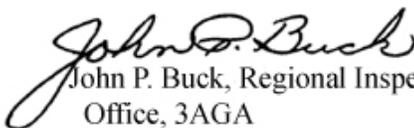


Issue Date October 17, 2005
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Audit Report Number 2006-PH-1002
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub,  
3BPH  
Robert Jennings, Director, Richmond Office of Public Housing, 3FPH

FROM:   
John P. Buck, Regional Inspector General for Audit, Philadelphia Regional  
Office, 3AGA

SUBJECT: The Suffolk Redevelopment and Housing Authority, Suffolk, Virginia, Did Not  
Always Follow HUD Requirements in Its Section 8 and Low-Rent Programs

## HIGHLIGHTS

### What We Audited and Why

We audited the Suffolk Redevelopment and Housing Authority's (Authority) Operations as part of our fiscal year 2005 annual audit plan. Our audit objective was to determine if the Suffolk Redevelopment and Housing Authority carried out its operations in accordance with applicable U.S. Department of Housing and Urban Development (HUD) requirements.

### What We Found

For the most part, the Authority carried out its operations in accordance with applicable HUD criteria. It properly inspected its Section 8 units, followed proper contracting procedures, and properly supported its draw down of HUD funds. However, the Authority did not always properly calculate Section 8 tenant income and utility allowances resulting in net overpayments of \$5,127. Additionally, for

one of its public housing developments, the Authority sometimes did not perform required annual inspections or properly recertify the tenants.

### **What We Recommend**

We recommend that HUD reduce the Authority's housing assistance payments by \$5,127 on its next Section 8 year-end settlement statement to account for the overpayments. Additionally, we recommend that HUD require the Authority to follow its Section 8 administrative plan and to prepare periodic reports showing the results of file reviews and any actions taken. We further recommend that HUD require the Director of Public Housing to perform the necessary reviews to ensure re-certifications and inspections are done when required.

### **Auditee's Response**

On September 28, 2005, the Authority declined its opportunity to discuss the draft audit report with us at an exit conference. On October 12, 2005, the Authority provided a written response to the report. In its response, the Authority thanked us for the report and stated it had no comments at this time. The Authority's response can be found in appendix B of this report.

# TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Always Follow HUD Requirements in Its Section 8 and Low Rent Programs	5
Scope and Methodology	9
Internal Controls	10
Appendixes	
A. Schedule of Questioned Costs	11
B. Auditee Comments	12

## BACKGROUND AND OBJECTIVES

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The Suffolk Redevelopment and Housing Authority (Authority) was established in 1971 to provide safe and sanitary housing for the low- and moderate-income families of the city of Suffolk, Virginia. The Authority's primary mission is to develop and operate affordable housing that is decent, safe, sanitary, and suitable for the low- and moderate-income families of Suffolk, Virginia. An eight-member board of commissioners governs the Authority. The Authority is located at 530 East Pinner Street in Suffolk, Virginia.

The Authority owns and manages 466 public housing units under its Consolidated Annual Contributions Contract with the U.S. Department of Housing and Urban Development (HUD). The Authority's Section 8 program had 625 units under lease during the audit. The Consolidated Annual Contributions Contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from fiscal years 2001 to 2005:

- \$3.4 million in operating subsidies to operate and maintain its housing developments,
- \$14.1 million to provide housing assistance through tenant-based Section 8 certificates and vouchers,
- \$3.6 million Capital Fund program funding to modernize public housing units, and
- \$114,000 to eliminate or reduce drug related crime and other crime or disorder problems.

Our audit objective was to determine whether the Authority carried out its operations in accordance with applicable HUD criteria.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Always Follow HUD Requirements in Its Section 8 and Low Rent Programs

The Authority sometimes incorrectly calculated income and used the wrong utility allowance schedules when computing rent and subsidy for some of its Section 8 recipients. This occurred because of administrative errors by the Authority's staff. The errors resulted in net overpayments of \$5,127. The Authority also did not always adequately re-certify its tenants or conduct required annual inspections at one public housing development. This resulted from inadequate management oversight and could result in tenants living in units that are not safe and sanitary. The Authority can correct these problems by improving its internal control program.

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#### **The Authority Made Net Housing Assistance Overpayments of \$5,127**

The Authority incorrectly calculated income and used the wrong utility allowance schedules when computing rent and subsidy for some of its Section 8 recipients resulting in net overpayments of \$5,127.

HUD Handbook 7420.10g, Chapter 6, describes the guidelines for calculating rent and subsidy. Chapter 22 of the handbook describes the quality control procedures necessary for ensuring the correct calculation of rent and subsidy. Our review of the Authority's calculations and documentation contained in the tenant files (for example, paycheck stubs and employment verification forms) showed the Authority's procedures were not always effective in ensuring it correctly calculated rent and subsidy.

- In eight of the 25 files reviewed (32 percent), the Authority incorrectly calculated income resulting in \$6,807 in housing assistance overpayments and \$1,464 in housing assistance underpayments.
- In five of the 25 files reviewed (20 percent), the Authority used the wrong utility allowance schedule to calculate the rent and subsidy, resulting in \$192 in housing assistance overpayments and \$408 in housing assistance underpayments.

The deficiencies noted above resulted in housing assistance overpayments totaling \$5,127<sup>1</sup>.

Authority officials agreed with the calculation errors we noted in our review, but stated they believed their quality control program met HUD requirements. To comply with Section 8 Management Assessment program requirements, Authority officials stated they selected a sample of Section 8 files to determine whether the rent being paid by the recipients was correctly calculated. According to Authority officials, all of the rent calculations in the sample they reviewed were correct. Authority officials provided us a listing of 17 files they reviewed during June 2004. However, the Authority could not provide other documentation supporting its review. Further, it was apparent by the deficiencies noted in our review that the Authority needed to strengthen its quality control program. The Authority's Section 8 administrative plan contained provisions that if implemented would have strengthened Authority's quality control program. The plan required the Section 8 director to review 10 percent of all rent re-examination files and 10 percent of new application files. The plan also required the Authority to sample files in an unbiased manner, leaving a clear audit trail. However, the Authority could not provide evidence or an audit trail to show it had performed these reviews.

The Authority can correct the errors noted in calculating rent and subsidy by following its own administrative plan and preparing periodic reports showing the results of file reviews and any actions taken. Additionally, the Authority can perform periodic reviews of staff to ensure they use the correct utility allowance schedules and correctly calculate income according to requirements.

### **The Authority Did Not Always Re-Certify Tenants or Inspect Units at One Public Housing Development**

Our review of the Authority's public housing files showed the Authority followed HUD requirements when re-certifying tenants and inspecting units at four of its five public housing developments. However, we found some deficiencies at one development known as Chorey Park Apartments.

According to 24 CFR 960.257 [Code of Federal Regulations], the Authority must conduct an annual re-examination of family income and composition. Additionally, HUD Handbook 7460.5 states that the Authority must inspect its public housing units annually. Our review of files related to Chorey Park Apartments showed

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<sup>1</sup> Housing assistance overpayments totaled \$6,999 and housing assistance underpayments totaled \$1,872 having a net effect of \$5,127 (\$6,999 minus \$1,872 equals \$5,127).

- Three of five tenant files (60 percent) did not contain evidence showing that the Authority inspected the unit annually as required by HUD Handbook 7460.5.
- Two of five tenant files (40 percent) did not contain evidence showing the Authority verified family income and composition as required by 24 CFR 960.257 [Code of Federal Regulations].
- Four of the five tenant files reviewed did not have re-certifications conducted in 2003 (80 percent) and two of the five tenant files (40 percent) reviewed did not have re-certifications conducted in 2004.

The deficiencies noted above can be directly attributed to a lack of adequate management oversight on the part of Authority officials. Specifically, the Director of Public Housing did not perform the necessary reviews to ensure re-certifications and inspections were done when required. However, the Director of Public Housing has recently implemented some corrective actions, including a checklist for resident managers to follow.

## Summary

Despite the deficiencies our audit noted, all of the Section 8 and public housing tenant files we reviewed showed the tenants met income eligibility requirements. In addition, HUD has recently rated the Authority's Section 8 program very highly under its Section 8 Management Assessment program. We also believe the corrective actions taken by the Director of Public Housing will correct the deficiencies noted at the Chorey Park Apartments development. The Authority has also taken steps to improve the overall physical condition of its public housing units. The Authority has recently prepared a schedule to ensure it inspects all of its units. The Authority has also prepared a memorandum of agreement with HUD addressing deficiencies HUD noted in its 2004 Real Estate Assessment Center's inspections. The memorandum provided a timeline for correcting deficiencies, including fire prevention classes for the residents, general maintenance, housekeeping enforcement, replacing damaged refrigerators, and making electrical repairs. The Authority expects to complete most of the necessary repairs by the end of 2005.

## Recommendations

We recommend that the Director, Baltimore Public Housing Program Hub

- 1A. Reduce the amount of housing assistance payments by \$5,127 on the Authority's next Section 8 year-end settlement statement to account for net overpayments.
- 1B. Require the Authority to follow its Section 8 administrative plan and to prepare periodic reports showing the results of file reviews and any actions taken.
- 1C. Require the Director of Public Housing to perform the necessary reviews to ensure re-certifications and inspections are done when required.

## SCOPE AND METHODOLOGY

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We performed the audit

- From February through October 2005 in accordance with generally accepted government auditing standards.
- At the Authority located in Suffolk, Virginia.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2002 through July 2005. We expanded the scope of the audit as necessary. We reviewed applicable regulations and guidance and discussed operations with management and staff personnel at the Authority.

To determine whether the Authority carried out its operations in accordance with applicable HUD requirements we

- Used audit software to randomly select and review 25 Section 8 tenant files and 15 public housing tenant files,
- Reviewed all 11 current Authority contracts (6 general and administrative contracts and 5 maintenance contracts) valued at \$415,731,
- Reviewed 10 of 76 Line of Credit Control System draw downs, totaling \$768,411 out of \$1,681,671, from 2003-2005, and
- Reviewed the Authority's internal control structure.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Re-certification of families in the Authority's Section 8 program, and
- Re-certification of tenants and inspecting units in the public housing program.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses. The Authority did not:

- Follow its Section 8 administrative plan and prepare periodic reports showing the results of file reviews and any actions taken, and
- Perform the necessary reviews to ensure public housing tenant re-certifications and inspections were done when required.

# APPENDIXES

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## Appendix A

### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	\$5,127

- 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.

## Appendix B

# AUDITEE COMMENTS

### Auditee Comments

#### SUFFOLK REDEVELOPMENT AND HOUSING AUTHORITY



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October 12, 2005

John P. Buck  
U. S. Department of Housing and Urban Development  
Office of Inspector General  
Wannamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, PA 19107-3380

Dear Mr. Buck,

We have no comments on the draft audit report at this time. Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads 'Tracey C. Snipes'.

Tracey C. Snipes  
Administrative Finance Operations Director