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TO: Shawn Sweet, Director of Public Housing Hub, 5DPH  
Craig T. Clemmensen, Director of Departmental Enforcement Center, CACB

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

SUBJECT: Housing Authority of the City of Terre Haute, IN, Did Not Materially Operate  
Its Programs According to HUD's Requirements and Did Not Effectively  
Operate Its Section 8 Housing Choice Voucher Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Housing Authority of the City of Terre Haute's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction and our audits of the Authority's nonprofit development activities, Public Housing Capital Fund program, and Turnkey III Homeownership program. 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. This is the second of two audit reports on the Authority's Housing Choice Voucher program.

### **What We Found**

As identified in this and our prior audits, the deficiencies in the Authority's programs were significant and demonstrated a lack of effective program management. The Authority's board of commissioners did not adequately exercise its responsibility to effectively manage the Authority. Its former executive director did not implement adequate controls over its operations. Its

board and its former executive director did not follow HUD's requirements or the Authority's policies. As a result, HUD had no assurance that the programs managed by the Authority were and/or are managed effectively.

The Authority failed to follow HUD's and its own requirements regarding the Section 8 waiting list, paid housing assistance for the wrong payment standard and inappropriate housing, and created conflicts of interest regarding its for-profit and nonprofit entities. Households on the waiting list were forced to increase their waiting period before receiving assistance under the program; the Authority paid nearly \$117,000 in housing assistance for units that were not allowed under HUD's requirements; and there was no assurance that households lived in qualified housing, paid the appropriate rents, and were housed fairly and that applicants were properly screened.

The Authority failed to operate its Family Self-Sufficiency program correctly and paid more than \$58,000 in escrow payments to households contrary to Federal requirements. It failed to ensure that households sought and maintained suitable employment, completed final goals before graduating from the program, certified that they did not receive welfare assistance before graduating from the program, and were in good standing in the Section 8 program before issuing early escrow payments, and it lacked adequate supporting documentation.

The Authority's program administration regarding housing assistance payment calculations, documentation to support households' eligibility for housing assistance, and its Section 8 project-based certificate contract was inadequate. The Authority incorrectly calculated households' payments, resulting in more than \$11,000 in overpayments and more than \$600 in underpayments for the period February 2009 through May 2010. Based on our statistical sample, we estimate that over the next year, HUD will overpay more than \$15,000 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 (1) implement a detailed comprehensive plan to improve its programs, (2) reimburse its program more than \$126,000 from non-Federal funds for the improper use of program funds, (3) reimburse its Family Self-Sufficiency program more than \$58,000 from non-Federal funds for its improper use of funds, (4) provide support or reimburse its program nearly \$8,900 from non-Federal funds for the unsupported housing assistance payments, and (5) implement adequate procedures and controls to address the findings cited in this audit report to prevent more than \$15,000 in program funds from being spent on excessive housing assistance and utility allowances over the next year.

We also recommend that the Director of HUD's Cleveland Office of Public Housing, in conjunction with the Director of HUD's Departmental Enforcement Center, take administrative action against the former executive director and

former board of commissioners for failing to administer the Authority according to HUD's and its own requirements.

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

### **Auditee's Response**

We provided our 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 provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on September 20, 2010.

We asked the executive director to provide comments on our discussion draft audit report by September 23, 2010. The executive director provided written comments, dated September 22, 2010. The executive director generally agreed with our recommendations. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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The Housing Authority of the City of Terre Haute (Authority), IN, was established on April 28, 1960, as a municipal corporation under Section 36-7-18-4 of the Indiana Code to provide decent, safe, and sanitary housing to low-income families under the United States Housing Act of 1937. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Terre Haute to 4-year terms. The board governs the business, policies, and transactions of the Authority. The executive director is appointed by the board and has overall responsibility for carrying out the board's policies and managing the Authority's day-to-day operations. The Authority's books and records are located at 2001 North 19<sup>th</sup> Street, Terre Haute, IN. As of May 31, 2010, the Authority owned 868 low-rent public housing units in 6 projects, administered 890 Section 8 voucher units, and managed another 171 housing units for 2 nonprofit and 2 for-profit entities.

This is the fifth of five planned audit reports on the Authority's programs. The first audit report (report #2009-CH-1011, issued on July 31, 2009) included three findings. The objectives of our first audit were to determine whether the Authority diverted or pledged resources subject to its annual contributions contract, other agreement, or regulation for the benefit of non-U.S. Department of Housing and Urban Development (HUD) developments without specific HUD approval. The second audit report (report #2009-CH-1017, issued on September 29, 2009) included one finding. The objective of the second audit was to determine whether the Authority followed HUD's requirements regarding the administration of its Turnkey III Homeownership program. The third audit report (report #2010-CH-1010, issued on July 27, 2010) included four findings. The third audit's objective was to determine whether the Authority (1) effectively administered its Public Housing Capital Fund program and followed HUD's and its requirements and (2) had the capacity to administer its American Recovery and Reinvestment Act of 2009 (Recovery Act) Capital Fund program. The fourth audit report (report #2010-CH-1005, issued on April 9, 2010) had one finding. The objective was to determine whether the Authority's Section 8 Housing Choice Voucher program (program) units met HUD's housing quality standards when the units passed the Authority's previous inspections.

Our objective was to determine whether the Authority administered its program in accordance with HUD's requirements and its program administrative plan. Specifically, our objectives were to determine whether the Authority (1) administered its HUD-funded programs in accordance with Federal and its requirements; (2) administered its program waiting list, determined subsidy standards, and followed conflict-of-interest provisions according to HUD's requirements and its administrative plan; (3) appropriately managed its Family Self-Sufficiency program according to HUD's requirements and its action plan; and (4) corrected deficiencies identified by HUD pertaining to income analysis and subsidy determination. This is the second of two audit reports on the Authority's Housing Choice Voucher program.

## RESULTS OF AUDIT

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### Finding 1: The Authority Was Not Operated According to HUD's and Its Requirements

The Authority's former board of commissioners did not adequately exercise their responsibility to effectively manage the Authority. The Authority's former executive director also did not implement adequate controls over its HUD-funded programs. Further, the Authority lacked adequate controls over its operations. The Authority's former board and former executive director did not follow HUD's or its own requirements. As a result, HUD lacked assurance that the Authority's resources were used to the maximum extent to benefit low- and moderate-income tenants.

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#### **The Authority's Management Did Not Effectively Oversee Operations**

As identified in this and our prior audits (homeownership, nonprofit development, Public Housing Capital Fund program and Recovery Act, and Section 8 housing quality standards), the Authority (1) lacked documentation to support its use of Turnkey III program sales proceeds, (2) established inappropriate relationships with its nonprofit development corporation and then used its Federal resources to support the corporation, (3) mismanaged its Public Housing Capital Fund, (4) lacked capacity to adequately administer its Recovery Act funds, and (5) did not adequately manage its Section 8 Housing Choice Voucher program.

Specifically, the Authority

- Under the direction of the former executive director and former board of commissioners, did not comply with HUD's requirements regarding the use of the Turnkey III program proceeds from the sale of its program units. The Authority did not maintain documentation to determine whether the sales proceeds were used in accordance with its approved plan. The problem occurred because the Authority lacked adequate procedures and controls to ensure that it complied with HUD's requirements and maintained accountability of program funds and related expenses. Further, the Authority's former board did not provide adequate oversight and/or guidance regarding the Authority's operations (see Office of Inspector General (OIG) audit report #2010-CH-1010).
- Allowed its former executive director to create a conflict-of-interest relationship as the Authority's executive director and resident agent for its nonprofit developments. The problem occurred because the Authority's

former board of commissioners did not provide adequate oversight and monitoring of its operations (see OIG audit report #2009-CH-1011).

- Failed to comply with Federal requirements and/or its procurement policy. Specifically, it did not (1) maintain records to support detailing significant procurement histories and (2) ensure that its maintenance staff and/or contractors were paid the appropriate Federal labor standards prevailing wage rates under the Davis-Bacon Act. The problems occurred because the former executive director disregarded Federal requirements (see OIG audit report #2010-CH-1010).
- Lacked capacity to adequately expend its Recovery Act funds. It did not have (1) written policies and procedures governing the administration of the funds and (2) staff knowledgeable of HUD's and other Federal procurement requirements. The problems occurred because the previous board allowed the former executive director to control the Authority's financial and procurement activities without providing adequate oversight (see OIG audit report #2010-CH-1010);
- Did not adequately enforce HUD's housing quality standards. Of the 55 program units statistically selected for inspection, 31 failed to meet minimum housing quality standards, and 22 had material violations that existed before the Authority's previous inspections. The violations existed because the Authority failed to exercise proper supervision and oversight of its program unit inspections. It also lacked adequate procedures and controls to ensure that its program units met HUD's housing quality standards (see OIG audit report #2010-CH-1005).
- Failed to follow HUD's and its own requirements regarding the Section 8 waiting list, paid housing assistance for the wrong payment standard and inappropriate housing, and created conflicts of interest regarding its for-profit and nonprofit entities. The Authority failed to operate its Family Self-Sufficiency program according to HUD's requirements and its family self-sufficiency action plan. It also did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. The problems occurred because the Authority lacked adequate procedures and controls to ensure that the former executive director followed HUD's requirements and its administrative plan (see findings 2, 3, and 4 in this report).

### **Prior HUD Reviews Identified Deficiencies**

HUD conducted an independent assessment of the Authority and issued its report on February 20, 2009. The assessment was conducted because the Authority's most recent Public Housing Management Assessment program reporting rated the

Authority as a troubled agency. HUD is required to conduct an independent assessment of public housing authorities when they are determined to be troubled.

HUD's assessment team stated that the Authority needed to (1) review and possibly redefine its mission; (2) adjust its organizational structure; (3) implement complimenting policies, procedures, and practices; (4) put into place effective and accurate tracking systems; (5) accurately transmit data to HUD; and (6) create and implement prudent financial policies and procedures. The independent assessment required a memorandum of agreement between HUD and the Authority. HUD issued the memorandum to the Authority in April 2010, but it had not been executed as of September 2010.

HUD completed a rental integrity monitoring review in July 2003. Thirty-two of the forty-eight files reviewed (67 percent) required corrective action. The findings included the (1) lack of written supporting documentation offering choice of rent in all files; (2) lack of third-party verification; (3) systemic issues in the calculation of earned income, pension, and/or public assistance; (4) failure to properly calculate the payment standard as based on bedroom size including households that were overhoused; (5) family case records reflecting a lack of quality control; (6) differences in calculated housing assistance payments and actual amounts reflected on the register; and (7) miscalculations in utility allowances that resulted in incorrect gross rents.

### **The Authority's Management Did Not Protect HUD's Interest**

The Authority violated its contract with HUD when it provided \$33,000 to its nonprofit to finance the preconstruction costs for the nonprofit's housing units and failed to maintain complete and accurate books of record. It lacked adequate procedures and controls to ensure that it was accountable for funds and related expenses and that it complied with its contract with HUD.

The Authority encumbered project assets when it obtained a \$2.3 million construction loan to finance electrical system upgrades to support the installation of air conditioning units at its senior housing development, Dreiser Square. The loan agreement authorized Transamerica Public Finance to obtain a security interest in the Authority's assets. Further, the Authority incurred interest expenses totaling more than \$800,000 on the construction loan and did not obtain an energy audit before the upgrades.

The Authority encumbered project assets when it obtained a promissory note for a \$2 million revolving line of credit with First Financial Bank (bank) to finance its capital improvements. The note contained a setoff provision that allowed the bank to seize the Authority's accounts with the bank if it defaulted on the note. The Authority also obligated Public Housing Capital Fund program funds before they were available to reimburse withdrawals from its line of credit. Further, it paid more than \$129,000 in interest on the line of credit.

## The Authority's Procedures and Controls Had Weaknesses

The weaknesses described above occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's and its requirements. The former executive director was aware of HUD's regulations but chose not to follow them, instead operating the Authority his way. According to correspondence to the HUD field office, dated November 30, 2005, the former executive director stated he did not need any technical assistance from HUD because HUD's staff did not possess any abilities in that area that he considered useful.

The former board of commissioners lost control of the Authority to its former executive director. He intimidated, threatened, and denied training to the board of commissioners. When new commissioners were appointed and the former executive director was removed, the Authority began to correct the deficiencies.

## Conclusion

The deficiencies in the Authority's programs were significant and demonstrated a lack of effective program management. HUD and the Authority should implement a detailed comprehensive plan to improve the Authority's programs. The plan should include the submission of quarterly reports to HUD detailing the Authority's progress in improving its procedures and controls regarding its programs in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in our audit reports.

## Recommendations

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to

- 1A. Implement a detailed comprehensive plan to improve the Authority's programs. The plan should include the submission of quarterly reports to HUD detailing the Authority's progress in improving its procedures and controls regarding its programs in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in our audit reports. If the Authority fails to show substantial improvement within 1 year, further administrative actions should be taken by HUD to include placing the Authority's programs under a third-party administrator or receivership.

We also recommend that the Director of HUD's Cleveland Office of Public Housing, in conjunction with the Director of HUD's Departmental Enforcement Center,

- 1B. Take administrative action against the former executive director and former board of commissioners for failing to administer the Authority according to HUD's and its own requirements.

## Finding 2: The Authority Did Not Operate Its Program According to HUD's and Its Requirements

The Authority failed to follow HUD's and its own requirements regarding its (1) use of the incorrect payment standard, (2) approval of ineligible housing, (3) program waiting list, and (4) creation of conflicts of interest with its for-profit and nonprofit entities. The problem occurred because the Authority's board of commissioners did not provide adequate oversight and monitoring of its operations. As a result, HUD and the Authority lacked assurance that the former executive director performed his official duties in the interests of HUD, the Authority, and program participants. Also, the Authority paid nearly \$117,000 in housing assistance for units that were not eligible under HUD's requirements and for units not considered suitable for the program.

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### **The Authority Used the Incorrect Payment Standard and Ineligible Housing**

The Authority inappropriately used the wrong payment standard for four units owned by the Authority's nonprofit, Terre Haute Housing Authority Redevelopment Corporation. Without HUD approval, the former executive director authorized a 128 percent increase in the payment standard for four of its nonprofit's units so the nonprofit could pay its mortgages. This increase in payment standard caused an increase in housing assistance payments by more than \$200 per month. This action resulted in housing assistance overpayments of \$30,795 between March 2006 and March 2009 when the Authority ended the practice.

The Authority paid housing assistance for 10 units at the Light House Mission that did not meet the standards for a 1-bedroom unit. It failed to follow HUD's regulations when it paid housing assistance for units the Authority determined to be one-bedroom units when the units did not have the proper requirements for a one-bedroom unit. The units' kitchens did not contain a sink with hot and cold running water as required by HUD's housing quality standards. The units that did not qualify for the program received \$86,096 in housing assistance payments from December 1, 2003, through May 1, 2010.

### **The Authority Inappropriately Managed the Section 8 Waiting List**

The Authority failed to follow HUD's and its own requirements regarding its program waiting list. The Authority's program waiting list was bypassed when the Authority allowed local area nonprofits and its own for-profit and nonprofit entities to fill its vacant program units with applicants that the owners selected.

The Authority allowed up to 251 units to be filled in this manner when the former executive director called them set-aside vouchers. However, HUD's approval was not requested or given as required.

According to the Authority's records, the Authority allowed the bypassing of the waiting list from January 2003 to March 2008. It had a direct interest in 110 (43.8 percent) of the 251 units. These units were the Authority's for-profit and nonprofit entities for which the former executive director was also the resident agent. HUD's regulations and the Authority's administrative plan require that prospective households be selected from the program waiting list. The Authority discontinued this practice in March 2008 when the former executive director left the Authority.

One of the property managers of the Authority's entities was directed to treat the units as if he owned them. He filled the units with households found in the Authority's public housing program and through churches, friends of program households, and the local police department's referrals. He received no formal training, although he shared the same responsibilities as the Authority's program managers other than inspecting the units. His duties included conducting the initial and annual certifications for households in the entities' units.

### **The Authority Had a Conflict of Interest With Its Subsidiaries**

The Authority had a conflict of interest with its for-profit and nonprofit entities. It inappropriately conducted inspections, certifications, and rent reasonableness determinations and bypassed the waiting list for the entities in which the Authority had a direct interest. The Authority's former executive director selected the property managers for the entities. The Authority's staff was unaware that it was a conflict of interest to conduct the inspections and rent reasonableness determinations for the entities' units. Its program coordinator ensured that household certifications were taken over by the program department after the former executive director was removed by the board of commissioners.

During our audit of the program, the Authority was made aware of the conflicts of interest and began the separation of duties for its staff. The Authority also executed contracts with a third party to inspect the entities' units and conducted rent reasonableness determinations.

### **The Authority's Procedures and Controls Had Weaknesses**

The weaknesses described above occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its administrative plan. The Authority's former executive director failed to follow HUD's requirements in managing the program's waiting list when

he directed the bypassing of the list. The Authority's current management did not know why the waiting list was bypassed.

The former executive director had excessive building costs for the four units questioned and increased the payment standard to cover the mortgage costs. He determined that the units located at the Light House Mission would be considered one-bedroom units. Also, he was aware of HUD's regulations but chose not to follow them, instead operating the Authority his way. According to correspondence to the HUD field office, dated November 30, 2005, the former executive director stated he did not need any technical assistance from HUD because HUD's staff did not possess any abilities in that area that he considered useful.

## Conclusion

The Authority lacked adequate procedures and controls to ensure that its former executive director followed HUD's requirements and its plan. HUD lacked assurance that the program was operated according to requirements. As a result of the Authority's procedural and control weaknesses, households on the waiting list were forced to increase their waiting period before receiving assistance under the program and the Authority paid more than \$30,500 in excessive housing assistance for four units and more than \$86,000 in inappropriate housing assistance for units that did not meet HUD's standards for a one-bedroom unit. Also, HUD had no assurance that households lived in qualified housing, paid appropriate rents, were housed fairly, and applicants were properly screened.

## Recommendations

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to

- 2A. Reimburse its program \$30,795 in housing assistance and utility allowance payments from non-Federal funds for the inappropriately increased payment standards for the units cited in this finding.
- 2B. Reimburse its program \$86,096 in housing assistance and utility allowance payments from non-Federal funds for the 10 units that did not meet standards for a one-bedroom unit.
- 2C. Implement adequate procedures and controls regarding its payment standards to ensure that the Authority and its executive director comply with HUD's regulations and its program administrative plan.
- 2D. Implement adequate procedures and controls regarding its waiting list to ensure that the Authority and its executive director comply with HUD's regulations and its program administrative plan.

- 2E. Implement adequate procedures and controls to ensure that future conflicts of interest do not occur and that the Authority and its executive director comply with HUD's regulations and its program administrative plan.

### Finding 3: The Authority Failed To Adequately Manage Its Family Self-Sufficiency Program

The Authority failed to operate its Family Self-Sufficiency program according to Federal requirements and its family self-sufficiency action plan. This deficiency occurred because the Authority lacked adequate procedures and controls regarding the program. As a result, it inappropriately made more than \$57,000 in final escrow payments and an additional \$1,026 in early escrow payments.

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#### **The Authority Inappropriately Made More Than \$58,000 in Escrow Payments**

The Authority failed to operate its Family Self-Sufficiency program according to Federal requirements and its family self-sufficiency action plan. We selected the files for 7 families that graduated from the program, statistically sampled 41 program participants, and selected the files for 3 families during our survey phase that were not included in our sample. Of the files reviewed, 25 did not have a final goal of maintaining suitable employment, 12 did not have annual notifications of escrow accounts, and 1 did not have a signed contract of participation. HUD's requirements state that a final goal must be maintaining suitable employment specific to that individual's skills, education, and job training and the available job opportunities in the area. The Authority inappropriately paid \$58,110 in escrow funds to participants of the program. Of these funds, \$57,084 was issued to participants that failed to appropriately complete the program as follows:

- Six files did not show that the final goals were completed,
- Four files did not contain a written certificate from the head of household stating that no family member had received welfare assistance in the past 12 months, and
- One file contained the final goals, but did not have sufficient documentation to determine whether the participant completed the program although the family was listed as a program graduate and escrow funds were paid to the family.

The remaining funds (\$1,026) were early escrow funds inappropriately issued for the households' share of Section 8 rental payments owed to the Authority's nonprofit properties. The contract of participation states that the household must comply with the terms of the lease. The lease requires the household to pay its portion of the rent.

The Authority and HUD could not produce an approved program action plan as mandated by Federal requirements. Also, the Authority's unapproved program action plan did not follow Federal requirements when it required participants to (1) purchase a home to complete the program; (2) not receive any Federal, State,

local, or other assistance until 2 years after graduating from the program; and (3) pay back the escrow funds received for graduation if they received any assistance up to 2 years after graduation. Also, the Authority failed to ensure that the most recent contract of participation, form HUD-52650, was used for participants. The Authority used the 1993 contract of participation that expired in July 2006.

### **The Authority's Procedures and Controls Had Weaknesses**

The weaknesses described above occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed Federal regulations and its plan. Also, the Authority and HUD could not provide a HUD-approved plan as required by Federal requirements. The Authority's former executive director began the Authority's nonprofits and required the households in these units to be on the Section 8 program and the Family Self-Sufficiency program. When the former executive director left the Authority, it failed to make sufficient changes to its program until the former family self-sufficiency program coordinator left the Authority in February 2010.

The Authority used the program to lease its nonprofits' units. It moved families into the units, requiring the families to sign a document that required them to participate in the program or be evicted. Some participants were not aware of this requirement until after they moved into the units, forcing the Section 8 participants to be on the program. HUD's regulations at 24 CFR (Code of Federal Regulations) 984.103(2) state that the participating family means a family that elects to participate in the program.

The issues in this finding were discussed with the Authority, and the Authority recognized the past failures and was working on correcting the current program to ensure that it follows HUD's and its requirements. The Authority discontinued its practice of paying household rents, requiring households to purchase a home, requiring households to be on the program if they reside in the Authority-owned nonprofit units, and requiring households to leave the Section 8 program upon graduation from the program. During our file review, the Authority was in the process of revising the final goals so they meet the program requirements. Prior to the revision of the final goals, 47 of the 51 files reviewed did not contain the required final goal of maintaining suitable employment, 2 files did not contain the final goals, and 1 file had the final goal as maintaining suitable employment.

### **Conclusion**

The Authority improperly used funds from its Family Self-Sufficiency program when it failed to comply with Federal requirements. The Authority's failure to maintain sufficient documentation made it difficult to determine whether the program met its goal of enabling households to become economically self-sufficient and increased the likelihood of inappropriate households receiving

payments. It also reduced the Authority's ability to monitor and measure the effectiveness of the program. As a result of its noncompliance, the Authority inappropriately made more than \$57,084 in final escrow payments and an additional \$1,026 in early escrow payments.

## Recommendations

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to

- 3A. Reimburse its Family Self-Sufficiency program \$58,110 (\$57,084 in final escrow payments and \$1,026 in early escrow payments paid to participants) from non-Federal funds for escrow payments issued without a properly completed contract of participation and escrow payments for inappropriate early payments.
- 3B. Correct its Family Self-Sufficiency action plan to provide low-income families with opportunities for education, job training, counseling, and other forms of social service assistance so they may obtain the education, employment, and business and social skills necessary to achieve self-sufficiency and obtain HUD approval of the action plan.
- 3C. Review the files of current participants to ensure that all documentation is present and program requirements are met.
- 3D. Implement adequate procedures and controls regarding its Family Self-Sufficiency program to ensure that it follows Federal regulations and its Family Self-Sufficiency action plan, to include ensuring that new participants are appropriately initiated into its program.

## Finding 4: The Authority Did Not Always Maintain Its Program Household Files Accurately

The Authority did not comply with HUD's requirements and its program administrative plan when issuing housing assistance and utility allowance payments. It failed to consistently compute payments accurately and maintain documentation to support all payments to program owners and households. These deficiencies occurred because the Authority lacked adequate procedures and controls to ensure that its calculations were accurate and that HUD's requirements and its plan were appropriately followed. As a result, it overpaid nearly \$11,000 and underpaid more than \$600 in housing assistance and utility allowances and was unable to support nearly \$8,900 in housing assistance and utility allowances paid. Based upon our statistical sample, we estimate that over the next year, the Authority will overpay more than \$15,000 in housing assistance and utility allowances.

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### **The Authority Made Incorrect Housing Assistance and Utility Allowance Payments**

We statistically selected 45 household files from a universe of 945 households that received housing assistance payments during the period February through September 2009, using data-mining software. The 45 files were reviewed to determine whether the Authority accurately verified and calculated the income information received from households for their housing assistance and utility allowances for the period February 1, 2009, through May 31, 2010. Our review was limited to the information maintained by the Authority in its household files.

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

The Authority's miscalculations resulted in overpayments of \$5,966 and underpayments of \$648 in housing assistance and utility allowances. The Authority incorrectly calculated housing assistance and utility allowances for 15 (33 percent) households in one or more certifications. The 15 files contained miscalculations of the households' annual income and income deductions and the use of an incorrect utility reimbursement schedule and/or incorrect payment standard.

Of the \$5,966 in overpaid housing assistance and utility allowances, \$3,143 (12 households) was a result of the Authority's calculation errors and \$2,823 (3 households) was a result of households' underreporting their income to the Authority. However, the Authority's files contained the correct income information for the three households. One file each contained a report from

HUD's Enterprise Income Verification system, child support verification report, and third-party income verifications showing the correct income information. The \$648 in underpaid housing assistance and utility allowances was a result of the Authority's calculation errors.

The 15 files contained the following errors:

- 15 had annual income calculation errors by the Authority for 1 or more certifications,
- 4 had incorrect income adjustments for 1 or more certifications,
- 3 had unreported income by the households for 1 or more certifications,
- 1 had incorrect utility reimbursement calculations for 1 or more certifications,
- 1 had incorrect payment standards for 1 or more certifications, and
- 1 had incorrect income verification for 1 or more certifications.

The Authority received \$614 in program administrative fees related to the 15 households that were overpaid housing assistance and utility allowances for the period February 1, 2009, through May 31, 2010.

The Authority failed to ensure that housing assistance payments were appropriately stopped for four deceased households, resulting in overpayments of \$4,844. Housing assistance payments are required to be stopped the month after death. When the Authority learned of a household's death, it also failed to collect the funds from the owners after erroneous payments were made. The housing assistance was paid from 1 to 11 months after the required time to stop payments. One identified overpayment was returned by the owner and was not included in our totals.

### **Household Files Lacked Eligibility Documentation**

The Authority lacked documentation to support housing assistance and utility allowance payments totaling \$8,893 for the period February 1, 2009, through May 10, 2010. Of the 45 household files statistically selected for review, 5 files (11 percent) were missing or contained incomplete or late documents as follows:

- Five were missing a rent reasonableness determination for the leased unit,
- Two were missing the lease,
- One did not have the lease and housing assistance payments contract executed within 60 days of each other,
- One was missing a housing assistance payments contract, and
- One was missing the original application.

The five files did not include documentation required by HUD's regulations and the Authority's program administrative plan. Of the required documentation to

support housing assistance payments and utility allowances, the disclosure of information on lead-based paint and the original application were not a determining factor in the computation of the unsupported housing assistance payments cited in this audit report.

### **The Authority's Procedures and Controls Had Weaknesses**

The weaknesses regarding incorrect calculations, inappropriate payments, and missing documentation occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's regulations and its program plan. Although the Authority's process for performing certifications gave its housing specialists discretion to review previous file documentation, it did not require them to do so. Therefore, if an error was made on a prior certification, that error could continue from one certification to the next. However, this was not the only cause for the incorrect calculations of housing assistance payments and utility allowances. Fifty-two errors were made in calculating household income for one or more certifications as a result of the failure to collect and complete the appropriate eligibility documentation.

The Authority conducted peer reviews, and its supervisors conducted monitoring reviews of the certifications. The supervisory reviews were performed in the same manner as the certifications that the housing specialists performed. The Authority had four housing specialists that performed certifications and recertifications. Three housing specialists had attended formal training. Informal training was conducted by the Authority's Section 8 coordinator. Although the Authority had external and internal training processes and performed monitoring reviews of the certifications, the certification errors occurred. Therefore, additional procedures and controls are needed to ensure full implementation of HUD's regulations and the Authority's program administrative plan.

### **Conclusion**

As a result of its procedural and control weaknesses described above, the Authority overpaid \$10,810 and underpaid \$648 in housing assistance and utility allowances and disbursed \$8,893 in housing assistance and utility allowance payments without supporting documentation. If the Authority implements adequate procedures and controls regarding its housing assistance and utility allowances to ensure compliance with HUD's regulations and its program plan, we estimate that more than \$15,000 in payments will be accurately spent over the next year based on the error rate found in our sample. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

## Recommendations

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to

- 4A. Reimburse its program \$3,757 (\$3,143 in housing assistance and utility allowance payments and \$614 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance and utility allowances cited in this finding.
- 4B. Pursue collection of the \$2,823 from the three households cited in this finding or reimburse its program the applicable amount from non-Federal funds for the overpaid housing assistance and utility allowances for unreported income.
- 4C. Reimburse the appropriate households \$648 for the underpayment of housing assistance and utility allowances cited in this finding.
- 4D. Provide supporting documentation or reimburse its program \$8,893 from non-Federal funds for the unsupported payments related to the five households cited in this finding.
- 4E. Collect the \$4,844 in overpaid housing assistance and utility allowances for the deceased households from the owners or reimburse its program the applicable amount from non-Federal funds for the overpayment of housing assistance and utility allowances.
- 4F. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and the Authority's program administrative plan. By implementing adequate procedures and controls, the Authority should help to ensure that \$15,177 in program funds is appropriately used for future payments.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws, HUD's program requirements at 24 CFR Part 982, and HUD's Housing Choice Voucher Guidebook 7420.10.
- The Authority's program administrative plan, revised July 2007; family self-sufficiency action plan; accounting records; annual audited financial statements for 2007 and 2008; program household files; computerized databases; policies and procedures; board meeting minutes for 2007, 2008, and 2009; organizational chart; and program annual contributions contract.
- HUD's files for the Authority.

We also interviewed the Authority's current employees, its former and current board members, and HUD staff.

### **Finding 3**

We selected 51 files for review. These files consisted of 7 households that graduated from the Family Self-Sufficiency program, a statistical sample of 41 participants in the program, and 3 households during our survey phase that were not included in the sample. We statistically selected 41 of the Authority's program household files from the 97 households that participated in the program from February 1 through September 30, 2009, using data-mining software. Our analysis was to determine whether the Authority appropriately maintained documentation and supported participation and graduation in the program. Our sampling method was an unrestricted variable with a 90 percent confidence level and precision level of plus or minus 10 percent.

### **Finding 4**

We statistically selected 45 of the Authority's program household files from the 945 households that received housing assistance payments from February 1 through September 30, 2009, using data-mining software. Our analysis was performed to ensure that the Authority improved its household file maintenance and housing assistance payments calculations after HUD's review of the Authority in January 2009. The 45 household files were selected to determine whether the Authority appropriately calculated the households' housing assistance and utility allowance payments and maintained documentation to support households' program eligibility.

Our sampling method was an unrestricted variable with a 90 percent confidence level and precision level of plus or minus 10 percent. Using variable sampling difference estimation techniques with a 95 percent confidence level, the sample results support an estimate that the Authority overpaid its program participants \$15,177 during our audit period.

<b>Summary for difference values (population = 945; sample/size = 45)</b>			
<b>Number of nonzero items</b>	15	<b>Confidence level</b>	95 percent
<b>Mean</b>	\$110.44	<b>Lower limit</b>	\$15,177
<b>Standard deviation</b>	\$409	<b>Point estimate</b>	\$93,527
<b>Skewness</b>	2.95	<b>Upper limit</b>	\$171,876
<b>Standard error (mean)</b>	\$58.09	<b>t-score</b>	1.6794
<b>Standard error (total)</b>	\$116,180		

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 \$15,177 in payments will be misspent over the next year. 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 onsite audit work between April and June 2010 at the Authority's office located at 2001 North 19<sup>th</sup> Street, Terre Haute, IN. The audit covered the period October 1, 2008, through March 31, 2010, but was expanded when necessary to include other periods.

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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

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## Relevant Internal Controls

We determined that the following internal controls were relevant to our objective:

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency.
- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority substantially lacked adequate procedures and controls to ensure that it properly managed the operations of its programs (see findings 1, 2, 3, and 4).
- The Authority lacked adequate procedures and controls to ensure that it operated its Section 8 Housing Choice Voucher program according to HUD's requirements and its administrative plan (see findings 2, 3, and 4).

## APPENDIXES

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### 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/
2A	\$30,795		
2B	86,096		
3A	58,110		
4A	3,757		
4B	2,823		
4C			\$648
4D		<u>\$8,893</u>	
4E	<u>4,844</u>		
4F			<u>15,177</u>
Totals	<u>\$186,425</u>	<u>\$8,893</u>	<u>\$15,825</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 the 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 our recommendation, it will cease to incur program costs for the overpayment and/or underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and/or the Authority's program administrative plan. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

#### HOUSING AUTHORITY OF THE CITY OF TERRE HAUTE

##### Board of Commissioners

JOHN WOLF    TERESA PRINCE    JEFF HARPOLE    KAREN MODESITT  
TOM HUNT    PATRICIA PARKER-ZAIKOVSKY    MARSHALL RECTOR

September 22, 2010

#### VIA FIRST CLASS MAIL AND EMAIL

Mr. Ronald Farrell, Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
77 West Jackson Boulevard, Suite 2646  
Chicago, IL 60604

**RE: Management Comments to Discussion Draft Audit Report 2010-  
CH-101X (Section 8 Housing Choice Voucher Program)**

Dear Mr. Farrell,

On behalf of the Housing Authority of the City of Terre Haute (the "Authority"), I am writing to provide the Authority's comments to the discussion draft audit report from the Office of Inspector General (the "OIG") relating to the Authority's Housing Choice Voucher ("HCV") program. I note from the outset that the ostensible objective of the audit was to determine whether the Authority administered its HCV program in accordance with the U.S. Department of Housing and Urban Development's ("HUD") requirements and the Authority's own HCV administrative plan. In spite of this stated objective, substantial portions of the audit, including the entire first finding, focus on issues unrelated to the Authority's HCV program.

More importantly, as with the previous four audits, the audit is primarily based on the actions of the former executive director, yet all proposed actions penalize the current administration and the residents. We believe that remedial measures whereby the Authority and HUD work together to improve the Authority's procedures and controls are appropriate. Financial penalties which will ultimately only penalize the Authority's residents serve no purpose where, as here, the party causing the injury is gone.

With the foregoing rationale in mind, the following are our comments on each of the findings and recommendations:

P.O. BOX 3086    TERRE HAUTE, INDIANA    47803-0086  
812-232-1381    812-234-4164 (FAX)    800-545-1833, ext. 271 (TDD)

Comment 1

Comment 2

**Finding 1: The Authority Was Not Operated According to HUD's and Its Requirements**

**Recommendations**

That the Director of HUD's Cleveland Office of Public Housing require the Authority to:

*1A. Implement a detailed comprehensive plan to improve the Authority's programs. This plan should include the submission of quarterly reports to HUD detailing the Authority's progress in improving its procedures and controls regarding its programs in accordance with its plan. The quarterly reports should address but not be limited to the issues cited in the OIG's audit reports. If the Authority fails to show substantial improvement within one year, further administrative actions should be taken by HUD to include placing the Authority's programs under a third-party administrator or receivership.*

**Comment 3**

Authority's Response: Disagree. The OIG is aware that the Authority is in the process of executing a negotiated Memorandum of Agreement ("MOA") with HUD. That document (combined with the management agreements from the various OIG audits) will serve as a comprehensive plan to improve the agency's operations. The MOA was not presented to the agency until May of 2010. With the OIG process nearing completion, it simply makes sense to allow that work to be completed and to include mutually agreeable recommendations as part of the MOA.

**Comment 4**

Additionally, where necessary, consultants have been retained to advise and to train the Authority's staff. The auditors were fully aware that Asher PHA Finance, LLC has been retained since October 2009 to assist the Authority with all financial issues. Legal counsel, Cohen & Grigsby, PC, was retained in April 2010 to assist the Authority with compliance and audit issues. Further, the additional staff members who have been hired to increase the Authority's capacity to oversee its programs have gone or are undergoing training, both on the job and through other providers.

Moreover, it is undisputed that all of the issues that the OIG raises were spawned over years of mismanagement under the former executive director (who was a long term employee of HUD's Indianapolis Field Office). The current administration has taken substantial steps to restore the credibility of the Authority and substantial improvement has already taken place. Providing only a year to show unspecified additional improvement, particularly if there are no agreed upon goals or milestones in place, is not warranted given the steps already taken.

This recommendation apparently does not recognize the substantial improvements that current management and the Board have accomplished over the past two years (during the OIG auditing process). Those improvements include:

- reconstructing financial records,
- re-organizing authority staffing to meet asset management requirements,
- completely overhauling the information technology system and hardware,
- rewriting or creating numerous policies (Personnel, ACOP, Admin, Procurement, Capitalization, Disposition, to name a few),
- improving internal controls by developing and adopting a Cost Allocation Plan and Financial Management Policy,
- increasing staff training,
- completing training for board members,
- initiating numerous cost-cutting measures,
- successfully implementing ARRA Capital Fund projects and expending 84% of the grant, and
- implementing a process of developing written procedures for all areas of the agency.

**Comment 5**

Numerous other management and operational improvements are implemented on a weekly basis. This recommendation suggests that little has been accomplished and that current management has been stationary while OIG has audited the agency for the last two years. Also, OIG is well aware that the Authority has aggressively implemented changes when auditors have identified areas of weakness. Neither a third-party administrator nor receivership should be considered as a remedy so long as the Authority continues to make strides to come into full compliance with all HUD regulations.

That the Director of HUD's Cleveland Office of Public Housing, in conjunction with the Director of HUD's Departmental Enforcement Center:

*1B. Take administrative action against the former executive director and board of commissioners for failing to administer the Authority according to HUD's and its own requirements.*

Authority's Response: Agree in part. Disagree in part. It is undisputed that all of the issues that the OIG raises originated under the former executive director. The Authority agrees that HUD should take whatever action it deems appropriate against him. As to the Board, however, the strength of character of the previous Board chairperson is the primary reason that the Authority was able to disengage and sever ties with the former executive director, under whose watch all of the malfeasance alleged in the audit report allegedly occurred. Additionally, administrative action should focus on the auditors who performed the annual audits over the last decade, yet never identified any of the issues found by the OIG's audit team. While we agree that certain remedies should be required, we believe that those should be demanded from the former executive director and auditors, not the entire prior Board, certain members of which acted to remedy the root of the problem.

**Finding 2: The Authority Did Not Operate Its Program According To HUD's and Its Requirements**

Recommendations

**Comment 6**

That the Director of HUD's Cleveland Office of Public Housing require the Authority to:

*2A. Reimburse its program \$30,795 in housing assistance and utility allowance payments from non-Federal funds for the inappropriately increased payment standards for the units cited in this finding.*

Authority's Response: Disagree. While the utility and housing assistance payment standards were incorrectly increased, it is unquestioned that the HCV participants received the benefit of the housing and utilities provided by the payments. Further, it must be noted that current management has stopped this practice. Compelling repayment from the Authority's already limited coffers will serve no purpose, other than to limit the Authority's resources that would otherwise be used for affordable housing purposes.

Given the foregoing, in lieu of repayment we suggest that the Authority be required to develop policies and procedures to ensure that such overpayment does not occur in the future.

*2B. Reimburse its program \$86,096 in housing assistance and utility allowance payments from non-Federal funds for the 10 units that did not meet standards for a one-bedroom unit.*

**Comment 7**

Authority's Response: Disagree. While the units fell short of the standards for one-bedroom units, it is unquestioned that the HCV participants received the benefit of occupying those units. The landlord in question, upon notification, immediately made the necessary unit modifications to qualify as a 1-bedroom (again demonstrating prompt action on the Authority's behalf). Compelling repayment from the Authority's already limited coffers will serve no purpose, other than to limit the Authority's resources that would otherwise be used for affordable housing purposes.

Given the foregoing, in lieu of repayment we suggest that the Authority be required to develop policies and procedures to ensure that the HUD housing standards are strictly obeyed.

*2C. Implement adequate procedures and controls regarding its payment standards to ensure that the Authority and its executive*

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 8**

*director comply with HUD's regulations and its program administrative plan.*

Authority's Response: Agree. The Authority has already taken such measures, and those measures were communicated in detail to the OIG auditor. The Authority adopted a new HCV Administrative policy in December 2008 that eliminated the non-compliant practices mandated by the former executive director. The current administration of the Authority is committed to operating the agency and its HCV program in compliance with all applicable state and federal laws and regulations, as well as with the Authority's own policies.

**Comment 9**

*2D. Implement adequate procedures and controls regarding its waiting list to ensure that the Authority and its executive director comply with HUD's regulations and its program administrative plan.*

Authority's Response: Agree. The Authority has already taken such measures, and those measures were communicated in detail to the OIG auditor. The Authority adopted a new HCV Administrative policy in December 2008 that eliminated the non-compliant practices mandated by the former executive director. The current administration of the Authority is committed to operating the agency and its HCV program in compliance with all applicable state and federal laws and regulations, as well as with the Authority's own policies.

**Comment 10**

*2E. Implement adequate procedures and controls to ensure that future conflicts of interest do not occur and that the Authority and its executive director comply with HUD's regulations and its program administrative plan.*

Authority's Response: Agree. The Authority has already taken such measures, and those measures were communicated in detail to the OIG auditor. The Authority adopted a new HCV Administrative policy in December 2008 that eliminated the non-compliant practices mandated by the former executive director. The current administration of the Authority is committed to operating the agency and its HCV program in compliance with all applicable state and

federal laws and regulations, as well as with the Authority's own policies.

**Finding 3: The Authority Failed To Adequately Manage Its Family Self-Sufficiency Program**

**Recommendations**

That the Director of HUD's Cleveland Office of Public Housing require the Authority to:

*3A. Reimburse its Family Self-Sufficiency program \$58,110 (\$57,084 in final escrow payments and \$1,026 in early escrow payments paid to participants) from non-Federal funds for escrow payments issued without a properly completed contract of participation and escrow payments for inappropriate early payments.*

Comment 11

Authority's Response: Disagree. To the extent that contracts were not properly completed or escrow payments were made early, the fact remains that HCV program participants joined in and received a benefit from the program. Compelling repayment from the Authority's already limited coffers will serve no purpose, other than to limit the Authority's resources that would otherwise be used for affordable housing purposes.

*3B. Correct its family self-sufficiency action plan to provide low-income families with opportunities for education, job training, counseling, and other forms of social service assistance so they may obtain the education, employment, and business and social skills necessary to achieve self-sufficiency and obtain HUD approval of the action plan.*

Comment 12

Authority's Response: Agree. The Authority is completing this recommendation and has submitted a new action plan to the field office for approval. The Authority has taken and continues to take steps to implement best practices procedures and controls to ensure compliance with all Federal requirements. Also, although neither the

**Comment 13**

Authority nor HUD could provide an action plan, one must have been approved originally for the Authority to have received the grant.

*3C. Review the files of current participants to ensure that all documentation is present and program requirements are met.*

Authority's Response: Agree. The Authority has completed this recommendation. Review of the files is complete. The Authority has taken and continues to take steps to implement best practices procedures and controls to ensure compliance with all Federal requirements.

*3D. Implement procedures and controls re: its program to ensure that it follows Federal regulations and its family self-sufficiency action plan, to include ensuring that new participants are appropriately initiated into its program.*

Authority's Response: Agree. The Authority is in the process of completing this recommendation, and is developing procedures to ensure that new participants are appropriately initiated into the self-sufficiency program. The Authority has taken and continues to take steps to implement best practices procedures and controls to ensure compliance with all Federal requirements.

**Finding 4: The Authority Did Not Always Maintain Its Program Household Files Accurately**

Recommendations

That the Director of HUD's Cleveland Office of Public Housing require the Authority to:

*4A. Reimburse its program \$3,757 (\$3,143 in housing assistance and utility allowance payments and \$614 in associated administrative fees) from non-federal funds for the overpayment of housing assistance and utility allowances cited in this finding.*

**Comment 14**

Authority's Response: Disagree. While there may have been overpayments, requiring repayment from the Authority's already limited coffers will serve no purpose, other than to limit the

Ref to OIG Evaluation

Auditee Comments

Authority's resources that would otherwise be used for affordable housing purposes.

Given the foregoing, in lieu of repayment we suggest that the Authority be required to develop policies and procedures to ensure that such overpayment does not occur in the future.

*4B. Pursue collection of the \$2,823 from the three households cited in this finding or reimburse its program the applicable amount from non-federal funds for the overpaid housing assistance and utility allowances for unreported income.*

**Comment 15**

Authority's Response: Disagree. The Authority is certainly willing to request voluntary repayment of the funds from the three households, and has done so; however, litigation would be more costly than the value of the funds sought if the families reject voluntary repayment. Moreover, while there may have been overpayments, requiring repayment from the Authority's already limited coffers will serve no purpose, other than to limit the Authority's resources that would otherwise be used for affordable housing purposes.

Given the foregoing, in lieu of repayment we suggest that the Authority be required to develop policies and procedures to ensure that such overpayment does not occur in the future.

*4C. Reimburse the appropriate households \$648 for the underpayment of housing assistance and utility allowances cited in this finding.*

**Comment 16**

Authority's Response: Agree. The Authority has completed this recommendation.

*4D. Provide supporting documentation or reimburse its program \$16,217 from non-federal funds for the unsupported payments related to the five households cited in this finding.*

**Comment 17**

Authority's Response: Disagree. The Authority will provide documentation to the Field Office to support these payments. Requiring repayment from the Authority's already limited coffers will

Comment 18

serve no purpose, other than to limit the Authority's resources that would otherwise be used for affordable housing purposes.

*4E. Collect the \$4,844 in overpaid housing assistance and utility allowances for the deceased households from the owners or reimburse its program the applicable amount from non-federal funds for the overpayment of housing assistance and utility allowances.*

Authority's Response: Agree. The Authority is in the process of completing this recommendation. Some of the money has been collected and collection efforts for the remaining overpayments are ongoing. As the OIG is aware, in two cases the decedent had other family members who qualified for assistance still residing in the unit. At the time, the Authority's software did not allow us to change the head of household. New software has now eliminated this issue.

*4F. Implement adequate procedures and controls regarding its housing assistance and utility allowance payments to ensure that it complies with HUD's regulations and the Authority's program administrative plan.*

Authority's Response: Agree. The Authority has taken and continues to take steps to implement best practices procedures and controls to ensure compliance with all Federal requirements and its own policies.

Comment 19

As with the previous audit reports, this audit repeatedly notes the deficiencies of the prior administration, and contains no acknowledgement that others bear some responsibility for essentially being "asleep at the wheel" during a decade of mismanagement at the Authority. Further, while the Authority agrees with certain findings in this discussion draft audit report, we do not agree with all of them. We also note that if the recommendations in the discussion draft become the final recommendations, the resulting \$5,842,943.00 in total suggested reimbursements from all five audits could have the devastating impact of putting an immediate end to the tremendous progress that has been made by the new administration.

Our hope is that you will reconsider both the four findings and the numerous recommendations in light of these comments.

**Ref to OIG Evaluation**

**Auditee Comments**

Very truly yours,



Jeffrey Stewart, Executive Director

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cc: Sandra B. Henriquez, Assistant Secretary for Public & Indian Housing  
Heath Wolfe, Regional Inspector General for Audit  
Michael H. Syme, Esq.

## OIG Evaluation of Auditee Comments

- Comment 1** The audit was expanded as necessary to include a summarization of the previous audits and this audit. This measure was taken to identify the overall performance of the Authority in an effort to protect its households and to ensure that the Authority develops and follows through with an overall improvement plan. We identified multiple programs with deficiencies, and this finding will assist in protecting the Authority's households in the event that the Authority fails to make the necessary improvements.
- Comment 2** We adjusted finding 1 to reflect that only the former board of commissioners and the former executive director were responsible. The Authority is responsible for the appropriate expenditure of Federal funds according to HUD's requirement to ensure that its households receive its programs' intended benefits. When Federal funds are not expended appropriately, HUD has a responsibility to ensure that its programs are reimbursed. Our recommendations state that the Authority should reimburse its programs from non-Federal funds so the funds can be used in the manner intended by HUD's and the Authority's requirements.
- Comment 3** The memorandum of agreement is only for the Authority's public housing program, and our recommendation is not limited only to this program.
- Comment 4** We acknowledge the Authority's actions and improvements to date. It appears that the Authority may already have most or all of a detailed comprehensive plan for the improvement of its programs. Along with this plan, the quarterly plans should assist HUD in determining the Authority's improvements.
- Comment 5** HUD will make the final decision on the appropriate administration action(s) to take.
- Comment 6** The Authority's households would have received its program benefits even if the payment standards had not been inappropriately increased. The excess expenditure of housing assistance payments may have prevented other eligible households from receiving federally funded housing assistance. It was the properties' owner that incorrectly benefitted from the increased payments as a result of the Authority's actions. A repayment plan can be negotiated with HUD to assist in alleviating the financial impact to the Authority.
- Comment 7** Program participants were housed inappropriately in these units, and the Federal funds expended for these units were not eligible. The reimbursement of these funds to its program returns the funds to the program where they can be used to increase the Authority's resources for assisting low-income families in obtaining affordable housing. As mentioned above, a repayment plan can be negotiated with HUD to assist in alleviating the financial impact on the Authority.
- Comment 8** The Authority adopted its new program administrative plan in December 2008, but program violations continued. It is evident that adequate procedures and controls must be implemented.

- Comment 9** We agree that the Authority's December 2008 administrative plan includes the appropriate waiting list requirements. However, HUD will need to determine whether the Authority has implemented adequate procedures and controls to ensure compliance with HUD's and the Authority's requirements.
- Comment 10** HUD will make the appropriate determination as to whether the Authority has adequately addressed its conflict-of-interest requirements.
- Comment 11** Participants graduated from its program without completing the contract of participation, which denied them the intended purpose of attaining skills to assist in maintaining self-sufficiency.
- Comment 12** We acknowledge the Authority's swift action in submitting an action plan to HUD for approval. Once an action plan is approved by HUD, this recommendation can be closed.
- Comment 13** The Authority did not provide documentation to support that reviews were completed. Therefore, HUD will review the documentation and make a determination on the disposition of the recommendation.
- Comment 14** The Authority overpaid housing assistance due to calculation errors. The overpayments were made in violation of program requirements and must be repaid to the program.
- Comment 15** If the Authority is unwilling to pursue the collection of the overpayments from the three households, it must reimburse its program from non-Federal funds.
- Comment 16** No supporting documentation was provided to show that the Authority reimbursed the appropriate households. Therefore, HUD will review the documentation and make a determination on the disposition of the recommendation.
- Comment 17** If the Authority provides the appropriate documentation to HUD, no repayment of funds will be required.
- Comment 18** The Authority should provide the supporting documentation to HUD. HUD's regulations state that the voucher can be transferred to another family member, but this transfer must be accomplished at the time the head of household is identified as being deceased. If it is not transferred, the voucher issued to the deceased member is inappropriately funded, and those funds must be returned.
- Comment 19** As previously mentioned, a repayment plan can be negotiated with HUD to assist in alleviating the financial impact on the Authority.

## Appendix C

### FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

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#### Finding 1

Federal regulations at 2 CFR 2424.10 state that HUD adopted, as HUD's policies, procedures, and requirements for nonprocurement debarment and suspension, the Federal regulations at 2 CFR Part 180.

HUD's regulations at 24 CFR 24.1 state that the policies, procedures, and requirements at 2 CFR Part 2424 permit HUD to take administrative sanctions against employees of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation and are authorized by 2 CFR 180.800, 2 CFR 180.700, or 2 CFR 2424.1110, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);
- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program, such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment); or
- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment).

#### Finding 2

HUD's regulations at 24 CFR 982.202(a) state that a housing authority may admit an applicant for participation in the program either as a special admission or as a waiting list admission. HUD's regulations at 24 CFR 982.204(a) state that except for special admissions, participants must be selected from the authority's waiting list.

HUD's regulations at 24 CFR 982.401(c)(2)(ii) state that the dwelling must have a kitchen sink in proper operating condition, with a sink trap and hot and cold running water. The sink must drain into an approvable public or private system.

HUD's regulations at 24 CFR 982.503(a) state that for each fair market rent area, a housing authority must establish payment standard amounts for each "unit size." Unit size is measured by the number of bedrooms.

HUD's regulations at 24 CFR 982.503(a)(3) state that a housing authority's voucher payment standard schedule shall establish a single payment standard amount for each unit size. For each unit size, the authority may establish a single payment standard amount for the whole fair market rent area or may establish a separate payment standard amount for each designated part of the fair market rent area.

HUD's regulations at 24 CFR 982.503(b) state that a housing authority may establish the payment standard amount for a unit size at any level between 90 and 110 percent of the published fair market rent for that size unit.

HUD's regulations at 24 CFR 982.503(b)(2) state that a housing authority must request HUD approval to establish a payment standard amount that is higher or lower than the basic range. HUD has sole discretion to grant or deny approval of a higher or lower payment standard amount.

HUD's regulations at 24 CFR 982.161(a) state that a housing authority may not enter into any contract or arrangement in connection with the household-based programs in which any of the following classes of persons has an interest, direct or indirect, during the tenure or 1 year after: (1) any present or former member or officer of the authority and (2) any employee of the authority who formulates policy or influences decisions with respect to the programs.

HUD's regulations at 24 CFR 982.161(b) state that any member of the classes described in paragraph (a) of this section must disclose his or her interest or prospective interest to the authority and HUD.

Chapter 16(II)(B) of the Authority's administrative plan states that unit-by-unit exceptions to the Authority's payment standards generally are not permitted. However, an exception may be made as a reasonable accommodation for a family that includes a person with disabilities.

### **Finding 3**

HUD's regulations at 24 CFR 984.102 state that under the Family Self-Sufficiency program, low-income households are provided opportunities for education, job training, counseling, and other forms of social service assistance so they may obtain the education, employment, and business and social skills necessary to achieve self-sufficiency.

HUD's regulations at 24 CFR 984.103 state that the contract of participation includes all individual training and service plans entered into between the public housing authority and all members of the household who will participate in the Family Self-Sufficiency program and which plans are attached to the contract of participation as exhibits.

HUD regulations at 24 CFR 984.201 state that the authority must have a HUD-approved action plan that complies with the requirements of this section before the authority implements a Family Self-Sufficiency program, whether the program is a mandatory or voluntary program.

HUD's regulations at 24 CFR 984.303(b)(4) state the head of the Family Self-Sufficiency program family shall be required under the contract of participation to seek and maintain suitable employment during the term of the contract and any extension thereof.

HUD's regulations at 24 CFR 984.303(f) state that modifications to the contract of participation may be modified in writing with respect to the training and service plans, and 24 CFR 984.303(c)(1) requires that no member of the family self-sufficiency household be a recipient of welfare assistance.

HUD's regulations at 24 CFR 984.305(c)(2) state that to issue disbursements before completion of the program, the authority must determine that the family self-sufficiency household has fulfilled certain interim goals established in the contract of participation and needs a portion of the family self-sufficiency account for purposes consistent with the contract of participation.

United States Code, Title 42, chapter 8, subchapter I, subsection 1437u(a), states the purpose of the Family Self-Sufficiency program established under this section is to promote the development of local strategies to coordinate use of public housing and assistance under the certificate and voucher programs under section 1437f of this title with public and private resources to enable eligible households to achieve economic self-sufficiency.

#### **Finding 4**

HUD's regulations at 24 CFR 5.508(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total household payment, household rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

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 3 years thereafter, the authority must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family. The authority must keep the following records for at least 3 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 982.305(a) state that the public housing authority may not give approval for the family of the assisted tenancy or approve a housing assistance contract until the authority has determined that the following meet program requirements: the unit is eligible, the unit has been inspected by the housing authority and passes HUD's housing quality standards, and the rent to the owner is reasonable.

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 owner and the household must have executed the lease (including the HUD-prescribed tenancy addendum) and the lead-based paint disclosure as required in section 35.92(b) of this title.

HUD's regulations at 24 CFR 982.305(c) state that when a housing assistance payments contract is executed, the public housing authority must use its best efforts to execute the housing assistance payments contract before the beginning of the lease term. The housing assistance payments contract must be executed no later than 60 calendar days from the beginning of the lease term. The public housing authority may not make any housing assistance payments to the owner until the housing assistance payments contract has been executed. Any housing assistance payments contract executed after the 60-day period is void, and the public housing authority may not make any housing assistance payments to the owner.

HUD's regulations at 24 CFR 982.311(d)(1) state that if the family moves out of the unit, the public housing authority may not make any housing assistance payments to the owner for any month after the month when the family moves out. The owner may keep the housing assistance payment for the month when the family moves out of the unit.

HUD's regulations at 24 CFR 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 shall be used to calculate the monthly housing assistance payment for the family beginning at 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 982.516(a)(1) require the public housing authority to conduct a reexamination of family income and composition at least annually. The public housing 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 public housing authority may conduct an interim reexamination of family income and composition. Interim examinations must be conducted in accordance with policies in the public housing authority's administrative plan.

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