



Issue Date	August 17, 2007
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Audit Report Number	2007-KC-1007
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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: St. Clair County Housing Authority, Belleville, Illinois, Did Not Properly Calculate Housing Assistance Payments

HIGHLIGHTS

What We Audited and Why

We audited the St. Clair County Housing Authority's (Authority) Section 8 Housing Choice Voucher program. We selected the Authority based on its ranking in our risk analysis of public housing authorities. Our audit objective was to determine whether the Authority properly calculated housing assistance payments.

What We Found

The Authority did not consistently calculate housing assistance payments correctly. Of the 89 files statistically selected for review, the Authority incorrectly calculated the housing assistance payments of 52 households, resulting in overpayments and underpayments totaling more than \$29,000 for the period July 1, 2004, through December 31, 2006.

What We Recommend

We recommend that the U.S. Department of Housing and Urban Development (HUD) require the Authority to reimburse its program \$26,010 from administrative fee reserves for the overpayments and reimburse appropriate households \$3,113 from administrative fee reserves funds for the housing assistance underpayments.

Additionally, we recommend that HUD require the Authority to implement adequate procedures and controls to ensure that staff properly calculate and administer housing assistance payments, preventing future errors and improper payments.

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 or directives issued because of the audit.

Auditee's Response

We provided the draft report to the Authority on July 23, 2007, and requested a written response. We received its response on August 3, 2007. The Authority generally agreed with our findings and agreed to reimburse the program for the overpayments and the appropriate households for the underpaid benefits.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The St. Clair County Housing Authority (Authority) was organized in 1934 under the laws of the State of Illinois. Governed by a five-member board of commissioners, its purpose is to provide adequate housing for low-income individuals.

The Authority operates several federally funded programs, including a Section 8 Housing Choice Voucher program. The Housing Choice Voucher program provides housing subsidies to property owners who rent to qualifying program participants. The Authority is responsible for processing applications and recertifications, performing inspections of units selected by program participants, calculating the maximum amount of housing assistance allowable, and making housing assistance payments to owners and tenants. Under the conditions of an annual contributions contract, the U.S. Department of Housing and Urban Development (HUD) provides funding for both the housing assistance and the administrative cost of managing the program.

The Authority's current annual budget for this program is more than \$ 7.5 million, which was allocated based on a formula-driven system administered by HUD. As of December 2006, the Authority had 1,614 Section 8 housing choice vouchers, with a utilization rate of 100 percent, based on funding.

Our audit objective was to determine whether the Authority properly calculated housing assistance payments.

RESULTS OF AUDIT

Finding: The Authority Did Not Properly Calculate Housing Assistance Payments

The Authority incorrectly calculated housing assistance payments for 52 of the 89 household files reviewed. It had not implemented adequate procedures and controls to ensure the integrity of its program. As a result, it made housing assistance overpayments and underpayments totaling more than \$29,000. Based on our statistical sample, we estimate that the Authority will overpay more than \$78,000 in housing assistance over the next year.

The Authority Incorrectly Calculated Assistance

The Authority did not consistently calculate housing assistance payments correctly. To determine whether it properly calculated housing assistance payments, we reviewed its certifications affecting payments from July 2004 through December 2006 for 89 statistically selected program households. It did not properly calculate housing assistance payments for 52 of the 89 household files reviewed. These 52 files contained the following errors:

Type of error	Number of files	Percentage of sample
Payment standard selection	4	4%
Utility allowance calculation	17	19%
Adjusted gross income calculation	35	39%
Payment administration	1	1%

Appendix C of this report details the errors and associated improper payments for the 52 households.

The Authority Did Not Have Adequate Controls

The Authority had not implemented adequate policies, procedures, and controls to ensure that its caseworkers properly performed essential duties relating to the calculation of housing assistance. Its Section 8 administrative plan was the only written policy that addressed caseworker duties and the maintenance of tenant files. However, the plan lacked sufficient detail to instruct caseworkers on how to carry out everyday tasks. For example, it did not describe the process for annualizing income and handling discrepancies among supporting documentation.

In 2006, the Authority underwent a major reorganization, resulting in significant staffing changes. Its current supervisory staff began taking steps to improve its policies, procedures, and controls. In a December 2006 corrective action report, the Authority indicated that staff were in the process of obtaining rent calculation training and certification. While the report also stated that “an internal ‘quality control’ audit process will be implemented to improve accuracy in the determination of adjusted income, income calculations, and utility allowance calculations,” it did not establish a timeframe for such action.

The Authority Made Improper Housing Assistance Payments

The Authority made improper housing assistance payments for 52 households. Specifically, it made approximately \$26,000 in housing assistance overpayments for 37 households, including rental subsidies paid to owners and utility reimbursements paid to tenants. Additionally, it underpaid more than \$3,000 in rental subsidies for 15 households.

Based on the sample files reviewed, we estimate that the Authority overpaid nearly \$200,000 in housing assistance payments during our 30-month audit period. As detailed in the Scope and Methodology section of this report, we estimate that the Authority can prevent more than \$78,000 in improper housing assistance payments over the next year if it continues to develop and implement adequate procedures and controls to ensure compliance with HUD regulations.

Recommendations

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

- 1A. Reimburse its program \$26,010 from administrative fee reserves for the housing assistance overpayments, including \$22,301 in rental subsidies paid to owners and \$3,709 in utility reimbursement paid to tenants.
- 1B. Reimburse the appropriate households \$3,113 from administrative fee reserves for the housing assistance underpayments.
- 1C. Revise its program administrative plan to address how households will be reimbursed when an underpayment of housing assistance occurs.
- 1D. Implement adequate procedures and controls to ensure that staff correctly calculate housing assistance payments, preventing \$78,982 in improper payments over the next year.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we

- Reviewed background information and criteria that regulate the Authority and its operations.
- Reviewed various reports, databases, and documents to determine existing conditions at the Authority, including information contained in HUD's Public and Indian Housing Information Center system, Office of Public Housing monitoring reports and responses, and an independent public accounting report.
- Conducted interviews with both HUD staff tasked with oversight of the Authority's operations and key Authority staff, including management and program employees.
- Examined the Authority's administrative plan, policies, procedures, and payment records.

To perform our review, we relied upon computer-processed data provided by the Authority. Specifically, we relied upon a spreadsheet that contained data on housing assistance owner subsidy payments made during our 30-month audit period for 2,334 households. We analyzed the data and concluded that the data are sufficiently reliable for our purposes of sample selection and projection.

Using various data analytical software tools, we determined that a sample size of 89 household files from the universe of 2,334 was sufficient using unrestricted variable sampling methodology. Our criteria included a 90 percent confidence level, 10 percent estimated error rate, and precision level of plus or minus 10 percent. Accordingly, we randomly selected 89 of the 2,334 household files for detailed review. Because some of the sampled household files could not be located, we made additional random selections as necessary to maintain the integrity of the computed sample size. This sampling plan allowed for quantification and projection of any over/underpayments of housing assistance.

To determine whether the Authority properly calculated the housing assistance payments made during our audit period for the sample households, we analyzed information entered into the Authority's certification system as well as supporting documentation such as household member identification, fair market rent data, income verifications, and rental unit records. We then calculated the correct housing assistance payment amounts covering each month of our audit period. During the course of this audit, we made an additional seven random selections due to the unavailability of hard-copy files.

We found that the Authority incorrectly calculated housing assistance payments for 52 of the 89 household files reviewed. As a result, it made housing assistance overpayments and underpayments totaling more than \$29,000 for the sampled transactions.

To determine our estimate of \$78,982 in potential overpayments due to calculation errors over the next year, we used difference estimation techniques to project the sample results.* This yielded an estimate of \$503,200 in housing assistance overpayments during our 30-month audit period with upper and lower limits of \$808,944 and \$197,456, respectively. For reporting purposes, we annualized the lower limit (\$197,456 divided by the audit period of 30 months times 12 months, or \$78,982). This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use if the Authority implements our recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

During the survey phase of this review, we also reviewed a hotline complaint containing nine allegations. To conduct our testing of the complaint issues, we reviewed transactions and applicable regulations. We were unable to substantiate the allegations.

We performed on-site work from January through May 2007 at the Authority's office located at 1790 South 74th Street in Belleville, Illinois. Our audit period generally covered July 1, 2004, through December 31, 2006. We expanded the period as needed to address a hotline complaint reviewed during the survey phase of our review. We performed our review in accordance with generally accepted government auditing standards.

* Because the Authority data used as our sample universe only contained owner subsidy payments, we did not consider the utility reimbursement overpayments when conducting our statistical projection.

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, and
- Compliance with applicable laws and regulations.

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:

- Controls over the calculation of housing assistance payments.

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 Weaknesses

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

- The Authority had not implemented adequate policies, procedures, and controls to ensure that its caseworkers properly performed essential duties relating to the calculation of housing assistance.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put To better use 2/
1A	\$26,010	
1B		\$3,113
1D		\$78,982

- 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/ 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 this instance, if the Authority implements our recommendations, it will ensure that tenants are reimbursed for personal funds they should not have expended as the Authority underpaid the amount of assistance they were entitled to receive under the Section 8 Housing Choice Voucher program. Additionally, it will cease to incur excessive housing assistance payments and, instead, will expend those funds in accordance with HUD requirements. Once the Authority improves its controls, this will be a recurring benefit. Our estimate only reflects the initial year of this benefit. These amounts do not include potential offsetting costs incurred to implement our recommendations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



ST. CLAIR COUNTY HOUSING AUTHORITY

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August 3, 2007

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Regional Inspector General for Audit
U.S. Department of Housing and -
Urban Development
Region VII Office of Audit
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Kansas City, Kansas 66101-2406

Dear Mr. Hosking:

Please find attached St. Clair County Housing Authority's auditee response to the draft of
OIG's audit of the St. Clair County Housing Authority.

Thank you for your assistance.

Please call if you have any questions.

Sincerely,

David L. Wagner
Executive Director

DLW/ml
Attachment

cc: Kim Dahl, OIG - St. Louis
Carrie Gray, OIG - St. Louis
Larry McLean - SCCHA Deputy Director

"EQUAL HOUSING OPPORTUNITY"

EXECUTIVE DIRECTOR
Dave Wagner

ATTORNEY
Philip Rice
Kevin Kaufhold

COMMISSIONERS
Eugene Verdu, Chairman
Ronald Neff

Billie Jean Miller
Vivian Cash
Phil Johnson



Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION (CONTINUED)

Ref to OIG Evaluation

Auditee Comments

Comment 1

St. Clair County Housing Authority's
Auditee's Reply to the
HUD-OIG Audit Report

Part 1

It is requested that the narrative below be included as "Auditee's Response on the bottom of page 2 of the report.

The St. Clair County Housing Authority (SCCHA) does not dispute the accuracy of the findings contained in the audit report issued by the HUD Office of Inspector General (OIG). SCCHA agrees to reimburse the program \$26,010 in overpayments as determined by the OIG in accordance with terms and conditions negotiated with the Chicago Public Housing Hub. SCCHA further agrees to reimburse the appropriate households a total of \$3,113 for underpaid benefits as determined by the OIG.

It is noted that the \$29,123 in over/under payments as determined by the OIG represents approximately one-tenth of one percent (0.001) of the total Housing Choice Voucher (HCV) funds expended over the 30 month audit period. It would not be cost effective for SCCHA or the OIG to invest any additional resources on further review / analysis / discussion of the OIG determination of over / under payments.

SCCHA considered the OIG audit process as a valuable learning opportunity and is confident that the experience will assist in improving the accuracy of future housing assistance payments determinations as well as other aspects of program administration.

Part 2 – Auditee Comments

The St. Clair County Housing Authority (SCCHA) recognizes the valuable role the Office of the Inspector General (OIG) plays in the assurance that federal tax dollars appropriated for housing assistance benefits are properly administered and put to the best possible use.

The OIG staff conducting the audit was very knowledgeable regarding federal law and HUD regulations governing the program and was completely professional and courteous through-out the audit process. The OIG auditors were all very intelligent and highly skilled professionals. It is with admitted envy that this observation is made. It is certain that a much higher level of program performance could be achieved if the administrative fee structure of the Section 8 HCVF would allow compensation levels needed to attract and retain personnel that even approached the caliber equivalent to the OIG staff.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION (CONTINUED)

Ref to OIG Evaluation

Auditee Comments

The OIG report concludes that "The Authority had not implemented adequate policies, procedures, and controls to ensure that its caseworkers properly performed essential duties relating to the calculation of housing assistance."

While SCCHA would concede that prior to the 2006 reorganization (more information regarding the reorganization is included later in this reply narrative), effective program supervision was lacking, it also wishes to note that the federal laws and HUD regulations governing the determination of "projected" household income and the resulting level of housing assistance payments are recognized by Congress, HUD, and industry professionals as complex and burdensome.

For example, when "projecting" household income over an upcoming 12 month period, there is often not a single "right" answer. In many instances there can be several very reasonable projection methods that result in different estimates of household income (and resulting benefit level). It often becomes more a question of "what is the 'best' approach" given the circumstances (as opposed to a single 'right' answer). This is particularly true of the large percentage of assisted households who experience multiple changes in their income stream through a typical year. The changes result from many factors, including but certainly not limited to frequent job changes, seasonal employment arrangements and the interruption of child support payments.

There were times during the course of the audit that SCCHA staff and the OIG auditors disagreed over regulatory requirements related to a particular issue. When this occurred, one or both parties would research the regulations and available guidance material seeking to find additional clarification of the issue (a process that often involved a significant amount of time). There were situations when the results of the "research process" supported the auditor's position and other times when the research concluded that SCCHA had taken proper / allowable actions. These "professional exchanges" helped both parties to achieve an improved understanding of the governing regulations and will assist SCCHA in improving the accuracy of future housing assistance payments determinations. They also underscore the complex nature of the regulations that determine program benefit levels.

It has been estimated that the average time spent by the OIG auditing each file was between five to six hours. Again, SCCHA finds itself envious. Funding constraints simply do not permit staff to invest this much time in conducting rent determinations. SCCHA, like every other PHA, must work hard to meet the challenge of successfully administering the program with the limited resources available. It is recognized that as program administrators it is our responsibility to develop the methods by which to determine benefit levels with the highest degree of accuracy reasonably possible within the applicable financial constraints.

Prior to the OIG audit, SCCHA recognized that there were shortcomings in the administration and supervision of its Section 8 HCVF. Internal and financial audits had previously alerted the SCCHA's executive leadership of potential problem areas,

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION (CONTINUED)

Ref to OIG Evaluation

Auditee Comments

Comment 2

most notably in the area of proper determination of housing assistance payments. In May 2006, well before the OIG notified SCCHA of its intent to conduct an audit, a change was made in department directors. There was a subsequent staffing change in the Program Manager position (the staff person most directly responsible for ensuring the accurate determination of housing assistance payments). Since that time, the Deputy Director, the newly hired Program Manager and other senior staff have made a concerted effort to improve the accuracy of housing benefit determinations and other aspects of program administration. The corrective action strategy has included, but has not been limited to the following activities:

- *Professional training and certification of all staff responsible for income projections and housing assistance payments determinations;*
- *Staffing changes when determined necessary;*
- *Periodic in-service training sessions;*
- *Routine file audit process;*
- *Revision of the Administrative Plan to provide additional clarity, implement procedures to discourage program fraud and abuse, and to achieve other program objectives;*
- *Development and issuance of "Procedure Memorandum" to supplement the Administrative Plan currently in existence;*
- *Provide each staff person with rent determination responsibilities with appropriate reference material (i.e. Rent Calculation Training Workbook from professional trainer source, Section 8 HCVP Management Guidebook, and the Administrative Plan);*
- *Effective use of HUD EIV system to assist staff in making accurate rent determinations and to identify potential program fraud and abuse.*

As a result of OIG audit recommendations, the following activities will be incorporated to the corrective action strategy during the course of the fiscal year:

- *Major revision of Administrative Plan by fiscal year end to provide more detailed guidance to staff;*
- *Further develop and define routine audit process and fully implement before fiscal year end;*
- *Include a "preventive" component to internal audit process (review certain number of sample files before rent determinations go into effect).*

SCCHA believes that the ascribed activities will result in significantly improved accuracy in housing assistance payments determinations.

SCCHA wishes to thank the OIG for the many useful suggestions offered during the course of the audit. SCCHA is confident that the suggestions, along with other planned activities / changes will improve overall program administration performance.

OIG Evaluation of Auditee Comments

Comment 1 We identified errors in more than half of the files reviewed. Almost 20 percent of the 52 files with calculation errors had over/under payments totaling more than \$1,000. While the net of incorrect owner subsidy payments was only 2.4 percent of the total paid for the 89 sample files, our finding demonstrates the potential for large errors.

Additionally, regardless of dollar amount, any underpayment of benefits can be significant to the low-income individuals and families served by the Housing Choice Voucher program.

Comment 2 The proposed corrective actions, in conjunction with the actions already taken, sufficiently address recommendation 1D. These actions should ensure that staff correctly calculate housing assistance payments.

Appendix C

SCHEDULE OF HOUSING ASSISTANCE ERRORS

OIG sample number	Type of error				Net of incorrect subsidy payments to owners		Utility reimbursement overpayments (1A)
	Payment standard selection	Utility allowance calculation	Adjusted gross income calculation	Payment administration	Overpayments (1A)	Underpayments (1B)	
1			x		\$276		
6		x			\$81		
9		x			\$42		
12			x			(\$188)	
13			x			(\$137)	
14		x			\$36		
15			x		\$221		
16		x	x		\$661		
17		x	x		\$1,609		
18			x			(\$42)	
19			x		\$258		
23			x		\$1,251		
24	x				\$187		
25			x		\$1,125		
26		x				(\$66)	
27			x		\$212		\$408
28		x			\$317		
30			x		\$313		
31		x				(\$9)	
32		x			\$84		
34			x			(\$21)	
37			x			(\$452)	
38		x				(\$84)	
39			x			(\$36)	
41			x			(\$90)	
44			x		\$1,083		\$84
45			x		\$48		
46	x					(\$126)	
47			x		\$2,136		
48			x				\$120
50			x		\$288		\$1,018
53		x				(\$1,428)	
55	x		x		\$1,280		
58				x	\$45		

Appendix C

SCHEDULE OF HOUSING ASSISTANCE ERRORS (CONTINUED)

OIG sample number	Type of error				Net of incorrect subsidy payments to owners		Utility reimbursement overpayments (1A)
	Payment standard selection	Utility allowance calculation	Adjusted gross income calculation	Payment administration	Overpayments (1A)	Underpayments (1B)	
60			x		\$640		
61			x		\$272		
62			x		\$690		
63			x		\$832		
64		x					\$175
65		x	x		\$219		\$180
67			x		\$96		
70		x				(\$121)	
73		x			\$110		
74	x		x		\$1,587		\$52
75			x		\$192		
77			x		\$5,846		\$1,672
80			x			(\$97)	
81			x		\$12		
82			x		\$36		
83		x			\$180		
84		x			\$36		
89			x			(\$216)	
Totals	<u>4</u> *	<u>17</u>	<u>35</u>	<u>5</u>	<u>\$22,301</u>	<u>(\$3,113)</u>	<u>\$3,709</u>

* While we identified payment standard selection errors in 29 of the 89 files reviewed, only four of these errors resulted in incorrect housing assistance calculations. In other cases, because the gross rent was less than both the payment standard improperly used and the correct payment standard, the housing assistance calculation was not impacted by the selection error.