



Issue Date	July 20, 2007
------------	---------------

Audit Report Number	2007-CH-1010
---------------------	--------------

TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

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

SUBJECT: The Madison County Housing Authority, Collinsville, Illinois, Did Not Effectively Administer Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Madison County Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2006 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. Our objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

The Authority's program administration regarding housing unit conditions, documentation to support tenant eligibility, and housing assistance payment calculations was inadequate. Of the 48 housing units statistically selected for inspection, 40 did not meet HUD's housing quality standards, and 35 had 264 violations that existed at the time of the Authority's previous inspections. The 35 units had between 1 and 34 preexisting violations per unit. Based on our statistical sample, we estimate that over the next year, HUD will pay more than \$623,000 in housing assistance for units with housing quality standards violations.

The Authority incorrectly calculated households' payments, resulting in more than \$39,000 in overpayments and \$13,000 in underpayments for the period January 2005 through August 2006. Based on our statistical sample, we estimate

that over the next year, the Authority will overpay more than \$137,000 in housing assistance. It did not ensure that its households' files contained required documentation to support its housing assistance and utility allowance payments. Of the 88 files statistically selected for review, 20 did not contain documentation required by HUD and the Authority's program administrative plan to support more than \$126,000 in housing assistance payments.

The Authority also failed to adequately use HUD's Enterprise Income Verification system to determine that reported zero-income households had unreported income, resulting in more than \$14,000 in improper housing assistance payments.

What We Recommend

We recommend that the director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of nearly \$84,300 in program funds, provide documentation or reimburse its program more than \$140,000 from nonfederal funds for the unsupported housing assistance payments and administrative fees, and implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$784,000 from being spent on units with material housing quality standards violations and excessive housing assistance.

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 file review results and supporting schedules to the director of HUD's Chicago Office of Public Housing and the Authority's executive director during the audit. We also provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on June 19, 2007.

We asked the executive director to provide comments on our discussion draft audit report by July 9, 2007. The executive director provided written comments, dated July 6, 2007. The executive director generally agreed with our recommendations. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this report except for 274 pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the director of HUD's Chicago Office of Public Housing.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding 1: Controls over Housing Quality Standards Need Improvement	5
Finding 2: Controls over Housing Assistance and Utility Allowance Payments Were Inadequate	11
Finding 3: The Authority's Zero-Income Households Had Unreported Income	15
Scope and Methodology	17
Internal Controls	20
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	22
B. Auditee Comments and OIG's Evaluation	23
C. Federal Requirements	29

BACKGROUND AND OBJECTIVE

The Madison County Housing Authority (Authority) was created pursuant to an act of the State of Illinois' General Assembly and pursuant to a certificate of determination of the need for the creation of a housing authority in Madison County, Illinois, issued by the State Housing Board on August 22, 1939. A seven-member board of commissioners governs the Authority.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of May 2007, it had 965 units under contract with annual housing assistance and utility allowance payments totaling more than \$4.5 million in program funds.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements. This included determining whether (1) the Authority's inspections were sufficient to detect housing quality standards violations and provide decent, safe, and sanitary housing to its residents; (2) the Authority complied with HUD requirements by obtaining the necessary documentation to determine household eligibility; (3) the Authority properly calculated the housing assistance payments; and (4) whether the Authority's zero-income households had unreported income.

RESULTS OF AUDIT

Finding 1: Controls over Housing Quality Standards Need Improvement

The Authority did not adequately enforce HUD's housing quality standards. Of the 48 program units statistically selected for inspection, 40 did not meet minimum housing quality standards, and 35 had material violations that existed before the Authority's previous inspections. The violations occurred because the Authority lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards. As a result, nearly \$28,000 in program funds was spent on units that were not decent, safe, and sanitary. We estimate that over the next year, the Authority will pay more than \$623,000 in housing assistance on units with housing quality standards violations.

HUD's Housing Quality Standards Not Met

The Authority entered into a contract with U.S. Inspection Group, Incorporated to perform housing quality standards inspections of its program units. From the 165 program units that passed the inspections performed by U.S. Inspection Group between September 1 and November 30, 2006, we statistically selected 48 units for inspection by using the ACL Statistical Sampling System software. The 48 units were inspected to determine whether the Authority ensured that its program units met HUD's housing quality standards. Our appraiser inspected the 48 units between January 8 and January 25, 2007.

Forty of the units inspected had a total of 373 housing quality standards violations. In addition, 35 units were considered to be in material noncompliance since they had exigent health and safety violations that predated the Authority's previous inspections. Of the 373 violations, 264 predated the Authority's inspections. The following table categorizes the 373 housing quality standards violations in the 40 units.

Category of violations	Number of violations
Electrical	80
Windows	35
Security	26
Exterior stairs	22
Interior stairs	21
Other hazards	20
Interior walls/surfaces	18
Floor	18
Range/refrigerator	17
Exterior surfaces	13
Smoke detectors	12
Lead-based paint	12
Safety of heating equipment	11
Ventilation	10
Roof	10
Foundation	8
Sink	8
Site and neighborhood	8
Ceiling	7
Access to unit	7
Flush toilet in enclosed room	2
Water heater	2
Infestation	2
Space for food storage and preparation	2
Tub/shower in unit	1
Fire exits	1
Total	<u>373</u>

We provided our inspection results to the director of HUD's Chicago Office of Public Housing and the Authority's executive director on February 6, 2007.

Electrical Violations

Eighty electrical violations were present in 37 of the Authority's units inspected. The following items are examples of the electrical violations listed in the table: outlets with open grounds, holes and gaps in a breaker box, loose outlets, and exposed wires. The following pictures are examples of the electrical-related violations.

Unit #17: Broken outlet with exposed electrical contacts.



Unit #26: Broken outlet and improper wire connection to a rusted junction box without a cover plate.



Window Violations

Thirty-five window violations were present in 14 of the Authority's units inspected. The following items are examples of window violations listed in the table: mold on windows, window ropes torn, windows that allow air infiltration, and cracked window panes. The following pictures are examples of the window violations identified.

Unit #29: Bedroom window glazing is missing allowing air infiltration.



Unit #11: Loose spring track and cracked glass pane on the left front bedroom window.



Security Violations

Twenty-six security violations were present in 16 of the Authority's units inspected. The following items are examples of security violations listed in the table: locks not working, missing striker plates, and broken door jambs. The following pictures are examples of the security violations identified.

Unit #31: Broken exterior kitchen door jamb and missing striker plates.



Unit #29: Missing latch bolt on door between kitchen and back porch.



All Violations Not Identified

Although the required number of quality control inspections was performed by the Authority, they did not identify all violations. Thirty-six quality control inspections were performed by the Authority from June 13, 2005, through May 12, 2006. Eighteen (50 percent) of the units selected for quality control inspections that previously passed the Authority's housing quality standards inspections failed the quality control review inspections. However, the results of the quality control reviews were insufficient to identify problematic inspectors or recurring issues, not discussed with the respective inspector, and a lack of consistent application of the relevant standards could not be addressed.

Conclusion

The housing quality standards violations existed because the Authority 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 housing quality standards. The Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that units complied with HUD's housing quality standards. In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to enforce HUD's housing quality standards. The Authority disbursed \$27,944 in housing assistance payments for the 35 units that materially failed to meet HUD's housing quality standards and received \$2,416 in program administrative fees.

If the Authority implements adequate procedures and controls over its unit inspections to ensure compliance with HUD's housing quality standards, we estimate that nearly \$624,000 in future housing assistance payments will be spent for units that are decent, safe, and sanitary. We determined this amount by multiplying 105 units (estimate that would be in material noncompliance with housing quality standards if appropriate actions are not taken by the Authority) times \$495 (average monthly subsidy of each housing unit). This amount was then annualized to give the total estimate. Our methodology for the estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

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

- 1A. Reimburse its program \$30,360 from nonfederal funds (\$27,944 for housing assistance payments and \$2,416 in associated administrative fees) for the 35 units that materially failed to meet HUD's housing quality standards.
- 1B. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards to prevent \$623,700 in program funds from being spent on units that are in noncompliance with the standards.
- 1C. Implement adequate procedures and controls to ensure that its supervisory quality control inspections are conducted and documented, along with the feedback provided to inspectors to correct recurring inspection deficiencies noted.

Finding 2: Controls over Housing Assistance and Utility Allowance Payments Were Inadequate

The Authority failed to comply with HUD's regulations and its program administrative plan regarding housing assistance and utility allowance payments. It incorrectly calculated housing assistance and utility allowance payments and lacked documentation to support housing assistance and utility allowance payments to program landlords and households, respectively. This noncompliance occurred because the Authority did not have adequate procedures and controls to ensure that HUD's regulations and its program administrative plan were appropriately followed. As a result, it overpaid more than \$39,000 and underpaid nearly \$13,500 in housing assistance and utility allowances and was unable to support more than \$306,000 in housing assistance and utility allowance payments made. Based upon our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$137,500.

Incorrect Housing Assistance Payment Calculations

From the Authority's 1,053 active program households as of September 11, 2006, we statistically selected 88 households' files to determine whether the Authority accurately verified and calculated the income information received from the households on their housing assistance and utility allowance payments for the period January 1, 2005, through August 31, 2006. Our review was limited to the information maintained by the Authority in its households' files. Of the 88 files reviewed, 70 had discrepancies in the calculation of income and/or the utility allowance schedule used, which resulted in incorrect housing assistance payments.

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 tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

The Authority's miscalculation of households' income resulted in \$39,428 in overpayments and \$13,332 in underpayments of housing assistance and utility allowances. We provided the Authority's executive director and the director of HUD's Chicago Office of Public Housing with schedules of the overpayments and underpayments of the housing assistance and utility allowances for the 70 households.

The following are examples of the types of errors found:

- The Authority miscalculated the annual income for household 2261 by not including all of the household's earned annual income. In addition, it did not use the correct payment standard. As a result, it under calculated the annual

income by more than \$17,000 and it overpaid \$5,585 in housing assistance for the audit period.

- The Authority miscalculated the housing assistance payments for household 7490 due to a miscalculation of the utility allowances. It failed to use the correct utility allowance schedule for the city where the household resided. Also, it failed to use the correct type of utility allowance schedule. As a result, it underpaid \$57 in housing assistance from September 1 through September 31, 2005; \$126 from October 1, 2005, through June 30, 2006; \$62 from July 1 through July 31, 2006; and \$81 from August 1 through August 31, 2006, totaling \$326.
- The Authority miscalculated the housing assistance payments for household 4590 due to a miscalculation of the payment standards and utility allowances. It failed to use the correct payment standards and utility allowance schedule. As a result, it overpaid \$486 in housing assistance from January 1 through October 31, 2005, and underpaid \$140 in housing assistance from February 1 through August 31, 2006, totaling a net overpayment of \$346 during the audit period.

Payments were not always computed accurately because the Authority lacked effective procedures and controls to ensure that all income and expenses were properly considered so that accurate housing assistance and utility allowance payments could be calculated. It did not use households' appropriate annual or adjusted annual income, unit size, or utility allowances or calculate household expenses for payments. It also failed to exercise proper supervision and oversight of the certification process. The Authority's program supervisors said that they conducted periodic quality control reviews of files to determine whether staff accurately calculated households' housing assistance and utility allowance payments. However, the Authority could not provide documentation to support the reviews. Periodic quality control reviews are an important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate. The Authority's administrative plan also did not address how households would be reimbursed when an underpayment of housing assistance payment occurs.

Documentation Lacking to Support More Than \$126,224 in Housing Assistance and Utility Allowance Payments

The Authority initially lacked documentation to support households' eligibility for \$306,628 in program housing assistance and utility allowances when we issued our draft audit report during the audit. From the Authority's 1,053 active program households as of September 11, 2006, we statistically selected 88 households' files for review using the ACL Statistical Sampling software. We reviewed the files to determine whether the Authority maintained adequate documentation to support households' admission to and selection for its program. Of the 88 household files

reviewed, 37 (42 percent) had missing or incomplete documents. The Authority provided supporting documentation with its written response to our discussion draft audit report. The documentation reduced the unsupported housing assistance and utility allowance payments to \$126,224 for 20 (23 percent) of the 88 files reviewed. The 20 files had the following missing or incomplete documents:

- Sixteen were missing proof of a criminal activity screening;
- Three were missing birth certificate(s);
- Two were missing annual inspections conducted within 12 months for fiscal year 2006;
- One was missing annual inspections conducted within 12 months for fiscal year 2005;
- One was missing HUD form 9886, Authorization for the Release of Information and Privacy Act Notice; and
- One failed to meet income eligibility at admission.

The Authority received \$14,297 in program administrative fees for the 20 households lacking documentation supporting their eligibility for program housing and utility allowance payments as required by HUD's regulations and the Authority's program administrative plan.

Conclusion

HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid \$39,428 and underpaid \$13,332 in housing assistance and utility allowances. If the Authority does not correct its certification process, we estimate that it could make more than \$137,000 in excessive payments over the next year based on the error rate found in our sample and the net overpayment of housing assistance and utility allowances. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put in place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 2A. Reimburse its program \$39,428 in housing assistance from nonfederal funds for the overpayment of housing assistance and utility allowance payments cited in this finding.
- 2B. Reimburse the applicable households \$13,332 for the underpayment of housing assistance and utility allowances cited in this finding.

- 2C. Provide supporting documentation or reimburse its program \$140,521 (\$126,224 in housing assistance and utility allowance payments plus \$14,297 in related administrative fees) from nonfederal funds for the unsupported payments and associated administrative fees related to the 20 households cited in this finding.
- 2D. Implement adequate procedures and controls over its housing assistance and utility allowance payments to ensure that they meet HUD's regulations and its program administrative plan to ensure that \$137,402 in program funds is appropriately used for future payments.
- 2E. Revise its program administrative plan to address how households will be reimbursed when an underpayment of housing assistance occurs.

Finding 3: The Authority's Zero-Income Households Had Unreported Income

The Authority did not use HUD's Enterprise Income Verification system (system) to determine that reported zero-income households had unreported income. Of the 34 households statistically selected for review, 14 had unreported income that affected their housing assistance payments. This problem occurred because the Authority lacked adequate procedures and controls to perform appropriate income verification. As a result, it unnecessarily paid housing assistance and utility allowances totaling more than \$14,000 for households that were required to meet their rental obligations.

Income Verification Not Performed

We statistically selected 34 zero-income households from the Authority's 70 zero-income households as of September 11, 2006, to determine whether they had income according to HUD's system for the period January 1, 2005, through August 31, 2006. Of the 34 households reviewed, 14 had income not reported to the Authority, but income information was available through HUD's system. Therefore, the Authority provided excessive housing assistance for households. Our review was limited to the information maintained in HUD's system.

The following are examples of households with unreported income:

- The head of household for household number 7 had income, according to HUD's system, totaling \$27,986. Since the household had income, the Authority overpaid \$3,002 in housing assistance from January 2005 through August 2006.
- Household number 12 had income, according to HUD's system, totaling \$21,909. Since the household had income, the Authority overpaid \$4,265 in housing assistance from January 2005 through August 2006.

According to HUD's Public and Indian Housing Notice 2005-9, as a possible way to reduce costs, program households can be required to report all increases in income between reexaminations, and public housing authorities can conduct more frequent interim income reviews for families reporting no income.

Cause for Overpayments

The overpayment of \$14,480 in housing assistance to households that reported zero income but had income occurred because the Authority lacked adequate procedures and controls for performing appropriate income verification. The Authority did not have procedures requiring more frequent reviews of its zero-

income households or determining when and how the reviews should be conducted. It needs to make full use of HUD's system or other third-party income verification for all households at the time of examinations.

Further, the Authority's program managers did not conduct periodic supervisory reviews to ensure that staff took appropriate steps to determine whether households who reported zero-income had unreported income. Periodic quality control reviews are an important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate.

Conclusion

HUD lacks assurance that the Authority used its program funds so all eligible families can afford decent, safe, and sanitary housing. If the Authority does not correct its certification process, we estimate that it could make more than \$23,000 in excessive housing assistance payments over the next year based on the error rate found in our sample. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures are put in place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 3A. Pursue collection from the applicable households or reimburse its program \$14,480 in housing assistance from nonfederal funds for the overpayment of assistance cited in this finding.
- 3B. Implement adequate procedures and controls to ensure that its households that report zero income do not have income that would result in an overpayment of housing assistance and utility allowances. These procedures and controls should help to ensure that an estimated \$23,624 in housing assistance is accurate over the next year.
- 3C. Review the remaining 36 (70 minus 34) zero-income households as of September 11, 2006, to determine whether they had unreported income. For households that received excessive housing assistance and utility allowance payments, the Authority should pursue collection and/or reimburse its program the applicable amount from nonfederal funds.
- 3D. Terminate the program housing assistance to the applicable households that certified that they had no income but did have income according to HUD's system.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; the Authority's 2005 program administrative plan; and HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5 and 982; HUD's Public and Indian Housing Notices 2004-12, 2005-9, 2005-24, 2005-28, and 2006-3; and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records, annual audited financial statements for 2004 and 2005, general ledgers, household files, computerized databases, policies and procedures, board meeting minutes for 2005 and 2006, organizational chart, and program annual contributions contract.
- HUD's files for the Authority.

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

We statistically selected 48 of the Authority's program units to inspect using the ACL Statistical Sampling software from the 165 units that were inspected by the Authority's contractor and passed from September 1 through November 30, 2006. The 48 units were selected to determine whether the Authority ensured that its program units met HUD's housing quality standards. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision level of plus or minus 8 percent.

Our sampling results determined that 35 units materially failed to meet HUD's housing quality standards. Materially failed units were those with exigent health and safety violations that predated the Authority's previous inspections.

The Authority's housing assistance payments register for October 1 through December 31, 2006, showed that the average monthly housing assistance payment was \$495. Projecting our sampling results of the 35 units that materially failed to meet HUD's housing quality standards to the population indicates that 105 units or 64.03 percent of the population contains the attributes tested (would materially fail to meet HUD's housing quality standards). The sampling error was plus or minus 8.88 percent. In other words, we are 90 percent confident that the frequency of occurrence of the attributes tested lies between 64.03 and 81.80 percent of the population. This equates to an occurrence of between 105 and 134 units of the 165 units in the population.

- The lower limit is 64.03 percent times 165 units = 105 units that materially failed to meet HUD's housing quality standards.
- The point estimate is 72.92 percent times 165 units = 120 units that materially failed to meet HUD's housing quality standards.
- The upper limit is 81.80 percent times 165 units = 134 units that materially failed to meet HUD's housing quality standards.

Using the lower limit of the estimate of the number of units and the average housing assistance payment, we estimate that the Authority will annually spend \$623,700 (105 units times \$495 average payment times 12 months) for units that materially failed to meet HUD's housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that will be correctly paid over the next year on decent, safe, and sanitary housing if the Authority 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 Authority's contractor did not identify many of the preexisting violations during its most recent inspections, (2) the units would not be scheduled for reinspection for another year under normal circumstances, and (3) it would take the Authority's contractor at least a year to complete all inspections under an improved inspection process.

From the Authority's 1,053 active program households as of September 11, 2006, we statistically selected 88 households' files for review by using the ACL Statistical Sampling software. We reviewed the 88 files to determine whether the Authority maintained adequate documentation to support the households' admission and selection for its program. We also reviewed the files to determine whether the Authority accurately verified and calculated the income information received from the households for its housing assistance and utility allowance payments for the period January 1, 2005, through August 31, 2006. The Authority incorrectly calculated payments for 70 of the 88 (79 percent) files reviewed. This resulted in total miscalculation of payments by \$52,760—to include overpayments of \$39,428 and underpayments of \$13,332 in housing assistance and utility allowances.

Unless the Authority improves its calculation process, we estimate that it could make \$137,402 in future excessive housing assistance and utility allowance payments. We determined this amount by multiplying 2.99 percent (the percentage of the net excess housing assistance payments for the 70 households' files in the sample) times \$4,595,371 (the total payments for the population of households served). We determined the 2.99 percent by annualizing the net excessive payments of \$26,096 (\$39,428 in overpayments minus \$13,332 in underpayments divided by the audit period of 20 months times 12 months, or \$15,658) for our sample of 88 households divided by the \$522,720 in housing assistance payments for one year (\$5,940 times the 88 households). This estimate is presented solely to demonstrate the annual amount of program funds that could be incorrectly made if the Authority does not implement our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We determined an estimate of \$23,624 in future housing assistance overpayments due to underreporting of income by zero-income households during the next 12 months. To do this, we applied a 4.49 percent error rate found during our review of 34 statistically selected zero-income households' files to the estimated average annual housing assistance payments disbursed by the Authority for all of its zero-income households (\$526,151). We determined this error rate by dividing the \$14,480 in overpayments by the total housing assistance made for the 34 households in our sample (\$322,350) for the review period January 2005 through August 2006. We calculated the Authority's average annual housing assistance expense by annualizing the total payments made to the 70 zero-income households in our sample's population as of September 2006 (\$43,846 times 12).

We performed our on-site audit work between September 2006 and February 2007 at the Authority's offices located at 1609 Olive Street, Collinsville, Illinois. The audit covered the period January 1, 2005, through August 31, 2006, but was expanded when necessary to include other periods.

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 objective:

- 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 Authority lacked sufficient procedures and controls to ensure compliance with HUD's requirements and/or its program administrative plan regarding unit inspections and housing assistance and utility allowance payments (see findings 1, 2, and 3).

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	\$30,360		
1B			\$623,700
2A	39,428		
2B			13,332
2C		<u>\$140,521</u>	
2D			137,402
3A	<u>14,480</u>		
3B			<u>23,624</u>
Totals	<u>\$84,268</u>	<u>\$140,521</u>	<u>\$798,058</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 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. This includes reductions 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 which are specifically identified. In these instances, if the Authority implements our recommendations, it will cease to incur program costs for units that are not decent, safe, and sanitary and for excessive housing assistance and utility allowance payments and, instead, will expend those funds in accordance with HUD's requirements. 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



MADISON COUNTY HOUSING AUTHORITY

1609 Olive Street • Collinsville, IL 62234
Phone: 618.345.5142
Fax: 618.345.5148

July 6, 2007

Ronald Farrell
Assistant Regional Inspector General for Audit
United States Department of HUD
Office of Inspector General
200 North High Street Room 334
Columbus OH 43125

Dear Mr. Farrell:

Thank you for the opportunity to comment on the discussion draft audit report dated June 8, 2007. Madison County Housing Authority has been through many changes since my appointment as Executive Director, and we welcome criticism that will improve our program administration. As a result of OIG's findings, MCHA is in the process of adding quality control personnel and procedures in the area of HQS inspections, participant examinations and file review. Enclosed with this letter is an outline of these procedures.

MCHA has reviewed your findings in detail and appreciate that there are areas which need improvement. Following is our agreement or disagreement with the findings and why; as well as our comments on OIG recommendations. Included are spreadsheets outlining households listed on your summary of zero-income participants and incorrect HAP calculations which we feel should be removed from the findings.

Finding 1: Controls over Housing Quality Standards Need Improvement

MCHA agrees with the findings regarding HQS inspections. The audit states that 48 units that had been contracted for inspection with USIG were reviewed with 40 having violations, and that MCHA quality control procedures weren't sufficient to identify problematic inspectors or recurring issues. We have requested proposals from inspection service companies and outlined procedures for the inspection and quality control processes to ensure these things don't occur in the future.

MCHA comments on OIG recommendations:

- 1A. Attached is a list of the failed inspections showing when the unit was passed and the OIG's deficiencies found to be corrected (exhibit 1).
- 1B. We ask that reimbursement of funds be waived. Additional financial burden will only serve to weaken our ability to improve the administration of our program.
- 1C. MCHA has provided additional training to inspectors, including recertification, so they may better determine that units meet HQS standards. Additionally, we intend to

Comment 1

Ref to OIG Evaluation

Auditee Comments

- carefully select a qualified vendor to replace USIG. These steps should help to eliminate most of the issues uncovered by the audit.
- 1D. As stated above, we have outlined procedures for supervisory quality control inspections and documentation such as tracking of inspection reviews, identifying problematic inspectors and communicating issues to them.

Finding 2: Controls over Housing Assistance and Utility Allowance Payments Were Inadequate
MCHA agrees with these findings except in the following cases:

Incorrect Housing Assistance Payment Calculations
See spreadsheet (Exhibit 2A) for files we feel should be removed from the findings. Supporting documentation is attached.

Documentation Lacking to Support More Than \$306,000 in Housing Assistance and Utility Allowance Payments
See spreadsheet "Lacking Documentation" (Exhibit 2B) and supporting documentation for missing items other than criminal activity screening.

The majority of this list was only missing criminal activity screenings. Although it is true that screenings weren't being done after the requirement was enacted by HUD, MCHA did begin screening applicants prior to the audit. Corrective action may be necessary if we continued to ignore the requirement, but that is not the case. Additionally, with the audit findings, we conducted criminal activity screenings on these households and found them all to be eligible (Exhibit 2C).

MCHA comments to OIG recommendations:

- 2A. In the limited time provided to review the audit findings, we have cited several instances and provided documentation where our files were correct. Because of this we ask that this amount be reduced or eliminated.
- 2B. We will be further reviewing the findings of the audit to determine any instances where reimbursement to households is appropriate.
- 2C. As stated above, the enclosed documentation shows that all but two of the thirty-seven households were eligible. This amount should be eliminated.
- 2D. As stated previously in this letter, we have provided additional training and certification for our Section 8 staff, added a quality control position, and enacted the attached procedures for file review.
- 2E. We are in the process of updating our Administrative Plan. The updated plan will include procedures for reimbursing households when an underpayment of housing assistance occurs.

Comment 2

Finding 3: The Authority's Zero-Income Households Had Unreported Income

MCHA disagrees with this finding. Our policy states "Families claiming to have no annual income will be required to execute verification forms to determine that certain forms of income such as unemployment benefits, TANF, SSI, etc. are not being received by the household." The Housing Choice Guidebook, 7420.10 G, Chapter 12, Reexaminations, 12.1, states that

Comment 3

Ref to OIG Evaluation

Auditee Comments

Comment 4

reexaminations are required only annually. It suggests that a PHA may require more frequent reexaminations, but nowhere does it state that they are required.

Comment 5

Additionally, of the 14 zero-income households showing unreported income, EIV's were utilized according to our Admin Plan at time of annual reviews to determine fraud. Ten were ordered to repay the assistance and entered into a repayment agreement. This occurred prior to receipt of audit findings and would have occurred regardless of the audit. Only one household was found to be in error, and even that household EIV was reviewed but determined not to be fraudulent. Copies of the backrent calculation sheets and repayment agreements are included in our backup verification (exhibit 3). As you will see on the spreadsheet, two of these individuals are the responsibility of another HA due to portability.

Comment 6

MCHA comments to OIG recommendations:

- 3A. Our current procedures ensure that the applicable households are reimbursing the program for any overpayments due to unreported income. We have collected \$126,856.10 in fraud recovery funds since 1/1/06.
- 3B. We have adopted a policy of quarterly interviews with participants claiming to have zero income. They are asked to complete a "household expenses" sheet explaining what expenses they have and how those are paid.
- 3C. We review EIV for all households at least annually at review time. In 2006 we entered into repayment agreements for \$316,970.44 and collected \$48,168.16. So far in 2007 we have entered into repayment agreements for \$398,231.40 and collected \$78,687.94 in fraud recovery monies.
- 3D. MCHA currently terminates for amounts owed over \$5000. The current plan, however, states that we are not obligated to enter into a repayment agreement for any amount. Wherever possible, MCHA tries to accommodate participants for their benefit. If it is apparent that the participant will be uncooperative with payments or future reporting of income, we certainly will terminate their assistance.

MCHA administration and staff are all appreciative of the feedback provided from this audit. We intend to use this information to implement controls and procedures that will ensure proper utilization of program funds. Our goal is to assist as many households as we can within the guidelines of HUD's regulations.

Sincerely,



John W Hamm III
Executive Director

cc Steven Meiss, HUD

Comment 7

Procedures for Quality Control – HQS Inspections

The goal of these quality control procedures is to ensure the integrity of Housing Quality Standards in our Housing Choice Voucher Program by providing the needed quantity of inspections and guaranteeing their validity.

In May, 2007, MCHA provided additional training for three inspectors. The inspection team will consist of one full-time trained and certified inspector, one additional trained and certified staff member to provide back-up and support and one trained and certified quality control specialist.

The full-time inspector will conduct all initial and special inspections as well as re-inspections. When an applicant submits a Request for Tenancy Approval, a Request for Inspection is forwarded to the full-time inspector, who will schedule the inspection and notify the applicant and owner. MCHA has inspection software which allows information to be entered on site. Upon completion, inspection results are printed and forwarded to the Section 8 Director. The Section 8 Director then enters the date of completion, name of inspector and whether the unit passed or failed into the recertification software for submission to PIC. Inspection results are then filed in the participant's file.

An outside vendor will conduct annual inspections and re-inspections. The Section 8 Director creates a database from our recertification software listing unit information and inspection due dates. The same information is downloaded from PIC for back-up verification. Both reports are sent to the outside vendor quarterly or upon request. The vendor conducts inspections and prints the results. After being printed, the results are forwarded to the Section 8 Director. The date, vendor name and whether the unit passed or failed is entered into recertification software for submission to PIC. Inspection results are then filed in the participant's file.

In instances where the outside vendor finds failed items in two attempts, the Section 8 Director is notified. That unit is placed in abatement and will be followed up on by the MCHA full-time inspector. Where the vendor makes two attempts and one or both are unsuccessful due to the participant not being home or refusing the inspections, the Section 8 Director is notified and the MCHA full-time inspector will be responsible for conducting subsequent visits.

The Section 8 Director is responsible for ensuring all required annual inspections are completed within the necessary time frames. This will be tracked by reviewing PIC information at least quarterly.

According to SEMAP, MCHA's minimum sample size for quality control inspections is 20 per year. MCHA intends to exceed that number, inspecting 40 annually or ten every quarter. MCHA quality control specialist will review a random sampling of inspections completed in the previous 3 months. A report will be run from our tenant software identifying which units have been inspected and who inspected them. The selected units will represent a cross section of neighborhoods, include various types of inspections (i.e. annual, initial, and special), and be drawn from both the outside vendor and the MCHA full-time inspector.

Any inspections found to be in error will be reported to the Section 8 Director and flagged in the tracking schedule for follow up until they can be approved. Inspectors will be held accountable for correcting their errors and will be subject to disciplinary action where appropriate.

O:\Office on Madco\sec 8\OIG Audit Findings 2007\Procedures for Quality Control - HQS Inspection.docx

Comment 7

Procedures for Quality Control

The goal of these quality control procedures is to audit a representative portion of files on an ongoing basis to ensure the accuracy of the information being reported and compliance with HUD regulations.

A report will be run from our recertification software identifying which files have been completed for the current month. 25% of each specialist's recertification files will be randomly selected for audit and all new admissions will be thoroughly reviewed upon completion.

A schedule will be kept identifying which recertification files have been reviewed. New admission files will not be listed in this schedule simply because they will all be reviewed. This schedule will identify the household and include the following information: move-in date, effective date and type of most recent recertification, responsible staff member, date of file audit, findings and comments.

Any files found to be in error will be returned to the responsible staff member with instructions and a time limit for correction. These files will be flagged in the schedule and followed through until they can be approved. Individual specialists will be held accountable for correcting their errors and will be subject to disciplinary action where appropriate.

OIG Evaluation of Auditee Comments

Comment 1 The recommendations were revised to reflect the Authority's corrective actions taken for the 40 units identified as failing the housing quality standards inspections conducted by our appraiser.

In accordance with HUD's requirements, the Authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards. Further, HUD is permitted to reduce or offset any program administrative fees paid to a public housing authority if it fails to enforce HUD's housing quality standards.

The actions planned by the Authority, if fully implemented, should improve its housing quality standards inspections process.

Comment 2 We reviewed the documentation provided by the Authority, determined that 17 of the 37 households originally questioned had sufficient supporting documentation, and revised Recommendation 2C in this audit report to reflect this.

As previously stated above, the actions planned by the Authority, if fully implemented, should improve its file process to maintain complete and accurate records for the program.

Comment 3 While the Authority may disagree with the finding, its adoption of a quarterly interview process with program households claiming to have zero income, and its interest in implementing controls and procedures, indicates the Authority's willingness to further address the importance of this issue.

Comment 4 The Authority's repayment agreements are not specific as to the time period in question or the reason for the agreement.

Comment 5 The Authority contends that two of the zero income households were the responsibility of another housing authority due to portability. If the households were absorbed by another authority, the Authority should coordinate with the absorbing authority.

Comment 6 The Authority's recovery efforts are commendable. With the addition of written procedures and controls, the Authority's efforts should follow its written plan more closely.

Comment 7 We agree that these written procedures should improve the Authority's housing quality standards inspections process and file accuracy. However, the Authority did not provided documentation to support that these procedures were implemented.

Appendix C

FEDERAL REQUIREMENTS

Finding 1

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.305(a) state that the public housing authority may not give approval for the family of the assisted tenancy or execute a housing assistance contract until the authority has determined that all the following meet program requirements: (1) the unit is eligible, and (2) the unit has been inspected by the authority and passes HUD's housing quality standards.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.401 require that all program housing meet HUD's housing quality standards performance requirements, both at commencement of assisted occupancy and throughout the tenancy.

HUD's regulations 24 CFR [*Code of Federal Regulations*] 982.404(a) state that the owner must maintain the unit in accordance with HUD's housing quality standards. If the owner fails to maintain the dwelling unit in accordance with HUD's housing quality standards, the authority must take prompt and vigorous action to enforce the owner's obligations. Remedies for such breach of the housing quality standards include termination, suspension or reduction of housing assistance payments, and termination of the housing assistance payments contract. The authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards unless the owner corrects the defect within the period specified by the authority and the authority verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any public housing authority-approved extension).

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.405(a) require public housing authorities to perform unit inspections before the initial move-in and at least annually. The authority must inspect the unit leased to a family before the term of the lease, at least annually during assisted occupancy, and at other times as needed to determine whether the unit meets housing quality standards.

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240 state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 5, pages 5-31 through 32, states that the medical expense deduction is permitted only for households in which the head or spouse s at least 62 years of age or disabled (elderly or disabled households). If the household is eligible for a medical expense deduction, the medical

expense of all family members may be counted. Medical expenses are expenses anticipated to be incurred during the 12 months following certification or reexamination, which are not covered by an outside source such as insurance. The medical allowance is not intended to give a family an allowance equal to the past year's expenses but to anticipate regular ongoing and anticipated expenses during the coming year.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 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 six 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 other evidence of the Social Security number as HUD and, where applicable, the authority may prescribe in administrative instructions.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.230(a) require each member of the family of an assistance applicant or participant who is at least 18 years of age and each family head and spouse regardless of age to sign one or more consent forms.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.508(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 receiving assistance under a Section 214-covered program on September 30, 1996, or applying 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 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. (i) For each adult, the declaration must be signed by the adult. (ii) 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 [*Code of Federal Regulations*] 5.901(a) include requirements that apply to criminal conviction background checks by public housing authorities that administer Section 8 and public housing programs when they obtain criminal conviction records, under the authority of section 6(q) of the 1937 Act (*United States Code*

42.1437d(q)), from a law enforcement agency to prevent admission of criminals to public housing and Section 8 housing and to assist in lease enforcement and eviction.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.4 state that the voucher is the document issued by the authority to a family selected for admission to the voucher program. This document describes the program and procedures for the authority's approval of a unit selected by the family. The voucher also states obligations of the family under the program.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 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 [*Code of Federal Regulations*] 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 three years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family. The authority must keep the following records for at least three 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 rent to 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 [*Code of Federal Regulations*] 982.162(a)(3) state that the authority must use program contracts and other forms required by HUD headquarters including the tenancy addendum required by HUD.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.305(d) state that after receiving the family's request for approval of the assisted tenancy, the housing authority must promptly notify the family and owner of whether the assisted tenancy is approved.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.311(d) state that if the family moves out of the unit, the authority may not make any housing assistance payment to the owner for any month after the month when the family moves out. The owner may keep the housing assistance payment for the month when the family moves out of the unit.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.505(B)(4) state that if the payment standard amount is increased during the term of the contract, the increased payment standard amount shall be used to calculate the monthly housing assistance payment for the family beginning on 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 [*Code of Federal Regulations*] 982.516(a)(1) require the 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: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income, and (iv) 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 examinations must be conducted in accordance with policies in the authority's administrative plan. As a condition of admission to or continued assistance under the program, the authority shall require the family head and such other family members as the authority designates to execute a HUD-approved release and consent form (including any release and consent as required under 5.230 of this title) authorizing any depository or private source of income or any federal, state, or local agency to furnish or release to the authority or HUD such information as the public housing authority or HUD determines to be necessary. The authority and HUD must limit the use or disclosure of information obtained from a family or from another source pursuant to this release and consent to purposes directly in connection with administration of the program.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.517(a) state that the authority must maintain a utility allowance schedule for all client-paid utilities, for cost of client-supplied refrigerators and ranges, and for other client-paid housing services.