Housing Authority of the County of Lake, Grayslake, IL

Housing Choice Voucher Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2018-CH-1007
September 25, 2018

To:	Daniel Sherrod, Director of Public and Indian Housing Hub, 5APH
	//signed//
From:	Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA
Subject:	The Housing Authority of the County of Lake, Grayslake, IL, Did Not Always Comply With HUD's and Its Own 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 County of Lake'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 website. 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) 913-8499.

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The Housing Authority of the County of Lake, Grayslake, IL Did Not Always Comply With HUD's and Its Own Requirements Regarding the Administration of Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Housing Authority of the County of Lake, IL's Housing Choice Voucher Program based on the activities included in our 2018 annual audit plan and our analysis of risk factors related to public housing agencies in Region 5's jurisdiction. Our audit objective was to determine whether the Authority appropriately managed its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements.

What We Found

The Authority did not appropriately manage its Family Self-Sufficiency program. As a result, HUD and the Authority lacked assurance that program participants benefited from the program and made progress toward self-sufficiency and more than $445,000 in coordinator grant funds was used appropriately. In addition, (1) participants' escrow accounts were overfunded, (2) graduation disbursements were unsupported, (3) ineligible escrow disbursements were paid, and (4) participants' escrow accounts were underfunded.

The Authority also did not always correctly calculate and support housing assistance payments. As a result, it overpaid nearly $17,000, underpaid nearly $4,000, and was unable to support nearly $19,000 in housing assistance. If the Authority does not correct its certification process, it could overpay nearly $352,000 in housing assistance over the next year.

The Authority did not always ensure that program funds were used for eligible expenses and inappropriately charged fees to its Project-Based Voucher Program developments. It also did not properly allocate expenses and lacked support that rent charged to its program was reasonable. As a result, the Authority inappropriately used nearly $14,000 in program funds and earned nearly $9,200 in fees. In addition, nearly $4,100 in expenses was unsupported, and nearly $43,000 was not available for its program.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public and Indian Housing require the Authority to (1) support or reimburse its program for the unsupported escrows, unearned coordinator grant funds, housing assistance payment calculations, and expenditures; (2) reimburse its programs from non-Federal funds for the ineligible escrow disbursements, housing assistance payment calculations, and expenses; and (3) 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 County of Lake, IL, was created under the laws of the State of Illinois to relieve the shortage of decent, safe, affordable, and sanitary dwellings. The Authority is governed by a seven-member board of commissioners appointed by the Lake County board. The board appoints the executive director. The executive director has general supervision over the administration of the Authority's business and affairs, subject to the direction of the Authority and management of the housing projects of the Authority.

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 individuals to lease or purchase safe, decent, and affordable privately owned rental housing. As of December 2017, the Authority had 3,076 vouchers and had received nearly $24 million in program funds.

The Authority also operates a Family Self-Sufficiency program. 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 for public and private resources for the operation of the program. Eligible families execute contracts of participation that specify their rights and responsibilities. The contracts incorporate individual training and services plans, which contain intermediate and long-term goals and steps that the families need to take to achieve those goals, including needed services and resources. Generally, a family becomes eligible to receive funds deposited into an escrow account on its behalf when it meets its goals and completes its Family Self-Sufficiency contract. The amount credited to the family's escrow account is based on the increased rent the family pays due to increases in earned income during the term of the contract.

The objective of our audit was to determine whether the Authority appropriately managed its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority (1) appropriately managed its Family Self-Sufficiency program, (2) maintained its Housing Choice Voucher Program files in accordance with HUD's and its own requirements, and (3) appropriately managed its Housing Choice Voucher Program funds.

Results of Audit

Finding 1: 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 maintain required documentation that was complete and accurate and met HUD's requirements and ensure that participants' escrow accounts were correctly calculated and supported. The weaknesses occurred because the Authority did not have adequate procedures and controls to oversee its program coordinators to ensure that the program was effectively managed. In addition, the Authority's program coordinators lacked a sufficient understanding of HUD's and the Authority's requirements. As a result, HUD and the Authority lacked assurance that program participants benefited from the program and made progress toward self-sufficiency and more than $445,000 in coordinator grant funds was used appropriately. In addition, (1) participants' escrow accounts were overfunded by nearly $23,000, (2) graduation disbursements totaling nearly $121,000 were not supported, (3) ineligible escrow disbursements of nearly $12,500 were paid, (4) participants' escrow accounts were underfunded by more than $3,800, and (5) one graduation disbursement was underpaid by more than $500.

The Authority Did Not Ensure That Required Documentation Was Complete and Accurate and Met HUD's Requirements

We reviewed the files for 45 households that participated in the Authority's program from January 1, 2016, through December 31, 2017, to determine whether the Authority obtained and maintained documentation that was complete and accurate and complied with HUD's requirements and its own program action plan. All 45 of the participant files (100 percent) reviewed contained incorrect or incomplete documentation.[1] The 45 program participant files contained 1 or more of the following deficiencies:

- 45 had incomplete individual training and services plans,
- 37 had missing annual escrow reports,[2]
- 23 had inaccurate contracts of participation,
- 21 had goals that did not promote self-sufficiency, and

[1] See appendix C for criteria.

[2] For the remaining eight (45-37) participant files, the participants had not been on the program for a full year or left the program before the first year was completed; therefore, an annual escrow report would not have been required.

- 3 contracts of participation had incorrect effective dates.

In addition, the program participants' files lacked sufficient documentation to support that the Authority appropriately extended three contracts of participation as required.[3]

There was also limited documentation in the files to support that the Authority's Family Self-Sufficiency program participants received services or information regarding opportunities for education, job training, counseling, and social service assistance to help them reach their goals and become self-sufficient.[4] For example there was no support of any contact between one participant and the Authority for more than 3 years. In addition, the Authority's program coordinators allowed 21 participants to include goals and activities and services on their individual training and services plans that did not aid in self-sufficiency. Some examples of the inappropriate goals and activities included getting a deep tissue massage, taking a cat to the pet dentist, taking a family vacation, and enrolling children in extracurricular activities. According to HUD's requirements,[5] the Family Self-Sufficiency coordinators should be prepared to help participants define realistic, individualized, short- and long-term goals with target dates for completion in three key areas: education and job training, employment, and financial capability.

The Authority Did Not Ensure That Participants' Escrow Accounts Were Correctly Calculated and Supported

We reviewed the Authority's escrow calculations for the 45 participants. Of the 45 participants, 25 (56 percent) had incorrect escrow balances, escrow disbursements, or a combination of both.[6] Specifically, the 25 participants had 1 or more of the following deficiencies:

- 14 had overfunded escrows totaling $22,601,
- 10 had unsupported graduation disbursements totaling $120,067,
- 8 had ineligible escrow disbursements totaling $12,460,
- 4 had underfunded escrows totaling $3,801, and
- 1 had an underpaid graduation disbursement totaling $547.

We also reviewed the Authority's Family Self-Sufficiency ledger and determined that 29 participants had exited the program before December 31, 2017, yet had remaining escrow

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3 See appendix C for criteria.
4 24 CFR 984.102
5 HUD's Family Self-Sufficiency program guidebook, section 2.5
6 See appendix C for criteria.

balances. The escrow funds, totaling more than $56,000 should have been returned to the Housing Choice Voucher Program.

The Authority Lacked Adequate Procedures and Controls and Lacked a Sufficient Understanding of HUD's Requirements

The Authority did not have adequate procedures and controls to properly supervise its program coordinators to ensure that the program was effectively managed. According to the Authority, it had experienced a high turnover in program staff over the past few years. For instance, in 2016 and 2017, the Authority had gone through seven permanent employees. It also had four temporary employees from a staffing agency in 2017. One of the seven employees had worked for only 1 week, and another had worked for 5 months, while the length of employment for the temporary staff varied between 2 weeks and 2 months. Although the Authority experienced staff turnover, it did not have a system in place to ensure the quality of its program coordinators' work. The interim executive director acknowledged that the staff had not been appropriately trained. Therefore, the Authority's program staff lacked a sufficient understanding of HUD's and its own program requirements.

In 2017 and 2018, the Authority hired new program staff and had started implementing new procedures and controls. For instance, the Authority's director of community affairs planned to complete quality control reviews of approximately 15 files per month until 100 percent of the files had been reviewed.

Program Coordinator Grant Funds Were Awarded

HUD awarded the Authority Family Self-Sufficiency coordinator grant funds totaling $445,122 for fiscal years 2016 and 2017 to effectively administer the Family Self-Sufficiency programs.[7] According to HUD's grant agreement, performance was based upon whether the Authority achieved the agreed-upon activities and whether the Authority had produced tangible results through the implementation of the grant activities.

Conclusion

The above weaknesses occurred because the Authority did not have adequate procedures and controls to properly supervise its program coordinators to ensure that the program was effectively managed and did not ensure that its program coordinators had a sufficient understanding of HUD's and its own requirements. As a result, HUD and the Authority lacked assurance that program participants benefited from the program and made progress toward self-sufficiency and more than $445,000 in coordinator grant funds was used appropriately. In addition, (1) participants' escrow accounts were overfunded by nearly $23,000, (2) graduation

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7 The grant funds were provided to the Authority to administer its Housing Choice Voucher and Public Housing Family-Self Sufficiency programs. The Authority could not provide the allocations used for each program.

disbursements totaling nearly $121,000 were not supported, (3) ineligible escrow disbursements of nearly $12,500 were paid, (4) participants' escrow accounts were underfunded by more than $3,800, and (5) one graduation disbursement was underpaid by more than $500.

Recommendations

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

1A. Transfer $78,786 ($22,601 + $56,185) from its Family Self-Sufficiency account to its Housing Choice Voucher Program account for the overfunded and forfeited escrows.

1B. Support or reimburse its Housing Choice Voucher Program $120,067 from non-Federal funds for unsupported graduation disbursements.

1C. Reimburse its Housing Choice Voucher Program $12,460 from non-Federal funds for the ineligible disbursements.

1D. Transfer $3,801 from its Housing Choice Voucher Program account to its Family Self-Sufficiency account for the underfunded escrows.

1E. Reimburse one participant, $547 from its Family Self-Sufficiency program for the underpaid graduation payment.

1F. Implement procedures and controls to ensure that documentation required by HUD and the Authority's own action plan is correctly completed, documented, and updated.

1G. Ensure that its staff is appropriately trained and familiar with HUD's requirements and its program action plan regarding the administration of its program to ensure that (1) participants' individual training and services plans are complete and contain appropriate goals to assist the family in achieving self-sufficiency, (2) participants are notified of their escrow account balances at least annually, and (3) contracts of participation are complete and accurate.

1H. Ensure that its newly created policies and procedures include a process for ensuring that (1) escrow balances are correctly calculated and disbursed, (2) escrow accounts and disbursements are fully supported, and (3) forfeited escrow account funds are returned to the Housing Choice Voucher Program as required.

We also recommend that the Director of HUD's Chicago Office of Public Housing

1I. Determine the amount of the $445,122 in coordinator grant funds that were appropriately earned by the Authority for meeting requirements and paid to the coordinators while performing duties of the Family Self-Sufficiency program. The funds that are determined to be unearned should be reimbursed to HUD from non-Federal funds.

Finding 2: The Authority Did Not Always Comply With HUD's and Its Own Requirements for Housing Choice Voucher Program Files

The Authority did not always comply with HUD's and its own requirements for its program files. Specifically, it did not always correctly calculate and support housing assistance payments. The weaknesses occurred because the Authority lacked adequate oversight of its program and did not consistently follow its written policies. As a result, it overpaid nearly $17,000, underpaid nearly $4,000, and was unable to support nearly $19,000 in housing assistance payments. If the Authority does not correct its certification process, it could overpay nearly $352,000 and underpay nearly $103,000 in housing assistance over the next year.

The Authority Had Miscalculated and Unsupported Housing Assistance Payments

We reviewed 60 statistically selected certifications[8] for 60 of the Authority's program household files to determine whether the Authority correctly calculated housing assistance payments for the period January 1, 2016, through December 31, 2017. Our review was limited to the information maintained by the Authority in its household files.

For the 60 certifications, 30 (50 percent) had incorrectly calculated housing assistance and utility allowances.[9] The 30 certifications contained 1 or more of the following deficiencies:

- 20 had incorrect income calculations,
- 8 had incorrect utility allowances, and
- 4 had incorrect deductions from income.

For the households associated with the 30 certifications, the Authority overpaid $10,331 and underpaid $3,590 in housing assistance. In addition, the Authority had $26,654 in unsupported housing assistance payments for 10 households. During the audit, the Authority provided partial support for one household. Therefore, the Authority had $18,638 ($26,654 - $8,016) in unsupported housing assistance payments for 10 households. The Authority earned $10,119 in administration fees for the 30 certifications.

In addition, of the 60 certifications reviewed, 13 contained 18 errors[10] that had no impact on the housing assistance. The errors included incorrect income calculations, utility allowances, child support deductions, payment standards, and medical expense calculations.[11]

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

[9] See appendix C for criteria.

[10] One household can have more than one error.

Further, 4 of the 60 household files contained documentation showing that the households had unreported or underreported income. However, the Authority did not identify the unreported or underreported income, make adjustments to the housing assistance payments, or issue repayment agreements for the overpaid housing assistance as required by its program administrative plan.[12] As a result, the Authority overpaid $6,367 in housing assistance for the four households.

The Authority Lacked Adequate Oversight of Its Program

The Authority lacked adequate oversight of its program and did not consistently follow its written policies. The Authority's director of voucher management said that she completed quality control file reviews for all new admission households. However, the Authority did not have a system or process to review certifications for households that were already on the program, unless there was a tenant complaint or the housing certification specialists requested a review of a particular file. The Authority's interim executive director said that with the recent addition of an assistant director of voucher management, the Authority planned to implement a more consistent measure for monitoring quality assurance in the files to include annual reexaminations and new admissions. In addition, the Authority did not consistently follow its administrative plan for the calculation of income. For instance, according to the Housing Choice Voucher Program director, the Authority's staff used historical amounts received to calculate child support; however, the Authority did not consistently apply this policy.

Conclusion

The weaknesses described above occurred because the Authority lacked adequate oversight of its program and did not consistently follow its written policies. As a result, it overpaid $10,331 and underpaid $3,590 in housing assistance. In addition, the Authority lacked support for housing assistance payments totaling $18,638 due to unsupported housing assistance calculations and overpaid $6,367 in housing assistance for four households due to unreported or underreported income.

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 $10,119 in program administrative fees related to the inappropriate and unsupported housing assistance payments cited in this finding.

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[11] Further clarification: A specific example of an error that would not affect housing assistance would be that if the household's payment standard was too low but the utility allowance amount was too high, depending on the amount of the error, they could cancel each other out and, thus, not impact the household's housing assistance payment.

[12] Section 16-IV.B of the Authority's administrative plan.

If the Authority does not correct its certification process, we estimate that it could overpay $351,060 and underpay $102,939 in housing assistance over the next year. These funds could be put to better use if proper procedures and controls are put into place to ensure the accuracy of housing assistance payments.

Recommendations

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

2A. Reimburse its program $20,450 from non-Federal funds ($10,331+ $10,119 in associated administrative fees) for the overpayment of housing assistance due to inappropriate calculations of housing assistance.

2B. Reimburse the appropriate households $3,590 from program funds for the underpayment of housing assistance due to inappropriate calculations.

2C. Support or reimburse its program $18,638 from non-Federal funds for the unsupported payments of housing assistance cited in this finding.

2D. Enter into repayment agreements to pursue collection from the applicable households or reimburse its program $6,367 from non-Federal funds for the overpayment of housing assistance due to unreported or underreported income.

2E. Implement adequate procedures and controls to ensure that housing assistance payments are appropriately calculated and supported and that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered during the examination process to ensure that $453,999 ($351,060 + $102,939) in program funds is appropriately used for future payments.

Finding 3: The Authority Did Not Always Appropriately Manage Its Program Funds

The Authority did not always ensure that program funds were used for eligible expenses and inappropriately charged fees to its Project-Based Voucher Program developments. It also did not properly allocate expenses and lacked support that rent charged to its program was reasonable. The weaknesses occurred because the Authority lacked a sufficient understanding of HUD's regulations regarding the appropriate use of program funds and the allocation of expenditures. As a result, the Authority inappropriately used nearly $14,000 in program funds and earned nearly $9,200 in fees. In addition, nearly $4,100 in expenses was unsupported, and nearly $43,000 was not available for its program.

The Authority Did Not Always Use Program Funds for Eligible and Supported Expenditures

We reviewed 172 expenses from the Authority's program general ledger and credit card statements for the period January 1, 2016, through December 31, 2017, to determine whether they were appropriate and adequately supported. Of the 172 expenses reviewed, the Authority was unable to support 38 (22 percent) totaling $4,070, and 31 (18 percent) totaling $3,117 were ineligible. The unsupported and ineligible expenses[13] included but were not limited to

- coffee makers and kitchen supplies,
- food and beverages,
- fees for awards,
- travel expense related to the Authority's nonprofit,
- caps and gowns for the Family Self-Sufficiency program, and
- gift cards.

The Authority Inappropriately Charged Administrative Fees to Project-Based Voucher Developments

The Authority's director of finance stated that the program generated non-Federal income that would cover the ineligible expenses. We reviewed the income sources and determined that the Authority modified its Project-Based Voucher contracts to include fees charged to owners. For instance, the Authority altered one contract to require the owner to pay an annual $500 contract-processing fee and a $10 per contract unit annual waiting list management fee. HUD does not permit changes to Project-Based Voucher contracts. In addition, according to HUD, the

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[13] See appendix C for criteria.

Authority earned administrative fees for the Project-Based Voucher Program; therefore, it was not appropriate to charge owners additional fees for the normal costs of doing business.

In 2016 and 2017, the Authority received nearly $9,200 from Project-Based Voucher Program developments. In addition, the Authority earned income from activities not related to the program. However, it did not deduct the expenses incurred by program staff, such a salaries, and office supplies used to earn income from activities not related to the program. Because the Authority did not appropriately allocate expenses for the income earned by program staff that was not related to the program, we could not determine the difference between program income and non-Federal income.

The Authority Did Not Always Allocate Expenses

The Authority's general ledger included transactions for bank analysis fees totaling more than $43,000. The director of finance said that bank account analysis fees had always been allocated solely to the program. However, the Authority's detailed statement contained individual charges for each bank account associated with the Authority's programs. Therefore, the Authority did not appropriately allocate these charges among its programs. During the audit, the Authority provided documentation to show that the total amount that should have been allocated among its other programs totaled $10,861. However, the Authority did not provide documentation to support that its program had been reimbursed. Additionally, the Authority did not provide documentation for the remaining bank service charge totaling $1,848.

The Authority also did not allocate expenses for its Family Self-Sufficiency program between the Housing Choice Voucher Program and the public housing program. Instead, it charged the Housing Choice Voucher Program for all incurred expenses. HUD requires public housing agencies to develop a cost allocation method that allocates Family Self-Sufficiency expenses fairly between the program and the public housing program.[14]

The Authority Charged Its Program for Rents That May Not Have Been Reasonable

The Authority charged its program nearly $41,000 in rent for use of approximately 116 square feet of office space in its main office and additional space in a satellite office located in one of its public housing properties for its Family Self-Sufficiency program. Specifically, the Authority charged its program (1) $25,056 from January 1, 2016, through December 31, 2017, for the space in its main office and (2) $15,600 from October 1, 2016, through December 31, 2017, for space in its public housing property. Although the Authority is permitted to incur costs, such as office space, for the administration of the Family Self-Sufficiency program, the Authority did not have fully executed leases or support that the rent it charged its program was reasonable. The

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14 HUD's Accounting Brief Number 23.

Authority also did not allocate the costs between its two programs.[15] According to the Authority's interim executive director, the Family Self-Sufficiency staff had been relocated to the Authority's main office. However, she was unable to remember exactly when the staff had been relocated. She also said that the Family Self-Sufficiency staff would occasionally use the space located at the public housing property for activities. As of December 2017, the Authority's program was paying monthly rent for space in the public housing property.

The Authority Lacked a Sufficient Understanding of HUD's Requirements

The Authority lacked a sufficient understanding of HUD's requirements regarding the appropriate use of program funds and the allocation of expenses. The Authority disagreed that expenses for food, beverages, and kitchen supplies were not necessary expenses for administering the program. In addition, the Authority believed that the expenses for its public housing Family Self-Sufficiency program that had been paid using Housing Choice Voucher Program funds were minimal and could be covered with other sources of funding. Therefore, it seemed unreasonable to allocate expenses to the Family Self-Sufficiency program because it received non-Federal income in the form of donations that could absorb the public housing portion of the expenses. However, the Authority's general ledger and supporting documentation showed that program funds were used to pay for the Family Self-Sufficiency program's expenses.

Conclusion

The weaknesses described above occurred because the Authority lacked a sufficient understanding of HUD's requirements regarding the appropriate use of program funds and the allocation of expenditures. As a result, the Authority used Housing Choice Voucher Program funds to pay for (1) ineligible expenditures totaling $13,978 ($3,117 + 10,861), (2) unsupported expenditures totaling $4,070, (3) $1,848 in bank service charges not allocated to its programs, and (4) $40,656 in rent for its Family Self-Sufficiency program that may not be reasonable. In addition, the Authority inappropriately charged the owners of Project-Based Voucher developments fees totaling $9,170 for the normal cost of doing business.

Recommendations

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

3A. Reimburse its program $3,117 from non-Federal funds for the ineligible program expenditures.

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[15] The Authority has both a public housing and a Housing Choice Voucher Family Self-Sufficiency program.

3B. Support or reimburse its program $4,070 from non-Federal funds for the unsupported program expenditures.

3C. Reimburse $9,170 from non-Federal funds to the owners of the Project-Based Voucher developments it inappropriately charged for the normal cost of doing business to administer the Project-Based Voucher contracts.

3D. Reimburse the Housing Choice Voucher Program $10,861 from its various programs for the bank service charges inappropriately charged to its Program.

3E. Determine the appropriate allocations of the bank service charges and reimburse its Housing Choice Voucher Program from the various programs to ensure that $1,848 is available for appropriate program use.

3F. Ensure that its staff is appropriately trained and familiar with HUD's expenditure and allocation requirements.

3G. Develop and implement adequate procedures and controls to ensure that program expenditures are for eligible and supported program costs and that costs are appropriately allocated to its various programs as required.

We also recommend that the Director of HUD's Chicago Office of Public and Indian Housing

3H. Review the Authority's Project-Based Voucher contracts, determine the total amount to be reimbursed to the project owners, and require the Authority to (1) remove all inappropriate language from its contracts, (2) issue amended contracts as necessary, and (3) reimburse the inappropriate charges to the applicable project owners from non-Federal funds.

3I. Determine any remaining amounts for bank service charges inappropriately charged to the Housing Choice Voucher Program and ensure that the various programs reimburse the Program as appropriate for all bank service charges not appropriately allocated.

3J. Determine whether the rent charged to the Housing Choice Voucher Program for the Family Self-Sufficiency program office space in the Authority's main office and in its public housing property is appropriate and reasonable.

3K. Require the Authority to reimburse its Housing Choice Voucher Program from non-Federal funds for any amounts determined not to be reasonable to ensure that $40,656 in program funds is available for appropriate program use.

3L. Require the Authority to allocate any rents determined to be reasonable between its Housing Choice Voucher Program and Public Housing Family Self-Sufficiency program and require the Authority to reimburse its Housing Choice Voucher Program from its public housing program any amounts that should have been allocated among the programs.

Scope and Methodology

We performed our onsite audit work between January and July 2018 at the Authority's main office located at 33928 North Route 45, Grayslake, IL. The audit covered the period January 1, 2016, through December 31, 2017.

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

- HUD's regulations at 24 CFR Parts 5, 982, 983, and 984; HUD's Office of Public and Indian Housing (PIH) Notice PIH-2012-15; PIH, Real Estate Assessment Center, Accounting Brief Number 23; HUD's Guidebook 7420.10G; HUD's Administering an Effective Family Self-Sufficiency Program: A Guidebook Based on Evidence and Promising Practices; and HUD's fair market rents.

- The Authority's policies and procedures; accounting records; bank statements; general ledger; board meeting minutes for January 2016 through December 2017; organizational chart; payment standards; utility allowances; independent audit reports for fiscal years 2014, 2015, and 2016; housing assistance payments register; and household and Family Self-Sufficiency participant files.

Finding 1

We selected a nonstatistical sample of 62 participant files from the 376 participants that participated in the program between January 1, 2016, and December 31, 2017. We used this method to select the participant files for review during the survey and audit because the number of participants was too large for us to review 100 percent and we wanted to ensure that we reviewed participant files with differing attributes, including active participants with an escrow balance, inactive participants without an escrow balance, and participants with a disbursement. We stopped our review at 45 participant files because we determined that we had sufficient information for the finding to show that the Authority did not appropriately manage its program. Because we did not select a statistical sample, we are unable to project our results to the universe of 204 current participants in the Authority's program as of December 31, 2017.

Finding 2

We selected a systematic random sample of 60 monthly housing assistance payments from the Authority's 49,214 monthly disbursements for program participants from January 2016 through December 2017. We used a statistical sample so the audit results could be projected to the universe to make a reliable statistical conclusion on the universe error rate and error amount. To be conservative, we reported values at a one-sided 95 percent confidence level as the final projected dollar amount. We concluded that housing assistance payments were overpaid by $29,255 and underpaid by $8,578[16] monthly. This is equivalent to a $351,060 ($29,255 x 12 months) overpayment and $102,939 ($8,578 x 12 months) underpayment yearly. This equates to a total of $453,999 ($351,060 + $102,939).

The calculation of administrative fees was based on HUD's administrative fee per household month for the Authority. The fees were considered inappropriately received for each month in which the housing assistance was incorrectly paid or unsupported. To remain conservative, we limited the inappropriate administrative fees to the amounts of housing assistance payment calculation errors for the household files that contained administrative fees exceeding the housing assistance payment errors.

Finding 3

We reviewed the Authority's program general ledger and credit card statements for the period January 1, 2016, through December 31, 2017. We used a nonstatistical sample because we believed we knew enough about the population to target high-risk expenditures. We reviewed 74 questionable expenditures from the Authority's the general ledger and 98 credit card transactions charged to the Authority's program, for a total of 172 (74 +98) transactions. We reviewed the supporting documentation and interviewed the Authority's staff to determine whether the expenditures were eligible and supported under HUD's program regulations. Because we did not select a statistical sample, we are unable to project our results to the universe of general ledger and credit card transactions.

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 Director of HUD's Chicago Office of Public and Indian Housing and the Authority's interim executive director during the audit. In addition, we informed the Director of HUD's Chicago Office of Public and Indian Housing of minor deficiencies through a memorandum, dated September 25, 2018.

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

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[16] Rounded for reporting purposes.

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 did not have adequate procedures and controls to properly supervise its program coordinators to ensure that the program was effectively managed and did not ensure that its program coordinators had a sufficient understanding of HUD's and its own requirements (finding 1).
- The Authority lacked adequate oversight of its program and did not consistently follow its written policies to ensure that it correctly calculated housing assistance payments (finding 2).
- The Authority lacked a sufficient understanding of HUD's requirements regarding the appropriate use of program funds and the allocation of expenditures to ensure that it appropriately managed its program funds (finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			$78,786
1B		$120,067	
1C	$12,460		
1D			3,801
1E			547
1I		445,122	
2A	20,450		
2B			3,590
2C		18,638	
2D	6,367		
2E			453,999
3A	3,117		
3B		4,070	
3C	9,170		
3D	10,861		
3E			1,848
3K			40,656
Total	**62,425**	**587,897**	**583,227**

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 participants' escrow accounts are properly calculated, recorded, and available for uses consistent with HUD's requirements to assist participants in achieving self-sufficiency and that coordinator grant funds are used to appropriately administer the program. In addition, it will stop incurring program costs for the overpayment and underpayment of housing assistance and, instead, will spend those funds in accordance with HUD's requirements and its program administrative plan.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Lake County Housing Authority
33928 North U.S. Highway 45
Grayslake, IL 60030

September 8, 2018

Ms. Kelly Anderson
Regional Inspector General, Audit Region V
U.S. Department of Housing and Urban Development
Ralph H. Metcalf Federal Building
77 West Jackson Boulevard, Suite 2201
Chicago, Illinois 60604

RE: IL056 – Housing Choice Voucher and Family Self-Sufficiency Programs

Dear Ms. Anderson:

Comment 1

We are in receipt of the draft report on the OIG's Audit of the Lake County Housing Authority's Housing Choice Voucher and Family Self-Sufficiency Programs. The draft audit report consists of three findings. The Authority appreciates the work and guidance of the OIG and opportunity to review the draft findings. We acknowledge that certain areas of the FSS Program can be improved upon and are committed to work with the Chicago Field Office to improve overall program administration.

Finding #1 – The Authority did not appropriately manage its Family Self-Sufficiency Program.

Comment 2

The OIG undertook a six (6) month audit, during which time, the OIG examined every aspect of the Family-Self-Sufficiency Program. Several months prior to the commencement of the OIG audit, LCHA identified significant material weaknesses in its administration of the Family Self-Sufficiency program and undertook action to correct and improve program performance. All previous FSS staff were terminated and new staff were hired with a clear goal to meet with each FSS participant; review ITSP plans; redefine individual goals to focus solely on attainment of self-sufficiency; and, to review, correct, reconcile and update escrow accounts to ensure that accurate annual statements would be issued to all participants. Supervisory staff were also responsible for updating the FSS Action Plan and the FSS Chapter of the Housing Choice Voucher Administrative Plan. This work is ongoing with a timeline of completion by December 31, 2018.

Incomplete and Inaccurate and met HUD's requirements - The report indicates that 100% of the 45 files reviewed contained incorrect or incomplete documentation. Below are our comments to each specific area of incorrect documentation.

Comment 3

Incomplete Individual Training and Service Plans – The Authority recognizes that Individual Training and Service Plans must be fully complete with clearly articulated interim and final goals with specific deadlines that enable LCHA staff and participants to measure progress toward fulfilling obligations under the Contract of Participation (COP). As part of our program improvement action plan, we will review ITSP's for all current 204 FSS participants, and meet with participants to review, revise and/or update each individual plan as needed

Page **1** of **7**

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 4	**Missing Annual Escrow Reports –** The Authority's FSS module in its operational IT system generates escrow reports. Annual reports were created in the system; however, copies of reports were not in participant files to support that reports had actually been mailed to participants. The Authority will assure that copies are maintained in the files each year.
Comment 5	**Inaccurate Contracts of Participation –** Review of all COP's is part of the program improvement action plan and all current 204 contracts will be reviewed. Any COP that is not in conformance with the format prescribed by HUD or does not contain accurate information and dates, will be revised and signed by participants as needed.
Comment 6	**Incorrect and/or Unsupported Escrow Accounts** - The program improvement action plan includes analysis and reconciliation of all current escrow accounts. We will add analysis of all previous disbursements identified it the OIG report to determine if, in fact, any were unsupported or ineligible as alleged in the OIG report.
Comment 7	**Inadequate Procedures and Controls –** As indicated in the audit report, high staff turnover and lack of adequate staff training contributed to a lack of sufficient understanding of HUD's and LCHA's own policies and procedures. LCHA acknowledges that it did not have a system in place to ensure the quality of the work performed by FSS Coordinators. Our program improvement plan includes reassigned oversight of the FSS Program to a Director level position and the FSS component of the program has been added to our overall Quality Control procedures in the HCV Program.
Comment 8	**Program Coordinator Grant Funds Awarded –** Despite operational deficiencies in the FSS Program, the grant funds awarded for FSS Coordinators were properly expended. All grant funds were allocated solely for staff that were actively engaged in the FSS Program.
	RECOMMENDATIONS:
	1A. Transfer $78,786 from the FSS accounts to the HCV account for overfunded and forfeited escrows.
Comment 9	Upon completion of the reconciliation of all escrow accounts, LCHA will transfer all overfunded or forfeited escrow amounts.
	1B. Support or reimburse the HCV Program $120,067 from non-federal funds for unsupported graduation disbursements.
Comment 10	The Authority will provide supporting documentation to the Chicago Field Office that supports the disbursement of these escrow funds.
	1C. Reimburse HCV $12,460 from non-Federal funds for ineligible disbursements.
Comment 11	The Authority will provide supporting documentation to the Chicago Field Office that these funds represent eligible disbursements.
	1D. Transfer $3,901 from HCV to FSS for underfunded escrows.
Comment 9	Upon completion of the reconciliation of all escrow accounts, LCHA will transfer funds to any underfunded escrow account.
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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

1E. Reimburse one participant $547 from FSS for an underpaid graduation disbursement.

Comment 9

Upon completion of the reconciliation of all escrow accounts, LCHA will transfer pay out any underpaid graduation disbursements.

1F. Implement procedures and controls to ensure documentation required by HUD and the Authority's FSS Action Plan is correctly completed, documented and updated.

Comment 7

As noted in the discussion above, our program improvement action plan includes implementation of procedures and controls through additional oversight and quality control of the FSS component of the HCV program.

1G. Ensure staff is appropriately trained and familiar with HUD's requirements, the FSS Action Plan regarding the administration of the program to ensure that (1) ITSP's are complete and contain appropriate goals to assist families in achieving self-sufficiency, (2) participants are notified of their escrow balances at least annually, and (3) COP's are complete and accurate.

Comment 12

As noted in the discussion above, staff training has commenced and additional training is scheduled in the next three months.

1I. The Director of Chicago Office of Public Housing should determine the amount of the $445,967 in coordinator grant funds that were appropriately earned by the Authority for meeting requirements and paid to coordinators while performing duties of the FSS Program. Funds that are determined to be unearned should be reimbursed to HUD from non-federal funds.

Comment 8

As noted above, the Authority adamantly contends that all FSS Coordinator grant funds were property earned by the Authority. All activities for which funds were expended were directly related to the administration of the FSS Program. We will work with the Chicago Field Office to demonstrate that the funds were properly earned.

Finding #2 – The Authority did not always comply with HUD's and Its Own Requirements for Housing Choice Voucher Files.

The OIG determined that the Authority did not always comply with HUD's and its own requirements for its program files through incorrect calculation of Housing Assistance Payments and lack of adequate oversight of its programs. The report indicates that 50% of the certifications contained one or more deficiencies including incorrect income calculations, incorrect utility allowances and incorrect deductions. Below are our comments to each specific area of incorrect documentation.

Comment 13

Miscalculated and Unsupported Housing Assistance Payments – The Authority recognizes that ongoing staff training as well as additional supervisory review of certification transactions will support improved calculations and assist towards 100% accuracy in the calculation of HAP payments. To this end, we will implement a requirement that all staff responsible for transactions in the voucher program, receive rent calculation training annually and pass the Rent Calculation certification exam each year.

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Ref to OIG Evaluation	Auditee Comments

Comment 14

Lack of Program Oversight – As noted during the audit, the Authority currently provides 100% qualify control of all initial recertification files but does not QC annual or interim certifications. It is our intent to develop and implement a quality control program that include random sampling of annual and interim recertification transactions of each specialist.

RECOMMENDATIONS:

2A. Reimburse the HCV Program $20,450 from non-federal funds for the overpayment of housing assistance due to inappropriate calculations of housing assistance.

Comment 15

As noted in the background of the report, LCHA administers 3,076 vouchers and receives over $24 million in funds each year. This amount reflects less than .0008% of all funds received. Under GAAP or for that matter, under any audit standards, this would be considered immaterial and disregarded. Nevertheless, we will work with the Chicago Field Office to reach a resolution on this recommendation.

2B. Reimburse the appropriate households $3,590 form program funds for the underpayment of housing assistance payments due to inappropriate calculations.

Comment 16

LCHA will review these files in more detail to determine, if in fact, these funds are the correct amount owed to participants. If so, reimbursement will be provided.

2C. Support or reimburse the HCV Program $26,654 from non-federal funds for the unsupported payments of housing assistance cited in this finding.

Comment 15

As noted in the background of the report, LCHA administers 3,076 vouchers and receives over $24 million in funds each year. This amount reflects less than .0011% of all funds received. Even when adding this amount to the recommendation in 2A, the total is less than .0019% of all funds received. Under GAAP or for that matter, under any audit standards, this would be considered in immaterial and disregarded. Nevertheless, we will work with the Chicago Field Office to reach a resolution on this recommendation.

2D. Enter into repayment agreements to pursue collection from applicable households or reimburse the HCV Program $6,367 from non-federal funds for the overpayment of housing assistance due to unreported or underreported income.

Comment 17

LCHA will review these files in more detail to determine, if in fact, these funds are the correct amount owed from participants. If so, repayment agreements will be executed with participants.

2E. Implement adequate procedures and controls to ensure that housing assistance payments are appropriately calculated and supported and that repayment agreements are created to recover overpaid housing assistance when unreported income is discovered to ensure that program funds are appropriately used for future repayments.

Comment 14

As discussed above, the Authority currently provides 100% qualify control of all initial recertification files but does not QC annual or interim certifications. It is our intent to develop and implement a quality control program that include random sampling of annual and interim recertification transactions of each specialist.

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Ref to OIG Evaluation	Auditee Comments
	Finding #3 – The Authority did not always appropriately manage its program funds.
	The OIG determined that the Authority did not always ensure that program funds were used for eligible expenses and inappropriately charged fees to its Project-Based Voucher Program developments. It also indicates that the Authority did not properly allocate expenses and lacked support that rent charged to its program was reasonable. The report indicates that $13,000 was inappropriately used, $43,000 in expenses was unsupported and $40,500 was not available for its program.
Comment 18	**Funds not Used for Eligible and Supported Expenditures –** The Authority has a thorough understanding of HUD's regulations regarding appropriate use of funds and allocation of expenditures. We respectfully disagree with the reports conclusion that $7,885 were unsupported or ineligible expenditures.
Comment 19	**Administrative Fees Charge to Project Based Voucher Developments –** This was a practice initiated by the former administration of the Housing Authority. LCHA has discontinued this practice as of the completion of the audit.
Comment 20	**Allocation of Expenses –** Working with our third-party CPA firm, we will review our allocation methodology and ensure that it is appropriate and sufficiently supported with documentation for all programs.
Comment 21	**Unreasonable Rent Charged –** The Authority will review the lease agreements between the Public Housing and Housing Choice Voucher Programs and assure that charges are documented appropriate in the lease agreements. Documentation will include comparable rates for commercial square footage that will support the amount charged to the HCV Program for use of Public Housing facilities.
Comment 18, 19	**Lack of Sufficient Understanding of HUD's Requirements** - The Authority has a thorough understanding of HUD's regulations regarding appropriate use of funds and allocation of expenditures. Nevertheless, we will review again review our allocation methodology to assure that it meets all HUD's requirements.
	RECOMMENDATIONS:
	3A. Reimburse the HVC Program $3,815 from non-federal funds for ineligible program expenditures.
Comment 22	The Authority will provide documentation of these expenditures to the Chicago Field Office to support the eligibility of these expenses or reimburse the program if needed.
	3B. Support or reimburse its programs $4,070 from non-federal funds for unsupported program expenditures.
Comment 23	The Authority will provide documentation of these expenditures to the Chicago Field Office to support the eligibility of these expenses or reimburse the program if needed.
	Page 5 of 7

Ref to OIG Evaluation	Auditee Comments
	3C. Reimburse $9,170 from non-federal funds to the owners of Project-Based Voucher developments.
Comment 24	The Authority will reimburse owners with the funds previously collected for these fees.
	3D. Determine appropriate allocations of bank service charges and reimburse the HCV Program from various programs to ensure that $39,238 is available for appropriate program use.
Comment 25	This task was completed and documentation provided to the OIG following the audit. The total amount to be reimbursed based on supporting documentation is $11,658.16. The Authority will work with the Chicago Field Office to confirm this amount.
	3E. Ensure that staff is appropriately trained and familiar with HUD's expenditure and allocation requirements.
Comment 20	The Authority will work with its third-party CPA firm to review the allocation methodology and percentages and maintain sufficient documentation from the CPA to support current and all future allocation amounts.
	3F. Development and implement adequate procedures and controls to ensure program expenditures are for eligible and supported costs and costs are appropriately allocated to programs.
Comment 26	The Authority will request assistance from our Independent Auditor to provide additional training to staff as needed.
	3G. Review Authority's Project-Based contracts and (1) remove all inappropriate language; (2) issue amended contracts as necessary; (3) determine total amount to be reimbursed to Project Owners; and (4), reimburse inappropriate charges to owners from non-federal funds.
Comment 27	The Authority will review all Project-Based Voucher HAP contracts and amend as necessary and as noted above, will reimburse project owners for any amounts due.
	3H. Determine whether the rent charged to the HCV Program for FSS office space in the Authority's main office and Public Housing property is appropriate and reasonable.
Comment 21	As noted above, the Authority will review the lease agreements between the Public Housing and Housing Choice Voucher Programs and assure that charges are documented appropriate in the lease agreements. Documentation will include comparable rates for commercial square footage that will support the amount charged to the HCV Program for use of Public Housing facilities.

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Comment 21, 28

3l. **Reimburse the HCV Program from non-federal funds for any amounts determined not to be reasonable to ensure that the $40,656 in program funds is available for appropriate program use.**

As noted above, the Authority will provide supporting documentation of all questionable expenses and work with the Chicago Field Office to resolve and/or reimburse any program expenses as needed.

Should you have any questions or need any additional information, please feel free to contact me. Thank you.

Sincerely,

Tiffany A. Gonzalez
Interim Executive Director/CEO

Cc: H. Jordan, Chair LCHA Board
Daniel Sherrod, PIH Director, Chicago Office

OIG Evaluation of Auditee Comments

Comment 1 The Authority acknowledged that certain areas of the Family Self-Sufficiency program can be improved upon and committed to work with its HUD field office to improve overall program administration. We appreciate the Authority's acknowledgement and commitment to improve the administration of its Family Self-Sufficiency program.

Comment 2 The Authority stated that OIG reviewed every aspect of the Family Self-Sufficiency program. We acknowledge that we obtained documentation from the Authority to gain a general understanding about the Authority's administration of the program. However, our review was focused on the areas as discussed in this audit report (see findings 1 and 3). The Authority stated that several months before the OIG audit, it had identified material weakness in its administration of the Family Self-Sufficiency program and undertook action to correct and improve its performance. The Authority further stated that all previous Family Self-Sufficiency staff were terminated and new staff were hired with a goal to meet with each participant, review the individual training service plans, redefine individual goals to focus solely on achieving self- sufficiency, and to review, correct, and reconcile escrow accounts to ensure that accurate annual escrow accounts. In addition, it would update its Family Self-Sufficiency program action plan and administrative plan. We acknowledge that the Authority hired new staff; however there was no documentation in the participant files of corrections or adjustments. In addition, the Authority did not inform the audit staff or provide information to support that it had identified material weaknesses in the administration of its program before the audit. The Authority should work with HUD to ensure that its updated policies and procedures are appropriate and fully implemented.

Comment 3 The Authority agreed that individual training and service plans must be complete with clear interim and final goals that are measurable. As part of the Authority's program improvement action plan, it would meet with all current participants to review, revise, and update the individual training and service plans, as necessary. The Authority did not provide a copy of its program improvement action plan for our review; however, we appreciate the Authority's willingness to take corrective actions. The Authority should work with HUD to ensure that its updated policies are appropriate and fully implemented.

Comment 4 The Authority stated that its Family Self-Sufficiency module in its system generates escrow reports. However, the Authority did not maintain copies of the escrow reports in its participant files or other documentation to show that it mailed the annual escrow reports to the participants. The Authority also stated that it would ensure that copies of the escrow reports are maintained in the files each year. We appreciate the Authority's willingness to take corrective actions. The Authority should work with HUD to ensure that it appropriately documents the dissemination of the annual escrow reports.

Comment 5 The Authority stated that as part of its program improvement action plan, it would review all current contracts of participation and revise the contracts as necessary. The Authority did not provide a copy of its program improvement action plan for our review; however, we appreciate the Authority's willingness to take corrective actions. The Authority should work with HUD to ensure that its contracts are updated appropriately.

Comment 6 The Authority stated that its program improvement action plan includes analysis and reconciliation of all current escrow accounts. It also stated that it would include an analysis of the participant escrow disbursements identified by OIG as unsupported or ineligible. We appreciate the Authority's willingness to take corrective actions for the participant escrow disbursements that were unsupported or ineligible. The Authority should work with HUD to ensure that its reconciliations are appropriately completed and include (1) transferring funds back to the Housing Choice Voucher Program for over-funded escrows, (2) transferring funds to its Family Self-Sufficiency program for under-funded escrows, and (3) reimbursing its Housing Choice Voucher Program from non-Federal funds for any ineligible disbursements as cited in our recommendations (see finding 1).

Comment 7 The Authority agreed that high staff turnover and lack of adequate staff training contributed to a lack of sufficient understanding of HUD's and its own policies and procedures. It also acknowledged that it did not have a system in place to ensure the quality of the work performed by the Family Self-Sufficiency program coordinators. The Authority stated that its program improvement plan has reassigned oversight of the program to a director level position and that the program has been added to its overall quality control procedures in the Housing Choice Voucher Program. The Authority did not provide a copy of its program improvement action plan for our review; however, we appreciate the Authority's willingness to take corrective action. The Authority should work with HUD to ensure that its quality control procedures are sufficient and fully implemented.

Comment 8 The Authority stated that although there were operational deficiencies in the Family Self-Sufficiency program, the grant funds awarded for the program coordinators were properly expended. The Authority also stated that all coordinator grant funds were used only for staff that were actively engaged in the program. We disagree. As indicated in the audit report, HUD's grant agreement stated that performance was based upon whether the Authority achieved the agreed-upon activities and whether the Authority had produced tangible results through the implementation of the grant activities. Additionally, section I.A.1.b.3 of the notice of funding availability for the coordinator grant states that "…the coordinator's responsibilities are to ensure that the services included in the participant's contracts of participation are provided on a regular, ongoing and satisfactory basis; that participants are fulfilling their responsibilities under the contracts; and that escrow accounts are established and properly maintained for eligible families." However, there was limited documentation in the files to support that the Authority's Family Self-Sufficiency program participants received services or information regarding opportunities for education, job training, counseling, and social service assistance to help them reach their goals and become self-sufficient. Therefore, we determined the Authority program coordinators did not appropriately manage its program and that the program coordinator grant funds were not appropriately earned by the Authority for meeting requirements and paid to the coordinators while performing duties of the Family Self-Sufficiency program.

Comment 9 The Authority stated that upon completion of its reconciliation of all escrow accounts it would transfer overfunded, forfeited, and underfunded escrow amounts and reimburse any underfund graduation disbursements, as necessary. We appreciate the Authority's willingness to resolve the recommendation. The Authority should work with HUD on the resolution of these recommendations.

Comment 10 The Authority stated that it would provide supporting documentation to HUD's Chicago Field Office to support the $120,067 in graduation disbursements. We appreciate the Authority's willingness to work with HUD on the resolution of the recommendation.

Comment 11 The Authority stated that it would provide documentation to HUD's Chicago Field Office to support the $12,460 were eligible disbursements. The Authority should work with HUD to resolve this recommendation.

Comment 12 The Authority stated that it has started training its staff and that additional training was scheduled in the next 3 months. The Authority did not provide support that its Family Self-Sufficiency program staff had received training or that it had scheduled trainings. The Authority should work with HUD to ensure that its proposed training is sufficient and appropriate to address the finding.

Comment 13 The Authority stated that it recognizes that ongoing staff training and additional supervisory reviews of certifications would improve the housing assistance calculations. It further stated that it would implement a requirement that all staff responsible for transactions in the voucher program will receive rent calculation training and pass a rent calculation certification exam each year. We appreciate the Authority's willingness to take corrective action. The Authority should work with HUD to ensure that its proposed training and certification process is sufficient and appropriate.

Comment 14 The Authority agreed that it currently does not conduct quality control review of annual or interim certifications. The Authority also stated that it plans to develop and implement a quality control program that includes random sampling of annual and interim recertification transactions of each certification specialist. We appreciate the Authority's willingness to improve its quality control processes. The Authority should work with HUD on the resolution of these recommendations to ensure that it also addresses the unsupported calculation errors and the recovery of overpaid housing assistance when unreported income is discovered. The Authority should also work with HUD to ensure that its proposed quality control procedures are sufficient and fully implemented.

Comment 15 The Authority contends that the overpayment of housing assistance due to inappropriate calculations reflects less than .0008 percent and that the unsupported calculations reflected less than .0011 percent of all funds received and that under generally accepted accounting principles and other audit standards that this would be immaterial and disregarded. We disagree. As indicated in the scope and methodology section of the report, we selected a systematic random sample of 60 monthly housing assistance payments from the Authority's 49,214 monthly disbursements for program participants from January 2016 through December 2017, which represented less than .13 percent of the entire universe of housing assistance payments. However, our review of 60 housing assistance payments disclosed 30 had incorrectly calculated housing assistance and utility allowance payments which represents a 50 percent error rate. When using the error rate and error amount when projecting to the audit universe, if the Authority does not correct its certification process, it could overpay nearly $352,000 and underpay nearly $103,000 in housing assistance over the next year. Nevertheless, we appreciate the Authority's willingness to work with HUD on the resolution of recommendations 2A and 2C.

Comment 16 The Authority stated that it would review the files in more detail to determine if the $3,590 is the correct amount owed to participants and that it would reimburse the households as necessary. The Authority should work with HUD on the resolution of this recommendation.

Comment 17 The Authority stated that it would review the files to determine the unreported income amounts and execute repayments agreements with participants. The Authority should work with HUD on the resolution of this recommendation.

Comment 18 The Authority contends that it has a thorough understanding of HUD's regulations regarding the appropriate use of funds and allocation of expenditures. We disagree. Federal funds were used for items such as food, beverages, travel for Authority employees to conduct business for its non-profit, and gift cards. These expenditures are inappropriate and not necessary to run the Housing Choice Voucher or the Family Self-Sufficiency programs. Additionally, as stated in finding 3, the Authority believed that it would be unreasonable to allocate expenses for its Family Self-Sufficiency program, however, HUD regulations require the Authority to allocate expenses. Therefore, the Authority did not have a thorough understanding of HUD's regulations and should work with HUD to ensure that it fully understands what expenses are appropriate for the Housing Choice Voucher and Family Self-Sufficiency programs as well as the appropriate method for allocating expenses among the Authority's various programs.

Comment 19 The Authority stated that the practice of charging fees to its Project-Based Developments was initiated under the Authority's former administration and that it has discontinued this practice as of the completion of the audit. The Authority did not provide documentation to support its assertions. The Authority should work with HUD to ensure that it appropriately discontinues the practice by executing revised contracts and identifying non-Federal funds to reimburse the project-based developments any fees it inappropriately charged.

Comment 20 The Authority stated that it was working with its third-party certified public accounting firm to review its allocation methodology to ensure that it is appropriate and sufficiently supported with documentation for all programs. The Authority did not provide documentation to show that it allocated expenses among its various programs and did not provide an allocation methodology for our review. In addition to working with its accounting firm, the Authority should work with HUD to ensure that its allocation methodology is appropriate and fully implemented and that staff are appropriately trained and familiar with HUD's requirements.

Comment 21 The Authority stated that it would review the lease agreements between the Public Housing and the Housing Choice Voucher programs and ensure that the charges are documented and appropriate in the lease agreements. It also stated that the documentation would include comparable rates for commercial square footage that will support the amount charged to the Housing Choice Voucher program for the use of public housing facilities. We appreciate the Authority's willingness to resolve the issues regarding its lease agreements. The Authority should work with HUD to ensure that the rent charged for space in its main office and space used for activities in its public housing property are appropriate and reasonable.

Comment 22 The Authority stated that it would provide documentation for the ineligible expenditures to its HUD field office to support the eligibility of the expenditures or reimburse the program if necessary. The Authority should work with HUD on the resolution of this recommendation.

Comment 23 The Authority stated that it would provide documentation to support the $4,070 in unsupported expenditures to its HUD field office to support the eligibility of the expenditures or reimburse the program if necessary. We appreciate the Authority's willingness to work with HUD on the resolution of this recommendation.

Comment 24 The Authority stated that it would reimburse owners of the Project-Based Voucher program developments $9,170 with the funds previously collected for these fees. The Authority should ensure that it uses non-Federal funds to reimburse the developments; therefore, the Authority should work with HUD on the resolution of this recommendation.

Comment 25 The Authority stated that the appropriate allocation of the bank services charges was completed and that it provided HUD-OIG with the supporting documentation. According to the Authority, only $11,658.16 of the bank service charges should be reimbursed, and that it will work with its HUD field office to confirm this amount. The Authority provided documentation to support that $30,505 of the $43,214 in bank service charges should have been allocated to the Housing Choice Voucher Program for 23 of the 24 months reviewed. However, the Authority provided fees charged by the bank for the period January 2016 through December 2017. The service charges for December 2017 were not entered in its general ledger until January 2018 (after our audit scope). We reviewed the general ledger for bank service charges posted to the general ledger during the months January 2016 through December 2017, which includes the charges for the months of December 2015 through November 2017.

Additionally, the Authority did not provide documentation to support that the excess service charges totaling, $10,861, were reimbursed to the Housing Choice Voucher Program. Therefore, the Authority should reimburse its Program $10,861 from its various programs. Additionally, the Authority should work with HUD to determine the appropriate allocation of bank service charges totaling $1,848, for the month that remains to be allocated. Further, along with the Authority's comments, it did not provide support to show that it discontinued the inappropriate allocation of all bank service charges to its Program. We appreciate the Authority's willingness to work with HUD on the resolution of this recommendation.

Comment 26 The Authority stated that it would request assistance from its independent auditor to provide additional training to staff as needed to ensure program expenditures are for eligible and supported costs and costs are appropriately allocated. We appreciate the Authority's willingness to correct the issue. The Authority should with HUD on the resolution of this recommendation.

Comment 27 The Authority stated that it would review all Project-Based Voucher housing assistance payment contracts and amend as necessary. We appreciate the Authority's willingness to resolve the issue. The Authority should work with HUD on the resolution of this recommendation.

Comment 28 The Authority stated that it would provide documentation to support all questionable expenses and that it would work with its HUD field office to reimburse any program expenses as needed. We appreciate the Authority's willingness to work with HUD on the resolution of the recommendations.

Appendix C

Federal and Authority Requirements

Finding 1
HUD's regulations at 24 CFR 984.303(b)(1) state that the contract of participation should 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(d) state that the Authority should extend the term of the contract of participation for a period not to exceed 2 years for any participating family that requests, in writing, an extension of the contract, provided that the Authority finds that good cause exists for granting the extension. It also states that the family's written request for an extension must include a description of the need for the extension and that "good cause" means circumstances beyond control of the family.

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

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

HUD's regulations at 24 CFR 984.305(a)(2)(i) state that the total combined Family Self-Sufficiency account funds will be supported in the public housing agency accounting records by a subsidiary ledger showing the balance applicable to each family. During the term of the contract of participation, the public housing agency should credit the escrow accounts periodically but not less than annually to each family's escrow 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 on the status of the family's escrow account. In addition, it states that at a minimum, the report will include (i) the balance at the beginning of the reporting period, (ii) the amount of the family's rent payment that was credited to the escrow account during the reporting period, (iii) any deductions made from the account for the amounts due to the agency before interest is distributed, (iv) the amount of interest earned on the account during the year, and (v) the total in the account at the end of the reporting period.

HUD's regulations at 24 CFR 984.305(b)(1) state that for purposes of determining the escrow credit, "family rent" for the rental voucher program is 30 percent of adjusted monthly income.

HUD's regulations at 24 CFR 984.305(c)(2)(ii) state that if the public housing agency determines that the family has fulfilled certain interim goals established in the contract of participation and needs a portion of the escrow account funds for purposes consistent with the contract of participation, such as completion of higher education or job training or to meet startup expenses involved in creation of a small business, the public housing agency may, at the public housing agency's sole discretion, disburse a portion of the funds from the family's escrow account to assist the family in meeting those expenses.

HUD's Housing Choice Voucher Guidebook 7420.10G, section 23.1, states that families entering the Family Self-Sufficiency program work with a case manager to develop goals that will, over a 5-year period, lead to self-sufficiency. These goals may include education, specialized training, job readiness and job placement activities, and career advancement objectives.

Section 23.4 of the Guidebook states that the contract of participation must be executed no more than 120 days after the household's most recent annual or interim reexamination. If more than 120 days have passed since the last reexamination, a new reexamination must be completed.

Section 23.4 of the Guidebook states that the contract is effective the first of the month after execution of the contract of participation.

Section 23.4 of the Guidebook 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 Administering an Effective Family Self-Sufficiency Program: A Guidebook Based on Evidence and Promising Practices, section 2.5, states that Family Self-Sufficiency coordinators should be prepared to help participants define realistic, individualized, short- and long-term goals with target dates for completion in three key areas: education and job training, employment, and financial capability.

Form HUD-52650 (page 1), Family Self-Sufficiency Program (FSS) Contract of Participation, states that the amounts listed are the family's annual income, earned income, and family rent when the family begins participating in the Family Self-Sufficiency program.

Form HUD-52650 (instructions) states that the contract effective date is the first day of the month following the date the contract was signed by the family and the housing agency's representative. The contract expiration date is 5 years from the effective date of the contract. If the housing agency decides to extend the term of the contract, the original expiration date listed on page 1 of the contract must be crossed out and the new expiration date added.

Page 10 of the Authority's action plan states that the participant will maintain regular contact with the assigned Family Self-Sufficiency manager (defined as contacting the Family Self-Sufficiency manager monthly and meeting in person a minimum of once every 12 months to update the individual training and services plan).

Finding 2

HUD's regulations at 24 CFR 5.240(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 5.609(a)(2) state that annual income means all amounts anticipated to be received from a source outside the family during the 12-month period following the admission or annual certification date.

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

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

HUD's regulations at 24 CFR 982.517(b)(2)(ii) state that the public housing agency must provide a utility allowance for tenant-paid air conditioning costs if the majority of housing units in the market provide centrally air-conditioned units or there is appropriate wiring for tenant-installed air conditioners.

HUD's Housing Choice Voucher Guidebook, section 5.3, states that the public housing agency must count alimony or child support amounts awarded as part of a divorce or separation agreement unless the public housing agency verifies that the payments are not being made.

Section 5.3 of the Guidebook states that when net family assets are $5,000 or less, use the actual income from assets. When the family assets are more than $5,000 use the greater of actual income from assets or a percentage of the value of such assets based upon the current passbook rate savings rate established by HUD.

Section 5.5 of the Guidebook states that medical expenses are expenses anticipated to be incurred during the 12 months following certification or reexamination, which are not covered by an outside source, such as insurance.

Section 5.5 of the Guidebook states that reasonable childcare expenses for the care of children age 12 and younger may be deducted from annual income if the care is necessary to enable the family member to work, look for work, or further his or her education.

Section 6-I.K of the Authority's administrative plan states that the Authority will count amounts for alimony and child support unless the public housing agency verifies that (1) the payments have not been made in 3 months and (2) the family has made reasonable efforts to collect amounts due, including filing with courts or agencies responsible for enforcing payments.

Section 7-I.B of the plan states that the documents used for verification must be the original (not photocopied) and generally must be dated within 60 days of the date on which they are provided to the Authority.

Section 11-II.C of the plan states that families are required to report all changes in income in writing, including new employment, within 10 business days of the date on which the change takes effect.

Section 12-II.C of the plan states that if a family owes amounts to the public housing agency, as a condition of continued assistance, the public housing agency will require the family to repay the full amount or enter into a repayment agreement within 60 days of receiving notice from the public housing agency of the amount owed.

Section 16-IV.B of the plan states that the Authority will seek repayment and may choose to terminate the household's participation in the program based on the family's failure to report in an increase in income.

Finding 3

HUD's regulations at 24 CFR 982.152(a)(3) state that public housing agency administrative fees may be used only to cover costs incurred to perform public housing agency administrative responsibilities for the program in accordance with HUD regulations and requirements.

HUD's regulations at 24 CFR 983.5(b) state that the public housing agency's Project-Based Voucher Program is funded with a portion of the appropriated funding (budget authority) available under the public housing agency's voucher annual contributions contract. This pool of funding is used to pay housing assistance for both tenant-based and project-based voucher units and to pay the public housing agency administrative fees for the administration of the tenant-based and project-based voucher assistance.

HUD's Notice PIH-2016-08, part 2, states that administrative fees must be used only for program expenses. These include but are not limited to (1) waiting list management and updates; (2) preference verifications; (3) eligibility determinations; (4) intake and briefings; (5) voucher issuances; (6) owner outreach efforts; (7) unit inspections; (8) rent negotiations and reasonable determinations; (9) annual and interim income reexaminations; (10) tenant fraud investigations and hearings; (11) processing subsequent moves, including portability moves outside the public housing agency's jurisdiction; (12) the costs associated with making housing assistance payments to owners; and (13) monthly reporting in HUD systems.

HUD's Accounting Brief Number 23 states that public housing agencies with a Family Self-Sufficiency program serving both public housing and Housing Choice Voucher Program families with costs not chargeable to the Family Self-Sufficiency program coordinator grant are required to develop a cost allocation method that allocates these expense fairly between the two programs.