Housing Authority of the City of Rock Island, Rock Island, IL

Housing Choice Voucher Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2016-CH-1007
September 28, 2016

To:	Dana M. Kitchen, Acting Director of Public Housing Hub, 5APH
	//signed//
From:	Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA
Subject:	The Housing Authority of the City of Rock Island, Rock Island, IL, Did Not Always Comply With HUD's Requirements Regarding the Administration of Its Housing Choice Voucher Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the City of Rock Island's 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.

Audit Report Number: 2016-CH-1007
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The Housing Authority of the City of Rock Island, Rock Island, IL, Did Not Always Comply With HUD's Requirements Regarding the Administration of Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Housing Authority of the City of Rock Island, IL's Housing Choice Voucher program based on the activities included in our 2016 annual audit plan and our analysis of risk factors related to the public housing agencies in Region 5's jurisdiction. Our audit objective was to determine whether the Authority administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Found

The Authority did not always administer its program in accordance with HUD's requirements. Specifically, it did not comply with HUD's conflict-of-interest requirements when it did not obtain the services of an independent third party to perform housing quality standards inspections and rent reasonableness determinations for units it substantially controlled. As a result, the Authority inappropriately (1) paid nearly $454,000 in housing assistance to the entities and (2) earned nearly $44,000 in administrative fees. Further, HUD lacked assurance that the Authority acted in the best interests of its program households.

In addition, the Authority did not appropriately manage its Family Self-Sufficiency program when it did not ensure that (1) required documentation to determine participants' admission to and continued participation in the program was obtained and maintained and (2) program participants were connected to resources and supportive services. It also did not ensure that participants' (1) escrow accounts were correctly calculated and recorded and (2) escrow account disbursements were fully supported. As a result, HUD and the Authority lacked assurance that (1) program participants benefited from the program or had made progress toward self-sufficiency and (2) more than $141,000 in program funds was used appropriately.

What We Recommend

We recommend that the Acting Director of HUD's Chicago Office of Public Housing require the Authority to (1) reimburse its program more than $507,000 from non-Federal funds for the ineligible housing assistance paid to the entities and the inappropriate escrow disbursements, (2) support or reimburse its program more than $130,000 from non-Federal funds for the unsupported coordinator grant funds and escrow payments, (3) transfer more than $2,100 to or from its program account for the underfunded and overfunded escrows, and (4) implement adequate procedures and controls to address the findings cited in this audit report.

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Background and Objective

The Housing Authority of the City of Rock Island was established under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a seven-member board of commissioners appointed by the mayor. The board's responsibilities include ensuring that the bylaws and policies passed or amended by the board are followed. According to the bylaws, the executive director is appointed by the board and is responsible for supervising and managing the Authority's staff and handling all business affairs.

The Authority administers the Housing Choice Voucher program funded by the U.S. Department of Housing and Urban Development (HUD). The program allows very low-income families to choose and lease or purchase safe, decent, and affordable privately owned rental housing. As of July 2016, the Authority had 415 vouchers and received nearly $1.2 million in program funds for fiscal year 2016.

The Family Self-Sufficiency program enables HUD-assisted families to increase their earned income and reduce their dependency on welfare assistance and rental subsidies. Each year, HUD makes funding for program coordinator salaries available through a competitive process. The program coordinators work in collaboration with a program coordinating committee to secure commitments of public and private resources for the operation of the program. Eligible families execute contracts of participation, which specify their rights and responsibilities. The contracts incorporate individual training and services plans, which record the intermediate and long-term goals and the steps the families need to take to achieve those goals, including the services and resources they may need to access. As of May 2016, the Authority had 24 active Family Self-Sufficiency program participants from the Housing Choice Voucher program.

The objective of our audit was to determine whether the Authority administered its program in accordance with HUD's requirements. Specifically, we wanted to determine whether the Authority (1) complied with HUD's conflict-of-interest regulations and (2) appropriately managed its Family Self-Sufficiency program.

Results of Audit

Finding 1: The Authority Did Not Comply With HUD's Conflict-of-Interest Requirements

The Authority did not comply with HUD's conflict-of-interest requirements. Specifically, it failed to obtain the services of an independent third party to perform housing quality standards inspections and rent reasonableness determinations for units owned by entities it substantially controlled. The weakness described above occurred because the Authority lacked a sufficient understanding of HUD's regulations regarding conflicts of interest. As a result, it inappropriately (1) paid nearly $454,000 in housing assistance to the entities and (2) earned nearly $44,000 in administrative fees. Further, HUD and the Authority lacked assurance that the Authority acted in the best interests of its program households.

The Authority Performed Inspections and Rent Reasonableness Determinations for Units It Substantially Controlled

The Authority's nonprofit instrumentality, Community Housing Services, Inc.,[1] owned a controlling interest in the Lynden Lane project, Douglas Park Place, a limited liability corporation, and Express Housing 1, a limited partnership. From January 1, 2014, through May 30, 2016, households residing in 56 units at these projects received housing assistance.

The Authority failed to obtain the services of an independent third party[2] to perform housing quality standards inspections and rent reasonableness determinations for units owned by entities it substantially controlled. Instead, the Authority's program inspectors conducted the initial move-in, annual, and any other necessary housing quality standards inspections for the units. In addition, the Authority's program staff used its program rent reasonableness software to perform the rent reasonableness determinations. Therefore, the Authority inappropriately (1) paid the entities $453,995 in housing assistance and (2) received $43,673 in administrative fees by performing the inspections and rent reasonableness determinations for units owned by entities it substantially controlled.

The Authority Lacked an Understanding of HUD's Conflict-of-Interest Requirements

The Authority lacked a sufficient understanding of HUD's conflict-of-interest requirements when it allowed its program staff to perform the housing quality standards inspections and complete rent reasonableness determinations for the units. According to the Authority's executive director, it had started to draft requests for proposals to solicit the services of independent third parties to conduct housing quality standards inspections and rent

[1] Community Housing Services, Inc., is the sole owner of Douglas Park Place, L.L.C., and the Lynden Lane project. It also has 51 percent ownership in Express Housing 1, L.P. The Authority's executive director is the president of Express Housing 1.

[2] 24 CFR (Code of Federal Regulations) 982.352(b)(1)(iv)(A) (See appendix C.)

reasonableness determinations for the units; however, the developer for the properties said that proposals were not necessary.

As a result of our audit, in April and May 2016, the Authority entered into agreements with independent third parties to perform housing quality standards inspections and rent reasonableness determinations, respectively. On June 22, 2016, the two agreements were approved by HUD. As of August 2016, the independent third parties had inspected and passed 34 of the 56 total units and completed 53 rent reasonableness determinations.

Conclusion

The weakness described above occurred because the Authority lacked a sufficient understanding of HUD's regulations regarding conflicts of interest. As a result, the Authority inappropriately paid $453,995 in housing assistance to the entities it substantially controlled. Further, HUD and the Authority lacked assurance that the Authority acted on behalf of the best interests of its program households.

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 perform its administrative responsibilities correctly or adequately under the program. The Authority received $43,673 in program administrative fees related to the inappropriate housing assistance payments for the 56 units owned by entities substantially controlled by the Authority.

Recommendations

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

1A. Reimburse its program $497,668 ($453,995 in housing assistance payments + $43,673 in associated administrative fees) from non-Federal funds for the inappropriate payments cited in this finding.

1B. Ensure that the independent third parties complete the remaining housing quality standards inspections and rent reasonableness determinations and continue to perform housing quality standards inspections and rent reasonableness determinations for the units owned by entities that the Authority substantially controls.

Finding 2: The Authority Did Not Appropriately Manage Its Family Self-Sufficiency Program

The Authority did not appropriately manage its Family Self-Sufficiency program. Specifically, it did not ensure that (1) required documentation to determine participants' admission to and continued participation in the program was obtained and maintained and (2) program participants were connected to resources and supportive services. It also did not ensure that participants' (1) escrow accounts were correctly calculated and recorded and (2) escrow account disbursements were fully supported. The weaknesses described above occurred because the Authority failed to exercise proper supervision and oversight of its program. As a result, (1) HUD lacked assurance that more than $128,000 in coordinator grant funds received by the Authority was used effectively, (2) escrow accounts were overfunded by more than $2,000 and underfunded by $11, (3) the Authority incorrectly made escrow account disbursements totaling more than $9,000, and (4) escrow account disbursements totaling nearly $2,000 were unsupported. Further, HUD and the Authority lacked assurance that the program participants benefited from the program or had made progress toward self-sufficiency.

The Authority Did Not Maintain Required Documentation

We reviewed the files for all 64 households that participated in the Authority's Family Self-Sufficiency program from January 2014 through December 2015. The 64 participant files were reviewed to determine whether the Authority maintained documentation to support participants' admission to and continued participation in the program. Our review was limited to the information maintained in the program participant files.

For the 64 participant files, 63 (98 percent) had incorrect or incomplete documentation. The 63 program participant files contained 1 or more of the following deficiencies:

- 30 participants' contracts of participation and individual training and services plans had not been executed,
- 29 participants had incorrect or incomplete training and service plans, and
- 26 participants had incorrect contracts of participation.

In addition, there was no support in the files showing that 62 of the participants received annual reports of their escrow account balances. Further, there was limited documentation in the files to support that participants received opportunities for education, job training, counseling, and social service assistance to reach their goals and become self-sufficient.

From January 2014 through December 2015, HUD awarded the Authority two grants totaling $128,228 under its Housing Choice Voucher Family Self-Sufficiency Coordinator program. Because the Authority failed to maintain an effective program and there was limited support showing that services were provided to assist the program participants in reaching their goals, HUD lacked assurance that the Authority used its coordinator grant funds effectively.

The Authority Did Not Correctly Calculate Participants' Escrow Accounts and Lacked Documentation To Support Escrow Account Disbursements

Of the 64 participants reviewed, 20 had incorrect escrow accounts. Of the 20 participants, (1) 11 had overfunded escrow accounts totaling $30,842 and (2) 3 had escrow accounts that were underfunded by $261. In addition, four participants inappropriately received $9,506 in escrow account disbursements and two participants' escrow disbursements totaling $1,812 were unsupported. Further, two program graduates lacked documentation to support that they completed their goals; therefore, the graduation escrow account disbursements were unsupported.

During the audit, the Authority made adjustments to the escrow balances for 10 of the 14 participants with overfunded or underfunded escrow account balances. As of August 2016, the escrow accounts for the remaining four participants were still inaccurate. Two participants' escrow accounts were overfunded by $2,098, and two were underfunded by $11.

Further, the escrow balances maintained in the Authority's system for its program participants did not always agree with the amounts recorded in its program escrow bank account. There were 13 interest deposits recorded in the escrow account; however, only 1 interest deposit was allocated to the participants' escrow account balances maintained in the system.

The Authority Failed To Exercise Proper Supervision and Oversight of Its Program

The Authority failed to exercise proper supervision and oversight of its Family Self-Sufficiency program. The executive director was aware that the previous program coordinators had not properly managed the program. According to the executive director, the former family self-sufficiency manager failed to properly oversee the former program coordinator.

In June and December 2015, the Authority hired a new family self-sufficiency manager and program coordinator, respectively. According to the Authority's director of operations, the new program coordinator had been working closely with him to develop procedures and controls to ensure that the program would be managed in accordance with HUD's and its own newly developed requirements. As a result of our audit, the Authority has begun making corrections to it program participants' escrow accounts.

Conclusion

The weaknesses described above occurred because the Authority failed to exercise proper supervision and oversight of its program. As a result, (1) HUD lacked assurance that $128,228 in coordinator grant funds received by the Authority was used effectively, (2) escrow accounts were overfunded by $2,098 and underfunded by $11, (3) the Authority incorrectly made escrow account disbursements totaling $9,506, and (4) escrow account disbursements totaling $1,812 were unsupported. Further, HUD and the Authority lacked assurance that the program participants benefited from the program or had made progress toward self-sufficiency.

Recommendations

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

2A. Determine the amount of the $128,228 in coordinator grant funds that was earned by the Authority for meeting program requirements. The funds that are determined to be unearned should be reimbursed to HUD from non-Federal funds.

2B. Transfer $30,842 (of which $2,098 remains to be transferred) from its Family Self-Sufficiency program account to its Housing Choice Voucher program account for the overfunded escrows cited in this finding.

2C. Transfer $261 (of which $11 remains to be transferred) from its Housing Choice Voucher program account to its Family Self-Sufficiency program account for the underfunded escrows cited in this finding.

2D. Reimburse its program $9,506 from non-Federal funds for the incorrect escrow account disbursements.

2E. Support or reimburse its program $1,812 from non-Federal funds for the unsupported escrow account disbursements.

2F. Implement the procedures and controls it developed to ensure that (1) documentation required by HUD is correctly completed and maintained, (2) escrow account balances are correctly calculated and recorded, and (3) escrow account disbursements are fully supported.

Scope and Methodology

We performed our onsite audit work between February and June 2016 at the Authority's main office located at 227 21st Street, Rock Island, IL. The audit covered the period January 1, 2014, through December 31, 2015, but was expanded as determined necessary.

To accomplish our audit objective, we interviewed HUD program staff and the Authority's employees. In addition, we obtained and reviewed the following:

- Applicable laws; HUD's regulations at 24 CFR Parts 5, 982, and 984; and HUD's Guidebook 7420.10G.

- The Authority's accounting records, bank statements, general ledger, policies and procedures, board meeting minutes for January 2014 through December 2015, organizational chart, housing quality standards inspection reports, independent audit reports for fiscal years 2013 through 2015, housing assistance payments register, and Family Self-Sufficiency program participant files. We also reviewed the incorporating documents for the three entities the Authority substantially controlled.

Finding 1

We reviewed the independent audit reports, incorporating documents, and board meeting minutes to determine whether the Authority owned or substantially controlled units that received housing assistance payments from January 2014 through December 2015.

The calculation of administrative fees was based on the administrative fees received by the Authority from HUD and the number of vouchers the Authority reported through HUD's Voucher Management System. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid. When applicable, we limited the inappropriate administrative fees to the amounts of housing assistance paid.

Finding 2

We reviewed the participant files and escrow reports for all 64 households that participated in the Authority's Family Self-Sufficiency program from January 2014 through December 2015 to determine whether the Authority obtained and maintained the required documentation and correctly calculated, recorded, and disbursed escrow funds. We reviewed 100 percent of the Authority's participant files for the households; therefore, no projection of our results was necessary.

Data, Review Results, and Generally Accepted Government Auditing Standards

We relied in part on data maintained by the Authority in its systems. 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 Acting Director of HUD's Chicago Office of Public Housing and the Authority's executive director during the audit.

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 procedures and controls to ensure that it understood and complied with HUD's regulations regarding conflicts of interest (finding 1).
- The Authority failed to exercise proper supervision and oversight of its Family Self-Sufficiency program (finding 2).

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	$497,668		
2A		$128,228	
2B			$2,098
2C			11
2D	9,506		
2E		1,812	
Total	**507,174**	**130,040**	**2,109**

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 ensure that (1) funds are available to provide assistance to eligible families and (2) program participants' escrow account balances are correctly calculated, recorded, and available to the families to help achieve self-sufficiency.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

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Rock Island Housing Authority

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September 16, 2016

Kelly Anderson
Regional Inspector General for Audit, Region 5
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Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2201
Chicago, Illinois 60604

Re: IL018 - Housing Choice Voucher and Family Self-Sufficiency Programs

Dear Ms. Anderson:

We are in receipt of your letter dated September 6, 2016 (the "**Letter**") from the U.S. Department of Housing and Urban Development ("**HUD**") Office of Inspector General ("**OIG**") regarding your audit of the Housing Authority of the City of Rock Island's (the "**Authority**") Housing Choice Voucher ("**HCV**") Program and Family Self-Sufficiency ("**FSS**") Program. The Letter includes a draft audit report (the "**Report**") containing two draft audit findings pertaining to the Authority's HCV Program and FSS Program, respectively, along with recommendations to the Acting Director of HUD's Chicago Office of Public Housing. The Authority appreciates the opportunity to review the draft findings and provide you with our perspective on the matters described therein.

I. HCV Program

The Authority has administered the HCV Program for over 42 years, providing tenant-based and project-based assistance to very low income families throughout the Rock Island area. As of July 2016, the Authority successfully administered 415 vouchers under the HCV Program.

Despite years of proven success in administering the HCV Program and improving the lives and neighborhoods of Rock Island residents, the Report focuses on just one narrow aspect of the Authority's broader HCV Program—the newly developed low-income housing tax credit developments known as Lynden Lane, Douglas Park Place and Cascade Gardens. These developments were created through an affiliate of the Authority, Community Housing Services, Inc. Of the 133 units in the developments, 56 receive voucher assistance through the Authority's HCV Program.

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Comment 1

Because the Authority is considered the owner of these Developments, the units are considered "PHA-owned units". As such, the Authority must engage independent third parties to perform rent reasonableness and housing quality standards inspections for the 56 units receiving voucher assistance. The Authority acknowledges that it failed to do so. However, the Authority does not agree with the Report's recommendation that HUD require the Authority to reimburse its HCV Program $497,668 in non-Federal funds for housing assistance payments and associated administrative fees paid from January 1, 2014 through May 30, 2016.

Comment 2

There are a number of reasons why requiring the Authority to reimburse $497,668 is not warranted. First, the repayment would not only be devastating to the Authority's ability to provide vital services to residents under the HCV Program and the Authority's other programs, but it appears aimed only at teaching the Authority a lesson that the Authority has already learned. As the Report acknowledges, the Authority has already hired independent third parties approved by HUD to perform rent reasonableness determinations and housing quality standards inspections for the 56 units at issue. As of August 2016, nearly all such units had passed housing quality standards inspections and completed rent reasonableness determinations.

This result is not surprising. The units were new in 2014 and would have passed any inspection. In fact, the Authority thoroughly inspected them. Although the Authority's inspection of the units may have been impermissible based on the Authority's interest in the developments, as brand new units, the units—both then and now—easily meet the requisite housing quality standards. This has been confirmed by the independent third party inspector retained by the Authority.

Comment 3

Moreover, prior to occupancy by any tenants, the developments passed numerous inspections. As the Report acknowledges, the Authority inspected the units. Because the developments were financed, in part, with HUD 231 loans, inspections were conducted by HUD. The City of Rock Island also inspected the developments in connection with the issuance of certificates of occupancy for the units. The Authority views each of these inspections as at least as stringent—if not more stringent—than a housing quality standards inspection.

Comment 4

As such, there was no harm to residents or misspending of any HCV Program funds. On the contrary, the Authority provided residents with new, modern units. HUD draining the Authority of scarce funding as punishment for an already rectified mistake, however, would adversely affect residents and cause the very sort of harm that the HCV inspection rules were developed to avoid. This recommendation is not designed to rectify a shortcoming. It is instead created to sensationalize a minor finding that has already been corrected.

Comment 5

Given the foregoing, Recommendations 1A. and 1B. in the Report should be removed.

II. FSS Program

Comment 6

The Authority is proud that the Report confirms the success of the Authority's FSS Program as a well-managed benefit to the community. The OIG undertook a six (6) month audit, during which time the OIG examined every aspect of the FSS Program. While the OIG found a number of problems, there were no material issues or problems found with the FSS Program. In fact, for over a decade the FSS Program has benefitted hundreds of residents.

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Comment 7

The Report's finding questions only $13,427, primarily involving escrow funds—a de minimis amount in comparison to the number of families served.

Although the Authority appreciates the work and guidance of the OIG and acknowledges that certain areas of the FSS Program can be improved upon, the Authority does take exception to certain matters identified in the Report's discussion of the FSS Program. The following sets forth the Authority's comments regarding specific sections of the FSS Program discussion in the Report.

A. Overfunding and Underfunding FSS Program Accounts

The Report recommends that HUD require the Authority to transfer $2,098 from its FSS program account to its Housing Choice Voucher program account to rectify overfunding an FSS participant's account and to transfer $11 from its Housing Choice Voucher program account to rectify underfunding an FSS participant's account.

Comment 8

The Authority has made the recommended adjustments as of the date of this letter. As such, Recommendations 2B. and 2C. in the Report should be removed.

B. Alleged Incorrect or Unsupported Payments

The Report recommends that HUD require the Authority to reimburse $9,506 in allegedly incorrect payouts to FSS program participants and that HUD require the Authority to either show adequate support for or reimburse $1,812 paid out to FSS program participants. These alleged unsupported and/or incorrect payouts relate to the following six (6) individuals, described in this response using their identification numbers received from the OIG to maintain such individuals' privacy: ID#12, ID#30, ID#44, ID#45, ID#27 and ID#58. The Report does not provide any reasons why these amounts were questioned, but in conversations with the auditor the Authority has determined the rationale.

Comment 9

Based on these discussions and a careful review of its files, the Authority respectfully disagrees that there were unsupported and/or incorrect payouts from the FSS Program escrow accounts as to ID#12, ID#30, ID#44, ID#45 and ID#58. In fact, the Authority reviewed the accounts for each of the foregoing individuals, as follows.

1. ID#12

ID#12 completed the FSS Program when ID#12's income increased to the point that 30% of ID#12's adjusted monthly income was greater than the fair market rent for the unit size to which ID#12 was entitled.

Comment 10

This is an appropriate point at which to end participation in the FSS Program. The Report questions the payout of $1,179.43 to ID#12 from ID#12's escrow. Given ID#12's status, the payout was appropriate.

2. ID#30

Comment 11

ID#30 accomplished all of the goals set forth in ID#30's individual training and services plan (**"ITSP"**). Pursuant to 24 C.F.R. 984.305(c)(2)(i), an FSS Program participant is entitled to payout from escrow upon a determination by the Authority that the participant has fulfilled its obligations under the FSS Program participation contract and when the head of the household submits a certification that, to the best of his or her knowledge, no member

of the FSS participant's household is a recipient of welfare assistance. In ID#30's case, the Authority determined that ID#30's ITSP goals were completed and ID#30 provided documentation that ID#30 was employed and free of welfare assistance. There is adequate

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documentation for ID#30's satisfactory completion of ID#30's FSS Program participation contract obligations in ID#30's FSS Program file, including a verification from ID#30 as to ID#30's lack of welfare assistance.

Comment 11

During the audit process, it was suggested that the goals ID#30 decided to work toward were not lofty enough. As a result, the Report alleges that the $1,784.13 escrow payout made to ID#30 by the Authority was improper. The Authority maintains that this subjective review of the sufficiency of FSS Program participants' goals is improper. Rather, so long as certain threshold requirements of the FSS Program are met, the FSS Program participants' goals should be tailored to each individual's circumstances. It is simply not appropriate for HUD auditors to substitute their opinion for that of trained FSS Program staff.

3. ID#44

Comment 12

ID#44 completed all of the interim goals listed in ID#44's ITSP. Unfortunately, ID#44 failed to find "full-time" employment, the final goal of ID#44's ITSP. Although it is true that the Authority's FSS Program Coordinator at the time found that ID#44 completed ID#44's participation in the FSS Program despite having not achieved "full-time" employment, the Authority does not view this as a failure. The "full-time" employment goal in ID#44's ITSP was a standard boilerplate provision and was not tailored to ID#44's individual circumstances.

The FSS Program rules do not require that participants be working a specific length of time during the contract or a certain number of hours per week in order to fulfill their obligations under their FSS Program participation contract. 24 C.F.R. 984.303(b)(4)(iii) requires only that "a determination of suitable employment shall be made by the Authority based on the skills, education, and job training of the individual that has been designated as the head of the FSS family, and based on the available job opportunities within the jurisdiction served by the Authority."

Furthermore, the Authority's FSS Program policy permits modifications to FSS Program participants' ITSPs. Had the Authority's FSS Program Coordinator and ID#44 explicitly modified ID#44's ITSP prior to ID#44's completion of the FSS Program to remove "full-time" from ID#44's final goal of employment, the Authority would have considered ID#44 to have completed all of ID#44's ITSP goals. Indeed, the Authority did not consider "full-time" employment to be consistent with ID#44's ITSP goals or ID#44's family situation. ID#44 did complete all of ID#44's interim goals, including finding employment suitable for ID#44's family situation.

Comment 13

ID#44 completed the program requirements and obtained employment. ID#44's is the type of success for which the FSS Program was designed. Given the foregoing, the $1,504.90 escrow payout to ID#44 was proper. Going forward, the Authority is committed to ensuring that all goals listed in FSS Program participants' ITSPs are individualized to the participants' needs.

4. ID#45

Comment 14

The Authority believes that the interim disbursement from escrow to ID#45 was consistent with the Authority's draft FSS Action Plan, though the Authority concedes that the final version of the FSS Action Plan approved by HUD at a later date did not necessarily provide for the interim disbursement to ID#45. The interim disbursement at issue is a $527.00 payout to ID#45 for a vehicle repair. ID#45 provided three repair estimates and a

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

letter demonstrating why the car repair was crucial to ID#45's successful participation in the FSS Program.

Comment 14

Pursuant to 24 C.F.R. 984.305(c)(2)(ii), interim disbursements may be made at the Authority's sole option from an FSS Program participant's escrow account during the contract period for contract-related expenses if the participant has fulfilled certain interim contract goals and needs a portion of the escrow funds to complete the FSS Program participation contract. The Authority's draft FSS Action Plan at the time the interim disbursement was made provided that the Authority would approve interim disbursements when "the family has demonstrated that the need for one-time payment of otherwise ongoing expenses such as ... car payments, [or] car maintenance ... is needed to complete an interim goal, final goal, or a task related to such goals." However, the final HUD-approved FSS Action Plan is narrower, providing that interim disbursements will be made "for completion of higher education, job training, or start-up expenses for a small business."

Comment 15

The Authority relied on its then-current FSS Action Plan policies to determine that the $527.00 interim disbursement to ID#45 was proper and supported by the estimates provided.

5. ID#58

Comment 16

ID#58 successfully completed ID#58's FSS Program participation. Unfortunately, the Authority did not locate certain documentation relating to ID#58 participation in the FSS program, including ID#58's FSS Program participation contract covering the period of September 1, 2007 through September 1, 2014, until after the audit was complete. That documentation was located in ID#58's Section 8 file held by the Authority. That documentation has since been provided to you.

According to the FSS Case Note dated September 10, 2014, the Authority's new FSS Program coordinator was unable to locate ID#58's initial FSS Program participation contract from 2007. Accordingly, the FSS Program coordinator and ID#58 met to fill out and update ID#58's FSS Program participation contract and ITSP. Based on ID#58's updated ITSP, ID#58 had successfully completed ID#58's FSS Program participation contract by completing ID#58's bachelor's degree, maintaining full-time employment and purchasing a home within the Authority's HCV Program. ID#58 did everything ID#58 was supposed to do under ID#58's ITSP and is now a homeowner in Rock Island. Although the Authority regrets that ID#58's initial FSS Program participation contract could not be located, the Authority notes that the renewed FSS Program participation contract that the Authority and ID#58 signed in 2014 sets forth clear achievement milestones for ID#58 that ID#58 was clearly able to meet. Thus, upon the determination that ID#58 had successfully completed ID#58's FSS Program participation, the Authority properly disbursed $6,015 to ID#58 from ID#58's escrow account.

Comment 17

6. ID#27

Comment 18

With respect to ID#27, the Authority agrees that there is no documentation in ID#27's file regarding the $307 interim escrow disbursement paid out to ID#27 in April of 2015. The Authority has reimbursed ID#27's unsupported $307 escrow disbursement to the FSS program as of the date of this letter and, as previously stated, the remaining payouts the Report disputes were in fact proper. As such, Recommendations 2D. and 2E. in the Report should be removed.

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C. New Oversight Procedures

Comment 19

The Report recommends that HUD require the Authority to implement the procedures and controls developed for the Authority's FSS Program to ensure that (i) documentation required by HUD is correctly completed and documented, (ii) escrow account balances are correctly calculated and recorded, and (iii) escrow account disbursements are fully supported. In fact, the Authority's FSS Program has been a successful program, despite the high turnover in staff the Authority has endured. As the Report correctly notes, the Authority hired a new FSS Program coordinator to develop new procedures and controls for the FSS Program and ensure that the program is managed in accordance with HUD's and the Authority's requirements. Newly hired FSS Program staff have identified areas for improvement and implemented new procedures with the support and guidance of the Authority's leadership. All of the foregoing steps were taken prior to HUD's review. As such, Recommendation 2F. in the Report should be removed. The work required has been completed.

D. FSS Coordinator Grant Funds

Comment 20

The Report finally recommends that HUD reevaluate $128,228 in FSS Program coordinator grant funds to determine the amount earned by the Authority for meeting FSS Program requirements. This recommendation is wholly unwarranted and, if implemented, could seriously impair the Authority's ability to effectively operate the FSS Program moving forward. Despite certain immaterial issues noted in the Report with the Authority's FSS Program under the supervision of the prior FSS Program coordinator—most, if not all, of which have been corrected as of the date of this letter—the FSS Program has successfully connected dozens of Rock Island residents to educational and employment opportunities for years. To put the Authority's FSS Program coordinator grants at risk would not only ignore the success of the FSS Program to date, but would also add further strain to an already shoestring budget for a vital program that encourages educational and economic empowerment for the residents of Rock Island.

We appreciate your input and continued assistance in ensuring the Authority operates at the high level of quality you and our residents have come to expect from us. Please let me know if you need anything further.

Very truly yours,

Susan Anderson

Susan Anderson, Executive Director
Housing Authority of the City of Rock Island

cc: Mark D. Hunt, Director of Operations, Housing Authority of the City of Rock Island
Vern Winter, Board Chair, Housing Authority of the City of Rock Island
Kimberly Toler, Assistant Regional Inspector General for Audit
Elynn Pierzchalski, Senior Auditor
Michael Syme, Esq., Cohen & Grigsby, P.C.

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OIG Evaluation of Auditee Comments

Comment 1 The Authority acknowledged that it had failed to obtain the services of independent third parties to conduct housing quality standards inspections and rent reasonableness determinations for the units owned by entities it substantially controlled. However, the Authority did not agree that it should be required to reimburse its Housing Choice Voucher program account. The Authority should work with HUD to resolve this recommendation.

Comment 2 The Authority contends that as of August 2016, nearly all of the units owned by entities it substantially controlled passed housing quality standards inspections and had rent reasonableness determinations. Additionally, it contends that repayment would be devastating to the Authority's ability to provide services to its residents and other programs. As stated in finding 1, as of August 2016, independent third parties had inspected and passed 34 of the 56 units (60%) and completed 53 rent reasonableness determinations. The Authority did not provide documentation showing that additional units had (1) been inspected and passed a housing quality standards inspection or (2) rent reasonableness determinations. In addition, the audit report recommends repayment from non-Federal funds; therefore, the Authority's program households would not be affected. Further, Section 11a of the Authority's annual contributions contract, states that program receipts may only be used to pay program expenditures. Therefore, the Authority should not be using program funds for its other programs. The Authority should work with HUD to resolve the recommendations regarding the units.

Comment 3 The Authority asserts that the units owned by entities it substantially controlled had been inspected by HUD and the City of Rock Island, IL. In addition, the Authority contends that the inspections were as stringent as HUD's housing quality standards inspections. The Authority did not provide documentation to support its assertions. Therefore, it should work with HUD to resolve the recommendations.

Comment 4 The Authority contends that the report's recommendation was not designed to rectify a shortcoming, but to sensationalize a minor finding that has been corrected. Further, it contends that repayment of funds by the Authority would adversely affect its residents. We disagree. Our calculation of questioned costs associated with this finding were for housing assistance payments and administrative fees for the units from January 2014 through May 2016. On June 22, 2016, the Authority received approval from HUD to enter into contracts with the third party entities to complete inspections and rent reasonableness determinations. However, the Authority contracted with an independent third party and started completing inspections during April 2016, before receiving HUD's approval. No inspections were completed in May 2016. The rent reasonableness determinations were started by another independent third party during June and July 2016. Additionally, the Authority did not provide documentation to support that **all** of the units cited in finding 1 had been independently inspected or that **all** of the rent reasonableness determinations had been completed, as of the date of this audit report. HUD's regulations at 24 CFR 982.352(b)(1) state that a unit owned by the public housing agency that administers the assistance under the annual contributions contract (including units owned by an entity substantially controlled by the Authority), may only be assisted if **all** of the following conditions are met, including obtaining an independent third party to (1) determine rent reasonableness, (2) assist the family in negotiating the rent to owner, and (3) inspect the unit for compliance with HUD's housing quality standards. The costs questioned in this audit report were for the period of time during the audit scope, in which the Authority was not in compliance with HUD's conflict of interest requirements. Additionally, the report recommends repayment from non-Federal funds; therefore, the Authority's program households would not be affected.

Comment 5 The Authority contends that recommendations 1A and 1B should be removed. We disagree. We acknowledge the actions taken by the Authority to correct the deficiencies cited in this report. The Authority should work with HUD to resolve the recommendations.

Comment 6 The Authority contends that the audit report confirmed the success of its Family Self-Sufficiency program and that there were no material issues or problems found within its program. We disagree. The audit report stated that the Authority did not appropriately manage its Family Self-Sufficiency program. Specifically, 63 of the 64 participant files (98%) reviewed had deficiencies. Further, due to the limited documentation maintained in the Authority's files, the Authority was unable to support that the participants received opportunities for education, job training, counseling, and social service assistance to reach their goals and become self-sufficient.

Comment 7 The Authority contends that the audit report questioned only a de minimus amount of $13,427. We disagree. For instance, of the 64 participant files reviewed during the audit, 24 active program participants had escrow account balances totaling $36,535 as of May 2015. Of the 24 active program participants, 14 had miscalculated escrow balances totaling $31,103. Therefore, in comparison to the total amount of funds that were in the Authority's active program participants' escrow accounts ($36,535), the amount questioned in the report ($31,103) represented 85 percent. The report acknowledges that the Authority had made corrections to 10 participants' escrow accounts during the audit.

Comment 8 The Authority contends that it had implemented recommendations 2B and 2C; therefore, they should be removed from the report. The Authority did not provide documentation to support its assertion. It should work with HUD to resolve the recommendations in regards to the participants with overfunded and underfunded escrow accounts.

Comment 9 The Authority stated that it disagrees with our determination that there were unsupported and incorrect payouts to six program participants' escrow accounts. As detailed in the audit report, the Authority failed to properly (1) calculate program participants' escrow accounts and (2) support program participants' escrow disbursements. These errors resulted in incorrect and unsupported escrow disbursements, respectively.

Comment 10 The Authority contends that participant number 12 had graduated from its program because her income equaled or exceeded the published existing housing fair market rent. We agree that the participant's income warranted graduation from the program. However, the Authority inappropriately back dated the participant's contract and used incorrect baseline numbers for the calculation of the participant's escrow balance. Therefore, the amount of the participant's graduation escrow disbursement was not correctly calculated. As recommended in the audit report, the Authority should reimburse its program account from non-Federal funds for the inappropriate disbursement.

Comment 11 The Authority contends that participant number 30 graduated from its program by completing all of her goals. It also contends that the auditor substituted her opinion over that of the Authority's trained staff. We disagree. One of the participant's goals was to make payments on credit cards. Based on our review of HUD's requirements and the Authority's own action plan, we determined that the goal was not appropriate. Additionally on June 9, 2016, we discussed the goal with HUD's Chicago Office of Public Housing. HUD agreed that (1) the goal was not appropriate and (2) any escrow funds disbursed to support the goal should be repaid to the program from non-Federal funds. Further, the Authority inappropriately back dated the participant's contract and used incorrect baseline numbers for the participant's escrow calculation. Therefore, the amount of the participant's graduation escrow disbursement was not accurate. As recommended in the audit report, the Authority should reimburse its program account from non-Federal funds for the inappropriate disbursement.

Comment 12 The Authority contends that participant number 44 completed all of the interim goals but failed to find full-time employment. Further, it asserted that the goal of full-time employment was a standard boilerplate provision that was not tailored to the participant's circumstances. HUD's instructions for executing the contract of participation state that the final goal listed on the individual training and services plan of the head of the family **must include** getting and maintaining suitable employment specific to that individual's skills, education, job training, and the available job opportunities in the area. Therefore, we assert that the individual training and services plan should have been tailored to the program participants' specific needs to ensure that their goals can be achieved. In this instance, the participant's final goal was to find full-time employment. Based on our review of the information in HUD's Public and Indian Housing Information Center system, the participant received unemployment benefits shortly after graduating from the program. Amendments to participants' final and interim goals are permitted both by HUD and the Authority's own program action plan. Therefore, if the participant was unable to achieve a goal, the participant's contract could have been amended. The Authority should have followed its own policies to ensure that the participant's goals were properly reflected in her training and service plan. In addition, the Authority used incorrect baseline figures which resulted in the participant's escrow account being incorrect.

Comment 13 The Authority stated that going forward it was committed to ensuring that all of the goals listed in its program participants' individual training and services plan are individualized to the participants' needs. We commend the Authority for working to improve its program. The Authority should work with HUD to resolve the recommendations regarding its program.

Comment 14 The Authority contends that the interim escrow disbursement for household number 45 was appropriate. The report did not state that the participant's interim escrow disbursement was inappropriate. However, it did state that the participant's escrow account was not accurate. Therefore, the participant's household did not have sufficient escrow funds available. The participant's contract was executed on May 13, 2015, and effective on June 1, 2016. The Authority inappropriately back dated the contract's effective date to May 1, 2012. Because the Authority used incorrect dates on the contract, the baseline figures were also incorrect. Based on our calculation, the participant did not have sufficient funds in her escrow account to cover the escrow disbursement. Therefore, the report recommends that the Authority reimburse its program account from non-Federal funds for the inappropriate disbursement.

Comment 15 The Authority stated that it relied on a previous version of its program action plan to determine whether an interim disbursement was appropriate for participant number 45. However, it failed to provide documentation to support its assertion. The Authority should work with HUD to resolve the recommendations regarding its program.

Comment 16 The Authority contends that participant number 58's contract for the period of September 1, 2007, through September 1, 2014, was found, and provided after the audit was completed. We disagree. The contract that was in the participant's file during our review and the contract provided later by the Authority was the same document. The contract was executed in September 1, 2014; therefore, the contract would have been effective on October 1, 2014. The Authority back dated the contract to be effective on September 1, 2007. In addition, the program coordinator completed a new individual training and services plan on September 1, 2014, based on the participant's statements of what her goals were and that all of the goals had been completed. Therefore, as recommended in the report, the Authority should reimburse its program account from non-Federal funds for the inappropriate disbursement.

Comment 17 The Authority stated that it agreed that there was no documentation to support the interim escrow disbursement to participant number 27. The Authority also stated that it had reimbursed its program account for the unsupported disbursement. The Authority did not provide documentation to support its assertion. Therefore, it should work with HUD to resolve the recommendations regarding its program.

Comment 18 The Authority contends that recommendations 2D and 2E should be removed from the report. We disagree. For recommendation 2D, $9,506 remains ineligible and for recommendation 2E, $1,812 remains to be supported. The Authority should work with HUD to resolve the recommendations regarding ineligible and unsupported program escrow disbursements.

Comment 19 The Authority contends that it had completed the recommended actions for recommendation 2F before the audit; therefore, the recommendation should be removed. Further, the Authority stated that it had (1) identified areas for improvement and (2) implemented new procedures. The Authority did not provide documentation to support its assertions. Therefore, it should work with HUD to resolve the audit recommendations.

Comment 20 The Authority contends that recommendation 2A was unwarranted because the items noted in finding 2 were immaterial, and that most if not all of the deficiencies had been corrected. For the period reviewed, the Authority's program coordinators did not effectively administer its program. Therefore, the Authority should work with HUD to determine the amount of coordinator grant funds that were appropriately earned by the Authority for meeting program requirements. The funds that are determined to be unearned should be reimbursed to HUD from non-Federal funds.

Appendix C

Federal Requirements

Finding 1

HUD’s regulations at 24 CFR 982.352(b)(1)(iv)(A) state that the public housing agency must obtain the services of an independent entity to perform the following functions as required under the program rule:

(1) To determine rent reasonableness in accordance with 24 CFR 982.507. The independent agency should communicate the rent reasonableness determinations to the family and the agency.
(2) To assist the family to negotiate the rent to owner in accordance with 24 CFR 982.506.
(3) To inspect the unit for compliance with housing quality standards in accordance with 24 CFR 982.305 and 24 CFR 982.405 (except that 24 CFR 982.405(e) is not applicable). The independent agency should communicate the results of each such inspection to the family and the public housing agency.

HUD’s regulations at 24 CFR 982.352(b)(1)(iv)(B) state that the independent agency used to perform the rent reasonableness, negotiation of rent, and housing quality standards inspections must be approved by HUD.

Finding 2

HUD’s regulations at 24 CFR 984.303(a)(1) state that each family that is selected to participate in a Family Self-Sufficiency program must enter into a contract of participation with the public housing agency that operates the Family Self-Sufficiency program in which the family will participate.

HUD’s regulations at 24 CFR 984.303(b)(1) state that the contract of participation must be in the form prescribed by HUD.

HUD’s regulations at 24 CFR 984.303(b)(2) state that the individual training and services plan, incorporated into the contract of participation, must establish specific interim and final goals by which the public housing agency and the family may measure the family’s progress toward fulfilling its obligations under the contract of participation and becoming self-sufficient.

HUD’s regulations at 24 CFR 984.303(g)(1) state that the contract of participation is considered to be completed and a family’s participation in the Family Self-Sufficiency program is considered to be concluded when the Family Self-Sufficiency family has fulfilled all of its obligations under the contract of participation on or before the expiration of the contract term, including any extension of the contract.

HUD’s regulations at 24 CFR 984.305(a)(2)(i) state that the total of the combined Family Self-Sufficiency account funds will be supported in the public housing agency’s accounting records by a subsidiary ledger showing the balance applicable to each Family Self-Sufficiency family. During the term of the contract of participation, the agency should credit periodically but not less than annually to each family's Family Self-Sufficiency account.

HUD's regulations at 24 CFR 984.305(a)(3) state that each public housing agency will be required to make a report, at least once annually, to each Family Self-Sufficiency family on the status of the family's Family Self-Sufficiency account.

HUD's Housing Choice Voucher Guidebook 7420.10G, section 23.4, states that the contract is effective the first of the month after execution of the contract of participation.

HUD's Housing Choice Voucher Guidebook 7420.10G, section 23.4, states that every Family Self-Sufficiency contract must include a training and service plan for the head of the family that commits the family head to seek and maintain suitable employment. The training plan should include clearly stated goals with specific deadlines.

HUD's form HUD-52650, Family Self-Sufficiency Program Contract of Participation, Individual Training and Plans, states that the resources and supportive services to be provided to each family member must be listed in the individual training and services plans, which are attachments to the contract of participation. It further states that interim goals must be specified, along with the activities and services needed to achieve them.