



Issue Date	February 7, 2011
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Audit Report Number	2011-CH-1005
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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

*Ronald Farrell*

FROM: Ronald Farrell, Acting Regional Inspector General for Audit, 5AGA

SUBJECT: The Housing Authority of the County of Cook, Chicago, IL, Needs To Improve Its Controls Over Its Administration of Section 8 Housing Assistance Payments to Its Nonprofit Units

## **HIGHLIGHTS**

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

We audited the Housing Authority of the County of Cook's (Authority) nonprofit development activities. The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Authority's nonprofit development activities based on a citizen's complaint forwarded to our office from the County of Cook, IL's Office of the Independent Inspector General. Our objective was to determine whether the Authority administered its Section 8 housing assistance payments to its nonprofit's units in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and the Authority's Section 8 administrative plan.

### **What We Found**

The Authority's administration of its Section 8 Housing Choice Voucher program (program) housing assistance payments to its nonprofit instrumentality's, Turnstone Development (Turnstone), units was inadequate. The Authority failed to collect more than \$30,000 in housing assistance payments made to an incorrect program landlord.

The Authority also miscalculated Program housing assistance payments for its project-based vouchers allocated to 21 Turnstone units, resulting in the underpayment of more than \$10,000 in housing assistance to 21 households. Further, the Authority failed to recover housing assistance payments made for four Program households after they were deceased, resulting in more than \$4,000 in overpayments to Turnstone units.

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated February 2, 2011.

### **What We Recommend**

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to (1) reimburse its program more than \$30,000 from non-Federal funds for the housing assistance payments owed by an incorrect program landlord, (2) reimburse the 21 program households more than \$10,000 from program funds for the underpayment of housing assistance, and (3) reimburse its program more than \$4,000 from non-Federal funds for the housing assistance payments made for deceased households.

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

### **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Chicago Office of Public Housing and the Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on January 7, 2011.

We asked the executive director to provide written comments on our discussion draft audit report by January 14, 2011. The executive director provided written comments, dated January 14, 2011. The director partially agreed with our findings and recommendations. The complete text of the written comments, except for the 70 pages of supporting documentation that were not necessary for understanding the director's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided the Director of HUD's Chicago Office of Public Housing with a complete copy of the Authority's written comments plus the 70 pages of supporting documentation.

# TABLE OF CONTENTS

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Background and Objective	4
Results of Audit	
Finding 1: The Authority Failed to Collect Housing Assistance Payments Made to an Incorrect Program Landlord	6
Finding 2: The Authority Miscalculated Housing Assistance Payments for Its Section 8 Project-Based Vouchers	8
Finding 3: The Authority Failed to Recover Housing Assistance Payments for Deceased Program Households	10
Scope and Methodology	13
Internal Controls	15
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	17
B. Auditee Comments and OIG's Evaluation	18
C. Federal Requirements and Authority's Program Administrative Plan	25

## BACKGROUND AND OBJECTIVE

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The Housing Authority of the County of Cook (Authority) was established in 1946 as a municipal corporation. It is responsible for promoting adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. The commissioners created the Authority because Cook County was experiencing population growth but did not have sufficient housing to meet the need. The Authority initially focused on improving existing housing conditions, but with the 1949 U.S. Housing Act, it was given aid to construct and maintain housing for low-income families. By 1953, the Authority had programs in many Cook County suburban communities including Robbins, Chicago Heights, and Summit. By 1961, public housing senior residences were also underway. As the need for affordable housing increased, the Authority continued to build and maintain its public housing units.

The Authority is governed by a six-member board of commissioners appointed by the Cook County board president and confirmed by the full board for 5-year terms. The Authority's executive director, appointed by the board of commissioners, is responsible for executing the policies established by the board of commissioners. As of November 2010, the Authority managed more than 2,000 public housing units and nearly 12,000 Section 8 Housing Choice Voucher program vouchers.

Turnstone Development (Turnstone), an Illinois 501(c)(3) nonprofit corporation that serves as an instrumentality of the Authority, was created on October 8, 1998. It is responsible for providing new, affordable housing opportunities for families and the elderly throughout suburban Cook County. Turnstone is governed by a five-member board of commissioners that consists of four Authority board commissioners and the Authority's executive director. Turnstone has an ownership interest in eight developments that receive Section 8 housing assistance payments from the Authority. The Authority made Program housing assistance payments of nearly \$4.1 million from November 2002 through February 2010 for 228 of the 877 Turnstone units located in the eight developments.

We conducted walkthrough observations of 16 Turnstone units receiving housing assistance payments from 4 developments on June 2 and 3, 2010. The units passed an annual housing quality standards inspection conducted by the Authority within 31 to 79 days from the dates we conducted the walkthrough observations. The 16 Turnstone units passed the review of our appraiser.

The citizen complaint forwarded to our office from the County of Cook's Office of the Independent Inspector General alleged that Turnstone's funds were being commingled with the Authority's funds and the Authority was using Turnstone's procured vendors without following the appropriate procurement policies. We reviewed Turnstone's financial records and randomly selected 30 transactions (15 cash receipts and 15 cash disbursements) from its general ledgers. We determined that Turnstone adequately maintained the 30 transactions separate from the Authority's financial records and bank accounts. Additionally, we randomly selected six vendors that the Authority shared with Turnstone and determined that the Authority followed

HUD's procurement requirements in contracting with the vendors. Based on these results, we determined that the commingling of funds and procurement areas did not warrant further review.

Our objective was to determine whether the Authority administered its Section 8 housing assistance payments to Turnstone's units in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and the Authority's Section 8 administrative plan.

## RESULTS OF AUDIT

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### Finding 1: The Authority Failed to Collect Housing Assistance Payments Made to an Incorrect Program Landlord

The Authority failed to collect housing assistance payments electronically deposited into the bank account of an incorrect program landlord. The housing assistance payments were not collected because the Authority failed to enforce the repayment agreement that was drafted for the incorrect program landlord. As a result, the Authority was owed more than \$30,000 in housing assistance payments.

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#### **Housing Assistance Payments Owed to the Authority Were Not Collected**

The Authority electronically deposited housing assistance payments totaling \$58,456 on October 1, October 15, and November 1, 2008, for 44 program households residing in the Thomas Place development, rental property in which Turnstone has an ownership interest, into the bank account of an incorrect program landlord who was not the owner of Thomas Place. This error occurred because the Authority's staff mistakenly entered the landlord's bank account information into its computer system as the bank account for the owner of the Thomas Place development. Thomas Place's property manager notified the Authority in November 2008 that it had not received housing assistance payments for October and November 2008. Once the Authority became aware of this issue, it paid Thomas Place for the \$58,456 in housing assistance that it did not receive and instructed its financial institution to recall the housing assistance which was mistakenly paid to the incorrect program landlord. However, when an attempt was made to reverse the electronic transfer of funds, the \$58,456 in housing assistance payments made to the landlord had been moved out of the account.

The Authority's former chief financial officer drafted a repayment agreement which stipulated that the incorrect program landlord would make a lump sum payment of \$15,000 to the Authority by June 30, 2009. In addition, the Authority would withhold the landlord's monthly housing assistance payment for a program unit and the landlord would make an additional monthly repayment of \$500 beginning July 1, 2009. As of December 2010, the landlord had not signed the repayment agreement. The landlord made a lump sum payment of \$10,000 in August 2009 and had not made any monthly payments. The Authority withheld monthly housing assistance payments totaling \$18,022 owed to the landlord from April 2009 through October 2010. As of December 2010, the Authority was owed \$30,434 from the landlord (\$58,456 minus \$10,000 minus \$18,022). On December 30, 2010, the Authority notified the landlord indicating that unless the

landlord made an additional payment of \$15,000 and entered into a repayment agreement by January 15, 2011, the Authority would proceed to file a formal complaint for the amount owed.

### **Conclusion**

As a result of the Authority's failure to enforce a repayment agreement, the Authority was owed more than \$30,000 in housing assistance payments.

### **Recommendation**

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

- 1A. Pursue collection of the remaining \$30,434 of inappropriate housing assistance from the program landlord. If the landlord fails to repay, the Authority should reimburse its program the applicable amount from non-Federal funds.

## Finding 2: The Authority Miscalculated Housing Assistance Payments for Its Section 8 Project-Based Vouchers

The Authority miscalculated housing assistance payments for 21 of its 40 Section 8 project-based vouchers allocated to the Whistler Crossing and Wisdom Village developments, rental properties in which Turnstone has an owner interest. The miscalculated housing assistance payments were made because the Authority's staff was not familiar with HUD's requirements regarding the calculation of housing assistance payments for project-based vouchers. As a result, the Authority underpaid more than \$10,000 in housing assistance for 21 households.

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### **The Authority Miscalculated Housing Assistance Payments for Its Project-Based Vouchers**

We reviewed the housing assistance payment calculations for the Authority's 40 Section 8 project-based households. The Authority made housing assistance payments totaling \$330,456 for the 40 households from July 2007 through February 2010. Our review was limited to the information in the Authority's household files.

For the 40 households, the Authority calculated housing assistance payments by subtracting the total tenant payment from the lower of the payment standard for the family or the gross rent. This formula is required by HUD for calculating housing assistance payments for tenant-based vouchers, not project-based vouchers. The instruction booklet to the form HUD-50058 indicates that for project-based vouchers, housing assistance payments are calculated by subtracting the total tenant payment from the gross rent. Therefore, the payment standard does not impact the calculation of housing assistance payments for project-based vouchers. As a result, the Authority miscalculated housing assistance payments and made underpayments totaling \$10,688 to 21 of its 40 households.

### **An Incorrect Section of the Form HUD-50058 Was Used by the Authority**

The miscalculations of housing assistance payments for the Section 8 project-based vouchers occurred because Authority staff used section 12 (section used to calculate for tenant-based vouchers) rather than section 11 (section used to calculate for project-based vouchers). According to the Authority's executive director, the miscalculations were made because staff was not familiar with all of the requirements applicable for project-based vouchers since they make up a small percentage of the Authority's Section 8 program.

## **The Authority Corrected the Issue**

We informed the Authority's executive director on June 16, 2010, that the incorrect section of the form HUD-50058 was used for the calculation of the Authority's Section 8 project-based vouchers. The Authority's executive director issued a memorandum to the Authority's staff on June 17, 2010, instructing that it use section 11 of the form HUD-50058 when calculating the housing assistance payments for project-based vouchers. We performed searches in HUD's Public and Indian Housing Information Center database for the 40 project-based vouchers on June 30, 2010, and determined that as of June 25, 2010, the Authority was using section 11 of the form HUD-50058 to calculate the housing assistance payments for its Section 8 project-based vouchers.

## **Conclusion**

As a result of using the incorrect section of the form HUD-50058 to calculate housing assistance payments for the Authority's Section 8 project-based vouchers, the Authority underpaid more than \$10,000 in housing assistance for 21 households. The 21 households subsequently overpaid \$10,688 for their rent.

## **Recommendation**

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

- 2A. Reimburse the 21 households cited in this finding \$10,688 from its Section 8 program for the underpayment of housing assistance.

### Finding 3: The Authority Failed to Recover Housing Assistance Payments Made for Deceased Program Households

The Authority failed to recover housing assistance payments made for four program households for the month(s) following the households' date of death. This condition occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements regarding the payment of housing assistance for deceased households. As a result, it overpaid more than \$4,000 in housing assistance.

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#### **Housing Assistance Payments Were Improperly Provided for Deceased Program Households**

We reviewed the Social Security numbers of the 264 program households receiving program housing assistance payments from May 2007 through February 2010 that resided in Turnstone's units to determine whether payments were made for deceased households. The Social Security numbers for nine households were associated with deceased individuals. For five households, the Authority made housing assistance payments for the month(s) following the households' date of death, which resulted in the overpayment of \$7,273 in housing assistance. HUD's regulations only allow housing assistance payments to be made to the owner while the family is residing in the contract unit.

#### **The Authority Lacked Adequate Procedures and Controls**

The overpayment of housing assistance occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements regarding the payment of housing assistance for deceased households.

The Authority was notified of the program household's date of death for four of the five households. The Authority did not recover the housing assistance payments for three of the four households since it considered these units in which the households resided in to be project-based units and made vacancy housing assistance payments to owners of the developments for up to 2 months following the program households' date of death. However, these units were not project-based since the developments housing the three units did not receive a HUD-approved subsidy layering review and a project-based housing assistance payments contract was not executed for these developments. In October 2008, HUD denied a waiver for the subsidy layering review and instructed the Authority to issue tenant-based vouchers. The Authority notified the landlords and tenants

of the change in February 2009. Therefore, the owners of the three units were not entitled to the vacancy loss payments. For the fourth household, the Authority properly terminated the household's contract once it became aware of the household's death. However, it did not make an entry in its financial records to recover the appropriate overpayments.

For the fifth remaining household, the household's date of death was April 25, 2010. However, the Authority was not notified of the program household's death and made housing assistance payments from May 2010 thru October 2010. Public and Indian Housing Notice 2010-19 (effective on May 17, 2010) requires public housing agencies to monitor the deceased tenants report in HUD's Enterprise Income Verification system on a monthly basis in order to ensure that public housing agencies are aware of potential housing assistance errors. A deceased tenants report generated on September 29, 2010 (generated by auditors) identified the household as deceased.

The Authority did not monitor the deceased tenants report in HUD's Enterprise Income Verification system. As a result of this audit, the Authority recouped the \$2,514 in housing assistance payments that was overpaid for the fifth household on December 8, 2010. Additionally, the Authority's executive director issued a memorandum to the Authority's staff on December 22, 2010, instructing it to generate the deceased tenants report on a monthly basis to avoid housing assistance payments subsequent to the date of death.

## **Conclusion**

As a result of the Authority's failure to comply with HUD's requirements, it improperly paid housing assistance. Specifically, it paid \$7,273 in housing assistance after program households' dates of death.

## **Recommendations**

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

- 3A. Reimburse its program \$4,759 from non-Federal funds for the improper payment of housing assistance for four deceased households cited in this finding.
- 3B. Implement adequate procedures and controls to ensure that housing assistance paid for deceased households is recovered from the applicable program landlords.

- 3C. Monitor the deceased tenants report in HUD's Enterprise Income Verification system on a monthly basis in order to identify potential housing assistance errors.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws; regulations; the Authority's Program administrative plan; HUD's program requirements at 24 CFR Parts 85, 982, and 983; Public and Indian Housing Notice 2010-19; and HUD's Public and Indian Housing Information Center database.
- The Authority's and Turnstone's accounting records, annual audited financial statements for fiscal years 2006 through 2009, program household files, program housing assistance payments register, board meeting minutes, by-laws, computerized databases, and organizational charts.
- HUD's files for the Authority.

We also interviewed the Authority's and Turnstone's employees and HUD staff.

### **Finding 2**

We reviewed housing assistance calculations for 100 percent of the Authority's 40 project-based households that received housing assistance from July 1, 2007 through February 28, 2010. Our review was limited to the information in the Authority's household files.

### **Finding 3**

We ran the Social Security numbers for the 264 Section 8 program households receiving housing assistance payments from May 2007 through February 2010 that resided in Turnstone's units through the Social Security Administration's death index. Our search revealed that the Social Security numbers for nine of the households were associated with deceased individuals. We compared the date of deaths of the nine households to the last month in which housing assistance had been paid for as indicated in the Authority's housing assistance payments register. This review revealed that for five households, the Authority made housing assistance payments for the month(s) following their date of death.

We used Authority-generated reports from their housing assistance payments register to determine that from November 2002 through February 2010, the Authority paid nearly \$4.1 million in housing assistance to 228 Turnstone units. We compared the monthly housing assistance payments identified in the Authority's register to the monthly housing assistance payments calculated in the form HUD-50058 for 50 of the 228 Turnstone units. The monthly housing assistance payments in the register matched the amounts in the form HUD-50058 for all 50 Turnstone units. Therefore, we concluded that the data was reliable.

We performed our on-site audit work between April and October 2010 at the Authority's central office located at 175 West Jackson Boulevard, Suite 350, Chicago, IL. The audit covered the period January 1, 2008, through February 28, 2010, but was expanded when necessary.

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

## **INTERNAL CONTROLS**

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

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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### **Relevant Internal Controls**

We determined that the following internal controls were relevant to our 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 and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws or regulations on a timely basis.

### **Significant Deficiency**

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

- The Authority lacked adequate procedures and controls to ensure compliance with Federal requirements regarding the payment of housing assistance for deceased households (see finding 3).

### **Separate Communication of Minor Deficiencies**

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated February 2, 2011.

## APPENDIXES

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### Appendix A

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

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Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$30,434	
2A		<u>\$10,688</u>
3A	<u>4,759</u>	
Totals	<u>\$35,193</u>	<u>\$10,688</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowed by law; contract; or Federal, State, or local policies or regulations.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

**HACC** HOUSING AUTHORITY OF THE COUNTY OF COOK  
175 W. Jackson Blvd., Suite 350 • Chicago, IL 60604-3042

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<b>Elzie Higginbottom</b> Chairman	<b>VIA E-MAIL AND HAND-DELIVERY</b>
<b>Alicia R. McCray</b> Vice Chairman	January 14, 2011
<b>Karen R. Chavers</b> Treasurer	Heath Wolfe
<b>Edna Carter</b> Commissioner	Regional Inspector General for Audit, Region V
<b>James L. Jones</b> Commissioner	U.S. Department of Housing and Urban Development
<b>Joseph Martin</b> Commissioner	Ralph H. Metcalfe Federal Building
	77 West Jackson Boulevard, Suite 2646
	Chicago, IL 60604
	Re: <u>HUD Office of Inspector General Audit of the Housing Authority of the County of Cook</u>
<b>Lorri Newson</b> Executive Director	Dear Mr. Wolfe:
	Enclosed is the response of the Housing Authority of the County of Cook ("HACC") to the draft audit report regarding the HACC's nonprofit development activities, which we received on December 29, 2010. As I communicated to your staff during the January 7, 2011 exit conference, we greatly appreciated your staff's professionalism and patience during the audit, as well as their willingness to consider the additional information we provided.
	While we agree with many of the draft audit's recommendations, we believe that parts of the narrative sections are inconsistent with those recommendations and are missing important facts. Moreover, the HACC has already implemented corrective actions to correct the concerns identified by the HUD OIG. The enclosed audit response includes the HACC's proposed corrections to the draft audit to ensure that it is complete and accurate. We respectfully request that the HUD OIG incorporate our comments into its final report.
	Please feel free to contact me should you have any additional questions or if I can be of additional assistance.
	Sincerely,
	 Lorri Newson Executive Director



- Revise the third paragraph on page 1, which carries over onto page 2, as follows:

The Authority also miscalculated Program housing assistance payments for its project-based vouchers allocated to 21 Turnstone units, resulting in the underpayment of more than \$10,000 in housing assistance to 21 households. Further, the Authority paid \$7,273 in housing assistance after program households' dates of death.

**Finding 1 – The HACC Has, in Fact, Recouped Most of the Payments Made Inadvertently to the Incorrect Landlord and Is Continuing to Diligently Pursue Collection Efforts**

Finding 1 states, “The Authority Failed to Collect Housing Assistance Payments Made to an Incorrect Landlord.” This statement is not supported by the facts summarized in the draft audit report.

The HACC mistakenly paid an incorrect owner housing assistance payments totaling \$58,456. This was purely the result of an administrative error and does not demonstrate that there are any weaknesses in the HACC’s processes and procedures. The error occurred because the HACC staff mistakenly entered the incorrect owner’s bank account information into its computer system. As with all systems of controls, human error can occasionally occur. The HACC did not violate any HUD requirements or its own policies or procedures.

The error was discovered quickly, and the HACC instructed its bank to recall the misdirected funds, but the funds had already been withdrawn. The HACC presented a repayment agreement to the owner for signature, but the owner would not sign the agreement. Therefore, contrary to the statement in the draft audit report, there was no agreement to “enforce.” Instead, the HACC has taken other actions to collect the funds. It collected a \$10,000 lump sum payment in August 2009, and it collected funds each month from April 2009 through October 2010, by making deductions from the owner’s monthly HAP payments. As a result, the amount owed by the owner has been reduced by almost half. Even though the owner’s tenant moved from the unit, and the owner is therefore no longer on the program, preventing the HACC from recouping payments through deductions, the HACC is continuing to pursue the owner through various legal channels. On December 30, 2010, the HACC sent the owner a letter demanding that the owner make an additional payment of \$15,000 and agree to enter into a repayment agreement, or the HACC will file a complaint against the owner for the amount owed. (A copy of the letter is attached as Attachment A.)

Based on the above, we request that the following revisions be made to the draft audit report:

- Revise Finding 1 as follows: “The Authority Should Continue Its Efforts to Collect Housing Assistance Payments Mistakenly Made to an Incorrect Program Landlord.”
- Revise the language of the first paragraph on page 6 as follows:

**Comment 1**

The Authority mistakenly electronically deposited housing assistance payments into the bank account of an incorrect program landlord. The Authority has pursued collection of these funds but is still owed more than \$30,000 in housing assistance payments.

- Revise the sentence on pages 6 and 7 as follows:

On December 30, 2010, the Authority sent a letter to the landlord in an effort to collect the remaining balance from the landlord.

- Revise the Conclusion, as follows:

Although the Authority has continued collection efforts, it is owed more than \$30,000 in housing assistance payments.

- Revise the Recommendation, as follows:

Pursue all appropriate legal means to collect the balance of the funds from the program landlord.

**Finding 2 – The HACC Is Currently Using the Appropriate Calculation Formula and Has Already Fully Reimbursed the Tenants**

Finding 2 discusses the HACC’s calculation of housing assistance payments. The miscalculation of the payments occurred due to confusion resulting from transitioning back and forth from project to tenant based subsidy. Staff inadvertently applied the wrong standard, which resulted in a slight difference in the subsidy calculations for these residents. When the auditor pointed out this error, the HACC immediately rectified the problem and has already reimbursed the 21 tenants who made overpayments as a result of the miscalculations. (The letters sent to the tenants and documentation showing that the repayments have been made are attached as Attachments B and C, respectively.) The draft audit report states that the underpayments totaled \$10,714. The number contained in the draft finding outline for this issue was \$10,688, not \$10,714, and we have not been provided with an explanation or backup documentation for the change.

Based on the above, we request that the following revisions be made to the draft audit report:

- Revise Finding 2 as follows: “The Authority Miscalculated Housing Assistance Payments for Some of Its Section 8 Project-Based Vouchers.”
- On page 8, change \$10,714 to \$10,688.
- Add the following language to the end of the paragraph on page 9 titled, “The Authority Corrected the Issue”: “The tenants have already been reimbursed.”

**Comment 2**  
**Comment 3**

- Remove the recommendation regarding repayment, as it is already complete, and revise the recommendation to state: “Conduct training of staff regarding the differences between the project-based and tenant-based voucher programs.”

**Finding 3 – The HACC Has Enhanced Its Already Adequate Procedures to Better Guard Against Making Payments to Households with Deceased Individuals**

Finding 3 discusses certain payments that were made to deceased households after the household’s date of death. The draft audit report indicates that the OIG reviewed social security numbers for the 264 Section 8 program households residing in Turnstone units. Out of those 264 households, only nine households were associated with deceased individuals. For just five of the nine, the HACC made HAP payments for the month(s) following the date of death of the household, resulting in an alleged overpayment to the owners in a total amount of \$7,273. None of these payments was made as a result of lack of adequate procedures and controls or as a result of the failure to comply with HUD’s requirements.

As the draft audit explains, for three of these households, the HACC continued to pay the HAP after the death of the household intentionally, in the form of vacancy payments for project-based voucher units, as is permitted under that program. It is the OIG’s position that those units were not properly considered project-based units, as they did not go through the HUD subsidy-layering review process. When Lorri Newson became the Executive Director of the HACC, she discovered this and worked with HUD to resolve the issue and convert these units to tenant-based vouchers. Despite this lack of review process, the payments were at the time proper vacancy payments. They should not be called into question in retrospect. Moreover, because the payments were intentionally made as vacancy payments, they should not serve as the basis for a finding regarding payments made for deceased individuals. The fact that the households were deceased has no connection to the supposed overpayments. For example, this is not a situation where the HACC had not properly monitored for deceased tenants and continued to make the payments after a tenant’s death as a result. Accordingly, the HACC does not believe that reimbursement should be required with respect to these three households (\$2,194).

**Comment 4**

As for the remaining two households, clearly two households out of 264 is not symptomatic of larger or systematic problems, especially since the HACC was not notified of the deaths. For one of these two households, the HACC properly terminated the HAP contract, and it was solely an administrative error that resulted in the delay in recovering the appropriate overpayments. The HACC has sent a letter seeking reimbursement for these HAP payments. (A copy of that letter is attached as Attachment D.)

**Comment 5**

The HACC has recouped the \$2,514 in payments made with respect to the other household. (A copy of documentation showing the recoupment is attached as Attachment E.) Moreover, the HACC has implemented a policy of monitoring the deceased tenants report in HUD’s Enterprise Income Verification (“EIV”) system on a monthly basis. (A copy of the memo regarding the policy is attached as Attachment F.)

At the time of the audit, the HACC already had procedures in place regarding recouping HAP payments for deceased households. The HACC’s Administrative Plan sets out detailed procedures for the recoupment of any overpayments made to owners. This includes

overpayments made as a result of continuing HAP payments after the family no longer resides in the unit. (See Attachment G.) Nevertheless, the HACC has further refined its Administrative Plan to specifically deal with overpayments relating to deceased individuals, stating clearly that the owner is not entitled to any HAP for any month following the month in which the death of a single member household occurred. (A copy of the revision to the Administrative Plan, which was approved by the HACC's Board of Commissioners on January 13, 2011, is attached as Attachment H.)

Based on the above, we request that the following changes be made to the draft audit report:

- Revise Finding 3 as follows: "The Authority Should Continue Its Efforts to Prevent Making Housing Assistance Payments for Deceased Program Individuals and to Recover Any Such Payments Erroneously Made"

- Revise the language of the first paragraph on page 10 as follows:

The Authority made over \$7,000 in housing assistance payments for five program households for the month(s) following the households' date of death. This condition occurred because the Authority believed that three of the payments were properly made as project-based voucher vacancy payments; the Authority made the fourth payment due to an administrative error; and the Authority should have more regularly reviewed HUD's EIV system with respect to the fifth household.

- Revise language of the first heading on page 10 as follows: "Housing Assistance Payments Were Provided for Deceased Program Individuals."
- Delete the second heading on page 10 in its entirety, which states: "The Authority Lacked Adequate Procedures and Controls."
- Delete the following sentence on page 10 in its entirety: "The overpayment of housing assistance occurred because the Authority lacked adequate procedures and controls to ensure that it appropriately followed HUD's requirements regarding the payment of housing assistance for deceased households."
- Revise the last sentence of the first full paragraph on page 11 as follows: "The Authority has now implemented a policy of monitoring the deceased tenants report in HUD's EIV system on a monthly basis."
- Revise the Conclusion, as follows:

The Authority paid \$7,000 in housing assistance after program households' dates of death.
- Revise the Recommendations, as follows:

- 3A. Continue to pursue collection of the \$2,565 as repayment for housing assistance paid for a deceased household as a result of an administrative error.
- 3B. Continue to enforce its procedures and controls to ensure that housing assistance is not paid for deceased households and is recovered from the applicable program landlords if paid.
- 3C. Continue to monitor the deceased tenants report in HUD's Enterprise Income system on a monthly basis in order to identify potential housing assistance errors.

**The HACC Did, in Fact, Have Adequate Internal Controls in Place, However, It Has Enhanced Those Controls in Some Areas Based on the Auditors' Suggestions**

The audit report identified one item as a significant deficiency in internal controls, which was that the HACC lacked adequate procedures and controls to ensure compliance with Federal requirements regarding the payment of housing assistance for deceased households (i.e., Finding 3). As discussed above with respect to Finding 3, we disagree that the HACC lacked adequate procedures and controls, or that any Federal requirements were violated. Therefore, we do not believe that the audit identified any significant deficiencies in internal controls, and we request that this discussion be deleted from the draft audit report.

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

The draft audit report identifies the funds owed by the landlord who was incorrectly paid (Finding 1) and the \$7,723 paid in housing assistance after program households' death (Finding 3) as "ineligible" funds. As discussed above, with respect to the deceased households payments, the \$7,723 should be changed to \$5,079 (\$2,565 + \$2,514).

The draft audit report identifies the \$10,714 in tenant overpayments (Finding 2) as "funds to be put to better use." As noted above, the number we were provided in the draft finding outline for this issue was \$10,688, not \$10,714. The definition of funds to be put to better use, as set out in the draft audit report, is funds that could be used more efficiently if an OIG recommendation is implemented. The HACC has already reimbursed the tenants. As the funds have already been repaid, they cannot be "put to better use" in the future.

**Conclusion**

Thank you for the opportunity to present this information. Please let us know if you have any questions.

**Comment 2**  
**Comment 3**

## OIG Evaluation of Auditee Comments

- Comment 1** We made changes to finding one to reflect the Authority's letter dated December 30, 2010 which requested payment from the landlord for the amount owed.
- Comment 2** The Authority provided letters addressed to the 21 households as well as adjusting accounting entries which in its view supports that the households were reimbursed for their overpaid rent portion. However, since the Authority did not provide documentation that the checks were cashed, we still considered the overpaid rent to be a questionable cost.
- Comment 3** We made changes to finding two to reflect the appropriate overpaid household rent. Overpaid rent changed from \$10, 714 to \$10,688.
- Comment 4** The Authority argued that housing assistance payments made for three households following the households' date of death were considered vacancy loss payments under the project based voucher program and therefore, eligible. HUD's regulations at 24 CFR 982.352(b) state that the housing assistance payments contract may allow for vacancy payments to the owner extending from the beginning of the first calendar month after the move-out month for a period not exceeding 2 full months following the move-out month. However, the units these three households resided in were not project-based since the developments housing the units did not receive a HUD-approved subsidy layering review and a project-based housing assistance payments contract was not executed for these developments. Therefore, we still considered the payments made for the three households subsequent to the date of death as ineligible.
- Comment 5** We made changes to finding three to reflect the appropriate overpaid housing assistance that needs to be recovered. Overpaid housing assistance changed from \$7,273 to \$4,759 based on the \$2,514 that was recouped by the Authority.

## Appendix C

# FEDERAL REQUIREMENTS AND THE AUTHORITY'S SECTION 8 ADMINISTRATIVE PLAN

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### **Finding 1**

Section 14-II.C of the Authority's Section 8 administrative plan states that when the Authority determines that a Section 8 owner has committed program abuse, the Authority may require the owner to repay excess housing assistance.

Part B7(a)4 of the tenant-based voucher housing assistance payments contract states that housing assistance shall only be paid to the owner while the family is residing in the owner's contract unit during the term of the housing assistance payments contract.

Part B7(f) of the tenant-based voucher housing assistance payments contract states that if the public housing agency determines that the owner is not entitled to housing assistance payment, the public housing agency, in addition to other remedies, may deduct the amount of overpayment from any amounts due to the owner.

### **Finding 2**

HUD's regulations at 24 CFR 983.351(c) state that the housing assistance payment by the public housing agency to the owner for a project-based contract unit leased to a family is the rent to owner minus the tenant rent (total tenant payment minus the utility allowance).

HUD's regulations at 24 CFR 982.505(b) state that the public housing agency shall make a monthly based housing assistance payment for tenant-based vouchers on behalf of the family that is equal to the lower of (1) the payment standard minus the total tenant payment or (2) the gross rent minus the total tenant payment.

Section 14-II.D of the Authority's Section 8 administrative plan states that the Authority must reimburse a family for any underpayment of housing assistance, regardless of whether the underpayment was the result of staff-caused error or owner program abuse.

### **Finding 3**

HUD's regulations at 24 CFR 982.311(a) states that housing assistance payments are made to the owner in accordance with the terms of the housing assistance payments contract. Housing assistance may only be paid to the owner during the lease term and while the family is residing in the unit.

HUD's regulations at 24 CFR 983.55(b) state that the public housing agency may not enter an agreement or a housing assistance payments contract until HUD or an independent entity

approved by HUD has conducted a required subsidy-layering review and determined that project-based voucher assistance is in accordance with HUD subsidy-layering requirements.

HUD's regulations at 24 CFR 983.351(a)(1) state that during the term of the housing assistance payments contract, the public housing agency shall make housing assistance payments to the owner in accordance with the terms of the housing assistance payments contract. The payments shall be made for the months during which a contract unit is leased to and occupied by an eligible family.

HUD's regulations at 24 CFR 983.351(a)(2) state that except for discretionary vacancy payments in accordance with 24 CFR 983.352, the public housing agency may not make any housing assistance payment to the owner for any month after the month when the family moves out of the unit (even if the household goods or property are left in the unit).

HUD's regulations at 24 CFR 983.351(b) state that each month the public housing agency shall make housing assistance payment to the owner for each contract unit that complies with the housing assistance quality standards and is leased to and occupied by an eligible family in accordance with the housing assistance payments contract.

HUD's regulations at 24 CFR 983.352(b)(1) state that at the discretion of the public housing agency, the housing assistance payments contract may provide for vacancy payments to the owner extending from the beginning of the first calendar month after the move-out month for a period not exceeding 2 full months following the move-out month.

Section 13-II.E of the Authority's Section 8 administrative plan states that if the family moves out of the assisted unit, the owner is entitled to keep the housing assistance payment for the month when the family moves out.