
AUDIT REPORT



HOUSING AUTHORITY OF MARICOPA COUNTY

PHOENIX, ARIZONA

2004-LA-1007

SEPTEMBER 22, 2004

OFFICE OF AUDIT, PACIFIC/HAWAII REGION IX
LOS ANGELES, CALIFORNIA



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TO: Eileen M. Rogers, Acting Director, Office of Public Housing 9APH

Joan S. Hobbs

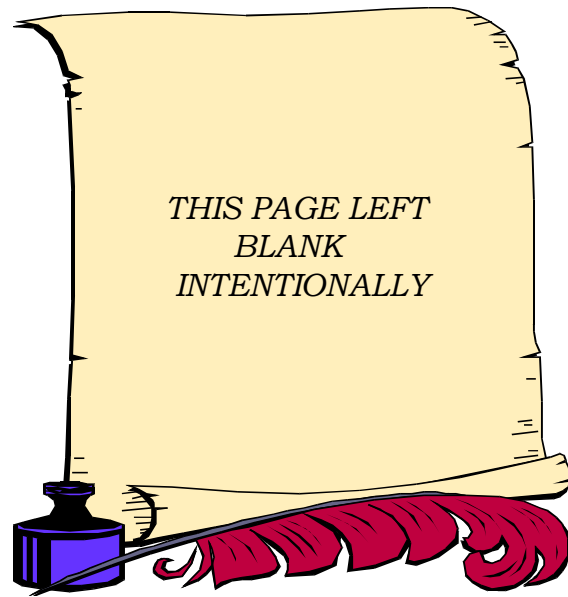
FROM: Joan S. Hobbs, Regional Inspector General for Audit, 9DGA

SUBJECT: Housing Authority of Maricopa County
Housing Choice Voucher Program
Phoenix, Arizona

We audited the Housing Authority of Maricopa County's Housing Choice Voucher Program (also referred to as Section 8). We selected this housing authority's Housing Choice Voucher Program for audit based on a preliminary review we conducted in response to numerous complaints to HUD. Our preliminary work revealed that the Housing Authority of Maricopa County had serious control weaknesses over its Housing Choice Voucher Program payment process and that it had been slow to implement corrective actions recommended by HUD in a 2002 Rental Integrity Monitoring Review.

Our report contains four findings with recommendations requiring action by your office. In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (213) 894-8016, or Charles Johnson, Assistant Regional Inspector General for Audit, at (602) 379-7243.



Executive Summary

We audited the Housing Choice Voucher Program operated by the Housing Authority of Maricopa County (Maricopa) located in Phoenix, Arizona. The overall audit objective was to determine whether Maricopa managed its Housing Choice Voucher Program (Voucher Program) effectively and efficiently and in compliance with Federal requirements. Our specific objectives were to determine whether Maricopa (1) met minimum performance standards required by the United States Department of Housing and Urban Development's (HUD) Section 8 Management Assessment Program; (2) made only valid, fully supported Housing Assistance Payments; (3) implemented adequate controls over its Voucher Program to ensure that the program was managed effectively and efficiently and in accordance with HUD requirements—and whether Maricopa had taken effective actions to correct the findings in HUD's Rental Integrity Monitoring (monitoring) reviews; and (4) incurred program operating costs in accordance with applicable procurement policies and procedures and properly allocated any shared costs.

Maricopa Did Not Meet Performance Standards

Maricopa did not ensure compliance with HUD's minimum performance standards that measure how effectively a housing authority administers its Voucher Program. Officials did not establish the management or quality control procedures necessary to comply with the Section 8 Management Assessment Program (Assessment Program) and failed to submit their online certification for fiscal year 2003. As a result, HUD could not use its normal monitoring process to address the housing authority's noncompliance in the areas of rent reasonableness determinations, utility allowance schedules, housing inspections, and determinations of adjusted incomes and tenant rents. Because neither the housing authority nor HUD could be assured that the Voucher Program funds were properly and effectively used to benefit the low- and moderate-income households the program is designed to help, we believe that Maricopa did not fully earn the more than \$2 million HUD paid it to administer the program over the last three years.

In our opinion, the housing authority's failure to ensure compliance with minimum performance standards stemmed from years of management neglect while the housing authority was administered by Maricopa County and overseen by the Maricopa County Board of Supervisors. Under the new Board of Commissioners and new Executive Director, Maricopa is taking steps to correct the Voucher Program's operating deficiencies. As part of this effort, officials must ensure that recordkeeping and quality control

Maricopa Made More Than \$87,000 in Improper Housing Assistance Payments

systems are put in place to track performance and compliance with HUD requirements.

Maricopa made more than \$87,000 in improper housing assistance payments (assistance payments) to Voucher Program landlords. These payments occurred during a 13-month period as a result of weak controls over the housing authority's payment process. For example, inadequate controls allowed caseworkers to use inconsistent processing procedures and multiple identification numbers for tenants or landlords. In addition, Maricopa's information system had limitations that allowed improper payments to go undetected, and officials did not adequately compensate for these limitations. As a result of processing mistakes and system weaknesses, Maricopa issued many assistance payments that were either duplicates or were for invalid contracts (such as contracts that were previously terminated). Furthermore, Maricopa did not systematically account for those overpayments it did detect and could not ensure their recovery. Of the \$87,000 in improper payments we identified, \$55,947 has not been recovered.

Improper housing subsidy payments reduced funds available to assist eligible families on Maricopa's waiting list. Also, HUD inappropriately paid an administrative fee for the improper payments that Maricopa counted in its total number of active vouchers. Finally, inadequate controls over the payment and recovery processes increased the risk of fraud and abuse.

As a Result of Inadequate Controls One Third of Housing Assistance Payments May Be Incorrect

Based on our random file review, we estimated that Maricopa incorrectly determined assistance payment amounts for one-third of the 605 case files processed during the period December 1, 2003, through March 24, 2004. In addition, we identified significant numbers of errors in tenant eligibility and income determinations. These occurred even though HUD had called attention to similar errors in its recent monitoring reviews. We attributed the unacceptable error rates to a lack of systematic quality controls and operating guidance over Voucher Program case file processing, as well as to the high turnover in staff during the past year. We recognize that Maricopa has taken steps to correct problems, but we believe that until it fully implements comprehensive quality control reviews, errors in tenant eligibility certification and subsidy calculations will continue to result in ineligible or

excessive assistance payments that reduce funds available to assist eligible families on Maricopa's waiting list.

Officials Did Not Always Follow Proper Cost Allocation and Procurement Procedures

Maricopa did not have a cost allocation plan to equitably charge the Voucher Program for its share of administrative costs that benefited all of its operations. Although Maricopa did allocate many shared costs, including management salary costs, it had no documented basis for the allocation ratios used. To the extent Maricopa did not charge the Voucher Program for its shared costs, Voucher Program administrative fee reserves were inappropriately increased at the expense of its other programs.

In addition, managers did not follow sound procurement practices when obtaining certain types of services. As a result, Maricopa had no assurance that prices it paid for these services were fair and reasonable.

Recommendations

We are recommending that you direct Maricopa officials to

- Implement the policies, procedures, records, and quality controls required to ensure compliance with HUD's key performance standards. In addition, we recommend that you require Maricopa to repay \$812,087 in Section 8 administrative fees that it did not fully earn in fiscal year 2003;
- Implement controls and procedures to detect and prevent improper assistance payments, examine Maricopa's records for past improper payments that have not been recovered and refund to HUD any improper/ineligible payments identified and seek appropriate refunds from the landlords, and repay ineligible administrative fees it received related to these improper assistance payments, including the \$5,405 identified in our report;
- Establish and implement management controls and operating guidance to address weaknesses in Voucher Program case file processing and ensure compliance with participant eligibility and housing subsidy determinations; and

- Develop and implement an equitable cost allocation plan as well as procedures to ensure that appropriate procurement procedures are followed for all purchases.

Audit Results Discussed
With Auditee

We discussed the findings with Maricopa officials during the audit and at an exit conference held on August 18, 2004. We also provided Maricopa and HUD with a copy of the draft report for comments on August 2, 2004. We received Maricopa's written responses on September 1, 2004. Maricopa generally agreed with our findings, and its responses along with our evaluations are discussed in each finding. The complete text of Maricopa's response can be found in appendix D of this report.

Table of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1. Maricopa Did Not Properly Manage Its Housing Choice Voucher Program	5
--	---

2. Maricopa Made More Than \$87,000 in Improper Housing Assistance Payments to Landlords	19
--	----

3. Potentially One-Third of Recently Processed Housing Assistance Payments Are Incorrect	27
--	----

4. Cost Allocation and Procurement Procedures Were Not Followed	35
---	----

Management Controls	41
---------------------	----

Follow-up on Prior Audits	43
---------------------------	----

Issues Needing Further Study and Consideration	45
--	----


Appendices

A. Schedule of Questioned Costs and Funds Put to Better Use	47
B. Schedule of Improper Housing Assistance Payments	49
C. Schedule of Errors in Sampled Case Files	51
D. Auditee Comments	53

Introduction

The Housing Authority of Maricopa County (Maricopa) was created in 1943, as authorized by the U.S. Housing Act of 1937 and Arizona Revised Statute (ARS) 36-1404. Maricopa operated as an independent entity until February 1992, when Maricopa County took over its administration through the County's Housing Department. Under the County government, the Maricopa County Board of Supervisors functioned as the Board of Commissioners for the housing authority. In July 2003, the County again made the housing authority an independent entity, and an intergovernmental agreement delegated the authorities under ARS 36-1404 to Maricopa. Currently, each member of the Maricopa County Board of Supervisors appoints one Housing Authority Commissioner, and these Commissioners serve as the governing board of Maricopa. As one of its early actions, the Board of Commissioners replaced the Acting Executive Director with a new Executive Director who assumed his position in January 2004.

Maricopa assists low-income families in renting affordable housing with Federal subsidies under the Housing Choice Voucher Program (Voucher Program). The program originated from the Housing and Community Development Act of 1974 that authorized the Section 8 certificate program. Congress has since modified the program and in 1998, passed housing reform legislation that resulted in the present Section 8 program, entitled the Housing Choice Voucher Program. During fiscal year 2003, Maricopa received approximately \$11 million of Voucher Program funds to support vouchers for approximately 1,500 families.

Maricopa must operate its Voucher Program according to the rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD) in accordance with the United States Housing Act of 1937, as amended. The rules and regulations set forth detailed eligibility requirements for participating families and prescribe the method for determination of rent subsidy levels based upon each family's income and other factors. HUD also regulates the condition of participating properties and the rental subsidy (housing assistance payment) contracts between the owners and the housing authority.

Audit Objectives

Our overall audit objective was to determine whether Maricopa managed its Voucher Program effectively and efficiently and in compliance with HUD requirements. Our specific objectives were to determine whether the housing authority (1) met minimum performance standards required under HUD's Section 8 Management Assessment Program (Assessment Program); (2) made only valid, fully supported Housing Assistance Payments (assistance payments); (3) implemented adequate controls over its Voucher Program to ensure that the program was being managed effectively and efficiently and in accordance with HUD requirements—and whether Maricopa had taken effective actions to correct the findings of HUD's Rental Integrity Monitoring (monitoring) reviews; and (4) incurred program operating costs in accordance with applicable

Audit Scope and
Methodology

procurement policies and procedures and properly allocated any shared costs.

We performed our audit during the period November 2003 through June 2004. Our review generally covered the housing authority's records and transactions for its Voucher Program from July 2002 through April 2004. Where appropriate, we extended our review to cover other periods. We selected our time period to cover Maricopa's fiscal year that ended on June 30, 2003, as well as most of the time period covered by HUD's two monitoring reviews performed in December 2002 and November 2003. Finally, to assess any corrective actions implemented by Maricopa in response to HUD's reviews, we analyzed the most recent Voucher Program case file actions available.

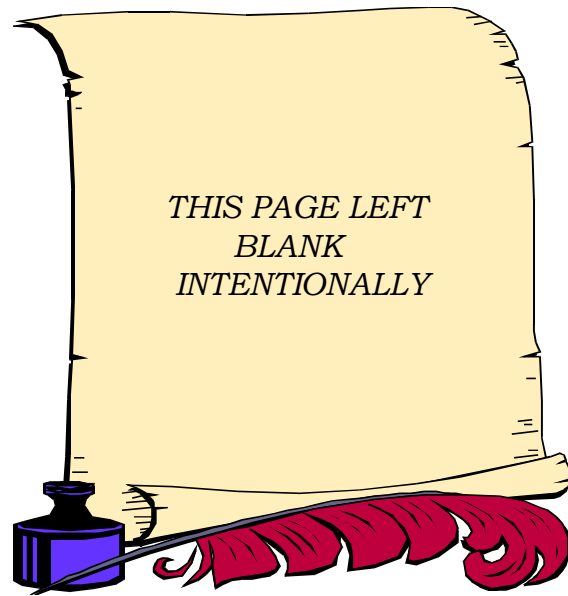
To accomplish our audit objectives we

- Reviewed program requirements including Federal laws and regulations, Office of Management and Budget Circulars, the Consolidated Annual Contributions Contract between Maricopa and HUD, HUD Office of Public and Indian Housing Handbooks and guidance including the Housing Choice Voucher Program Guidebook HUD 7420.10G (April 2001), and applicable Arizona Revised Statutes and Maricopa County Codes.
- Reviewed Maricopa's annual program reports sent to HUD, including Estimates of Total Required Annual Contributions, Vouchers for Payment of Annual Contributions and Operating Statements, Assessment Program certifications, Independent Public Accountant's reports, and HUD monitoring and onsite Assessment Program confirmatory reviews.
- Interviewed Maricopa personnel and HUD officials and reviewed meeting minutes from the housing authority's Board of Commissioners.
- Reviewed Voucher Program documentation at Maricopa including the Administrative Plan(s), applicant and certification packages, case file documentation, management logs and information, and accounting system records.

- Used Computer Assisted Audit Techniques to analyze Maricopa's master and history database files for irregular Voucher Program housing assistance payments or operating expenses.
- Selected a nonrepresentative sample of 54 tenant files (based upon known risk factors) and reviewed them to resolve identified and potential assistance overpayments.
- Inspected Voucher Program participating and nearby properties and interviewed tenants, property owners, or managers.

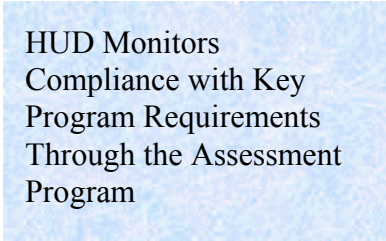
We also selected a statistical sample of Voucher Program case files, which we reviewed for (1) compliance with participant eligibility and income reporting requirements and (2) compliance and accuracy of the housing subsidy calculations. The purpose of this test was to evaluate Maricopa's progress in implementing corrective actions to address deficiencies in these areas reported by HUD's recent monitoring reviews. To accomplish this, we used a statistical software program to randomly select 19 case files from a universe of 605 that had at least one reportable action completed during the period December 1, 2003, through March 24, 2004. Reportable actions could include annual reexaminations, new admissions, interim examinations, change of units and other action types coded on section 2a of form HUD 50058 (Family Report). We performed detailed reviews on the 19 randomly selected files, which was the sample size for attribute testing stipulated by a confidence interval of 90 percent, an expected error rate of 10 percent, and a precision of 8 percent. Based on the errors we found in our sample files, we estimated the error rates for the universe of 605 files; however, the sampling methodology was not designed to estimate the dollar magnitude of the errors, and we did not do so.

We performed site work primarily at the Maricopa Main Office located in Phoenix, Arizona, and we also visited participating properties throughout Maricopa County. We conducted our review in accordance with generally accepted government auditing standards.



Maricopa Did Not Properly Manage Its Housing Choice Voucher Program

The Housing Authority of Maricopa County (Maricopa) had not developed and implemented management or quality control procedures necessary to effectively administer its Housing Choice Voucher Program (Voucher Program) and ensure compliance with key HUD requirements. Furthermore, because of Maricopa's failure to submit its Section 8 Management Assessment Program (Assessment Program) certification to HUD for the fiscal year ending June 30, 2003, HUD was unable to monitor and address Maricopa's management problems through its normal online process. In our opinion, this failure to implement procedures necessary to properly carryout its program resulted from years of management neglect under the Maricopa County Board of Supervisors that held executive authority over Maricopa until July of 2003. As a result of the management deficiencies, neither Maricopa nor HUD could be assured that the Voucher Program was carried out in a cost-effective manner and fully used for the benefit of low- and moderate-income households the program is designed to help. Management deficiencies were so serious that, in our opinion, Maricopa did not fully earn the more than \$2 million HUD paid it to administer the program over the last three years.



HUD Monitors
Compliance with Key
Program Requirements
Through the Assessment
Program

HUD uses the Assessment Program to evaluate how well each housing authority spends its Voucher Program funds to help eligible families afford decent rental units at the correct subsidy cost. Through the online Assessment Program reporting system, HUD officials can remotely monitor the performance of thousands of housing authorities and target those that need additional oversight and assistance. The Assessment Program measures each housing authority's performance in 14 key program areas listed below:

Assessment Program Performance Indicator Areas

Indicator No.	Description
1	Applicant selection from the Voucher Program waiting list
2	Determination of reasonable rent for each unit
3	Accurate verification of family income
4	Maintenance of a current allowance schedule for utility costs
5	Performance of quality control inspections for housing quality standards
6	Ensuring that landlords and tenants promptly correct housing quality deficiencies
7	Encouragement of expanded housing opportunities
8	Establishment of rental subsidy standards within program limits
9	Timely annual reexaminations of family income
10	Correct calculation of the tenant share of the rent and the housing assistance payment
11	Ensuring that units pass inspection before assistance contracts are executed
12	Timely inspection of units for quality standards
13	Ensuring that all available housing choice vouchers are used
14	Enrolling and assisting families in the family self-sufficiency program

HUD relies on the housing authority to self-certify its performance for the first eight area indicators and uses information from other data sources—primarily provided by the housing authorities—to corroborate a housing authority’s Assessment Program answers for the remaining indicators. HUD annually assigns housing authorities a rating for each area, as well as an overall performance rating of high, standard, or troubled. Any housing authority that does not submit an annual Assessment Program certification within 60 days after the end of its fiscal year is automatically designated troubled. If a housing authority does not perform adequately on any of the 14 indicators—or is assigned an overall performance rating of troubled—then HUD must conduct onsite reviews to assess the magnitude of the problem. With close oversight from HUD, the troubled housing authority must develop and implement a corrective action plan.

Maricopa Did Not Submit Its Fiscal Year 2003 Monitoring Certification to HUD

Maricopa failed to submit its Assessment Program certification for the fiscal year ending June 30, 2003, and in accordance with the Assessment Program regulations, HUD declared the housing authority to be troubled in December 2003. Moreover, Maricopa officials apparently disregarded HUD requirements that housing authorities base their Assessment Program certification on auditable

records that document the level of performance and compliance with program requirements over the certification period.

Officials could not provide supporting documentation for the Assessment Program performance certifications they proposed to submit in 2003 and did not even track the data needed to measure performance. Maricopa also had no substantive documentation for its 2002 Assessment Program certification. Maricopa officials claimed that the 2002 support had been lost and provided us with some limited documentation that they had reconstructed. This documentation was wholly inadequate and, in fact, indicated that in 2002, Maricopa did not meet its claimed performance measures, as illustrated in the following examples:

- Officials provided correspondence with utility companies that purported to show the utility allowance schedule was based upon current rates, but in some cases, the correspondence actually proved the schedule was not updated as required when rates had increased more than 10 percent; and
- Officials provided schedules of completed housing quality standard inspections, but the data did not show that units were inspected within the required 12-month timeframe or that failed units were reinspected and passed.

Maricopa Did Not Meet Key Performance Standards

In our opinion, Maricopa's failure to submit its 2003 Assessment Program certification and the lack of documentation to support its previous submissions not only reflected noncompliance with the Assessment Program reporting system but served to conceal severe deficiencies in Maricopa's management of its Voucher Program. Our review of Maricopa's operations identified serious instances of noncompliance for the Assessment Program indicator areas we reviewed as well as inadequate recordkeeping systems needed for performance and compliance reporting in other areas. Following are key Assessment Program performance indicators that Maricopa failed to meet:

Rent Reasonableness

Maricopa had not performed any rent reasonableness determinations for more than 1 year. In December 2002, HUD performed a monitoring review of Maricopa, and reported that the housing authority inappropriately compared Voucher Program unit rents to those of other assisted units. At that time, Maricopa was developing a new computer-based rent reasonableness system—having suspended the use of its old one—and HUD directed the housing authority to implement its new system within 30 days. Yet, as of March 2004, Maricopa was still gathering comparison rental data needed for the new system, which it hoped to start using by the end of the month. Thus, at least 16 months elapsed without Maricopa performing the rent reasonableness determinations required when new properties enter the Voucher Program or participating owners increase their rents.

HUD's rent reasonableness requirements ensure that housing authorities do not subsidize rents that are above the market rents charged for similar, nearby units without rental assistance. HUD relies wholly on the housing authorities to self-certify their performance for the Assessment Program rent reasonableness area. This area indicator asks the housing authority to affirm that it (a) has and implements a written method to determine and document that the rent to the owner for each unit is reasonable when compared with current rents for comparable unassisted units and (b) has a quality control sample of tenant files that shows (for files requiring the rent reasonableness determination) what percentage have documentation of appropriate comparison units and rents.

As a result of Maricopa's failure to implement rent reasonableness procedures, HUD has no assurance that housing assistance payments to Maricopa's Voucher Program landlords—almost \$10 million in 2003—were reasonable in comparison with local unassisted housing markets. Subsidies for excessive rents reduce funds available to other eligible families and inappropriately enrich landlords, who are not the intended beneficiaries of the Voucher Program. We believe the consequences of Maricopa's failure to enforce reasonable rents could be substantial. Competition in the rental market for the Phoenix metropolitan area has been intense as low interest rates fuel new housing construction, and financing incentives draw renters into home ownership. Renters who

can afford a payment around \$1000 per month have opted for home ownership. As a result, three- and four-bedroom single-family homes are readily available for rents almost comparable to those for apartments. Yet we noted Maricopa had numerous assistance payment contracts for rents of \$1,100 to \$1,300. In certain areas, investors even appeared to be building new homes with the intent of renting them out with Voucher Program assistance.

For example, in the City of Avondale, an area under Maricopa’s jurisdiction, we determined that owners of unassisted/comparable units near several Voucher Program properties charged considerably less than the Voucher Program payment standards to attract tenants. In one newly developed community, we noted several single-family properties renting in the \$950 - \$995 price range. These properties were brand-new and had more attractive amenities than the current Voucher Program units (see table and pictures below).

Comparison of Unassisted and Voucher Program Single Family Units

Unassisted Properties		Voucher Program Properties	
12565 W. Monroe	12517 W. Washington	914 S. 1 st St.	232 S. 3 rd St.
4 Bedroom	4 Bedroom	4 Bedroom	4 Bedroom
2 Bath	2 Bath	1 Bath	1 Bath
2 Car Garage	2 Car Garage	No garage	No Garage
1,653 Sq. Feet	1,653 Sq. Feet	1,254 Sq. Feet	1,407 Sq. Feet
\$995.00	\$950.00	\$1,200.00	\$1,100.00



12565 W. Monroe Avondale, AZ 85323



232 S. 3rd St. Avondale, AZ 85323



12517 W. Washington, AZ 85323

914 S. 1st St. Avondale, AZ 85323

Utility Allowance Schedules

Since at least December 2002, Maricopa has used an outdated utility allowance schedule for its Voucher Program subsidy calculations. After its December 2002 monitoring review, HUD recommended that (1) the utility allowance format be revised to better match the categories presented on the Request for Tenancy Approval form and (2) the schedule be reviewed annually and the review/update noted on the form. In response, the housing authority decided to engage a contractor to completely revise its utility allowance schedule. However, this corrective action has been delayed by (1) uncertainty and turnover in management positions at the housing authority and (2) Voucher Program department efforts to address other problems deemed more pressing.

HUD requires housing authorities to maintain utility allowance schedules that establish amounts above the rent that it can cover for tenant-paid utilities. These amounts are to be based on typical utility costs paid by energy-conservative households in comparable housing. The Assessment Program performance indicator relies wholly on the housing authority to affirm that it maintains an up-to-date utility allowance schedule that adjusts for any rate increases of 10 percent or more since the last revision.

We determined that some utility rates had increased as much as 16 percent since Maricopa last revised its utility schedule in 2001. As a result, the allowances paid to

tenants may be smaller than necessary to cover the typical utility charges.

Housing Quality Standard Inspections

During the latter half of fiscal year 2003, Maricopa did not have adequate Voucher Program inspection staff to conduct the required property inspections. At that time, the Voucher Program was under its third supervisor in two years. One of two property inspectors had been placed on inactive status pending investigation of improper conduct, and the remaining one was not certified and exhibited little knowledge of HUD's Housing Quality Standard requirements. He relied upon an out-of-date manual from a commercial advisory service and was not familiar with HUD regulations for Housing Quality Standards. The supervisor at the time became concerned with the quality of the Voucher Program inspections and ordered the inspections to stop until procedures were updated; however, several months elapsed without further guidance. As a result, officials told us that at one point, they were almost four months behind in the annual inspections.

HUD requires the housing authority to perform annual physical inspections of all Voucher Program units to ensure that subsidized housing is decent, safe, and sanitary. In addition, housing authority supervisors must conduct quality control re-inspections to ensure the inspections were adequate. The Assessment Program has two indicators that measure the housing authority's performance in this area.

- Indicator number 12 asks the housing authority to affirm that it inspects each unit under contract at least annually, and HUD verifies the answer with family data reported periodically by the housing authority to HUD's Multifamily Tenant Characteristics System. However, in fiscal year 2003 HUD could not use this system to verify Maricopa's performance because its reporting rate did not meet the minimum 85 percent required by HUD.
- Indicator number five relies wholly on the housing authority to affirm that a supervisor re-inspected a minimum sample of units that represented a cross-section of neighborhoods and inspectors' workloads.

Without performing periodic Housing Quality Standards inspections and quality control re-inspections, Maricopa could not ensure that the housing it subsidized in fiscal year 2003 was decent, safe, and sanitary. According to Maricopa's case files, some properties failed the Housing Quality Standards inspection every year. Each year the owners made the minimum required repairs, but by the next annual inspection, problems reappeared. Inspectors told us that in many cases, the tenant had caused the Housing Quality Standards violations, and the owners had not enforced lease agreements. However, HUD requires Voucher Program units to meet the minimum standards regardless of who caused the violations.

Determination of Adjusted Income and Tenant Rents

At the end of fiscal year 2003, Maricopa had not yet implemented the corrective actions recommended by HUD to ensure that caseworkers properly verified tenant incomes and correctly computed adjusted incomes and rent subsidies. In its December 2002 monitoring review, HUD found a lack of internal quality control procedures and policies and significant error rates for income and asset verification and in mathematical calculations. The monitoring report recommended that Maricopa conduct quality control reviews of 25 percent of all actions processed monthly for 12 months. Despite this, our review at the end of 2003 determined that Maricopa still did not have procedures in place to systematically select and review an unbiased sample of Voucher Program actions for quality control purposes. Instead, officials' primary response had been to correct the errors identified in the monitoring report and review a portion of the case files processed by one caseworker. This last effort identified errors that amounted to approximately \$45,000 in incorrect assistance payment subsidies.

To ensure that only eligible families receive the proper level of assistance, HUD requires housing authorities to reexamine and verify each participating family's income and composition at least annually. The Housing Choice Voucher Program Guidebook, issued in 2001, provides detailed guidance for the reexamination process. The following two Assessment Program indicators measure performance in this area:

- Indicator number three relies upon the housing authority to review a quality control sample of files and report the percentage in which caseworkers properly determined the family's adjusted income. To receive Assessment Program rating points, the percentage must be over 80 percent. HUD does not routinely verify the housing authority's Assessment Program certification for this indicator, but the Department's monitoring reviews focus on compliance in this area.
- Indicator number 10 asks the housing authority to affirm that it correctly calculates family rent to the owner, and HUD verifies the answer with information in the Multifamily Tenant Characteristics System. HUD awards Assessment Program rating points if two percent or less of the housing authority's calculation for family rent to the owner are incorrect. As we reported under the section on Housing Quality Standards inspections, because Maricopa's reporting rate was less than 85 percent, HUD could not use the data to score the Assessment Program indicators.

Regarding correct determination of adjusted income and tenant rent, HUD's monitoring review concluded, "due to the number and scope of errors, HUD was unable to determine the extent of over- and under-payment in rent subsidy." We did not perform our own testing to estimate the magnitude of assistance payment errors in 2003 but believe the amount of wasted funds could be significant. Of greater concern is the potential for fraud and abuse resulting from a lack of caseworker guidance, support, and oversight.

Management Problems
Existed before 2003

Maricopa's management problems with its Voucher Program were evident before fiscal year 2003. HUD's December 2002 monitoring review reported that "discrepancies were noted between the housing authority's self-certification for the Assessment Program (for fiscal year 2002) and the results of HUD's random file review." Maricopa officials could not provide documentation for their 2002 Assessment Program certifications when HUD officials attempted to perform a remote confirmatory review of the answers in spring 2003. Finally, Maricopa did not submit accurate or timely case information to HUD—the Department's information systems show that

Maricopa County Board of Supervisors Was the Responsible Authority

Maricopa's reporting rate for the required family reports (form HUD 50058) was unacceptably low at 79 percent.

In our opinion, Maricopa's mismanagement of its Voucher Program and its inability to certify compliance with HUD requirements through the Assessment Program reporting process stemmed from years of management neglect. From 1992 until July 2003, Maricopa operated under Maricopa County's Housing Department with oversight by the Maricopa County Board of Supervisors. The County Board of Supervisors functioned as the Public Housing Authority Commissioners for Maricopa. Commissioners have a responsibility to HUD to ensure national housing policies are carried out and to the housing authority's management staff and employees to provide sound and manageable directives. The Board of Commissioners is accountable to its locality and best serves it by monitoring operations to be certain that housing programs are carried out efficiently and effectively.

Over its tenure, the County Board appointed a series of Executive Directors for the housing authority and relied heavily upon these individuals to ensure that Maricopa complied with HUD's requirements for Voucher Program administration. Recent Executive Directors apparently allowed the Voucher Program caseworkers to run the program with little guidance. For a time, each caseworker controlled a portion of tenant files with no oversight or shared processing duties. As these caseworkers left employment, replacement staff was provided little training or guidance to bring the operations up-to-date. For example, the Section 8 Administrative Plan was out of date, and no copies of the Housing Choice Voucher Guidebook were in use at the start of our review. By the end of fiscal year 2003, the annual Assessment Program certification was due, and the Voucher Program department was in disarray. The Acting Executive Director, who has since departed, failed to monitor the situation and disregarded the obligation to base his performance certifications on current records that demonstrated performance and compliance with program requirements.

Maricopa Inappropriately
Collected Voucher
Program Administrative
Fees

HUD pays an annual administrative fee to Maricopa for every Voucher Program unit under assistance payment contract on the first day of every month. In the past three fiscal years, Maricopa collected more than \$2 million in fees for administering its Voucher Program (or other Section 8 program) units as shown below.

Administrative Fees

Fiscal Year Ended on	Ongoing Administrative Fees
6/30/2001	\$603,504
6/30/2002	\$748,797
6/30/2003	\$812,087
Total	\$2,164,388

In accordance with the Voucher Program governing regulations set out in 24 Code of Federal Regulations (CFR) 982.152, the housing authority may use these fees to cover the cost of performing housing authority administrative responsibilities for the program in accordance with HUD regulations and requirements. HUD may reduce or offset any administrative fee to the housing authority if it fails to perform housing authority administrative responsibilities correctly or adequately under the program.

In our opinion, Maricopa inappropriately received Voucher Program administrative fees because, as discussed above, it failed to ensure that subsidized rents and utilities were reasonable; subsidized housing was decent, safe, and sanitary; and program participants were provided the proper level of assistance. At the same time, Maricopa's accounting records showed it had \$415,893 in its Voucher Program administrative fee reserve at the end of fiscal year 2003—funds that should have been used to correct known deficiencies in its operations. Because Maricopa was unable to certify adequate performance under the Assessment Program reporting system, it should return to HUD the administrative fees it did not earn for fiscal year 2003.

New Management Has Made Improvements, But Performance Questions Remain

We recognize that new Maricopa management is taking many steps to correct its Voucher Program deficiencies, and we support those efforts. Nevertheless, our review raised questions regarding Maricopa's ability to meet the performance standards that will be evaluated by the Assessment Program for fiscal year 2004. HUD officials who performed the required onsite confirmatory review in March 2004 have similar concerns. Their preliminary report identified inadequate performance for seven of the eight indicators that are wholly self-certified by the housing authority. For Maricopa to demonstrate improvements in its Voucher Program operations, it is imperative that management establish recordkeeping and quality control systems to track performance and compliance with HUD requirements. This is not a matter of technical compliance. Information from these systems will provide needed oversight and signal problems that might otherwise be overlooked.

Auditee Comments

Maricopa agreed that it needed to improve the overall management and quality control of its Voucher Program, and outlined actions taken or currently underway to correct the deficiencies identified in our finding. However, Maricopa disagreed with our contention that it did not earn the \$812,089 in Voucher Program administrative fees questioned in our report. Maricopa asserted that our recommendation to repay this amount of administrative fees did not take into consideration all HUD operating regulations, and was a broad interpretation of existing guidance. The response further noted that Maricopa had been able to manage over 1,400 authorized voucher clients during fiscal year 2003 without "a recognizable number of resident or landlord complaints." Accordingly, Maricopa felt that it had earned the questioned administrative fees.

OIG Evaluation of Auditee Comments

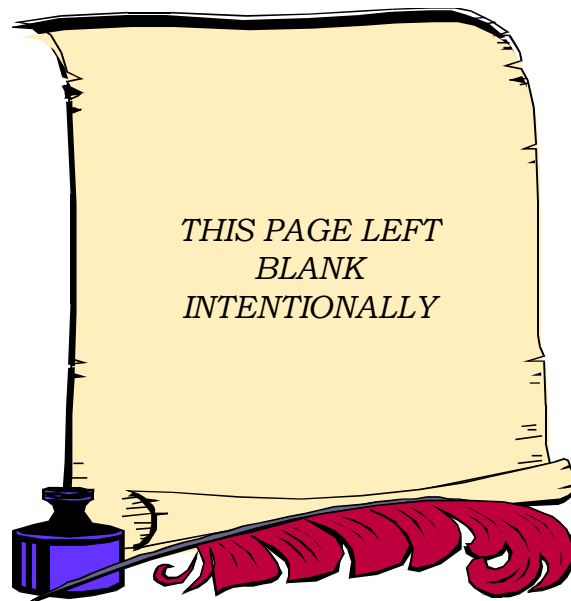
Notwithstanding these assertions, in our opinion Maricopa's inability to certify adequate performance under the Assessment Program (apparently for several years), along with its failure to ensure that it met HUD's basic requirements for determination of allowable subsidy amounts and other management deficiencies discussed in this finding and Findings 2 through 4 constituted serious disregard of its Voucher Program administrative responsibilities. While we recognize that new management is making a sincere effort to correct the deficiencies and we

support the actions outlined in its response, we believe that pervasive mismanagement in previous years should result in sanctions by HUD.

Recommendations

We recommend the Director of the Regional Office of Public Housing direct Maricopa to

- 1A. Implement rent reasonableness procedures and re-evaluate the rent for units that have entered the program and/or undergone rent increases without the required reasonable rent determination.
- 1B. Update and use utility allowance schedules.
- 1C. Establish and implement quality control procedures and recordkeeping systems to track the timeliness and results of Housing Quality Standards inspections.
- 1D. Maintain documentation of activities and results to support their annual Assessment Program certification to HUD.
- 1E. Prepare and follow through with a comprehensive corrective action plan that will respond to all findings from this audit and the onsite confirmatory review recently performed by HUD officials.
- 1F. Repay \$812,087 in Voucher Program unearned administrative fees received.



Maricopa Made More Than \$87,000 in Improper Housing Assistance Payments to Landlords

We identified and reviewed more than \$87,000 in assistance payments made to landlords participating in the Voucher Program that were either duplicates of valid payments or were not based on valid contracts. Our analysis of other landlord payment histories identified an additional \$109,000 in potential duplicate payments that, because of time constraints, we did not review. Maricopa identified and obtained reimbursement for many of these duplicate payments. However, it failed to systematically account for the overpayments it identified and thus could not determine whether the landlords had refunded the overpayments. In this regard, we could find no evidence that more than \$55,000 of the \$87,000 in overpayments we reviewed had been paid back.

Improper assistance payments occurred as a result of weak controls involving a number of steps in the payment process, including use of multiple identification numbers for the same landlord or tenant, failure to execute a new contract and issue a new landlord number when unit ownership changed, and lack of procedures to independently track subsidy adjustments as a control over the monthly assistance payment register. Information system problems further aggravated the situation. As a result of the housing authority's improper assistance payments, the amount available to assist eligible families on its waiting list was decreased. The duplicate payments also resulted in Maricopa claiming and receiving more than \$5,400 in inappropriate (ineligible) administrative fees from HUD. Finally, inadequate controls over the processes for payments—and for recapture of improper payments—left HUD funds susceptible to waste, fraud, and abuse.

Assistance Payments
Must Be Accurate and
Based on a Valid Contract

Maricopa enters into assistance payment contracts with participating property owners (landlords) as authorized by its Consolidated Annual Contributions Contract with HUD. The Contract stipulates that the housing authority must comply and must require owners to comply with the requirements of the U.S. Housing Act of 1937 and all HUD regulations and other requirements. In addition, the housing authority must use the assistance payment contract form prescribed by HUD and may only use program receipts to pay program expenditures. The regulations clearly define the information required to execute a valid assistance payment contract for the correct amount of housing subsidy. According to the Housing Choice Voucher Program Guidebook, if the housing authority discovers that the owner is not entitled to the full amount of

Maricopa Paid More Than \$87,000 in Improper Assistance Payments

assistance payments received, the owner must pay back the housing authority the portion to which the owner is not entitled. Finally, the Contract requires the housing authority to maintain complete and accurate books of account and records, in accordance with HUD requirements, and must permit a speedy and effective audit.

Maricopa improperly paid owners more than \$87,000 in assistance payments for 35 of the 54 Voucher Program tenant case files we reviewed. In most of these cases, the owner either received an extra assistance payment for one or more months, or the owner received assistance payments for months that were not covered by a valid contract. Altogether, 120 improper payments occurred over a 13-month period that ended on December 31, 2003. The number of improper payments for an individual case file ranged from a one-time occurrence to seven over a period of four months. The average amount per instance of improper payment was \$731.

The 54 case files we examined covered a fraction of the assistance payments made by Maricopa on behalf of approximately 1,500 Voucher Program authorized vouchers. Limited time and resources did not allow us to examine additional case files. However, we performed an automated analysis of Maricopa's landlord assistance payment history database and identified an additional \$109,000 in assistance payments, involving 111 other cases that were potentially duplicate payments in 2003. Maricopa officials claimed they had reviewed many of these potential duplicate payments, but they did not maintain any record of the ones already reviewed or any documentation supporting resolution of the cases. Accordingly, Maricopa needs to review these cases, resolve them, and document all actions taken.

Maricopa Did Not Track Recovery of Improper Payments

We could not determine whether Maricopa recovered \$55,947 of the \$87,720 it improperly paid as Voucher Program housing assistance. According to its landlord assistance payment history database, Maricopa recaptured \$31,773 of the total by holding back future assistance payments due to landlords that were overpaid. However, Maricopa did not maintain auditable records for other methods it used to recover overpayments. As a result, we could not determine whether the remaining \$55,947 was either (1) detected by Maricopa as an overpayment or (2)

recovered by repayment from the landlord or other means. Appendix B lists the improper payments and the amounts, if any, recovered by Maricopa.

In response to our request that Maricopa determine whether it had recovered any of the \$55,947, officials stated that some amounts were repaid; however, they did not provide any documentation to support this assertion. Officials explained that we had been unable to identify some of these recaptured amounts because Maricopa had simply reduced the assistance payment amount owed to the landlord on behalf of another tenant. In our opinion, without supporting documentation, this procedure is inappropriate as it obscures the assistance payment recovery and results in a recorded underpayment for the second tenant's assistance payment contract.

Although Maricopa's general policy was to recapture improper payments from future assistance payments owed to the landlord, it did not have written or consistent procedures to record and recover improper assistance payments. Officials did not set up any accounts receivable or otherwise systematically track either the amounts recovered or assistance payment checks that were never cashed. In some instances, the case file contained a letter, note, or adjustment slip regarding the overpayment and recovery schedule, but this was not consistent. Case files also did not normally contain any indication of when the overpayment recovery was completed. Officials stated that if they received a refund check, they manually credited the landlord's total assistance payments as reported on Internal Revenue Service (IRS) form 1099.

Weak Operating
Procedures and Lack of
Controls Allowed Errors

Maricopa issued improper assistance payments largely as a result of weak operating procedures and poor financial controls. As discussed under findings 1 and 3, the Voucher Program department did not have operating procedures to ensure that caseworkers processed files consistently, and oversight was inadequate to detect and correct patterns in processing errors. Our detailed review of 54 case files did not reveal any major pattern of errors that led to improper payments. However, we observed the following types of errors that resulted in improper payments and noted that supervisory oversight and quality control procedures could have detected or prevented many of these errors.

- In eight of the case files reviewed, multiple identification numbers for either the landlord or the tenant resulted in improper assistance payments. The additional identification numbers occurred because the Voucher Program department had not established protocols for identification number assignments or changes—staff simply accepted the number assigned by the information system when a new record was input. If more than one account was used (which continues to be the case for the portability tenants¹), the same identification number could be assigned under the other account. Careless file maintenance also contributed to the problem.
- Errors in processing Voucher Program property ownership changes also resulted in improper assistance payments. Maricopa’s Voucher Program Administrative Plan—the formal operating guidance adopted by the housing authority’s board—specifies the required steps for documenting a property ownership change. Basically the housing authority must either execute a new assistance payment contract or formally approve assignment of the existing contract to the new owner. However, the files we reviewed showed several instances in which procedures were not followed.

For example, in January 2003, Maricopa improperly made six assistance payments to the current and previous owners of a multifamily Voucher Program property (see table below). According to a letter in one case file, the property had been sold in July 2002. In January 2003, Maricopa finally executed a new contract for one of the six case files. Our review of the landlord’s assistance payment history file did not indicate that any of these improper payments were recaptured.

¹ Portability tenants are tenants who have an assistance voucher with one housing authority and move to another housing authority’s jurisdiction. The tenant has “ported out” of the one housing authority’s program area and “ported in” to the other, receiving authority’s program area. The receiving authority can absorb the tenant into its program, using one of its vouchers, or can administer the tenant and voucher on behalf of the other housing authority, which would continue to be responsible for the assistance payments made on behalf of the tenant.

Improper Assistance Payments to Previous Landlord 0050

Tenant ID	Date	Landlord ID	Amount
0097-01	01/13/2003	1092	\$489.00
	01/01/2003	0050	\$489.00
0136-01	01/13/2003	1092	\$759.00
	01/01/2003	0050	\$759.00
0226-01	01/13/2003	1092	\$625.00
	01/01/2003	0050	\$625.00
0243-01	01/13/2003	1092	\$825.00
	01/01/2003	0050	\$825.00
0358-01	01/13/2003	1092	\$382.00
	01/01/2003	0050	\$382.00
0855-01	01/01/2003	1092	\$495.00
	01/01/2003	0050	\$495.00

Officials could have readily detected the extra payments if the Voucher Program department had procedures to track new assistance payment contracts and other subsidy adjustments as an independent control over the automated monthly assistance payment register report. Instead, accounting officials verified the caseworkers' payment adjustment slips to changes on the monthly register, but this procedure did not detect duplicate payments. In an effort to identify duplicate payments, the accounting department last year began to examine the monthly register for multiple instances of tenant names. This procedure continues to catch several improper payments each month; however, the process is cumbersome, and we believe that the Voucher Program supervisor should independently approve the monthly register.

Management Did Not Adequately Compensate For Information System Limitations

Officials maintained that software errors continued to cause problems despite management efforts to address them. For example, several officials told us the system has issued assistance payment checks after the contract end-date was entered into the system—manual input of this date signals the software to stop issuing checks. In one instance, the tenant moved, and Maricopa executed a new assistance payment contract and commenced payments of \$670 to the new landlord in January 2003. Monthly payments of \$599 to the old landlord ceased until, inexplicably, Maricopa resumed them in March 2003—while continuing payments to the proper landlord. In June 2003, the previous landlord notified Maricopa of the overpayments, and Maricopa stopped them. Maricopa subsequently recovered \$1,797

(this amount only covered three of the four monthly overpayments) by personal check.

We could not establish the exact cause for extra assistance payments in this and other instances, but we agree that software limitations and inaccurate data contribute to the problem. Some software limitations we observed that should be addressed include

- Limited automated edit checks for data entry errors,
- Weak access controls,
- Lack of transaction histories for the family certification module,
- Absence of a prompt to users when they enter an invalid identification number, and
- Acceptance of duplicate identification numbers.

Improper Assistance Payments Reduced Available Assistance and Wasted Other Resources

Improper assistance reduced the level of funds available to assist eligible families on Maricopa's waiting list. Even when the overpayments were eventually recovered, officials spent considerable time and resources detecting, analyzing, and correcting errors—time that would have been better spent improving the overall quality of the Voucher Program operations. We are also concerned that Maricopa's inadequate controls over Voucher Program subsidy payments leave taxpayer dollars vulnerable to fraud or abuse.

HUD Paid Maricopa \$5,405 of Unearned Administrative Fees

In addition to funding the cost of improper payments made by Maricopa, HUD inappropriately paid administrative fees related to many of those payments. In fiscal year 2003, HUD paid the housing authority approximately \$47 per unit for every month it issued an assistance payment—a total of \$812,087 for 17,227 unit-months. However, the number of unit-months claimed by Maricopa included charges for any duplicate or improper payments made on the first of the month. Maricopa did not subsequently adjust the unit months number for any improper assistance payments it recaptured or otherwise detected. Our review of 54 files identified 115 instances of improper payments made on the first of the month—approximately \$5,405 of unearned administrative fees claimed by Maricopa.

Auditee Comments

Maricopa agreed that problems with duplicate identification numbers and procedures for monthly reconciliation of the assistance payments need to be addressed. In this regard, Maricopa claimed that, “as evidenced by the most recent “HUD/PIC” Reports,” the duplicate landlord/tenant identification problem has been mostly eliminated. Maricopa also agreed to verify the \$55,947 in duplicate assistance payments that we identified and to address any non-accountable amounts with HUD, subject to a corrective action plan. Maricopa’s formal response stated that its Finance Manager disputed some of the overpaid amounts, however, there was no documentation to support this claim. Regarding repayment of other potential assistance overpayments of \$109,361 and any administrative fees inappropriately paid by HUD for extra assistance payments, Maricopa agreed to take the actions stated above.

OIG Evaluation of Auditee Comments

Maricopa agreed with the basis for our finding and proposed to verify and address any unallowable assistance payments in a corrective action plan with HUD. We continue to recommend that HUD recover the full amount of any unallowable payments we identified for which Maricopa does not either document recovery or eligibility. Regarding Maricopa’s claim that reduced errors in HUD/PIC reports are evidence that it has eliminated duplicate identification numbers, we note that PIC did not record Maricopa’s tenant identification numbers and we believe additional control procedures over assignment of identification numbers are necessary to address this finding.

Recommendations

We recommend the Director of the Regional Office of Public Housing direct Maricopa to

- 2A. Eliminate duplicate landlord and tenant identification numbers in its database and establish and implement procedures to ensure that such duplication does not occur in the future.
- 2B. Establish and implement procedures to independently reconcile the monthly assistance payment register to the amount of assistance authorized by valid contracts and their related amendments.

- 2C. Refund to HUD the \$55,947 of duplicate assistance payments identified in appendix B, or provide documentation evidencing that appropriate adjustments have already been made; and obtain reimbursement from the applicable landlords for these duplicate payments where adjustments have not already been made.

- 2D. Research the \$109,361 of potential overpayments related to the other 111 case files that have not been analyzed (provided to Maricopa as a separate document), refund to HUD any duplicate payments for which claims have been submitted, and obtain appropriate reimbursement from landlords determined to have received duplicate payments.

- 2E. Refund to HUD the \$5,405 in unearned administrative fees it received related to the 54 cases we reviewed, determine whether similar ineligible claims were made in relation to the other 111 case files discussed in recommendation 2D that we did not review, and refund any unearned fees to HUD.

Potentially One-Third of Recently Processed Housing Assistance Payments Are Incorrect

Maricopa incorrectly computed assistance payments for approximately one-third of the Voucher Program case files processed from December 2003 through March 2004. Our file reviews also identified significant error rates for certification of tenant eligibility and for data reported to HUD, as well as improper assistance payments. We attribute the high rate of errors not only to a lack of systematic quality controls and operating guidance over file processing, but also to the high turnover in Voucher Program staff as Maricopa sought to address multiple problems raised in recent Rental Integrity Monitoring reports. Until planned improvements are implemented, the errors in tenant certification and subsidy calculations will continue to allow ineligible or excessive assistance payments that reduce the funds available to assist eligible families on Maricopa's waiting list.

Housing Authorities Must Maintain a High Degree of Accuracy

Housing authorities are ultimately responsible for ensuring that the right people receive the right amount of subsidy, and they must maintain a high degree of accuracy in administering the Voucher Program. In 42 United States Code (USC) 1437f, Congress stipulated specific eligibility requirements for program participants and limits on the amounts of assistance they can receive. HUD's regulations governing the program are set out in 24 CFR 982 and detailed administrative guidance is provided in its Housing Choice Voucher Program Guidebook. In recognition that the complex requirements make the program susceptible to errors, omissions, fraud, and abuse, chapter 22 of the Guidebook outlines the types of quality control procedures that should be used to prevent and detect these problems.

In addition, Office of Management and Budget (OMB) Circular A-133 (Audits of States, Local Governments and Non-profit Organizations) states that entities receiving more than \$300,000 in Federal funds per year must maintain management controls over Federal programs which provide reasonable assurance that the entity is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each program.

Previous Monitoring
Reviews Identified
Significant Problems

In its December 2002 monitoring review of the Voucher Program at the housing authority, HUD reported an error rate of 78 percent for the tenant files it reviewed, including errors relating to determination of tenant incomes used to compute correct subsidy levels and to reporting accurate data to HUD. In its follow-up monitoring review in November 2003 HUD identified many of the same problems and noted that many of its recommendations had not been implemented. We attributed Maricopa's failure to take timely corrective action to factors including: high staff turnover, failure to provide adequate training to new staff, and administrative uncertainty caused when Maricopa became a separate operating entity waiting to acquire a new Executive Director.

We Reviewed Recently
Processed Files

To assess how effectively Maricopa's latest actions have addressed the monitoring review findings, we evaluated case files that were recently processed and determined whether caseworkers complied with HUD's eligibility criteria and accurately calculated housing subsidy levels. We reviewed a random sample of 19 case files selected from 605 files with processing actions that had effective dates between December 1, 2003, and March 24, 2004, as reported to HUD's Public and Indian Housing Information Center. For each selected file, we reviewed all actions with effective dates within our time period. (For a detailed description of our sampling method see Audit Scope and Methodology under the Introduction section of this report.) We planned the time period to obtain a snapshot evaluation of Maricopa's case processing after (1) HUD officials had completed their last monitoring review and (2) Maricopa had replaced most of the Voucher Program caseworkers.

Although the 605 case files comprised approximately 48 percent of 1,249 active voucher files as of March 2004, we can only project our test results to the 605 files processed within our sample timeframe. In addition, our methodology excluded files for cases in which the program participant had ported-in to Maricopa but was not absorbed or cases in which participants had ported-out, but Maricopa still held the voucher. Such cases represented about 110 additional vouchers.

Case Files Continue to Have a High Rate of Processing Errors

Our review of Voucher Program case files identified incorrect determinations of assistance payments for 6 of 19 sample files or 32 percent. Common processing errors that resulted in incorrect assistance payment amounts included errors in

- Utility allowance verification or calculation,
- Adjusted income verification or calculation,
- Rent verification, and
- Payment standards.

We found these types of errors in 14 of the 19 sample files or 74 percent (errors in eight cases did not ultimately affect the assistance payment). We found at least one type of error in 15 of 19 files—an overall error rate of 79 percent. The following table summarizes the types of errors found in our random sample of 19 files. See appendix C for a detailed listing of errors by case file.

Summary of Case File Errors Found by HUD OIG

Type of Error	Number of Errors Found	Number of Files with One or More Errors	Percentage of Files Sampled (19) with One or More Errors
Late recertification	1	1	5%
Utility arrangements/type not verified	5	5	26%
Utility allowance calculation incorrect	6	6	32%
Utility allowance - total errors	11	9	47%
Income not verified	4	4	21%
Income calculation incorrect	6	6	32%
Income calculation - total errors	10	8	42%
Social Security number not verified	1	1	5%
Medical expense calculation incorrect	1	1	5%
Rent verification error	1	1	5%
50058 data incorrect -review required ^a	17	12	63%
50058 data incorrect –no review required ^b	4	4	21%
50058 data incorrect - total errors	21	14	74%
Improper assistance payment	2	2	11%
Assistance payment amount incorrect ^c	6	6	32%
Payment standard incorrect	2	2	11%

^a The action under review should have included reentering or verifying that this data element was correctly recorded in the family report.

^b The action under review would not necessarily include reentering or verifying this data element.

^c Incorrect assistance payment amounts could result from errors in the determination of utility allowance, income, medical expenses, rent, or payment standard.

In our opinion, error rates of this magnitude do not demonstrate adequate compliance with HUD requirements. Also, for the most part, we found the same types of errors that HUD reported in its previous monitoring reviews. One exception was the decrease we observed in the frequency of errors for verification of Social Security number, birth date, and citizenship. Due to differing test methodologies, we cannot directly compare our results with HUD’s; however, both reviews examined most of the same processing details. The last monitoring review covered the period May through October 2003, and the report recommended corrective actions for the following errors:

Summary of Voucher Program Case File Errors Reported in HUD’s Monitoring Review

Type of Error(s)	Number of Instances in 36 Files
Missing Social Security number, birth certificate, or proof of citizenship	10
Inadequate income/asset verification	9
Inaccurate income calculations	30
Missing deduction verifications	4
Inaccurate dependent calculations	7
Inappropriate payment standard	4
Inappropriate utility calculation	11
50058 data incorrect	8

Improper Assistance Payments Continue to Occur

Our test results indicate that Maricopa continues to issue improper assistance payments as a result of the same types of errors we described under finding 2. In our random sample of 19 files, we found one duplicate assistance payment and one that was not based on a valid contract—an improper payment rate of 11 percent (2 of 19). The improper payments totaled \$1,003 for one month. Based upon this rate, we estimated that as many as 67 of the 605 files randomly sampled could have had improper payments over the roughly four-month period covered by our test. We cannot estimate the potential dollar amount of the improper payments because our sampling methodology was not designed to do so.

Duplicate payment: For one sample file, we reviewed the processing of an annual reexamination with an effective

date of January 1, 2004. Maricopa paid the January 2004 assistance payment to the same landlord twice, once at the new rate of \$638 and once at the previous rate of \$619. The extra payment apparently occurred when caseworkers assigned two identification numbers to the landlord—one for use with regular accounts and another for use with port-in accounts that were not absorbed. As of April 2004, the landlord history reports did not show that Maricopa had recaptured the duplicate payment.

Invalid assistance payment contract: For another sample file, we reviewed an interim reexamination with an effective date of March 1, 2004. Log notes in the file indicated that, upon discovery that the unit had changed ownership some time ago, the caseworker simply changed the owner's name and address. The same landlord number was kept because no other tenants were on that account. Because the new owner retained the same management agent and the account was under the agent's tax identification, failure to execute a new contract went unnoticed.

Excessive or Improper
Payments Reduce
Funds for Eligible
Families

When Maricopa pays ineligible or excessive housing subsidies because of errors in qualifying tenants or computing assistance amounts, fewer funds are available to assist other eligible families. At the time of our review, Maricopa had almost 500 applicants on its Voucher Program waiting list and had not opened the list to new applicants since August 2002. In our sample of 19 cases, we determined that incorrect assistance payment calculations resulted in a monthly net overpayment of \$222. Improper payments such as those described above drain even more funds from the program. We cannot project these amounts to the rest of the 605 files that were not selected for testing, but clearly the amount of wasted funds could be significant (also see finding 2).

In addition, our sample files showed a high rate of data errors reported to HUD on form HUD-50058. Such inaccurate family data reduces the ability of both HUD and the housing authority to use the data for effective program oversight and analysis. For example, HUD could not use 50058 data to evaluate Maricopa's performance under the Assessment Program because the reporting rate was too low (see finding 1). Also, inaccurate data can contribute to

Improved Quality
Control System and
Operating Guidance
Will Help

misleading or false analyses of trends and patterns that may be used to make administrative or program adjustments.

The new managers at Maricopa as well as new staff in the Voucher Program department have already greatly improved the control environment. Officials demonstrate renewed interest in keeping up with HUD's program changes and correcting old problems. The new Executive Director, who arrived in January 2004, appears to expect accountability and has taken steps to provide the necessary training and/or staffing to raise the overall level of expertise at the housing authority. Such leadership appears to have been absent from Maricopa for a long time, and we fully recognize and support the positive changes. At the same time, we believe it is imperative for the housing authority to establish quality control procedures and recordkeeping that will enable it to detect or prevent problems and to measure improved performance.

As it implements these changes Maricopa must address the following weaknesses that contributed to many of the ongoing errors in determination of tenants' eligibility and subsidies:

- Although newly updated and improved, Maricopa's Administrative Plan does not have the detailed operating procedures needed to standardize the day-to-day processing of case files. For example, the Plan does not discuss the specific steps a caseworker should take when the housing authority absorbs an assistance payment contract it previously administered under the portability program. Additionally, the Plan's chapter on recertification contains many important rules and guidelines but does not discuss how caseworkers should use the file checklists or organize the case files. Finally, the section on quality control (chapter 1, section J) has no detailed procedures for sampling or recordkeeping and should not be used as a substitute for the housing authority's quality control plan.
- Strict protocols over the use of accounts and documentation of changes in identification numbers do not exist.

- Caseworkers inconsistently utilize quality control tools such as the file checklist.
- Caseworkers do not adequately document their calculations or the basis of their decisions, such as the exclusion of declared child support.
- Written procedures for use of the State unemployment database to corroborate reported levels of income do not exist.
- Written procedures regarding responsibilities and timeframes for correction of errors do not exist.
- Supervisory approval to adjust assistance payments is not required, and the Voucher Program department does not independently track its monthly assistance payment adjustments to provide a control for the assistance payment register prepared by the accounting department (see finding 2).

Auditee Comments

Maricopa agreed that it needed to improve its management controls and operating guidance for the Voucher Program, ensure accuracy and compliance with HUD requirements, and monitor the accuracy of its 50058 reporting. Actions outlined in Maricopa's response included: revised controls and internal guidance, development of day-to-day operating procedures, hiring of a quality control specialist, and new software expected to improve 50058 reporting.

OIG Evaluation of Auditee Comments

Because Maricopa agreed with the finding, we have no further comment.

Recommendations

We recommend the Director of the Regional Office of Public Housing direct Maricopa officials to

- 3A. Establish and implement management controls and operating guidance to ensure that Voucher Program

funds are used consistent with laws, regulations, and policies and to safeguard Voucher Program resources from waste, fraud, and abuse. Management controls and guidance should include policies and procedures to address weaknesses in the (1) documentation of detailed operating procedures, (2) assignment of unique identification numbers, (3) implementation of quality control tools, (4) complete documentation of calculations and other determinations in case files, (5) procedures for use of online resources for employment verification, (6) timely correction of errors, and (7) monthly approval and reconciliation of assistance payment adjustments.

- 3B. Monitor case files on an ongoing basis for accurate calculations and compliance with all certification requirements.
- 3C. Monitor the accuracy of case data reported on HUD form 50058 and make needed corrections.

Maricopa Did Not Follow Cost Allocation and Procurement Procedures

Maricopa did not have a cost allocation plan to equitably distribute all of its shared administrative costs to the Voucher Program and did not always follow sound procurement policies. Although Maricopa did allocate some costs, including management salaries, it had no plan or other documented basis supporting the allocation ratios it used. To the extent Maricopa did not charge the Voucher Program for its shared costs, Maricopa inappropriately increased its Voucher Program administrative fee reserves at the expense of its other programs. Also, managers did not follow sound procurement practices because they did not use the purchasing department to obtain certain types of services. As a result, Maricopa had no assurance that prices it paid for these services were fair and reasonable.

Office of Management and Budget Requires a Cost Allocation Plan

Federal cost principles require all activities that benefit from a governmental unit's² indirect costs to receive an appropriate allocation of those indirect costs. Also, when indirect costs will be charged to a Federal award, a cost allocation plan is required. These Office of Management and Budget requirements (Circular No. A-87 Attachment A, May 4, 1995, and as revised May 10, 2004) apply to other Federal programs administered by Maricopa, such as its low-income public housing program. The Voucher Program is conditionally exempted from A-87;³ however, under A-87 the housing authority cannot charge costs that benefit the Voucher Program to its other Federal programs.

Maricopa operates its Voucher Program under a Consolidated Annual Contributions Contract between the housing authority and HUD. Under the Contract, HUD pays Maricopa a fee to administer the Voucher Program, and the housing authority must maintain an administrative fee reserve that is credited for (1) the amount by which program administrative fees exceed the housing authority's administrative expenses for the fiscal year plus (2) interest earned on the reserve account. The Contract further

² Maricopa now operates as a political subdivision of Maricopa County, and the Board of Directors is appointed by the County Supervisors. Accordingly, Maricopa is considered a governmental unit under Office of Management Budget Circular A-87.

³ In accordance with Volume 53 Number 48 of the Federal Register, the Section 8 programs are outside the scope of Office of Management and Budget Circular A-102 and Circular A-87.

stipulates that the housing authority must use the funds in its administrative fee reserve to pay administrative expenses in excess of program receipts. If any funds remain in the reserve, the housing authority may use these funds for other housing purposes. In addition, paragraph 14 of the Contract states that the housing authority must maintain complete and accurate books of account, in accordance with HUD requirements, and must permit a speedy and effective audit.

Maricopa Must Follow Procurement Standards

HUD regulations contained in 24 CFR 85.36 set out the minimum procurement standards that housing authorities must use when procuring goods or services. The standards allow the housing authority to adopt procedures that reflect the applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in section 85.36.

In accordance with applicable regulations, Maricopa used procurement procedures in the Maricopa County Procurement Code. Article 3, section 342, paragraph C of the Code stated that for purchases estimated to cost \$5,000 or more but less than \$10,000, the Procurement Officer should solicit written quotations by using a Request For Quotations to at least three vendors, if possible. If only one responsive quotation was received, the purchase could be based on that quotation upon a determination that the price was fair and reasonable. A statement was to be included in the contract file setting forth the basis for determining that the price was fair and reasonable. Maricopa's procurement procedures also required departments to request services by means of a requisition for services to the purchasing department, which then issued a purchase order. Before the invoice was paid, the accounts payable department should have matched the invoiced amount or rate to the purchase order.

Maricopa Had No Documented Cost Allocation Plan

Maricopa had no documented cost allocation plan to equitably charge its programs for their share of indirect or joint administrative costs. For example, Voucher Program offices occupied roughly one half of a main office building, but officials did not charge the Voucher Program for any utilities for fiscal year 2003. Expenses for computer software and services also did not appear as charges to the Voucher Program, but officials stated those costs had been paid from a capital grant fund. Officials did allocate

administrative charges billed by Maricopa County, but they had no documented rationale for the amounts attributed to each program. Likewise, Maricopa allocated some administrative salaries to the Voucher Program. We audited salary expenses for one pay period in fiscal year 2004, and in most cases, the allocation ratio appeared reasonable based upon our limited observations of employee responsibilities. However, the allocation ratios were based on spreadsheet formulas, and officials could not recall how or when the formulas were established.

Maricopa's
Administrative Fee
Reserve May Be
Overstated

To the extent Maricopa charged the Voucher Program's portion of shared expenses to other Federal programs, it understated its Voucher Program operating expenses and inappropriately increased the program's administrative fee reserve. At the end of fiscal year 2003, Maricopa's administrative fee reserve showed a balance of \$415,893 that was included in Voucher Program unrestricted net assets of \$449,219 reported in Maricopa's audited financial statements. Those statements also showed an excess of \$64,866 in revenues over expenses. In the prior year's financial statements, Maricopa reported unrestricted net assets of \$345,914 and an operating loss of \$16,361 for its Voucher Program. We believe the increase in the unrestricted net assets during 2003 includes administrative fee reserves that should have been used to pay for the program's shared expenses or otherwise improve the administration of the Voucher Program.

Management Disregarded
Sound Procurement
Practices

Managers authorized procurements for training services and temporary help without utilizing the housing authority's purchasing department and procedures. Instead, managers told us that the human resources department independently and routinely made arrangements to purchase services for training and temporary help. For example, managers executed a training contract with an estimated cost of at least \$7,800 based on a proposal received by the human resources department. However, the human resources department did not obtain three written quotations as required. The official stated she had obtained a favorable price by negotiating between two organizations, but there was no purchasing file or other documentation to support the basis used to determine that the price was reasonable. Instead, the human resources department had maintained the final contract and payment information in its files. The Finance Director and the

Administrator approved the payment requisition without reviewing the contract.

The human resources department also arranged for temporary help services without using the purchasing department. Because officials procured the services under a county contract, the purchase was not subject to the quotations process. However, the human resources official made verbal agreements with the temporary help agency regarding the level of expertise to be provided and the hourly cost. From this point on, the human resources department had nothing to do with the procurement. Department managers approved time slips for the temporary workers, and the temporary help agency billed the housing authority using an hourly rate. Since the Finance Director and the Administrator were not privy to the verbal arrangement between human resources and the temporary help agency, they approved payments without any way of knowing whether the agency billed at the agreed upon price.

When officials circumvent procurement policies and procedures, they may fail to comply with laws and regulations, make uneconomical purchases, and invite abuse. For example, failure to obtain multiple bids on higher dollar procurements can result in reduced competition and higher prices than necessary. Also, procedures that require documentation of agreed-upon prices, quantities, and qualities of goods or services prevent abuses such as overcharges and invalid claims for payment.

Auditee Comments

Maricopa agreed that it needs a revised cost allocation plan and revised procurement practices with special emphasis on federal requirements. The response questioned the direction of our recommendation that it reallocate shared costs according to the benefiting program in fiscal year 2003.

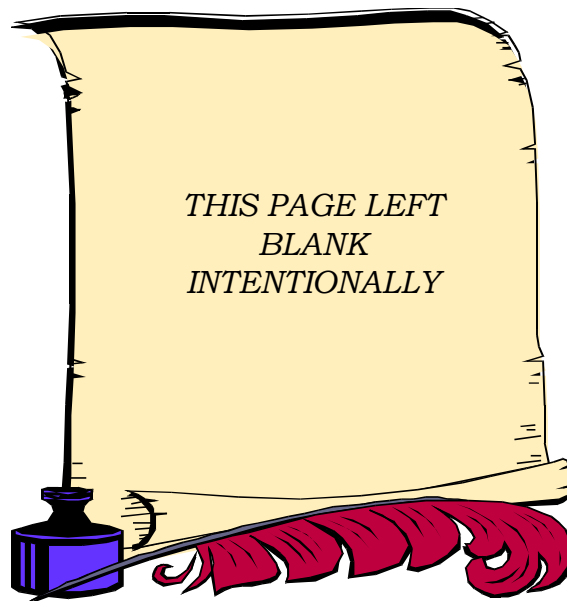
OIG Evaluation of
Auditee Comments

Maricopa should apply the cost allocation methods that it adopts in its new cost allocation plan to the financial operating statements for fiscal year 2004. In addition, it should use the new cost allocation methods to re-compute and restate any shared expenses that were incorrectly reported in its fiscal year 2003 financial statements.

Recommendations

We recommend the Director of the Regional Office of Public Housing direct Maricopa officials to

- 4A. Develop and implement a cost allocation plan to equitably distribute shared costs among HUD programs as well as any applicable nonfederal programs.
- 4B. Using the established cost allocation plan, reallocate shared costs to the benefiting program for fiscal years ending June 30, 2003, and 2004.
- 4C. Implement procedures to ensure appropriate procurement procedures are followed for all purchases.



Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. We reviewed the Maricopa's management controls to determine our audit procedures and not to provide assurance on management controls.

Management controls include the plan of organization; methods and procedures adopted by management to ensure that its goals are met; the processes for planning, organizing, directing, and controlling program operations; and the systems for measuring, reporting, and monitoring program performance.



Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, fraud, loss, and misuse.

We assessed the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

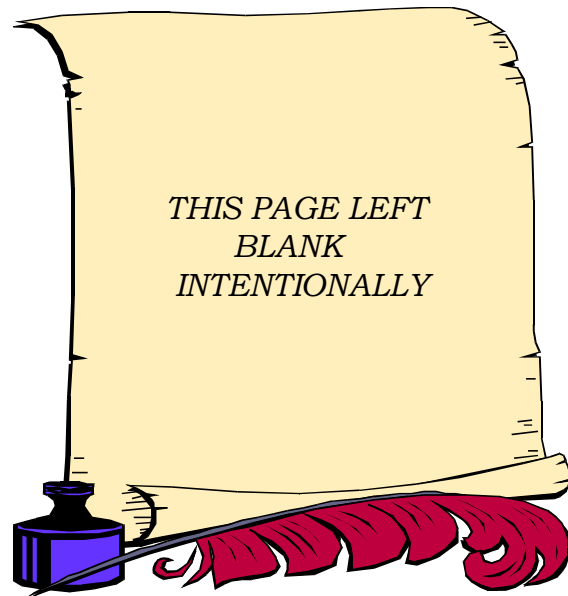
Based on our review, we believe the following items are significant weaknesses:

- Maricopa did not establish recordkeeping systems to track performance, quality control, or compliance with Voucher Program administrative requirements (see finding 1).
- Maricopa did not have adequate procedures to ensure that participant family data submitted to HUD was accurate and timely (see finding 3).
- Maricopa did not have adequate procedures to ensure that its administrative fees were based on accurate program participation data (see finding 2)
- Maricopa did not have adequate controls to ensure that it correctly certified eligibility for its Voucher Program participants and correctly calculated housing subsidy levels (see finding 3).
- Maricopa did not have adequate controls to ensure that it safeguarded its Voucher Program funds from improper payments that were wasteful, fraudulent, or abusive (see finding 2).
- Maricopa did not have adequate controls to ensure that all purchases were economical and appropriately charged to the Voucher Program (see finding 4).

Follow-up on Prior Audits

The prior HUD OIG audit of Maricopa covered the period January 1, 1992, through May 31, 1993, and focused on activities after Maricopa County took over operations of the Maricopa Housing Authority in February 1992 (HUD OIG Audit Report 93-SF-202-1016, September 24, 1993). No findings remain unresolved from that audit; however during the current audit, we noted deficiencies that are similar to problems we reported in 1993. These deficiencies were in the areas of procurement, cost allocation, rent reasonableness determinations, and utility allowances. Finding 1 of this report discusses rent reasonableness determinations and utility allowances. Finding 4 discusses procurement and cost allocation.

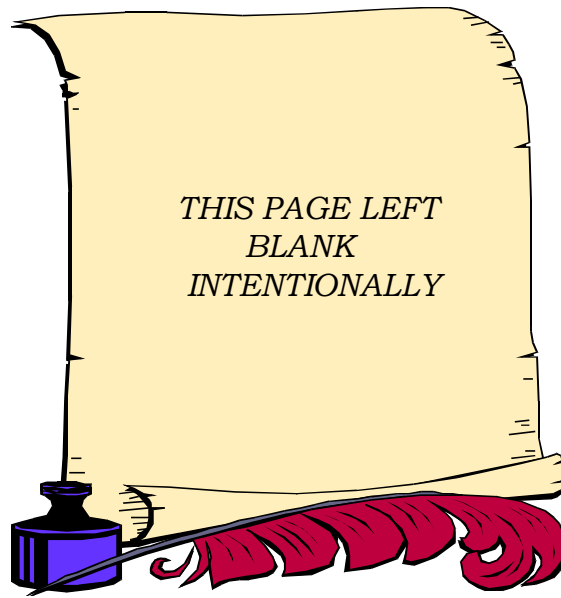
The latest Independent Public Accountant's report covered the fiscal year ending June 30, 2003. The Accountant's report on compliance and internal controls noted the following reportable conditions that pertain to our audit: Maricopa did not comply with requirements for (1) the submission of the Assessment Program report to HUD and (2) the maintenance of Section 8 Voucher Program tenant files. Findings 1 and 3 of our report address these conditions. The Independent Accountant's report concluded that none of the reportable conditions rose to the level of a material weakness. We disagree. In our opinion, these management deficiencies were so serious that Maricopa did not fully earn the administrative fees it received from HUD to administer the program in 2003.



Issues Needing Further Study and Consideration

We did not perform a complete review of Maricopa's Voucher Program portability accounts; however, we noted that many of the processing errors in our sample files were related to these accounts. The portability program has significantly affected Maricopa's operations because the housing authority's jurisdiction—unincorporated Maricopa County and its cities with no housing authorities of their own—is contiguous with jurisdictions for at least 10 other housing authorities. According to Maricopa officials, the other housing authorities do not always process portable accounts properly or consistently, and guidance from HUD has been inadequate. In addition, although the Independent Auditor issued an unqualified opinion on Maricopa's Financial Statements for the fiscal year ending June 30, 2003, the report found deficiencies in Maricopa's accounting for portability receivables. The finding also noted that Maricopa had not adjusted its financial statements to correct for portability accounting errors identified in the fiscal year 2001 financial audit.

Further study and consideration of Maricopa's procedures and controls for its portability accounts is needed to determine whether Maricopa properly processes, accounts for and reports its Voucher Program participants in the portability program.



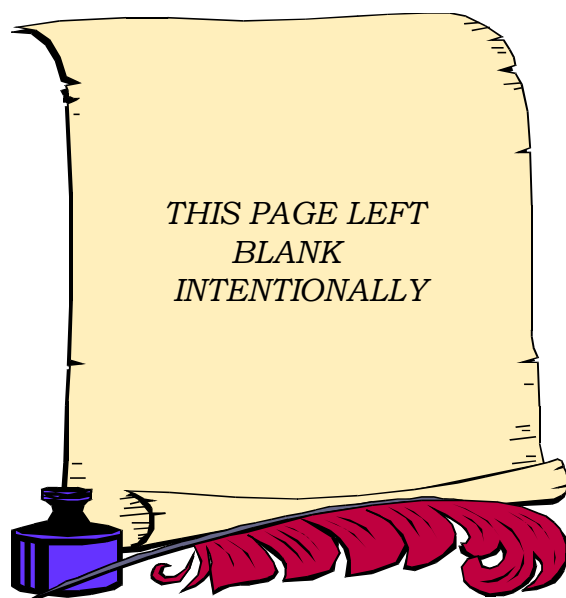
Schedule of Questioned Costs and Funds Put to Better Use

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>		<u>Funds Put to Better Use 3/</u>
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	
1G	\$812,087		
2C	\$ 55,947		
2D		\$109,361	
2E	\$ 5,405		
Totals	<u>\$873,439</u>	<u>\$109,361</u>	

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.

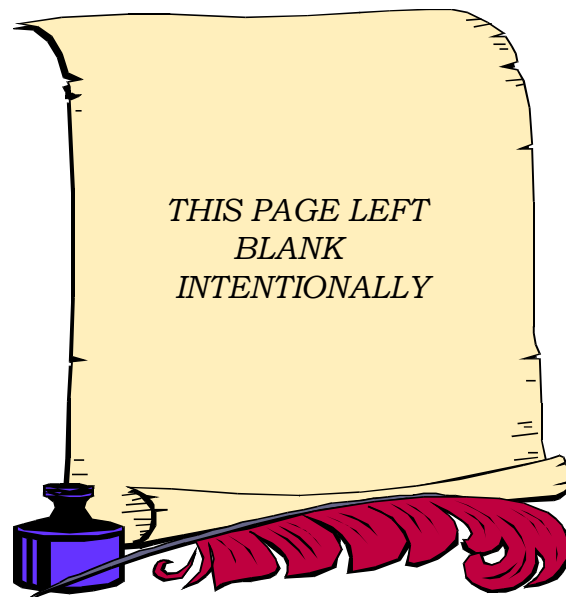
2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation, or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented.



Schedule of Improper Assistance Payments

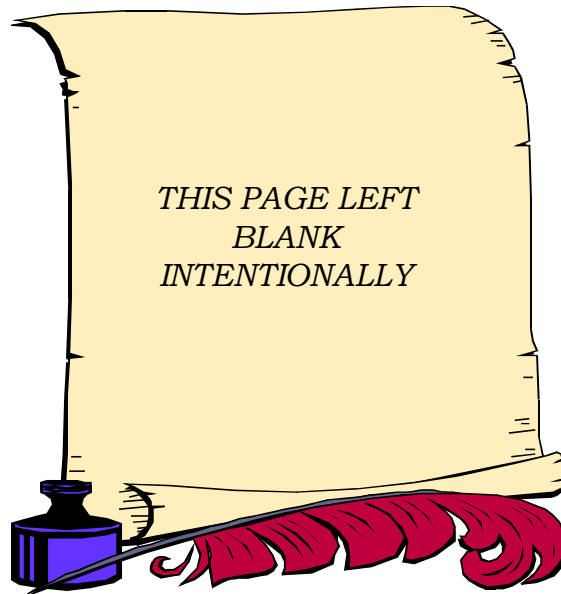
Case Count	Tenant Number	Landlord Number	Improper Payments	Recaptured	Uncollected
1	0057-01	1202	\$7,588.00	\$0.00	\$7,588.00
	0057-01	1144	\$2,916.00	\$0.00	\$2,916.00
2	0088-01	481	\$654.00	\$436.00	\$218.00
3	0090-01				
	0123-01	455	\$3,540.00	\$3,540.00	\$0.00
4	0097-01	50	\$489.00	\$0.00	\$489.00
5	0120-01	1054	\$4,260.00	\$3,000.00	\$1,260.00
6	0136-01	1092	\$1,518.00	\$0.00	\$1,518.00
7	0193-01	248	\$1,080.00	\$0.00	\$1,080.00
8	0195-01	25	\$2,067.00	\$1,378.00	\$689.00
9	0213-01	481	\$1,670.00	\$1,616.00	\$54.00
10	0226-01	50	\$625.00	\$0.00	\$625.00
11	0243-01	50	\$825.00	\$0.00	\$825.00
12	0358-01	50	\$382.00	\$0.00	\$382.00
13	0378-01	754	\$832.00	\$416.00	\$416.00
14	0463-01	417	\$3,300.00	\$3,300.00	\$0.00
15	0535-01	417	\$5,375.00	\$1,455.00	\$3,920.00
16	0570-01	91	\$1,035.00	\$0.00	\$1,035.00
17	0706-01				
	0050-01	570	\$3,240.00	\$3,240.00	\$0.00
18	0852-01	481	\$1,962.00	\$0.00	\$1,962.00
19	0855-01	50	\$495.00	\$0.00	\$495.00
20	0882-01	614	\$1,250.00	\$0.00	\$1,250.00
21	1044-01	50	\$2,396.00	\$1,797.00	\$599.00
22	1084-01	174	\$3,356.00	\$1,668.00	\$1,688.00
23	2073-01	1161	\$2,196.00	\$0.00	\$2,196.00
24	2085-01				
	1086-01	455	\$2,840.00	\$2,840.00	\$0.00
25	3117-01	823	\$1,125.00	\$0.00	\$1,125.00
26	3121-01				
	0247-01	323	\$2,322.00	\$0.00	\$2,322.00
27	3145-01	366	\$5,970.00	\$0.00	\$5,970.00
28	0514-01				
	3147-01	481	\$2,010.00	\$2,005.00	\$5.00
29	4026-01	455	\$5,997.00	\$0.00	\$5,997.00
30	6054-01	1292	\$374.00	\$0.00	\$374.00
31	6096-01	1186	\$6,342.00	\$2,114.00	\$4,228.00
32	6117-01	1253	\$2,991.00	\$1,994.00	\$997.00
33	7015-01	738	\$974.00	\$974.00	\$0.00
34	7025-01				
	6096-01	1186	\$3,171.00	\$0.00	\$3,171.00
35	7072-01	23	\$553.00	\$0.00	\$553.00
Totals			\$87,720.00	\$31,773.00	\$55,947.00



Schedule of Errors in Sampled Case Files

Sample No.	Type of Error	Number of Occurrences	Description of 50058 Data Error(s)
1	Late recertification	1	
	Utility verification/calculation mistake	1	
2	Utility verification/calculation mistake	1	Food Stamp income omitted
	Income verification/calculation mistake	2	
	Incorrect 50058 data	1	
	Incorrect assistance payment calculation	1	
3	None		
4	Income verification/calculation mistake	2	
5	Incorrect 50058 data	1	Incorrect last name*
6	Utility verification/calculation mistake	1	Incorrect unit size
	Incorrect 50058 data	1	
7	Medical expense verification/calculation error	1	Incorrect payment standard
	Incorrect 50058 data	1	
	Incorrect assistance payment calculation	1	
8	Incorrect assistance payment calculation	1	Incorrect effective date
	Income verification/calculation mistake	1	
	Incorrect 50058 data	1	
9	Utility verification/calculation mistake	1	Incorrect unit size, incorrect action code
	Incorrect 50058 data	2	
	Improper assistance payment	1	
10	Utility verification/calculation mistake	2	Incorrect unit size, Food Stamp income omitted*
	Incorrect 50058 data	2	
11	Incorrect 50058 data	3	Incorrect Soc.Sec. number and inspection pass date, Food Stamp income omitted
12	Utility verification/calculation mistake	1	Incorrect first name
	Income verification/calculation mistake	1	
	Rent verification mistake	1	
	Incorrect 50058 data	1	
	Improper assistance payment	1	
13	Utility verification/calculation mistake	1	Incorrect Social Security number, incorrect inspection pass date, incorrect owner tax identification number
	Income verification/calculation mistake	1	
	Social Security number not verified	1	
	Incorrect 50058 data	3	
	Incorrect assistance payment calculation	1	
14	Utility verification/calculation mistake	2	Food Stamp income omitted
	Income verification/calculation mistake	1	
	Incorrect 50058 data	1	
	Incorrect assistance payment calculation	1	
15	None		
16	Income verification/calculation mistake	1	Incorrect birth date,* unverified owner tax identification number
	Utility verification/calculation mistake	1	
	Incorrect 50058 data	2	
17	Income verification/calculation mistake	1	Incorrect unit size
	Incorrect 50058 data	1	
	Incorrect assistance payment calculation	1	
	Incorrect payment standard	1	
18	Incorrect 50058 data	1	Social Security number incorrect*
	Incorrect payment standard	1	
19	None		

* Indicates that the action we reviewed did not include verification of the 50058 data. For example, an interim monitoring exam to change family income does not require the caseworker to reverify the Social Security numbers.



Auditee Comments

Housing Authority Of Maricopa County

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www.maricopa.gov

August 31, 2004

Joan S. Hobbs
Regional Inspector General for Audit
U.S. Dept. of Housing & Urban Development
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Attention: Charles Johnson
Assistant Regional Inspector General

RE: Audit Report

Dear Mr. Johnson:

After review of the draft findings and assessing the exit conference held on August 18, 2004, attended by Richard Cole, Jr. Chairman, Housing Authority of Maricopa County (HAMC) Board of Commissioners; Alphonso Patrick, Executive Director HAMC; Charles Johnson, Assistant Regional Inspector General for Audit; Patricia Dahlgren, CPA, CGFM, Auditor; and Enrique J. Espinoza, Auditor, the following represents the HAMC's response and formal comments.

The Housing Authority and its Board of Commissioners, per 2003 Bylaws and IGA with Maricopa County, approved June 16, 2003, began operations as HAMC effective July 1, 2003.

First task, with assistance from the County Administration, was to engage a national search for a new permanent Executive Director. That search was completed with a new Executive Director beginning January 28, 2004.

Response to summary recommending that HAMC:

- Implement the policies, procedures, records, and quality controls required to ensure compliance with HUD's key performance standards.
- Implement controls and procedures to detect and prevent improper assistance payments, examine Maricopa's records for past improper payments that have

Audit Report
August 31, 2004
Page 2 of 6

not been recovered and refund to HUD any improper/ineligible payments identified.

- Establish and implement management controls and operating guidance to address weaknesses in Voucher Program case file processing and ensure compliance with participant eligibility and housing subsidy determinations; and
- Develop and implement an equitable cost allocation plan as well as procedures to ensure that appropriate procurement procedures are followed for all purchases.

The HAMC has revised and updated all policies, procedures, records and quality controls to ensure compliance with HUD's key performance standards. This is evidenced by new and ongoing training, staff changes, revised management directions, focus on staff motivation, all directed towards a statement of goals, timetables and overall enhanced expectations. The stressing of teamwork and staff recognition and accountability are constantly emphasized. The following are some actions taken since February 2004.

- The current Section 8 Manager has been introduced to updated training/information, which includes:
 1. Section 8 Housing Manager Certification
 - a. Voucher Mastery
 - b. Occupancy Issues/SEMAP
 - c. Section 8 Budgeting
 2. NAHRO Spring Conference
 - a. Qualifying for SEMAP "Deconcentration" bonus points
 - b. Proposed Flexible Voucher Program
 - c. Section 8 Portability and Project Based Housing
 - d. Creating your own Section 8 Housing Program
 3. Nelrod Consortium
 - a. New and Updated Occupancy Tools
 - b. Flexible Voucher
 - c. Income and Rent Determination
 - d. Verification Requirements and Procedures
 - e. Applicant/Tenant Interviewing Techniques
 4. Mastering RHIIP Certification by Nan McKay & Associates
- Created a "Coaching/Buddy" arrangement with Section 8 Director from Tucson Housing Department for the benefit of HAMC Section 8 Manager, i.e. information sharing, rules/regulations update, general operation techniques, etc.

Audit Report
August 31, 2004
Page 3 of 6

- Created new "Quality Control Specialist" position. Posted and filled position in June 2004.
- Provided on-site RIM Training by Nan McKay and Associates for all Section 8 and leased housing staff. Note: Same training was given to HUD staff and also at the East/West Coast RIM Summits provided by HUD in early 2004. Special focus on Quality Control and Error Reduction Strategy.
- Provided special salary recognition (increases) for majority of existing Section 8 and Public Housing leasing staff.
- Revised organizational structure effective May 2004, with special focus on workflow and accountability. Established a revamped performance evaluation system with appropriate staff orientation.
- Completely revised ACOP and Administrative Plan for 2004 submitted to HUD on April 26, 2004. Ongoing internal training/review of the plans and changes are scheduled monthly.
- NAHRO on-site training and certification for Housing Quality Inspections was held July 7-9, 2004 for inspectors and maintenance staff.
- Submitted 2004 SEMAP, August 26, 2004. HAMC conducted a special study with a non-Section 8 staffer performing the review, analysis and report with assistance regarding any issues from the Quality Control Specialist. The backup information and reports are stored on a 2004 SEMAP Report disc.
- HAMC recognizes its needs for a Cost Allocation Plan. Therefore, with the approval of the Board of Commissioners, Casterline Associates, P.C. was retained to provide on-going training and technical assistance for a 12-month period starting July 20, 2004. Critical training and technical assistance on budget and budget process, including cost allocation planning, procedures and internal controls, internal finance reporting to HUD and compliance with accounting issues, including GAAP and HUD requirements will be provided.

In response to FINDINGS:

1. Maricopa Did Not Properly Manage its Housing Choice Voucher Program.
2. Maricopa Made More Than \$88,000 in Improper Housing Assistance Payments to Landlords.

Audit Report
August 31, 2004
Page 4 of 6

3. Potentially One-Third of Recently Processed Housing Assistance Payments Are Incorrect.
4. Cost Allocation and Procurement Procedures Were Not Followed.

Finding 1: Maricopa Did Not Properly Manage Its Housing Choice Voucher Program.

Response to recommendations:

- A revised updated Rent Reasonable System was put into effect March 2004.
- A revised updated utility allowance schedule is scheduled to be effective as of September 7, 2004.
- A Quality Control Specialist started June 7, 2004. New procedures are evolving with additional record keeping as recommended by the Nan McKay training of August 24-26, 2004.
- 2004 SEMAP submitted August 26, 2004. All documentation stored in both files and computer disc.
- If necessary a Correction Action Plan will be submitted appropriately and timely to HUD after direction from the Arizona HUD Office.
- The suggested repayment of \$812,089 is based on assumptions that do not take into consideration all HUD operating regulations and is a broad interpretation of existing guidance. HAMC did in the period in question, FY 2003, manage, serve and assist a portfolio of an authorized 1400 Voucher clients and disbursed \$2,000,000 in HAP payments. There has been no recognizable number of resident or landlord complaints and as stated in the latest independent Public Accountant's report for the fiscal years ending June 30, 2003, there were no reportable conditions that rose to a level of a material weakness. Note: As noted by Casterline and Associates, the Finance Manager appeared not to have a full and clear understanding of GAAP accounting, a slowness to establish all necessary controls and some problem in properly classifying accounts. The Finance Manager, for the period 2003, resigned July 16, 2004. A principle of Rector & Moffit, the auditor for 2003, had recommended to the former director in the 2003 debriefing that there needed to be a staff change/or improvement at the Finance Manager level or more training and technical assistance. In summary, HAMC earned its fee for the FY 2003 and has moved aggressively after review of RIM Review dated

Audit Report
August 31, 2004
Page 5 of 6

December 17, 2003 to make all the administrative changes necessary to establish a high standard Voucher Program.

Finding 2: Maricopa Made More Than \$88,000 in Improper Housing Assistance Payment to Landlords.

- All duplicate landlord/tenant identification has been generally eliminated as evidenced by the most recent HUD/PIC Reports. HAMC has had the fewest number of errors by Arizona Voucher Program Administrators for the last three (3) months.
- A work task of consultants, Casterline Associates, P.C., is to address the issue of reconciliation. A closer working relation between Section 8 and Finance is required. A monthly senior staff meeting is also in place with teamwork and the goal of High Performance being stressed.
- A major task of both, Casterline Associates, P.C. and the independent auditor will be to verify the question of \$55,947 in duplicate payments. Any dollar amount non-accountable will be addressed with HUD, subject to a recommended Corrective Action Plan. The former Finance Manager in a memo to the Executive Director, dated June 28, 2004, disputes the claim of \$83,482 and outlines various actions by HAMC for recovery and an amount in process of collection.
- Any potential of \$109,361 in overpayments will follow the action as outlined above.
- ANY refund of \$5,406 will follow the Action as outlined above.

Finding 3: Potentially One-Third of Recently Processed Housing Assistance Payments Are Incorrect.

- Revised controls and internal guidance is being currently utilized; in addition to the above a RFP will be put out in the third quarter of 2004 for a third-party, with national experience in Section 8 management and operations, to develop a "Maricopa County Desk Book", which will contain exclusively HAMC day-to-day operating procedures with provisions for ongoing updates.
- A major task and responsibility of the Quality Control Specialist is to ensure accuracy and compliance. Special attention and focus of the recent RHIIP

Audit Report
August 31, 2004
Page 6 of 6

Training was on "Strategies for Measurable Success Through Quality Control".

- Monitoring is in place and the anticipated new software system will further improve 50058 reporting. Seven firms responded to the RFP.

Finding 4: Cost Allocation and Procurement Procedures Were Not Followed.

- A revised Cost Allocation Plan is a major task of the consultant, Casterline Associates, P.C.
- HAMC used a form of cost allocation in preparing the 2003 budget. There is question as the direction of this finding and any impact on 2003.
- The Executive Director will present to the Board of Commissioners in the 3rd quarter of 2004, a revised Procurement Policy. In addition, recruitment is underway for a new Purchasing Agent with special emphasis on experience with 24 CFR 85.36 and prior actual work of at least five years in purchasing in a public agency.

In summary, the Board of Commissioners and Executive Director, with support from Maricopa County officials as outlined in the Intergovernmental Agreement dated April 2, 2004 between the HAMC and Maricopa County jointly are committed to:

- Compliance with HUD laws and regulations
- Safeguarding Resources
- Strong Program Operations
- Policy and Procedures to Ensure Reliable Data and Information
- Commitment to Teamwork and Partnerships
- Commitment to the Highest Operating Standard

Sincerely,



Alphonso Patrick, Executive Director

Cc: Richard Cole, Jr., Chairman, HAMC