OFFICE OF AUDIT
REGION 2
NEW YORK-NEW JERSEY

U.S. Department of Housing and Urban Development
Washington, DC

Asset Repositioning Fees

2014-NY-0003

SEPTEMBER 4, 2014

Issue Date: September 4, 2014

Audit Report Number: 2014-NY-0003

TO: Milan Ozdinec
Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

//SIGNED//

FROM: Edgar Moore
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

SUBJECT: Asset Repositioning Fees for Public Housing Authorities With Units Approved for Demolition or Disposition Were Not Always Accurately Calculated

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final audit report on our review of HUD's controls over the award of asset repositioning fees to public housing authorities with units approved for demolition and disposition.

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 212-264-4174.

September 4, 2014

Asset Repositioning Fees for Public Housing Authorities With Units Approved for Demolition or Disposition Were Not Always Accurately Calculated

Highlights

Audit Report 2014-NY-0003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) process for awarding asset repositioning fees (ARF) to public housing agencies (PHA) with approved demolition and dispostion projects. We initiated this review based upon issues disclosed during our review of Public Housing Capital Fund program grants to PHAs with approved demolition and dispostion projects. The audit objective was to determine whether HUD had established adequate controls to ensure that ARFs were correctly calculated.

What We Recommend

We recommend that HUD (1) recapture $6.2 million in ineligible ARF funds provided to 7 PHAs during the years 2008 through 2013, (2) reimburse $1.5 million in ARFs to 5 PHAs that were underfunded, (3) ensure that the 2014 ARF funding to the 10 PHAs reviewed is adjusted for any necessary corrections, (4) provide training to PHA officials and HUD field office staff on the ARF calculation process, and (5) evaluate and adjust the ARF Tool to ensure that it will provide greater assurance that the errors found in this review will be prevented or detected.

What We Found

HUD did not establish adequate controls to ensure that ARF were correctly calculated. Specifically, ARFs awarded to 10 of the 14 PHAs with units approved for demolition or disposition were not always accurately calculated. We attribute this condition to unfamiliarity with ARF regulations on the part of both HUD field office staff and PHA officials, the lack of sufficient data, and a primarily manual process used by field office staff to verify PHA ARF funding requests. As a result, the 10 PHAs were awarded with more than $7.7 million in inaccurate ARF funding for calendar years 2008 through 2013. However, HUD had taken various actions to improve the ARF calculation process, most recently developing a more automated process, which should assist PHA officials and HUD field office staff in more accurately and efficiently calculating and awarding ARF funding.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development (HUD) distributes approximately $4 billion in annual operating subsidy funds to more than 3,000 public housing agencies (PHA) to operate and maintain more than 1.1 million public housing units. In addition, from 1987 to 2012, HUD approved 596 PHAs to remove approximately 250,000 distressed public housing units through demolition or disposition. PHAs with projects approved for demolition or disposition[1] may be eligible for an asset repositioning fee (ARF), which is an add-on to the PHA's annual operating subsidy. ARFs are intended to supplement the costs associated with the administration and management of demolition or disposition activities, tenant relocation, and minimum protection and service associated with such efforts.

The projects approved for demolition and disposition become eligible for an ARF at the beginning of the quarter 6 months after the date on which the first unit becomes vacant after the relocation date included in the approved relocation plan. The amount and duration of an ARF depends upon whether the project is a demolition or disposition. Units approved for demolition receive 75, 50, and 25 percent of their applicable operating subsidy in the first, second, and third year, respectively. Units approved for disposition receive 75 and 50 percent of their applicable operating subsidy in the first and second year, respectively.

As an add-on component, ARFs are calculated along with the operating subsidy. The operating subsidy and ARF are calculated using form HUD-52723, entitled "Operating Fund, Calculation of Operating Subsidy, PHA-Owned Rental Housing." This form is a Microsoft Excel-based tool used for each project that a PHA has in the Inventory Management System / Public and Indian Housing Information Center (IMS/PIC). The form is prepopulated with units, unit months, and other information by HUD headquarters using data that PHAs have previously entered into various HUD systems, such as IMS/PIC, the Financial Assessment Subsystem, and the prior year's HUD-52723. HUD then distributes the form to the PHAs for verification of the prepopulated fields and completion of fields that were not prepopulated and finalizes the funding calculation. PHA officials must then submit the form to the HUD field office for approval. Field office staff reviews the PHA-submitted HUD-52723 and supporting documents, verifies the calculation, approves the form, and submits it to HUD headquarters.

When HUD headquarters receives the field office-approved operating subsidies, it prorates each PHA's funding amount for distribution periodically throughout the year. At yearend, headquarters adjusts the distribution based on the ratio of total operating funds available for nationwide distribution to the total amount for which all PHAs are eligible. For instance, HUD had $4.1 billion available for distribution as operating subsidies for calendar year 2013, while the total eligible amount was approximately $5.0 billion; therefore, HUD prorated the funding amount for each project at 81.86 percent. Since ARF is a component of the operating fund, this ratio applies to the annual ARF funding.

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[1] Demolition means the razing, in whole or in part, of one or more permanent buildings of a public housing project. Disposition means the conveyance or other transfer by the PHA, by sale or other transaction, of any interest in the real estate of a public housing project.

The audit objective was to determine whether HUD established adequate controls to ensure that asset repositioning fees were correctly calculated.

RESULTS OF AUDIT

Finding: Asset Repositioning Fees for PHAs With Units Approved for Demolition or Disposition Were Not Always Accurately Calculated

ARFs awarded to PHAs with units approved for demolition or disposition were not always calculated accurately in accordance with Regulations at 24 CFR (Code of Federal Regulations) 990.190. Specifically, the ARF was incorrect for 10 of the 14 PHAs reviewed. We attribute this to unfamiliarity with ARF regulations on the part of both HUD field office staff and PHA officials, a lack of sufficient data, and the primarily manual process used by field office staff to verify PHA ARF funding requests. As a result, the 10 PHAs were awarded more than $7.7 million in inaccurate ARF funding for calendar years 2008 through 2013. However, HUD had taken various actions in recent years to improve the ARF calculation process, most recently by developing a more automated process, which should assist PHA officials and HUD field office staff to more accurately and efficiently calculate and award ARF funding.

ARF Funding Was Not Always Accurate

Of the 14 PHAs reviewed, 10 were awarded inaccurate ARF funding for calendar years 2008 through 2013 amounting to $7.7 million. This occurred because PHA officials made various errors in calculating their ARF funding requests submitted to HUD field offices for approval, which HUD field office staff members did not detect during their review of the PHAs' annual operating subsidy funding. Errors in calculations resulted from incorrectly identifying units as eligible for ARFs, applying the wrong percentage or timeframe for ARFs, and arithmetic errors (see appendix C for details). For example, officials at

- Three PHAs continued to claim the full annual operating subsidies rather than ARFs for units that had become eligible for ARFs. Regulations at 24 CFR (Code of Federal Regulations) 990.190 provide that the ARF begins on the first day of the next quarter 6 months after the first eligible unit becomes vacant due to redevelopment action after the relocation date.

- Four PHAs claimed ARFs for a longer or shorter timeframe than the eligible time period. HUD regulations at 24 CFR 990.190 provide that units approved for disposition are eligible to receive ARFs for 24 months, 36 months in the case of demolition. Two PHAs with disposition projects received ARFs beyond the 24 months; one PHA with a demolition project received funding for 48 months instead of 36 months, and another PHA with a demolition project received ARFs for 33 months rather than 36 months.

- Four PHAs had arithmetic errors in their ARF calculation.

We attribute these inaccuracies to unfamiliarity with the ARF calculation process on the part of PHA officials and HUD field office staff, the cumbersome manual process, and insufficient data available to field office staff members to enable them to more efficiently verify ARF funding requests submitted by PHAs.

PHA Officials and HUD Field Office Staff Misinterpreted ARF Regulations

Some PHA officials submitted funding requests containing ARF calculation errors because they were not familiar with HUD regulations regarding the application of ARFs, and some field office staffs failed to detect these errors while approving PHAs' funding requests because they also were not familiar with ARF regulations. For example, officials at

- One PHA applied the incorrect percentage to calculate ARFs. Regulations at 24 CFR 990.190 provide that units approved for demolition are eligible to receive 75, 50, and 25 percent of their applicable operating subsidies in the first, second, and third year, respectively. However, officials at this PHA requested ARFs at 100 percent of the applicable operating subsidy, and field office staff approved the request because both PHA officials and field office staff did not realize that ARFs should be funded at a reduced level over a 3-year period.

- Three PHAs claimed ARFs for partial units instead of all eligible units. Public and Indian Housing (PIH) Notice 2009-20 provides that units eligible for ARFs include all units in a PHA project, rather than individual units, unless the PHA obtained from HUD a separate relocation date for each phase of a demolition or disposition project by creating a separate application number for each phase so that the later phases become eligible for operating subsidies as those phases are implemented. None of the three PHA officials requested approval from HUD for multiple phases when they applied for HUD approval of their projects or obtained from HUD a separate application number or relocation date for each phase. Therefore, all of the units in the projects should have received ARF funding when the first unit of the project became eligible. However, since officials at these three PHAs requested ARFs for partial units, they received more annual operating subsidies than they were entitled to receive.

- Officials at one PHA with an approved disposition project, which limits ARF funding to 2 years, requested a third year of funding for 100 units. Field office staff members approved the third year of funding because they were not aware that units approved for disposition were eligible for funding for only 2 years.

Insufficient Data and a Manual Process Hampered the Ability of Field Office Staff To Verify PHA ARF Calculations

The lack of sufficient data and a primarily manual process lessened the ability of field office staff to efficiently verify PHA ARF requests. The operating fund, including any add-on subsidies such as ARFs, to which a PHA may be entitled for the units approved for demolition or disposition, is calculated via the form HUD-52723 for each project of a PHA. In an effort to reduce the reporting burden on PHAs, HUD prepopulated certain data fields (for example, annual contributions contract unit numbers, unit months, and per unit month project expense level (PEL[2])) on the HUD-52723 with data from its various systems (for example, IMS/PIC and the prior year's HUD-52723s). PHA officials were required to review the prepopulated data and notify the field office staff of any inaccuracies. They ultimately were responsible for completing the HUD-52723, certifying as to its accuracy, and submitting it to the appropriate field office for verification.

HUD field office staff was then responsible for verifying that the PHA-submitted HUD-52723 contained correct information before approving a PHA's operating subsidy, including an add-on subsidy, request. However, verification of PHA-submitted funding requests was primarily a manual process, and HUD field office staff did not have ready access to sufficient data, such as tenant relocation date, date of the first qualified vacancy after the relocation date, and prior funding, to assist them in identifying PHA units that were eligible for an ARF and determine the correct calculation. Therefore, field office staff, to a great extent, had to rely on PHA officials' input to determine ARF funding, especially for the date of the first tenant vacancy, which occurred after the approved relocation date in the redevelopment plan and is the primary trigger for ARFs.

Insufficient Data Available for the ARF Calculation

Acknowledging that verification of PHA funding requests by field office staff was hampered by insufficient data, HUD issued PIH Notice 2011-55 on September 26, 2011, which required PHA officials to provide the field office with supporting documentation for their ARF funding request beginning in calendar year 2012.

[2] PEL is the estimate of the cost to operate each project, exclusive of taxes, utilities, and certain add-ons.

The notice provided that, at a minimum, supporting documentation should include a spreadsheet indicating the project number and ARF start date for the projects, buildings, and unit months, as well as the percentage of the PEL associated with those projects, buildings, and unit months. On June 22, 2012, HUD issued PIH Notice 2012-30, which required PHA officials to submit additional documentation, such as the specific building and units approved for demolition or disposition, the approval and tenant relocation dates, the first qualified vacancy date after the relocation date, ARF unit months for the project, PELs, and a statement as to whether all units were vacant at the time of the demolition or disposition plan approval. This additional information was designed to further assist field office staff in identifying units that would be eligible for ARF funding, determine the start and end of the transition period, and compute the proper amount of operating subsidies for these units.

However, there were compliance problems and data limitations with these notices. PHA officials did not always provide the supporting documentation as required, and field office staff did not always pursue obtaining such documentation. For example, officials at two PHAs did not provide the requested supporting documentation to the field office, field office staff did not follow up to obtain it, and field office staff could not explain how the ARFs were calculated. In addition, these notices did not prevent PHA officials from claiming annual operating subsidies for units that should have received ARF funding because these officials did not have to justify why they may not have claimed the ARFs. For example, while 245 units approved for disposition at one PHA became eligible for ARFs in calendar year 2011, the officials continued to request and receive regular annual operating subsidy funding through 2013. When we informed the field office staff that these units should have begun receiving ARFs on July 1, 2011, they said they were not aware of that requirement and had relied on the PHA's certification when approving the funding.

ARF Relied Upon a Primarily Manual Process for Calculations

In addition to not having sufficient data available to assist field office staff in verifying PHA ARF funding requests, staff had to rely on a primarily manual process to verify a PHA's eligibility for ARFs. Field office financial analysts had to verify ARF-eligible projects by identifying whether any units of each of a PHA's development were approved for demolition or disposition and determining the estimated relocation date and first eligible vacancy date for these units. The analysts then had to determine whether the identified projects were funded correctly by comparing the PHA's current year funding request to that on manually retrieved prior years' HUD-52723s.

While this verification was a cumbersome process, field office staff was able to identify some incorrectly certified HUD-52723s. For instance, by analyzing the PHAs' 2013 funding request with prior years' funding records maintained at the field office, a financial analyst identified that one PHA with units approved for demolition no longer had units eligible for operating subsidy funds, since the PHA had received ARFs for those units in calendar years 2007 through 2009 and the units had been demolished. When contacted by the field office staff, PHA officials confirmed that the units were no longer eligible for operating subsidies, including ARFs, but said that they were not able to delete the units and the project from the prepopulated HUD-52723 for calendar year 2013. While HUD did remove the ability of PHA officials to edit the prepopulated data in 2013, PHA officials were supposed to notify field office staff of any errors in the prepopulated data. However, the financial analyst informed HUD headquarters that the units were not eligible for ARF funding and also advised the PHA officials to remove the units from their IMS-PIC inventory. If the units were not removed from the PHA's inventory reported in IMS-PIC, the units would continue to be prepopulated on the HUD-52723 in later years.

Efforts Were Underway To Facilitate the ARF Funding Process

In addition to the notices discussed above, which required PHA officials to submit supporting documentation for their ARF funding requests, HUD had taken other actions to strengthen controls over the ARF funding process. Specifically,

- While the HUD-52723 had been prepopulated with unit-month data since calendar year 2012 with units eligible for an ARF that PHA officials could edit, beginning with 2014 funding calculations, the officials will not be able to edit the prepopulated unit months. Rather, they will have to contact field office staff to correct any discrepancy between the prepopulated data and the PHA data. These control improvements should reduce the need for HUD field office staff to rely on manual tracking systems and PHA input of the necessary data.

- HUD recently developed a software application called the Asset Repositioning Fee Management Tool (ARF Tool) to assist field office staff in identifying eligible units and the amount and duration of ARF funding. The Tool uses IMC/PIC data (for example, relocation date, unit months) and historical operating fund data to determine ARF eligibility and calculate the ARF funding amount for each demolition and disposition project. The first version was released at the end of 2013 to be used by the field office staff for the calendar year 2014 funding process.

If these functions work as intended, these actions should strengthen controls over HUD's process for calculating asset repositioning fee and operating subsidies for PHAs with units approved for demolition or disposition and provide greater assurance that these amounts are calculated correctly. For example, the Tool showed that one PHA should have been receiving ARFs from July 1, 2011, until

June 30, 2013, for 245 units approved for disposition. Based on this information, field office staff found that officials at the PHA had inappropriately requested and received regular operating subsidy funds for these units through December 2013 and notified PHA officials that the 245 units would no longer be funded with operating funds in calendar year 2014.

Conclusion

ARFs for the public housing units approved for demolition or disposition projects were not always accurately calculated. This condition existed due to unfamiliarity with ARF regulations on the part of both, HUD field office staff and PHA officials, a lack of sufficient data, and the primarily manual process used by field office staff to verify PHA ARF funding requests. As a result, 10 of 14 PHAs reviewed were awarded incorrect ARF funding of more than $7.7 million, with 5 PHAs receiving more than $2.4 million in operating subsidies to which they were not entitled, 3 PHAs receiving $754,928 less than they were entitled to receive, and 2 PHAs being overfunded by more than $3.7 million in some years and underfunded by $761,954 in other years. However, HUD had taken actions to improve its controls over the funding process.

Recommendations

We recommend that the Director of the Public Housing Financial Management Division

1A. Recapture the $6,206,924 in operating subsidies that was erroneously awarded to seven PHAs (see appendix C).

1B. Reimburse the 5 PHAs that were underfunded $1,516,882 in ARF funding (see appendix C).

1C. Ensure that the 2014 ARF funding calculation for the 10 PHAs includes the corrections needed as a result of this finding, thus ensuring that the ARF funding provided will represent funds to be put to better use.

1D. Provide training to PHA officials and HUD field office staff on the ARF calculation process for units approved for demolition or disposition to provide greater assurance that both PHA and field office staff will more accurately calculate and verify ARFs.

1E. Continue to evaluate the ARF Tool to assess the extent to which it will provide greater assurance that the ARF calculation errors found in this review will be prevented or detected.

SCOPE AND METHODOLOGY

The audit focused on whether HUD had established adequate controls to ensure that ARFs were correctly calculated for the units approved for demolition or disposition. We performed the audit fieldwork from September 2013 to March 2014 at the HUD field office in Newark, NJ.

To accomplish our objective, we

- Reviewed applicable HUD regulations and guidance to obtain an understanding of the public housing demolition and disposition projects, including the funding policy for operating subsidies and ARFs for these projects.

- Reviewed prior U.S. Government Accountability Office and HUD Office of Inspector General (OIG) audit reports for issues related to ARFs.

- Interviewed key personnel from HUD's Special Application Center in Chicago; Real Estate Assessment Center, Financial Management Division, and Office of Field Operations in Washington, DC; and field offices in Newark, NJ, Hartford, CT, and New York, NY, to gain an understanding of HUD's process for determining the operating subsidies and asset repositioning fees for the approved demolition and disposition projects.

- Selected a nonstatistical sample of 14 PHAs with 24 demolition or disposition projects approved by the Special Application Center as of December 19, 2012, under the supervision of the HUD Newark, New York City, or Hartford field offices. Specifically, we selected 9 of 19 PHAs from the Newark field office that had 16 demolition or disposition projects, 2 of 5 PHAs from the New York City field office that had 2 demolition or disposition projects, and 3 of 12 PHAs from the Hartford field office that had 6 demolition or disposition projects that were identified as a concern with Public Housing Capital Fund program funding in a prior OIG audit. The results of this review are applicable only to the three field offices reviewed and cannot be applied to other offices.

- Assessed the reliability of prepopulated data on the HUD-52723 used in the calculation of the ARFs. Since the data were not always reliable, we verified the data with PHA officials and HUD field office staff, as well as with any supporting documentation provided. Our assessment of the reliability of the prepopulated data was limited to the projects selected in our sample.

- Analyzed the ARF calculation on the HUD-52723 for the projects selected in our sample, identified any calculations that did not appear to comply with HUD regulations, and discussed and verified any erroneous calculations with both HUD field office staff and applicable PHA officials.

The audit generally covered the period January 1, 2008, through December 31, 2013, and was extended as needed to accomplish our objective.

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:

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

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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

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 Deficiency

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

- HUD did not have adequate controls over program operations when its funding determination process for operating subsidies did not ensure that ARFs were correctly calculated for the units approved for demolition and disposition (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$6,206,924	
1B		$1,516,882

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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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 case, if HUD awards the $1.5 million that was due the PHAs, it will ensure that the funds will be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

AUG 20 2014

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, 2AGA

FROM: Milan Ozdinec, Deputy Assistant Secretary for Public Housing and Housing Voucher Programs, PE

SUBJECT: Response to Draft Audit Report: Asset Repositioning Fees for Public Housing Authorities with Units Approved for Demolition and Disposition Were not Always Accurately Calculated

Comment 1

The below response to the Draft Audit Report on Asset Repositioning Fees (ARF) is submitted for your review and consideration. While we understand that there are questioned costs in the amount of $7.7 million, we also understand that these costs may change based upon support/documentation provided by the Public Housing Agencies (PHAs). Your office as agreed that, to the extent costs are subsequently supported, the Audit Resolution and Corrective Action Tracking System will be updated to reflect the actual amounts due HUD.

Comment 2

As a general matter, the Office of Public Housing and Voucher Programs (OPHVP) disagrees with the portrayal by the IG that there was a lack of sufficient data available to the Field Offices (FOs) and PHA officials. The data needed to calculate Asset Repositioning Fees (ARF) is resident in PIC demo/dispo applications (DDAPS) and 50058s. 50058s are submitted by PHAs, and the relevant data from 50058s can be accessed by FOs. The DDAPs are submitted by PHA's and concurred upon by Field Offices. As such, 50058 and DDAP data is available to both PHAs and Field Offices. While accessing the data can be cumbersome, the data is nonetheless available, and the audit report should be corrected to make this clear. We agree that, as noted by the audit report, OPHVP has recently taken steps to make the relevant data more readily accessible through the development of the ARF tool, which is available to Field Offices to assist in their review of PHA submissions.

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OIG Evaluation of Auditee Comments

Comment 1 HUD officials concurred that the findings relating to recommendations 1A, 1B and 1C represent $7.7 million in questioned costs; however, they regard the amounts as tentative at this time pending receipt of any supporting documentation from the public housing agencies (PHAs) identified in the audit report. The questioned costs were verified both with the affected PHAs and the administering field office during the audit; however, any adjustments necessary as a result of subsequent documentation will be made during the audit resolution process.

Comment 2 While recognizing that accessing data to calculate asset repositioning fees (ARF) may be cumbersome, HUD officials disagreed with the portrayal in the report that there was a lack of sufficient data available to the PHAs and the field offices to calculate the fees. They stated that such information resides in PIC demo/dispo applications and HUD Form 50058s. We disagree that the current data in PIC is sufficient and note that HUD issued PIH Notices 2011-55 and 2012-30 to provide the field offices with more information to assist in calculating the ARF. However, PHA officials did not always provide the supporting documentation as required, and field office staff did not always pursue obtaining such documentation. Further, while relevant data may be available on the HUD Form 50058, it is unrealistic to expect that field office staff can manually review individual unit's occupancy information from the 50058 data to identify the first move-out date after the relocation date for a demolition/disposition project which could contain several hundred units. In addition, even though the first move-out date can be derived from the 50058 data, the data does not contain the information to determine whether the move-out was due to a HUD-approved demolition/disposition action. Nevertheless, HUD officials agreed with our conclusion that they have taken steps to make the relevant data more readily accessible through the ARF tool.

Appendix C

SCHEDULE OF ARF CALCULATION ERRORS

		Nature of error												
PHA project and development	**Eligible units**	**None**	**Annual operating subsidies received for ineligible units**	**Annual operating subsidies received for ARF-eligible units**	**ARF started earlier than eligible**	**ARF not provided to all eligible units**	**ARF received for longer than eligible**	**ARF received for shorter than eligible**	**Incorrect per unit month PEL used**	**ARF received at incorrect rate**	**ARF inter-rupted**	**Arith-metic error**	**Over-funded ($)**	**Under-funded[3] ($)**
PHA 1														
AMP[4] 1	100					X	X						312,868	27,810
PHA 2														
AMP 7	284											X	1,779	
PHA 3														
AMP 1	162		X		X	X			X	X	X	X	2,188,857	734,144
AMP 2	82						X			X		X	957,000	
AMP 4	136			X						X			269,278	
PHA 4														
AMP 5	503	X												
AMP 7	135	X												
AMP 8	134	X												
AMP 19	245		X	X									794,368	
PHA 5														
AMP 2	60								X					3,595
PHA 6														
AMP 1	140											X	36,581	

[3] Federal regulations prohibit the use of current year PHA operating funds for prior year underfunding; therefore, reimbursement can not be made to PHAs that were previously underfunded.
[4] AMP refers to Asset Management Project: each public housing project is assigned an asset management project number.

		Nature of error												
PHA project and development	**Eligible units**	**None**	**Annual operating subsidies received for ineligible units**	**Annual operating subsidies received for ARF-eligible units**	**ARF started earlier than eligible**	**ARF not provided to all eligible units**	**ARF received for longer than eligible**	**ARF received for shorter than eligible**	**Incorrect per unit month PEL used**	**ARF received at incorrect rate**	**ARF inter-rupted**	**Arith-metic error**	**Over-funded ($)**	**Under-funded[3] ($)**
PHA 7														
AMP 3	480							X				X		730,140
PHA 8														
AMP 2	252	X												
PHA 9														
AMP 5	256	X												
AMP 5	102	X												
PHA 10														
AMP 10	550	X												
PHA 11														
AMP 1	38			X			X						265,378	
PHA 12														
AMP 2	294		X			X							1,380,815	
AMP 24	95	X												
AMP 25	4	X												
AMP 10	171	X												
PHA 13														
AMP 5	124	X												
PHA 14														
AMP 1	46	X												
AMP 1	59				X									21,193
Total:	**4452**	**12**	**3**	**3**	**2**	**3**	**3**	**1**	**2**	**3**	**1**	**5**	**$6,206,924**	**$1,516,882**

Appendix D

NARRATIVE OF ARF CALCULATION ERRORS

PHA 1, AMP 1
Project type: Disposition
Units affected: 100
Incorrect funding: Calendar year 2011: $27,810 underfunded
Calendar year 2012: $101,454 overfunded
Calendar year 2013: $211,413 overfunded

Description of Incorrect Funding:

1. ARFs Received for Partial Units Instead of All ARF-Eligible Units

While the PHA had 100 units approved for disposition that became eligible for ARFs on January 2, 2011, Authority officials requested ARFs for 22 units in 2011 instead of for all 100. The remaining 78 units were funded with regular operating subsidies. PIH Notices 2009-20 and 2011-18 provide that the eligible units for an ARF must constitute all units in a project, not the individual units. As a result, the PHA received incorrect operating subsidies for calendar years 2011 through 2013. This condition occurred because PHA officials were not aware that they should have submitted multiple application numbers to designate a separate relocation date for each phase of the disposition so that units scheduled for later disposition remained eligible for regular operating subsidies and HUD field office staff was also not aware of this requirement.

2. ARFs Received for 12 Months More Than Eligible

After receiving ARFs in 2011 and 2012, Authority officials requested and received ARFs for 22 units at 25 percent of the annual operating subsidy for 2013, or an additional 12 months in excess of what it was allowed. Regulations at 24 CFR 990.190 provide that units approved for disposition are eligible to receive ARFs at 75 percent of annual operating subsidy for the first 12 months and at 50 percent for the next 12 months. This condition occurred because PHA officials believed that their project was a demolition project, although they applied for and HUD approved it as a disposition project. In addition, HUD field office staff was not aware that units approved for disposition were eligible for ARFs for only 2 years. After we informed field office staff members of this requirement, they notified PHA officials that they would not be eligible for ARFs in calendar year 2014.

PHA 2, AMP 7
Project type: HOPE VI demolition
Dwelling units: 284
Operating fund: Calendar year 2008: $1,779 overfunded

Description of Incorrect Funding:

1. Arithmetic Error

PHA officials correctly calculated ARFs of $1,556,264 for calendar year 2008, but recorded the number as $1,558,264 on the HUD-52723, a $2,000 difference. However, after the final end-of-the-year prorated funding at the rate of 88.96 percent of the calculated funding, the PHA received $1,779 more than it was entitled to receive. This condition occurred due to an arithmetic error, which was not detected by the field office staff.

PHA 3, AMP1
Project type: Demolition
Eligible units: 162
Operating fund: Calendar year 2008: $310,109 underfunded
Calendar year 2009: $426,547 overfunded
Calendar year 2010: $424,035 underfunded
Calendar year 2011: $799,664 overfunded
Calendar year 2012: $962,646 overfunded

Description of Incorrect Funding:

1. ARFs Received for Partial Units Instead of All ARF-Eligible Units

The PHA had 162 units approved for demolition on December 21, 2007, with an estimated relocation date of January 21, 2008. The first vacancy occurred on January 31, 2008; therefore, the 162 units became eligible for ARFs on October 1, 2008, in accordance with HUD regulations at 24 CFR 990.190. Contrary to the regulations at 24 CFR 990.190 (h)(1) and the requirement in Notices PIH 2009-20 and 2011-18, which require that ARF-eligible units be all units in an approved project, the PHA claimed ARFs for 84 units and 85 of the 162 units for calendar years 2008 and 2009, respectively, instead of all of the 162 units. PHA officials said that the demolition project was divided into two phases and that they had requested two different relocation dates; however, neither they nor HUD could provide documents to support that the request was submitted and that a second relocation date was approved by HUD.

2. Arithmetic Errors

PHA officials requested and received ARFs of $100,496 per year for both 2008 and 2009. Neither the Authority officials nor HUD field office staff could determine how the amount of ARFs for calendar years 2008 and 2009 were calculated

3. ARFs Started Earlier Than Eligible Date

PHA officials requested and HUD approved ARFs for 12 months in calendar year 2008, which resulted in the PHA’s receiving ARFs 9 months earlier than it was entitled to receive them. Regulations at 24 CFR 99.190 provide that an ARF begins on the first day of the next quarter 6 months after the first eligible unit becomes vacant due to the removal action after the relocation date. Therefore, the 162 units should have become eligible for ARFs on October 1, 2008, since the first eligible vacancy happened on January 31, 2008.

4. ARF Funding Was Interrupted

After receiving ARFs for 2 years, PHA officials did not request operating subsidies or ARFs in the third year. PIH Notice 2009-20 provides that once a vacancy has triggered the ARF eligibility period, ARFs must continue uninterrupted. This condition occurred because HUD did not provide the PHA with a HUD-52723 with prepopulated unit data for the development for the third year, PHA officials did not know that they should have contacted field offices to report this error, and field office staff did not identify the error in the prepopulated data.

5. ARFs Incorrectly Funded at 100 Percent of Annual Operating Fund

HUD regulations at 24 CFR 990.190 provide that ARFs should be funded at the rate of 75, 50, and 25 percent of annual operating subsidies, respectively, for 3 years. However, PHA officials requested and received ARFs at 100 percent of their annual operating subsidies for calendar years 2011 and 2012. This condition occurred because PHA officials were unfamiliar with the regulations.

6. Incorrect Amount of Per Unit Month PEL Used in ARF Calculation

Since HUD did not prepopulate the per unit month PEL data for this development for calendar years 2011 and 2012, PHA officials inappropriately used the amount of per unit month PEL for a different development. This condition occurred because both HUD field office staff and PHA officials did not know how to calculate per unit month PEL based on the previous PEL and lacked knowledge of regulations related to ARFs.

7. Operating Funds Requested for Ineligible Units

The Authority inadequately requested funding for 522 unit months more than the maximum unit months of 1,944 under the category of "total unit months" including 1,020 (162 units times 12 months) ARF-eligible unit months for calendar year 2009. HUD's field office did not identify this error while approving the Authority's funding request.

PHA 3, AMP2
Project Type: Demolition
Eligible units: 82
Operating fund: Calendar year 2008: $172,755 overfunded
Calendar year 2009: $296,459 overfunded
Calendar year 2010: $487,785 overfunded

Description of Incorrect Funding:

1. ARF Funding Received for 12 Months More Than Eligible

The 82 units approved for demolition became eligible for ARFs on January 1, 2007. Therefore, ARF funding should have ended on December 31, 2009. However, PHA officials incorrectly requested and received ARFs at 100 percent of annual operating subsidy funding for calendar year 2010. As a result, the PHA received ARFs for 48 months rather than the 36 months to which it was entitled. This condition occurred because PHA officials and field office staff did not realize that they had received ARFs for more than 36 months.

2. ARFs Received at 100 Percent Rate of Operating Fund

PHA officials requested and received ARF funding at an approximately 94 and 100 percent rate of their annual operating subsidies instead of at a 50 and 25 percent rate in calendar years 2008 and 2009. In addition, regulations at 24 CFR 990.190 provides that the units approved for demolition are eligible for ARFs at 75 percent, 50 percent, and 25 percent of the annual operating subsidies, respectively, for 3 years. PHA officials and field office staff were not aware that ARFs should be funded on a sliding scale basis. The funding of the ARFs in calendar year 2008 at a 94 percent rate instead of 100 percent might have been due to an arithmetic error because PHA officials and field office staff had thought the rate was 100 percent.

3. Arithmetic Error

In calendar year 2008, PHA officials requested and received ARF funding of $172,755 more than that to which the PHA was entitled. We attribute this condition to an arithmetic error, which field office staff did not identify.

PHA 3, AMP4
Project type: Demolition
Eligible units: 136
Operating fund: Calendar year 2012: $3,546 overfunded
Calendar year 2013: $265,732 overfunded

Description of Incorrect Funding:

1. Annual Operating Subsidy Received Rather Than ARFs

The 136 units became eligible for ARF funding on July 1, 2012, in accordance with HUD regulations at 24 CFR 990.190. Therefore, the PHA should have been funded with regular operating subsidies for the first 6 months and ARFs at a 75 percent rate for the remaining 6 months of calendar year 2012. However, PHA officials requested regular operating subsidy funding for all 12 months in calendar year 2012. PHA officials stated that they did not know that the ARFs should have started on that date. In addition, there was a lack of readily available data[5] to help field office staff identify ARF-eligible units.

2. ARFs Incorrectly Received at 100 Percent Rate

PHA officials inappropriately requested and received ARFs for 136 units at 100 percent of the annual operating subsidies in calendar year 2013, while ARF funding should have been at the 75 percent rate for the first 6 months and 50 percent for the last 6 months in calendar year 2013. Regulations at 24 CFR 990.190 provide that units approved for demolition are eligible for ARFs at 75 percent for first 12 months, 50 percent for next 12 months, and 25 percent for the last 12 months. However, neither PHA officials nor field office staff knew that ARFs should be funded on a sliding scale basis.

[5] We noted that PHA officials mistakenly entered into IMS-PIC that they needed 2,010 days to start relocation after the Special Application Center approved the demolition project, while the relocation started in year 2010 before the Center's approval. The Center approved the application without noticing the mistake. Since the ARF Tool, which was developed to help field office staff calculate ARFs for calendar year 2014, uses the data in IMS-PIC, it incorrectly disclosed that the ARF starting date would be October 1, 2007. Therefore, it is important for HUD to take actions to ensure that the data related to demolition and disposition projects in IMS-PIC are accurate.

PHA 4, AMP19
Project type: Disposition
Eligible units: 245
Operating fund: Calendar year 2011: $103,423 overfunded
Calendar year 2012: $120,834 overfunded
Calendar year 2013: $570,111 overfunded

Description of Incorrect Funding:

1. Annual Operating Subsidies Received Rather Than ARFs

PHA officials requested and received annual operating subsidies for 245 units for calendar years 2011, 2012, and 2013, which should have received ARFs at the rate of 75, percent of annual operating subsidy for the period from July 1, 2011 to June 30, 2012 and 50 percent for the period from July 1, 2012 to June 30, 2013. The PHA received HUD approval to dispose of the 245 units on June 6, 2010, with an estimated relocation date of October 8, 2010. The first vacancy occurred on November 1, 2010; therefore, the 245 units became eligible for ARFs on July 1, 2011, in accordance with HUD regulations at 24 CFR 990.190. As a result, the units were funded with full operating subsidies instead of ARFs. This condition occurred because PHA officials thought that the units were entitled to regular operating subsidies as long as they had not been disposed of and field office staff was not aware that the units had been approved for disposition. When we notified PHA officials of the error, they realized that they had misinterpreted the regulation.

2. Operating Subsidy Received for Ineligible Units

PHA officials requested and received annual operating subsidies for calendar years 2012 and 2013 for seven non-dwelling units that were included in the PHA's approved demolition project. Regulations at 24 CFR 990.125 provide that only dwelling units are eligible for operating subsidies and any add-on subsidy, such as ARFs. This condition occurred because PHA officials incorrectly classified the seven non-dwelling units as annual contributions contract units eligible for operating subsidies and HUD field office staff members did not identify the error when they approved the Authority's funding request.

PHA 5, AMP2
Project type: Demolition
Eligible units: 60
Operating fund: Calendar year 2013: $3,595 underfunded

Description of Incorrect Funding:

1. ARFs Incorrectly Calculated

HUD did not prepopulate per unit month PEL data for this development for its calendar year 2013 operating fund calculation because the 60 units were eligible for ARFs. PHA officials calculated the ARFs for calendar year 2013 using the calendar year 2012 per unit month PEL amount ($420.66) instead of the calendar year 2013 per unit month PEL amount ($432.86), which could be obtained by multiplying calendar year 2012 inflated per unit month PEL ($420.66) and the calendar year 2013 inflation factor (1.029). As a result, the Authority received $3,595 less than that to which it was entitled.

PHA 6, AMP1
Project type: Demolition
Eligible units: 140
Operating fund: Calendar year 2011: $28,553 overfunded
Calendar year 2012: $8,028 overfunded

Description of Incorrect Funding:

1. Arithmetic Error

PHA officials requested ARF funding for calendar years 2010 through 2012 for 140 units approved for demolition. However, due to arithmetic errors, the Authority requested and received $28,553 and $8,028 more than it was entitled in calendar years 2011 and 2012, respectively, and field office staff did not identify and correct these errors.

PHA 7, AMP3
Project type: Demolition
Eligible units: 480
Operating fund: Calendar year 2008: $148,525 underfunded
Calendar year 2009: $398,140 underfunded
Calendar year 2010: $183,475 underfunded

Description of Incorrect Funding:

1. ARFs Received for 3 Months Less Than Entitled

PHA officials requested and received ARFs for 33 months instead of the 36 months to which the PHA was entitled for the 480 units. The units became eligible for ARFs on January 1, 2008. PHA officials thought that the ARF funding start date was October 1, 2007, and that they had applied for and received ARF funding for the fourth quarter of calendar year 2007; however, they had not applied. As a result, in their calendar year 2008 funding request, the officials requested ARF funding for 9 months at 75 percent of their regular operating subsidy and 3 months at 25 percent and ended the ARFs by September 30, 2010, which was 3 months earlier than the correct ending date.

2. Arithmetic Error

There was an arithmetic error in the Authority's computation of its calendar year 2009 ARFs, which caused approximately $300,000 to be underfunded, and field office staff did not identify this error.

PHA 11, AMP1
Project type: Disposition
Eligible units: 38
Operating fund: Calendar year 2008: $16,946 overfunded
Calendar year 2009: $65,396 overfunded
Calendar year 2010: $104,722 overfunded
Calendar year 2011: $78,314 overfunded

Description of Incorrect Funding:

1. Annual Operating Subsidies Received Instead of ARFs

PHA officials erroneously requested and received annual operating subsidies for 38 units in calendar years 2007[6] and 2008. The PHA received HUD approval to dispose of 38 units on December 19, 2006, which was also the estimated relocation date. The first vacancy occurred on March 1, 2007; therefore, the 38 units became eligible for ARF funding on October 1, 2007, in accordance with regulations at 24 CFR 990.190. However, the Authority continued to request annual operating subsidies and did not apply for ARF funding until January 1, 2009. Thus, the units were funded with full operating subsidy funds instead of ARFs, which were at a 75 percent and 50 percent rate for the 2 years.

This condition occurred because PHA officials thought that the units were entitled to regular operating funds as long as they had not been disposed of and that they could claim ARFs at any time at their convenience, not realizing that delaying ARF application would result in the overpayment of annual operating subsidies. HUD field office staff was not aware that the PHA had delayed applying for ARFs.

2. ARFs Received for 9 Months More Than Eligible

PHA officials requested and received ARF funding for 33 months instead of 24 months for the 38 units approved for disposition. In addition, the additional 9 months of ARFs were calculated at the 50 percent rate of operating subsidies. HUD field office staff was not aware of this error, and PHA officials did not realize that they had made the mistake until we informed them during our audit.

[6] We were not able to determine the incorrect funding for calendar year 2007 because neither HUD nor the PHA maintained funding calculation data from the HUD-52723 for that year. Therefore, we can only question the funding for the years from 2008 to 2011.

PHA 12, AMP2
Project type: Demolition
Eligible units: 294
Operating fund: Calendar year 2008: $692,416 overfunded
Calendar year 2009: $52,100 overfunded
Calendar year 2010: $300,695 overfunded
Calendar year 2011: $278,655 overfunded
Calendar year 2012: $ 56,949 overfunded

Description of Incorrect Funding:

1. ARFs Received for Partial Units Instead of All Eligible Units

Since the PHA was approved for one application number with the same relocation date, it should have requested ARFs for all 294 units in calendar year 2008. However, the PHA requested and received ARFs for 134 units and operating subsidies for the remaining 161 units for calendar year 2008 and continued to request ARFs for two different phases from calendar years 2009 to 2012. PHA officials said that they demolished the units in two phases, although they had submitted one application and HUD had approved one relocation date, and misinterpreted the requirement of PIH Notices 2009-20 and 2011-18, as well as the regulations at 24 CFR 990.190 (h)(1), that ARF-eligible units be for all of the units in an approved project.

2. Operating Subsidy Funds Received for Ineligible Unit

On the PHA's Capital Fund building and unit certification, the PHA certified to 294 annual contributions contract units and 1 non-annual contributions contract unit for fiscal year 2010. Further, the PHA requested and received operating subsidies for 294 units in calendar year 2008. However, it inadequately requested ARFs for 295 instead of 294 annual contributions contract units for calendar years 2009 to 2011. HUD's field office did not identify these errors while approving the PHA's funding requests.

PHA 14, AMP1
Project type: Disposition
Eligible dwelling units: 59
Operating fund: Calendar year 2013: $21,193 underfunded

Description of Incorrect Funding:

1. ARFs Started at a Date Earlier Than Eligible

Based on regulations at 24 CFR 990.190, unit months eligible for ARFs should have been 531 (59 units x 9 months); however, the Authority requested and HUD approved ARFs for all 12 months for calendar year 2013. Therefore, the Authority did not receive regular operating subsidy funds for 3 months and was underfunded.