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TO: Steven E. Meiss, Director of Public Housing Hub, 5APH

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Housing Authority of the County of Cook, Chicago, Illinois, Had Weak Controls over Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the County of Cook's (Authority) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2005 annual audit plan. We selected the Authority based upon a risk analysis that identified it as having a high-risk program. Our objective was to determine whether the Authority managed its program in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the second of two audit reports of the Authority's program.

What We Found

The Authority's program controls had weaknesses in the areas of housing assistance payment calculations, the Family Self-Sufficiency Program, and household portability. Of the 70 households' files statistically selected for review, the Authority incorrectly calculated housing assistance payments for 26 and lacked supporting documentation regarding admission and selection for five households. This resulted in the Authority paying nearly \$28,000 in overpayments of program housing assistance and utility allowances and more than \$47,000 in unsupported housing assistance.

The Authority failed to adequately use HUD's Enterprise Income Verification system to determine that reported zero-income households had unreported income

resulting in more than \$62,000 in improper housing assistance and utility allowance payments. It also did not monitor and correct escrow balances of its Family Self-Sufficiency Program participants and accurately account for payments related to household portability. The Authority took proper abatement actions regarding housing assistance and maintained its waiting lists in accordance with HUD's requirements.

As a result of the deficiencies previously mentioned, program funds were not always used efficiently and effectively, and fewer funds were available to assist low- and moderate-income families on the Authority's waiting list.

What We Recommend

We recommend that the director of HUD's Chicago Office of Public Housing require the Authority to reimburse its program from nonfederal funds for the improper use of program funds, provide support or reimburse its program from nonfederal funds for the unsupported housing assistance payments and related administrative fees, and implement adequate procedures and controls to address the findings cited in this audit report. These procedures and controls should help ensure that more than \$3 million in program funds are spent on housing assistance payments that meet HUD's requirements.

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

Auditee's Response

We provided our discussion draft audit report to the Authority's executive director, its board chair, and HUD's staff during the audit. We held an exit conference with the Authority's executive director on September 19, 2006.

We asked the Authority's executive director to provide comments on our discussion draft audit report by September 25, 2006. The Authority's executive director provided written comments dated September 25, 2006. The Authority disagreed with some of our findings and recommendations, and provided supporting documentation for most of the unsupported housing assistance payments cited in our discussion draft audit report. The complete text of the written comments, except for two binders of supporting documentation that were not necessary to understand the executive director's comments, along with our evaluation of that response, can be found in appendix B of this report. We redacted the names of households cited in the executive director's comments prior to including them in this audit report. The Authority provided HUD's director of the Chicago Office of Public Housing with a complete copy of the Authority's written comments plus the two binders of supporting documentation.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the County of Cook (Authority) is the second largest public housing authority in Illinois. It is a municipal corporation established in 1946 under the Illinois Housing Act to engage in the acquisition, development, leasing, and administration of a low-rent housing program and other federally assisted programs.

The Authority administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD) in 122 suburban communities in Cook County, Illinois. The Authority provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of August 7, 2006, the Authority had 10,683 units under contract with annual housing assistance payments totaling more than \$101 million in program funds.

Our objective was to determine whether the Authority managed its program in accordance with HUD's requirements. This is the second of two audit reports of the Authority's program.

RESULTS OF AUDIT

Finding 1: Housing Assistance Payment Calculations Were Inaccurate

The Authority did not always compute housing assistance payments accurately. Of the 70 households' files statistically selected for review, the Authority failed to calculate correctly 26 (37 percent) households' housing assistance and utility allowance payments. This occurred because the Authority lacked adequate procedures and controls to ensure that it followed HUD's requirements. As a result, the Authority overpaid nearly \$28,000 and underpaid more than \$2,900 in housing assistance and utility allowance payments.

Incorrect Housing Assistance Payment Calculations

According to HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240(c), public housing authorities must verify the accuracy of the income information received from program households and change the amount of the total tenant payment, tenant rent or program housing assistance payment, or terminate assistance, as appropriate, based on such information.

From the Authority's 11,583 active program households as of September 23, 2005, we statistically selected 70 households' files to determine whether the Authority accurately verified and calculated the income information received from the households for their housing assistance and utility allowance payments for the period April 1, 2004, through March 31, 2006. Our review was limited to the information maintained by the Authority in its households' files. Of the 70 files reviewed, 26 had discrepancies in the calculation of income that resulted in annual income miscalculations. Two files did not include adequate documentation to support the Authority's income calculation for the households (5147 and 24259), and the Authority was unable to locate one household file (32374) for review. Therefore, HUD and the Authority lack assurance that the housing assistance and utility allowance payments for the three households was accurate.

The Authority miscalculation of households' income resulted in \$27,201 in overpayments and \$2,911 in underpayments of housing assistance and utility allowances. Further, the Authority overpaid \$528 and underpaid \$15 in utility allowances. We provided the Authority's deputy executive director and the director of HUD's Chicago Office of Public Housing with schedules of the overpayments and underpayments of the housing assistance and utility allowances for the 26 households.

The following are examples of the types of errors found:

- The Authority miscalculated the annual income for household number 16006 due to a miscalculation of income from self-employment. HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 9, page 5-19, requires income to be included from self-employment as the net income or the gross income from business less business expenses. However, the Authority used the gross income from business as the annual income for the household's 2004 and 2005 annual certifications. As a result, the Authority underpaid the household's housing assistance by \$1,860 for both years.
- The Authority miscalculated the adjusted annual income for household number 25234 due to a miscalculation of medical expenses. The Authority only calculated the medical expenses for the head of household and excluded the medical expenses for the spouse on the 2004 annual certification. As a result, the Authority underpaid the household's housing assistance by \$264 for 2004.
- The Authority miscalculated the payment standard for household number 6070 due to an incorrect unit size. The Authority failed to correct the household's unit size at the 2004 certification. The household, a single individual, resided in a two-bedroom unit at the 2004 and 2005 certifications. However, an additional household member moved out of the unit on July 1, 2004. The household's recertification was due in December 2004 and the Authority allowed the household to receive the benefits of the two-bedroom unit. As a result, the Authority overpaid the household's housing assistance by \$2,111 for December 2004 through August 2005.

Cause for Miscalculations

Payments were not always computed accurately because the Authority lacked effective procedures and controls to ensure that all income and expenses were properly considered so that accurate housing assistance and utility allowance payments could be calculated. The Authority did not use households' appropriate annual or adjusted annual income, unit size, or utility allowances or calculate household expenses for payments. It also failed to exercise proper supervision and oversight of the certification process. The Authority's program supervisors said they conducted periodic quality control reviews of files to determine whether staff accurately calculated households' housing assistance and utility allowance payments. However, the Authority could not provide documentation to support the reviews. Periodic quality control reviews are an important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate.

Conclusion

HUD lacked assurance that the Authority used its program funds efficiently and effectively since it overpaid \$27,729 and underpaid \$2,926 in housing assistance

and utility allowance payments. Unless corrections to its certification process are realized, we estimate that the Authority could make more than \$2.6 million in excessive payments over the next year based on the error rate found in our sample and the net overpayment of housing assistance and utility allowances. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures and controls are put in place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 1A. Reimburse its program \$27,729 (\$27,201 in housing assistance and \$528 in utility allowances) from nonfederal funds for the overpayment of housing assistance and utility allowance payments cited in this finding.
- 1B. Reimburse the applicable households \$2,926 (\$2,911 in housing assistance and \$15 in utility allowances) from its fiscal year 2005 program funds for the underpayment of housing assistance and utility allowance payments cited in this finding.
- 1C. Provide documentation to support the housing assistance and utility allowance payments for the three households (5147, 24259, and 32374) cited in this finding. For any overpayment or underpayment, the Authority should reimburse its program the applicable amount from nonfederal funds or reimburse the applicable household for the appropriate amount.
- 1D. Implement adequate procedures and controls to ensure that its calculations regarding households' housing assistance and utility allowance payments are correct as required by HUD. These procedures and controls should help to ensure that an estimated \$2,619,182 in housing assistance and utility allowance payments are accurate over the next year.

Finding 2: The Authority's Zero-Income Households Had Unreported Income

The Authority did not use HUD's Enterprise Income Verification system (system) to determine that reported zero-income households had unreported income. Of the 62 households statistically selected for review, 25 had unreported income that affected their housing assistance payments. This occurred because the Authority lacked adequate procedures and controls to perform appropriate income verification. As a result, it unnecessarily paid housing assistance and utility allowance payments totaling more than \$62,000 for households that were required to meet their rental obligations.

Income Verification Not Performed

We statistically selected 62 zero-income households from the Authority's 779 zero-income households as of September 23, 2005, to determine whether they had income according to HUD's system for the period April 1, 2005, through June 30, 2006. Of the 62 households reviewed, 25 had income not reported to the Authority but income information was available through HUD's system. Therefore, the Authority provided excessive housing assistance and utility allowance payments for households. Our review was limited to the information maintained in HUD's system.

The following are examples of households with unreported income:

- The head of household 700878 had income, according to HUD's system, totaling \$18,352. Since the household had income, the Authority overpaid \$589 in housing assistance and \$64 in utility allowance per month. The total overpayment for this household was \$11,754 from January 2005 to June 2006.
- Household 023542 had income, according to HUD's system, totaling \$33,132. Since the household had income, the Authority overpaid \$689 in housing assistance and \$38 in utility allowance per month. The total overpayment for this household was \$8,724 from January to December 2005.

According to HUD's Public and Indian Housing Notice 2005-9, as a possible way to reduce costs, program households can be required to report all increases in income between reexaminations, and public housing authorities can conduct more frequent interim income reviews for families reporting no income. The Authority's program operations manual states that tenants who report that they do not have any source of income should be questioned closely to ensure that they do not have income of any sort and to determine how they expect to pay for necessities. Further, the Authority requires it zero-income households to certify that any willful failure to report all household income may subject their application for eligibility to disqualification.

Cause for Overpayments

The overpayment of \$51,244 in housing assistance and \$11,121 in utility allowances to households that reported zero income but had income occurred because the Authority lacked adequate procedures and controls for performing appropriate income verification. The Authority did not have procedures requiring more frequent reviews of its zero-income households or determining when and how the reviews should be conducted. Some of the Authority's program staff used HUD's system to determine whether households had unreported income. The Authority needs to make full use of HUD's system or other third-party income verification for all households at the time of examinations.

Further, the Authority's program managers did not conduct periodic supervisory reviews to ensure that staff took appropriate steps to determine whether households who reported zero income had unreported income. Periodic quality control reviews are an important step in ensuring that the Authority's housing assistance and utility allowance payments are accurate.

Conclusion

HUD lacks assurance that the Authority used its program funds efficiently and effectively. Unless corrections to its certification process are realized, we estimate that the Authority could make more than \$776,000 in excessive housing assistance and utility allowance payments over the next year based on the error rate found in our sample. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report. The Authority could put these funds to better use if proper procedures are put in place to ensure the accuracy of housing assistance and utility allowance payments.

Recommendations

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

- 2A. Pursue collection from the applicable households or reimburse its program \$62,365 (\$51,244 in housing assistance and \$11,121 in utility allowances) from nonfederal funds for the overpayment of housing assistance and utility allowance payments cited in this finding.
- 2B. Implement adequate procedures and controls to ensure that its households that report zero income do not have income that would result in an overpayment of housing assistance and utility allowances. These procedures and controls should help to ensure that an estimated \$776,236 in housing assistance and utility allowance payments are accurate over the next year.

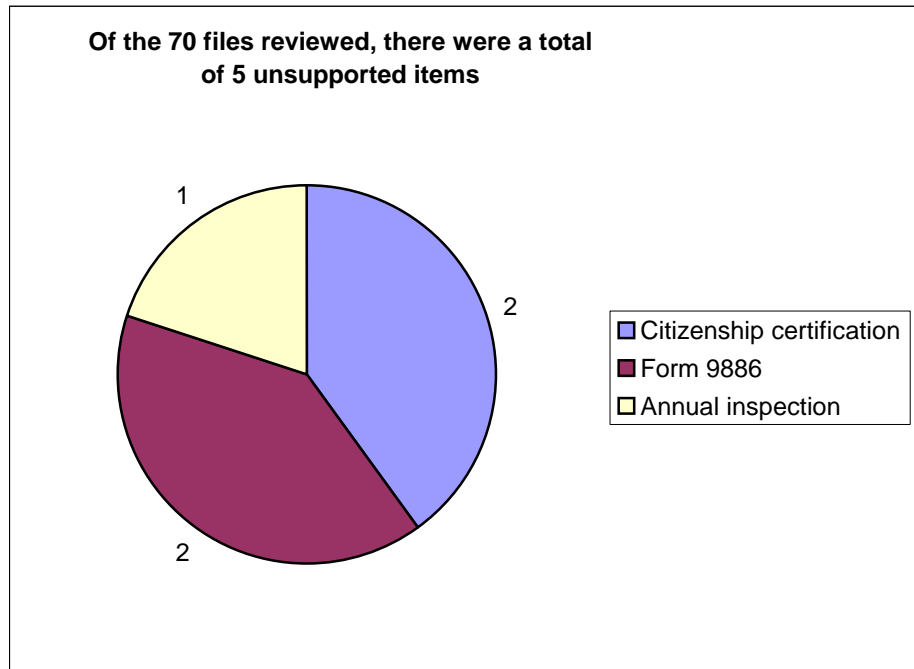
- 2C. Review the remaining 717 (779 minus 62) zero-income households as of September 23, 2005, to determine whether they had unreported income. For households that received excessive housing assistance and utility allowance payments, the Authority should pursue collection and/or reimburse its program the applicable amount from nonfederal funds.
- 2D. Terminate the program housing assistance to the applicable households that certified they had no income when in fact they had income according to HUD's system.

Finding 3: Controls over the Authority’s Program Admission and Selection Were Generally Effective

The Authority’s controls over program households’ admission and selection were generally effective. Of the 70 households’ files statistically selected for review, the Authority did not maintain adequate supporting documentation regarding program eligibility for five households. This occurred because the Authority needed to improve its procedures and controls over its household admission and selection process. As a result, HUD and the Authority lacked assurance that more than \$47,000 in program funds supported eligible low- and moderate-income households.

Files Lacking Adequate Eligibility Documentation

From the Authority’s 11,583 active program households as of September 23, 2005, we statistically selected 70 households’ files for review by using EZ Quant Dollar Unit Variable Statistical Sampling System software. We reviewed the 70 files to determine whether the Authority maintained adequate documentation to support the households’ admission to and selection for its program. There were five documents missing from the 70 files. The following chart details the number of items missing by category for the 70 households’ files.



The Authority must maintain complete and accurate accounts and other records for its program in a manner that permits a speedy and effective audit as required by 24 CFR [*Code of Federal Regulations*] 982.158(a). The Authority must keep a

copy of the executed lease, the housing assistance contract, and the household's application for the term of each assisted lease—and for at least three years thereafter.

HUD requires the Authority to determine a household's eligibility for the program by conducting background verifications and obtaining proof of Social Security numbers and certifications of citizenship. Two files did not include a signed certification from household members claiming to be U.S. citizens or eligible residents, and one of the Authority's files lacked documentation to support that an annual unit inspection was performed within 12 months of its previous inspection. Additionally, two files did not include Form 9886, Authorization for the Release of Information and Privacy Act Notice. Appendix D of this report shows the documentation missing for the 70 households' files reviewed.

Causes for Unsupported Documentation

The Authority needed to improve its procedures and controls over program households' files. Its staff created multiple files from a household's master file, thereby enabling several staff to work on the same file. However, this process resulted in missing paperwork or in some instances, a failure to obtain the required documentation since the Authority did not have an effective system for locating all files for program households. During the audit, the Authority was in the process of converting to an electronic system to enable staff to access household information electronically and update each file in real time. Once the file conversion was completed, the Authority was able to locate most of the supporting documentation that was missing during our audit. The Authority provided the supporting documentation after our on-site audit work was completed.

The Authority's program supervisors said they conducted periodic quality control reviews of files to determine whether staff obtained required documentation for determining households' eligibility for admission and selection. The Authority could not provide documentation to support the reviews. Periodic quality control reviews are an important step in ensuring that the Authority's program household files continue to contain required eligibility documentation.

HUD Funds Not Effectively Used

The Authority paid \$43,435 in unsupported housing assistance for five of the 70 households during the period April 1, 2004, through August 31, 2005. Further, the Authority received \$4,028 in program administrative fees related to the five households. Since the Authority lacked documentation to support the payment of the five households' housing assistance, HUD and the Authority lacked assurance that the assistance benefited eligible low- and moderate-income households.

Recommendations

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

- 3A. Provide supporting documentation or reimburse its program \$47,463 (\$43,435 in housing assistance payments plus \$4,028 in related administrative fees) from nonfederal funds for the unsupported housing assistance payments and related administrative fees for the five households cited in this finding.
- 3B. Implement adequate procedures and controls to ensure that it maintains all required documentation in program household files to support housing assistance and utility allowance payments in accordance with HUD's requirements.

Finding 4: The Authority Did Not Properly Manage Its Family Self-Sufficiency Program

The Authority failed to meet HUD's requirements regarding the administration of its Family Self-Sufficiency Program. The Authority's Family Self-Sufficiency Program did not (1) have a coordination committee or hold regular meetings to discuss ways to secure commitments of public and private resources for its operation, (2) verify whether participating households were employed or seeking employment, and (3) provide households with annual escrow account statements. Further, 10 of 26 households reviewed had their escrow account balances inaccurately calculated at least once during the scope of our audit. These deficiencies occurred because the Authority lacked adequate procedures and controls over its Family Self-Sufficiency Program. As a result, the Authority's Family Self-Sufficiency Program was not operating as HUD intended, and the Authority overfunded households' escrow accounts by more than \$1,600 and underfunded them by more than \$2,700 plus applicable interest.

Program Coordination Committee

As of July 2006, the Authority had not established a coordination committee for its Family Self-Sufficiency Program. The Authority's special program manager said the Authority had not held applicable meetings since March 2004 although it planned to meet quarterly. According to 24 CFR [*Code of Federal Regulations*] 984.202, each participating public housing authority must establish a program coordination committee, the functions of which will be to assist the authority in securing commitments of public and private resources for the operation of the Family Self-Sufficiency Program within the authority's jurisdiction, including assistance in developing the action plan and in program implementation.

Actively Seeking Employment

The Authority did not followup on households to determine whether they were employed or seeking employment in accordance with 24 CFR [*Code of Federal Regulations*] 984.303(b)(4). Two organizations provided services to the Authority's Family Self-Sufficiency Program households.

One of the organizations provided quarterly cumulative statistics and a report regarding the households' employment or education status to the Authority. However, the Authority did not document the information from these reports in the households' files or use the information from these reports for monitoring purposes. The organization had not provided the Authority with any written reports on the households' employment status as of July 2006. However, the organization provided reports to the Authority when it inquired about the job or education status of a household. However, the Authority did not document the information it received from the organization in the households' files.

Escrow Account Statements

The Authority did not correctly calculate the escrow balances for the participating households. There was a total of \$1,605 plus earned interest overfunded and \$2,711 plus earned interest underfunded to the households' escrow accounts. In addition, households were not aware of the balances in their accounts since they did not receive annual statements.

We reviewed a sample of 26 of the Authority's 190 participating households' files as of December 2005 and determined that 10 households had their escrow accounts credited inaccurately, at least once, between April 1, 2004, and August 31, 2005. In addition, there were two households (28852 and 702827) for which a determination of their escrow balances of \$40,592 (\$11,405 and \$29,187, respectively) could not be verified because the Authority was unable to provide supporting documentation from the households' files. The following table details the overfunded and underfunded escrow accounts for the 10 households.

Incorrect escrow accounts		
Household number	Overfunded	Underfunded
347	\$190	
3499		\$268
4539		90
4766	383	
9549	852	
12961	<u>180</u>	
21397		522
21571		387
41307		1,054
41334		<u>390</u>
Totals	<u>\$1,605</u>	<u>\$2,711</u>

For example, the escrow account for household number 41307 was underfunded by \$1,054 plus any accrued interest because the Authority failed to update the escrow credit from the previous certification. Effective April 1, 2005, the Authority calculated the household's earned income and escrow credit to be zero. At the next certification, effective July 1, 2005, the household's earned income increased to \$24,500, and the Authority should have increased the escrow credit to \$527. However, the Authority kept it at zero, a difference of \$527 per month for two months. This resulted in the underfunding of the account by \$1,054. As of December 31, 2005, the household's escrow account was \$4,048 and it should have been \$5,102.

Cause for Deficiencies

The deficiencies occurred because the Authority lacked adequate procedures and controls over its Family Self-Sufficiency Program. The Authority relied on its computer system to generate the escrow account credits for its households. The computer system used information from HUD Form 50058 to calculate the escrow account credit. The Authority's program staff did not perform a quality control review of the information contained on the forms for accuracy to ensure that the amount of earned income was correct when determining the escrow account credit.

The Authority's Family Self-Sufficiency Program staff performed reviews of each household's escrow account to ensure that the accounts were credited. However, the reviews did not include performing a verification of the annual income or allowances to ensure that the escrow credits were accurate since this was the responsibility of the Authority's program staff. Therefore, the Family Self-Sufficiency Program staff relied upon the Authority's program staff to have already verified the accuracy of the households' earned income data from their annual recertifications or interim examinations.

Conclusion

The Authority did not effectively manage its Family Self-Sufficiency Program. As a result, escrow credits were out of balance and households were not aware of the amounts credited to their accounts. In addition, the Authority did not closely monitor to ensure that all households complied with applicable employment requirements. Participants who do not comply with the Family Self-Sufficiency Program's requirements should be terminated so that other households may participate. Allowing households to stay on the Family Self-Sufficiency Program when they were unemployed and not seeking employment prevented other households that wanted to actively participate from doing so.

Recommendations

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

- 4A. Establish a coordination committee as required by HUD's regulations.
- 4B. Maintain documentation in participating households' files of their employment or job-seeking status to ensure that they meet their contract of participation and remove any households not employed or not actively seeking employment.

- 4C. Reduce the escrow accounts for the five Family Self-Sufficiency Program households that were inaccurately credited for the \$1,605 cited in this finding and any accrued interest.
- 4D. Reimburse its seven Family Self-Sufficiency Program households' escrow accounts that were not credited the \$2,711 cited in this finding plus any interest.
- 4E. Implement adequate procedures and controls regarding its Family Self-Sufficiency Program to ensure that participating households' annual income calculations are accurate and complete, escrow credits are reviewed for accuracy, and households receive annual statements.
- 4F. Provide adequate documentation to support the \$40,592 deposited to the two households' escrow accounts cited in this finding and adjust or reimburse the account(s) as appropriate.

Finding 5: The Authority's Controls over Household Portability Were Weak

The Authority had weaknesses in the accuracy of payments it made to receiving housing authorities for port-out households and did not ensure that payments for port-in households were accurate and received within prescribed timeframes. In addition, the Authority continued to receive portability receipts for port-ins after absorbing the households. These weaknesses occurred because the Authority did not adequately reconcile reports to track portability payments and receipts and was not timely in notifying all housing authorities when it absorbed households. As a result, the Authority made net overpayments of \$2,938 for port-out households and needs to return \$10,336 in housing assistance payments for households that were absorbed.

Port-Out Payments

Our review of 25 randomly selected port-out households' files showed that the Authority underpaid and overpaid receiving housing authorities for port-out households' housing assistance. The Authority underpaid one receiving housing authority \$138 and overpaid three receiving housing authorities \$3,076. The total payment error was \$3,214, and the net effect on housing assistance payments was an overpayment of \$2,938.

According to 24 CFR [*Code of Federal Regulations*] 982.355, the Authority must promptly reimburse the receiving housing authority for the full amount of the housing assistance payments made by the receiving housing authority for the portable households. Since the Authority did not always reimburse the receiving housing authority the correct amount of housing assistance payments, the Authority and HUD lack assurance that the port-out payments were correct.

Receipts for Port-Ins Delinquent

The Authority did not receive payments from housing authorities for port-in households within 30 days of the initial billing and by the fifth working day of each month for all subsequent payments in accordance with HUD's requirements. Of the 67 port-in households' files reviewed, the Authority initially billed housing authorities for 24 in 2005. For these 24 port-in households, the Authority did not receive payments within 30 days of the initial billing for 16 (67 percent). For subsequent payments, the Authority did not receive payments for 31 of the 67 (46 percent) port-in households by the fifth working day of the month. Most of the late payments were from the Chicago Housing Authority (15 of the 16 initial billings and 25 of the 31 subsequent payments). This resulted in large payments being received by the Authority. For example, in January 2005 and April 2006, the Chicago Housing Authority sent checks for \$614,252 and \$78,030, respectively.

The controller said that the Authority did not always notify housing authorities about late payments and it had not notified HUD as of June 2006. The Authority's position was that it had sufficient program funds to cover any shortfalls due to abatements of housing assistance, moves, or other pending actions that would delay housing assistance payments.

As of January 2006, there was \$48,199 in outstanding housing assistance payments and administrative fees from housing authorities for port-in households. The Authority received payment for all but \$18,766 by April 10, 2006. However, of the \$48,199 in outstanding payments as of January 2006, only \$33,683 appeared on the Authority's aging report. We identified the remaining outstanding payments by comparing the expected payments (from HUD Form 52665 in the households' files) to the Authority's cash receipts reports. Of the \$18,766 in outstanding payments as of April 10, 2006, only \$12,656 appeared on the aging report due to differences in the amounts recorded on the aging and cash receipts reports. There was no evidence that the Authority routinely reconciled these two reports.

The Authority needs to monitor the accuracy and timeliness of payments for port-in households by reconciling its cash receipts and aging reports on a periodic basis and notifying authorities of any late payments that are due. This will help to ensure that the Authority pursues program funds appropriately.

Payments for Absorbed Portability Households

Our review of 1,174 port-in households that the Authority had absorbed as of February 2006 showed that it still received payments for 25 households as of March 2006 because it failed to notify all affected housing authorities. The total payment received by the Authority for the 25 households in March 2006 was \$10,336.

According to HUD's Public and Indian Housing Notices 2004-12 and 2005-28, if the Authority absorbs a household for which it has been billing or if it terminates the housing assistance payments for any reason, the Authority should provide adequate notice of the effective date of the absorption or termination to avoid having to return a payment. In no event should the Authority fail to notify the initial housing authority later than 10 working days following the effective date of the termination of billing arrangements. Since the Authority continued to receive payments for absorbed households, the Authority and HUD lack assurance that the Authority provided adequate notice of households' absorptions to initial housing authorities regarding port-in payments.

Recommendations

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

- 5A. Pay the receiving housing authorities the \$138 underpaid for port-out households cited in this finding.
- 5B. Request reimbursement from the receiving authorities for the \$3,076 in overpaid housing assistance for port-out households cited in this finding.
- 5C. Perform periodic reconciliations of household portability information forms with check listings by vendor reports to identify any discrepancies with port-out payments made.
- 5D. Reconcile its cash receipts and aging reports for portability receipts on a recurring basis to pursue discrepancies and notify authorities of any late payments due.
- 5E. Repay the applicable housing authorities for the \$10,336 in payments received for absorbed port-in households cited in this finding.
- 5F. Implement adequate procedures and controls over its portability process to include but not limited to notifying housing authorities for port-in households that will be absorbed so that housing assistance payments are not obligated unnecessarily.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed:

- Applicable laws, regulations, and HUD program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 982, and 984; HUD's Public and Indian Housing Notice 2005-9; HUD's Housing Choice Voucher Guidebook 7420.10; HUD's reports and files for the Authority's program; the Authority's program administrative plan effective May 2000; and its operations manual; and
- The Authority's accounting records, annual audited financial statements for the periods ending March 31, 2004, and 2005; general ledgers, bank statements and cancelled checks for April 2004 through August 2005, program household files, board meeting minutes for January 2004 through December 2005, organizational chart, and program annual contributions contract with HUD.

We downloaded electronic data for the Authority's program households as of September 23, 2005. We also interviewed the Authority's employees, program households, and HUD staff.

From the Authority's 11,583 active program participant households as of September 23, 2005, we statistically selected 70 households' files for review by using EZ Quant Dollar Unit Variable Statistical Sampling System software. We reviewed the 70 files to determine whether the Authority maintained adequate documentation to support the households' admission and selection for its program. We also reviewed the 70 files to determine whether the Authority accurately verified and calculated the income information received from the households for their housing assistance and utility allowance payments for the period April 1, 2004, through March 31, 2006. The Authority incorrectly calculated payments for 26 of the 70 files reviewed. This resulted in total miscalculation of payments by \$30,655—to include overpayments of \$27,729 and underpayments of \$2,926 in housing assistance and utility allowances.

Unless the Authority improves its calculation process, we estimate that it could make \$2,619,182 in future excessive housing assistance and utility allowance payments. We determined this amount by multiplying 2.93 percent (the percent of the total housing assistance and utility allowance for the 70 households' files in the sample that received excessive payments) times \$89,391,864 (the total payments for the population of households served). We determined the 2.93 percent by annualizing the net excessive payments of \$24,803 (\$27,729 in overpayments minus \$2,926 in underpayments) for our sample of 70 households divided by the \$596,690 in housing assistance and utility allowance payments for one year.

We determined an estimate of \$776,236 in future housing assistance overpayments due to underreporting of income by zero-income households during the next 12 months. To do this, we applied a 10.5 percent error rate found during our review of 62 statistically selected zero-income households' files to the estimated average annual housing assistance payments disbursed by the Authority for all of its zero-income households (\$7,392,720). We determined this error rate by dividing the overpaid housing assistance payments (\$62,365) by the total housing assistance payments made for the 62 households in our sample (\$593,931) for the review period of January

2005 through June 2006. We calculated the Authority's average annual housing assistance expense by annualizing the total payments made to the 779 zero-income households in our sample's population as of September 2005 (\$616,060 times 12).

We performed our on-site audit work from November 2005 to June 2006 at the Authority's former program office, located at 310 South Michigan, Chicago, Illinois. The audit covered the period April 1, 2004, through August 31, 2005. This period was expanded as necessary to accomplish our objective.

We performed our audit in accordance with generally accepted government auditing standards.

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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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 objective:

- 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, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weakness

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

- The Authority lacked adequate procedures and controls over calculations of households' housing assistance and utility allowance payments, income verification for reported zero-income households, administration of the Family Self-Sufficiency Program; and household portability (see findings 1, 2, 4, and 5).

FOLLOWUP ON PRIOR AUDITS

This is the second audit of the Authority's program by HUD's Office of Inspector General (OIG). The first audit report (report number 2006-CH-1012) issued on July 11, 2006, included three findings. The three findings are not repeated in this audit report. The most recent independent auditor's report for the Authority covered the year ending March 31, 2005, and resulted in no findings.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$27,729		
1B			\$2,926
1D			2,619,182
2A	<u>62,365</u>		
2B			776,236
3A		\$47,463	
4C			1,605
4D			2,711
4F		<u>40,592</u>	
5A			138
5B			3,076
5E			<u>10,336</u>
Totals	<u>\$90,094</u>	<u>\$88,055</u>	<u>\$3,416,210</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 those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs required 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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reduction in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



**HOUSING AUTHORITY
OF THE COUNTY OF COOK**

175 W. Jackson Blvd., Suite 350 • Chicago, IL 60604-3042 Fax: (312) 939-4727

Elzie Higginbottom
Chairman
Alicia R. McCray
Vice Chairman
Karen R. Chavers
Treasurer
James L. Jones
Commissioner
Joseph Martin
Commissioner

9/22/2006

Thomas Towers
Assistant Regional Inspector General for Audit
United States Department of HUD
Office of the Inspector General
477 Michigan Avenue – Rm. 1780
Detroit, MI 48226-2592

Re: Draft Audit Response

Dear Mr. Towers:

Thank you for the opportunity to provide input into your draft audit report. The information in your report comes to the Authority at a time when new leadership has taken the helm and is in the process of guiding the agency in a new direction. As a result of the leadership change, the HACC intends to restructure in order to better serve the needs of its clients and to better comply with HUD rules, regulations and guidelines. Part of the restructuring plan includes the development of compliance teams. These teams will review work performed by staff, compile compliance reports and provide management the tools it needs to hold the agency and staff accountable. In addition to performing an oversight function, the compliance team will be involved in ongoing staff training and development. This includes ensuring the HACC will become more assertive in making sure it is kept abreast of changes in federal regulations as they occur.

Also included in the restructuring will be more frequent face-to-face meetings with clients with an emphasis on improved customer service focus. Part of the reason for the frequent face-to-face meetings with clients is to reduce the incidence of fraud and additionally to better support clients in their efforts to become self-sufficient. We believe the HACC will create a climate in which residents will be willing to disclose required information or providing information that will ultimately better position them to move forward.

We are committed to making these changes. To this end we have published a legal notice and are currently soliciting bids from interested

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Parties to make a comprehensive assessment of HACC operations. The assessment will include all staff and management functions, agency automation and organization, work methods and procedures and field office functions. This assessment will be the first step toward the total reorganization of the HACC and a move toward improved efficiency, greater quality control and better utilization of scarce federal resources. I am sure you will be pleased with the changes.

With regard to your audit report, the Housing Authority of the County of Cook reviewed your findings in detail and while we see opportunity for improved compliance, we disagree with some of your findings (or components of your findings) as follows:

Finding 1: Controls over the Authority's Program Admission & Selection Were Weak – Files Lacking Adequate Eligibility Documentation.

Your audit states that you reviewed 70 files and found that 82 documents were missing from the 70 files as follows:

Comment 2

1. Background Verifications (9 Missing): As you state in your audit, the requirement that PHAs perform criminal history background checks is an admission requirement that appeared in the Federal Regulations for the first time in approximately 2002. The requirement was not retroactive and background checks are not required to be performed annually at the time of annual review. Attached is a spreadsheet that includes the 9 persons that you identified for whom you state that background checks were not performed. This spreadsheet includes each households date of original admission into the Housing Choice Voucher Program. Four (4) of the nine (9) persons you identified are persons not admitted into the HACC's voucher program in that the persons identified are living in the jurisdiction of the HACC on a portability billing basis.

However, the HACC is shares the concern of the OIG that persons funded under the program not be subject prohibition under federal regulations. Therefore, the HACC conducted criminal background checks on all of the persons the OIG identified to determine whether any had a criminal history that would have precluded them from admission the program. None of the persons had such a history. A redacted copy of the criminal background checks is attached for each of the 9 files.

The attached documentation should verify that 9 out of the 9 background checks have been performed and all of the 9 households are eligible.

Comment 3

2. Citizenship Certifications (33 Missing): This admission requirement was implemented in the mid 1990s, and some of the persons you identified were admitted before this requirement became effective. When the requirement was implemented it was not retroactive and PHAs could not terminate the participation of existing households whose files did not contain the certification. We reviewed each of the files to determine whether there was either a Certification of Citizenship or another documents acceptable under the HUD

Comment 4

regulations that verify the citizenship of each of the persons in questions. In order to ensure that only eligible citizens were served we called each of the tenants into the office and obtained the documents if we were unable to find a copy in the file. Of the 33 persons you identified, 23 of the Certifications were in the file or were obtained, 9 of the files contain alternative methods of identifications such as a U.S. Passport, birth certificate or Social Security form, and 2 the certification or alternative method of citizenship verification is still outstanding in 1 of the files.

Included with this correspondence is Citizenship documentation for 31 out of the 33 files.

3. Birth Certificates (9 Missing): The HACC examined its files and is submitted with this correspondence 6 of the 9 missing birth certificates. For three of the files, the HACC is submitting alternative documents recognized by HUD. These alternative documents include a social security form, a State of Illinois Identification Card, and Citizenship documentation.

Included with this correspondence are birth certificates or alternative proof of age for 9 of the nine households.

Comment 5

4. Annual Inspections (9 Missing): All of the nine (9) annual inspections were performed. The HACC examined its files and its computer records and is submitting a copy of 9 of the 9 missing inspection reports and 8 of the 9 inspection books. One (1) annual inspection was not in the file because the tenant moved to a new unit so an annual inspection was not performed. We submitted the inspection report which provides evidence that the tenants new unit was inspected.

Included with this correspondence are inspection books or a inspection report 9 of the 9 households.

Comment 6

5. Proof of Social Security Number (6 Missing): The HACC examined its files and is submitting 5 of the 6 missing social security cards. In the case of 1 tenant, the HACC is submitting alternative verification of the social security number obtained from the file (Illinois State Identification Card containing the social security number), (see attached Housing Choice Voucher Guidebook, p 5-12, Disclosure of Social Security Numbers). The information submitted should verify that 6 out of the 6 social security numbers were properly verified.

Included with this correspondence are copies of social security cards or an alternative proof of social security number of 6 of the 6 households.

Comment 7

6. Form 9886 (6 Missing): The HACC examined its files and is submitting 4 of the 6 missing forms 9886. Two of the forms are still outstanding.

Comment 8

7. Form 50058 (4 Missing): The HACC examined its files and is submitting 4 of the 4 missing forms. All 4 of the 4 forms are submitted with this correspondence.

Comments on Recommendations: HACC comments on OIG recommendations are as follows:

1A. The OIG recommended that the HACC provide the supporting documentation or reimburse its program. With a few exceptions, the HACC has provided the supporting documentation requested by the OIG and it is attached to this correspondence.

1B. The OIG recommended that the HACC implement adequate procedures and controls to ensure that it is maintaining all required documents in program household files to support housing assistance and utility allowance payments in accordance with HUD's requirements. The HACC agrees that such controls are essential. The OIG audit was unfortunately conducted during a time when the HACC was moving to a new location and all of its files were being converted to a standardized format and files and file documents were being compiled to be processed into the new computerized format. Since the OIG Audit was completed the HACC has moved to its new location. It has completed the conversion of its files to a standard format and all documents that were not in the files during the audit have now been returned to the files as a result of the completion of the conversion process. The new file format and new computerized file room results in controls that were not in place during the audit. The new computerized process will account for every file going forward.

Finding 2: Housing Assistance Payments Calculations were inaccurate

The Authority concurs that there were some errors in some calculations except as follows:

Comment 9

1. There wasn't a \$57 underpayment for client #43002 [REDACTED] for 2004, nor was there a \$2863 overpayment for 2005. For 2004 the auditor used the stated monthly amount on the Child Support Enforcement form and multiplied that amount by 12, instead of taking an average of the monthly amounts, which fluctuated. For 2005 the auditor incorrectly included in its calculations of HAPs the amounts of two HAPs that had been issued, but had then been voided and reissued.

Comment 10

2. There wasn't a \$436 overpayment for client #10176 [REDACTED] for 2005. OIG assumed a 40 hour workweek in calculating her employment income. However, there is no mention of this figure on the relevant documentation. Rather it gives a monthly amount, which the Authority multiplied by 12.

Comment 11

3. There wasn't \$156 overpayment for client #29782 [REDACTED] for 2004, as OIG used an older figure in calculating child support income instead of the more recent information present in the file.

Comment 12

4. There wasn't a \$230 underpayment for client #9512 [REDACTED] for 2005. A medical expense credit is not attributable to this household that does not meet the regulatory definition of elderly, disabled or handicapped.

Comments on Recommendations: HACC comments on OIG recommendations are as follows:

2A. The HACC is not in any position to make any reimbursement. Any funds, be it federal or non-federal are needed to enhance the voucher program. The HACC would greatly appreciate it if the OIG would consider non-financial means of restitution.

2B. The HACC has reviewed the OIG calculations and has submitted recommended changes to the OIG review.

2C. Attached is the documentation requested.

2D. The HACC plans to restructure and as part of the restructuring will develop and implement compliance teams who will audit and so as to ensure correct rent determination.

Finding 3: The Authority's Zero Income Households Had Unreported Income.

Although the HACC agrees that 25 of the 62 zero income households selected by the OIG had fraudulently certified that they had zero income when in fact EIV reports collected during the audit proved that they had income, the HACC disagrees that Notice PIH 2005-9 requires public housing authorities to conduct more frequent interim income reviews for families reporting no income. The subject notice states the following as its purpose:

"1. Purpose. This Notice provides guidance on administrative flexibility and actions PHAs may take to reduce costs in the Housing Choice Voucher Program ("the voucher program") in accordance with the Consolidated Appropriations Act, 2005 (Public Law 108-477)."

With regard to the more frequent reexamination of zero income households the Notice PIH 2005-9 reads as follows:

"4. Other Possible PHA Policies to Reduce Costs.

e) Interim Reexaminations. Require families to report all increases in income between reexaminations, and conduct more frequent interim income reviews for families reporting no income. The effective date of an annual or interim or reexamination of family income is dependent upon PHA policies." (see attached).

Comment 13

In summary, the PIH Notice cited by the OIG “provides guidance on administrative flexibility.” The notice lists a variety of ways a PHA can reduce costs but leaves it up to the PHA as to whether it wants to implement any of the suggestions.

HUD regulations require PHAs to conduct an examination of income “at least annually” as follows:

Housing Choice Guidebook, 7420.10 G, Chapter 12, Reexaminations, 12.1 reads as follows: “The PHA is required to reexamine the income and composition of housing choice voucher families at least annually. The annual reexamination determines the continued eligibility of the family and established the housing assistance payment (HAP) to be made on behalf of the family. The PHA may require families to report interim changes in family income or family circumstances as well. A family’s failure to comply with the PHA reexamination requirements is grounds for terminating assistance” (see attached).

The HACC conducted a test with regard to more frequent examinations of zero income households and determined that significant savings could not be achieved. It therefore uses EIV data to monitor persons who claim zero income when they in fact have income and these persons are terminated and/or referred to the OIG for investigation.

Although the OIG found that 25 zero income households had committed fraud and misrepresented their incomes, it was the clients and not the HACC that acted inappropriately. The HACC properly conducted annual reviews on all of the files and neither HUD nor HACC policies require the HACC to conduct reexaminations more frequently than annually. Although, in light of the finding the HACC now better understands how this recommendation from HUD can position it to have better control of this process. The HACC will implement a more frequent review of zero income households.

Finally, with regard to use of HUD’s computerized “EIV” system, the audit stated that the HACC failed to use the system consistently. It is noted that the system was originally launched in the Chicago as the “UIV” system in approximately December 2004, approximately 10 months into the OIG’s audit period of 4/1/04 – 8/31/05. The HACC did not have access to UIV data for many of the persons identified by the OIG who stated they had zero income. The employment information that is received by PHAs in these reports is approximately 6 months behind and it is not available on new Intakes or persons who are porting into a PHA.

Comments on Recommendations: HACC comments on OIG recommendations are as follows:

3A. The HACC will terminate housing assistance for all households who fraudulently claimed they had no income when in fact they had income.

Comment 14

3B. In addition to running an EIV Report on all households claiming no income, the HACC will check these households through two (2) other government computer systems.

3C. The HACC will continue to investigate persons who claim no income and will terminate program assistance as appropriate. Since UIV/EIV was launched, 106 persons have been terminated.

Finding 4: The Authority Did Not Properly Manage its Family Self-Sufficiency Program

With regard to income calculations and FSS clients, FSS client escrow accounts are based solely upon earned income and do not include unearned income. The calculations provided by the OIG include income from sources such as child support, unemployment compensation, social security, etc. It therefore appears that some escrow accounts were under funded. Non-earned income is not considered by the computer system when determining the amount of the monthly escrow. The escrow account statements provided to the OIG were not the final statements and were subject to a reconciliation audit.

The HACC staff audits each escrow account before determining escrow balances for program participants and does not send out any escrow statements or make any payouts before accounts are audited. The audit ensures that all adjustments to income are properly considered. As communicated to the OIG auditor, the statements provided were pre-audit statements and were subject to possible adjustment.

The HACC has performed a reconciliation audit of each of the files and has attached the results. Unless the OIG objects, the HACC will adjust each of the 12 escrow accounts as indicated in the attached spreadsheet.

Comments on Recommendations: HACC comments on OIG recommendations are as follows:

4A. The Authority's Coordinating Committee has been reorganized and it met on Tuesday Sept. 18, 2006, and will meet regularly thereafter.

4B. The Authority has requested outside case managers to forward file documentation regarding employment or job-seeking status and will remove non complying households.

4C. & 4D. The Authority has audited all FSS Escrow Accounts and will adjust the accounts accordingly. In some cases, the Oil's fund balance did not include adjustments provided the tenants or other issues, (see attached spreadsheet).

4E. Going forward, the computer system will be modified to flag FSS accounts when any interim or annual adjustment is completed and the files will be audited by the HACC at that time.

4F. The required documentation has been placed in the files and the files will be appropriately audited.

Finding 5: The Authority's Controls over Household Portability Were Weak

Port-Out Payments

The Authority provided its documentation for this finding under separate cover and acknowledges the total payment error of \$3,214 on four of the twenty-five files tested. In determining the cause of the errors, the Authority found that two factors were responsible for the errors.

First, the Vendor Manager receives all faxes and mail related from housing authorities that are billing HACC. This mail includes letters, 52665/50058 packets, invoices and other miscellaneous documents. During the period that the audit covered, the staff sorting mail would staple documents for the same tenant to keep the paperwork together. Two of the files tested had documentation that was stapled together and not realized by the Vendor Manager. The total error resulting from not making the necessary payment changes totaled \$3,180.22.

The Authority has changed its mail sorting process and no longer staples any documentation together. When the Vendor Manager receives any documents, she diligently reviews all paperwork looking for multiple packets.

Second, when there is an admin fee changes, the Vendor Manager records the change in the ECS system with the effective date. The system calculates the new rate and any adjustment if the change is retroactive. Two of the files tested did not calculate the admin fee change correctly which resulted in a total error of \$33.88.

The Vendor Manager will audit each admin fee change made. The system creates an adjustment with each change made to an outgoing client payment. The Vendor Manager will print out the outstanding adjustments for the tenant and agree it to the paperwork received by the billing housing authority.

Receipts for Port-Ins Delinquent

The Authority acknowledges that payments were not received timely from housing authority port-in households. During the period that was audited, the Authority averaged approximately 1,350 port-in households, with CHAC representing approximately 900 households.

Each month, every housing authority with port-in clients receives an invoice requesting payment. The Controller reviews the outstanding balances quarterly and contacted each housing authority with outstanding balances. Many of the housing authorities contacted disputed the balance or would not acknowledge our efforts to contact them. Since HACC

was not fully leased, the Authority decided to absorb these clients and reclassify the HAP and UAP paid from the tenant aging to the income statement. The admin fee billed was also reversed.

The outstanding balances due from CHAC were handled in a different manner. Since our agencies are closely tied to one another due to proximity, we decided to handle the outstanding balances without getting the HUD Chicago field office involved. The controller and the CHAC staff involved in processing the payments spoke frequently during the period being reviewed. CHAC never denied owing the funds and would reimburse HACC each month for outstanding balances.

In August 2006, the Controller spoke with CHAC regarding the outstanding balances and CHAC is planning on having all outstanding issues settled with HACC by the end of October. HACC forwarded a detailed summary of all outstanding balances due to CHAC.

The Authority has reviewed the procedures used to monitor the amounts due from port-in clients and will take the following measures to insure timely payments from other agencies.

- For all port-in clients, HACC will perform a roll-forward of the balances monthly. The beginning balance will be agreed to the prior months general ledger, the cash receipts will be agreed to system reports and bank deposits and the amount billed will be agreed to system reports. Any write-offs or adjustments will be documented by the accounting department.
- For all non-CHAC port in balances owed, the accounting department will review the aging report monthly for all clients balances not reimbursed by the billed housing authority. HACC will contact the housing authority and request payment. If payment is not made by the next month, a letter will be sent to the housing authority demanding payment with a date deadline. If the deadline is not met by the housing authority, the HUD field office will be contacted.
- For the CHAC outstanding balances, HACC will work with CHAC over the next two months to clear up all current amounts due. On all new tenants being billed, HACC will monitor these balances monthly and will contact CHAC directly for each tenant not reimbursed.

Payments for Absorbed Portability Households

During the cash receipts posting, the accounting department will follow up on all receipts received for client balances that are not on the aging report. The client history will be analyzed and if the client has been absorbed, the housing authority will be contacted and the issue resolved.

Comments on Recommendations

5A. The Authority has paid the three receiving housing authorities the \$138 of underpayments cited in the finding.

5B. The Authority created two adjustments into the system to rectify the finding. These adjustments were paid on the April 1st check run as a recoupment. The Authority contacted the receiving housing authority to notify them of the recoupment.

5C. In an effort to better monitor payments and identify any payment discrepancies, the outgoing portability area will begin in October 2006 to compare 52665/50058 billing forms from tenant files to system generated vendor payment information for receiving housing authorities. This will happen at a rate of approximately 25 files per month. This process will enable HACC to verify that the amounts of HAP, UAP and Admin fee monies paid equal the amounts indicated on the file hardcopy. The rate will increase if HACC notices a large quantity of mismatches.

5D. The Authority will perform a roll-forward of the incoming portable aging report monthly and will verify the cash receipts related to the incoming portable tenants. All discrepancies will be reviewed and rectified timely.

5E. The Authority will contact each housing authority with amounts to be returned. For all non-CHAC authorities, HACC will process the reimbursement on our October 1st check run. For the CHAC balances, HACC will contact CHAC and give them the dollar amount and tenant information to recoup the funds on their next check.

5F. In order to give housing authorities adequate time to process tenant absorptions, the Authority has implemented sending a system generated "pre-absorption" notice to the initial housing authority. This notice gives the housing authority the tenant information needed to process the absorption. When the absorption is processed, the Authority will fax a copy of the 52665 to the initial housing authority and send the original by mail.

When the Authority processes absorptions for CHAC tenants, the same procedures are followed and the 52665 is sent by messenger to CHAC.

The HACC appreciates this opportunity to respond to your draft audit document. We are committed to continuing efforts to deliver stronger compliance and to improve customer service. Our overall goal is to assist tenants in attaining economic sufficiency from federal programs.

Sincerely,



Lewis Jordan
Executive Director

cc Terry Corcoran, Sandra Sharp, Elzie Higginbottom, Steven Meiss

OIG Evaluation of Auditee Comments

- Comment 1** We would like to take this opportunity to commend the Authority on its continued efforts and commitment toward improving its program operations.
- Comment 2** We reviewed the Authority's supporting documentation for background verifications and adjusted finding 3.
- Comment 3** We reviewed the supporting documentation provided by the Authority and determined that the verification of citizenship was still not provided for household numbers 9615 and 11277.
- Comment 4** We reviewed the Authority's supporting documentation regarding households' birth certificates and adjusted finding 3.
- Comment 5** We reviewed the Authority's supporting documentation regarding households' annual unit inspections and made adjustments to finding 3.
- Comment 6** We reviewed the Authority's supporting documentation regarding households' proof of Social Security numbers and made appropriate adjustments to finding 3.
- Comment 7** We reviewed the Authority's supporting documentation regarding households' annual applications and Form 9886, and adjusted finding 3. However, the Authority still lacked an application for household number 9299, and Form 9886 for households 5147 and 27884.
- Comment 8** We reviewed the Authority's supporting documentation regarding households' Form 50058 and adjusted finding 3.
- Comment 9** We reviewed the Authority's supporting documentation for household 43002 and we disagree. The Authority was not consistent in the manner in which it averaged the monthly amount of child support received by the household. We based our calculation of the income from child support on the amount and frequency provided by the Illinois Department of Public Aid.

Based on the Authority's and our calculations of the housing assistance payment at the 2005 certification, the Authority should have paid \$4,650 in housing assistance payments. However, when we checked the housing assistance payment schedule, it showed a total of \$7,513 as the total amount paid in housing assistance payments.

Based on the housing assistance payment schedule, the Authority overpaid \$2,863 in housing assistance payments. The Authority corrected this error and reissued new checks, but we could not determine whether the initial checks issued by the Authority were voided.

OIG Evaluation of Auditee Comments

- Comment 10** We disagree with the Authority's calculation of income for household 10176. According to the documents provided, the household's hourly rate decreased from \$10 to \$8 per hour effective January 4, 2005. On January 15, 2005, the earned income was \$493 (61.63 hours times \$8). As of the January 30, 2005, pay period, the household earned \$640 (80 hours time \$8). The Authority used the income earned during January 2005 and multiplied by 12 months for an annual income of \$13,596. Based on the income earned on the January 30, 2005, paycheck (which was a full paycheck compared to the earnings on January 15, 2005) the household worked a 40 hour week and was paid semi-monthly (24 pay periods times \$640 average pay for half month) making the annual income \$15,360. The Authority could have consulted the household's employer regarding the number of hours worked during a pay period if this was unclear.
- Comment 11** We reviewed the Authority's supporting documentation for household 29782 and determined the Authority used the income from child support per the household's and the provider of child support's self-certification. However, we based our calculation of income from child support on the third-party verification conducted by the Authority. The Authority conducted third-party verification through the Department of Human Services. This third-party verification was kept with the other documents used for the 2004 certification. The documentation provided by the Authority was not dated, so we could not determine whether it was current.
- Comment 12** We reviewed the Authority's supporting documentation for household 9512, agree with the results, and made the appropriate revisions to our audit report.
- Comment 13** We agree that HUD's Public and Indian Housing Notice 2005-9 only suggests ways the Authority may reduce costs to its program. The Authority's program operations manual states that tenants who report they do not have any source of income should be questioned closely to confirm they do not have income of any type, and to determine how they expect to pay for necessities. As a prudent management tool, the Authority should review the income of its zero-income tenants more frequently.
- Comment 14** We only included unearned income in computing the total annual income. We did not include unearned income for the purpose of calculating the escrow credits.

Household 347

We disagree with the Authority's calculated annual income. Five of the prior six pay periods before the certification the household earned \$919. We used this as the biweekly pay amount. For one pay period, the household earned \$980 that the Authority averaged with \$919 to get a biweekly pay amount of \$949. We do not agree with this methodology and maintain that the escrow account was overfunded by \$190.

OIG Evaluation of Auditee Comments

Household 3499

We agree with the Authority that the escrow account was underfunded by \$268 and made the appropriate adjustments to our audit report.

Household 3603

We agree that the escrow account was not underfunded for this household and made the appropriate adjustments to our audit report.

Household 4539

We agree that the escrow account was underfunded by \$90 and made the appropriate adjustments to our audit report.

Household 4766

For the period April 1, 2004, through March 31, 2005, the Authority agreed that the amount of earned income should be \$20,312, but stated that this resulted in an escrow credit of \$191 a month. The actual escrow credit that it produced was \$167 a month, and the account was overfunded by \$288 each month for April 1, 2004, through March 31, 2005.

For the period April 1, 2005, through August 31, 2005, the Authority used three quarters of income to calculate the income for the household. We disagree with the Authority using three quarters and determined that the escrow credit was overfunded by \$95 from April 1, 2005, through August 31, 2005. In total, the escrow account was overfunded by \$383.

Household 9549

The Authority agreed with our calculation that the escrow account was overfunded by \$852 for this household.

Household 12961

We agree with the Authority. There was a difference in income calculations. The escrow account was overfunded by \$180. We have made the appropriate adjustments to our audit report.

Household 21397

The Authority agreed the escrow account was underfunded by \$522.

Household 14208

We agree with the Authority that the escrow account for this household was not underfunded and have made the appropriate adjustments to our audit report.

Household 21397

The Authority agreed with our calculation that the escrow account was underfunded by \$1,054.

OIG Evaluation of Auditee Comments

Household 21571

For the period April 1, 2004, through April 31, 2005, the Authority agreed that the escrow account was underfunded by \$521. However, beginning May 1, 2005, the Authority stated that we failed to include child support payments. We obtained a document showing that child support payments ended September 24, 2004. Therefore, we do not agree with the Authority's position. The household's income must be based on employment, not child support. This resulted in an escrow credit of \$495 from April 1, 2005, to July 31, 2005, and was overfunded by \$134. As a result, the escrow account was underfunded in total by \$387.

Appendix C

CRITERIA

Finding 2

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 5.240 state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or Section 8 housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 5, pages 5-31 through 32, states that the medical expense deduction is permitted only for households in which the head or spouse is at least 62 years of age or disabled (elderly or disabled households). If the household is eligible for a medical expense deduction, the medical expenses of all family members may be counted. Medical expenses are expenses anticipated to be incurred during the 12 months following certification or reexamination, which are not covered by an outside source such as insurance. The medical allowance is not intended to give a family an allowance equal to the past year's expenses but to anticipate regular ongoing and anticipated expenses during the coming year.

Finding 3

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.551(b) states that (1) the family must supply any information that the Authority or HUD determines is necessary in the administration of the program, including submission of required evidence of citizenship or eligible immigration status; (2) the family must supply any information requested by the Authority or HUD for use in a regularly scheduled reexamination or interim reexamination of family income and composition in accordance with HUD requirements; and (3) the family must disclose and verify Social Security numbers and must sign and submit consent forms for obtaining information.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.553(a)(2)(i) state that the Authority must establish standards that prohibit admission to the program if any member of the household is subject to a lifetime registration requirement under a state sex offender registration program. In this screening of applicants, the Authority must perform criminal history background checks necessary to determine whether any household member is subject to a lifetime sex offender registration requirement in the state where the housing is located and in other states where the household members are known to have resided.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 5, page 12, states that participation in the program places an obligation on the family to provide information required by HUD and the Authority when requested and to cooperate in efforts to verify the information provided. Disclosure of Social Security numbers and signatures on HUD's release authorization form are minimum program requirements.

The Authority must require applicants and program participants to disclose the Social Security numbers of all family members age six or older, as a condition of admission and continued assistance. Persons who have not been assigned a Social Security number must execute a certification stating that no Social Security number has been assigned. This process need occur only one time for each family member. New family members, age six or older, should be required to disclose or certify at the time the change in family composition is reported to the Authority or the next annual recertification after a family member reaches age six. A parent or guardian must provide the certification for a minor.

The Authority must document the Social Security number disclosed by each family member. If the family member cannot produce an original Social Security card issued by the Social Security Administration, the Authority may accept one of the following as verification if it includes the Social Security number: a driver's license with Social Security number; identification card issued by a federal, state, or local agency; identification card issued by a medical insurance company or provider (including Medicare and Medicaid); or identification card issued by an employer or trade union.

The Authority's operations manual states that new program applicants are required to provide a copy of documentation of the Social Security numbers of all household members. This also applies to persons who are added to households of current participants for each household member age six or older. New applicants cannot be offered assistance until the requirements are met. If they refuse to provide the necessary documentation or certification they should be sent a letter of ineligibility.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.201(a) state that the Authority may only admit an eligible family to the program. To be eligible, the applicant must be a "family" and must be a citizen or a noncitizen who has eligible immigration status.

HUD's Housing Choice Voucher Program Guidebook 7420.10, chapter 5, page 3, states that eligibility for federal housing assistance is limited to United States citizens and applicants who have eligible immigration status. Persons claiming eligible immigration status must present appropriate immigration documents that must be verified by the Authority through the Immigration and Naturalization Service. Every applicant household for (and participant in) the program must sign a certification for every household member, either claiming status as a United States citizen or an eligible alien or stating the individual's choice not to claim eligible status and acknowledge ineligibility.

Finding 4

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 984.305(a)(3), state that each authority will be required to make a report, at least once annually, to each Family Self-Sufficiency Program participant on the status of the family's account. At a minimum, the report will include (i) the balance at the beginning of the reporting period, (ii) the amount of the family's rent payment that was credited to the family self-sufficiency account during the reporting period, (iii) any deductions made from the account for amounts due the Authority before interest is distributed, (iv) the amount of interest earned on the account during the year, and (v) the total in the account at the end of the reporting period.

Appendix D

HOUSEHOLD FILES MISSING DOCUMENTATION

Household number	Background check	Citizenship certification for all household members	Birth certificates for all household members	Annual housing quality standards inspection	Proof of Social Security numbers- everyone over six	Annual application	Authorization for Release of Information and Privacy Act Notice (HUD Form 9886)	Annual certification (HUD Form 50058)	Total unsupported payments
5147	Not required	Yes	Yes	Yes	Yes	Yes	No (1)	Yes	6,604
9299	Not required	Yes	Yes	Yes	Yes	No	Yes	Yes	13,271
9615	Not required	No	Yes	Yes	Yes	Yes	Yes	Yes	12,126
11277	Not required	No	Yes	Yes	Yes	Yes	Yes	Yes	5,260
27884	Not required	Yes	Yes	Yes	Yes	Yes	No	Yes	10,202
Totals		2	0	0	0	1	2	0	\$47,463

(1) – Missing documentation for one of the two years reviewed.

Not required – Households were on the program prior to background checks being required.