



Issue Date December 7, 2005

Audit Report Number 2006-LA-1004

TO: Cecilia Ross, Director, Los Angeles Office of Public Housing, 9DPH

Joan S. Hobbs

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

SUBJECT: Inglewood Housing Authority, Inglewood, California, Did Not Adequately Administer Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited Inglewood Housing Authority (Authority) in Inglewood, California, in response to a request for audit from the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Public and Indian Housing. This is the fourth and final report resulting from our audit of the Authority.

Our audit objectives were to determine whether the Authority administered its Section 8 Housing Choice Voucher program in compliance with pertinent HUD requirements and its annual contribution contract and operated its program in an effective and efficient manner.

What We Found

The Authority did not adequately administer its Section 8 Housing Choice Voucher program in a manner that complied with program requirements, did not operate its program in an efficient and effective manner, and the Authority did not request additional funds from HUD when needed to alleviate some of its cash deficit problem. The Authority did not comply with program requirements relating to portability procedures and responsibilities, tenant certification and housing quality standards requirements, housing assistance payment register

maintenance, and salary allocation and procurement procedures. We also determined that the Authority was not operated in an efficient and effective manner because its organizational structure and management responsibilities were not clearly defined and its financial reporting function was ineffective and inefficient.

What We Recommend

We recommend that HUD direct the City of Inglewood's mayor and board of commissioners to remove and replace the current executive director and housing manager, establish a separate housing authority commission, and require the city of Inglewood to designate sufficient finance department personnel dedicated to work solely on Authority-related financial reporting activities. After these recommendations are implemented, evaluate the status of the Authority's progress on its latest corrective action plan after one year under the plan.

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 the Authority the draft report on October 26, 2005, and held an exit conference on November 8, 2005 and made minor changes to one recommendation as a result of agreements made at the exit conference. The Authority provided written comments on November 28, 2005. The Authority generally agreed with our report findings.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

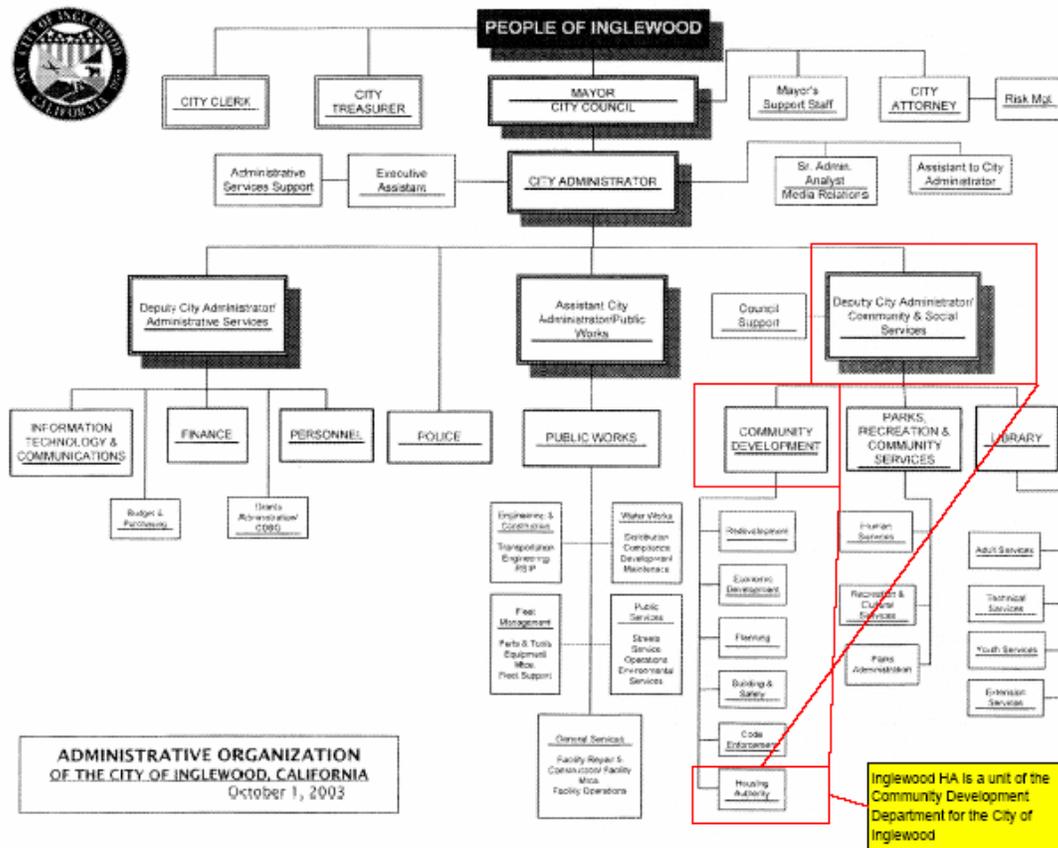
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BACKGROUND AND OBJECTIVES

The City of Inglewood, located at Inglewood City Hall, One Manchester Boulevard, Inglewood, California, was incorporated in 1908. The city administrator is responsible for setting operational goals, implementing legislative action and policy decisions approved by the mayor and city council, monitoring the annual operating budget, overseeing the personnel system, and providing direction to all city departments to ensure they meet the needs of the community. The Inglewood Housing Authority (Authority) is a part of the community development department. The governing body is comprised of members of the city council and the mayor. Among the duties of the governing body are the approval of the Authority's budget and the appointment of management. The financial activities of the Authority are reported as a special revenue fund of the city.

The city council is the board of commissioners for the Authority; the mayor is the board chairperson, and the city administrator is the executive director. The council meets as a board when it makes decisions on Authority business. The housing manager conducts the day-to-day business of the Authority, reporting through the director of community development and the deputy city administrator for community and social services to the executive director. Below is an organization chart showing the City of Inglewood's structure.



The Authority has a baseline allocation of 1,002 Section 8 vouchers and an additional 1,167 vouchers from portable tenants. The U.S. Department of Housing and Urban Development's (HUD) approved budget for the Authority's Housing Choice Voucher program is as follows:

Fiscal year	Amount
2001	\$6,634,342
2002	\$6,786,996
2003	\$6,564,723
2004	\$7,033,835

This audit report is the fourth and final audit report resulting from our audit of the Authority. The other three reports we issued relate to findings that the Authority did not

- ✓ Follow proper salary allocation and procurement procedures for the Housing Choice Voucher program (report number 2005-LA-1005, issued July 11, 2005),
- ✓ Comply with the Housing Choice Voucher program portability procedures and responsibilities (report number 2005-LA-1008, issued August 26, 2005),
- ✓ Ensure tenant reexaminations and housing quality standards inspections were completed properly and in a timely manner (report number 2005-LA-1009, issued September 7, 2005).

Our audit objectives were to determine whether the Authority administered its Section 8 Housing Choice Voucher program in compliance with pertinent HUD requirements and its annual contribution contract and operated its program in an effective and efficient manner.

RESULTS OF AUDIT

Finding: The Authority Did Not Adequately Administer Its Section 8 Housing Choice Voucher Program

Contrary to pertinent HUD requirements and its annual contribution contract, the Authority did not administer its Section 8 Housing Choice Voucher program in a manner that complied with program requirements, did not operate its program in an efficient and effective manner, and the Authority did not request additional funds from HUD when needed. We found that the Authority did not comply with program requirements relating to portability procedures and responsibilities, tenant certifications and housing quality standards requirements, housing assistance payment register maintenance, and salary allocation and procurement procedures. We also found that the Authority was not operated in an efficient and effective manner because the organizational structure and management responsibilities were not clearly defined and the financial reporting function was ineffective and inefficient. Further, the Authority did not submit a written request for additional funds from HUD that may have alleviated some of its cash deficit if HUD had approved the additional funds. These problems occurred because the Authority's management lacked adequate knowledge of the Section 8 Housing Choice Voucher program; therefore, it did not establish and implement the necessary controls and procedures and provide adequate oversight of its operations. As a result, of the inadequate management of the Authority, it owes nearly \$4.4 million to the City of Inglewood's general fund and is currently under its second corrective action plan with HUD to improve its performance.

The Authority Did Not Comply with Applicable Laws and Regulations

The Authority did not comply with sections 5(b), 11(a), and 14(a) of its annual contributions contract and applicable *Code of Federal Regulations* and Housing Choice Voucher program requirements. The Authority did not comply with program requirements relating to portability procedures and responsibilities, tenant certification and housing quality standards requirements, housing assistance payment register maintenance, and salary allocation and procurement procedures. The deficiencies stated in the following paragraphs were previously reported in issued audit reports.

The Authority Did Not Comply with Portability Procedures and Responsibilities

Contrary to section 5(b) of its annual contributions contract and Housing Choice Voucher program requirements, the Authority did not comply with portability

procedures and responsibilities. We reviewed the 143 portable tenants for whom the initial public housing agency, Housing Authority of the City of Los Angeles, refused to pay the housing assistance payment because the Authority did not submit the initial bill to the Housing Authority of the City of Los Angeles within the required six-month timeframe. We also found that the Authority did not submit the family portability information form within 10 days to ensure duplicate payments were not made on behalf of tenants. These errors occurred because the Authority did not establish or implement procedures to ensure compliance with the pertinent HUD requirements. As a result, the Authority had to unnecessarily absorb the 143 portable tenants and incurred excess costs of \$1,991,283 in housing assistance payments that exceeded the maximum allowed for fiscal year 2004. Ultimately, these families are at risk of losing their housing.

The Authority Did Not Always Ensure Tenants Were Eligible for Assistance

Contrary to section 11(a) of the annual contributions contract and applicable *Code of Federal Regulations* requirements, the Authority did not always ensure that tenants were eligible for assistance. We reviewed 72 tenant files and found 43 were missing a total of 96 required documents. Also, 15 tenant reexaminations were completed between 4 and 184 days late. The tenant files were incomplete because the Authority did not develop and implement procedures to follow up on missing tenant eligibility documents, use alternative certifications when documents could not be obtained, and document followup efforts for the missing documents in the corresponding tenant files. We attribute the late reexaminations to inadequate procedures to allow adequate time to complete annual reexaminations according to HUD requirements. As a result, HUD lacked assurance that tenants whose initial certifications were processed without eligibility documents were eligible for housing assistance, resulting in \$153,495 in unsupported housing assistance payments. The late tenant reexaminations cause tenants to either overpay or underpay their rent.

The Authority's Inspections Did Not Sufficiently Detect Housing Quality Standards Violations and Were Not Always Completed in a Timely Manner

We inspected 35 units and found that 25 contained a total of 119 housing quality standards violations. We also reviewed the timeliness of the Authority's inspections for 48 tenants and found that 26 of the inspections were not completed by the tenants' annual anniversary dates as required. The inadequate inspections occurred because the Authority did not develop a quality control plan to ensure inspections complied with HUD regulations. The late inspections occurred because the Authority did not have an adequate system in place to ensure that all annual inspections were appropriately scheduled and completed in a timely manner. As a result, the Authority did not ensure that its program participants resided in housing that was decent, safe, and sanitary; and we questioned \$27,411 in housing assistance payments made for units that did not meet the minimum standards.

The Authority Did Not Maintain an Accurate Housing Assistance Payment Register

Contrary to section 14(a) of its annual contributions contract, our review of the Authority's October 2004 housing assistance payment register identified inaccuracies regarding problems with 20 tenants because the tenants were either deceased, had erroneous and/or false Social Security numbers, or were no longer program participants receiving housing assistance. The inaccuracies occurred because the Authority did not have adequate procedures and controls to ensure that tenants were removed from the register as needed, entries into the register were accurate, tenants' Social Security numbers and other information were validated during their initial certification, and the information received on tenants that ported from another jurisdiction was certified. As a result, the Authority made housing assistance payments of \$6,864 to at least one owner on behalf of a deceased tenant and \$107,916 for tenants who may not have been eligible.

The Authority Did Not Track Staff Time and Allocate \$1.8 Million in Salary Expenses among Its HUD Programs

Contrary to section 14(a) of its annual contributions contract, our review disclosed that the Authority did not track its employees' time by program activity or implement an indirect cost allocation plan to allocate its administrative salary expenses among HUD programs. This occurred because the responsible Authority and City of Inglewood personnel lacked adequate knowledge of the financial reporting requirements for HUD programs. As a result, the Authority could not provide documentation to support the portion of the \$1.8 million in salary expenses the Authority reported to HUD for fiscal years 2001 through 2003 for the Housing Choice Voucher program.

The Authority Improperly Procured Software Totaling \$31,279

The Authority did not comply with HUD's procurement requirements when it purchased two software packages totaling \$31,279. This improper procurement occurred because the Authority did not develop and implement procurement policies and procedures that met HUD's requirements. As a result, there was no assurance that the software packages were cost-effective purchases and fully met the needs of the Authority.

The Authority's Operations Were Not Efficient or Effective

In addition to the noncompliance issues discussed above, the Authority's operations were neither effective nor efficient because its organizational structure did not clearly define areas of authority and responsibility and did not facilitate the flow of information.

Organizational Structure and Management Responsibilities Were Not Clearly Defined

The Authority is a part of the City of Inglewood's community development department. The housing manager conducts the day-to-day operations of the authority, reporting to his first line supervisor the director of community development. The director of community development is responsible for the operations of the Authority as well as five other divisions in that department (see the organization chart in the background section of this report). The housing manager's second line supervisor is the deputy city administrator who is responsible for managing three departments and thirteen sub-departments. Finally, the housing manager reports to the executive director who is also the City Administrator for the City of Inglewood. The director of community development, the deputy city administrator and the executive director have too many other responsibilities and duties to focus sufficient attention on the Authority's operations. In addition, we noted that the executive director does not have any direct contact with the housing manager or the employees unless he is needed to sign a HUD-related document or needs to address specific issues with the Authority. The director of community development, deputy city administrator, and executive director, while ultimately responsible for the Authority's operations, have not demonstrated practical experience in operating and/or managing a housing authority.

In our opinion, the Authority should be run as an independent entity and the housing manager should report directly to the executive director. The executive director is ultimately responsible for the operations of the Authority and, therefore, should take a more direct role in the daily operations of the Authority. To fulfill these obligations, the role of the executive director should be delegated to a person who has knowledge of the Housing Choice Voucher program to ensure the controls are in place and provide assurance the program is run in accordance with HUD regulations.

As a result, the level of management oversight and supervision has been inadequate, perpetuating the recurring significant noncompliance issues previously cited.

Financial Reporting Was Ineffective and Inefficient

The financial recording and reporting functions for the Authority are handled by the finance department for the City of Inglewood, which we determined to be ineffective and inefficient in performing the financial responsibilities of the Authority. As illustrated in the chart below, the Authority’s portability receivable account deficit has increased significantly since fiscal year 2002. The City of Inglewood’s finance department maintains and balances the Authority’s portability receivable account. It is the Authority’s responsibility to collect the delinquent receivables and follow up on the delinquent accounts, but the Authority believes it is the city finance department’s responsibility to collect and follow up on the delinquent portability receivables for the Authority. Therefore, the Authority has not taken responsibility to follow up on the delinquent receivables and did not develop or implement adequate procedures to request collection on these receivables. As a result, in fiscal year 2004, the City of Inglewood’s finance department plans to restate \$1,532,000 million of the prior year’s delinquent portability receivables as an allowance for doubtful accounts. The Authority also has \$2,990,862 in recent outstanding portability receivables, of which \$1,789,188 (or 60 percent) is delinquent 90 days or more. Therefore, it is very doubtful these funds will be collected. The ending balance on the Authority’s portability receivable account and its cash and investment account were as follows:

<i>Fiscal year</i>	<i>Portability receivable ending balance</i>	<i>Cash and investment account ending balance</i>
2001	\$150,293	\$1,769,000
2002	\$957,599	(\$839,000)
2003	\$2,273,874	(\$3,055,000)
2004	\$2,990,862 ¹	(\$4,375,000) ²

In the beginning of fiscal year 2004, the City of Inglewood paid \$1.2 million from its general fund in housing assistance payments on the 143 portable tenants who were later absorbed in the same fiscal year by the Authority. The general fund is the chief operating fund for the City of Inglewood. The general fund supports core municipal services such as public safety, public works, parks, and libraries. Since the Authority’s financial statements are being reclassified in fiscal year 2004, the Authority owes the City of Inglewood’s general fund \$4,375,000, which includes the \$1.2 million from fiscal year 2004. Therefore, the City of Inglewood cannot afford to pay for the additional absorbed tenants, and the residents of the City of Inglewood may have lost a number of needed services because the Authority did not administer its program efficiently or effectively.

¹ This amount does not include the \$1,532,000 allocated to the allowance for doubtful accounts.

² The negative cash balance is being reclassified as “due to the City of Inglewood’s general fund.”

There were also inconsistent budget tracking reports between the Authority and the finance department. The budget reports used by the Authority show actual expenditures, income to date, and variances against the budget. However, the budget reports used by the Authority would be more effective in monitoring its budget balance if the Authority reflected the unrecognized budget balance that is budgeted/expected throughout the fiscal year. This would have assisted the Authority in recognizing the increase in actual expenses incurred in relation to the tenants porting in from other jurisdictions. Further, the Authority does not submit monthly budget reports to the board of commissioners that compare actual expenses to budget expenses and year-to-date costs. If the board had reviewed the monthly reports with this important information, it would have seen the steady increase in the portability receivable account, and been prompted to take immediate action for receipt of the funds owed from other public housing agencies.

Lastly, with the exception of our audit, there has not been an independent audit of the Authority's internal controls. Therefore, there could have been deficiencies or findings that went undetected until the current audit. Single audit reports were prepared annually by independent auditors; however, the independent auditor's review of the Authority's internal controls over compliance with federal programs for fiscal year 2003 did not disclose the excessive receivables or the fact that management did not provide reasonable assurances that these funds would be safeguarded against loss. In addition, the independent auditor's review did not provide any recommendations for improvement of the Authority's internal controls. The comprehensive annual financial report combined the schedules that reflected a negative cash balance. However, the negative cash balances should have been reclassified as a liability or due to the City of Inglewood's general fund. Starting in fiscal year 2004, the Authority and the City of Inglewood are issuing separate financial statements, and the negative cash balance has been reclassified as a liability due to the City of Inglewood.

The Authority Did Not Request Additional Funds from HUD

The Federal Fiscal Year 2004 Consolidated Appropriations Act modified the method of calculating renewal funds for housing assistance payments and public housing agency administrative expenses, authorized a central fund maintained by HUD, and prohibited the use of fiscal year 2004 funds for overleasing.

The central fund will only be used to fund contract amendments to support voucher units leased that were authorized in the public housing agency's baseline but were not included in the renewal calculation. As part of the renewal calculation, HUD would identify additional leasing that has occurred since the August 2003 reporting cycle (from the latest data submission used in the renewal

calculation) and would provide funding for the additional leasing from the central fund at the time of the renewal. Public housing agencies must have requested the funds before December 31, 2004 by submitting a written request for funding and completing HUD Form 52681B, "Voucher for Payment of Annual Contributions and Operating Statement", to the Section 8 Financial Management Center.

The Authority did not submit the request for the additional funds to the Financial Management Center. Requesting the additional funds requires the public housing agency to maintain accurate current and historical records on its unit months leased and housing assistance payment expenses including portability expenses. The request for additional funds was not made because the needed information was not accurate or readily available to the housing manager.

If the Authority had applied for the additional funds, there was no guarantee that it would have received the funds. However, considering the Authority's dire financial condition, the attempt to apply for the funds would have at least shown that the Authority was concerned about solving its financial problems.

Management Lacked Adequate Knowledge and Failed to Provide Necessary Oversight

Collectively, as illustrated by the significant problems above, the Authority did not administer its Section 8 Housing Choice Voucher program in a manner that complied with program requirements or in a manner that was effective and efficient. In addition, during 2004 the Authority did not submit a written request for additional funds that would have alleviated some of their cash deficit if HUD would have approved the additional funds. We attribute the problems to management's lack of adequate knowledge of the Section 8 Housing Choice Voucher program; therefore, it did not establish and implement the necessary controls and procedures to administer the program and control its program funding. In addition, the Authority's management failed to provide necessary oversight of the program operations.

The Authority Was Placed under Two Corrective Action Plans

In 2002 and 2003, HUD's Los Angeles Office of Public Housing conducted rental integrity monitoring and Section 8 management assessment plan reviews and noted deficiencies that the Authority needed to correct. The deficiencies were not

corrected, and the Authority was placed under a corrective action plan for the period September 15, 2004, through September 30, 2005.

In April 2005, HUD's Recovery and Prevention Center completed limited tenant file reviews and performed unit inspections. Some of the problems found during their review included the following:

- Budget tracking between the Authority and the finance department was inconsistent;
- The Authority did not have a general depository agreement with its depository institution for the Housing Choice Voucher program;
- There was a lack of policy and procedures for the allocation of information and technology expenses;
- The independent auditor's review of internal controls did not disclose excessive receivables in the Section 8 voucher program or the deficiencies with 11 of the 14 Section 8 Management Assessment Program indicators;
- The Authority did not use proper billing forms for requesting payment on the port-in tenants, and the Authority did not have current and essential financial policies and procedures;
- The finance department does not have board of commissioners-approved policies and procedures for the financial operations of the Authority;
- Based on the 2005 Consolidated Appropriations Act the Authority faces a funding decrease of approximately \$9,000 per month; and
- The Authority does not have a plan in place to bring its Section 8 program in line with its funding allocation.

The Authority did not correct the deficiencies in the previous corrective action plan. In addition, the current review by the Recovery and Prevention Center noted additional deficiencies not included in the previous corrective action plan. Thus, the Los Angeles Office of Public Housing submitted a new corrective action plan that is effective from July 1, 2005, through July 30, 2006, to the Authority and the City of Inglewood's board of commissioners (city council). The board of commissioners and board chair approved the corrective action plan on August 12, 2005.

Conclusion

Based on the foregoing, we believe that the Authority's current administration has driven the Authority into a serious negative financial situation. Despite an opportunity to receive additional funds, and significant attempts by HUD to provide remedial help through monitoring and one corrective action plan, it does not appear that improvements are either being made or intend to be made by Authority management although the Authority continues to earn an administrative

fee. Management's failure to adequately administer the Section 8 Housing Choice Voucher program is putting HUD and the City of Inglewood at significant financial risk, and immediate action is needed to minimize further losses.

Recommendations

We recommend that the director of the Los Angeles Office of Public Housing

- 1A. Direct the City of Inglewood's mayor and board of commissioners to remove the executive director and housing manager from their respective positions and replace them with more effective management.
- 1B. Require the City of Inglewood to establish a separate housing authority commission.
- 1C. Require the City of Inglewood to designate sufficient finance department personnel dedicated to work solely on Authority-related financial reporting activities.
- 1D. Implement recommendations 1A, 1B, and 1C and then require the Authority to establish and implement the necessary controls and procedures to effectively administer the program. Such action will ensure that the Authority's administrative fee will be funds to be put to better use (\$975,833 for fiscal year 2004).
- 1E. Evaluate the status of recommendation 1D and the status of the Authority's progress on its latest corrective action plan after one year under the plan.

SCOPE AND METHODOLOGY

We performed the audit work from September 2004 through March 2005. The audit covered contracts, transactions, and tenant information from October 2003 through September 30, 2004. We expanded the scope of the audit as necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Authority and key officials from HUD's Los Angeles office.

The primary methodologies included reviews of the Authority's

- Procurement and billing policies, procedures, and processes.
- Housing quality standards and tenant eligibility policies and procedures.
- Policies and procedures to ensure the maintainence of an accurate housing assistance payment register.
- Organizational structure.
- Policies and procedures to ensure the Authority is managing the program in accordance with federal regulations.
- Policies and procedures to ensure the Authority maintains accurate books and records.

We conducted our audit in accordance with generally accepted government auditing standards and included tests of management controls in the three previous audits of the Authority that we considered necessary under the circumstances.

INTERNAL CONTROLS

Internal controls are 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 and procedures to ensure the Authority are conducting all procurement transactions in accordance with federal procurement regulations.
- Policies and procedures to ensure the Authority performs portability billing procedures in accordance with HUD regulations,
- Policies and procedures to ensure the Authority make a good faith effort to follow up on missing documents to validate tenant eligibility.
- Controls over performing housing quality standards inspections.
- Policies and procedures to ensure the Authority is safeguarding Section 8 program resources,

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 management and financial systems in place to ensure the Housing Choice Voucher regulations are properly implemented and the program is running efficiently and effectively. (finding 1).

FOLLOWUP ON PRIOR AUDITS

Prior Audit Report Number and Date

We issued audit report number 2005-LA-1005 on July 11, 2005. The report contained two findings that the Authority did not follow proper salary allocation and procurement procedures for the Housing Choice voucher program. We have management decisions on the five recommendations and final corrective action is due to be completed by March 31, 2006.

We issued audit report number 2005-LA-0008 on August 26, 2005. The report contained one finding that the Authority did not comply with Housing Choice Voucher program portability procedures and responsibilities. Final action has been completed on one recommendation. On the other recommendation, we have reached a management decision and final corrective action is due to be completed by February 28, 2006.

We issued audit report number 2005-LA-1009 on September 7, 2005. The report contained three findings that the Authority did not ensure tenant reexaminations and housing quality standards inspections were completed properly and in a timely manner. Also, the authority did not maintain an accurate housing assistance payment register. We have reached management decisions on the eleven recommendations and final corrective action is due to be completed by July 1, 2006.

Appendixes

Appendix A

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

Recommendation number	Funds to be put to better use 1/
1A	\$975,833

- 1/ “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

November 28, 2005

Ms. Joan S. Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region IX
611 West Sixth Street, Suite 1160
Los Angeles, California 90017-3101

Subject: Housing Authority of the City of Inglewood
Audit Report #4 -- Dated October 26, 2005
Administration of Section 8 Housing Choice Voucher Program

On November 14, 2005, the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) conducted an exit interview with the Housing Authority of the City of Inglewood. As a result of the exit conference, the City of Inglewood Housing Authority (IHA) submits the following comments in response to the findings and recommendations contained in the fourth and final draft audit report. Listed are the HUD/OIG findings and the IHA response.

- **General Recommendations:** Replace the current Executive Director and Housing Manager, establish a separate housing authority commission and require the Authority to establish an independent finance department.

City Response: The Housing Authority of the City of Inglewood, California is established under the statutory regulations governing the Charter of the City of Inglewood. Establishment of a separate Housing Commission requires a vote of the electorate of the City to approve a major charter amendment establishing a separate Housing Commission. The cost for a charter study, resulting in a municipal election to consider the amendment issue, is estimated at \$100,000. In consideration of an already-strained General Fund balance, the residents of Inglewood would best be served with the current mayor and council/board of commissioners structure, with increased commitment to:

- ✓ Ongoing Section 8 management training and development.
- ✓ Providing detailed oversight of IHA policies, procedures and financial management.

Comment 1

- ✓ Assuring compliance with regulatory requirements governed by Title 24 of the Code of Federal Regulations (24CFR); Office of Management and Budget (OMB) Administrative Circulars; and, Section 8 Program Requirements.
- ✓ Re-structure the program administration and management to include an Executive Director committed to managing the Section Eight Housing Choice and New Construction Programs, reporting directly to the IHA board of commissioners.
- ✓ Maintain adequate staffing levels within the IHA Financial Reporting Division.
- ✓ Regularly review required program policies, procedures and controls, and update as required by federal regulations.

Finding: The Authority did not adequately administer its Section 8 Housing Choice Voucher Program

Although the previous three audit reports, issued as a result of an extensive audit of the IHA, as well as this fourth audit report, identified deficiencies in program administration, the comments contained in this audit response reflects the IHA commitment to provide program administration in compliance with all federal statutory regulations governing the Section 8 Housing Choice Voucher Program.

Specific Deficiencies:

- **The Authority Did not Comply with Portability Procedures and Responsibilities**

With specific reference to untimely billing by the IHA to the Housing Authority of the City of Los Angeles (HACLA), HACLA routinely engaged in practices and procedures that ignored billing deadlines. Unfortunately, the IHA continued to accept and house up to 143 families and submitted billings to HACLA during 2003 and 2004. HACLA refused to pay the IHA, indicating a shortfall in HACLA's Annual Certificate Contributions, and cited IHA as delinquent and non-compliant with the sixth-month portability regulations.

To-date, the IHA is in the process of identifying delinquent HACLA billings, and will work with HACLA in an attempt to recover funding owed to the IHA. In an effort to comply with federal portability requirements, IHA staff has received training and accept portable families only when it is feasible to complete all certifications and contracts with new landlords, and bill the porting housing authority within 60 days of the voucher expiration date. This procedure will provide an opportunity for efficient billing and follow-up to reduce or eliminate delinquent receivables.

- **The Authority did not always ensure tenants were eligible for assistance.**

In the past, the IHA staff routinely verified that participants were eligible for assistance, however the OIG report indicates that several documents were missing from the files. Based on the volume of documentation retained in each participant's file over the entire period of participation in the Section 8 HCV program, many files were split into more than one part for the same participant. During the OIG audit, it is possible that an entire file was

Comment 2

Comment 3

not provided at the request of OIG staff, and therefore, the documentation was contained in another part of a participant's multi-part file.

In response, the IHA will review the participant list and secure the necessary documentation for each participant file, and provide an update on the status of each missing document. In addition, the participant file system will be revised to include multiple sections with lists of all required documentation to be maintained in every file, whether new or continued files.

Furthermore, it is unclear if this report refers to the files of portability tenants. All portable families received assistance from the initial housing authority prior to moving to Inglewood. As a result, IHA complied with the following HUD regulations at 24 CFR 982.355(c):

(c) Portability procedures. (1) The receiving PHA does not re-determine eligibility for a portable family that was already receiving assistance in the initial PHA Section 8 tenant-based program (either the PHA voucher program or certificate program). However, for a portable family that was not already receiving assistance in the PHA tenant-based program, the initial PHA must determine whether the family is eligible for admission to the receiving PHA voucher program.

In addition, OIG reports that late reexaminations resulted in overpayments. All housing assistance payments are done through the recurring payment voucher system. Twelve months of payments are encumbered at initial lease-up, and are automatically stopped until the annual reexamination is completed. No payments are made to the landlord until the annual reexamination has been completed; however, the tenant continues to pay their portion. When the annual reexamination is completed, retroactive adjustments are made as necessary. If a tenant has over or underpaid, these retroactive adjustments make the necessary corrections to ensure proper tenant rent payments and HAP payments to the landlords.

Comment 3

- **The Authority's inspections did not sufficiently detect housing quality standards violations and were not always completed in a timely manner.**

OIG inspected 35 units and found that 25 contained a total of 119 housing quality standards (HQS) violations. The audit inspections were conducted on some units that were not normally scheduled for annual inspection, immediately after staff completed the inspections, thus is not uncommon that HQS violations were found during the OIG inspections, conducted at random, mid-year to contract re-certification and review, and did not take into consideration the date of the last, most recent, IHA inspection. The IHA respectfully suggests that a "quality control review" is normally conducted immediately after (within three days) staff has completed the inspection, in order to determine if staff is properly applying HQS criteria.

All annual inspections are scheduled four months prior to the participant's anniversary date. Some inspections may be done late as a result of the tenant or owner's failure to allow timely access to the unit. However, the IHA Administrative Plan specifies that failure to accommodate the IHA Inspector and complete the inspection at least 30 days prior to the

anniversary date, the owner is notified that the rent will be abated on the anniversary date if they have not arranged for the inspection to be completed.

IHA has established procedures that provide for immediate electronic notification and scheduling of annual HQS inspections. IHA is in the process of drafting a quality control process and procedure for monitoring files and inspection reports. Upon approval by the board of commissioners, IHA shall implement the quality control procedures and report to HUD on the progress.

Comment 3

- **The Authority did not maintain an accurate housing assistance payment register and, because of these inaccuracies, the Authority made payments of \$6,864 to at least one owner on behalf of a deceased tenant, and \$107,916 for tenants who may not have been eligible.**

The HAP register OIG reviewed, identified housing assistance payments made on a monthly basis through the Finance Division. IHA will implement a monthly HAP register providing updated information on each participant receiving assistance, to include information from the HAPPY System, such as eligibility dates and a summary of household data. However, there have been occasions where a tenant passes away and the Authority is not notified. This occurs most frequently in single-person households where family members and property owners fail to contact the IHA in a timely fashion to inform staff that the tenant has died. Upon notification and certification of death, the contract is terminated and IHA attempts to recover any overpayments to the landlord.

The report fails to identify those tenants who "may not have been eligible"; therefore, it is difficult to properly respond and take corrective actions relative to those tenants. IHA will make every effort to investigate questionable tenant eligibility, and requests the assistance of OIG in identifying the tenants in question.

Comment 4

- **The Authority did not track staff time and allocate \$1.8 million in salary expenses among its HUD programs for fiscal years 2001 – 2003.**

Agree: The IHA did not track staff time between programs. As a result, salaries, benefits and other administrative costs for the Housing Authority could not be charged directly among the HUD programs (Vouchers, New Construction, etc.).

Prior to FY 2003, the Finance Department allocated these costs based on a calculated fund balance for each program. In FY 2003, due to the rapid growth of the portable voucher program, this allocation method resulted in unreasonably disproportionate amounts being charged to the New Construction Programs. To remedy this disparity, the Financial Reporting Manager reviewed the method and requested that costs be allocated based on direct HAP costs for each program effective for FY 2003. This allocation was considered to be more reasonable and more consistent with the guidelines established by OMB Circular A-87, Simplified Method. OMB A-87 allows allocation of costs if they are not readily

assignable to the cost objectives (i.e., program, project, etc.) specifically benefited, without effort disproportionate to the results achieved.

Effective with the 2006 fiscal year, the Authority will do the following:

- 1) The Authority will begin tracking employees' time. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by general activity reports or equivalent documentation which meets the standards set by HUD and OMB guidelines.
- 2) The City of Inglewood will submit its indirect cost allocation plan to HUD for approval.
- 3) Using the results a study of current time by activity, the Authority will reallocate the \$1,836,282 in administrative salaries for fiscal years 2001-2003, make the related accounting adjustments to its books and records, and transfer the funds to correct the allocation.
- 4) Submit the Financial Data Schedule to HUD.

Comment 4

- **The Authority improperly procured software totaling \$31,279.**

The procurement of the HAPPY System software met the basic purchasing requirements for the City of Inglewood, however, is inadequate to comply with federal procurement standards. The IHA development, adopt and implement a procurement and purchasing policy that meets with the terms and conditions identified in 24 CFR Part 85.36.

- **Organizational structure and management responsibilities not clearly defined; the Director of Community Development, Deputy City Administrator and Executive Director, while ultimately responsible for the Authority's operations, have not demonstrated practical experience in operating and/or managing a housing authority.**

HUD suggests that the organizational structure be revamped to include an Executive Director with a more direct role in the daily operations of the Authority.

Comment 5

- **Financial reporting was ineffective and inefficient**

This finding is misleading because certain facts were either not known or omitted by the OIG auditors. Due to staffing shortages, the IHA accounting and financial reporting were behind in fiscal years 2002 and 2003. Once vacancies were filled, the Finance Department staff took immediate efforts to become current. The impact of these staffing shortages was that the IHA Finance Division was not able to perform all the accounting needed for the Housing Division. Many of the receivable reports could not be prepared and much of the follow up on receivable balances could not be performed. In addition, Finance began immediate efforts to become current with reports and other follow up efforts as soon as positions were filled. This process took through January 2004. Despite these shortages, follow up invoices and notices were sent to the City of Los Angeles on a monthly basis.

The IHA respectfully submits the following response to the noted deficiency:

- 1) The OIG stated that the City plans to restate \$1,532,000 as allowance for doubtful accounts. The following additional facts should be noted:
 - a. During the City's financial audit for the fiscal year ended September 30, 2003, the City's auditors were made aware of the delinquent portable voucher receivables. The auditors recommended that a reserve be set up for uncollectible accounts until the City could resolve receivables with the City of Los Angeles and HUD. The reserve totaled \$932,000.
 - b. During the City's financial audit for the fiscal year ended September 30, 2004, it was recommended that an additional \$600,000 be added to the reserve.
- 2) The OIG indicated that of the Authority's receivable of \$2,990,862, \$2,445,426 (or 82%) was delinquent over 90 days. This is not accurate. This amount should have been reduced for payments of \$656,000. The amount over 90 days should have been approximately \$1.7 million, primarily from the Housing Authority of the City of Los Angeles. \$1,532,000 has been reserved.
- 3) The OIG stated that the residents of the City lost needed services as a result of advances to the Housing Authority. While the City has advanced funds to the Housing Authority temporarily from the general cash and investments, no services were lost or reduced as a result.
- 4) The OIG stated that the City's independent auditors' review of federal programs did not disclose the receivable balances or that management did not provide reasonable assurances that funds would be safeguarded against loss. Our auditors did identify these receivables in their audit and requested that the City make an adjustment to the financial statements. The auditors were informed that the matter was pending resolution with the City of Los Angeles and HUD. It is our understanding that a matter would be a reportable condition in the Single Audit if there was a high risk of misstatement in financial statement amounts. No weaknesses in internal controls over financial reporting were noted. We believe all amounts have been properly stated, including the portable voucher receivables.

Comment 6

- **The Authority did not request additional funds from HUD**

This finding suggests that the Authority could have requested additional funds from HUD under the "central fund" authorized under the Consolidated Appropriations Act of 2004. ***However, the 2004 Act made no provision for a central fund for additional leasing or for an appeal mechanism for a significant increase in per unit costs in excess of the published 2005 AAF's (Annual Adjustment Factors).***

Therefore, Inglewood had no ability to request additional funds from HUD. However Chairman Dorn met with Deputy Assistant Secretary Russell in April 2004 to alert him to

the problem and request assistance in recovering funds due to the city under portability. In addition, Inglewood staff modified its financial statements to access pre-2003 operating reserves to cover the costs of over-leasing as a result of being forced to absorb the HACLA port ins. *This resulted in the recovery of over \$2.1 million in September 2005.* Staff is presently negotiating with HACLA and HUD to recover the rest of these funds. HUD is scheduled to send in forensic auditors during the first quarter of 2006 to review the city's financial and portability client records in an effort to reconcile the amounts due.

- **Management lacked adequate knowledge and failed to provide necessary oversight**

In an effort to increase program efficiency and effectiveness, IHA shall implement the following:

- ✓ Staff will receive extensive training in program administration, quality control monitoring and financial management.
- ✓ IHA will develop, adopt and implement policies and procedures in accordance with 24 CFR statutory regulations, as well as regularly updated Program Implementation Policies.
- ✓ Establish a system of checks and balances within the Program Administration and Financial Management Divisions within the IHA to assure that costs remain within established, approved budgetary levels, and that program and financial reporting systems reflect current tenant and fiscal activity.

- **The Authority was placed under two corrective action plans**

The IHA is currently under review and working with HUD's Recovery and Prevention Center to correct all identified deficiencies through July 30, 2006, in accordance with the Corrective Action Plan in effect for the period July 1, 2005 through July 30, 2006.

Conclusion

HUD/OIG concluded that the Authority's current administration has placed the Authority in a negative financial situation, and places HUD and the City of Inglewood in significant financial risk. IHA staff has implemented procedures to ensure that billing is done in a timely fashion, and have incorporated a Termination Policy in its Administrative Plan to terminate those portable contracts that initial PHA's do not pay in a timely fashion.

While HUD/OIG insists that Inglewood's program was not properly managed, it should be noted that all funds in question were used to provide housing assistance payments for the hundreds of families that ported into Inglewood from over 50 housing authority jurisdictions across the country, with the vast majority coming from the City of Los Angeles (HACLA).

OIG Evaluation of Auditee Comments

Comment 1

We acknowledge that \$100,000 is a lot of money; however, this must be weighed against the effective and efficient administration of the Authority's entire Section 8 program, which is at stake. We believe the responsibility of administering a Section 8 program is a full-time job that requires full attention to understanding and applying ever-changing Section 8 regulations. We applaud the Authority for wanting to take training to increase its knowledge of Section 8, and while training is helpful, the mayor and the city council cannot devote the time needed to monitor the Authority's daily activities. In our opinion, the City of Inglewood residents would be best served if they had individuals on the housing commission that have prior Section 8 experience, understand the requirements of administering a Section 8 program and devote their time to the Authority activities on a routine basis. In addition, we believe the restructuring of the program needs to include a housing manager that is also knowledgeable and committed to managing the Section 8 program and will report directly to an executive director whose sole job is to administer the Authority program activities (no multifamily new construction programs). Implementing these changes, and establishing a separate housing commission is the most effective way, in our opinion, to ensure that the Authority's required policies, procedures and controls are implemented, reviewed and updated as required. Nevertheless, if the Authority can demonstrate to HUD that it can ensure an effective and efficient program that complies with HUD requirements, through other means we would consider that alternative during the audit resolution process.

Comment 2

This finding was from audit report 2005-LA-1008. We have reached management decisions on the subject recommendations, and thus, have no further comments.

Comment 3

These findings were from audit report 2005-LA-1009. We have reached management decisions on the recommendations, and thus, have no further comments.

Comment 4

These findings were from audit report 2005-LA-1005. We have reached management decisions on the recommendations, and thus, have no further comments.

Comment 5

At the exit conference, Authority officials stated they would provide us with documentation on financial reporting information that they believed was misstated or incomplete in our report. However, as of the date of this report, we had not received any additional documentation to support their claim; therefore, we did not make any changes. We reviewed the portability receivable information provided, and revised the report to show \$1,789,188 or 60 percent of the outstanding portable receivables. We also disagree with the City of Inglewood’s comment that no services were lost or reduced because of the advances to the Authority. The money advanced from the general fund cash and investments account was intended to be used for city needs. However, since the money was instead used for housing assistance payments, it precluded the city from using the funds for their original intended purpose. Nevertheless, we have changed the sentence to read that residents of the City of Inglewood “may have” lost a number of needed services.

Comment 6

We disagree with the Authority’s claim that it had “no ability” to request additional funds from HUD. The Authority would have, and should have, had the ability to request the additional funds if they had accurate and current historical records. As we previously stated in the report, there was no guarantee HUD would have granted the additional funds, but given the Authority’s dire financial condition, applying for these funds would have given the appearance the Authority was concerned about solving their financial problems.