies received for the period October 2004 through March 2006 were for eligible households. Of the 53 households' files statistically selected for review, 51 (96 percent) were missing documents as follows:

- 40 were missing proof of legal identity,
- 37 were missing proof of Social Security numbers,
- 26 were missing proof of criminal activity screening, and
- 5 were missing 90-day zero-income certification(s).

The 51 files did not include documentation required by HUD and the Commission's policies. Appendix D of this report shows the results of our household file reviews.

In addition, the Commission failed to conduct 90-day income reexaminations for four of the five zero-income households.

MDStrum's 2005 assessment identified that the Commission did not maintain support for criminal activity screenings in accordance with HUD's requirements. The assessment did not provide any additional details regarding the issue.

The Commission Incorrectly Calculated Total Household Payments and Utility Allowances

The Commission incorrectly calculated households' total household payments and utility allowances and made inaccurate utility allowance payments, resulting in lost total household payments of \$2,891, excess total household payments of \$218, and underpayments of utility assistance payments totaling \$1,509 from October 2004 through March 2006. To determine whether the Commission correctly calculated total household payments and utility allowances, we reviewed the Commission's annual certifications affecting payments from October 2004 through March 2006 from 53 program household files statistically selected for review. The Commission incorrectly calculated total household payments and/or utility allowances or made inaccurate utility allowance payments for 16 (30 percent) of the 53 households for one or more certifications. The 16 household files contained 11 annual income calculation errors, three incorrect utility allowance payments, and two failures to establish repayment agreements for one or more years. The following table shows the overpayment and underpayment of total household payments for the 13 household files that contained annual income calculation errors or failures to establish repayment agreements for one or more years.

Household number	2004 total household over/under-payments	2005 total household over/under-payments	2006 total household over/under-payments	Total household	
				Overpayments (excess rental income)	Underpayments (lost rental income)
02-118-14	\$0	(\$71)	\$0	\$0	(\$71)
02-116-10	0	20	(6)	20	(6)
02-125-18	0	0	(285)	0	(285)
02-126-12	0	0	(33)	0	(33)
02-129-13	0	44	0	44	0
02-168-17	0	(166)	0	0	(166)
03-226-10	0	(55)	(33)	0	(88)
03-230-08	0	0	(7)	0	(7)
05-406-02	0	0	(7)	0	(7)
05-429-02	0	0	154	154	0
07-726-01	(6)	(12)	0	0	(18)
07-728-01	0	(1,183)	(507)	0	(1,690)
09-909-03	0	(130)	(390)	0	(520)
Totals	(\$6)	(\$1,553)	(\$1,114)	\$218	(\$2,891)

MDStrum's 2005 assessment identified that the Commission did not consistently calculate total household payments appropriately. The assessment did not provide any additional details regarding the issue.

The Commission made utility allowance underpayments to household number 07-722-03 in 2005 totaling \$1,199 and in 2006 totaling \$129, household number 02-

149-12 in 2006 totaling \$118, and household number 09-911-02 in 2006 totaling \$63.

The Commission correctly calculated total household payments and utility allowances and made accurate utility allowance payments for 28 (53 percent) households. It lacked sufficient income documentation to support total household payments for one or more years for 13 (25 percent) households totaling \$7,583. The following table shows the unsupported total household payments for the 13 household files for one or more years.

<i>Household number</i>	<i>Unsupported total household payments</i>			
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>Total</i>
02-101-14	\$0	\$484	\$0	\$484
02-129-13	0	0	159	159
02-149-12	0	2,145	585	2,730
02-162-18	0	222	333	555
03-230-08	0	40	8	48
03-239-02	0	12	12	24
05-406-02	0	1,190	238	1,428
05-408-03	0	32	24	56
05-440-02	0	24	0	24
07-712-04	0	0	181	181
07-721-03	0	28	0	28
09-909-03	121	1,331	0	1,452
09-913-02	0	0	414	414
Totals	<u>\$121</u>	<u>\$5,508</u>	<u>\$1,954</u>	<u>\$7,583</u>

The Commission Incorrectly Calculated Total Household Payments Involving a Resident Employee

In addition, we reviewed two households' files involving resident employees. The Commission incorrectly calculated total household payments for one of the households, household number 02-175-20, resulting in excess total household payments of \$504 from June 2003 through December 2005, and lost total household payments of \$1,991 from January 2006 through June 2006. The Commission's grounds keeper moved into the household in January 2006. The overpayments occurred because the Commission did not include the proper dependent deductions, while the underpayments occurred due to the Commission not including the grounds keeper's income.

The Commission's Procedures and Controls Had Weaknesses

The weaknesses regarding missing documentation, incorrect calculations, and inappropriate utility allowance payments occurred because the Commission lacked adequate procedures and controls to ensure that it appropriately followed

HUD's requirements and its policies. The Commission did not ensure that it fully implemented HUD's requirements and its policies and that file management procedures were standardized.

The executive director said the Commission performed criminal background checks on households' members but destroyed the documentation. She did not realize that it was necessary to keep a record of the criminal background checks in the households' files. The overpayment and underpayment of total household payments and underpayment of utility allowance payments occurred because the Commission did not appropriately calculate annual income and utility allowances, failed to establish repayment agreements, calculated income based on prior income documentation, and calculated income with no support. The executive director said the housing managers did not have adequate knowledge and needed additional training in performing certifications. The Commission's policies also did not address how households would be reimbursed when they overpaid total household payments and the Commission underpaid utility assistance payments.

Conclusion

The Commission did not properly use its program funds when it failed to comply with HUD's requirements and its policies. As previously mentioned, the Commission was unable to support \$166,782 in program operating subsidies received, did not receive total household payments of \$2,891, received excess total household payments of \$218, underpaid \$1,509 in utility allowance payments, and was unable to support \$7,583 in total household payments received.

Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 2A. Provide supporting documentation or reimburse its program \$166,782 from nonfederal funds for the unsupported operating subsidies related to the 51 household files cited in this finding.
- 2B. Reimburse its program \$4,882 (\$2,891 for lost total household payments for 13 households and \$1,991 for lost total household payments for one household) from nonfederal funds.
- 2C. Reimburse the appropriate households \$2,231 (\$218 for excess total household payments for three households, \$1,509 for the underpayment of utility assistance payments for three households, and \$504 for excess total household payments for one household).

- 2D. Provide supporting documentation or reimburse the appropriate households \$7,583 for the lack of sufficient income documentation to support total household payments by 13 households.
- 2E. Implement adequate procedures and controls over its admission and occupancy processes to ensure that it meets HUD's requirements and follows the Commission's policies. These procedures and controls should include but not be limited to ensuring that all required documentation is obtained and maintained in the Commission's current household files to support households' eligibility and total household payment and utility allowance calculations are correct.
- 2F. Revise its policies to address how households will be reimbursed when they overpay total household payments and the Commission underpays utility assistance payments.

We also recommend that the director of HUD's Detroit Office of Public Housing

- 2G. Revise the August 2005 memorandum of agreement with the Commission to ensure that it encompasses the recommendations cited in this finding.

Finding 3: The Commission Lacked an Effective Maintenance Program

The Commission did not have an effective maintenance program to ensure that program unit deficiencies were identified and repaired in a timely manner. It did not have a board-approved maintenance policy, implement a preventive maintenance program, complete work orders in accordance with HUD's requirements and/or its maintenance policy, charge households for damages, and turn around program units in a timely manner. In addition, the Commission inappropriately received full program operating subsidies for units that were vacant more than 12 months. The problems occurred because the Commission lacked adequate procedures and controls over its maintenance program. As a result, HUD lacks assurance that the Commission used program operating subsidies to maintain its program units in good repair, order, and condition, and that it inappropriately received nearly \$10,000 in excess program operating subsidies for eight units that were vacant more than 12 months. We estimate that over the next year the Commission will not receive nearly \$50,000 in total household payments due to program units being vacant more than 30 days.

The Commission Did Not Implement Its Preventive Maintenance Program

Although the Commission has a maintenance policy that includes a preventive maintenance program, its board had not approved the maintenance policy as of December 2006. In addition, the Commission's annual and five-year plans and its policies did not refer to the maintenance policy.

The Commission could not provide documentation showing how the preventive maintenance program was implemented or evidence of scheduled preventive maintenance performed. The purpose of the scheduled preventive maintenance program is to allow the Commission to anticipate maintenance requirements and ensure that the Commission addresses them in the most cost-effective manner. The preventive maintenance program focuses on the major systems that keep the properties operating. These systems include heating and air conditioning, electrical, life safety, and plumbing.

HUD's 2004 management review identified that the Commission did not have a maintenance policy. MDStrum's 2005 assessment identified that the Commission did not perform preventive maintenance.

The Commission Needs to Improve Its Work Order Process

The Commission did not complete work orders in accordance with HUD requirements and/or its maintenance policy. We reviewed the Commission’s 242 work orders generated from October 1, 2005, through June 30, 2006, for the 42 units statistically selected to determine whether the Commission completed work orders appropriately and completed repairs in a timely manner.

The Commission did not properly complete and/or did not include the required information for at least 199 (82 percent) of the work orders reviewed. The following table lists the number of work orders with improperly completed and/or missing required information.

<i>Required information</i>	<i>Number of work orders</i>
Cost of the repairs	148
Description of the work requested and performed	108
Source of request information	103
Detail of materials used	59
Resident signature	46
Actual time to complete the work	28
Preprinted work order number	19
Household charges	10
Worker signature	6

For example, the description of the work requested and performed in work order number 20199, dated October 25, 2005, for unit 007-733 stated that water may be leaking and that there was no leak, respectively. The descriptions do not detail the possible problem and what was done to determine whether there was a leak. In addition, work order number 20826, dated March 15, 2006, was for the replacement of siding for unit number 005-417. However, the work order did not contain the amount and type of materials used and the cost of the repairs.

The Commission did not complete 2 of the 41 emergency work orders within 24 hours. The average completion time for the two work orders was 18 days. The work orders were for the opening of front doors that could not be opened. Another three emergency work orders did not contain a completion date. Therefore, HUD and the Commission lack assurance that the required repairs were completed timely.

The Commission did not complete 7 of the 201 non-emergency work orders within seven days as required by its maintenance policy. The completion time for the seven work orders varied from 13 to 49 days. Another 13 work orders did not contain a start and/or a completion date.

HUD's 2004 management review evaluated the Commission's logs for work orders generated from October 2003 through July 2004. The emergency work order log showed that the Commission did not complete 66 of the 278 emergency work orders. In addition, HUD selected 19 of the emergency work orders for review, and identified that the Commission did not complete seven of the work orders within 24 hours. The completion time for the seven work orders varied from 5 to 38 days. Further, two of the emergency work orders did not contain a start and/or completion time and date. The non-emergency work order log showed that the Commission did not complete 464 of the 1,056 non-emergency work orders.

Further, HUD selected 27 of the non-emergency work orders for review, and identified that the Commission did not complete nine of the work orders within seven days. The completion time for the nine work orders varied from 14 to 214 days. One of the non-emergency work orders did not contain a completion date. MDStrum's 2005 assessment identified that the Commission's work order response was inadequate. In addition, MDStrum reviewed the Commission's 378 emergency work orders generated from October 2003 through September 2004, and concluded that the Commission did not complete at least 75 (20 percent) of the emergency work orders within 24 hours. The Commission has been aware of problems with its work order process since 2004. As previously mentioned, the Commission still needs to improve its work order process.

The Commission's Units Were Vacant More Than 30 Days

The Commission's lack of an effective maintenance program and the condition of its program units (see finding 1) resulted in 98 program units being vacant more than 30 days. Thirty units that were turned around in fiscal year 2005 were vacant for an average of 98 days, or more than three months. An additional 77 units that were turned around in fiscal year 2006 were vacant for an average of 211 days, or more than seven months. The Commission's executive director said program applicants refused housing due to the condition of the units.

The Commission Received Full Subsidies for Units That Were Vacant More Than 12 Months

The Commission inappropriately received full program operating subsidies for units that were vacant more than 12 months. Long-term vacant units are only eligible to receive 20 percent of the total subsidy. However, the Commission included eight long-term vacant units in its subsidy calculations and received excess subsidies totaling \$9,501 for the units from October 2004 through June 2006.

The Commission Lacked Adequate Procedures and Controls

The Commission lacked adequate procedures and controls over its maintenance program. It did not have direction from its board, and maintenance staff lacked guidance and monitoring from management. In addition, the Commission did not provide training to its maintenance staff to ensure that they had the skills to maintain major systems in good operating condition, completed work orders in accordance with HUD requirements and/or its maintenance policy, and turned around its program units in a timely manner.

The Commission's executive director said the problems occurred because the Commission lacked a quality control plan for reviewing work orders and the maintenance supervisor did not review work orders. The Commission contracted with a quality control/procurement coordinator in October 2006 to perform quality control reviews within the Commission's maintenance program.

Conclusion

The Commission's maintenance program places its program units at risk. HUD lacks assurance that the Commission used program operating subsidies to maintain its program units in good repair, order, and condition. The Commission did not receive total household payments for the 98 program units that were vacant for more than 30 days. In addition, it inappropriately received \$9,501 in program operating subsidies for eight units that were vacant for more than 12 months when it calculated its subsidy.

If the Commission implements adequate procedures and controls over its maintenance program and ensures that its program units are turned around within 30 days, we estimate that it will receive an additional \$49,536 in future total household payments. We determined this amount by multiplying 32 units (the average number of units vacant more than 30 days from October 2004 through June 2006) by \$129 (the average monthly total household payment from April through June 2006) by 12 months.

Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 3A. Reimburse its program \$9,501 from nonfederal funds for the eight long-term vacant units it included in its program operating subsidy calculations.

- 3B. Obtain board approval for its maintenance policy and implement a preventive maintenance program for units and systems.
- 3C. Provide scheduled training for maintenance staff to update their maintenance skills.
- 3D. Implement adequate procedures and controls over its maintenance program to ensure that work orders are completed in accordance with HUD requirements and/or its maintenance policy, program units are turned around in a timely manner, and households are appropriately charged for damages. By implementing adequate procedures and controls, the Commission should help to ensure that it receives at least \$49,536 in additional total household payments over the next year.

We also recommend that the director of HUD's Detroit Office of Public Housing

- 3E. Revise the August 2005 memorandum of agreement with the Commission to ensure that it encompasses the recommendations cited in this finding.

Finding 4: The Commission Has Not Used Grant Funds It Received More Than Nine Years Ago

The Commission failed to properly administer the home ownership program in accordance with its agreement with eight lending institutions. Although the Commission received \$240,000 in Grant funds in June 1997 and entered into the agreement in September 1997, it did not ensure that the eight lending institutions each provided \$25,000 for the loan fund and had not assisted any owner-occupants with a housing rehabilitation loan as of November 6, 2006. In addition, it could not provide supporting documentation showing the source of \$50,000 in the home ownership program bank accounts. As a result, the City's residents have not benefited from more than \$1 million in financing for the purchase and rehabilitation of family residential owner-occupied homes. In addition, the Commission has not used the \$240,000 in Grant funds it received more than nine years ago.

The Commission Did Not Properly Administer the Home Ownership Program

The Commission did not properly administer the home ownership program. It deposited the \$90,000 in Grant funds the City provided in June 1997 for a secondary mortgage pool for housing rehabilitation into an interest-bearing savings account. It did not ensure that the eight lending institutions each deposited \$25,000 into a non-interest-bearing account upon execution of the agreement in September 1997. The Commission could only provide documentation that one of the lending institutions provided \$25,000 in March 1998 for the home ownership program. The Commission deposited the money into the interest-bearing savings account in April 1998. Its executive director and former executive director did not know and could not provide supporting documentation showing the source of the remaining \$50,000 deposited in the account in December 1997. The account had earned \$41,007 (\$26,750 from Grant funds and \$14,257 from unsupported funds) in interest as of August 31, 2006.

The Commission deposited the \$150,000 in Grant funds the City provided in June 1997 for a loan loss reserve fund into an interest-bearing certificate of deposit account. The account had earned \$63,506 in interest as of August 18, 2006.

The Commission disbursed \$11,056 from the savings account for the activities of the Neighborhood Information and Sharing Exchange (Exchange), a nonprofit organization located in Benton Harbor, Michigan. The Commission used \$2,977 in May 2003 and \$2,888 in April 2004 to pay insurance for two properties owned by the Exchange. The Commission then disbursed \$5,191 in July 2004 to pay for the demolition of a building on one of the properties. An additional \$178 from the savings account was used to pay bank service charges. Since the savings account earned more than \$41,000 in interest and neither the Grant nor the

agreement specifies how interest must be used, we applied the disbursements for the Exchange's activities to the earned interest. Therefore, the remaining balance of interest is \$29,773 (\$19,422 from the Grant funds and \$10,351 from the unsupported funds).

Although the amended budget for the City's Grant funds states that the home ownership program target was 30 projects in its first year, the Commission had not assisted any owner-occupants with a housing rehabilitation loan as of November 6, 2006.

The Commission Lacked Adequate Procedures and Controls to Administer the Home Ownership Program

The Commission lacked adequate procedures and controls to administer the home ownership program. Its former acting executive director, who is now its deputy director and was with the Commission when the home ownership program was created, said that no one at the Commission knew the source of the funds in the home ownership program's accounts and asked us during our entrance conference to determine the source of the funds. The Commission's former executive director said that the Commission received applications for the home ownership program in 1997. The applicants either did not qualify due to not having a minimum credit score or steady income, or wanted to purchase homes outside of the City's limits. However, neither the former executive director nor the Commission could provide documentation to support the former executive director's statements. In addition, the Commission could not tell us why it did not move forward with the home ownership program in later years.

Conclusion

The Commission's failure to adequately administer the home ownership program did not allow the City's residents to benefit from more than \$1 million in financing for the purchase and rehabilitation of family residential owner-occupied homes. In addition, the Commission has not used the \$240,000 in Grant funds since it received the funds in June 1997.

Since the Commission also did not effectively manage its program (see findings 1, 2, and 3) and failed to implement adequate procedures and controls over its Public Housing Capital Fund program (see OIG report number 2006-CH-1010), we do not believe it has the capacity to administer the home ownership program along with its other HUD-funded programs.

Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing, in coordination with the director of HUD's Detroit Office of Multifamily Housing, require the Commission to

- 4A. Reimburse the City \$240,000 (\$150,000 for the loan loss reserve fund and \$90,000 for the secondary mortgage pool for housing rehabilitation) from the home ownership program's accounts so that the City can use the Grant funds to support housing rehabilitation in the City.
- 4B. Transfer to its general fund \$82,928 (\$63,506 from interest earned on Grant funds the City provided for a loan loss reserve fund and \$19,422 from interest earned on Grant funds the City provided for a secondary mortgage pool for housing rehabilitation) from the home ownership program's accounts so it can use the interest to provide housing services in accordance with the Michigan Compiled Laws.
- 4C. Provide supporting documentation or transfer to its general fund \$60,351 (\$50,000 from the unsupported funds and \$10,351 from interest earned on the unsupported funds) from the home ownership program's accounts so it can use the interest to provide housing services in accordance with the Michigan Compiled Laws.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; HUD's regulations at 24 CFR [*Code of Federal Regulations*] Parts 5, 901, 902, 960, 965, and 990; HUD's Public Housing Occupancy Guidebook; HUD's Public Housing Occupancy Handbook 7465.1, REV-2; the 2003 International Property Maintenance Code; section 125 of the Michigan Compiled Laws; and section 20 of the City's Code.
- The Commission's accounting records, annual audited financial statements for 2004, general ledgers, bank statements and canceled checks, data from HUD's Line of Credit Control system, program household files, computerized databases, by-laws, policies and procedures, board meeting minutes from January 2000 through February 2006, organization chart, and program consolidated annual contributions contract.
- The City's commissioners meeting minutes dated September 19, 2005, and inspection documentation for the Commission's program units.
- HUD's files for the Commission.

We also interviewed the Commission's current and former employees, HUD staff, program households, the City's employees, and staff at Chemical Bank.

Finding 1

We statistically selected 42 of the Commission's program units for inspection using the U.S. Army Audit Agency's Statistical Sampling software from the 109 units that were inspected by the Commission from March 22 through June 16, 2006. The 42 units were selected to determine whether the Commission ensured that its program units were in good repair, order, and condition. Our sampling criteria used a 90 percent confidence level, 50 percent error rate, and precision of plus or minus 10 percent.

Our sampling results determined that all 42 units (100 percent) were not maintained in good repair, order, and condition and were in material noncompliance with HUD's standards and the Code. A unit is considered in material noncompliance when it contains multiple preexisting deficiencies and/or the deficiencies were noted in the Commission's previous inspections and/or work orders but not corrected.

HUD calculated a per unit month program operating subsidy of \$234 for 2006. We estimated that the Commission would annually receive \$153,036 (109 program units times a \$234 per unit month subsidy times a 50 percent error rate times 12 months) for units that were not in good repair, order, and condition. This estimate is presented solely to demonstrate the annual amount of program subsidies that could be put to better use on program units if the Commission implements our recommendation. While these benefits would recur indefinitely, we were

conservative in our approach and only included the initial year in our estimate. We also considered that (1) the Commission did not identify many of the preexisting deficiencies during its most recent inspections, (2) the units would not be scheduled for their next inspection for another year under normal circumstances, and (3) it would take the Commission at least a year to complete all inspections under an improved inspection process.

Finding 2

We statistically selected 53 of the Commission's program household files using Excel and the U.S. Army Audit Agency's Statistical Sampling System from the 237 households residing in the Commission's program units as of March 2006. The 53 households were selected to determine whether the Commission had supporting documentation for and correctly calculated total household and utility allowance payments from October 2004 through March 2006. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus 10 percent.

Our sampling results determined that the Commission incorrectly calculated total household payments and/or utility allowances or made inaccurate utility allowance payments for 16 (28 percent) of the 53 households. The Commission did not receive total household payments and overpaid utility allowance payments netting \$1,164 (\$2,891 in unreceived total household payments minus \$218 in excess total household payments received and \$1,509 in underpayments of utility allowance payments) for the 53 households. The average amount lost by the Commission was \$22 per household.

We performed our onsite audit work from March through September 2006 at the Commission's central offices located at 721 Nate Wells Senior Drive, Benton Harbor, Michigan, and 250 East Wall Street, Benton Harbor, Michigan. The audit covered the period from October 2004 through February 2006 and was expanded as determined necessary.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

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

- The Commission lacked adequate procedures and controls to ensure compliance with HUD's regulations, the Commission's program policies and/or maintenance policy, and/or the City's Grant agreement with HUD regarding unit conditions, household files, maintenance operations, and/or Grant funds (see findings 1, 2, 3, and 4).

FOLLOWUP ON PRIOR AUDITS

This is the second audit of the Commission by HUD's Office of Inspector General (OIG). The first audit report (OIG report number 2006-CH-1010), issued on May 18, 2006, included two findings. The two findings are not repeated in this audit report. The most recent independent auditor's report for the Commission covered the year ending September 30, 2004. The report contained seven findings. Two of the findings, which concern household files lacking third-party verification, the use of incorrect medical deductions in total household payment calculations, and emergency work orders not being completed within 24 hours, relate to findings 2 and 3 in this report.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$29,570		
1B			\$153,036
2A		\$166,782	
2B	4,882		
2C			2,231
2D		7,583	
3A	<u>9,501</u>		
3D			49,536
4A			240,000
4B			<u>82,928</u>
4C		<u>60,351</u>	
Totals	<u>\$43,953</u>	<u>\$234,716</u>	<u>\$527,731</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 polices 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 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 OIG recommendation is implemented. This includes reduction in outlays, deobligation of funds, withdrawal of interest subsidy, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the Commission implements our recommendations it will cease to receive program operating subsidies for units that are not in good repair, order, and condition and will receive additional total household payments. Once the Commission successfully improves its procedures and controls, this will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Benton Harbor Housing Commission

721 Nate Wells Drive
 Benton Harbor, Michigan 49022
 TEL: (269) 927-3546
 FAX: (269) 927-6112
 TDD: (269) 927-6511

Barbara Hollowell
 Executive Director

Ralph Crenshaw
 President/Chairman

Jimmie Caldwell
 Personnel Committee/Resident Commissioner

Ricky Hill
 Treasurer/Chairman Finance Committee

Charles Yarbrough
 Commissioner

January 9, 2007

Brent G. Bowen, Assistant Regional Inspector General
 For Audit, Region V
 U.S. Department of Housing and Urban Development
 Office of Inspector General for Audit
 Ralph H. Metcalfe Federal Building
 77 West Jackson Boulevard, Suite 2646
 Chicago, Illinois 60604


Dear Mr. Bowen:

In response to your letter dated December 21, 2006 regarding the Audit Findings the Benton Harbor Housing Commission has prepared the following written comments;

FINDING OUTLINE

Caption:	Benton Harbor Housing Commission Response:
<p>The Commission's Program Units Were Not In Good Repair Order, and Condition.</p>	<p>The Benton Harbor Housing Commission agrees that its Public Housing Program Units were in no good repair order and condition. There was no record that annual reports were conducted in a timely manner.</p> <p><u>Corrective Action:</u></p> <ol style="list-style-type: none"> 1. All units have been inspected by the USIG. The results have been submitted to the property managers. Work orders have been issued for each deficiency and the deficiencies are being corrected. A report is submitted to c/o weekly. Provided is a copy of the U.P.C.S. inspections and the first report submitted to c/o. 2. Annual inspections are conducted monthly in conjunction with the annual recertifications. Provided are a copy of the annual recertifications scheduled for January and the letters to the residents scheduling the inspections. 3. The copies of the inspections for the 42 units have been submitted to the property managers and deficiencies will be corrected by February 28, 2007. <p style="text-align: center;">SEE ATTACHMENT #1 & 1-A</p>

Comment 1

Providing Safe, Decent, Sanitary Housing Since 1949 

<p>Caption: Controls Over Its Program's Admission and Occupancy Process Were Inadequate</p>	<p>Benton Harbor Housing Commission Response: The Commission agrees that there were not adequate controls over its Admission and Occupancy Process.</p> <p><u>Corrective Action:</u></p> <ol style="list-style-type: none"> 1. All files, including the 51 files reviewed by the Auditors are being reviewed by the Housing Commission, utilizing the attached review form where criminal background checks were missing, the staff conducted the background check however failed to keep the documentation in the files. 2. Present SOP is as follows when a background check is performed: <ol style="list-style-type: none"> i. Tenants that have no record. This document is placed in the tenants file. ii. Tenants that has a record. The file is documented and a separate file is kept with the documentation according to HUD regulations. After a legal determination is made then that document is shredded. 3. The 40 files missing proof of legal identification: The identification could have been in the archived file, however the identifications are now being provided by the tenant. This information is being obtained at recertification. 4. Proof of social security cards for all family members are being obtained for at recertification. Letters have been sent to the 37 families giving those families 10 days to bring in the social security cards. This process will be completed by January 31, 2007. SEE ATTACHMENT #2 5. The Commission is now utilizing the zero income form provided in the H.U.D. Occupancy Guidebook. The Admission and Occupancy policy is being revised to require families with zero income to report to the office quarterly to review their income. SEE ATTACHMENT #3 6. The Rent Calculation is being reviewed to assure correct total tenant rent. Where there is an error on the part of the Benton Harbor Housing Commission over charging the tenant, the tenant will be reimbursed. The Benton Harbor Housing Commission will absorb the undercharge of the tenant.
<p>The Commission Did Not Have an Effective Maintenance Program</p>	<p>The Commission agrees that there was not a documented Maintenance program.</p> <p><u>Corrective Action:</u></p> <ol style="list-style-type: none"> 1. The Commission has developed a Maintenance Plan and Preventative Maintenance Plan. The Maintenance Plan includes Vacant Unit Turnaround, and Work Order Procedures. The work process is being closely monitored to ensure completion and short response time. Provided is a copy Maintenance and Preventative Maintenance Plans. SEE ATTACHMENT #4 2. The Commission is now utilizing the P.H.M.A.P. method to monitor vacant unit turn around time. We now have a 'Make Ready Crew' that is in the process of renovating all vacant units. As the units become vacant, the time is monitored to assure occupancy within 20 days depending on the condition of the unit. Major units will be documented and governed accordingly.

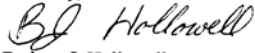
Ref to OIG Evaluation

Auditee Comments

The Commission Has Not Used Grant Funds It Received More Than Nine Years Ago	The current administration of the Commission was not aware of the Homeownership program or the grants contributed by the City agencies. The Commission is prepared to take the action recommended by the HUD Detroit office or the Office of Inspector General. Please Advise this Commission.
--	--

We hope that these responses and corrective actions are adequate. If you have any questions or need any further information please feel free to contact Ms. Hollowell at 269-927-3546.

Sincerely,



Barbara J. Hollowell
Executive Director
Benton Harbor Housing Commission

OIG's Evaluation of Auditee Comments

Comment 1 The Commission only provided documentation to support that U.S. Inspection Group, Inc. conducted complete inspections of 218 of the 234 program units not cited in finding 1.

Appendix C

Criteria

Finding 1

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.703 state that HUD housing must be decent, safe, sanitary, and in good repair. A public housing authority (authority) must maintain housing in a manner that meets HUD's standards to be considered decent, safe, sanitary, and in good repair. Section 5.703(g) states the standards do not supersede or preempt state and local codes for building and maintenance with which HUD housing must comply. HUD housing must continue to follow the state and local codes.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.705 state that any entity responsible for conducting a physical inspection of HUD housing to determine compliance with HUD's standards must inspect the housing annually in accordance with HUD-prescribed physical inspection procedures.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 990.140 state that an authority is eligible to receive program operating subsidies for program units for each unit month that the units are under a contract and occupied by a program-eligible family under lease.

Section 209 of the Commission's contract with HUD requires that the Commission at all times maintain each project in good repair, order, and condition.

Section 125.1504(2) of the Michigan Compiled Laws states that the state construction code, consisting of rules governing the construction, use, and occupation of buildings and structures, shall consist of the Code.

The City adopted the Code in September 2005.

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.216 require that each assistance applicant submit the following information to the processing entity when the assistance applicant's eligibility under the program involved is being determined:

- ❖ A complete and accurate Social Security number assigned to the assistance applicant and to each member of the assistance applicant's household who is at least six years of age or
- ❖ If the assistance applicant or any member of the assistance applicant's household who is at least six years of age has not been assigned a Social Security number, a certification executed by the individual involved.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240(c) state that an authority must verify the accuracy of the income information received from a household and change the

amount of the total household payment or rent or terminate assistance, as appropriate, based on such information.

HUD regulations at 24 CFR [*Code of Federal Regulations*] 5.609 state that annual income includes the full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services; the net income from the operation of a business or profession; interest, dividends, and other net income of any kind from real or personal property; the full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts; payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay; welfare assistance payments; periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling; and all regular pay, special pay, and allowances of a member in the Armed Forces.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 960.253(c)(3) state that an income-based tenant rent must not exceed the total household payment for the household minus any applicable utility allowance for utilities paid by the household. If the utility allowance exceeds the total tenant payment, the authority should pay the excess amount to the family or directly to the supplier.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 960.257(a)(1) state that for families who pay an income-based rent, an authority must conduct a reexamination of family income and composition at least annually and must make appropriate adjustments in the rent after consultation with the family and upon verification of the information.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 965.503 require an authority to establish separate allowances for each utility and for each category of dwelling units determined by the authority to be reasonably comparable as to facts affecting the utility use.

HUD's Public Housing Occupancy Guidebook, chapter 7.11, states that each household file must contain verification of the following information: names, relationship to the head of household, and Social Security numbers of all household members and screening information, such as verification of criminal history. Criminal records must not be filed in household files. Instead, the files should document that a criminal background check was conducted, the result of the check, and the source of the information.

Before November 2005, chapter 2, section C, of the Commission's policies stated that families are required to provide verification of Social Security numbers for all members of age six years and older before admission. Section C3.0 now requires that complete and accurate verification documentation be maintained for each resident. The documentation includes certified birth certificates or other substantial proof of age, Social Security card or legal documents, and statements from employers or other authoritative sources.

Before November 2005, chapter 2, section F, of the Commission's policies stated that the authority would check criminal history of all family members that are 18 years of age to determine whether any family member had engaged in criminal activity. Section C2.0 now

states that the applicant family must have no criminal activity which, if continued, could adversely affect the health, safety, or welfare of other residents.

Before November 2005, chapter 7, section E, of the Commission's policies stated families claiming to have no income would be required to execute verification forms to determine that households were not receiving income from unemployment benefits, aid to families with dependent children, Social Security income, or any other sources. Section E.9 of appendix A now states that families claiming to have no income must certify to this status at least quarterly and are required to execute verification forms to determine that households are not receiving income from unemployment benefits, temporary assistance for needy families, Social Security income, or any other sources.

Before November 2005, section B of chapter 11 of the Commission's policies required and section D2.1 now requires each family to have its eligibility reexamined at least every 12 months. Section D2.3 states that interim re-examinations are performed for changes in household composition or income, when a hardship occurs, or to correct an error.

Finding 3

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 901.5 state that a maintenance plan is defined as a comprehensive annual plan of an authority's maintenance operation that contains the fiscal year's estimated schedule and is supported by a staffing plan, contract schedule, materials and procurement plan, training, and approved budget. The plan should establish a strategy for meeting the goals and timeframes of facilities management planning and execution, capital improvements, utilities, and energy conservation activities.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 901.10 state that the unit turnaround time is the average number of calendar days between the time when a unit is vacated and a new lease takes effect for units reoccupied during the authority's assessed fiscal year.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 901.25(a) state that emergency work orders are to be completed within 24 hours or less and all emergency work orders should be tracked. Section 901.25(b) states that all nonemergency work orders, except for those deferred for modernization, issued to prepare a vacant unit for rental, or issued for the performance of cyclical maintenance, should be tracked.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 990.109(b)(6)(iii)(B) state that if the recalculated vacancy percentage is greater than 3 percent or more than five vacant units, an authority will adjust its requested budget year occupancy percentage by excluding from their calculation of unit months available those unit months attributable to units that have been vacant for longer than 12 months that are not vacant units undergoing modernization or are not units vacant due to circumstances and actions beyond an authority's control. These are considered long-term vacant units. Section (b)(6)(iv)(A) states that long-term vacant units removed from the unit month available calculation are eligible to receive 20 percent of the authority's allowable expense level.

Chapter 2, section E, of HUD's Maintenance Guidebook 1 states that a complete preventive maintenance cycle should be scheduled for each development before the beginning of every

fiscal year. The preventive maintenance will also allow repairs to be made as needed and problems to be identified and corrected in a timely manner.

Section 1.4 of the Commission's maintenance policy states that the Commission shall have a comprehensive work order system that includes the following work request information: source of work, description of work, priority, cost to complete, days to complete, and hours to perform. This information is required for the Commission to plan for the delivery of maintenance services as well as evaluate performance. Work orders will also contain the following: preprinted number, source of the request, priority assigned, location of the work, date and time received, date and time assigned, worker assigned, description of the work requested, description of the work performed, actual time to complete, materials used, resident charge, and resident signature.

Section 2.1 of the Commission's maintenance policy states that an emergency is any situation that constitutes a serious threat to the life, safety, or health to the residents or staff or that could cause damage to the property structure or systems if not repaired within 24 hours. Examples of emergency conditions are sewer backup, lockout, no electricity, no heat, an overflowing toilet, and gas leaks.

Section 2.2 of the Commission's maintenance policy states that the Commission's director of maintenance is responsible for developing and implementing a maintenance system that ensures an average turnaround time of seven calendar days for vacant units.

Section 2.3 of the maintenance policy states that the purpose of the Commission's preventive maintenance program is to perform regular maintenance on all major systems that keep the property operating. These systems include heating and air conditioning, electrical, life safety, and plumbing.

Section 2.6 of the Commission's maintenance policy states that resident-generated work orders are considered as nonemergency calls unless the request is an emergency in nature. These work orders must be completed within seven days. Unless the request is an emergency, these requests will not be given a priority above scheduled routine and preventive maintenance.

Finding 4

The U.S. House of Representatives' Conference Report 102-226 set aside \$500,000 in Special Purpose Grant (Grant) funds to support housing rehabilitation in the City. The City's Grant agreement with HUD, article I, section A, states that grant funds will only be used for activities described in the application.

Exhibit A of the City's application states that the City will use the \$500,000 in Grant funds for housing rehabilitation of existing structures in the City. The City budgeted \$330,000 for rehabilitation financing, \$105,000 for purchase assistance, \$35,000 for administration, and \$30,000 for security systems. Exhibit D states that the project was to be administered by the City's Community Development Department and closely coordinated with Property Management Corporation and other housing entities in the community. However, HUD approved an amended budget for \$360,000 of the Grant funds in February 1997. The City's amended budget removed \$330,000 for rehabilitation financing and \$30,000 for security systems and added \$150,000 for a loan loss reserve fund, \$120,000 for downpayment assistance, and \$90,000 for a secondary

mortgage pool for housing rehabilitation. The loan loss reserve fund and secondary mortgage pool for housing rehabilitation were for a home ownership program to be administered by the Commission. The amended budget stated that the home ownership program was a collaborative among the Commission, the City, and lending institutions to allow owner-occupants living in the City to finance up to 120 percent of the postrehabilitation appraisal value of the property. The home ownership program target was 30 projects in its first year.

Section 125.653 of the Michigan Compiled Laws states that any city of the state of Michigan may create, by ordinance, a housing commission with the power to purchase, acquire, construct, maintain, operate, improve, extend or repair housing facilities and eliminate housing conditions which are detrimental to the public peace, health, safety, morals, or welfare.

The agreement, dated September 9, 1997, between the Commission and eight lending institutions stated that the Commission and the lending institutions have joined together to establish the home ownership program with a \$1 million loan fund to be used to finance in whole, or in part, the purchase and rehabilitation of family residential owner-occupied homes in the City. Section 2.1 of article II states that upon execution of the agreement, each of the lending institutions shall provide the home ownership program \$25,000, which is to be deposited into a non-interest-bearing account, to be used for the loan fund. Article III, section 3.1, states that the Commission, as lead lender, shall be responsible for administering the home ownership program. Section 5.5.1 of article V states that the City is to provide \$150,000 for a loan loss reserve fund to reimburse the lending institutions for principal losses on defaulted loans and reimbursement of certain expenses.

Appendix D

HOUSEHOLD FILE REVIEWS – MISSING OR INCOMPLETE DOCUMENTATION

Household number	Proof of legal identity	Social Security number	90-day zero-income certification	Criminal activity screening	Program operating subsidy
02-095-05			X	X	\$919
02-097-13				X	235
02-101-14	X	X	X	X	3,893
02-104-08	X	X	X		3,893
02-111-12	X	X		X	3,681
02-118-14	X	X		X	3,893
02-116-10	X	X			3,893
02-124-12	X	X		X	3,893
02-125-18		X		X	469
02-126-12	X	X			3,893
02-129-13	X	X			3,893
02-131-15				X	1,134
02-149-12	X	X			3,893
02-162-18	X	X		X	3,893
02-166-09	X	X		X	1,134
02-168-17	X		X	X	1,134
02-179-22	X	X	X		3,893
03-218-04				X	3,893
03-226-10				X	3,893
03-230-08	X	X			3,893
03-239-02	X	X		X	3,893
03-250-03	X	X		X	3,893
03-257-07	X	X		X	3,893
03-261-01	X	X		X	3,893
03-266-04	X	X			3,893
03-268-02	X	X		X	235
03-275-14	X	X			3,893
03-282-07				X	704
03-288-06				X	704
03-294-08	X			X	3,893
03-295-03	X	X		X	1,985
03-299-06		X			3,893
03-405-01	X	X			3,893
03-406-02	X	X			3,893
03-408-03	X	X			3,893
03-409-01	X	X			3,893
03-413-01	X				3,893
05-414-01	X	X			3,893
05-417-02	X				3,893
05-429-02	X	X			3,893
05-430-01	X	X			3,893
05-440-02	X	X			3,893
07-701-03		X			3,893
07-712-04				X	2,621
07-721-03	X			X	3,893
07-722-03	X	X			3,893
07-726-01	X				3,893

HOUSEHOLD FILE REVIEWS – MISSING OR INCOMPLETE DOCUMENTATION (CONTINUED)

Household number	Proof of legal identity	Social Security number	90-day zero-income certification	Criminal activity screening	Program operating subsidy
07-731-02	X	X			3,893
09-909-03	X	X		X	3,893
09-911-02	X	X		X	3,893
09-913-02	X	X			3,893
Totals	<u>40</u>	<u>37</u>	<u>5</u>	<u>26</u>	<u>\$166,782</u>

Note: An “X” identifies the missing or incomplete documentation in the household’s file.