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Audit Report Number	2009-CH-1012
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TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH

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

SUBJECT: The Lake Metropolitan Housing Authority, Painesville, Ohio, Needs to Improve Its Controls over Housing Assistance and Utility Allowance Payments

HIGHLIGHTS

What We Audited and Why

We audited the Lake Metropolitan Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The Authority was selected for audit based upon a congressional request from the Honorable Steven C. LaTourette. 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 and its program administrative plan to include determining whether the Authority accurately calculated housing assistance and utility allowance payments and maintained required documentation to support household eligibility. This is the first of three planned audit reports regarding the Authority's program.

What We Found

The Authority's program administration regarding housing assistance payment calculations and documentation to support households' eligibility for housing assistance was inadequate. Of the 100 files statistically selected for review, 88 did not contain documentation required by HUD and the Authority's program administrative plan to support more than \$801,000 in housing assistance and utility allowance payments. The Authority also incorrectly calculated or issued households' payments for 86 of the 100 household files, resulting in more than \$30,000 in overpayments and more than \$4,200 in underpayments for January

2007 through July 2008. Further, the Authority improperly received more than \$40,000 in program administrative fees for the households with incorrect and unsupported housing assistance payments. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$255,000 in housing assistance and utility allowances.

What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to provide documentation or reimburse its program more than \$836,000 from nonfederal funds for the unsupported payments cited in this audit report, reimburse its program from nonfederal funds for the improper use of more than \$71,000 in program funds, and implement adequate procedures and controls to address the finding cited in this audit report to prevent more than \$259,000 in program funds from being spent on excessive housing assistance and utility allowance 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 our file review results and supporting schedules to the Director of HUD's Cleveland 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 chairperson, and HUD's staff during the audit. We held an exit conference with the executive director on June 30, 2009.

We asked the executive director to provide comments on our discussion draft audit report by July 18, 2009. The executive director provided written comments, dated July 17, 2009. The executive director agreed with our finding and recommendations. 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 OBJECTIVE

The Lake Metropolitan Housing Authority (Authority) was created in October 1965 pursuant to Section 3735.01 of the Ohio Revised Code to provide safe and sanitary housing to low-income families. In 1977, the Authority began administering federal housing programs, beginning with the Section 8 rental housing assistance program. The Authority's jurisdiction was expanded to include all of Lake County, Ohio, in 1982. The Authority is a political subdivision of the State of Ohio and is governed by a seven-member board of commissioners appointed for five-year terms by local elected officials. The Authority's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Authority's day-to-day operations.

The Authority administers its 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 June 1, 2009, the Authority had 1,381 units under contract with annual housing assistance payments totaling more than \$8.8 million in program funds.

The Authority certified to troubled status on its Section Eight Management Assessment Program rating for the fiscal year ending June 30, 2008. As a result, HUD performed an on-site confirmatory review in February 2009 to assess the magnitude and seriousness of the Authority's noncompliance with program performance requirements. HUD and the Authority executed a corrective action plan, effective February 2009, in order to correct the deficiencies cited in the confirmatory review.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements to include determining whether the Authority (1) accurately calculated housing assistance and utility allowance payments and (2) maintained required documentation to support household eligibility. This is the first of three planned audit reports regarding the Authority's program.

RESULTS OF AUDIT

Finding: Controls over Housing Assistance and Utility Allowance Payments Need Improvement

The Authority did not comply with HUD's requirements and its program administrative plan regarding housing assistance and utility allowance payments. It failed to maintain required documentation to support payments to program landlords and households and consistently compute and issue payments accurately. These conditions occurred because the Authority lacked adequate procedures and controls to ensure that its calculations and payments were accurate and that HUD's requirements and its program administrative plan were appropriately followed. As a result, the Authority was unable to support more than \$800,000 in housing assistance and utility allowance payments and overpaid more than \$30,000 and underpaid more than \$4,200 in housing assistance and utility allowances. Based on our statistical sample, we estimate that over the next year, the Authority will overpay nearly \$255,000 in housing assistance and utility allowances.

The Authority Lacked Documentation to Support More Than \$800,000 in Housing Assistance and Utility Allowance Payments

We statistically selected 100 household files from a universe of 1,560 households receiving housing assistance payments from January 2007 through July 2008 using data mining software. The 100 files were reviewed to determine whether the Authority had documentation for households' housing assistance and utility allowance payments and whether the payments issued were accurate. Our review was limited to the information maintained by the Authority in its households' files.

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$801,330 for January 2007 through July 2008. The documentation was required by HUD's regulations and the Authority's program administrative plan. Of the 100 household files reviewed, 88 files (88 percent) had missing or incomplete documents as follows:

- 66 were missing the HUD-prescribed tenancy addendum (Form HUD-52641-A),
- 35 were missing the households' initial application,
- 17 were missing and one had an incomplete disclosure of information regarding lead-based paint,
- Eight were missing a rent reasonableness determination,
- Eight were missing the request for tenancy approval (Form HUD-52517),

- Six were missing and three had incomplete or invalid housing assistance payments contracts (Form HUD-52641),
- Six were missing and two had incomplete or invalid lease agreements,
- Four were missing signed U.S. citizenship certifications, and
- One was missing proof of a criminal history check for all adult family members.

The Authority obtained new or original documentation for 81 of the 88 household files after we notified it of the missing or incomplete documents during the audit. For two additional household files, the Authority confirmed and provided documentation that supported that the household members were deceased. These actions resulted in a reduction in recommendation 1A to \$12,000 (\$10,928 in housing assistance and utility allowance payments and \$1,072 in associated administrative fees). For the remaining five household files, the Authority was unable to obtain the fully executed documentation since either (1) the households were no longer in the program and could not be contacted, (2) prior landlords were not cooperative, or (3) the landlord was deceased. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining five household files (88 minus 83).

The Authority Made Incorrect Housing Assistance and Utility Allowance Payments

The Authority's miscalculations and its failure to comply with program requirements resulted in housing assistance and utility allowance overpayments of \$30,401 and underpayments of \$4,268. Of the 100 files reviewed, 86 (86 percent) contained either calculation or issuance errors that affected the amount of assistance paid in one or more of the subsidy determinations. These files included 60 household files with overpayments and 26 household files with underpayments. The 86 files contained the following errors:

- 67 had incorrect utility allowances,
- 55 had calculation errors relating to annual income,
- 33 had an incorrect payment standard,
- 26 had inappropriate income deductions and/or allowances,
- 11 had income certifications that were processed in an untimely manner,
- 10 had incorrect issuances of assistance,
- Five had incorrect contract rents,
- Five did not have proper retroactive adjustments in housing assistance for households that reported an increase in income in an untimely manner, and
- One had an incorrect repayment agreement calculation.

The Authority's Procedures and Controls Had Weaknesses

The Authority did not maintain the required program documentation and made incorrect housing assistance and utility allowance payments to program landlords and households because it lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan and procedures were followed.

The Authority did not provide sufficient guidance or instructions to its program staff that were responsible for determining eligibility and calculating and issuing housing assistance and utility allowance payments as follows:

- The Authority's purge procedures implemented during the audit scope did not ensure that all documentation required to determine a household's eligibility and assistance in the program was maintained in the household files.
- The Authority's program administrative plan provided limited or no details regarding the Authority's discretionary matters. As a result, the certification specialists were not always aware of the proper procedures for performing subsidy determinations. While the calculation methods used by the certification specialists were, in some instances, understandable, the calculations were not always consistent or in accordance with the Authority's procedures manual.
- Pertinent program information was not always disseminated to the program staff. For example, a board resolution was passed to revise the payment standards to 110 percent of the fair market rents, effective May 1, 2006. However, the program staff was not aware of the revised payment standards and, therefore, continued to use the payment standards that were effective January 1, 2006. This occurred for 24 of the 100 household files reviewed.
- The applicability of pertinent program information was not always clear to the program staff. For instance, the Authority had two versions of the utility allowance schedules, effective April 2006. The documentation provided by the Authority indicated that the utility allowances were revised in 2006, but there was no indication as to when the revised schedules went into effect, and the staff was not aware of the revised utility allowance schedules. Further, in April 2007, the Authority added the air conditioning allowance to the utility allowance schedules, but the staff was not provided clear directions as to when the air conditioning allowance was applicable.

The Authority did not provide adequate training to its staff to ensure that HUD's requirements and its program administrative plan and procedures were followed based upon the following items:

- The program administrative plan and other applicable policies and procedures were not always followed regarding the calculation of income, assets, and other factors. Instead, the certification specialists either relied on the subsidy determinations performed by previous staff or obtained verbal instructions from each other.
- The program staff did not receive sufficient training when the Authority implemented the PHA-Web software program in July 2007. Further, the program staff did not have access to reference materials regarding the use of the software. As a result, the program staff was unfamiliar with many of the features of the software program.
- The program staff made inadvertent errors. For example, the documentation maintained in the household files indicated proper calculations; however, these calculations were not reflected in the HUD-50058 family report because they were not updated in the software program.
- Although the majority of the staff passed formal rent calculation and/or certification specialist training, some believed that they were misguided when provided on-the-job training.

The Authority performed inadequate quality control reviews as follows:

- The Authority performed quality control reviews between July 2007 and June 2008 on the annual and initial examinations for 14 of the 100 households included in our statistical sample. The Authority's quality control review results agreed with our results for 10 of the 14 households. For the remaining four households, the reviewer failed to identify errors regarding utility allowances and asset income.
- The reviewer provided guidance regarding asset income that conflicted with the Authority's standard policies and procedures. After the quality control reviews were completed, the program staff was provided the results to make the appropriate adjustments; however, we could not determine whether the reviewer always followed up on the corrective actions made by the program staff. This resulted in an inaccurate correction for at least one file.
- The program staff indicated that the reviewer did not provide additional training or guidance based upon the quality control review results.

The executive director acknowledged that the Authority's program administrative plan was outdated; therefore, the Authority took steps to revise the plan. The program administrative plan received board approval in April 2009. In addition, the Authority contracted with outside consultants to receive a clear and independent review of its program. The consultant's contract included the implementation of the Authority's Section Eight Management Assessment Program auditing system in May 2008.

During the course of the audit, the Authority took the following measures to improve its program:

- In November 2008, the Authority streamlined its file organization, verification, and calculation procedures to ensure consistency of its operations.
- In November 2008, the Authority contracted out the criminal background check responsibilities for program households.
- In January 2009, the Authority sought and obtained HUD approval to revise the request for tenancy approval document (Form HUD-52517) to reduce errors involving the utility allowance.
- In February 2009, the Authority provided training to its program staff regarding the PHA-Web software and HUD's Section Eight Management Assessment Program compliance. Training was also regularly provided to address topics that arose as a result of the quality control reviews or other issues. In May 2009, the Authority provided formal rent calculation training to its staff, conducted by Nan McKay. In addition, the Authority planned to provide training to the staff on each section of the revised program administrative plan.
- As of February 2009, the Authority implemented corrective action procedures toward staff that fall below the acceptable error rate based upon the quality control reviews.
- In February 2009, the Authority restructured the staff by modifying the responsibilities for the certification specialist I position (formerly called a program interviewer) and creating the certification specialist II position. In addition, in April 2009, the Authority added a program assistant manager position with responsibilities including performing quality control reviews to ensure compliance.

The Authority's staff stated that they recognized the importance of being accountable for their work and taking ownership of the household files they review because this contributes to the Authority's Section Eight Management Assessment Program rating. We did not review any household files since the

Authority implemented its new procedures. Therefore, we did not determine whether the new procedures had improved the Authority's weaknesses.

Conclusion

As a result of the weaknesses in the Authority's procedures and controls, the Authority disbursed \$801,330 in housing assistance and utility allowance payments without supporting documentation and overpaid \$30,401 and underpaid \$4,268 in housing assistance and utility allowances.

In accordance with 24 CFR [*Code of Federal Regulations*] 982.152(d), HUD may reduce or offset any administrative fee to public housing authorities, in the amount determined by HUD, if the authorities fail to perform their administrative responsibilities correctly or adequately under the program. The Authority received \$1,072 in program administrative fees related to the unsupported payments for the five households and \$39,581 in program administrative fees for the 86 households with incorrect housing assistance and utility allowance payments.

Unless the Authority implements adequate procedures and controls regarding its disbursement of payments to ensure compliance with HUD's regulations and its program administrative plan, we estimate that nearly \$255,000 in payments will be misspent over the next year. 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 Cleveland Office of Public Housing require the Authority to

- 1A. Provide supporting documentation or reimburse its program \$836,136 (\$801,330 in housing assistance and utility allowance payments and \$34,806 in associated administrative fees) from nonfederal funds for the unsupported payments and associated administrative fees cited in this finding, of which \$12,000 (\$10,928 in housing assistance and utility allowance payments and \$1,072 in associated administrative fees) remains to be supported or should be reimbursed.
- 1B. Reimburse its program \$69,982 (\$30,401 in housing assistance and utility allowance payments and \$39,581 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.

- 1C. Reimburse the appropriate households \$4,268 for the underpayment of housing assistance and utility allowances cited in this finding.
- 1D. Implement adequate procedures and controls when purging household files to ensure that all required file documentation is complete, accurate, and maintained in its household files to support the eligibility of housing assistance and utility allowance payments.
- 1E. Implement adequate procedures and controls to properly calculate housing assistance and utility allowance payments. By implementing adequate procedures and controls, the Authority should help to ensure that \$254,960 in net program funds is appropriately used for future payments.
- 1F. Ensure that its staff responsible for performing the household recertifications are knowledgeable of HUD's and its program policies and procedures, including its software programs, by providing adequate training.
- 1G. Ensure that its staff responsible for performing quality control reviews are knowledgeable of HUD's and its program policies and procedures to ensure that mistakes made during the household recertifications are not overlooked and corrective actions are taken to prevent the errors from recurring.

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

- 1H. Revise the February 2009 corrective action plan with the Authority to ensure that it encompasses the recommendations cited in this finding.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; and HUD's program requirements at 24 CFR Parts 5 and 982, HUD's Public and Indian Housing Notice 2004-1, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's accounting records; annual audited financial statements for fiscal years 2005, 2006, and 2007; general ledgers; bank statements; board meeting minutes from June 2006 through September 2008; organizational chart; program household files; program annual contributions contract with HUD; program policies and procedures; and program administrative plan, effective January 2000.
- HUD's reports and files for the Authority's program.

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

Using data mining software, we statistically selected 100 households from the universe of 1,560 households that received housing assistance payments from January 2007 through July 2008. The 100 files were reviewed to determine whether the Authority (1) had documentation to support the households' housing assistance and utility allowance payments and (2) correctly calculated and issued the payments for the period January 2007 through July 2008. Our sample selection included households receiving tenant-based voucher assistance and included a 90 percent confidence level and a precision of plus or minus 10 percent.

To determine our statistical sample, we requested a data file listing all participants and related housing assistance or utility allowance payment disbursements from the Authority's program for our audit period of July 1, 2006, through May 31, 2008. The Authority underwent a software conversion during July 2007. Due to the software conversion, data before January 2007 were unable to be obtained in the format required for the statistical sample determination. Therefore, we modified the scope to January 1, 2007, through July 31, 2008.

Unless the Authority implements adequate procedures and controls regarding the disbursement of housing assistance and utility allowance payments to ensure compliance with HUD's regulations and its program administrative plan, we estimate that nearly \$255,000 in payments will be misspent over the next year using data mining software. Because this figure represents the more conservative lower limit projection, we are 90 percent certain that the amount overpaid annually was at least \$254,960. Our sample results determined that 60 of the 100 (60 percent) households' housing assistance and utility allowances were overpaid. This estimate is presented solely to demonstrate the annual amount of program funds that could be put to better use for appropriate payments if the Authority implements our recommendation. While these benefits could recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work from July 2008 through July 2009 at the Authority's program office located at 189 First Street, Painesville, Ohio. The audit covered the period January 1, 2007, through July 31, 2008, but was expanded as necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are 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. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our 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 internal 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 that the following items are significant weaknesses:

- The Authority lacked adequate procedures and controls when purging files to ensure that required documentation to determine a household's eligibility and assistance in the program was maintained in the household files.
- The Authority lacked adequate procedures and controls to ensure compliance with HUD's requirements, its program administrative plan, and its procedures manual regarding the calculation and issuance of housing assistance and utility allowance payments.
- Quality control reviews did not always identify housing assistance and utility allowance calculation and/or issuance errors or ensure that corrective actions were taken to prevent errors from recurring.

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		<u>\$836,136</u>	
1B	<u>\$69,982</u>		
1C			\$4,268
1E			<u>254,960</u>
Totals	<u>\$69,982</u>	<u>\$836,136</u>	<u>\$259,228</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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements recommendation 1E, it will ensure that program funds are spent according to federal requirements. Once the Authority successfully improves its procedures and 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



Lake Metropolitan Housing Authority

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July 17, 2009

Mr. Heath Wolfe
Regional Inspector General for Audit, Region V
US Department of Housing and Urban Development
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, IL 60604-3507

RE: OIG Phase I Draft Audit Report-Revised

Dear Mr. Wolfe,

This letter represents the Lake Metropolitan Housing Authority's (LMHA) response to the Phase I Discussion Draft Audit Report 2009-CH-101X, dated June 18, 2009.

About two years ago, LMHA's Board of Commissioners recognized a need to improve the operations of this Housing Authority. Starting with a new Executive Director, LMHA has been systematically working towards this goal.

The timing of this audit is appropriate. The Lake Metropolitan Housing Authority recognizes the value of the OIG audit process and supports the assessment of our internal controls and procedures. We acknowledge that the report identifies opportunities for improvement in our management of program areas. Additionally, we maintain an ongoing commitment to enhance the policies and procedures and internal controls which govern our administration of the Housing Choice Voucher Program.

As noted within this report, LMHA has taken steps to improve our internal controls and procedures and will utilize this report to continue to do so.

Very truly yours,

Steven K. Knotts
Executive Director

The Authority Lacked Documentation to Support More Than \$800,000 in Housing Assistant and Utility Allowance Payments

We statistically selected 100 household files from a universe of 1,560 households receiving housing assistance payments from January 2007 through July 2008 using data mining software. The 100 files were reviewed to determine whether the Authority had documentation for households' housing assistance and utility allowance payments and whether the payments issued were accurate. Our review was limited to the information maintained by the Authority in its households' files.

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$801,330 for January 2007 through July 2008. The documentation was required by HUD's regulations and the Authority's program administrative plan. Of the 100 household files reviewed, 88 files (88%) had missing or incomplete documents:

- 66 were missing the HUD-prescribed tenancy addendum (Form HUD-52641-A)
- 35 were missing the households' initial application
- 17 were missing, and one had an incomplete disclosure of information regarding lead-based paint
- Eight were missing a rent reasonableness determination
- Eight were missing the request for tenancy approval (Form HUD-52517)
- Six were missing and three had incomplete or invalid housing assistance payments contracts (Form HUD-52641)
- Six were missing and two had incomplete or invalid lease agreements
- Four were missing signed US citizenship certifications
- One was missing proof of criminal history check for all adult family members

In addition, six files contained incomplete housing assistance payments contracts, lease agreements and/or lead-based paint certifications.

The Authority obtained new or original documentation for 81 of the 88 household files after we notified it of the missing or incomplete documents during the audit. This action resulted in a reduction in recommendation 1A to \$25,098 (\$22,994 in housing assistance and utility allowance payments and \$2,104 in associated administrative fees). For five of the remaining seven household files, the Authority was unable to obtain the fully executed documentation since either (1) the households were no longer in the program and could not be contacted, (2) prior landlords were not cooperative, or (3) the landlord or household member was deceased. As a result, the questioned cost cited in recommendation 1A only reflects the missing documentation for the remaining seven household files (88 minus 81).

Recommendation 1A: Provide supporting documentation or reimburse its program \$836,136 (\$801,330 in housing assistance and utility allowance payments and \$34,806 in associated administrative fees) from nonfederal funds for the unsupported payments and associated administrative fees cited in this findings, of which \$25,098 (\$22,994 in housing assistance and utility allowance payments and \$2,104 in associated administrative fees) remains to be supported or should be reimbursed.

Comment 1

- o **Authority Comment:** While LMHA does agree with this finding, we also would like to note that we self-certified SEMAP troubled status prior to the audit conducted by the OIG and the Cleveland field office. It is our understanding that LMHA has never received an official audit, and the systemic problems and rotating management over the years compounded the problems. We have since replaced the management team since OIG's on-site arrival, and provided much needed training for existing certification specialists. Out of the original documents missing, LMHA was able to retrieve all but 7 (seven) missing documents, and recognizes and accepts the missing documentation outstanding listed under (1) and (2). However, it is LMHA's understanding that most of the items listed under (3) have been resolved with the OIG. Therefore it is LMHA's position that the current amount to be reimbursed is approximately \$12,000 (\$11,000 in housing assistance and utility allowance payments and \$1,000 in associated administrative fees). This is a reduction of over 98% from the original \$836,000 to current of \$12,000. This was through diligent teamwork of both staff members and management team and we feel the agency has gained invaluable training and understanding throughout this process.

The Authority Made Incorrect Housing Assistance and Utility Allowance Payments

The Authority's miscalculations and its failure to comply with program requirements resulted in housing assistance and utility allowance overpayments of \$31,013 and underpayments of \$4,365. Of the 100 files reviewed, 86 (86 percent) contained either calculation or issuance errors that affected the amount of assistance paid in one or more of the subsidy determinations. These files included 59 household files with overpayments and 27 household files with underpayments. The 86 files contained the following errors:

- 67 has incorrect utility allowances
- 53 had calculation errors relating to annual income
- 33 had an incorrect payment standard
- 26 had inappropriate income deductions and/or allowances
- 11 had income certifications that were processed in an untimely manner
- 10 had incorrect issuances of assistance
- Seven has incorrect contract rents
- Five did not have proper retroactive adjustments in housing assistance for households that reported an increase in income in an untimely manner
- One had an incorrect repayment agreement calculation

Recommendation 1B: Reimburse its program \$71,734 (\$31,013 in housing assistance and utility allowance payments and \$40,721 in associated administrative fees) from nonfederal funds for the overpayment of housing assistance and utility allowances cited in this finding.

- **Authority Comment:** LMHA agrees with this finding. LMHA provided much needed calculation and auditing training.

Recommendation 1C: Reimburse the appropriate households \$4,365 for the underpayment of housing assistance and utility allowances cited in this finding.

- **Authority Comment:** LMHA agrees with this finding. LMHA provided much needed calculation and auditing training.

The Authority's Procedures and Controls Had Weaknesses:

The Authority did not maintain the required program documentation and made incorrect housing assistance and utility allowance payments to program landlords and households because it lacked adequate procedures and controls to ensure that HUD's regulations and its program administrative plan and procedures were followed.

The Authority did not provide sufficient guidance or instructions to its program staff that were responsible for determining eligibility and calculating and issuing housing assistance and utility allowance payments as follows:

- The Authority's purge procedures implemented during the audit scope did not ensure that all documentation required to determine a household's eligibility and assistance in the program was maintained in the household files.
 - **Authority Comment:** To the best of our knowledge, LMHA never performed a purge of the HCV program files since inception of the HCV program (formally known as the Certificate program) in the mid seventies. Once this was discovered, it became a priority to purge the files to make them manageable. This was a critical step to have completed before we ever attempted to begin any sort of an auditing process. We have since developed detailed procedures for all staff members on purging files.
- The Authority's program administrative plan provided limited or no details regarding the Authority's discretionary matters. As a result, the certification specialists were not always aware of the proper procedures for performing subsidy determinations. While the calculation methods used by the certification specialists were, in some instances, understandable, the calculations were not always consistent or in accordance with the Authority's procedures manual.
 - **Authority Comment:** LMHA agrees with this finding. During the course of working through the SEMAP audit, it was discovered that the existing Administrative Plan in effect during Phase I of the audit hadn't been updated since 1999. In addition, the new management team cannot confirm or deny if the specialists were trained on the admin plan or understood the Authority policies. We have since submitted an updated Admin Plan approved by our Board of Commissioners and we are currently in the process of training the entire HCV staff on each chapter. In addition, changing Authority policies will be updated and documented on a regular basis.

- Pertinent program information was not always disseminated to the program staff. For example, a board resolution was passed to revise the payment standards to 110 percent of the fair market rents, effective May 1, 2006. However, the program staff were not aware of the revised payment standards and, therefore, continued to use the payment standards that were effective January 1, 2006. This occurred for 24 of the 100 household files reviewed.
 - **Authority Comment:** LMHA cannot confirm or deny this finding. Members of management in place at the time of this resolution are no longer employed by LMHA and are unable to be questioned about this practice. Since the certification specialists were not compliant, we cannot confirm or deny if they were appropriately instructed and trained on this practice since the majority of certification specialists from 2006 have been replaced. That being said, we have since implemented a process of approval and notification of any changes in payment standards which the OIG may have seen in the later files. In addition, to enhance program communications, we have regular agency-wide staff meetings and each department has regular weekly staff meetings to review information pertinent to each division.

- The applicability of pertinent program information was not always clear to the program staff. For instance, the Authority had two versions of the utility allowance schedules, effective April 2006. The documentation provided by the Authority indicated that the utility allowances were revised in 2006, but there was no indication as to when the revised schedules went into effect, and the staff were not aware of the revised utility allowance schedules. Further in April 2007, the Authority added the air conditioning allowance to the utility allowance schedules, but the staff were not provided clear directions as to when the air conditioning allowance was applicable.
 - **Authority Comment:** LMHA cannot confirm or deny this finding. Members of management in place at the time of this resolution are no longer employed by LMHA and are unable to be questioned about this practice. Since the certification specialists were not compliant, we cannot confirm or deny if they were appropriately instructed and trained on this practice since the majority of certification specialists from 2006 have been replaced. That being said, we have since implemented a process of approval and notification of any changes in payment standards which the OIG may have seen in the later files. In addition, to enhance program communications, we have regular agency-wide staff meetings and each department has regular weekly staff meetings to review information pertinent to each division.

The Authority did not provide adequate training to its staff to ensure that HUD's requirements and its program administrative plan and procedures were followed based upon the following items:

- The program administrative plan and other applicable policies and procedures were not always followed regarding the calculation of income, assets, and other factors. Instead, the certification specialists either relied on the subsidy determinations performed by previous staff or obtained verbal instructions from each other.
 - **Authority Comment:** LMHA agrees with this assessment. We conducted a company-wide Rent Calculation training held in May. The training was conducted by Nan McKay and was mandatory for all HCV staff who had not taken rent calculation training within the prior 6 months and optional for the rest of the staff. The majority of employees submitted to the optional test to gauge their progress, and all HCV staff passed.
- The program staff did not receive sufficient training when the Authority implemented the PHA-Web software program in July 2007. Further, the program staff did not have access to reference materials regarding the use of the software. As a result, the program staff was unfamiliar with many of the features of the software program.
 - **Authority Comment:** LMHA agrees with this finding. Beginning in February of 2009, The President of PHA-Web conducted one-on-one and group training sessions with staff. After each training session, he submitted a progress report detailing who was trained and what modules were reviewed. All training reports are signed off by the employee and stored in his/her personnel file.
- The program staff made inadvertent errors. For example, the documentation maintained in the household files indicated proper calculations; however, these calculations were not reflected in the HUD-50058 family report because they were not updated in the software program.
 - **Authority Comment:** LMHA agrees with this finding. We conducted a company-wide Rent Calculation training held in May. The training was conducted by Nan McKay and was mandatory for all HCV staff and optional for the rest of the staff. The majority of employees submitted to the optional test to gauge their progress and all HCV staff passed. This additional training helped the staff to identify information on the 50058, and with the new PHA-Web training, understand how the information is to be processed. We have also re-engineered the entire workflow and created a Certification Specialist II to streamline the process and eliminate some of the inadvertent errors. Unfortunately, our software provider did not have training manuals at the time of the transition and is still working on writing them for the certification module, we understand that many PHA's software providers do not have manuals for newly upgraded systems.
- Although the majority of the staff passed formal rent calculation and/or certification specialist training, some believed that they were misguided when provided on-the-job training.

- o **Authority Comment:** LMHA is unable to confirm or deny this finding. As previously noted, LMHA management has been replaced over the past two years and we are unable to confirm or deny on-the-job training. However, we would like to note that in order for staff to identify that they received “misguided” on-the-job training, staff would need to be able to identify accurate information and policy from inaccurate information and policy. Based on the number of mistakes made in previously identified areas, we believe the fundamentals needed strengthening and the Admin Plan needed updated immediately in order to replace the compounded knowledge that everyone was operating under. We believe that information could have been inaccurately communicated informally throughout the years and have since formalized the education and training through the updated Admin Plan and additional Rent Calculation training. As we continue to reorganize the department, we will continue with training and identifying areas that need strengthening. If we feel we lack the necessary in-house expertise or industry strength in a particular area, we will continue to utilize consultants.

Recommendation 1D: Implement adequate procedures and controls when purging household files to ensure that all required file documentation is complete, accurate, and maintained in its household file to support the eligibility of housing assistance and utility allowance payments.

- o **Authority Comment:** LMHA agrees with this finding. LMHA issued a detailed written procedure and policy to all staff members tasked with purging household files. Also, we have provided direction that each file should be purged at the annual re-exam. Since we have taken the large step on purging the files after many years (in a number of cases since inception of the program) it is our belief that this is the appropriate time to ensure that the files do not begin to accumulate unneeded paperwork.

Recommendation 1E: Implement adequate procedures and controls to properly calculate housing assistance and utility allowance payments. By implementing adequate procedures and controls, the Authority should help to ensure that \$261,560 in net program funds is appropriately used for future payment.

- o **Authority Comment:** LMHA has re-engineered a number of processes including the creation of a Certification II position and also implemented a number of Quality Control procedures. LMHA has also provided additional nationally recognized on-site training for its entire certification staff that had not had this training within the previous 6 months. LMHA is currently developing a training plan for each position, per our Corrective Action Plan, and one of the areas that consistently require strengthening is in the area of HUD policies and procedures.

Recommendation 1F: Ensure that its staff responsible for performing the household recertifications is knowledgeable of HUD's and its program policies and procedures, including its software programs, by providing adequate training.

- o **Authority Comment:** LMHA has provided additional nationally recognized on-site training for its entire certification staff that had not had this training within the previous 6 months. LMHA is also developing a training plan for each position, per our Corrective Action Plan, and one of the areas that consistently requires strengthening is in the area of HUD policies and procedures.

The Authority performed inadequate quality control reviews as follows:

- The Authority performed quality control reviews between July 2007 and June 2008 on the annual and initial examinations for 11 of the 100 households included in our statistical sample. The Authority's quality control review results agreed with our results for 7 of the 11 households. For the remaining four households, the reviewer failed to identify errors regarding utility allowances and asset income.
 - o **Authority Comment:** LMHA agrees with this finding. Based on the timeline, these issues have since been corrected with additional training and documented policies and procedures.
- The reviewer provided guidance regarding asset income that conflicted with the Authority's standard policies and procedures. After the quality control reviews were completed, the program staff were provided the results to make the appropriate adjustments; however, we could not determine whether the reviewer always followed up on the corrective actions made by program staff. This resulted in an inaccurate correction for at least one file.
 - o **Authority Comment:** LMHA agrees with this finding. We have instituted a tracking system to ensure that any errors detected are tracked until the errors have been corrected by the staff member who processed the file. We also believe this is a good learning tool for our certification staff so that they are aware of the error and learn from the correction process.
- The program staff indicated that the reviewer did not provide additional training or guidance based upon the quality control review results.
 - o **Authority Comment:** LMHA can neither confirm nor deny this finding based on the fact that LMHA management in place at the time are no longer employed and unable to be questioned on the practice. As previously stated, we have reorganized this division and provided documented policies and procedures in support of the HCV department.

Recommendation 1G: Ensure that its staff responsible for performing quality control reviews are knowledgeable of HUD's and its program policies and procedures to ensure

that mistakes made during the household recertifications are not overlooked and corrective actions are taken to prevent the errors from recurring.

- o **Authority Comment:** LMHA agrees with this finding. We agree with the lapse in Quality Control and also found similar errors in the methodology of our SEMAP auditing prior to having a third party conduct an independent SEMAP audit. In addition, we have completely reorganized the quality control and corrective actions that were in place at the time. LMHA agrees that training in the auditing process has been insufficient. We created an auditing role within our Assistant Manager/Coordinator job descriptions in order to dedicate resources to auditing, training, and corrective actions and to also provide an additional check and balance with the HCV Manager position. In addition, the Authority recently received approval of our Personnel Policy Manual containing detailed information on Authority corrective action as it relates to job performance. Adding to this, we implemented performance-based evaluations to ensure continuous improvement in this area. Expertise has been secured through consultants to supplement and enhance current training methods that have taken place and to provide a subject-matter expert.

Recommendation 1H: Revise the February 2009 corrective action plan with the Authority to ensure that it encompasses the recommendations cited in this finding.

- o **Authority Comment:** LMHA believes this is adequately covered in our existing corrective action plan, but will further enhance the document if requested to do so.

The executive director acknowledged that the Authority's program administrative plan was outdated; therefore, the Authority took steps to revise the plan. The program administrative plan received board approval in April 2009. In addition, the Authority contracted with outside consultants to receive a clear and independent review of its program. The consultant's contract included the implementation of the Authority's Section Eight Management Assessment Program auditing system in May 2008.

During the course of the audit, the Authority took the following measures to improve its program:

- o In November 2008, the Authority streamlined its file organization, verification, and calculation procedures to ensure consistency of its operations.
- o In November 2008, the Authority contracted out the criminal background check responsibilities for program households.
- o In January 2009, the Authority sought and obtained HUD approval to revise the request for tenancy approval document (Form HUD-52517) to reduce errors involving the utility allowance.

- o In February 2009, the Authority provided training to its program staff regarding PHA-Web software and HUD's Section Eight Management Assessment Program compliance. Training was also regularly provided to address topics that arose as a result of the quality control reviews or other issues. In addition, the Authority planned to provide training to the staff on each section of the revised program administrative plan and a refresher course on rental calculations.
- o As of February 2009, the Authority implemented corrective action procedures toward staff that fall below the acceptable error rate based upon the quality control reviews.
- o In February 2009, the Authority restructured the staff by modifying the responsibilities for the certification specialist I position (formerly called a program interviewer) and creating the certification specialist II position. In addition, in April 2009, the Authority added a program assistant manager position with responsibilities including performing quality control reviews to ensure compliance.

The Authority's staff stated that they recognized the importance of being accountable for their work and taking ownership of the household files they review because this contributes to the Authority's Section Eight Management Assessment Program rating. We did not review any household files since the Authority implemented its new procedures. Therefore, we did not determine whether the new procedures had improved the Authority's weaknesses.

- **Authority Comment:** We would like to take this opportunity to thank the OIG for acknowledging a number of pro-active changes that LMHA has taken to improve the compliance and customer service that we have taken. As previously mentioned we are taking the OIG audit in seriously and view the report in a positive light as these changes enhance the benefit of the clients we serve in Lake County.

Very truly yours,



Steven K. Knotts
Executive Director

cc: Nikita Irons, Assistant Regional Inspector General for Audit

OIG Evaluation of Auditee Comments

Comment 1 We adjusted recommendations 1A, 1B, and 1C based upon additional documentation provided by the Authority.

Appendix C

FEDERAL REQUIREMENTS AND AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

HUD's regulations at 24 CFR 5.230(a) state that 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 shall sign one or more consent forms.

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

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

(1) For U.S. citizens or U.S. nationals, the evidence consists of a signed declaration of U.S. citizenship or U.S. nationality. The responsible entity may request verification of the declaration by requiring presentation of a U.S. passport or other appropriate documentation, as specified in HUD guidance.

(2) For noncitizens who are 62 years of age or older or who will be 62 years of age or older and 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 section 5.510, and a signed verification consent form.

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

HUD's regulations at 24 CFR 5.609 state that annual income means all amounts, monetary or not, which go to or on behalf of the family head or spouse (even if temporarily absent) or to any other family member or are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date, and which are not specifically excluded. Annual income also means amounts derived (during the 12-month period) from assets to which any member of the family has access. Annual income includes but is not limited to (1) the full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services; (2) the net income from the operation of a business or profession; (3) interest,

dividends, and other net income of any kind from real or personal property; (4) 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, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount; (5) payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay; (6) welfare assistance payments; (7) 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. Annual income does not include earnings in excess of \$480 for each full-time student 18 years of age or older (excluding the head of household and spouse).

HUD's regulations at 24 CFR 5.611(a) state that in determining adjusted income, the responsible entity must deduct the following amounts from annual income: (1) \$480 for each dependent; (2) \$400 for any elderly family or disabled family; (3) the sum of the following, to the extent the sum exceeds 3 percent of annual income: (i) unreimbursed medical expenses of any elderly family or disabled family and (ii) unreimbursed reasonable attendant care and auxiliary apparatus expenses; and (4) any reasonable child care expenses necessary to enable a member of the family to be employed or to further his or her education.

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

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

HUD's regulations at 24 CFR 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit. The authority must prepare a unit inspection report. During the term of each assisted lease and for at least three years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payment 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 982.162(a)(3) state that the public housing authority must use program contracts and other forms required by HUD headquarters, including (1) the consolidated annual contributions contract between HUD and the public housing authority, (2) the housing

assistance payment contract between the public housing authority and the owner and (3) the tenancy addendum required by HUD (which is included both in the housing assistance payment contract and in the lease between the owner and the tenant).

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

HUD's regulations at 24 CFR 982.308(d) state that the lease must specify all of the following: (1) the names of the owner and the tenant, (2) the unit rented (address, apartment number, and any other information needed to identify the contract unit), (3) the term of the lease (initial term and any provisions for renewal), (4) the amount of the monthly rent to owner, and (5) a specification of what utilities and appliances are to be supplied by the owner and what utilities and appliances are to be supplied by the family. Paragraph (g) state that the owner must notify the public housing authority of any changes in the amount of the rent to owner at least 60 days before any such changes go into effect, and any such changes shall be subject to rent reasonableness requirements.

HUD's regulations at 24 CFR 982.309(b) state that the housing assistance payment contract terminates if any of the following occurs: (1) the lease is terminated by the owner or the tenant, (2) the public housing authority terminates the housing assistance payment contract, or (3) the public housing authority terminates assistance for the family.

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

HUD's regulations at 24 CFR 982.505(b)(4) state that if the payment standard amount is increased during the term of the contract, the increased payment standard 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 982.505(c) state that the payment standard for the family is the lower of (i) the payment standard amount for the family unit size or (ii) the payment standard amount for the size of the dwelling unit rented by the family. If the payment standard amount is increased during the term of the housing assistance payment 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. Regardless of any increase or decrease in the payment standard amount, if the family unit size increases or decreases during the housing assistance payment contract term, the new family unit size must be used to determine the payment standard amount for the family beginning at the family's first regular reexamination following the change in family unit size.

HUD's regulations at 24 CFR 982.516(a) 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.

HUD's regulations at 24 CFR 982.517(b)(2) state that a public housing authority's utility allowance schedule and the utility allowance for an individual family must include the utilities and services that are necessary in the locality to provide housing that complies with the housing quality standards. In the utility allowance schedule, the public housing authority must classify utilities and other housing services according to the following general categories: space heating, air conditioning, cooking, water heating, water, sewer, trash collection (disposal of waste and refuse), other electric, refrigerator (cost of tenant-supplied refrigerator), range (cost of tenant-supplied range), and other specified housing services.

HUD's Public and Indian Housing Notice 2004-1, section X, paragraph A, state that upon consent by the family member, the public housing authority should pursue third-party verification of full-time student status. Documentation may include current enrollment status letter, which includes school name and address, dates of enrollment and total number of classes or credits attempted in a given quarter/semester, current school transcript, most recent grade report, etc. The public housing authority should mail verification requests directly to the school and receive the completed verification directly from the school. The school or vocational training center defines full-time status. Typically, full-time status consists of 12 or more attempted credit hours per semester/quarter. Paragraph D states that determining a family's eligibility for the childcare expense deduction is a two-step process. First, you must verify that the incurred childcare expense enables a family member to actively seek employment, to be gainfully employed, or to further his/her education. It may be a challenge to verify that a family member is actively seeking work if he/she is not doing so as a requirement for Welfare to Work, continued collection of unemployment compensation, or other state program. Typically, adequate verification of a family member actively seeking work may consist of written or oral third-party verification from a local or state government agency that governs work-related activities. In the event that third-party verification is not available, the public housing authority may rely on tenant-provided documents along with a notarized statement that indicates the tenant's efforts to seek employment.

Page 30 of Form HUD-50058, Instruction Booklet, indicates that temporary assistance for needy families funded from federal or state dollars should be included as income. The term "assistance" includes cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs (i.e., for food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses) (24 CFR 5.609(b)(6)). Payments to individual recipients by a temporary assistance for needy families agency or other agency on its behalf should also be included as income.

Form HUD-9886, Authorization for the Release of Information/Privacy Act Notice, states that each member of an applicant's or participant's household 18 years of age or older is required to sign the form. The consent form expires 15 months after signed.

HUD's Housing Choice Voucher Guidebook, chapter 5, state that generally the public housing authority should use current circumstances to anticipate annual income, unless verification forms indicate an imminent change. A voucher participant does not receive a reduced family share when the family's welfare grant is reduced as the result of fraud, failure to participate in an economic self-sufficiency program, or failure to comply with a work requirement. Before determining annual income when there has been a reduction in the welfare grant, the public housing authority must receive written verification from the welfare agency that the benefit reduction was caused by noncompliance or fraud before denying a family's request for a reexamination of income and rent reduction. The prohibition against reducing rent does not apply when welfare benefits are lost because the lifetime limit on receipt of benefits has expired or in a situation in which the family has complied with welfare program requirements but cannot obtain employment. The amount by which the welfare benefit has been reduced because of fraud or a sanction for noncompliance with requirements to participate in an economic self-sufficiency program is identified as the "imputed welfare income." The family's annual income includes the amount of the imputed welfare income plus the total amount of other annual income.

Section 5.4 states that public housing authorities are required to include in the calculation of annual income any interest or dividends earned on assets held by the family. When net family assets are \$5,000 or less, use the actual income from assets. When family assets are more than \$5,000, use the greater of (1) actual income from assets or (2) a percentage of the value of such assets based upon the current passbook savings rate as established by HUD. This is called imputed income from assets. Assets include amounts in savings and checking accounts; stocks, bonds, savings certificates, money market funds and other investment accounts; equity in real property or other capital investments; the cash value of trusts that may be withdrawn by the family; individual retirement accounts, Keogh, and similar retirement savings accounts even though withdrawal would result in a penalty; some contributions to company retirement pension funds; assets which, although owned by more than one person, allow unrestricted access by the applicant; lump-sum receipts such as inheritances, capital gains, lottery winnings, insurance settlements, and other claims; personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.; cash value of life insurance policies. Because of the requirement to include the greater of the actual interest/dividend income earned or a percentage based upon a HUD published passbook rate when assets are greater than \$5,000, the value of assets *may* affect the family's annual income. The public housing authority must determine the *market value* of the asset and then calculate the *cash value* by subtracting the estimated expense required were the family to convert the asset to cash. Expense to convert to cash includes costs such as penalties for premature withdrawal, broker and legal fees, and settlement costs incurred in real estate transactions.

Section 5.5 states that 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 last year's expenses but to anticipate regular ongoing and anticipated expenses during the coming year. Not all elderly or disabled applicants or participants are aware that their expenses for medical care are included in the calculation of adjusted income for elderly or disabled households. For that reason, it is important for public housing authority staff to probe for information on allowable medical expenses. These may include services of doctors and health care professionals, services of health care facilities, medical insurance premiums, prescription/nonprescription medicines prescribed by a physician, transportation to treatment,

dental expenses, eyeglasses, hearing aids, batteries, live-in or periodic medical assistance, and monthly payment on accumulated medical bills (regular monthly payments on a bill that was previously incurred). The allowance may include only the amount expected to be paid in the coming 12 months.

HUD's Housing Choice Voucher Guidebook, chapter 18, states that the request for tenancy approval submitted by the owner and the prospective tenant tells the public housing authority the utilities the tenant will pay for directly and the utilities that are included in the rent. When a family has located a unit and submitted a request for tenancy approval (Form HUD-52517) the public housing authority can calculate the actual utility allowance for the family. Section 11 of the request for tenancy approval will indicate the utilities the tenant must pay and the utilities the owner will cover. Because the allowances for utilities and services are subject to change over time, the utility allowance should be recalculated every year at the family's annual reexamination. The public housing authority should ensure that the most recent update of the utility allowance schedule has been used to calculate the family's utility allowance and that there has been no change in the utilities and allowances supplied by the tenant.

HUD's Public and Indian Housing Rental Integrity Summit Manual, chapter 6, states that a good quality control system should be comprehensive but not burdensome, cover key performance areas; fairly and accurately measure performance, and be perceived as being fair and useful by staff and managers. Most importantly, a good quality control system must be used to continually reduce errors and improve program operations and give feedback to staff. In the beginning, a quality control program will most certainly identify problems; however, a good quality control program also will provide indicators of the path to corrective action. Chapter 7 discusses the steps that make up the two strategies in the error reduction process: the problem analysis strategy and the response strategy. During the problem analysis strategy, the authority identifies (1) the area of concern, including the issue and all relevant requirements; (2) what actually happened, including how many people made what kind of errors how often and any identifiable patterns to the errors; and (3) the reasons the errors occurred, including both the apparent causes and the root causes. During the response strategy, the authority (1) finds appropriate solutions and (2) develops an implementation plan.

The Authority's administrative plan, dated January 2000, states,

Chapter 2. The public housing authority will check criminal history for all adults in the household to determine whether any member of the family has violated any of the prohibited behaviors as referenced in the section on One-Strike policy in the "Denial or Termination of Assistance" chapter [Chapter 15].

Chapter 6, section H. Regular alimony and child support payments are counted as income for calculation of total tenant payment. If the amount of child support or alimony received is less than the amount awarded by the court, the Authority must use the amount awarded by the court unless the family can verify that it is not receiving the full amount. The public housing authority will accept verification that the family is receiving an amount less than the award if (1) it receives verification from the agency responsible for enforcement or collection or (2) the family furnishes documentation of child support or alimony collection action filed through a child support enforcement/collection agency or has filed an enforcement or collection action through an attorney. It is the family's responsibility to supply a certified copy of the divorce decree.

Chapter 6, section M. When it is unclear in the HUD rules as to whether or not to allow an item as a medical expense, Internal Revenue Service Publication 502 will be used as a guide. Nonprescription medicines must be doctor recommended in order to be considered a medical expense. Nonprescription medicines will be counted toward medical expenses for families who qualify if the family furnishes legible receipts. Acupressure, acupuncture and related herbal medicines and chiropractic services will be considered allowable medical expenses.

Chapter 7, section A. The Authority will verify information through the five methods of verification acceptable to HUD in the following order: (1) Enterprise Information Verification whenever available, (2) third-party written verification, (3) third-party oral verification, (4) review of documents, and (5) self-certification.

Chapter 7, section B. Adult family members will be required to sign the HUD-9886, Release of Information/Privacy Act.

Chapter 7, section C. When computer matching results in a discrepancy with information in the public housing authority records, the public housing authority will follow up with the family and verification sources to resolve this discrepancy. If the family has unreported or underreported income, the public housing authority will follow the procedures in the Program Integrity addendum of the administrative plan.

Chapter 7, section H. Families who claim medical expenses will be required to submit a certification as to whether or not any expense payments have been or will be reimbursed by an outside source. All expense claims will be verified by one or more of the methods listed below: receipts, canceled checks, or pay stubs that verify medical costs and insurance expenses likely to be incurred in the next 12 months; copies of payment agreements or most recent invoice that verify payments made on outstanding medical bills that will continue over all or part of the next 12 months; receipts or other record of medical expenses incurred during the past 12 months that can be used to anticipate future medical expenses. Public housing authorities may use this approach for “general medical expenses” such as nonprescription drugs and regular visits to doctors or dentists but not for one-time, nonrecurring expenses from the previous year.

Chapter 9, section C. The public housing authority will review the lease, particularly noting the approvability of optional charges and compliance with regulations and state and local law. The tenant also must have legal capacity to enter a lease under state and local law. Responsibility for utilities, appliances, and optional services must correspond to those provided on the request for approval of tenancy. The family and owner must submit a standard form lease used in the locality by the owner and that is generally used for other unassisted tenants in the premises. The terms and conditions of the lease must be consistent with state and local law. The lease must specify the names of the owner and tenant, the address of the unit rented, the amount of monthly rent to owner, what utilities and appliances are to be supplied by the owner, and what utilities and appliances are to be supplied by the family.

Chapter 12, section C.

Increases in income. The public housing authority will conduct interim reexaminations only when one of the following events occurs: (1) Family moves to another dwelling outside of the annual reexamination month. (2) Family has an increase in income and is receiving Earned Income Disallowance benefits. (3) Family has an increase in income and had been reporting

zero income previously. (4) Unemployment benefits have ended and participant has started another job. (5) Family composition changes in any way. (6) A person with income joins the household. (7) A participant on layoff, temporary disability, or summer vacation (school employees) returns to the same employer or job. (8) A family self-sufficiency program participant requests in writing an interim reexamination. Families will be required to report all increases in income/assets within 10 days of the increase.

Decreases in income. Participants may report a decrease in income and other changes that would reduce the amount of tenant rent, such as an increase in allowances or deductions. The public housing authority must calculate the change if a decrease in income is reported. If the public housing authority makes a calculation error at admission to the program or at an annual reexamination, an interim reexamination will be conducted, if necessary, to correct the error, but the family will not be charged retroactively. Families will be given decreases, when applicable; retroactive to when the decrease for the change would have been effective if calculated correctly.

Chapter 12, section G. If the family does not report the change as described under Timely Reporting, the family will have caused an unreasonable delay in the interim reexamination processing, and the following guidelines will apply: Increase in tenant rent will be effective retroactive to the date it would have been effective had it been reported on a timely basis. The family will be liable for any overpaid housing assistance and may be required to sign a repayment agreement or make a lump-sum payment.

Standard for timely reporting of changes. The public housing authority requires that families report interim changes to the public housing authority within 10 calendar days of when the change occurs. Any information, document, or signature needed from the family that is needed to verify the change must be provided within 30 calendar days of the change. If the change is not reported within the required time period or if the family fails to provide documentation or signatures, it will be considered untimely reporting.

Procedures when the change is reported in a timely manner. The public housing authority will notify the family and the owner of any change in the housing assistance payment to be effective according to the following guidelines: Increases in the tenant rent are effective on the first of the month following at least 30 days' notice. Decreases in the tenant rent are effective the first of the month following that in which the change is reported. However, no rent reductions will be processed until all the facts have been verified, even if a retroactive adjustment results. The change may be implemented based on documentation provided by the family, pending third-party written verification.

Procedures when the change is not reported by the family in a timely manner. If the family does not report the change as described under Timely Reporting, the family will have caused an unreasonable delay in the interim reexamination processing and the following guidelines will apply: Increase in tenant rent will be effective retroactive to the date it would have been effective had it been reported on a timely basis. The family will be liable for any overpaid housing assistance and may be required to sign a repayment agreement or make a lump sum payment. Decrease in tenant rent will be effective on the first of the month following the month that the change was reported.

Page 23 of the Authority's Section 8/Family Self-Sufficiency Policy and Procedures Manual states that asset income equals the six-month average multiplied by the percentage of interest earned on the checking account or savings account.