



Issue Date	October 17, 2008
Audit Report Number	2009-LA-1001

TO: Stephen Schneller, Director, Office of Public and Indian Housing, Region IX,
9APH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the County of Marin, San Rafael, California, Did Not
Correctly Calculate Tenant Rents in the Public Housing Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the County of Marin's (Authority) Section 8 funds transfer and public housing program (program) tenant rent calculations. We initiated this review because of issues identified during a recent U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), review of a hotline complaint. Our objectives were to determine (1) whether the transfer of Section 8 operating reserve funds to the public housing program in fiscal year 2006 was made in compliance with HUD regulations and (2) whether the Authority calculated public housing tenant rents in accordance with HUD requirements.

What We Found

The Authority's transfer of Section 8 operating reserve funds to the public housing program in fiscal year 2006 was made using pre-2004 funds. Therefore, the transfer was made in compliance with HUD regulations.

The Authority's program administration regarding tenant rent calculation was inadequate. The Authority incorrectly calculated tenant payments. Of the 71 files reviewed, the Authority incorrectly calculated tenant rents for 35 (49 percent) of the households.

From January through December 2007, it overcharged program residents \$3,811 and undercharged program residents \$25,638 in tenant rents.

What We Recommend

We recommend that the Director of HUD's San Francisco Office of Public and Indian Housing require the Authority to reimburse its program residents \$3,811 for overcharged tenant rents, establish and implement procedures and controls to ensure that tenant rents are calculated in accordance with HUD requirements, and provide appropriate training to Authority staff to ensure that they understand how to calculate tenant rents correctly. These procedures and controls should help prevent tenant rent miscalculations in the future.

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 Authority a discussion draft report on September 26, 2008, and held an exit conference with the Authority's officials on October 2, 2008. The Authority provided written comments on October 14, 2008, and generally agreed with our findings.

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

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: Public Housing Tenant Rent Calculations Were Not Accurate	5
Scope and Methodology	9
Internal Controls	10
Appendixes	
A. Schedule of Funds to Be Put to Better Use	12
B. Auditee Comments and OIG's Evaluation	13
C. Criteria	15
D. Tenant Rent Calculation Errors	19

BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Marin (Authority) was established by the Marin County Board of Supervisors in January 1942 under state enabling legislation to provide decent, safe, and sanitary housing for low- and moderate-income people. The Authority is governed by a seven-member board of commissioners, of which five members are also members of the Marin County Board of Supervisors and the remaining two members are tenant commissioners appointed by the Board of Supervisors.

The Authority administers a low-rent public housing program (program) and a Section 8 Housing Choice Voucher program, both funded by the U.S. Department of Housing and Urban Development (HUD). The Authority owns and operates one housing project with 294 units for families and five housing projects with 200 units, collectively, for the elderly and disabled.

Our objectives were to determine (1) whether the transfer of Section 8 operating reserve funds to the public housing program in fiscal year 2006 was made in compliance with HUD regulations and (2) whether the Authority calculated public housing tenant rents in accordance with HUD requirements.

RESULTS OF AUDIT

Finding 1: Public Housing Tenant Rent Calculations Were Not Accurate

The Authority did not always compute public housing tenant rents accurately. It incorrectly calculated public housing tenant rents because it lacked adequate procedures and controls to ensure the Authority followed HUD regulations and its Admissions and Continued Occupancy Policy. In addition, the staff did not have the proper tenant rent calculation training. As a result, it overcharged program residents \$3,811 and undercharged program residents \$25,638 in tenant rents.

The Authority Miscalculated Public Housing Tenant Rents

From the Authority's 517 active program households during any part of our audit period from January 1 through December 31, 2007, we randomly selected 71 tenant files by using data mining software. We reviewed the documentation in the tenant files to determine whether the Authority accurately calculated tenant rents for the period January 1 through December 31, 2007. Our review included examining the information maintained by the Authority in its tenant files and conducting third-party income verification when necessary. Although HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240(c) require public housing agencies to verify the accuracy of the income information received from program households and change the amount of tenant rent or terminate assistance, as appropriate, this was not always done accurately or consistently.

The Authority's miscalculations resulted in overcharges of \$3,811 and undercharges of \$25,638 in tenant rents. The Authority incorrectly calculated tenant rents for 35 (49 percent) households in one or more of the move-in, annual, or interim certifications. The 35 files contained the following errors:

- 35 had annual income calculation errors for one or more certifications,
- 20 had inadequate verifications of annual income for one or more certifications,
- 19 had verification documents older than 90 days or 120 days for move-in certifications and annual recertifications, respectively,
- 15 had unverified or incorrect allowances for annual income for one or more certifications,

- Six had unreported income by the tenant that went undetected for one or more certifications,
- Five had reported changes in income or family composition but no corresponding interim recertifications,
- One had an incorrect flat rent that was lower than the income-based rent and the unit's flat rent,
- One had no supporting documentation for one certification, and
- One had a household member who was also a public housing resident at another public housing agency.

Details of the errors found for each of our sample items are found in appendix D. The following are examples of the types of errors found:

- The Authority miscalculated the annual income for one household in all four certifications during the 12-month audit period. In one certification, for instance, the Authority miscalculated annual income by taking the year-to-date wages that covered more than six months and multiplying by two. As a result, it overestimated annual income and overcharged the tenant \$175 per month. In another certification, the Authority miscalculated annual income by using an outdated Social Security benefit amount, not counting Supplemental Security Income, and underestimating employment income. Consequently, it undercharged the tenant \$353 per month.
- The Authority miscalculated the annual income for another tenant by giving the elderly/disabled allowance and medical allowance when the tenant was ineligible. The Authority also did not detect the unreported employment income when HUD's Enterprise Income Verification system and the third-party verification showed that the employment had started since the previous certification. These errors resulted in an undercharge of \$2,031 in tenant rent during the 12-month audit period.

The Authority Did Not Have Adequate Procedures and Controls and Employee's Did Not Have Proper Training

The Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its Admissions and Continued Occupancy Policy. Although the program managers approved each certification, our interview with the program managers revealed that their quality control review process was not sufficient to ensure that the tenant rents were calculated in accordance with HUD requirements and the Authority's policies. For instance, the program managers relied on the program applicants to report their income at admission because the Authority did not have a procedure for requesting information from the State Employment Development Department to detect unreported income when applicants were admitted to the program. The weakness regarding incorrect calculations occurred because the Authority's housing eligibility workers and program managers did not receive the proper training for calculating program tenant rents.

Conclusion

The Authority lacked assurance that tenant rents were properly determined for its program residents since it overcharged \$3,811 and undercharged \$25,638 in tenant rents. The Authority could have put these funds to better use if proper procedures and controls were in place to ensure the accuracy of tenant rent calculations.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Public and Indian Housing require the Authority to

- 1A. Reimburse the tenants \$3,811 from non-current year operating funds for the overcharged tenant rents cited in this finding.
- 1B. Establish and implement adequate procedures and controls to ensure that its tenant rent calculations comply with HUD's regulations and its Admissions and Continued Occupancy Policy.
- 1C. Provide appropriate training to its housing eligibility workers and program managers to ensure that they understand how to calculate program tenant rents correctly.

We also recommend that HUD's San Francisco Office of Public and Indian Housing

- 1D. Perform a review of the Authority's tenant files within six months after the issuance of this audit report to ensure that tenant rents are calculated in accordance with HUD requirements and the Authority's Admissions and Continued Occupancy Policy.

SCOPE AND METHODOLOGY

We performed our on-site audit work at the Authority, located in San Rafael, California, from February through July 2008. Our audit generally covered the Section 8 operating reserve funds transfer that occurred in the Authority's fiscal year 2006 and the public housing tenant rent calculations that affected the period January 1 through December 31, 2007. We expanded our scope when necessary. Our objectives were to determine (1) whether the transfer of Section 8 operating reserve funds to the public housing program in fiscal year 2006 was made in compliance with HUD regulations and (2) whether the Authority calculated public housing tenant rents in accordance with HUD requirements.

To accomplish our objectives, we

- Reviewed applicable laws; regulations; HUD program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 960, and 982; HUD's Public and Indian Housing Notices 2004-7, 2005-1, 2006-3, 2006-5, 2007-14, and 2008-15; and HUD's Public Housing Occupancy Guidebook.
- Reviewed the Authority's Admissions and Continued Occupancy Policy, accounting records, program rent roll for 2007, and tenant files.
- Interviewed the Authority's employees and HUD staff.
- Conducted employment verifications with employers.
- Assessed the reliability of the data from the Authority's public housing management information system to ensure that the data were sufficiently reliable to use as a basis for our audit conclusions.
- Randomly sampled public housing tenant files to determine whether the Authority had controls in place to ensure that tenant rents were calculated in accordance with HUD requirements.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures that management has implemented to reasonably ensure that household incomes and allowances are verified to determine program tenant rents.
- Policies and procedures that management has implemented to reasonably ensure that program tenant rents are calculated in accordance with applicable laws and regulations.

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 lacked adequate procedures and controls to ensure compliance with HUD's requirements and/or its Admissions and Continued Occupancy Policy regarding verification of income and allowances and calculation of program tenant rents (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$3,811

1/ 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 cease overcharging and undercharging program residents for rent.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

October 14, 2008

Ms. Tanya E. Schulze
Acting Regional Inspector for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region IX
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017

SUBJECT: DRAFT AUDIT REPORT 2009-LA-10

Dear Ms. Schultze:

Thank you for completing the subject audit process and for submitting the draft report dated September 26, 2008.

Your staff audited two (2) areas over a six (6) month period: Section 8 fund transfers and Public Housing tenant rent calculations. The Section 8 transfers were found to be "made in compliance with HUD regulations" but the tenant rent calculations were found to be significantly deficient resulting in one (1) finding: 'Finding 1: Public Housing Tenant Rent Calculations Were Not Accurate'.

The corrective actions recommended by your office include repayment of \$3,811 in overcharged rent covering thirty-five (35) households; establishing and implementing better controls; and providing additional staff training.

We concur with the finding. We also fully commit to following the recommendations and have made significant progress on these to date.

We will also provide status reports in accordance with HUD Handbook 2000.06, REV-3 as well as additional back-up, correspondence or directives that are occurring in response to this audit.

Our only request is to re-label the cover of the report if it is technically feasible to do so. Currently, the draft is labeled as follows: The Housing Authority of the County of Marin, California, Did Not Effectively Administer Its Public Housing Program. As you know, the Public Housing Program involves fiscal management, property management, and program management including numerous, specific areas of business that were not a part of this audit. Rent calculation is an important element but does not reflect on the entire management of the program.

Please thank your staff for their thorough, professional work and we welcome a confirmatory review in the future.

Sincerely,

Daniel J. Nackerman

Daniel J. Nackerman
Executive Director

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 The title of the report has been reworded. The change is reflected in the final audit report.

Appendix C

CRITERIA

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

HUD's regulations at 24 CFR 960.257(a) provide that for families who pay an income-based rent, the public housing agency must conduct a reexamination of family income and composition at least annually and must make appropriate adjustments in the rent after consultation with the family and upon verification of the information.

HUD's regulations at 24 CFR 960.257(b) state that a family may request an interim reexamination of family income or composition because of any changes since the last determination. The public housing agency must make the interim reexamination within a reasonable time after the family request. The public housing agency must adopt policies prescribing when and under what conditions the family must report a change in family income and composition.

HUD's regulations at 24 CFR 960.257(c) require the public housing agency to adopt admission and occupancy policies concerning conduct of annual and interim reexaminations in accordance with this section and shall conduct reexaminations in accordance with such policies.

HUD's regulations at 24 CFR 960.259(c)(1) require the public housing agency to obtain and document in the family file third-party verification of the following factors, or must document in the file why third-party verification was not available: (1) reported family annual income, (2) the value of assets, (3) expenses related to deductions from annual income, and (4) other factors that affect the determination of adjusted income or income-based rent.

HUD's Public Housing Occupancy Guidebook

- Chapter 1.2 requires public housing agencies to verify that an applicant qualifies as a person with a disability before permitting the applicant to move into housing designated for persons with disabilities or granting the \$400 rent calculation deduction, disability expense allowance, or deduction for unreimbursed medical expenses.
- Chapter 10.1 states that annual income includes all amounts, monetary and nonmonetary, that go to or on behalf of the family head or spouse or to any other family member or are anticipated to be received from a source outside the family in the 12 months following admission or the effective date of the annual reexamination. Annual income includes amounts derived from assets to which any member of the family has access that are not specifically excluded by federal regulations.

- Chapter 12.5 states that when families report zero income and have no income excluded for rent computation, public housing agencies have an obligation to pursue verification of income that reflects the family's lifestyle. One method is to examine the family's circumstances every 60 to 90 days until the family has a stable income.

The Authority's Admissions and Continued Occupancy Policy

- Pages 6-1 through 6-4 state that if neither the third-party verification nor the third-party oral verification is available or the information has not been verified by a third party within 15 business days of the initial request, the Authority must note in the file the attempts to obtain the third-party verification from the source provider. The Authority can then use documents provided by the family as the primary source if the documents provide complete information. The policy specifies that for applicants, verifications may not be more than 90 days old at the time of a unit offer. For tenants, verifications are valid for 120 days from the date of receipt.
- Pages 6-1 through 6-4 and page 6-7 require the Authority to verify employment income by obtaining six to eight consecutive paycheck stubs or earning statements or not less than three months of stubs.
- Pages 6-10 through 6-11 stipulate that when a family claims to have little (less than \$3,600 per year) or no income over a substantial period, the Authority must determine the source of income when the family's regular expenses conflict with their claim of zero income. If the resident has a car, a telephone, cable television, or Internet services; smokes; or has other evidence of some form of income, the resident should be asked about the source of income supporting cash expenditures when zero income is reported. Families claiming to have no income will be required to execute verification forms to determine that forms of income, such as unemployment benefits, Aid to Families with Dependent Children, Supplemental Security Income, etc., are not being received by the household. The Authority will request information from the State Employment Development Department. The family is required to complete a monthly declaration of zero income. The family is required to complete a quarterly interim recertification, and the Authority can visit the unit to determine the likelihood of the zero income report.
- Pages 6-19 through 6-21 specify that the medical expense deduction is permitted only for households in which the head or spouse is at least 62 years of age or disabled (elderly or disabled households).
- Page 6-24 requires that verification of disability be receipt of Supplemental Security Income or Social Security Administration disability payments...or verified by an appropriate diagnostician such as physician, psychiatrist, psychologist, therapist,

rehabilitation specialist, or licensed social worker, using HUD language as the verification format.

- Pages 10-1 through 10-5, Verification of Information, state: “All information, which affects the family’s continued eligibility for the program, and the family’s Total Tenant Payment (TTP) will be verified in accordance with the verification procedures and guidelines described in this Policy. Verifications used for recertification must be less than 90 days old. All verifications will be placed in the file that has been established for the family.”
- Pages 10-9 through 10-10 state:

Standard for Timely Report of Changes

The Authority requires that families report interim changes to the Authority within 10 days of when the change occurs. Any information, document, or signature needed from the family to verify the change must be provided within 10 days of the change. If the change is not reported within the required time period, or if the family fails to provide signatures, certifications, or documentation (in the time period requested by the Authority), it will be considered untimely reporting.

Procedures When the Change Is Reported in a Timely Manner

Tenant’s rent is payable in advance and due on the first of each month. Any decrease in income that affects the tenant’s rental portion must be of a 30-day duration before the tenant is eligible to request a rental adjustment. Any changes in income that result in a decrease will be effective the month following the end of that 30-day waiting period. The Authority will notify the family of any changes in tenant rent 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 the month in which the change is reported, as long as the change was reported prior to the 25th of that month and is of at least 30-days duration.

Procedure When the Change Is Not Reported by the Tenant 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 underpaid rent 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 completion of processing by the Authority and not retroactively.

Procedures When the Change Is Not Processed by the Authority in a Timely Manner

If the Authority is the cause of delaying the change in a resident's rent and that change would have resulted in a decrease in rent, the Authority will credit the resident's rent. If the change would have resulted in an increase in the resident's rent, the Authority will make the increase effective 30 days following notice to the resident of the increase.

Appendix D

TENANT RENT CALCULATION ERRORS

Sample #	Tenant rent overcharge	Tenant rent undercharge	Error type									
			Annual income calculation	Income verification	Outdated verification documents	Allowance verification	Unreported income not detected	Recertification not processed	Incorrect flat rent	No support for recertification	Tenant in two public housing households	
2	\$0	(\$92)	x									
4	0	(582)	x	x	x			x				
5	0	(225)	x		x							
9	0	(2,031)	x	x	x	x		x				
13	264	0	x	x	x							
16	242	0	x									
24	768	0	x	x	x				x			
25	0	(15)	x		x							
28	0	(55)	x	x	x	x						
32	0	(300)	x	x			x					
35	243	0	x				x					
36	9	0	x		x							
37	0	(56)	x		x							
39	0	(8)	x									
40	0	(522)	x		x	x						
43	0	(2,050)	x								x	
47	0	(297)	x	x								
48	0	(2,139)	x				x					
49	881	0	x									
50	0	(1,669)	x	x			x	x	x			
53	0	(690)	x	x	x							
54	0	(1,006)	x	x	x							
55	0	(800)	x		x							
58	126	0	x				x					
59	0	(1,427)	x	x			x			x		
60	0	(31)	x		x	x						
63	0	(816)	x	x			x					
64	0	(330)	x	x			x	x	x			
65	0	(864)	x		x							
84	1,269	0	x	x	x	x			x			x
90	0	(3,544)	x	x	x			x				
97	0	(6,070)	x	x	x	x		x				
103*	0	0	x	x					x			
105	9	0		x								
110	0	(1)	x	x								
111	0	(18)	x	x	x	x						
Totals	\$3,811	(\$25,638)	35	20	19	15	6	5	1	1	1	

* We were unable to calculate an accurate total tenant payment to determine the tenant rent overcharge/undercharge for this household because the Authority refused to process the tenant's interim recertification requests, which resulted in the lack of income verification to determine the correct annual income.