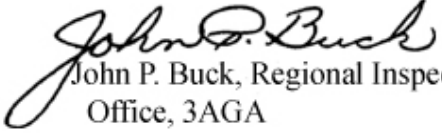




Issue Date
November 30, 2005

Audit Report Number
2006-PH-1003

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 Franklin Redevelopment and Housing Authority, Franklin, Virginia,
Did Not Adequately Administer Its Section 8 Program

HIGHLIGHTS

What We Audited and Why

We audited the Franklin Redevelopment and Housing Authority's (Authority) Section 8 Housing Choice Voucher program as part of our fiscal year 2005 annual audit plan. Our audit objective was to determine whether the Authority adequately administered its Section 8 program according to U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The Authority did not adequately administer its Section 8 program according to HUD requirements. The Authority often made incorrect housing assistance payments and did not perform required quality control reviews of its Section 8 tenant files. Additionally, the Authority did not verify rent reasonableness and it allowed an apparent conflict of interest situation to exist. These problems

occurred because the Authority did not have adequate internal controls in place to ensure it adequately administered its Section 8 program. As a result, the Authority made housing assistance overpayments of \$9,662 and underpayments of \$1,520, and it had no assurance its housing assistance payments were reasonable.

What We Recommend

We recommend that HUD require the Authority to repay \$9,662 in housing assistance overpayments and reimburse tenants \$1,520 in housing assistance underpayments. Further, we recommend that HUD require the Authority to strengthen its internal controls to ensure it adequately administers its Section 8 program and prevents apparent conflict of interest situations.

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

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on November 16, 2005. The Authority provided written comments to our draft findings on November 23, 2005. The Authority generally agreed with the report and our recommendations to strengthen internal controls, and to resolve and prevent apparent conflict of interest situations. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Adequately Administer Its Section 8 Program	5
Scope and Methodology	9
Internal Controls	10
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	11
B. Auditee Comments and OIG's Evaluation	12

BACKGROUND AND OBJECTIVES

The Franklin Redevelopment and Housing Authority (Authority) was established in 1963. The Authority is responsible for operating low-rent housing for eligible families, for operating redevelopment and conservation programs, and for the delivery of services to citizens of low-rent housing and urban renewal areas through the encouragement and development of social and economic opportunities. The Franklin City Council appoints a seven-member board of commissioners to govern the Authority. The Authority is located at 601 Campbell Avenue in Franklin, Virginia.

The Authority administered 315 Section 8 vouchers to families in the city of Franklin and the surrounding county of Southampton under its consolidated annual contributions contract with the U.S. Department of Housing and Urban Development (HUD). The consolidated annual contributions contract defines the terms and conditions under which the Authority agrees to manage its Section 8 Housing Choice Voucher program. HUD authorized the Authority the following Section 8 assistance from fiscal years 2002 to 2004:

Fiscal year	Authorized funds
2002	\$1,177,537
2003	\$1,108,326
2004	\$1,288,330
Total	\$3,574,193

The Authority had other financial assistance from fiscal years 2002 to 2004 as follows:

- \$1.7 million operating fund to operate public housing units.
- \$1.2 million Public Housing Capital Fund program funding to modernize public housing units.

HUD rated the Authority as a troubled agency based on its Section 8 Management Assessment Program scores since fiscal year 2003. Our audit objective was to determine whether the Authority is adequately administering its Section 8 program according to HUD requirements.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Adequately Administer Its Section 8 Program

The Authority often made incorrect housing assistance payments, did not perform required quality control reviews of its Section 8 tenant files, and did not verify rent reasonableness. In addition, the Authority allowed an apparent conflict of interest to exist by allowing its Section 8 occupancy clerk to process her own Section 8 housing assistance payment. These problems occurred because the Authority did not have adequate internal controls in place to ensure it adequately administered its Section 8 program. As a result, the Authority made housing assistance overpayments of \$9,662 and underpayments of \$1,520, and it had no assurance its housing assistance payments were reasonable.

The Authority Made Incorrect Housing Assistance Payments and Performed Inadequate Quality Control Reviews

The Authority incorrectly calculated income and utility allowances when computing rent and subsidy for some of its Section 8 recipients, resulting in overpayments of \$9,662¹ and underpayments of \$1,520. 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 5 of the 15 files reviewed (33 percent), the Authority incorrectly calculated income, resulting in \$9,662 in housing assistance overpayments.
- In 3 of the 15 files reviewed (20 percent), the Authority incorrectly calculated income and utility allowances, resulting in \$1,520 in housing assistance underpayments.

The Authority officials agreed with the calculation errors noted in our review but they stated that quality control reviews were performed. To comply with Section 8 Management Assessment Program requirements, Authority officials stated they

¹ Overpayments of \$10,614 less \$952 repayment from a repayment agreement

selected a sample of Section 8 files to determine whether the rent being paid by the recipients was correctly calculated.

According to Authority officials, quality control reviews were performed. However, the Authority could not provide a listing of files they reviewed. Additionally, the Authority could not provide other documentation supporting quality control reviews of tenant files. 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 the Authority's quality control program. The plan required the Section 8 director to review 10 percent of all rent reexamination files and 10 percent of new application files. The Authority should 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 correctly calculate income and utility allowances according to requirements.

The Authority Did Not Determine Rent Reasonableness

Contrary to HUD and federal regulations, the Authority did not determine rent reasonableness before approving Section 8 lease contracts. Our review of 15 randomly selected tenant files showed that in 15 (100 percent) instances, the Authority did not determine rent reasonableness. In addition, the HUD confirmatory review performed in July 2005 showed that the Authority did not determine rent reasonableness. This review stated that the Authority staff was not familiar with HUD requirements in determining rent reasonableness. Further, the Authority established its Section 8 payment standards at 110 percent of HUD's established fair market rents, and it did so without determining that the higher amounts were justified.

According to 24 CFR [*Code of Federal Regulations*] 982.507, the Authority may not approve a lease until it determines that the initial rent to the owner is reasonable. In addition, HUD Handbook 7420.10g, chapter 9, requires housing authorities to ensure that rents charged by owners to Housing Choice Voucher program participants are reasonable. This determination involves two comparisons. First, the Authority must compare the rent for the voucher unit to rents for similar unassisted units in the marketplace. Second, the Authority must compare the rent to rents for similar units on the premises. Since the Authority set a payment standard higher than the fair market rent and did not determine rent reasonableness, it had no

assurance that HUD funds were used to assist the maximum number of eligible families.

Apparent Conflict of Interest Existed

The Authority allowed an apparent conflict of interest to exist by allowing its Section 8 occupancy clerk to process her own Section 8 housing assistance payment. The audit showed that from September 2001 to September 2004, the Section 8 occupancy clerk processed her own Section 8 payment and benefited from an overpayment of \$7,941 (included in total overpayments of \$9,662) during this period. The housing assistance payment contract signed by the Authority and its Section 8 landlords prohibits a covered individual from having any direct or indirect interest in the housing assistance payment contract or in any benefits or payments under the contract while such person is a covered individual or during one year thereafter. A covered individual includes any employee of the Authority or any contractor, subcontractor, or agent of the Authority who formulates policy or who influences decisions with respect to the program.

To preclude this from occurring in the future, the Authority should implement appropriate measures to prevent and resolve apparent conflict of interest situations.

Recommendations

We recommend that the director, Baltimore Public Housing Program Hub²

- 1A. Reduce the amount of housing assistance payments by \$9,662 less amounts recaptured from landlords or tenants on the Authority's next Section 8 year-end settlement statement to account for net overpayments.
- 1B. Reimburse applicable tenants \$1,520 for the housing assistance underpayments, thereby putting these funds to better use.
- 1C. Require the Authority to implement its Section 8 administrative plan and to prepare periodic reports showing the results of file reviews and any actions taken.
- 1D. Require the Authority to develop and implement policies and procedures to ensure rent reasonableness before approving all housing assistance payments contracts.

² We also addressed this audit report to the director, Richmond Office of Public Housing at the request of the director, Baltimore Public Housing Program Hub.

- 1E. Require the Authority to resolve the current conflict of interest and develop and implement policies and procedures to ensure conflict of interest situations do not occur.

SCOPE AND METHODOLOGY

We performed the audit

- From May through November 2005 in accordance with generally accepted government auditing standards.
- At the Authority, located in Franklin, Virginia.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2002 through May 2005. We expanded the scope of the audit as necessary.

To determine whether the Authority adequately administered its Section 8 program according to HUD requirements, we

- Reviewed applicable guidance and federal regulations and discussed operations with management and staff personnel at the Authority,
- Used audit software to randomly select and review 15 Section 8 tenant files,
- Reviewed Section 8 Management Assessment Program confirmatory reviews performed by HUD at the Authority in 2003 and 2005,
- Reviewed the Authority's Section 8 year-end settlement statements for years 2003 through 2004,
- Reviewed the Authority's independent auditor's reports for fiscal years 2002 through 2004,
- Reviewed minutes of the Authority's board of commissioners meetings, and
- Reviewed the Authority's internal control structure.

INTERNAL CONTROLS

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.

Relevant Internal Controls

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

- Policies, procedures, and controls implemented to administer the Section 8 program properly.

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 have controls to ensure

- Quality control reviews were implemented and documented and periodic reports were prepared showing the results of file reviews and any actions taken.
- Rents were reasonable before approving all housing assistance payments contracts.
- Conflicts of interest were identified and avoided.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$9,662	
1B		\$1,520

- 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 polices or regulations.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Franklin Redevelopment & Housing Authority

601 Campbell Avenue
P. O. Box 267
Franklin, Virginia 23851-0267

23 November 2005
John P. Buck,
Regional Inspector General for Audit
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Subject: The Franklin Redevelopment and Housing Authority Audit

Dear Mr. Buck;

This letter acknowledges the audit and findings of your office for the Franklin Redevelopment and Housing Authority (Authority) that was conducted in June 2005. Through this letter we also acknowledge that we have discussed the report during an exit conference on 16 November 2005.

The Authority agrees that there was a conflict of interest and that over payments were made. The Authority agrees with recommendations 1B, 1C, 1D and 1E. The Authority does not however agree with 1A of the recommendations. The Authority is currently under new management.

The Executive Director, Housing Director, and Section 8 Occupancy Clerk are new to the agency and are working with the local HUD office to correct the issues surrounding the findings. We have submitted a corrective action plan to the local HUD office, both the Director and Section 8 Occupancy Clerk have been trained, Quality Control Reviews have been established, Rent Reasonableness has been established, neither of these employees are Section 8 participants. We have resolved the conflict of interest and developed and implemented policies and procedures and internal controls that provide reasonable assurance that these serious incidents will not re-occur.

The Authority, feels that recapturing the funds from the landlord or tenant would be the solution to resolving this issue and respectfully request that the \$9,662.00 not be taken out of our next Section 8 year-end settlement.

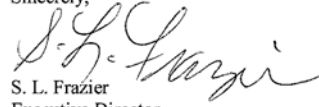
Comment 1

Comment 1

(757) 562-0384 • Fax (757) 562-0267 • TDD (757) 562-0015

Thanking you in advance for your consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "S. L. Frazier".

S. L. Frazier
Executive Director
Franklin Redevelopment &
Housing Authority.

OIG Evaluation of Auditee Comments

Comment 1 We are encouraged that the Authority agrees with the report and is taking needed action to correct the problems the audit identified. However, the fact that the Authority is currently under new management does not negate the fact that it made incorrect housing assistance payments in the past. Additionally, the report does in fact recommend for HUD to reduce the amount of the Authority's housing assistance payments *less* amounts recaptured from landlords or tenants.