OFFICE OF AUDIT
REGION 5
CHICAGO, IL

Goshen Housing Authority
Goshen, IN

Section 8 Housing Choice Voucher Program

2014-CH-1006 AUGUST 14, 2014

Issue Date: August 14, 2014

Audit Report Number: 2014-CH-1006

TO: Forrest Jones, Program Center Coordinator, 5HPH

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Goshen Housing Authority, Goshen, IN, Failed To Follow HUD's and Its Own Requirements Regarding the Administration of Its Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final audit report of our audit of the Goshen Housing Authority's Section 8 Housing Choice Voucher program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.

August 14, 2014

The Goshen Housing Authority, Goshen, IN, Failed To Follow HUD's and Its Own Requirements Regarding the Administration of Its Program

Highlights

Audit Report 2014-CH-1006

What We Audited and Why

We audited the Goshen Housing Authority's Section 8 program as part of the activities in our fiscal year 2014 annual audit plan. We selected the Authority based on a request from the U.S. Department of Housing and Urban Development's (HUD) Indianapolis Office of Public and Indian Housing. Our objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements.

What We Recommend

We recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing require the Authority to (1) reimburse its program more than $83,000 from non-Federal funds, (2) reimburse its net restricted assets account from non-Federal funds more than $640,000 or the current amount owed, (3) support or reimburse its program more than $274,000 from non-Federal funds, (4) pursue repayment or reimburse its program more than $10,000 from non-Federal funds, and (5) reimburse its households or landlords nearly $7,000. We also recommend that HUD consider a declaration of substantial default based on the issues cited in this audit report.

What We Found

The Authority did not always administer its Section 8 program in accordance with HUD's and its own requirements. Specifically, the Authority did not correctly calculate and maintain its net restricted assets. It also failed to maintain accurate books of record to support the appropriateness of (1) credit card expenditures and (2) employee loans. Further, the Authority did not properly manage its operating bank account. As a result, HUD and the Authority lacked assurance that program funds were (1) available to provide assistance to eligible families and (2) used appropriately.

In addition, the Authority failed to ensure that 46 program units, including 19 that materially failed, complied with HUD's housing quality standards and its program administration plan. As a result, the Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds.

Further, the Authority did not always (1) correctly calculate housing assistance payments, (2) apply the appropriate payment standards, (3) maintain required eligibility documentation, and (4) ensure that assisted units were affordable. As a result, HUD lacked assurance that the Authority used its program funds appropriately.

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BACKGROUND AND OBJECTIVE

The Goshen Housing Authority was established under the laws of the State of Indiana to provide safe and sanitary housing. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Goshen, IN. The board's responsibilities include (1) establishing policies under which the Authority conducts business and (2) ensuring that the Authority is successful in achieving its mission. The board appoints the Authority's executive director. The executive director is responsible for carrying out the policies established by the commissioners and managing the day-to-day operations of the Authority.

The Authority administers the Section 8 Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). The Housing Choice Voucher program provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of September 2013, the Authority had 320 units under contract and was authorized to receive more than $1.4 million in program funds for the fiscal year.

During 2009, 2010, and 2011, HUD designated the Authority as a troubled agency because of its Section 8 Management Assessment Program[1] scores of 62, 38, and 59, respectively. Effective July 1, 2011, the Goshen Housing Authority and the Warsaw Housing Authority entered into a management agreement. The agreement authorized the executive director of the Warsaw Housing Authority to administer the funds and programs of both authorities in a manner that addressed the needs of the citizens in the surrounding areas. However, the authorities' assets and business activities are maintained separately. Warsaw Housing Authority and its employees are independent contractors of the Goshen Housing Authority. As of July 23, 2014, the Warsaw Housing Authority continued to manage the Goshen Housing Authority.

We audited the Authority based on a request from HUD's Indianapolis Office of Public and Indian Housing alleging misappropriation of funds by Goshen's former management and staff and programmatic noncompliance. Our objective was to determine whether the Authority administered its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority (1) correctly calculated its net restricted assets, (2) appropriately used Federal funds for program expenditures, (3) conducted thorough housing quality standards inspections of its program units, (4) correctly calculated housing assistance and utility allowance payments, and (5) obtained and maintained documents required to determine household eligibility.

[1] The Section 8 Management Assessment Program establishes a system for HUD to measure an authority's performance in key Section 8 program areas and to assign performance ratings. It provides procedures for HUD to identify an authority's management capabilities and deficiencies in order to target monitoring and program assistance more effectively. No later than 120 calendar days after an authority's fiscal year end, HUD must notify the authority in writing of its (1) rating on each indicator and (2) overall score and performance rating. The letter should identify and require correction of any deficiencies within 45 calendar days from the date of the HUD notice.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Appropriately Manage Its Program Funds

The Authority did not correctly calculate and maintain its net restricted assets. It also failed to maintain accurate books of record to support the appropriateness of (1) credit card expenditures and (2) employee loans. Further, the Authority did not properly manage its operating bank account. These weaknesses occurred because the Authority's former staff (1) lacked a sufficient understanding of program requirements, (2) disregarded HUD's requirements, and (3) failed to implement adequate financial controls. Further, its former board lacked adequate oversight of the Authority's administration of its program. As a result, more than $640,000 was not available to provide assistance to eligible families. In addition, the Authority misused nearly $16,000 in Federal funds, and HUD and the Authority lacked assurance that more than $156,000 in Federal funds was used appropriately.

The Authority Did Not Correctly Calculate Its Net Restricted Assets

The Authority did not correctly calculate and maintain its net restricted assets. Its books and records were not accurately reconciled to show the correct balance of the net restricted assets.[2] Further, the Authority did not maintain a separate bank account for its net restricted assets.[3]

As of December 31, 2009, the Authority reported a zero balance for its net restricted assets in HUD's Voucher Management System. In a letter, dated February 14, 2011, HUD recalculated the Authority's net restricted assets balance and determined that the balance should have been $547,237 as of December 31, 2009. On February 28, 2011, the Authority's former acting executive director responded to HUD's letter, agreeing with the calculation. Using the balance established by HUD and agreed upon by the Authority, we computed the difference between the housing assistance payment funding received and the Authority's housing assistance payment expenditures reported in HUD's system for calendar years 2010 through 2011. As of June 30, 2011, the Authority's net restricted assets balance should have been $741,316. However as of June 30, 2011, the Authority reported a balance of $84,314 in its net restricted assets

[2] 24 CFR (Code of Federal Regulations) 982.158

[3] On April 2, 2009, HUD provided guidance to executive directors and boards of commissioners reminding public housing agencies that they must establish and maintain a separate net restricted assets account.

account in HUD's system. Warsaw Housing Authority's executive director was unsure of how the net restricted assets balance reported was calculated. However, she believed the former fee accountant had verified the balance.

Using our calculated net restricted assets balance as of June 30, 2011, we calculated the net restricted assets balance from July 1, 2011, through December 31, 2013. As of December 31, 2013, the Authority's net restricted assets balance should have been $640,283. However, the balance in HUD's system as of December 31, 2013, was $100,220. The Authority was unable to provide documentation to (1) support the balance and (2) show that the net restricted assets funds were maintained and available to provide assistance to eligible families.

The Authority Did Not Maintain Accurate Books Of Account And Records For Its Program

Contrary to HUD's requirements,[4] the Authority did not maintain separate books of record for each pooled resource in its operating account.[5] Therefore, we could not identify the source of funds used to (1) pay for its credit card expenditures and (2) fund employee loans.

<u>The Authority Was Unable To Support Its Credit Card Expenditures</u>

We reviewed all of the Authority's credit card statements[6] for the period February 2006 through April 2010 to determine whether funds were used for allowable program expenditures. The Authority was unable to support 1,428 credit card expenditures totaling $132,974. The unsupported transactions included but were not limited to

- Pet expenses (including pet food and veterinarian expenses),
- Medical bills,
- Prescriptions,
- Coffee,
- Flowers,
- Clothing,
- Gifts,
- Travel (not appearing to be related to job functions),
- In-town meals, and

[4] HUD's Housing Choice Voucher Guidebook 7510.10G, chapter 20, section 7
[5] The Authority maintained one operating bank account for its housing assistance payments and administrative funds, net restricted assets, State of Indiana housing assistance payments and administrative funds, rental income, and miscellaneous funds.
[6] The Authority's former executive director and two staff members each had their own Authority credit card.

- In-town fuel purchases.

The Authority made the credit card payments using its operating bank account. In addition, for 673 of the 1,428 transactions totaling $64,605, the Authority was unable to provide documentation such as receipts to support the purchases. HUD's Section 8 annual contributions contract with the Authority states that program receipts may be used only to pay program expenditures to provide decent, safe, and sanitary housing for eligible families.[7]

In addition, the Authority failed to make timely credit card payments, resulting in 41 late fees and finance charges totaling $3,036.

The Authority Was Unable To Support That Loans to Employees Were Appropriate

From July 2005 through May 2009, five former staff members borrowed $36,252 from the Authority in the form of 29 separate loans. We reviewed the deposits into the Authority's operating bank account and determined that $12,899 was repaid by four of the five former staff members. However, for the remaining $23,353 ($36,252 - $12,899) the Authority was unable to provide support showing that these funds had been repaid. The following table[8] shows the borrower, number of loans, loan amount, amount repaid, and balance due as of June 6, 2014.

Borrower	Number of loans	Loan amount	Repayment amount	Balance due
Executive director	3	$9,200	$9,200	$0
Staff member A	11	6,995	3,193	3,802
Staff member B	5	2,189	225	1,964
Staff member C	7	14,489	281	14,208
Staff member D	3	3,379	0	3,379
Totals	**29**	**$36,252**	**$12,899**	**$23,353**

The Authority Did Not Properly Manage Its Operating Bank Account

From July 2008 through December 2009, it incurred $12,654 in bank overdraft fees, nonsufficient fund checks, and related service charges for not having

[7] HUD's annual contributions contract, section 11a
[8] The amounts in the table are rounded.

sufficient funds to meet its program expenditures. In addition, for 6 nonconsecutive months, the Authority's ending balance for the account was negative.

The Authority's Former Staff Disregarded HUD's Requirements and Its Former Board Lacked Adequate Oversight of Its Program

The weaknesses described above occurred because the Authority's former staff (1) lacked a sufficient understanding of program requirements, (2) disregarded HUD's requirements, and (3) failed to implement adequate financial controls. Further, its former board lacked adequate oversight of the Authority's administration of its program. The former board members said that they had not seen the letter from HUD, dated February 14, 2011, and that the person who signed the agreement with HUD's net restricted balance calculation had not been appointed as the acting executive director.

The former board chair said that the Authority's credit cards were to be used for official work-related expenses only and he did not recall authorizing the staff to use the credit cards for personal expenses. In addition, he said that the former board did not (1) receive financial data such as accounts payable reports during its monthly board meetings and (2) inquire about the Authority's finances since everything appeared to run smoothly. Whenever the Authority experienced financial issues, the former executive director would blame HUD, saying that there was a delay in transferring Federal funds to the Authority's account. Further, the former chair said that he was not aware that employees took loans from the Authority.

Conclusion

The Authority's former staff lacked a sufficient understanding of and disregarded HUD's requirements. Further, its former board of commissioners lacked adequate oversight of the Authority's administration of its program. As a result, $640,283 was not available to provide assistance to eligible families. In addition, the Authority misused $15,690 ($12,654 + $3,036) in program funds, and HUD and the Authority lacked assurance that $156,327 ($132,974 + $23,353) in program funds was used appropriately.

Recommendations

We recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing require the Authority to

1A. Establish and maintain a separate net restricted assets account and reimburse the net restricted assets fund from non-Federal funds $640,283 or the current amount owed and provide the results to HUD for verification.

1B. Reconcile its books and accounting records to determine the sources and use of funds in its operating account.

1C. Support that program funds were not used for the $132,974 ($68,369 in personal and inappropriate expenditures + $64,605 in unsupported expenditures) or reimburse its program from non-Federal funds for the unsupported credit card expenditures cited in this finding.

1D. Reimburse its program $3,036 from non-Federal funds for the ineligible credit card late fees and finance charges.

1E. Support that program funds used were not used to pay the $23,353 in employee loans or reimburse its program from non-Federal funds for the unsupported employee loans cited in this finding.

1F. Reimburse its program $12,654 from non-Federal funds for the ineligible overdraft, nonsufficient fund checks, and service charges.

1G. Implement policies, procedures, and adequate controls for the use of its credit cards.

1H. Implement policies and procedures to ensure the accuracy of its financial records and reports. The policies should include but not be limited to accounting procedures for calculating and maintaining its net restricted assets and creating and maintaining separate accounting for each pooled resource in its operating account.

We also recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing

1I. Inform the Deputy Assistant Secretary for Field Operations of the Authority's actions regarding the mismanagement of its program and in accordance with section 15.a (1) of its contract, recommend considering a declaration of substantial default (see findings 1, 2, and 3).

1J. Ensure that all board members are trained and familiar with HUD's regulations, including their overall roles and responsibilities related to internal controls and financial matters.

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RESULTS OF AUDIT

Finding 2: The Authority Did Not Always Ensure That Program Units Complied With HUD's Housing Quality Standards and Its Own Requirements

The Authority did not always ensure that program units complied with HUD's housing quality standards and its own requirements. Of the 50 program units statistically selected for inspection, 46 did not meet minimum housing quality standards, and 19 had exigent health and safety violations, multiple material violations that existed before the Authority's previous inspections, or a combination of both. The violations occurred because the Authority lacked adequate procedures and controls to ensure that its program units complied with HUD's housing quality standards and its own requirements. It also failed to exercise proper supervision and oversight of its program and inspections. As a result, nearly $36,000 in program funds was spent on units that were not decent, safe, and sanitary. Based on our statistical sample, we estimate that over the next year, the Authority will pay nearly $374,000 in housing assistance for units with material housing quality standards violations.

The Authority Passed Housing Units That Did Not Comply With HUD's Housing Quality Standards or Its Own Requirements

From the 134 program units that passed the Authority's inspections from August 2013 through January 2014, we statistically selected 50 units for inspection. The 50 units were inspected to determine whether the Authority ensured that its program units complied with HUD's housing quality standards and the requirements in its program administrative plan. We inspected the 50 units from March 11 through March 20, 2014.

Of the 50 units inspected, 46 (92 percent) had a total of 296 housing quality standards violations, of which 238 violations predated the Authority's previous inspections. Of these, 19 units containing 230 violations were considered to be in material noncompliance since they had one or more exigent health and safety violations that predated the Authority's previous inspections, five or more health and safety violations that predated the Authority's previous inspections, or a combination of both. The following table categorizes the 296 violations in the 46 units.

Category of violations	Number of violations	Number of units
Other interior	61	24
Electrical	53	16
Fire exit	24	23
Window	21	13
Security	21	11
Floor	19	10
Interior stair-railing	15	12
Site-neighborhood	12	6
Sink	11	8
Exterior surface	10	5
Smoke detector	8	8
Range-refrigerator	8	7
Stair-rail-porch	8	4
Wall	5	3
Toilet	3	3
Tub-shower	3	3
Roof-gutter	3	3
Heating equipment	2	2
Ceiling	1	1
Paint	1	1
Food preparation-storage	1	1
Ventilation	1	1
Water heater	1	1
Plumbing-sewer-water supply	1	1
Evidence of infestation	1	1
Air quality	1	1
Other exterior	1	1
Total	**296**	

We provided our inspection results to the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing and Warsaw Housing Authority's executive director on May 23, 2014. See appendix D for a detailed list of our housing quality standards inspection results.

The Inspected Units Had 61 Other Interior Violations

Sixty-one other interior violations were present in 24 of the Authority's units inspected. The following items are examples of other interior violations listed in the table: drafty patio door; blade on fan missing, causing excess wobble; missing knob outside of door; cover on strip heaters not secure; exposed nails on door at foot of basement stairs; water seeping into basement; missing drain in floor; balcony without railing; and heater in bathroom not working.

The Inspected Units Had 53 Electrical Violations

Fifty-three electrical violations were present in 16 of the Authority's units inspected. The following items are examples of the electrical violations listed in the table: outlet not secured in junction box, missing junction box cover, broken receptacle shorting out at times, light fixture fan hanging by wires, wall light fixture with exposed contacts, terminated wiring outside junction box, switch plate broken, exposed energized wires running from light to power source, light missing the pull chain, multiple improper connections to tube and knob wiring, and overloaded electrical circuit.

The Inspected Units Had 21 Window Violations

Twenty-one window violations were present in 13 of the Authority's units inspected. The following items are examples of the window violations listed in the table: window sash that falls, missing mechanism to open window, gear broken on casement, arm on casement window that slips out of track, hole in window screen, window that does not lock, window pane broken, broken glass on window pane, and egress window that does not open completely.

The following photographs illustrate examples of the violations noted during housing quality standards inspections of the 19 units that materially failed to meet HUD's housing quality standards and the requirements in the Authority's administrative plan.

Unit # 35: Cover missing, exposed energized electrical contacts

Unit # 8: Electric disconnect box cover not secure, exposing electrical contacts

Unit # 17: Storm door, the only entrance and exit to the unit on the day of the inspection, unable to close and standing mud and water, causing a slipping hazard

Unit # 28: Bathroom lavatory not draining properly, resulting in stagnant water

Unit # 31: Dishwasher not working properly, resulting in stagnant water

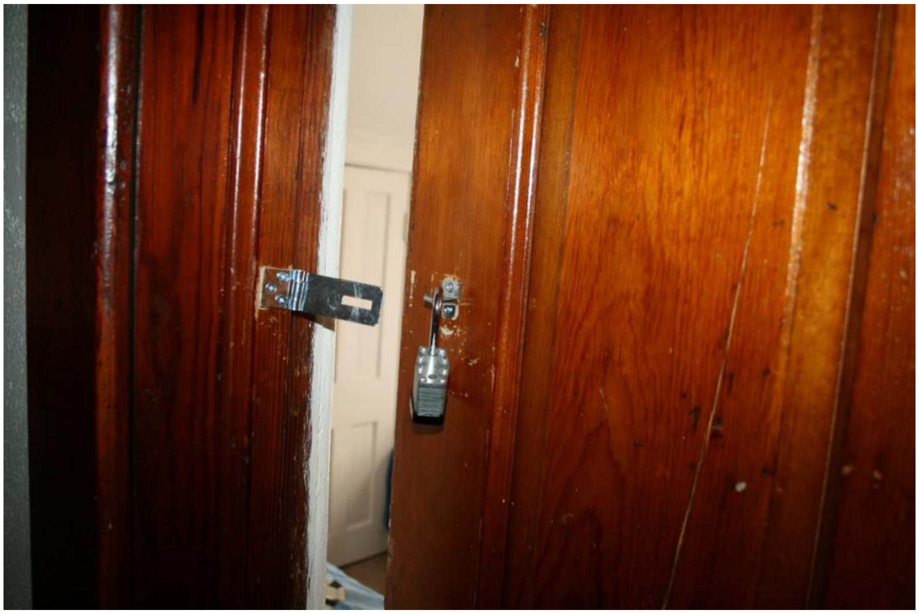
Unit # 35: Exterior view of roof caving over a room in the basement

Unit # 35: Interior view of roof caving over a room in the basement

Unit # 35: Uncovered sump pump used as a drain for the kitchen sink and the bathroom lavatory

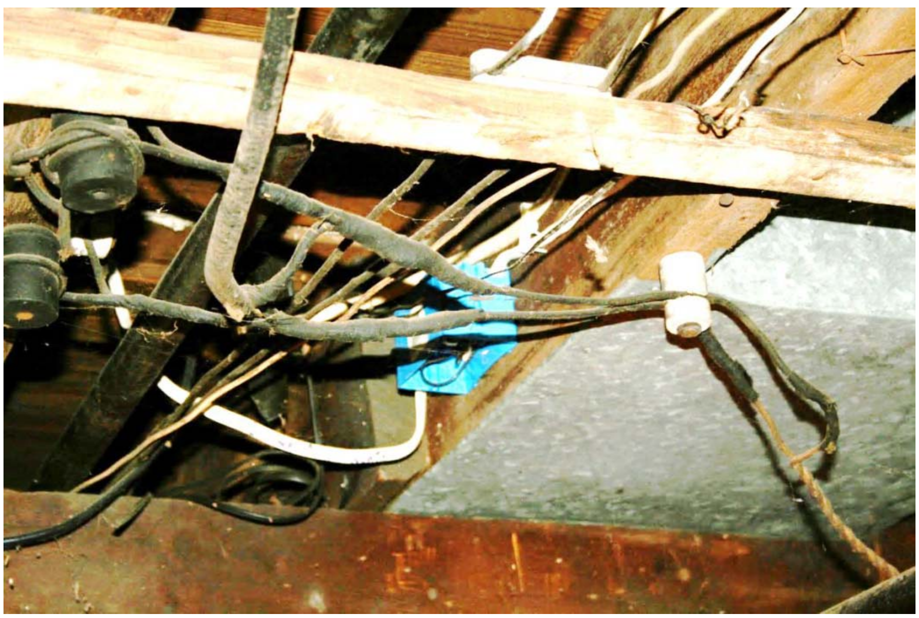
Unit # 35: Excess trash accumulation on enclosed back porch; evidence of infestation

Unit # 38: Padlock on outside of bedroom door, causing a trapping hazard



Unit # 47: Combustible materials too close to a gas water heater, causing a fire hazard

Unit # 6: Multiple electrical connections outside junction box



Unit #28 and 29: No handrail for steep basement steps, posing a falling hazard

The Authority Lacked Adequate Procedures and Controls

The Authority did not always ensure that program units complied with HUD's housing quality standards and its own requirements because it lacked adequate procedures and controls to ensure that its program units met HUD's and its own requirements. It also failed to exercise proper supervision and oversight of its program and inspections. The Warsaw Housing Authority's executive director stated that while its inspectors had been trained to conduct thorough housing quality standards inspections, there was a percentage of human error or personal interpretation of HUD's requirements. In addition, she met with the inspectors and provided a memorandum with common errors and inconsistencies noted during the audit.

Conclusion

The weaknesses described above occurred because the Authority lacked adequate procedures and controls to ensure that its program units complied with HUD's and its own requirements. As a result, the Authority's households were subjected to health- and safety-related violations, and the Authority did not properly use its program funds when it failed to ensure that the units complied with HUD's housing quality standards and its own requirements. The Authority disbursed $32,769 in program housing assistance payments for the 19 units that materially failed to meet HUD's housing quality standards and received $2,776 in program administration fees.

In accordance with 24 CFR (Code of Federal Regulations) 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to enforce HUD's housing quality standards.

If the Authority implements adequate procedures and controls for its unit inspections to ensure compliance with HUD's housing quality standards and its own requirements, we estimate that HUD will avoid spending $373,661 in future housing assistance payments on units that are not decent, safe, and sanitary over the next year.[9]

Recommendations

We recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing require the Authority to

2A. Certify, along with the owners, that the applicable housing quality standards violations have been corrected for the 46 units cited in this finding.

2B. Reimburse its program $35,545 from non-Federal funds ($32,769 for program housing assistance + $2,776 in associated administrative fees) for the 19 units that materially failed to meet HUD's housing quality standards and its own requirements.

2C. Implement adequate procedures and controls to ensure that all units meet HUD's housing quality standards and its own requirements to prevent $373,661 in program funds from being spent on units that do not comply with HUD's requirements over the next year. The procedures and controls should include but not be limited to providing feedback to the inspectors to correct recurring inspection deficiencies, inspectors are properly trained and familiar with HUD's and its own requirements, and inspectors consistently conduct accurate and complete inspections.

We also recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing

2D. Review the Authority's Section 8 Management Assessment Program results and consider revising its designation and if warranted, conduct a confirmatory review of the Authority's scoring process.

[9] Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

RESULTS OF AUDIT

Finding 3: The Authority Did Not Always Comply With HUD's and Its Own Requirements for Section 8 Program Household Files

The Authority did not always comply with HUD's requirements and its own administrative plan regarding the administration of its program household files. Specifically, it did not (1) correctly calculate housing assistance payments, (2) apply appropriate payment standard, (3) maintain required eligibility documentation, and (4) ensure that assisted units were affordable. The weaknesses occurred because the Authority lacked an understanding of HUD's and its own requirements and failed to implement an adequate quality control process. As a result, it overpaid more than $147,000 and underpaid nearly $4,000 in housing assistance. Further, the Authority received more than $13,000 in administrative fees for the inappropriate housing assistance payments. Based on our statistical sample, we estimate that over the next year, the Authority will overpay more than $27,000 and underpay more than $3,500 in housing assistance.

The Authority Miscalculated Housing Assistance Payments

We reviewed one statistically selected[10] certification for 75 of the Authority's program household files to determine whether the Authority correctly calculated housing assistance payments for the period July 2011 through September 2013. Our review was limited to the information maintained by the Authority in its household files.

For the 75 certifications, 36 (48 percent) had incorrectly calculated housing assistance. The 36 certifications contained 1 or more of the following deficiencies:

- 15 certifications had incorrect utility allowances,
- 11 certifications had income incorrectly calculated,
- 11 certifications had incorrect payment standards,
- 6 certifications had medical expenses incorrectly calculated,
- 1 certification did not prorate the housing assistance payment for an ineligible family member, and
- 1 certification had an incorrect minimum rent.

[10] Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

In addition, of the 75 certifications reviewed, 35 contained errors that had no impact on the housing assistance calculations. The errors included incorrect utility allowances, income, asset values, payment standards, minimum rent, medical expenses, disability status, and structure types.

Further, of the 75 household files reviewed, 4 contained documentation showing that the households had reported, unreported, or underreported income. However, contrary to the Authority's administrative plan, it failed to seek repayment[11] for the overpaid subsidy for two households and failed to process an interim certification[12] when income was reported for the remaining two households. The Authority's administrative plan stated that in the case of family-caused errors or program abuse, the family would be required to repay any excess subsidy received. It also stated that families would be required to report increases in earned income within 10 business days and the Authority would conduct an interim reexamination.

Lastly, 3 of the 75 households were living in shared housing. Contrary to HUD's guidebook,[13] the Authority allowed each household to receive a full one-bedroom payment standard. HUD's guidebook states that the payment standard for shared housing is the lower of the payment standard for the family unit size or the pro rata share of the payment standard for the shared housing unit.

Therefore, the Authority did not properly use program funds when it failed to correctly calculate housing assistance payments for the 37 households in accordance with HUD's requirements and its administrative plan. The errors resulted in $12,221 in overpayments and $3,973 in underpayments of housing assistance. Further, the Authority did not take action on reported or unreported income documented in four household files, which resulted in overpayments of $12,927[14] in housing assistance. The Authority also allowed three households to receive an inappropriate payment standard, resulting in overpayments of $9,420 in housing assistance.

Because the housing assistance was incorrectly calculated, the Authority inappropriately received $7,780 in administrative fees. If the Authority does not correct its certification process, we estimate that it could overpay $27,211 and underpay $3,553 in housing assistance over the next year.[15]

[11] Authority's administrative plan, chapter 14, part II.B
[12] Authority's administrative plan, chapter 11, part II.C
[13] HUD's Guidebook 7420.10G, chapter 17, section 17.5
[14] This amount represents the total of the $10,369 overpayment due to unreported income and the $2,558 overpayment due to reported income not captured by the Authority.
[15] Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

The Authority Lacked Documentation To Support Households' Eligibility

We reviewed 75 of the Authority's household files to determine whether the Authority maintained the required documentation to support the households' eligibility for the program. Of the 75 household files reviewed, 23 (31 percent) were missing 1 or more documents needed to determine household eligibility. The 23 household files were missing the following eligibility documentation:

- 14 files were missing copies of the original household applications,
- 10 files were missing requests for tenancy approval,
- 8 files were missing lead-based paint certifications,
- 6 files were missing a housing assistance payments contract,
- 4 files were missing executed leases,
- 3 files were missing citizenship declarations, and
- 1 file was missing an appropriate rent reasonableness determination.

Because the 23 household files were missing required eligibility documentation, HUD and the Authority lacked assurance that the households were eligible for the program. As a result, there was $112,571 in unsupported housing assistance for the households. In addition, because there was no support showing that the Authority ensured that the household members were eligible for the program in accordance with HUD's requirements, $5,508 in administrative fees received by the Authority was unsupported.

The Authority Allowed a Household To Move Into an Unaffordable Unit

The Authority allowed one household to move into a unit that was not affordable. For this household, the contribution to rent exceeded the initial maximum of 40 percent of the adjusted monthly income. According to HUD regulations, the Authority may not execute a housing assistance payments contract until it has determined that the household's share does not exceed 40 percent of its monthly adjusted income at the time a family initially occupies a unit.[16] The household made payments toward rent totaling $3,006 in excess of 40 percent of its adjusted monthly income.

[16] 24 CFR 982.305(a)5

The Authority Lacked an Understanding of HUD's and Its Own Requirements

The housing assistance was incorrectly calculated, and the files were missing the required eligibility documentation because the Authority lacked a sufficient understanding of HUD's and its own requirements and failed to implement an adequate quality control process. The Warsaw Housing Authority's deputy director stated that the errors occurred due to the complexity of the issues with the former Authority's files. For example, the Authority used utility allowance schedules that had not been updated and were more than 10 years old. She also stated that she had met with the program staff to discuss the errors and inconsistencies noted during the audit.

Conclusion

The weaknesses described above occurred because the Authority lacked adequate quality control and sufficient understanding of HUD's and its own requirements. As a result, HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid $34,568 ($12,221 + $12,927 + 9,420) and underpaid $3,973 in housing assistance. In addition, it had unsupported overpayments of $112,571 due to missing eligibility documentation and allowed one household to pay $3,006 in excess of 40 percent of its adjusted monthly income for a unit that was not affordable.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to perform its administrative responsibilities correctly or adequately under the program. The Authority received $13,288 ($7,780 + $5,508) in program administrative fees related to the inappropriate and unsupported housing assistance payments for the 37 program households with incorrectly calculated housing assistance and 23 program households with missing eligibility documentation.

If the Authority does not correct its certification process, we estimate that it could overpay $27,211 and underpay $3,553 in housing assistance over the next year.[17] Therefore, these funds could be put to better use if proper procedures and controls are put into place to ensure the accuracy of housing assistance payments.

[17] Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

Recommendations

We recommend that the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing require the Authority to

3A. Reimburse its program $20,001 ($12,221 in housing assistance payments + $7,780 in associated administrative fees) from non-Federal funds for the overpayment of housing assistance due to inappropriate calculations of housing assistance payments.

3B. Reimburse the appropriate households $3,973 from program funds for the underpayment of housing assistance due to inappropriate calculations of housing assistance payments.

3C. Pursue collection from the applicable households or reimburse its program $10,369 from non-Federal funds for the overpayment of housing assistance due to unreported income.

3D. Reimburse its program $2,558 from non-Federal funds for the overpayment of housing assistance due to not capturing income increases reported by the households.

3E. Reimburse its program $9,420 from non-Federal funds for the overpayment of housing assistance due to allowing households a one-bedroom payment standard each for a shared-housing unit.

3F. Support or reimburse its program $118,079 ($112,571 in housing assistance payments + $5,508 in associated administrative fees) from non-Federal funds for the unsupported overpayment of housing assistance cited in this finding.

3G. Reimburse the appropriate household $3,006 from non-Federal funds for the rent amount paid in excess of 40 percent of its adjusted monthly income for the unit that was not affordable.

3H Review the remaining household files to ensure that additional households are not residing in units that are not affordable.

3I. For households currently residing in units that are not affordable, renegotiate the rent(s) to owner or require the households to move to units that are affordable.

3J. Ensure that its staff is trained and familiar with HUD's regulations and the Authority's policies.

3K. Implement procedures and controls to ensure that housing assistance is correctly calculated and repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that $30,764 ($27,211 in overpayments + $3,553 in underpayments) in program funds is appropriately used for future payments.

3L. Implement procedures and controls to ensure that required eligibility documentation is obtained and maintained to support households' admission to and continued assistance on the program.

SCOPE AND METHODOLOGY

We performed our onsite audit work between November 2013 and May 2014 at the Authority's offices located at 109 West Catherine Street, Milford, IN. The audit covered the period July 1, 2011, through September 30, 2013, but was adjusted as determined necessary.

To accomplish our objective, we reviewed

- Applicable laws; HUD's regulations at 24 CFR Parts 5 and 982; public and Indian housing notices; HUD Guidebooks 7510.1 and 7420.10G; and HUD's letter to executive directors and chairs of public housing authorities' boards of commissioners, dated April 2, 2009.

- The Authority's accounting records; bank statements; general ledger; 5-year and annual plans; annual audited financial statements for 2008, 2009, and 2010; computerized databases; policies and procedures; board meeting minutes for July 2011 through September 2013; organizational chart; and program annual contributions contract with HUD.

- HUD's files for the Authority.

We also interviewed the Authority's employees, HUD's staff, the mayor of Goshen, past and current board members, and the program households.

Finding 1

We reviewed HUD's program annual payment schedule, the Authority's bank statements, and its Voucher Management System reports to compute the difference between the housing assistance payment funding the Authority received and the Authority's housing assistance payment expenses reported in the system for calendar years 2010 through 2013. We reviewed the Authority's net restricted assets balance from January 1, 2010, through June 30, 2011, to determine whether the former staff of the Authority correctly calculated the net restricted assets reported to HUD. We used the December 31, 2009, net restricted assets balance, which was calculated by HUD and agreed upon by the Authority, as a baseline for our calculation. We continued our review through December 31, 2013, to determine what the current balance should have been at the end of calendar year 2013.

We reviewed all credit card statements and available receipts maintained by the former staff of the Authority for the period February 2006 through April 2010 to determine whether the credit card expenditures were used for allowable program expenditures and were adequately supported. We reviewed the promissory notes, deposit slips, and bank statements maintained by the former staff of the Authority for the period 2006 through 2009 to determine whether all short-term loans provided to the former staff of the Authority were repaid.

We reviewed the bank statements maintained by the former staff of the Authority for the period October 2007 through June 2011 to determine whether the Authority maintained an appropriate balance of funds to cover its expenditures.

Finding 2

We statistically selected a stratified random sample of 50 of the Authority's program units to inspect from the 134 units that passed the Authority's inspections from August 2013 through January 2014. The 50 units were inspected to determine whether the Authority ensured that its program units complied with HUD's housing quality standards and the requirements in its program administrative plan. After our inspections, we determined whether each unit passed, failed, or materially failed. Materially failed units were those that had one or more exigent health and safety violations that predated the Authority's previous inspections, five or more health and safety violations that predated the Authority's previous inspections, or a combination of both. Also, for each unit, we considered the severity of the violations, and we may have categorized an inspection, which, according to the stated standards, would have resulted in the inspection's being categorized as a material failure, as failed. All units were ranked, and we used auditors' judgment to determine the material cutoff point.

Based on our review of the statistically selected sample, we found that 19 of the units had material failures in housing quality standards or the requirements in the Authority's administrative plan, although they had recently passed the Authority's inspection. Using a confidence interval of 95 percent, we projected that at least 26.43 percent of the 134 units that passed the Authority's inspection during our audit scope had material violations. Extending this rate to the 273 active units on the Authority's program, we can say that at least 72 units would not have complied with the housing quality standards or the requirements in the Authority's administrative plan, despite having passed the Authority's inspection.

Based on the average housing assistance paid for the 50 properties, less a deduction to account for a statistical margin of error, we can say with a confidence interval of 95 percent that the amount of monthly housing assistance spent on inadequate units was $114.06. Extending this amount to the 273 active units on the Authority's program, monthly housing assistance payments of at least $31,138 were made for inadequate units. This amounts to $373,661 in housing assistance paid per year for substandard units.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid for units that did not meet HUD's minimum housing quality standards and the Authority's own requirements. If the questioned period was less than a full month, we limited the administrative fee to a daily rate, based on the number of days during which the unit did not comply with HUD's requirements.

Finding 3

We statistically selected a stratified random sample of 80 monthly housing assistance payments from the Authority's 6,077 monthly disbursements to landlords from October 2011 through September 2013 (24 months). The 80 monthly payments were for 75 households and were calculated with 75 certifications. Five of the households reviewed had two monthly housing assistance payments selected that occurred during the same certification; therefore, we reviewed 80 (75+5) monthly housing assistance payments. Based on the 80 randomly selected housing assistance payments from the audit universe of 6,077 housing assistance payments, we found that the overpayment per household was an average of $17.76. Therefore, projecting this amount to the audit universe of 6,077 housing assistance payments, the overpayments totaled $107,902. Deducting for statistical variance to accommodate the uncertainties inherent to statistical sampling, we can state with a confidence interval of 95 percent that at least $54,421 in housing assistance in the universe was overpaid. Over the next year, this is equivalent to an additional overpayment of $27,211 ($54,421 x 12 months / 24 months) in housing assistance.

In addition, based on the 80 randomly selected housing assistance payments, we found that the underpayment per household was an average of $5.80. Therefore, projecting this amount to the audit universe of 6,077 housing assistance payments, the underpayments totaled $35,228. Deducting for statistical variance to accommodate the uncertainties inherent to statistical sampling, we can state with a confidence interval of 95 percent, that at least $7,105 in housing assistance in the universe was underpaid. Over the next year, this is equivalent to an additional underpayment of $3,553 ($7,105 x 12 months / 24 months) in housing assistance.

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month the housing assistance was incorrectly paid and household eligibility was unsupported. We limited the inappropriate administrative fees to the amounts of the housing assistance payment calculation errors.

We relied in part on data maintained by the Authority. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. We provided our review results and supporting schedules to the program center coordinator of HUD's Indianapolis Office of Public and Indian Housing, the Warsaw Housing Authority's executive director, and the Goshen Housing Authority's board during the audit.

We provided our discussion draft audit report to HUD's staff, Warsaw Housing Authority's executive director, and the Goshen Housing Authority's board on July 2, and July 3, 2014, respectively. We held an exit conference with the Warsaw Housing Authority's executive director and the Goshen Housing Authority's board on July 16, 2014. We asked the Warsaw Housing Authority's executive director and the Goshen Housing Authority's board to provide written comments to our discussion draft audit report by July 18, 2014. As of July 22, 2014, neither the executive director, nor the board provided written comments to the report.

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

INTERNAL CONTROLS

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.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with applicable 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 lacked adequate financial controls to ensure that program funds were appropriately tracked, maintained, and available to provide assistance to eligible families (see finding 1).

- The Authority lacked adequate procedures and controls to ensure that its program units complied with HUD's minimum housing quality standards and its own requirements (see finding 2).

- The Authority lacked adequate procedures and controls to ensure compliance with HUD's and its own requirements regarding (1) the calculation of housing assistance payments and (2) maintenance of required eligibility documentation (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			$640,283
1C		$132,974	
1D	$3,036		
1E		23,353	
1F	12,654		
2B	35,545		
2C			373,661
3A	20,001		
3B			3,973
3C	10,369		
3D	2,558		
3E	9,420		
3F		118,079	
3G			3,006
3K			30,764
Total	$93,583	$274,406	$1,051,687

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 recommendations, it will (1) ensure that funds are available to provide assistance to eligible families (2) cease to incur program costs for units that are not decent, safe, and sanitary, (3) cease to incur program costs for the overpayment and underpayment of housing assistance and, instead, will expend those funds in accordance with HUD's requirements and 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

FEDERAL AND THE AUTHORITY'S REQUIREMENTS

Finding 1

Regulations at 24 CFR 5.109(h) state that if a State or local government voluntarily contributes its own funds to supplement federally funded activities, the State or local government has the option to segregate the Federal funds or commingle them. However, if the funds are commingled, the requirements of this section apply to all of the commingled funds.

Regulations at 24 CFR 982.152 state that administrative fees may be used only to cover costs incurred to perform administrative responsibilities for the program in accordance with HUD regulations and requirements.

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 the public housing authority's administrative plan.

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.

HUD's Public and Indian Housing Notice 2006-3, section 9, states that starting January 1, 2005, excess budget authority disbursed to the public housing authorities that is not used to make housing assistance payments will become part of the undesignated fund balance account in accordance with generally accepted accounting principles and may be used to assist additional families only up to the number of units under contract. HUD will closely monitor both overuse and underuse of funds and will take appropriate action to ensure that appropriated funds are used to serve as many families as possible up to the number of vouchers authorized under the program. The undesignated fund balance account also includes funds previously maintained in the annual contributions contract reserve account, including but not limited to interest income on housing assistance payment investments, Family Self-Sufficiency program escrow forfeitures, and fraud recoveries. A housing authority must be able to differentiate housing assistance payment equity (budget authority in excess of housing assistance payment expenses) from administrative fee equity (administrative fees earned in excess of administrative costs).

HUD's Public and Indian Housing Notice 2010-7, section 8, states that housing assistance payment funding, which includes net restricted assets, may be used only for eligible housing assistance payment needs of rent, Family Self-Sufficiency program escrow payments, or utility reimbursements. Housing assistance payment should not under any circumstances be used for any other purpose, such as to cover administrative expenses, or be loaned, advanced, or transferred (referred to as operating transfers due to or due from) to other component units or other programs such as low-rent public housing. Use of housing assistance payments for any purpose other than eligible housing assistance payment needs is a violation of law, and such illegal uses or transfers will result in sanctions and a possible breach of the annual contributions contract. In instances in which a public housing authority is found to have misappropriated housing assistance payment funds by using the funds for any purpose other than valid housing assistance payment expenses for units up to the baseline, HUD will require the immediate return of the funds of the housing assistance payment. HUD may take action against a public housing authority or any party that has used housing assistance payment funds for non-housing assistance payment purposes.

HUD's Public and Indian Housing Notice 2010-16, section 3(a), states that

- Net restricted assets reported in HUD's Voucher Management System must be updated through the end of each reporting month.
- Net restricted assets are the total of housing assistance payments received minus total housing assistance payment expenses for eligible units leased in a calendar year.
- HUD's formula for calculating the net restricted assets is the total of
  1. The net restricted assets balance as of the end of the most recent public housing authority fiscal yearend, plus
  2. Housing assistance payment funding received since the most recent public housing authority fiscal yearend through the last day of the month being reported, plus
  3. All interest earned, fraud recovery, and Family Self-Sufficiency program forfeitures since the most recent public housing authority fiscal yearend through the last day of the month being reported, minus
  4. Housing assistance payment expenses incurred since the most recent public housing authority fiscal yearend through the last day of the month being reported.

HUD's Public and Indian Housing Notice 2012-15 states that administrative fees must be used only for program expenses. These expenses include but are not limited to (1) waiting list management and updates; (2) preference verifications; (3) eligibility determinations; (4) intake and briefings; (5) voucher issuances; (6) owner outreach efforts; (7) unit inspections; (8) rent negotiations and reasonableness determinations; (9) annual and interim income reexaminations; (10) tenant fraud investigations and hearings; (11) processing subsequent moves, including portability moves outside the public housing authority's jurisdiction; (12) the costs associated with making housing assistance payments to owners; and (13) monthly reporting in HUD systems.

HUD's consolidated annual contributions contract, section 11a, states that the Authority must use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may be used only to pay program expenditures.

Section 11b of the contract states that the Authority must not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for its program.

Section 14 of the contract states that (a) the Authority must maintain complete and accurate books of account and records for a program. The books and records must be in accordance with HUD requirements and must permit a speedy and effective audit. (b) The Authority must furnish HUD such financial and program reports, records, statements, and documents at such times, in such form, and accompanied by such supporting data as required by HUD.

Section 15 of the contract, subsections a(1) and a(4), state that upon written notice to the Authority, HUD may take possession of all or any Authority property, rights, or interests in connection with a program, including funds held by a depositary, program receipts, and rights or interests under a contract for housing assistance payments with an owner, if HUD determines that the Authority has failed to comply with any obligations under this consolidated annual contributions contract or the Authority has made any misrepresentation to HUD of any material fact.

HUD's letter to executive directors and chairs of public housing authorities' boards of commissioners, dated April 2, 2009, stated that the information in the letter was a reminder that effective January 1, 2005, each authority was required to establish and maintain its own housing assistance payment net restricted account. Any housing assistance payment funds from the year that were not used for eligible program purposes were required to be deposited by the authority into its housing assistance payment net restricted assets account. Further, net restricted assets could not be used to support vouchers in excess of the authority's baseline units for administrative expenses, development costs, or any other costs of the agency, and the inappropriate use of funds might constitute a default under the annual contributions contract.

HUD's letter to executive directors, dated February 17, 2012, stated that since the net restricted assets balance comprises the resources available to support an agency's Housing Choice Voucher program, it was critical that the housing authority have a precise and accurate understanding of the agency's current net restricted assets balance. The housing authorities were expected to have sufficient resources in cash and investments to support the full net restricted assets value, and it was critical that the calculated net restricted assets balance be accurate. If the housing authority did not have the cash and investments to support the December 2011 net restricted assets balance, the housing authority was required to immediately notify the financial analyst of that situation and report the cash and investments the housing authority did have to support the net restricted assets balance.

HUD's Low-Rent Technical Accounting Guidebook 7510.1, chapter 1, section I-2, states that it is the responsibility of the housing agency to maintain complete and accurate records of all financial management functions. These records must be maintained in such a way that will (1) provide an effective system of internal control to safeguard cash and other assets; (2) provide budgetary control over the various programs; (3) provide timely, accurate, and complete financial information for management decision making; (4) provide the housing agency with financial data needed to prepare required HUD reports; and (5) permit a timely and effective audit.

HUD's Housing Choice Voucher Guidebook 7510.10G, chapter 20, section 7, states that the authority may pool deposits for different programs or it may establish a separate bank account for the Housing Choice Voucher program. If the deposits are pooled, the authority must maintain separate accounting for each pooled resource.

The Authority's former credit card policy states that receipts are required for transactions involving the use of the credit cards of the Authority. Credit cards will be kept by the office manager and made available to employees who are traveling on Authority business. All transactions must be verified with a receipt. Any transaction that occurs while the credit card is being used by any individual that is not verified by receipt will be the responsibility of the employee to repay on or before the date the employee receives his or her next pay check.

The Authority's former employee loan policy states that the Authority recognizes the occasional need of its employees for emergency funds in cases of personal emergency. This policy defines the authority of the office manager and executive director to create a mechanism to issue short-term (up to 1 year) emergency loans to eligible employees. This policy applies to all staff members who may have financial hardship emergency needs.

- The promissory note should be a legal obligation of the employee.
- An eligible employee may borrow up to 10 percent of his or her annual salary with a minimum of $100 and a maximum of $3,000. The total amount due to the Authority from all loan programs' emergency loans and any other programs may not exceed $3,000. Employees are limited to one loan per year and three loans during their employment at the Authority.

Finding 2

Regulations at 24 CFR 982.401 requires that all Section 8 program housing meet the housing quality standards performance requirements both at commencement of assisted occupancy and throughout the tenancy.

Regulations at 24 CFR 982.404(a)(1) state that the owner must maintain the unit in accordance with housing quality standards. (2) If the owner fails to maintain the dwelling unit in accordance with housing quality standards, the public housing authority must take prompt and vigorous action to enforce the owner obligations. Public housing authority remedies for such breach of the housing quality standards include termination, suspension or reduction of housing assistance payments, and termination of the housing assistance payments contract. (3) The public housing authority must not make any housing assistance payments for a dwelling unit that fails to meet the housing quality standards, unless the owner corrects the defect within the period specified by the public housing authority and the public housing authority verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any public housing authority-approved extension). (4) The owner is not responsible for a breach of the housing quality standards that is not caused by the owner and for which the family is responsible.

(However, the public housing authority may terminate assistance to a family because of a housing quality standards breach caused by the family.)

Regulations at 24 CFR 982.404(b)(1) state that the family is responsible for a breach of the housing quality standards that is caused by any of the following: (ii) the family fails to provide and maintain any appliances that the owner is not required to provide but which are to be provided by the tenant, or (iii) any member of the household or guest damages the dwelling unit or premises (damages beyond ordinary wear and tear). (2) If a housing quality standards breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any public housing authority-approved extension). (3) If the family has caused a breach of the housing quality standards, the public housing authority must take prompt and vigorous action to enforce the family obligations. The public housing authority may terminate assistance for the family in accordance with section 982.552.

The Authority's administrative plan, chapter 8, section 8-I.B, states that

- Dryer vents are required to be rigid pipe, taped, not screwed at joints, and secured to the structure when the dryer outlet is lower than the vent outlet;
- Any unit with a second level or higher living area is required to have a rope ladder or rope for a means of fire escape when a roof escape is not available;
- All ungrounded outlets must be grounded or replaced with a ground fault circuit interrupter and labeled nongrounded if a ground fault circuit interrupter is used;
- No locks are allowed where the use of a key to exit a unit is required;
- No locks requiring a key will be installed on sleeping rooms or any lock on the outside of an interior room that could result in locking someone in a room;
- All sink and toilet water lines must have a shut-off valve, unless faucets are wall mounted;
- A handrail is required on at least one side of a stairway where three or more risers are consecutive; and
- One screen in good condition is required on one operable window in each room when central air conditioning is not available to the unit.

Finding 3

Regulations at 24 CFR 5.240(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 tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

Regulations at 24 CFR 5.508(b)(1) state that for U.S. citizens or U.S. nationals, the evidence of citizenship or eligible immigration status consists of a signed declaration of U.S. citizenship or U.S. nationality. The responsible entity may request verification of the declaration by requiring presentation of a United States passport or other appropriate documentation.

Regulations at 24 CFR 5.603(b) state that medical expenses, including medical insurance premiums, are anticipated expenses during the period for which annual income is computed and that are not covered by insurance.

Regulations at 24 CFR 982.54(a) state that the public housing agency must adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. (b) The administrative plan must be in accordance with HUD regulations and requirements. (c) The public housing agency must administer the program in accordance with the agency's administrative plan.

Regulations at 24 CFR 982.158(e) state that during the term of each assisted lease and for at least 3 years thereafter, the agency must keep (1) a copy of the executed lease, (2) the housing assistance payments contract, and (3) the application from the family.

Regulations at 24 CFR 982.305(a) state that the public housing agency may not give approval for the family of the assisted tenancy or execute a housing assistance payments contract until the agency has determined that (5) at the time a family initially receives tenant-based assistance for occupancy of a dwelling unit and when the gross rent of the unit exceeds the applicable payment standard for the family, the family share does not exceed 40 percent of the family's monthly adjusted income.

Regulations at 24 CFR 982.402(a)(1) state that the public housing agency must establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions. (b)(1) The subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding. (3) The subsidy standards must be applied consistently for all families of like size and composition.

HUD's Housing Choice Voucher Guidebook 7420.10G, chapter 6, section 3, states that for families that include both members who are citizens or have eligible immigration status and members who do not have eligible immigration status, the amount of assistance is prorated, based on the percentage of household members who are citizens or documented eligible immigrants.

Chapter 17, section 5, of the guidebook states that the payment standard for a family in shared housing is the lower of the payment standard for the family unit size or the pro rata share of the payment standard for the shared housing unit size. The pro rata share is calculated by dividing the number of bedrooms available for occupancy by the assisted family in the private space by the total number of bedrooms in the unit.

The Authority's administrative plan, chapter 5, section 5-II.B, states that the Authority will assign one bedroom for each two persons within the household except persons of the opposite sex (other than spouses and children under age 5) and live-in aides.

Chapter 6, section 6-III.A, of the Authority's plan states that the Authority does not have a minimum rent.

Chapter 6, section 6-III.C, of the Authority's plan states that if the amount on the payment standard schedule is decreased during the term of the housing assistance payments contract, the lower payment standard generally will be used beginning on the effective date of the family's second regular reexamination following the effective date of the decrease in the payment standard. If the payment standard is increased during the term of the housing assistance payments contract, the increased payment standard will be used to calculate the monthly housing assistance payment for the family beginning on the effective date of the family's first regular reexamination on or after the effective date of the increase in the payment standard.

Chapter 11, section 11-II.C, of the Authority's plan states that families are required to report all increases in earned income, including new employment, within 10 days of the date the change takes effect. The Authority will conduct interim reexaminations for families.

Chapter 11, section 11-II.D, of the Authority's plan states that if the family share of rent is to increase, the increase generally will be effective on the first of the month following 30 days' notice to the family. If a family fails to report a change within the required timeframes or fails to provide all required information within the required timeframes, the increase will be applied retroactively to the date it would have been effective had the information been provided on a timely basis. The family will be responsible for any overpaid subsidy and may be offered a repayment agreement. The decrease will be effective on the first day of the month following the month in which the change was reported and all required documentation was submitted. In cases in which the change cannot be verified until after the date the change would have become effective, the change will be made retroactively.

Chapter 14, section 14-II.B, of the Authority's plan states that in the case of family-caused errors or program abuse, the family will be required to repay any excess subsidy received. The Authority may but is not required to offer the family a repayment agreement. If the family fails to repay the excess subsidy, the Authority will terminate the family's assistance.

Appendix C

OIG HOUSING QUALITY STANDARDS INSPECTION RESULTS

Identification Number	Total number of units that materially failed	Total number of units that failed	Total number of units that passed	Total violations for the materially failed units	Total number of HQS violations	Total number of preexisting violations
1	x			30	30	27
2	x			27	27	16
3	x			22	22	21
4	x			21	21	15
5	x			16	16	14
6	x			14	14	14
7	x			13	13	11
8	x			13	13	7
9	x			10	10	9
10	x			8	8	8
11	x			8	8	7
12	x			8	8	8
13	x			7	7	6
14	x			7	7	7
15	x			6	6	6
16	x			6	6	4
17	x			6	6	4
18	x			5	5	5
19	x			3	3	3
20		x		0	10	5
21		x		0	6	4
22		x		0	4	4
23		x		0	3	2
24		x		0	3	2
25		x		0	3	2
26		x		0	3	1
27		x		0	3	2

OIG HOUSING QUALITY STANDARDS INSPECTION RESULTS (CONT.)

Identification Number	Total number of units that materially failed	Total number of units that failed	Total number of units that passed	Total violations for the materially failed units	Total number of HQS violations	Total number of preexisting violations
28		x		0	3	2
29		x		0	3	3
30		x		0	2	0
31		x		0	2	2
32		x		0	2	2
33		x		0	2	2
34		x		0	2	1
35		x		0	2	2
36		x		0	2	1
37		x		0	2	2
38		x		0	1	0
39		x		0	1	1
40		x		0	1	1
41		x		0	1	1
42		x		0	1	1
43		x		0	1	1
44		x		0	1	1
45		x		0	1	0
46		x		0	1	1
47			x	0	0	0
48			x	0	0	0
49			x	0	0	0
50			x	0	0	0
	19	**27**	**4**	**230**	**296**	**238**