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Audit Report Number 2011-CH-1006	

TO: Steven Meiss, Director of Public Housing Hub, 5APH
Craig Clemmensen, Director of Departmental Enforcement Center, CACB
Maurice McGough, Acting Director of Fair Housing and Equal Opportunity Hub, 5AEH

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

SUBJECT: The DuPage Housing Authority, Wheaton, IL, Inappropriately Administered Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the DuPage Housing Authority's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Authority based on the results of our audits of its Project-Based Voucher program. Our objective was to determine whether the Authority effectively administered its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and its administrative plan. This is the third of three audit reports on the Authority's programs.

What We Found

As identified in this and our prior two audits, the Authority (1) did not maintain adequate documentation to support the eligibility of its Section 8 Project-Based Voucher program projects, (2) executed housing assistance payments contracts with inappropriate contract rents, (3) did not properly select Section 8 Project-

Based Voucher program households from waiting lists, (4) lacked controls over housing assistance and utility allowance payments, (5) did not appropriately manage its program funds, and (6) did not properly select Section 8 Housing Choice Voucher program households from its waiting list. As a result, HUD had no assurance that the Authority's resources were used to benefit low- and moderate-income individuals.

The Authority did not manage its program funds in accordance with HUD's requirements and its policies. It had unallowable and questionable transactions, did not correctly report its financial standing to HUD, did not maintain complete and accurate records, and miscalculated its net restricted assets. This noncompliance occurred because the Authority disregarded HUD's requirements and directives, lacked an understanding of program regulations, and failed to implement adequate procedures and controls. As a result, the Authority used more than $2.3 million in program funds for transactions not related to its program and was unable to support the use of more than $330,000 in program funds.

The Authority did not follow HUD's requirements and directives and its program administrative plan regarding the selection of program households. It did not properly select all program households from its waiting list. Instead, it admitted 146 households based on referrals. This noncompliance occurred because the Authority disregarded HUD's regulations and guidance and its program administrative plan. As a result, it inappropriately paid more than $2.6 million in housing assistance to households that were inappropriately admitted to its program. In addition, the Authority was unable to support that nearly $70,000 in funds received from the City of Chicago was used toward housing assistance payments.

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of a minor deficiency through a memorandum, dated March 22, 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 from non-Federal funds for the improper use of nearly $5.1 million in program funds, (2) provide documentation or reimburse its program from non-Federal funds for the unsupported use of more than $400,000 in program funds, and (3) implement a detailed comprehensive plan to improve its programs.

We also recommend that the Director of HUD's Chicago Office of Public Housing, in conjunction with the Director of HUD's Departmental Enforcement Center, take administrative action against the executive director and board of commissioners for failing to administer the Authority effectively and in accordance with HUD's and its own requirements. Additionally, we recommend that the Acting Director of HUD's Chicago Office of Fair Housing and Equal Opportunity review the Authority's household selections to ensure that they comply with HUD's requirements. If the Authority fails to comply with HUD's requirements, the Acting Director should take appropriate action against the Authority and/or its applicable employee(s).

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 also 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 Authority's executive director on February 24, 2011.

We asked the Authority's executive director to provide comments on our discussion draft audit report by February 28, 2011. The Authority's executive director provided written comments, dated February 25, 2011. The executive director agreed with the report findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report except for 41 pages of documentation that were not necessary for understanding the Authority's comments. A complete copy of the Authority's comments was provided to the Director of HUD's Chicago Office of Public Housing.

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BACKGROUND AND OBJECTIVE

The DuPage Housing Authority (Authority) was established by the State Housing Board of Illinois in September 1942 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a seven-member board of commissioners (board) appointed by the chairman of the DuPage County Board to 5-year staggered terms. The board's responsibilities include overseeing the administration of the Authority and approving policies. The board appoints the Authority's executive director. The executive director is responsible for ensuring that policies are followed and providing oversight of the Authority's programs.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of January 1, 2011, the Authority had 2,693 units under contract with annual housing assistance payments totaling more than $22.6 million in program funds.

This is the third of three planned audits of the Authority's programs. Our objective was to determine whether the Authority effectively administered its program in accordance with HUD's requirements and its program administration plan to include determining whether it (1) administered its HUD-funded programs in accordance with Federal and its own requirements, (2) appropriately used program funds for program activities, and (3) selected applicants from the program waiting list. The previous audits reported on the Authority's Project-Based Voucher program. The first audit report (report #2009-CH-1016, issued on September 28, 2009) included one finding. The objective of the first audit was to determine whether the Authority effectively administered its Section 8 Project-Based Voucher program in accordance with HUD's requirements to include determining whether the Authority (1) maintained adequate documentation to support program household eligibility and (2) accurately calculated housing assistance and utility allowance payments. The second audit report (report #2010-CH-1008, issued on June 15, 2010) included three findings. The objective of the second audit was to determine whether the Authority effectively administered its Section 8 Project-Based Voucher program in accordance with HUD's requirements and its program administrative plan to include determining whether it (1) maintained adequate documentation to support project eligibility, (2) executed housing assistance payments contracts with appropriate contract rents, and (3) appropriately selected program households from the waiting list.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Administer Its Programs According to HUD's and Its Requirements

The Authority's board of commissioners did not adequately exercise its responsibility to oversee the administration of the Authority's programs. The Authority's executive director did not implement adequate controls over its operations and did not follow HUD's requirements or the Authority's policies. As a result, HUD lacked assurance that the Authority's resources were used to benefit low- and moderate-income individuals.

The Authority's Management Did Not Effectively Oversee Operations

As identified in this and the prior two audits, the Authority (1) did not maintain adequate documentation to support the eligibility of its Section 8 Project-Based Voucher program projects, (2) executed housing assistance payments contracts with inappropriate contract rents, (3) did not properly select Section 8 Project-Based Voucher program households from waiting lists, (4) lacked controls over housing assistance and utility allowance payments, (5) did not appropriately manage its program funds, and (6) did not properly select Section 8 Housing Choice Voucher program households from its waiting list. Specifically, under the direction of the executive director and board of commissioners, the Authority

- Inappropriately administered its Section 8 Project-Based Voucher program. The Authority did not maintain adequate documentation to support the eligibility of its projects. Based on the information maintained in its files, the Authority did not issue appropriate requests for proposals, properly evaluate project proposals, request HUD approval for projects with conflicts of interest, ensure that agreements and housing assistance payments contracts included the required elements, ensure that environmental and subsidy-layering reviews were conducted, and conduct rent reasonableness and housing quality standards inspections for all project units under contract. This noncompliance occurred because the Authority lacked an understanding of the regulations and failed to implement procedures and controls to ensure that HUD's requirements were appropriately followed. As a result, the Authority disbursed more than $3.4 million in housing assistance for project units without documentation to support the projects' eligibility. In addition, it made inappropriate retroactive payments totaling more than $33,000 for two of the projects (report #2010-CH-1008, issued on June 15, 2010).

- Executed housing assistance payments contracts with inappropriate contract rents. The contract rents for six of the Authority's 11 Section 8 Project-Based Voucher program projects exceeded the maximum allowable amounts according to HUD's requirements. This noncompliance occurred because the Authority lacked an understanding of the program regulations and inappropriately followed advice from county officials. As a result, it overpaid more than $260,000 in housing assistance (report #2010-CH-1008, issued on June 15, 2010).

- Did not properly select Section 8 Project-Based Voucher program households from waiting lists. Instead, the Authority allowed its projects to select households and did not perform quality control reviews of the selection process. This noncompliance occurred because the Authority did not maintain waiting lists for its projects in accordance with HUD's regulations and its administrative plan. As a result, the Authority inappropriately paid more than $188,000 in housing assistance for households that did not meet project eligibility requirements and was unable to support more than $57,000 in housing assistance payments (report #2010-CH-1008, issued on June 15, 2010).

- Did not ensure that its household files contained the required documentation to support households' admission to and continued assistance on the Section 8 Project-Based Voucher program and accurately calculate housing assistance payments. This noncompliance occurred because the Authority lacked controls to ensure that HUD's requirements and its administrative plan were appropriately followed. As a result, it was unable to support more than $400,000 in housing assistance and utility allowance payments. In addition, it overpaid more than $4,000 and underpaid nearly $2,000 in housing assistance and utility allowances (report #2009-CH-1016, issued on September 28, 2009).

- Did not manage its program funds in accordance with HUD's requirements and its policies. This noncompliance occurred because the Authority disregarded HUD's requirements and directives, lacked an understanding of the program regulations, and failed to implement adequate controls. As a result, it used more than $2.3 million in program funds for transactions not related to its program and was unable to support the use of more than $330,000 in program funds (see finding 2 in this report).

- Did not properly select all program households from its waiting list. Instead, it admitted households based on referrals. This noncompliance occurred because the Authority disregarded HUD's regulations and guidance and its program administrative plan. As a result, it inappropriately paid more than $2.6 million in housing assistance for households that were inappropriately admitted to its program. In addition, it was unable to support that nearly

$70,000 in funds received from the City of Chicago (City) was used toward housing assistance payments (see finding 3 in this report).

Prior HUD Reviews Identified Deficiencies

HUD conducted a monitoring review of the Authority and issued its report on March 31, 2008. The monitoring review consisted of five separate reviews: (1) rental integrity monitoring review, (2) Section 8 management review, (3) financial review, (4) facilities review, and (5) upfront income verification review. The monitoring review resulted in nine findings. The Authority

- Did not accurately calculate income by the tenant,
- Did not accurately calculate utilities paid by the tenant,
- Did not maintain a copy of the documentation used to verify Social Security numbers,
- Did not organize its waiting list in accordance with its administrative plan,
- Performed improper and unauthorized transfers of Section 8 Housing Choice Voucher program administrative fee reserves from 2005 through 2007 to fund business activities,
- Could not provide board-approved resolutions for policies and procedures,
- Approved a travel policy with references to unallowable costs,
- Made several purchases with its FIA Card Services and National Association for the Exchange of Industrial Resources that were either unallowable or questionable costs, and
- Did not have a policy and written procedures detailing credit card use by staff.

These deficiencies were also cited in our audit reports.

The Authority Violated Its Contract With HUD

As discussed in this and the prior two audit reports, the Authority violated its contract with HUD when it used more than $2.3 million in program funds for unallowable expenditures and was unable to support the additional use of more than $330,000 in program funds. In addition, the Authority disregarded HUD's requirements and directives and failed to implement adequate procedures and controls to ensure that it was accountable for its use of program funds and complied with its contract with HUD.

In addition, the Authority failed to maintain complete and accurate books of account and records in accordance with its contract with HUD. It did not maintain documentation to support more than $3.4 million in housing assistance payments for project units, more than $400,000 in housing assistance and utility allowance payments for Section 8 Project-Based Voucher program households, and more than $330,000 in program expenditures.

Conclusion

The deficiencies in the Authority's programs were significant and demonstrated a lack of effective program management. As identified in this and the prior two audits, the Authority did not effectively manage its Section 8 Project-Based Voucher program or Section 8 Housing Choice Voucher program. It failed to maintain adequate supporting documentation, execute appropriate housing assistance payments contracts, appropriately manage its program funds, select households from program waiting lists, and implement adequate procedures and controls. This noncompliance occurred because the Authority lacked an understanding of HUD's regulations and disregarded HUD's requirements and its policies and procedures. As a result, the Authority used more than $5.8 million in program funds for inappropriate program expenditures and was unable to support the use of more than $4.7 million.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing, in conjunction with the Director of HUD's Departmental Enforcement Center,

1A. Take administrative action against the executive director and board of commissioners for failing to administer the Authority according to HUD's and its own requirements.

Finding 2: The Authority Did Not Appropriately Manage Its Program Funds

The Authority did not manage its program funds in accordance with HUD's requirements and its policies. The problems occurred because the Authority disregarded HUD's requirements and directives, lacked an understanding of the program regulations, and failed to implement adequate controls. As a result, it used more than $2.3 million in program funds for transactions not related to its program, and was unable to support the use of more than $330,000 in program funds.

The Authority Inappropriately Administered Its Program Funds

We reviewed the Authority's financial accounts and reports effective July 2008 through June 2010 to determine whether the Authority appropriately used program funds for program activities in accordance with HUD's requirements and its program administrative plan, policies, and procedures. Based on our review, the Authority had unallowable and questionable transactions, did not correctly report its financial standing to HUD, did not maintain complete and accurate records, and miscalculated its net restricted assets.

The Authority Had Unallowable and Questionable Transactions

The Authority did not follow HUD's regulations and its own policies and procedures regarding the use of program funds. We reviewed the vendor invoices and receipts for 298 account transactions from the Authority's general ledger from July 2008 through June 2010 to determine whether they were for activities related to the Authority's program in accordance with HUD requirements. The 298 general ledger transactions represented 639 transactions. Of the 639 transactions reviewed, 369 (57 percent) were unallowable for the Authority's program. The Authority used $2,303,853 in program funds for the unallowable transactions, which included

- Loans to its affiliates for activities not related to its program;
- Flower, meal, clothing, and beverage purchases for Authority staff;
- National Association for the Exchange of Industrial Resources orders including an area light, a spotlight, and an assortment of faucets; and
- Christmas gifts and laptop computers for its board commissioners.

According to the executive director, HUD's rules regarding expenses were vague, and he was responsible for determining what was appropriate. It was his judgment that the expenses for meals, flowers, clothing, and beverages for the Authority staff constituted appropriate use of program funds. According to the executive vice president, these items improved employee morale and, therefore, benefited the program. In addition, the executive director said that the National Association for the Exchange of Industrial Resources purchases should have been paid with non-Federal funds and were mistakenly included in the Authority's expenses. However, the Authority lacked adequate controls to ensure that program funds were not used for unallowable purchases.

In addition, the Authority was unable to support the use of $330,457 in program funds. Of the 639 transactions reviewed, the Authority was unable to provide receipts or invoices for 183 (28 percent) transactions.

HUD conducted a financial review of the Authority in February 2008. The findings, provided to the Authority in March 2008, included the improper use of program funds, unallowable or questionable costs, and inappropriate travel and credit card policies. In its financial report, HUD told the Authority not to transfer additional funds for business activities without HUD approval. However, the Authority transferred $300,000 to an affiliate in July and August 2009 and paid expenses totaling $10,656 for one of the Authority's development properties from July 2008 through January 2009. According to the Authority's executive vice president, the transfers totaling $300,000 were temporary loans that he thought were permitted under the program. However, HUD's requirements state that administrative fees may never be loaned to another program, regardless of whether the Authority intends to reimburse the program at a later date.

In its financial report, HUD cited that the Authority's travel policy included a reference to an unallowable cost. According to the report, the Authority's travel policy included a chairman's dinner, which would occur at each event at the expense of the agency. The Authority updated its policy to state that the chairman's dinner would be paid with non-Federal funds. However, in March 2010, the Authority used program funds to pay for a chairman's dinner. According to the Authority's executive director, the expense was mistakenly included in the Authority's general ledger and should have been paid for with non-Federal funds. The Authority did not have controls in place to prevent the improper payment of expenditures not related to its program. The executive director stated that the Authority needed to look into the realignment of some staff.

HUD's financial report stated that the Authority did not have a policy detailing its credit card use and that too many board and staff members had Authority credit cards. The Authority adopted a credit card policy in June 2008. The policy, as updated in August 2008, stated that only the executive director, chief financial officer, and director of development were empowered to have credit cards. Based on our review, the Authority provided credit cards to two additional staff members not listed in its policy. In addition, the Authority's credit card policy stated that the invoices were submitted to the executive director for initial approval and the chief financial officer checked the invoices for proper classification and appropriateness. However, of the 102 credit card transactions reviewed, 60 were unsupported, and 64 were misclassified on the Authority's general ledger.

The Authority did not maintain proper oversight of its travel and training procedures. Of the 639 transactions reviewed, 208 were related to training and travel. Of the 208 training and travel transactions, 127 (61 percent) were unallowable for the Authority's program. The unallowable training and travel transactions included

- Alcohol purchases,
- Expenses for travel companions, and
- Unreimbursed training travel for the Kendall Housing Authority staff.

According to the Authority's executive vice president, the Authority had an agreement with the Kendall Housing Authority to provide trained staff, for which the Authority received administrative fees. However, as of March 2009, the administrative fees had been paid to DHA Development, an Authority affiliate, and the travel and training expenses had not been reimbursed to the Authority. According to the Authority's travel policy, travel expenses for companions are nonqualified expenses. The Authority's executive vice president stated that he reviewed the travel expense reports but did not review all of them and that the Authority did not have sufficient staff to do what needed to be done correctly.

The Authority Did Not Correctly Report Its Financial Standing to HUD

The Authority did not correctly report its financial standing to HUD. The information reported to HUD through its Voucher Management System was submitted in a timely manner. However, the Authority reported information that was incorrectly calculated or not supported by its general ledger. Of the 20 reports reviewed, 14 included information that was incorrectly calculated or did not agree with the Authority's general ledger. The reports included the following errors:

- The reports submitted in June 2009 through May 2010 included incorrect values for fraud recoveries.

- The reports submitted in January through May 2010 included incorrect values for cash and investments. The Authority inappropriately included a line of credit as part of its assets.

- The reports submitted in January and December 2009 did not include interest earned although it was listed in the general ledger.

- The reports submitted in January and October 2009 did not include audit expenses although they were listed in the general ledger.

Based on our review, the difference in the cash and investment value reported to HUD through its Voucher Management System from January through May 2010 and the amount included in the Authority's accounts was $750,000, which is the amount authorized by MB Financial to the Authority as a line of credit. According to the Authority's executive director, the line of credit was taken out to cover housing assistance payments in case HUD did not provide funds to the Authority in a timely manner. In addition, the executive vice president stated that the Authority took out the line of credit at the end of each fiscal year for its financial statements and it was then repaid. However, the Authority incurred more than $8,000 in interest payments in 2008 and 2009 for the line of credit. According to HUD's requirements, the Authority is responsible for operating its program within the amount of funding provided. Therefore, the Authority did not require a line of credit and the interest incurred was unallowable.

The Authority Did Not Maintain Complete and Accurate Records

The Authority did not maintain complete and accurate records. It did not maintain subsidiary ledgers or support for all of the transactions included in its general ledger. Because the Authority did not maintain subsidiary ledgers, it was unable to determine whether program funds received were used for appropriate program activities or for specified households. In addition, of the 639 transactions reviewed, the Authority was unable to provide supporting documentation for 183 transactions. The 183 transactions totaled more than $2.5 million in program funds.

The Authority did not correctly classify account transactions in its general ledger. Of the 639 transactions reviewed, 169 (26 percent) were inappropriately classified. The Authority's executive vice president stated that although he did not necessarily disagree that the transactions were misclassified, he did not understand why it mattered since an expense is an expense. The inappropriate classifications included

- Water and sewer payments, meals, and parking classified under miscellaneous;
- National Association for the Exchange of Industrial Resources orders classified under office supplies;

- Christmas gifts classified under travel;
- Meal, food, and beverage purchases classified under utilities and office supplies;
- Apple iPhone purchase classified under conferences/seminars/meetings; and
- Flowers and local meal purchases classified under travel.

The Authority did not correctly report noncash benefits provided to the executive director. According to the executive director's employment contract, he was provided with a vehicle, which could be used for personal matters. However, the Authority did not include the noncash benefit for the personal use of the vehicle in its payroll for 2006 through 2009. In addition, the executive director stated that the $112 monthly health club membership fees were paid for him based on this employment contract. However, the employment contract did not include the benefit of a health club membership.

The Authority Miscalculated Its Net Restricted Assets

Based on the Authority's accounts, it did not correctly calculate its net restricted assets reported to HUD. The net restricted assets reported to HUD from January through May 2010 were on average nearly $400,000 less than the amount supported by the Authority's accounts. The Authority failed to include Family Unification Program and Disaster Housing Assistance Payment program funding received from HUD in its calculation. In addition, it did not include the Family Self-Sufficiency program forfeitures in the calculations. Further, it did not use the net restricted asset balance agreed upon by HUD in June 2009 as the baseline for its calculations.

The Authority's account balances indicated that it did not have sufficient funds to support its calculation of net restricted assets. From January through May 2010, the Authority's average net restricted assets were more than $2 million. However, during the same period, the Authority had only an average of $1.37 million in cash and investments. According to HUD, the cash and investments held by the Authority must be sufficient to cover the net restricted assets and be readily available. In addition, their use is limited to housing assistance payments. Because the Authority's account balances did not support its calculation of net restricted assets, HUD lacked assurance that the Authority did not use its net restricted assets to finance its business operations.

Conclusion

HUD lacked assurance that program funds were used to benefit low- and moderate-income individuals. The Authority did not properly use program funds when it failed to ensure that its accounts were accurate and complete in accordance with HUD's regulations. It also disregarded HUD's directives, lacked an understanding of program regulations, and failed to implement controls to ensure that HUD's requirements were appropriately followed. It used more than $2.3 million in program funds for transactions not related to its program. In addition, it was unable to support the use of $330,457 in program funds.

Recommendations

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

2A. Reimburse its program $2,303,853 from non-Federal funds for the unallowable transactions cited in this finding.

2B. Provide supporting documentation or reimburse its program $330,457 from non-Federal funds for the unsupported transactions cited in this finding.

2C. Implement a detailed, comprehensive plan to improve the Authority's management of its program funds. The plan should include the submission of quarterly reports to HUD detailing the Authority's progress in improving its procedures and controls. The quarterly reports should address but not be limited to the issues cited in this finding.

Finding 3: The Authority Did Not Properly Select Program Households From Its Waiting List

The Authority did not follow HUD's requirements and directives and its program administrative plan regarding the selection of program households. It did not properly select all program households from its waiting list. Instead, it admitted 146 households based on referrals. This noncompliance occurred because the Authority disregarded HUD's regulations and guidance and its program administrative plan. As a result, it inappropriately paid more than $2.6 million in housing assistance for households that were inappropriately admitted to its program.

The Authority Did Not Select All Households From Its Waiting List

We compared the Authority's new admissions from May 2008 through April 2010 with its waiting list to determine whether the households were selected from its program waiting list. Based on our review, the Authority did not properly select program households from its waiting list. Of the 346 new admissions, 93 households were admitted based on referrals. The 93 referrals were part of two Authority initiatives: Howlett Initiative and O'Hare Modernization Program. We obtained household reports for the two initiatives and determined that an additional 53 households were admitted before May 2008 based on referrals, for a total of 146 households. These 146 households were admitted based on referrals instead of being selected from the program waiting list.

The Authority Disregarded HUD's Directives

Based on our review of the Authority's new admissions, it admitted 137 households between October 2007 and November 2009 as part of its Howlett Initiative. The households were not selected from the program waiting list but were referred to the Authority by various nonprofit organizations. The Authority made nearly $2.3 in housing assistance payments for the 137 households that were inappropriately admitted to its program.

According to the Authority, the Howlett initiative called for providing a limited number of vouchers to homeless households in a coordinated effort with nonprofit organizations operating transitional housing programs. The Authority discussed the initiative with HUD and was provided guidance including how to open its waiting list for homeless specific households. However, the Authority did not open its waiting list in accordance with HUD's regulations and guidance. Because the Authority did not open the waiting list as instructed by HUD, it improperly housed the referred households before existing applicants on its waiting list, and excluded other eligible individuals or families from applying.

The Authority Received Payment for Vouchers

Based on our review of the Authority's new admissions, it admitted nine households between April 2006 and December 2008 as part of its O'Hare Modernization Program agreement with the City. The households were not selected from the program waiting list but were referred to the Authority by the City. The Authority made $310,878 in housing assistance payments for the nine households that were inappropriately admitted its program.

According to the agreement with the City, the Authority would provide vouchers to eligible low-income households that required relocation within DuPage County as a result of the City's expansion of O'Hare International Airport. The Authority did not seek HUD approval for the O'Hare Modernization Program admissions. The Authority's executive vice president stated that he did not know that the Authority needed to contact HUD. However, the Authority's administrative plan stated that special admission procedures would be used if HUD awarded the Authority targeted funding and except for special admissions, applicants would be selected from the Authority's waiting list.

In accordance with the agreement with the Authority, the City provided the Authority with funds to pay the first 18 months of housing assistance for seven of the nine households. According to the Authority's executive director, the funds were used to pay for the households' housing assistance. However, there was no support in the household files or the Authority's account showing that the funds were used to pay for the designated households' housing assistance.

Of the total $69,793 received from the City, the Authority provided support showing that $32,879 was deposited into its account; however, it was unable to support that the funds were used to pay housing assistance for the specified households. In addition, the Authority provided support showing that $19,886 was deposited into the account for DHA Development, an Authority affiliate. However, the Authority was unable to provide support for the remaining $17,028 ($69,793 minus $32,879 minus $19,886). According to the Authority's executive director, the agreement specified that the Authority could keep any funds left over. However, the agreement stated that the Authority was responsible for maintaining financial records to account for the funds received and paid to each household.

Conclusion

The Authority did not properly use program funds when it accepted 146 referrals instead of selecting applicants from its program waiting list in accordance with HUD's regulations and guidance and its program administrative plan. As a result, it made more than $2.6 million ($2,298,484 plus $310,878) in housing assistance payments for the 146 households that were not appropriately admitted to the Authority's program. In addition, HUD and the Authority lacked assurance that the $69,793 received from the City as part of the O'Hare Modernization Program agreement was used to pay housing assistance for the referred households.

In accordance with HUD's regulations at 24 CFR (Code of Federal Regulations) 982.152(d) on reducing public housing authority administrative fees, HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform public housing authority administrative responsibilities correctly or adequately under the program. Because the Authority did not ensure that households were appropriately selected, it improperly received $218,882 in administrative fees for the 146 households that were not selected from the Authority's program waiting list.

HUD lacked assurance that program funds were used to benefit low- and moderate-income individuals in accordance with HUD requirements since the Authority made more than $2.6 million in housing assistance payments for households that were not appropriately admitted to its program. In addition, HUD and the Authority lacked assurance that program households were selected free from discrimination and in accordance with HUD regulations since the Authority accepted referrals for the households instead of selecting them from its program waiting list.

Recommendations

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

3A. Reimburse its program $2,828,244 ($2,609,362 in housing assistance payments and $218,882 in associated administrative fees) from non-Federal funds for the housing assistance payments and associated administrative fees for the 146 households cited in this finding.

3B. Provide supporting documentation or reimburse its program $69,793 from non-Federal funds for the O'Hare Modernization Program funds received for the seven households cited in this finding.

We also recommend that the Acting Director of HUD's Chicago Office of Fair Housing and Equal Opportunity

3C. Review the Authority's household selections to ensure that they comply with HUD's requirements. If the Authority fails to comply with HUD's requirements, the Acting Director should take appropriate action against the Authority and/or its applicable employee(s).

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws, regulations, and HUD notices; HUD's program requirements at 24 CFR Parts 5, 792, 943, and 982; HUD's Guidebook 7510.1; HUD's Handbook 1530.1, REV-5; HUD's Housing Choice Voucher Guidebook 7420.10G; and HUD's Voucher Management System User's Manual, Release 5.

- The Authority's accounting records; annual audited financial statements for 2007, 2008, and 2009; bank statements and vendor invoices; household files; policies and procedures; board meeting minutes for February 2008 through February 2010; organizational chart; program annual contributions contract with HUD; and program administrative plan.

- HUD's files for the Authority.

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

<u>Finding 2</u>

We reviewed and extracted transactions recorded in the Authority's general ledger from July 2008 through June 2010 which appeared ineligible, misclassified, or needed additional clarification. These transactions included all 16 credit card transactions, all 40 travel and training transactions, and 242 other questionable transactions. The other questionable transactions included transactions reported under accounts receivable, assets, fixed assets, current liabilities, and expenses. We reviewed the supporting invoices, receipts, and payments for the 298 (16 plus 40 plus 242) general ledger transactions. The 298 general ledger transactions represented 639 transactions on the invoices and/or receipts: 102 credit card transactions, 208 travel and training transactions, and 329 other transactions.

We compared the Voucher Management System report amounts for October 2008 through May 2010 to the account totals in the Authority's general ledger and identified any discrepancies. To obtain the general ledger totals, we sorted the ledger by month and account identification number and then totaled the transaction amounts by the account identification number.

We compared the net restricted assets reported through HUD's Voucher Management System with net restricted assets based on the account totals in the Authority's general ledger. To calculate the monthly net restricted assets from the general ledger, we totaled the housing assistance payment revenues and subtracted the housing assistance payment expenses and then added the resulting surplus or deficit to the previous month's net restricted assets. We used the June 2009 net restricted assets, which were agreed upon by HUD and the Authority, as a baseline for our calculation. In addition, we compared the Authority's calculation of net restricted assets to the cash and investment account totals in its general ledger.

Finding 3

We compared the list of new admissions to the Authority's program waiting list, list of portability households, and lists of special admission households. We initially determined that 93 of the 346 new admissions from May 2008 through April 2010 were based on referrals from two Authority initiatives. We obtained household reports for the two initiatives and determined that an additional 53 households were admitted before May 2008 based on referrals. In addition, we reviewed the files for the households admitted as part of the Authority's O'Hare Modernization Program to determine the funds received from the City for each household.

We obtained the Authority's housing assistance payments register to determine the total housing assistance paid for the 146 households inappropriately admitted to its program. We totaled the housing assistance by household from the date of admission through October 2010.

We performed our onsite audit work between June 2010 and November 2010 at the Authority's office located at 711 East Roosevelt Road, Wheaton, IL. The audit covered the period May 1, 2008, through April 30, 2010, but was expanded as determined necessary.

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 conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. 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 the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.

- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

- 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 substantially lacked adequate procedures and controls to ensure that it properly managed its program operations (see findings 1, 2, and 3).

- The Authority lacked procedures and controls to ensure that program funds were appropriately used for program-related activities in accordance with HUD's requirements (see finding 2).

- The Authority lacked adequate procedures and controls to ensure that households were selected from its program waiting list in accordance with HUD's requirements and its program administrative plan (see finding 3).

Separate Communication of a Minor Deficiency

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of a minor deficiency through a memorandum, dated March 22, 2011.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/
2A	$2,303,853	
2B		$330,457
3A	2,828,244	
3B		69,793
Totals	$5,132,097	$400,250

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

DuPage Housing Authority

John E. Day
President

Robert J. Hess
Executive Vice President

John E. Howlett
Counsel

Commissioners

Arthur P. Donner
Chairman

Woodrow Broaders, Jr.
Pamela Fenner
William J. Maio, Jr.
Edward A. Merkel
Thomas O. Myers, Jr.

February 25, 2011

Ms. Elynn J. Pierzchalski,
Senior Auditor
HUD OIG
77 W. Jackson Blvd., Suite 2646
Chicago, IL 60604

Via E-Mail and hand delivery
Re: OIG Audit 2011-CH-100X

Dear Ms. Pierzchalski:

On behalf of the DuPage Housing Authority (DHA) we thank you for the exit interview of Thursday, February 24, 2011. The interview helped us to more clearly understand the report and allow us to provide our response.

Enclosed please find our response to the draft audit report, OIG Audit 2011-CH-100X, of the Authority's (DHA) Housing Choice Voucher (HCV) program. The Authority acknowledges most of the findings and has provided additional information for your review which we believe may reduce the total dollar amounts cited in the report.

The DHA believes in our mission of providing housing assistance to people most in need and we attempted to fulfill that work through our waiting list which was identified in one of the Findings. We have met with the HUD Chicago Office of Public Housing and will work closely with them to a resolution of these Findings.

We appreciate the opportunity to respond to this report and look forward to resolving any outstanding issues with the HUD Chicago Office of Public Housing. We thank you for your reviews which identified areas of control that need correction. The work you have done will help to make the DHA a better provider of HUD programs.

Sincerely,

John E. Day
President

JED/jjs

711 East Roosevelt Road . Wheaton, IL 60187-5646
Telephone (630) 690-3555 . Fax (630) 690-0702

Ref to OIG Evaluation **Auditee Comments**

Attachments:

- Finding 1 Response
- Finding 2 Response
- Finding 3 Response
- Response to Findings From Audits #1 and #2
- Howlett Initiative Write-up
- O'Hare Modernization Program Write-up

Cc: A. Donner/ Chairman
P. Fenner/DHA Vice-Chairman
R. Farrell/HUD OIG
J. Galvan/Consultant

Ref to OIG Evaluation **Auditee Comments**

Finding 1: Inappropriate Administration of the Program
(Page 6 of the audit report)

Management Did Not Effectively Oversee Operations

The DuPage Housing Authority (DHA) does agree with parts of this finding with the hope the dollar amounts will be adjusted after a review of the additional information provided.

- The first four bullet points on pages 6 and 7 are a culmination of previous DHA audits conducted by the HUD OIG on the Authority's Project based Voucher programs, for which the Authority has agreed to make changes. The DHA is working on resolving the findings of the second audit report. Copies of the previous responses are attached and incorporated into this document.

Comment 1

- The Authority respectfully submits additional supporting documentation to support the reduction of the amount of public funds cited to be in non-compliance. This matter is covered in finding 2.

Comment 2

- The DHA is providing additional information in summary form regarding the selection of households from the waiting list for both the Howlett Initiative and the O'Hare Modernization Program. This is addressed in greater detail in Finding 3.

Comment 3

Prior HUD Reviews

- Of the nine findings noted by a prior HUD review in 2008, all are closed except one and the DHA is working towards closing this out.

Recommendations:

The DHA will work with the Chicago PIH office to improve operations and controls acceptable it HUD.

Ref to OIG Evaluation	**Auditee Comments**

Finding 2: Management of Program Funds: Response Page 1

The Authority respectfully requests the figures submitted be adjusted as follows:

Unallowable and Questionable Transactions (P.10)

Comment 4

While the Authority agrees there are transactions that were either questionable and/or unallowable, we believe the correct figures for each are $78,268 (unallowable) and $62,519 (questionable). The additional information includes the DHA independent auditor correspondence on unallowable costs.

As for items specifically mentioned in bullet points, we submit the following:

Comment 5

- The Authority agrees about the loans to the affiliates and they have been repaid in full;
- While some expenses related to meals and other items were accounting errors, the Authority agrees with your finding and will adopt a policy to address this issue in keeping with the provisions of OMB A-87;

Comment 6

- The membership in NAEIR was with DHA Management, a DHA affiliate. This service has been cancelled;
- The giving of holiday gifts to the Board is discontinued.

Comment 7

- With respect to the provision of computers for the Board members, this was done to spearhead the DHA's green initiative. The DHA does not provide the Board members with paper documents for Board meetings or correspondence. All Board members are required utilize the laptops at the meeting and access Board materials either by wireless through the DHA website or through some other electronic media. Last year, it is estimated that through these efforts we saved nearly 200,000 pieces of paper, not to mention the space required for storage. Additionally, the Board has adopted a Computer Use policy that is being supplied for your review.
- The above will be repaid with non-federal funds.

Page 11

First paragraph – As previously stated the Board will adopt and have HUD approve, a policy for expenditures. All non-payroll staff expenditures will be reviewed for compliance with category A-87 (13A) as it relates to employer-employee relations and employee morale. Also, all staff and the Board will go receive training on appropriate expenses, especially as it relates to travel.

Comment 8

Second paragraph – Supporting documents are being provided.

Ref to OIG Evaluation **Auditee Comments**

Finding 2: Response Page 2

Comment 9

Comment 10

Third paragraph (Page 11)– The $10,656 expense related to one of the Authorities development properties was improperly coded; the expense will be repaid with non-federal funds. The DHA also acknowledges that it advanced money for another HUD program – the Neighborhood Stabilization Program (NSP) – with the intent of providing home ownership opportunities for HCV participants, which is a HUD initiative. The funds have been repaid.

Fifth paragraph – The DHA is in the process of and will have separate ledgers moving forward.

Comment 11

Sixth paragraph (Pages 11-12) – With respect to credit cards, in 2008 the HUD Chicago Office of Public Housing requested that the DHA create a credit card policy and limit the number of individuals authorized and issued a credit card. Of the four credit cards referenced in the report, three were held by the following authorized individuals; Executive Director, Chief Financial Officer, and Director of Development. The Director of Development recently retired and the Authority was able to cancel his card after repeated efforts. All of the cards are cancelled. We have provided information with respect to the unsupported transactions and we are making corrections to the Authority's general ledger.

Page 12

Comment 12

Travel and training procedures – To address this issue, all DHA staff and Board members will receive training regarding allowable expenditures. We acknowledge that Alcohol is never an allowable expense. Expenses for travel companions have either been paid back to the Authority (a timing issue) or will be paid back out of non-federal funds. Training for the Kendall Housing Authority staff will also be paid back out of non-federal funds. The Board will adopt a policy requiring Commissioner training for all new Commissioners and at least every two years for all other Commissioners.

Did not Correctly Report Its Financial Standing to HUD (Pages 12-13)

The Authority agrees with this assessment. In the Voucher management System, estimates are used with the yearend being the appropriate figures to utilize. An oversight occurred when an amount was missed one month and was picked up the following month. This correction was made as of 6/30/10.

Ref to OIG Evaluation	Auditee Comments

Finding 2: Response Page 3

The Line of Credit which was maintained at MB Financial, has no outstanding balance and is being terminated. The interest associated with this account will be repaid with non-federal funds.

Page 13

Did not Maintain Complete and Accurate Records

The Authority agrees with this finding and as a result is changing its accounting procedures. The DHA intends to engage a firm that has HUD Public Housing expertise and will provide a specialist in fee accounting. In addition, the financial reporting system will be replaced with one that is used industry wide with input from the public housing fee accountant specialist and HUD. We believe this will provide us with the expertise to implement new HUD rules and regulations as policy changes.

The omission of non-cash benefits to the director was addressed via amending reportable compensation. As for the membership, it has been cancelled and the Authority will repay the amount out of non-federal funds.

Page 14

Miscalculated its Net Restricted Assets

First paragraph - The "agreed to balance" was corrected in June 2010 after discovery of error. Reconciliation completed with HUD in August 2010.

Second paragraph – The Authority agrees with this analysis; it has been public (via audit) and not substantially changed since 2002. This was due to construction in progress for the Friary project that was inherited prior to the notice effecting Administration fees in 2004.

Page 15

Recommendations:

The DHA will work with the HUD Chicago Office of Public Housing per your recommendations of 2A through 2C, subject to the Authority's final accepted figures as adjusted by HUD.

Ref to OIG Evaluation **Auditee Comments**

Finding 3: Selection from the Waiting List: (Page 16)

Did not select all households from the waiting list

The Authority agrees with this finding.

Howlett Initiative

- Attached is a program description and historical information relating to the Howlett Initiative which outlines how this finding occurred.
- In 2008 the Chicago PIH office conducted a review of the DHA operations that included the Howlett Initiative. As a result of their review, the DHA stopped accepting additional referrals for the program in March 2009. It issued a voucher to the last person in the pipeline in August 2009. The program has been inactive since that time.

Comment 13

- The Board approved the changes to the waiting list for the Howlett Initiative, but staff did not implement said changes.
- The DHA has informally discussed with HUD Chicago PH staff and intends to submit a full retroactive waiver application subject to Fair Housing review of the referrals. If not successful, we will enter into a repayment agreement for this amount.

Comment 14

Comment 15

- It should also be noted that during the entire period under review, the DHA was not accepting names on the general waiting list. In addition, during part of the same time frame, the DHA did not have any names on the list.

O'Hare Modernization Program

Comment 16

- An attached write-up describes the program.
- Funding for this rental assistance program came from a non-HUD source, the City of Chicago.
- All recipients were displaced by governmental action.
- The size (15 households) and scope was limited to qualified individuals, as determined by the City of Chicago, within a certain geographical area near O'Hare Airport.
- It is no longer an active program.
- The Authority will pay back these funds through a repayment agreement.

Recommendations:

The DHA will work with the Chicago PIH office per your recommendations of 3A through 3C. The DHA will provide all information for the program review from HUD Fair Housing staff.

Ref to OIG Evaluation **Auditee Comments**

Comment 19

O'HARE MODERNIZATION PROGRAM:

- Created by an intergovernmental agreement with the O'Hare Modernization Program (OMP) and the DHA (approved by the DHA Board 6/15/05)
- The City of Chicago wants the DuPage Housing Authority to administer rental assistance to approximately 15 individuals who will be displaced from affordable housing in the planned expansion of O'Hare Airport under the OMP
- The agreement would be for OMB to refer families who meet the income requirements to the DHA.
- The DHA then will pay an amount each month for the (up to) 15 individuals who do not have vouchers for 18 months, during which time DHA would agree to make vouchers available to them.

Ref to OIG Evaluation	**Auditee Comments**

The Howlett Initiative

In March of 2007, a meeting was held at HUD HQ in DC to discuss a proposed DHA demonstration project – the Howlett Initiative (HI). Included in attendance were the HUD HCV Director and staff, and the DHA Executive Director and the Supervisor who oversaw the waiting list.

The concept of the Howlett Initiative is to follow the July 2002 Presidential Directive on homelessness and HUD Notice 2003-25, to reach out and create programs to assist the homeless and those in transitional housing.

Comment 18

Under the HI, the DHA would partner with outside agencies that are involved in homeless or transitional housing programs. Each agency could refer program participants. The participant would get a Voucher, however they would have to remain in the agency's programs. This would be especially helpful for those clients who were moving up the housing ladder, but due to the DHA not adding names to waiting list for over five years, had ended up falling back into a homeless situation.

Comment 19

In early April, 2007, HUD HQ staff followed up to the meeting saying the DHA could do the program if the following changes were made (e.g. could not prohibit portability)(Please see attachment). This was misunderstood as having been approved for a demonstration program. In April 2007, the DHA Board approved the program with the changes from HUD. The following is taken from the DHA Minutes for that month:

Comment 20

The Howlett Initiative, a program to give vouchers to the homeless and those in transitional housing situations was then introduced. It was suggested by the Executive Director that a Demonstration Project be created for a period of five years which would provide 25 vouchers each year for individuals in transition or homeless. The person would be given additional points, 25 was suggested, which would allow these vouchers to leap frog over others on the waiting list. This program would work closely with social providers such as PADS, etc. It would work with referral agencies, and should include job training and other assistance, which would enable the individual to hold a job and have a more worth while life. A Commissioner moved that such a program be created to help individuals in transition, preferably those with families, setting aside 25 vouchers each year for the purpose, with the stipulation that all 25 need not be used, and that there would be a report back to the Board after 6 months to see how it was working. It was understood that these could be very costly vouchers with all kinds of administrative problems. The motion was seconded and approved by voice vote.

The initial partners were: Catholic Charities, Bridge Communities, World Relief,

Ref to OIG Evaluation | **Auditee Comments**

Serenity House, DuPage PADS, and Family Shelter Service. In December 2008, the DHA Board expanded the size of the program, as was the number of partners.

Comment 21

In early 2008, the Chicago PIH office conducted a review of the DHA and its HCV programs. Concerns were raised about the Howlett Initiative and after discussions and further review, in March of 2009, the Chicago PIH office asked that the program be put on hiatus. Since that time, the Authority has not accepted any additional referrals and just processed those in the pipeline.

After meeting with Chicago PIH staff in the summer of 2010, it was suggested to request a retroactive waiver of the waiting list provision. The Authority will be pursuing this as a means to correct errors made.

OIG Evaluation of Auditee Comments

Comment 1 The responses to the previous audit reports were included in their entirety on audit report #2009-CH-1016, issued on September 28, 2009, and audit report #2010-CH-1008, issued on June 15, 2010.

Comment 2 The supporting documentation provided was reviewed and changes were made to the report as appropriate.

Comment 3 The findings in this section were cited to illustrate a pattern of ineffective program management. There was no repeat of the recommendations from HUD's review or the previous two audit reports.

Comment 4 Based on the supporting documentation provided by the Authority, the correct figures are $2,303,853 (unallowable) and $330,457 (questionable).

Comment 5 Any ineligible funds cited in this finding will be reduced when the Authority provides support for the repayment.

Comment 6 The Authority used $1,791 in program funds for eight National Association for the Exchange of Industrial Resources purchases made in September 2008 and from February through June 2010.

Comment 7 We estimate that the Authority's estimated savings of 200,000 pieces of paper last year means the Authority typically provided each of its seven board commissioners with over 7,000 pieces of paper at each quarterly meeting (200,000 pieces of paper divided by 7 commissioners divided by 4 meetings annually); 7,000 pieces of paper is equivalent to a 28-inch stack.

Comment 8 The supporting documentation provided by the Authority was reviewed and changes were made to the report as appropriate.

Comment 9 The $10,656 refers to 13 expense transactions made from July 2008 through January 2009.

Comment 10 HUD's requirements state that administrative fees may never be loaned to another program, regardless of whether the Authority intends to reimburse the program at a later date. Instead, the Authority must use program receipts to provide decent, safe, and sanitary housing for eligible families.

Comment 11 As cited in the finding, the Authority provided credit cards to two additional staff members not listed in its policy.

Comment 12 As cited in our finding, the Authority failed to implement controls to ensure that HUD's and its requirements were appropriately followed. The ineligible travel expenses were reimbursed although they were listed as nonqualified expenses in the Authority's travel policy.

Comment 13 As cited in the finding, the Authority discussed the initiative with HUD and was provided guidance including how to open its waiting list for specific households. The Authority and its board did not ensure that the waiting list was opened in accordance with HUD's directive.

Comment 14 The Authority was not accepting names to its waiting list because it failed to open the list in accordance with HUD's directives.

Comment 15 The Authority began accepting referrals for its Howlett Initiative in October 2007. As of October 2008, the Authority had 324 households on its waiting list.

Comment 16 As cited in the finding, the Authority did not seek HUD approval for the O'Hare Modernization Program admissions. In addition, although the City of Chicago provided the Authority with funds to pay for the first 18 months of housing assistance for seven of the nine households, the Authority was unable to provide support that the funds were used to pay for the designated households' housing assistance.

Comment 17 As cited in the finding, the households were provided housing choice vouchers based on referrals rather than selection from the program waiting list. In addition, there was no support that the funds were used to pay for the designated households' housing assistance.

Comment 18 HUD's guidance regarding the Howlett Initiative stated that the Authority could not require the households to remain on the referring agency's housing programs. They advised that vouchers may only be terminated for violating family obligations listed in the program regulations.

Comment 19 The guidance provided to the Authority from HUD included a statement that the Authority may open its waiting list for specific families. However, the Authority did not open its waiting list in accordance with the guidance.

Comment 20 The board minutes state that preference points will be given to in transition or homeless households on the waiting list. However, the Authority failed to open the waiting list with preferences as stated in the minutes.

Comment 21 Based on the documents provided by the Authority, 14 households were referred to that Authority as part of the Howlett Initiative from April through August 2009.

Appendix C

FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

Finding 1

Federal regulations at 2 CFR 180.700 state that the suspending official may impose suspension only when the official determines that (b) there exists adequate evidence to suspect any other cause for debarment listed under 180.800 and (c) immediate action is necessary to protect the public interest.

Federal regulations at 2 CFR 180.800 state that a Federal agency may debar a person for (b) violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program, such as

(1) A willful failure to perform in accordance with the terms of one or more public agreements or transactions,
(2) A history of failure to perform or of unsatisfactory performance of one or more public agreements or transactions, or
(3) A willful violation of a statutory or regulatory provision or requirement applicable to a public agreement or transaction.

Federal regulations at 2 CFR 2424.10 state that HUD adopted, as HUD policies, procedures, and requirements for nonprocurement debarment and suspension, the Federal guidance in 2 CFR Part 180.

HUD's regulations at 24 CFR 24.1 state that the policies, procedures, and requirements for debarment, suspension, and limited denial of participation are set forth in 2 CFR 2424.

Finding 2

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

HUD's regulations at 24 CFR 982.153 state that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and the public housing authority's administrative plan.

HUD's regulations at 24 CFR 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit.

HUD's Public and Indian Housing Notice 2004-7 states that administrative fees shall only be used for activities related to the provision of Section 8 rental assistance, including related development activities. Any administrative fees that are later moved into the administrative fee reserve account at year end may not be used for "other housing purposes permitted by state and local law," and must only be used for the provision of Section 8 rental assistance, including related development activity.

HUD's Public and Indian Housing Notice 2010-7 states that program administrative fees may never be loaned to another program to cover ineligible expenses, regardless of whether the public housing authority intends to reimburse the program at a later date.

HUD's Public and Indian Housing Notice 2010-16 states that the public housing authority is responsible for operating its program within the amount of funding provided.

HUD's Public and Indian Housing Notice 2010-16 states that HUD's formula for calculating the net restricted assets is the total of

(1) Net restricted asset balance as of the end of the most recent public housing authority fiscal year end, plus
(2) Housing assistance payment funding received since the most recent public housing authority fiscal year end through the last day of the month being reported, plus
(3) All interest earned, fraud recovery portions, and Family Self-Sufficiency program forfeitures since the most recent public housing authority fiscal year end through the last day of the month being reported, minus
(4) Housing assistance payment expenses incurred since the most recent public housing authority fiscal year end through the last day of the month being reported.

Section 11 of the Authority's annual contributions contract with HUD states that (a) the housing authority must use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and HUD requirements. Program receipts may only be used to pay program expenditures, (b) the housing authority must not make any program expenditures except in accordance with HUD-approved budget estimates and supporting data for the program, and (c) interest on the investment of program receipts constitutes program receipts.

Section 14, part A of the Authority's annual contributions contract with HUD states that the housing authority must maintain complete and accurate books of account and records for the program. The books and records must be in accordance with HUD requirements and must permit a speedy and effective audit.

HUD's Voucher Management System User Manual, Release 5, appendix A, states that the Authority should report the interest or other income earned during the month from the investment of housing assistance payment funds and net restricted assets.

HUD's Voucher Management System User Manual, Release 5, appendix A, states that the Authority should report the total dollar amount recouped as fraud recoveries during the month that accrues to the net restricted assets account. This amount consists of the lesser of one-half the amount recovered or the total recovery minus the costs incurred by the public housing authority in the recovery.

HUD's Voucher Management System User Manual, Release 5, appendix A, states that the Authority should report the total amount billed for the public housing authority's independent public accountant audit if incurred during the reporting cycle, excluding the accounting service fee. It should report this amount only in the month during which it occurred.

HUD's Voucher Management System User Manual, Release 5, appendix A, states that total housing assistance payment revenue is defined as total funding eligibility for calendar years 2005 and later minus any offsets for 2008 and 2009 and should equal the amount actually disbursed to the public housing authority. The amount reported must include all interest earned, fraud recovery portions, and Family Self-Sufficiency program forfeitures.

HUD's Voucher Management System User Manual, Release 5, appendix A, states that cash/investments as of the last day of the month are the total amount of housing assistance payments and administrative fee cash and investments for the program. Amounts reported include all cash and investments as they relate to net restricted assets and unrestricted net assets balances as of the last public housing authority fiscal year end, as well as any additional funds that may have been reported in the unrestricted net assets and net restricted assets fields through the month being reported. This total amount must include only those housing assistance payment and administrative fee funds (including any interest or revenue derived) received for the program, including interest earned, fraud recovered, and Family Self-Sufficiency program forfeitures.

Internal Revenue Service Publication 15-B, section 1, states that if the recipient of a taxable fringe benefit is your employee, the benefit is subject to employment taxes and must be reported on Form W-2.

Internal Revenue Service Publication 15-B, section 4, states that for employment tax and withholding purposes, you can treat fringe benefits (including personal use of employer-provided highway motor vehicles) as paid on a pay period, quarterly, semiannual, annual, or other basis. But the benefits must be treated as paid no less frequently than annually.

Item 1 of the Authority's credit card policy states that only the following individuals are empowered to have credit cards: executive director, chief financial officer, and director of development.

Item 5 of the Authority's credit card policy states that only budget-approved items are allowed to be charged.

Item 7 of the Authority's credit card policy states that each cardholder assembles the invoices for payment and the invoices are submitted to the executive director/chief financial officer for initial approval and final approval.

Item 8 of the Authority's credit card policy states that the chief financial officer checks the invoices for proper classification and appropriateness.

Item 5 of the Authority's travel policy states that the expenses of a spouse or family traveling with an employee are nonqualified.

Finding 3

HUD's regulations at 24 CFR 982.152(d) state that HUD may reduce or offset any administrative fee to the authority, in the amount determined by HUD, if the authority fails to perform authority administrative responsibilities correctly or adequately under the program.

HUD's regulations at 24 CFR 982.203(a) state that if HUD awards a public housing authority program funding that is targeted for families living in specified units, (1) the public housing authority must use the assistance for the families living in these units. (2) The public housing authority may admit a family that is not on the public housing authority waiting list or without considering the family's waiting list position. The public housing authority must maintain records showing that the family was admitted with HUD-targeted assistance.

HUD's regulations at 24 CFR 982.204(a) state that except for special admissions, participants must be selected from the public housing authority waiting list.

HUD's regulations at 24 CFR 982.206(a)(1) state that when the public housing authority opens a waiting list, the public housing authority must give public notice that families may apply for tenant-based assistance. The public notice must state where and when to apply. (2) The public housing authority must give the public notice of publication in a local newspaper of general circulation and also by minority media and other suitable means. The notice must comply with HUD fair housing requirements. (3) The public notice must state any limitations on who may apply for available slots in the program.

Chapter 4, the Special Admissions section of the Authority's administrative plan, states that if HUD awards the Authority program funding that is targeted for specifically named families, the Authority will admit these families under a special admission procedure.

Chapter 4, the Waiting List section of the Authority's administrative plan, states that except for special admissions, applicants will be selected from the Authority's waiting list.