



Issue Date

June 7, 2007

Audit Report Number

2007-SE-0001

TO: Charles H. Williams, Deputy Assistant Secretary for Multifamily Housing, HT

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: HUD Did Not Ensure That Payments to Contract Administrators Were for Work Performed or That Interest Was Earned on Advances and Recovered

HIGHLIGHTS

What We Audited and Why

We initiated a review of the U.S. Department of Housing and Urban Development's (HUD) payments to project-based Section 8 contract administrators (contract administrators) for incentive-based performance standards tasks 8, related to tenant income matching; 11, budgets, requisitions, and revisions; and 12, year-end settlement statements. We initiated the review because our audit survey of the Los Angeles Multifamily Hub's performance-based contract administration award and the implementation and monitoring of the annual contributions contract (contract) disclosed that contract administrators had been allowed to bill for services not performed for these tasks. Our audit objectives were to determine whether HUD (1) acted appropriately when it allowed contract administrators to bill for tasks for which HUD no longer required activity, (2) had adequate procedures in place to ensure that federal advances made for housing assistance payments were invested in interest-bearing accounts, and (3) had adequate procedures in place to recover interest earned on federal advances.

What We Found

HUD paid contract administrators \$27.2 million during fiscal year 2006 for work HUD had eliminated but which was still a requirement of the contract (see appendix C). Additionally, HUD did not ensure that housing assistance payment advances were kept in interest-bearing accounts, resulting in \$54,279 in interest not earned (see appendix D), and did not recover \$132,841 in interest earned on advances kept in interest-bearing accounts (see appendix E). These deficiencies occurred because HUD modified the program, eliminating the procedures forming the basis for work under tasks 8, 11, and 12, without appropriate contractual and procedural adjustments. These program modifications were the result of automation and were intended to improve the funding for the annual contributions contracts and tenant income matching.

What We Recommend

We recommend that the deputy assistant secretary for multifamily housing (1) revise the annual contributions contract when renewing contracts so that it properly reflects the work required and paid, (2) include in the revised annual contributions contract a method for adjusting administrative fees when HUD modifications change or eliminate work for which contract administrators are specifically paid, (3) develop and implement procedures for monitoring the use of interest-bearing accounts, (4) ensure that contract administrators are told that they are still required to use an interest-bearing account when HUD waives the contract requirement for use of a depository agreement, and (5) develop and implement procedures to recover interest earned on housing assistance payment advances.

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 Office of Multifamily Housing a discussion draft on April 2, 2007, and held an exit conference with HUD's Offices of Multifamily Housing Programs and Housing Assistance Contract Administration Oversight on April 18, 2007. We received written comments on May 14, 2007. We evaluated those comments and made appropriate changes to the report based on those comments. The complete text of the auditee'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

In May 1999, the U.S. Department of Housing and Urban Development (HUD) issued a request for proposals for contract administration services for project-based Section 8 housing assistance payments contracts under Section 8 of the United States Housing Act of 1937. This request for proposals covered contract administration for most HUD-administered projects.

For work performed under annual contributions contracts awarded in response to the request for proposals, HUD uses performance-based service contracting. Performance-based service contracting is based on the development of a performance work statement, which defines the work in measurable, mission-related terms with established performance standards and review methods to ensure quality. Performance-based service contracting assigns incentives to reward performance that exceeds the minimally acceptable level and disincentives to assess penalties for unsatisfactory performance.

The annual contributions contracts awarded in response to the request for proposals include 16 tasks as the performance standards. HUD measures the contract administrator's performance of each task against the performance standard to determine the administrator's earned administrative fee as well as to determine whether disincentive deductions or incentive fees apply. HUD has established a listing of the quality assurance methods and resources it will use to verify the accuracy of the contract administrator's reported performance and accomplishments. HUD may also use other methods that it deems appropriate to ensure quality.

As a result of program changes, HUD instructed the contract administrators not to perform 3 of the 16 tasks. Our audit focused on these three tasks which were:

- Task 8, which would have required the contract administrators to monitor owner follow-up efforts on discrepancies identified as a result of certain income matching initiatives. The particular matching initiatives were not implemented and HUD never required the contract administrators to perform this task.
- Task 11, which originally required the contract administrators to prepare and submit to HUD (1) an annual Section 8 budget, (2) an annual requisition for partial payment of Annual Contributions, and, if applicable (3) a revised budget and requisition. HUD subsequently automated the process for making the annual contributions contract payments to the contract administrators and housing assistance payments to owners, thereby eliminating the need for task 11.
- Task 12, which required the contract administrators to prepare and submit a year-end settlement statement within 45 days after the end of the contract administrator's fiscal year. The same changes that eliminated the need for task 11, also eliminated the need for task 12.

HUD's headquarters Office of Housing Assistance Contract Administration Oversight is responsible for the administration of the outsourcing of project-based Section 8 contract administration and for the administration of subsidy contracts under multifamily rental subsidy programs. The primary responsibility for monitoring and oversight activities of the project-

based Section 8 contract administrator rests with the multifamily hubs and the program centers. These offices monitor, oversee, and provide technical assistance to project-based Section 8 contract administrators and assure that project-based Section 8-subsidized properties continue to meet HUD's goal of providing decent, safe, and sanitary housing to low-income families.

Our audit objectives were to determine whether HUD (1) acted appropriately when it allowed contract administrators to bill for tasks for which HUD no longer required activity, (2) had adequate procedures in place to ensure that federal advances made for housing assistance payments were invested in interest-bearing accounts, and (3) had adequate procedures in place to recover interest earned on federal advances made for housing assistance payments.

RESULTS OF AUDIT

Finding 1: HUD Paid Project-Based Section 8 Contract Administrators for Work That HUD No Longer Required

HUD paid project-based Section 8 contract administrators (contract administrators) for work that was not required after HUD modified procedures to improve tenant income matching and funding for annual contributions contracts (contracts). HUD entered into and renewed contracts that included payments for work that was no longer required. Those contracts did not contain provisions allowing HUD to adjust the fees when required work was eliminated or changed. As a result, during fiscal year 2006, HUD paid a cumulative total of \$27.2 million, 19 percent of the total basic administrative fee, to the 53 program contract administrators for work that HUD did not require the contract administrators to perform (see appendix C).

Fees Are to Be Paid for Tasks Performed

Both the request for proposals for contract administration services and the contract specify that fees will be paid to the contract administrator for tasks performed. The request for proposals, section 4.1, states that HUD pays the basic fee for performance of tasks described in the statement of work. Section 1 of the contract entered into by HUD and the contract administrators defines the incentive-based performance standard fee as the maximum fee for performance of a task listed in the performance requirements summary portion of the contract. Additionally, neither the request for proposals nor the annual contributions contract provides for adjusting the basic fee if the work associated with a task is eliminated or changed.

HUD Eliminated the Work Required for Three Tasks, Continued to Pay for the Tasks, and Entered and Renewed Contracts Containing the Tasks

HUD continued to make payments to contract administrators after eliminating the work on tenant income matching and funding for the housing assistance payment contracts (tasks 8, 11 and 12). Moreover, HUD's memorandum, dated May 15, 2003, specifically stated that although the work had been eliminated for task 11, budgets and requisitions, the contract administrators would continue to receive the administrative fee for this task until the contracts were revised. However, when entering into or renewing contracts after these procedural changes, HUD continued to include all of the tasks for which work was

no longer required. Once the contracts were executed, HUD continued to make payments because there were no provisions in the contracts for reducing the basic fee.

In June 2000, HUD's first performance-based contract took effect. At that time, it did not have procedures in place to specify the contract administrators' roles and responsibilities for task 8, tenant income verification. On March 15, 2001, HUD issued the draft Guidebook for Section 8 Contract Administration Initiative. This guidebook also did not include guidance on the contract administrators' role and responsibilities for tenant income verification. HUD's contract administrator oversight monitors were informed on April 3, 2001, that the contract administrators would not be involved in tenant income verification, and the Tenant Assessment Subsystem User Guide, dated June 2005, placed the responsibility for tenant follow-up not with the contract administrator, but with the project owner.

On February 7, 2001, HUD issued a memorandum eliminating one of the three work requirements for task 11, requisitions, and the one work requirement for task 12, year-end settlements. On May 15, 2003, HUD issued an additional memorandum eliminating the two remaining work requirements under task 11, revisions and budgets. Although HUD never required work to be performed under task 8 and has not required any work to be performed under tasks 11 and 12 since May 15, 2003, and February 7, 2001, respectively, HUD continued to pay the basic administrative fee to all 53 contract administrators for each of these tasks.

The elimination of tasks 8, 11, and 12 was accomplished through automation of the basic components of the tasks. The assisted project owners were required to use the Tenant Rental Assistance Certification System to submit tenant and financial information. The system was enhanced to use the owner provided information to (1) verify tenant income and follow-up on resolution of discrepancies (formerly task 8) and (2) provide funding for housing assistance payment based on actual occupancy eliminating the need for budgets, requisitions, and year end settlement statements (formerly tasks 11 and 12).

After HUD eliminated tasks 8, 11, and 12, it implemented the Rental Housing Integrity Improvement Project, in part, to ensure that the right benefits go to the right persons. This project has goals similar to task 8 and requires the contract administrators to (1) conduct management and occupancy reviews and voucher reviews, (2) verify and certify housing assistance payments and ensure compliance with the automation rule, (3) verify and ensure that owners have corrected the voucher and taken corrective actions to reduce errors, (4) be proactive and provide technical assistance and training to owners and management agents, and (5) be familiar with and use available tools and resources in conducting reviews. These tasks were already required under sections 3.2 and 3.5 of the annual contributions contract, and funded under tasks 1, 2, 6, and 7. Therefore, elimination of task 8 should not have impacted achieving these goals. Regarding the elimination of task 11, the annual contributions contract sections 5 and 3.3 already required the contract administrators to consider project funding needs when approving rent increases. Moreover, the elimination of task 12 did not affect the contract administrators' responsibility to maintain complete and accurate accounts and records for

the housing assistance payment contracts, pursuant to sections 9 and 12 of the annual contributions contract.

HUD Chose Not to Change the Contract After Eliminating Required Work

HUD officials told us that the contract was not changed once procedural modifications eliminated the work because (1) the work eliminated was replaced by new work requirements for the contract administrators, and (2) an independent assessment of the contract was considered necessary before changes were made. However, as discussed above, the purported new work requirements were already covered elsewhere in the annual contribution contracts.

HUD Paid \$27.2 Million for Work No Longer Required

During fiscal year 2006, HUD made cumulative payments totaling \$27.2 million to all 53 contract administrators in the program for work HUD no longer required on tenant income matching and funding for the contracts. The \$27.2 million paid for work not required represents 19 percent of the total basic administrative fee. If changes are made to the current annual contributions contract, HUD could put at least \$27.2 million to better use in the next year (see appendix C).

HUD Is Updating the Annual Contributions Contracts

HUD recognized the need to update the current annual contributions contract. During our audit, HUD awarded a contract seeking an independent analysis and assessment of the program to include recommendations for revising the annual contributions contract. However, review of the preliminary contractor results and our discussions with HUD and contractor officials indicated that there were no plans to include provisions for adjusting basic fees to compensate for future modifications of the contract. Such provisions are needed because it is likely that HUD will continue to identify opportunities for program improvement and make appropriate changes that may change or eliminate the work requirements in the contract. Accordingly, contractual provisions for adjusting fees are needed to ensure that payments are for work completed.

The final contractor results were received by HUD after our audit work. HUD reviewed the results and in its comments on the audit, stated that revisions to the contract will compensate for programmatic changes impacting contractor performance requirements and payments.

Recommendations

We recommend that you

- 1A. Revise the annual contributions contract when entering or renewing contracts so that it properly reflects the work required.
- 1B. Include in the revised annual contributions contract a method for adjusting administrative fees when HUD modifications change or eliminate work for which contract administrators are specifically paid. This revision would result in about \$27.2 million in annual savings from discontinuing payments for services that are no longer required (see appendix C).

Finding 2: HUD Did Not Ensure That Interest Was Earned on Advances and Did Not Recover Interest Earned

HUD did not ensure that advances were kept in interest-bearing accounts and did not recover the interest that was earned on housing assistance payment advances. HUD also did not require contract administrators to use the interest earned to pay program costs. As a result, during fiscal year 2006, HUD lost the opportunity to collect an estimated \$54,279 in interest that could have been earned on advances (see appendix D). Additionally, during fiscal year 2006, HUD did not ensure that an estimated \$132,841 in interest that had been earned on advances was correctly used or returned to HUD (see appendix E). These deficiencies occurred because HUD (1) lacked effective controls for ensuring that interest-bearing accounts were used and (2) modified funding procedures, which eliminated controls that would have ensured that interest was used to pay eligible program costs.

HUD Did Not Ensure That Advances Were Kept in Interest-Bearing Accounts

HUD did not ensure that housing assistance payment advances were kept in interest-bearing accounts. The contract requires the contract administrator to enter into a depository agreement with its bank. This agreement requires the use of an interest-bearing account for advances. Additionally, the contract requires contract administrators to comply with applicable HUD regulations. HUD's regulations at 24 CFR [*Code of Federal Regulations*] 84.22(k) require contract administrators that are nonprofit entities to deposit and maintain advances in interest-bearing accounts whenever possible, and 24 CFR 85.25(a) encourages contract administrators that are state and local government entities to earn income.

Contrary to these requirements, 9 of the 24 contract administrators in our sample did not use interest-bearing accounts. In addition, seven of the nine contract administrators had depository agreements, which required the use of an interest-bearing account. HUD approved the two additional contract administrators' requests to proceed without a depository agreement. However, one of the two contract administrators is a nonprofit organization, and HUD's approval to proceed without a depository agreement did not specifically address the use of interest-bearing accounts or waive the requirements of 24 CFR 84.22(k) for the use of interest-bearing accounts. The second is a state agency, and 24 CFR 85.25(a) requires HUD to encourage the agency to earn income to defray program costs. Accordingly, eight contract administrators were required to use interest-bearing accounts, and the ninth should have been encouraged to use interest-bearing accounts.

HUD Lost the Opportunity to Collect \$54,279 in Interest on Advances

We estimate that the nine contract administrators would have earned interest totaling \$54,279 in fiscal year 2006 if they had used interest-bearing accounts for their advances (see appendix D). Our estimate was calculated using the contract administrators' housing assistance payment account average daily balances for fiscal year 2006 and the average interest rate for contract administrators that used interest-bearing accounts.

HUD controlled the use of interest-bearing accounts through a depository agreement, which specified that accounts would be interest-bearing with use of the depository agreement to be confirmed during annual compliance reviews. However, these controls were not effective because they did not include review procedures for directly determining the type of account used. If HUD procedures included a process for ensuring that interest-bearing accounts are used, we estimate that it could put about \$54,279 to better use in the next year (see appendix D).

HUD Did Not Ensure That Interest Earned on Advances Was Used or Returned

HUD did not require contract administrators to use interest earned on housing assistance payment advances to pay eligible program costs or otherwise return the funds to HUD. The request for proposals and the annual contributions contract state that interest earned on the investment of program receipts constitutes program receipts. Program receipts are defined as the amounts paid by HUD to the contract administrator under the annual contributions contract and any other amounts received by the contract administrator in connection with administration of the contract. Additionally, the contracts specifically note interest income as an example of program receipts.

The request for proposals and annual contributions contract also address the use of program receipts. According to the request for proposals, the contract administrator must use program receipts in compliance with the U.S. Housing Act of 1937 and all HUD regulations and other requirements. In addition, the contract administrator may only use program receipts to pay program expenditures including administrative fees payable to the public housing authority and housing assistance payments payable to owners for covered units. Further, if required by HUD, program receipts in excess of current needs must be promptly remitted to HUD or invested in accordance with HUD requirements.

HUD did not require those contract administrators that used interest-bearing accounts to comply with the U.S. Housing Act of 1937 by using interest earned on housing assistance payment advances to pay eligible program costs or otherwise return the funds to HUD. HUD's multifamily hubs stated that 46 of the 53 contract administrators used interest-

bearing accounts. We contacted 17 of the largest contract administrators identified with interest-bearing accounts to determine whether the interest earned on those accounts for fiscal year 2006 had been returned to HUD.

The responses received from the contract administrators showed that 15 of the 17 had earned interest. The 15 contract administrators had not remitted the interest earned to HUD because instructions had not been received for sending the interest to HUD. Additionally, HUD had not provided procedures for using interest earnings to offset requests for funding. Accordingly, we used the housing assistance payment account bank statements received from the 15 contract administrators to determine interest earned on housing assistance payments received from October 1, 2005, through September 30, 2006. We estimate that they earned \$132,841 during that period after adjustments for interest earned on overpayments and interest earned during prior periods (see appendix E).

HUD Did Not Have Procedures to Ensure That Interest Earned Was Used or Returned

HUD did not have procedures for the use of interest earned on housing assistance payment advances since it eliminated procedures to recover interest earned through a year-end settlement process. To ensure that only actual costs were paid, HUD's original procedures used an approved requisition based on estimated costs to be incurred, established via the Form HUD-52663, Partial Payment of Annual Contributions, with a year-end settlement that included interest earned. In April of 2001, HUD implemented new procedures that discontinued the practice of making housing assistance payments based on estimates and implemented a process based on actual costs. HUD anticipated that any interest earned would be accounted for as miscellaneous income and reported on the voucher in the Tenant Rental Assistance Certification System. The necessary procedural changes were not made to allow the interest to be reported. During our audit, HUD officials began to develop procedures for recovering interest earned on advances that have accumulated in contract administrator accounts. Implementation of these procedures may also help HUD ensure that interest-bearing accounts are used.

In addition to the development of procedures to recover interest noted above, HUD was planning a one-time recovery in response to the Office of Inspector General's (OIG) audit recommendation 1B in audit report number 2007-FO-0003, addressing excess program reserves held by the 35 contract administrators. The planned one-time recovery included housing assistance overpayments made before April 2001 and all interest earned by the 35 contract administrators. If HUD implements the one-time recovery, it will recover \$122,447 of the \$132,841 estimated fiscal year 2006 interest earnings for 15 sample contract administrators included in our audit (see appendix E). The remaining \$10,394 in estimated interest was earned by 7 of the 15 sample contract administrators that were not included in the 35 contract administrators addressed by the prior audit. Accordingly, HUD should be able to recover an additional \$15,101 including the \$10,394 in interest

earned on advances made in fiscal year 2006 and \$4,707 earned on housing assistance payments made before fiscal year 2006. In addition, an estimated \$132,841 in interest earnings could be put to better use in the next year (see appendix E).

HUD's comments on the audit report stated that contract administrators were directed to annually report on and remit interest earned on housing assistance payment advances. The comments stated that the direction was communicated to the contract administrators by memorandum, dated May 11, 2007. The memorandum contains procedures that require all contract administrators to remit to HUD by May 31, 2007, interest earned on advances through December 31, 2006, or evidence the interest was remitted directly to the U.S. Treasury. Also, the memorandum requires contract administrators to remit interest earned on advances within 45 days of the end of the contract administrator's fiscal year or evidence that the interest was remitted directly to the U.S. Treasury.

Recommendation

We recommend that you

- 2A. Develop and implement procedures for monitoring the use of interest-bearing accounts. We estimate the use of interest bearing accounts would result in \$54,279 interest earned and remitted that will be available either to HUD or the U.S. Treasury for other purposes (see appendix D).
- 2B. Ensure that contract administrators are told that they are still required to use an interest-bearing account when HUD waives the annual contributions contract requirement for use of a depository agreement.
- 2C. Develop and implement procedures for using interest earned on housing assistance payment advances before requesting additional funding or develop and implement procedures for contract administrators to return the funds to HUD. We estimate \$132,841 would be remitted to HUD and available either to HUD or the U.S. Treasury for other purposes (see appendix E).
- 2D. Recover interest earned on advances to contract administrators that are not included in planned actions addressing recommendations in report number 2007-FO-0003. We estimated \$15,101 of ineligible costs for eight contract administrators included in our sample (see appendix E).

SCOPE AND METHODOLOGY

Our audit testing related to fiscal year 2006 payments under the annual contributions contract for incentive-based performance standards tasks 8, 11, and 12 and interest earned on housing assistance payment advances. Our testing for payments made under the annual contributions contract for tasks 8, 11, and 12 included payments to all 53 contract administrators in the program. Our testing for interest earned on housing assistance payment advances included 24 of the 53 contract administrators. We conducted our work from July 2006 through February 2007.

To accomplish our audit objectives, we examined HUD records, interviewed officials from HUD's Office of Housing Assistance Contract Administration Oversight in Washington, DC, interviewed HUD officials in the Los Angeles, California, and Seattle, Washington, multifamily hubs, and contacted the remaining multifamily hubs by e-mail. We also contacted the 24 contract administrators included in our testing for interest earned on housing assistance payment advances and interviewed the contractor hired by HUD to review the annual contributions contract. The methodologies used included

- Estimating the fiscal year 2006 basic administrative fees paid for tasks 8, 11, and 12. The estimate was developed from the basic fees paid during fiscal year 2006 as shown in the Line of Credit Control System. The annual contributions contract specifies that payments for tasks 8, 11, and 12 are 3, 8, and 8 percent of the basic fee, respectively. Accordingly, we estimated the fees paid for each task by applying the specified percentage to the total fiscal year 2006 basic fee paid according to the Line of Credit Control System.
- Estimating the contract administrator interest earnings on housing assistance payment advances. The estimate required the use of three different methodologies, depending on (1) use of an interest-bearing account and an annual contributions contract effective before March 2001, (2) use of an interest-bearing account and an annual contributions contract effective after February 2001, and (3) use of a non-interest-bearing account.
- For contract administrators that used an interest-bearing account and had an annual contributions contract effective before March 2001, adjusting for overpayments and accumulated interest from prior periods in recognition of recommended corrective actions included in audit report 2007-FO-0003. We used two methods based on the information available from the bank statements provided by the contract administrator. They are described below.
 - We obtained bank statements from the contract administrator and totaled the interest earned as shown on the statements. We then deducted the interest that was attributable to overpayments and accumulated interest. The amount of interest attributed to overpayments and accumulated interest was computed based on the total overpayments and interest as of September 30, 2005, and the interest rate shown on the bank statements.

- We obtained bank statements from the contract administrator and computed the interest earned on housing assistance payment advances not disbursed the same day received. The average daily balance, days held, and interest rate shown on the bank statement were used to compute the interest.
- For contract administrators that used an interest-bearing account and an annual contributions contract, effective after February 2001, (1) obtaining bank statements from the contract administrator; (2) totaling the interest earned as shown on the statements for both the period from the effective date of the annual contributions contract through September 30, 2005, and October 1, 2005, through September 30, 2006; (3) determining the interest earned during the period October 1, 2005, through September 30, 2006, on interest earned before October 1, 2005, by applying the interest rate from the bank statements; and (4) reducing the total interest earned during the period October 1, 2005, through September 30, 2006, by the amount determined in the prior step.
- For contract administrators that used a non-interest-bearing account, (1) obtaining bank statements from the contract administrator, (2) determining the average daily balance, and (3) applying an interest rate equal to the average of the interest rates earned by the contract administrators with interest-bearing accounts and included in our testing.
- Selecting a sample of contract administrators for evaluating interest earnings on advances. The program has 53 contract administrators. Information obtained from HUD's multifamily hubs showed that 46 contract administrators used interest-bearing accounts and seven used non-interest-bearing accounts (four identified by the hubs and three we identified). Additionally, HUD is planning to recover housing assistance overpayments and interest from 35 of the contract administrators that had annual contributions contracts before March 2001. HUD is planning a one-time recovery in response to OIG's audit recommendation 1B in audit report number 2007-FO-0003, addressing excess program reserves. Accordingly, our review required the use of three selection methodologies. We selected
 - All seven contract administrators using non-interest-bearing accounts.
 - Eight contract administrators with the largest administrative fees from the contract administrators that earned interest on the overpayments and monthly advances for housing assistance payments.
 - Nine contract administrators with the largest administrative fees from the contract administrators that had interest-bearing accounts for monthly housing assistance payments and no housing assistance overpayments.

We performed our review in accordance with generally accepted government auditing standards, which included tests of internal controls that we considered necessary to our audit objectives.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- HUD's policies and procedures for ensuring that contract administrators used interest-bearing accounts for housing assistance payment advances and
- HUD's policies and procedures for ensuring that interest earned on housing assistance payment advances were used for program purposes.

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:

- HUD's controls were not adequate to ensure that contract administrators used interest-bearing accounts for housing assistance payment advances (finding 2).
- HUD's controls were not adequate to ensure that interest earned on housing assistance payment advances were used for program purposes (finding 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Funds to be put to better use <u>2/</u>
1B		\$27,237,485
2A		\$54,279
2C		\$132,841
2D	\$15,101	


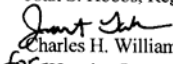
- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions 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 which are specifically identified. This amount represents our estimate of the potential amounts HUD could save annually by discontinuing payments for services that are no longer required and through implementation of our recommendations relating to advances. See the Scope and Methodology section of the report for an explanation of the process used to calculate these figures. Also, see appendixes C through E for the specific amounts associated with each contract administrator.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	 <p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-8000</p> <p>OFFICE OF HOUSING</p> <p>MAY 14 2007</p> <p>MEMORANDUM FOR: Joan S. Hobbs, Regional Inspector General for Audit, OAGA</p> <p>FROM:  Charles H. Williams, Deputy Assistant Secretary for Multifamily Housing Programs, HT</p> <p>SUBJECT: Draft Audit Report – HUD did not ensure that payments to Contract Administrators were for work performed or that interest was earned on advances and recovered.</p> <p>This response is in follow up to your memorandum dated April 2, 2007, transmitting the subject draft report and the subsequent exit conference addressing the same on April 18, 2007. We are providing formal written comments to the draft report for your consideration as provided and discussed at the exit conference.</p> <p><u>Report subject</u></p> <p>The draft report subject “HUD did not ensure that payments to Contract Administrators were for work performed...” and similar language appearing throughout the report is misleading and implies the contract administrators received payment absent work performance. The contract language does not reflect modifications in program direction based on Departmental priorities nonetheless PBCAs were and are asked to perform consistent with Departmental priorities for all tasks cited in the Annual Contributions Contract (ACC). Therefore, cost efficiency savings reflected in this report are misleading and do not accurately represent PBCA performance of tasks for monies received and are detailed as follows:</p> <p>IPBS #8 Tenant Income Verification (TIV) – In lieu of income verification under the TIV initiative, PBCAs were required to implement and follow the guidance under Rental Housing Integrity Improvement Project (RHIP) initiative without specific reference in the ACC to reduce the errors in administering the Department’s subsidy programs. RHIP was a critical priority for the Department as a requirement under the President’s Management Agenda. The objective of RHIP is to reduce errors in the administration of HUD’s rental assistance funds by taking actions that better assure the “right benefits go to the right persons. The contract administrator role is to assure owners are conducting appropriate applicant and tenant income verification and provide for the reduction in erroneous payments. Contract administrator activity is specifically detailed in the RHIP Information Sheet and on the RHIP website. HUD initiated RHIP in 2001 after the release of a study by HUD’s Office of Policy Development and Research (PD&R). FY2003 showed a 26 percent reduction in gross erroneous payments when compared to the study released in 2001. This is an especially significant reduction of errors when compared to the 15 percent error reduction that HUD originally set as a goal for FY 2003.</p>
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Comment 1

Comment 2

Comment 3

Comment 2

Comment 4

In FY 2004, HUD surpassed all interim reduction goals in net annual rental assistance overpayments by achieving a reduction of 71 percent. This error reduction was based on an update of the baseline established in FY 2000. HUD set a goal to reduce the estimated \$2 billion in net annual overpayments in the Department's \$24 billion per year rental housing assistance programs. Interim reduction goals were established at 15 percent in FY 2003, 30 percent in FY 2004 and 50 percent by FY 2005. In FY 2004, HUD surpassed all interim reduction goals in net annual rental assistance overpayments by achieving a reduction of 71 percent.

The reduction in subsidy determination errors is a result of:

- HUD's efforts to work with its housing industry partners, owner/agents and contract administrators
- Providing enhanced program guidance, training, oversight and enforcement
- Improved income verification efforts by program administrators
- Improved computer matching for upfront verification of tenant income
- Increased promotion of error reduction needs and increased voluntary compliance

HUD received a GREEN status rating for Improved Financial Performance in the second quarter of Fiscal Year 2007. Improvement in the oversight and monitoring of subsidy calculations by contract administrators assisted the Department in exceeding the erroneous payments reduction goals under the President's Management Agenda.

IBPS #11 Budgets, requisitions, revisions - The change in payment procedures for Housing Assistance Payments (HAP) from budget based to actual voucher payments eliminated the requirement for annual budget and requisition submission. However, PBCAs continue to financially assess sufficiency of HAP funds, notify HUD of HAP funding shortfalls and work with the owners and HUD staff when interim measures are required to assure continued revenue stream to the property. This is a critical management activity relative to financial viability of the property.

IBPS #12 Year End Statement – Due to the change in PBCA payment procedures for HAP from budget based to actual voucher payments, the need for fiscal year end HAP reconciliation is not required. PBCAs have managed the accounts and interest earned on these funds in the interim period until final issuance of disposition guidance. Additionally, while year end reconciliation has been eliminated, annual reporting and remittance on interest earned on HAP funds is required and/or evidence of remittance as directed in HUD's memorandum dated May 11, 2007.

Page 6 of the draft, paragraph 3

The statements in this paragraph are not relevant to the decision regarding ACC contract revisions. Due to the change in program direction, the Department recognized the need for an arms length assessment of the contract including the performance based contract structure, performance metrics and monitoring assessments of both HUD and the PBCAs. As noted above, the language in the ACC had not been revised to reflect programmatic changes however; PBCA performance was redefined to meet departmental requirements. We do not believe that the inclusion of this

Comment 2
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information adds to the report, and as written is misleading. We request that this paragraph be removed.

Page 6 of the draft, fourth paragraph

As stated referenced above, cost efficiency savings as noted in appendix C are misleading. The implication that the PBCA was paid for performance no longer required is inaccurate in that the PBCAs efforts as stated above were redirected to reflect Departmental program directives.

Page 7 of the draft, first paragraph

This paragraph states "...there are no plans to include provisions for making adjustments to basic fees to compensate for future modifications of the contracts..." This statement is incorrect and should be removed. Based on the independent assessment, revisions to the contract will compensate for programmatic changes impacting contractor performance requirements and payment therein.

Page 7 of the draft - Recommendations

We recommend that you:

- 1A. Revise the annual contributions contract when entering or renewing contracts so that it properly reflects the work required.
- 1B. Include in the revised annual contributions contract a method for adjusting administrative fees when HUD modifications change or eliminate work for which contract administrators are specifically paid. This would free up about \$27.2 million in funds to be put to better use over the next year (see appendix C).

We request that the recommendations be rewritten to read:

- 1A. Revise the annual contributions contract so that it properly reflects the work required.
- 1B. Include in the revised annual contributions contract a method for adjusting administrative fees when HUD modifications change or eliminate work for which contract administrators are specifically paid.

Page 11 of the draft - Recommendations

We recommend that you:

- 2A. Develop and implement procedures for monitoring the use of interest bearing accounts. estimate that this could put \$54,279 to better use of the next year (see appendix D).
- 2B. Ensure that contract administrators are told that they are still required to use an interest bearing account when HUD waives the annual contributions contract requirement for

Comment 2
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Comment 3

use of a depository agreement.

2C. Develop and implement procedures for using interest earned on housing assistance payment advances before requesting additional funding or develop and implement procedures for contract administrators to return the funds to HUD. We estimate this could put \$132,841 to better use in the next year (see appendix E).

2D. Recover interest earned on advances to contract administrators that are not included in planned actions addressing recommendations in report number 2007-FO-0003. We estimate \$15,101 of ineligible costs for 8 contract administrators included in our sample (see appendix E).

We request deletion of the following recommendations:

2A., 2C., and 2D.; The Department has developed and issued procedures in a memorandum dated May 11, 2007 for remittance of the one time payment of HAP over payments and interest earned on HAP funds.

Page 15, Appendix A

Schedule of questioned costs and funds to be put to better use table, specifically 1B, 2A and 2C misrepresents potential cost efficiencies due to work performed as stated above and recovery and remittances to the Department as revised recommendations. These funds will not be available next year for better use but will be remitted to the Department. Report should be revised to reflect collection of funds rather than "better use over the next year".

Page 22 of the draft, Appendix E

The column headings on the chart stating that "...HUD does not plan to recover" should be revised to state that "HUD plans to recover..."

If you have any questions, please contact Deborah Lear, Deputy Director at (202) 402-2768.

Comment 11

Comment 3
Comment 12

Comment 13

OIG Evaluation of Auditee Comments

- Comment 1** HUD did not ensure that payments to contract administrators were for work performed. Further, the contract administrators received payment for work not performed, as explained in finding 1, when HUD eliminated the work and continued to pay for that work in accordance with the contract.
- Comment 2** The contract language did provide for modifications in program direction, but it did not provide for modifications in payments under the contract. Section 3b(1) of the annual contributions contract clearly states that the contract administrator shall perform all of its responsibilities under the contract in accordance with applicable provisions of law, HUD regulations, and other HUD requirements including any amendment or changes in the laws, HUD regulations, or HUD requirements. These contractual provisions, allowing for additions and reductions in the required work to be performed by contract administrators, introduced uncertainty into the costs contract administrators would incur. The contract administrator bids and the amount received may have considered the uncertainty. Accordingly, we do not agree that HUD should continue to pay for a specific task that is eliminated and justify the payments based on a new and different task without evaluating (1) the costs of the tasks eliminated and added and (2) the amount included for uncertainty in the fee bid and received by the contract administrator.
- Comment 3** HUD (1) did not ensure that payments to contract administrators were for work performed, (2) paid for work that it eliminated, and (3) had no basis for determining whether costs of tasks added were similar and otherwise uncompensated. The potential savings are reasonable as presented in the findings.
- Comment 4** Contract administrator implementation of the Rental Housing Integrity Improvement Project relied on on-site review, which is not the same as task 8, which required monitoring and reporting on owner followup efforts on a list of discrepancies HUD provides to the contract administrator. The Rental Housing Integrity Improvement Project requires contract administrators to (1) conduct management and occupancy reviews and voucher reviews, which is effectively addressed by section 3.2, Management and Occupancy Reviews, contained in the annual contributions contract; (2) verify and certify housing assistance payments and ensure compliance with the automation rule, which is effectively addressed by section 3.5, Monthly Vouchers, contained in the annual contributions contract; (3) verify and ensure that owners have corrected the voucher and taken corrective actions to reduce errors, which is effectively addressed by section 3.2, Management and Occupancy Reviews, and section 3.5, Monthly Vouchers, contained in the annual contributions contract; (4) be proactive and provide technical assistance and training to owners and management agents, which is addressed in part by section 3.2, Management and Occupancy Reviews, contained in the annual contributions contract; and (5) be familiar with and use available tools and resources in conducting reviews, which is effectively addressed by section 3.2, Management and Occupancy Reviews, contained in the annual contributions contract. Accordingly, these tasks were already required by sections 3.2 and 3.5 of the annual contributions contract including tasks 1, 2, 6, and 7. Therefore, the elimination of task 8 should not have impacted achieving these goals.

- Comment 5** Contract administrator monitoring of housing assistance payment funding and coordination with HUD and owners to ensure that adequate funding is available is not the same as task 11, which required submission of original and revised budgets and annual requisitions within a certain amount of time. The requirements under task 11 were primarily intended to ensure the contract administrator's request for funding was reasonable in relation to the housing assistance payments to owners. The annual contributions contract requires contract administrators to process rental adjustments under section 3.3, Rental Adjustments, and limits the total amount of HUD payments to the available amount of housing assistance payment funding under section 5, Limit on Payments for Funding Increment. Accordingly, assessing the adequacy of funding was required in sections 5 and 3.3 of the annual contributions contract, already provided for in task 3, and unaffected by the elimination of task 11.
- Comment 6** Contract administrator maintenance of the housing assistance payment account and interest earned on the account is not the same as task 12, which required submission of a year-end statement within 45 days after the end of the contract administrator's fiscal year. HUD's position is that contract administrators have managed the accounts and interest earned. However, the contract administrator is already effectively required to track interest earned and remit it under sections 9, Financial Management, and 12, Program Records, of the annual contributions contract. Accordingly, maintaining complete and accurate accounts and records for the housing assistance payment contracts including interest earned was already required in sections 9 and 12 of the annual contributions contract and unaffected by the elimination of task 12.
- Comment 7** During the period of our audit, the requirement that contract administrators report and remit interest was not enforced. However, by memorandum, dated May 11, 2007, HUD directed the contract administrators to begin annual reporting and remittance of interest earned on housing assistance payment funds. This action occurred after the period under audit and has been included in the report as action HUD took after our audit work.
- Comment 8** The statements in the paragraph are relevant given that they explain why HUD did not revise the annual contributions contracts and continued to make payments for work that was eliminated. However, in response to the comment, we clarified with HUD officials the reason the annual contributions contract was not changed and incorporated the understanding into the report.
- Comment 9** We agree that HUD intends to revise the annual contributions contract based on the independent assessment including revisions to the contractor performance requirements. However, HUD's comments do not address the inclusion of contract provisions needed to make adjustments to contractor performance requirements made after the planned annual contributions contract revision. Our report comments address the need for contract provisions to address performance changes during the contract term, and during the audit, both HUD and contractor officials told us that they were not considering such provisions for inclusion in the revised annual contributions contract. We revised the report to include HUD's decision to revise the annual contributions contract based on the independent assessment including revisions to the contractor performance requirements.

- Comment 10** HUD has not yet revised the annual contributions contract to include provisions for adjusting basic fees to compensate for future modifications of the contracts. Accordingly, we have not made the requested change to our recommendation.
- Comment 11** We reviewed the procedures for contract administrators to report on and remit interest earned on housing assistance payment advances included in the memorandum, dated May 11, 2007. We have revised the finding to reflect the procedures developed and communicated to the contract administrators. However, the memorandum does not include procedures for HUD to monitor (1) the use of interest-bearing accounts as included in recommendation 2A or (2) contract administrator compliance with the directive to report and remit interest earned on housing assistance payment advances to address recommendations 2C and 2D. Accordingly, the recommendations that HUD develop appropriate monitoring procedures were retained.
- Comment 12** As demonstrated in Finding 1, eliminating payments for tasks not performed would result in about \$27.2 million in annual savings that will be available for other purposes (recommendation 1B.). Regarding Finding 2, although interest remitted to HUD totaling about \$187,120 will not necessarily be available to the contract administrators to use in the program, the amounts represent prospective savings that will be available either to HUD or to the U.S. Treasury for other purposes (recommendations 2A. and 2C.).
- Comment 13** By memorandum, dated May 11, 2007, HUD directed the contract administrators to report and remit interest earned on housing assistance payment funds through December 31, 2006. As discussed in comment 7, the new procedures are included in the report as action taken by HUD after our audit work, and we revised the column headings.

Appendix C

SCHEDULE OF PAYMENTS FOR TASKS 8, 11, AND 12

Contract administrator	Contract administrator for	Total basic fee paid during fiscal year 2006	Fees paid for incentive-based performance standards			Total fees paid for tasks 8, 11, and 12
			Task 8 – 3% of the basic fee	Task 11 - 8% of the basic fee	Task 12 - 8% of the basic fee	
Jefferson County Assisted Housing Corporation	Alabama	\$1,775,678.00	\$53,270.34	\$142,054.24	\$142,054.24	\$337,378.82
Alaska Housing Finance Corporation	Alaska	\$201,429.76	\$6,042.89	\$16,114.38	\$16,114.38	\$38,271.65
Arizona Department of Housing	Arizona	\$1,374,898.09	\$41,246.94	\$109,991.85	\$109,991.85	\$261,230.64
Southwest Housing Compliance Corporation	Arkansas	\$962,981.64	\$28,889.45	\$77,038.53	\$77,038.53	\$182,966.51
Colorado Housing and Finance Authority	Colorado	\$1,282,234.00	\$38,467.02	\$102,578.72	\$102,578.72	\$243,624.46
Jefferson County Assisted Housing Corporation	Connecticut	\$1,535,296.00	\$46,058.88	\$122,823.68	\$122,823.68	\$291,706.24
Delaware State Housing Authority	Delaware	\$187,968.97	\$5,639.07	\$15,037.52	\$15,037.52	\$35,714.11
Assisted Housing Services Corporation	District of Columbia	\$1,770,657.00	\$53,119.71	\$141,652.56	\$141,652.56	\$336,424.83
North Tampa Housing Development Corporation, Inc.	Florida	\$5,274,348.00	\$158,230.44	\$421,947.84	\$421,947.84	\$1,002,126.12
Georgia HAP Administrators, Inc.	Georgia	\$3,880,478.00	\$116,414.34	\$310,438.24	\$310,438.24	\$737,290.82
Housing and Community Development Corp of Hawaii	Hawaii	\$797,120.79	\$23,913.62	\$63,769.66	\$63,769.66	\$151,452.94
Idaho Housing and Finance Association	Idaho	\$189,611.09	\$5,688.33	\$15,168.89	\$15,168.89	\$36,026.11
Georgia HAP Administrators, Inc.	Illinois	\$5,291,530.50	\$158,745.92	\$423,322.44	\$423,322.44	\$1,005,390.80
Indiana Housing and Community Development Authority	Indiana	\$4,100,857.31	\$123,025.72	\$328,068.58	\$328,068.58	\$779,162.88
Iowa Finance Authority	Iowa	\$1,595,460.84	\$47,863.83	\$127,636.87	\$127,636.87	\$303,137.57
Kansas Housing Resources Corporation	Kansas	\$1,065,733.14	\$31,971.99	\$85,258.65	\$85,258.65	\$202,489.29
Kentucky Housing Corporation	Kentucky	\$1,349,420.21	\$40,482.61	\$107,953.62	\$107,953.62	\$256,389.85
Louisiana Housing Finance Agency	Louisiana	\$2,001,080.91	\$60,032.43	\$160,086.47	\$160,086.47	\$380,205.37
Maine State Housing Authority	Maine	\$461,267.00	\$13,838.01	\$36,901.36	\$36,901.36	\$87,640.73
Maryland Department of Housing and Community Development	Maryland	\$5,191,247.00	\$155,737.41	\$415,299.76	\$415,299.76	\$986,336.93
Massachusetts Housing Finance Agency	Massachusetts	\$9,152,189.00	\$274,565.67	\$732,175.12	\$732,175.12	\$1,738,915.91
Michigan State Housing Development Authority	Michigan	\$4,250,112.50	\$127,503.38	\$340,009.00	\$340,009.00	\$807,521.38

Contract administrator	Contract administrator for	Total basic fee paid during fiscal year 2006	Fees paid for incentive-based performance standards			Total fees paid for tasks 8, 11, and 12
			Task 8 – 3% of the basic fee	Task 11 - 8% of the basic fee	Task 12 - 8% of the basic fee	
Minnesota Housing Finance Agency	Minnesota	\$3,149,092.87	\$94,472.79	\$251,927.43	\$251,927.43	\$598,327.65
Jefferson County Assisted Housing Corporation	Mississippi	\$1,497,680.00	\$44,930.40	\$119,814.40	\$119,814.40	\$284,559.20
Missouri Housing Development Commission	Missouri	\$2,848,552.70	\$85,456.58	\$227,884.22	\$227,884.22	\$541,225.02
Montana Department of Commerce	Montana	\$490,467.00	\$14,714.01	\$39,237.36	\$39,237.36	\$93,188.73
Housing Authority of the City of Bremerton	Nebraska	\$691,513.41	\$20,745.40	\$55,321.07	\$55,321.07	\$131,387.54
Housing Authority of the City of Reno	Nevada	\$700,410.43	\$21,012.31	\$56,032.83	\$56,032.83	\$133,077.97
New Hampshire Housing Finance Authority	New Hampshire	\$531,602.00	\$15,948.06	\$42,528.16	\$42,528.16	\$101,004.38
New Jersey Housing and Mortgage Finance Agency	New Jersey	\$4,368,098.63	\$131,042.96	\$349,447.89	\$349,447.89	\$829,938.74
New Mexico Mortgage Finance Authority	New Mexico	\$730,044.93	\$21,901.35	\$58,403.59	\$58,403.59	\$138,708.53
New York State Housing Trust Fund Corporation	New York	\$13,489,693.06	\$404,690.79	\$1,079,175.44	\$1,079,175.44	\$2,563,041.67
North Carolina Housing Finance Agency	North Carolina	\$3,107,587.02	\$93,227.61	\$248,606.96	\$248,606.96	\$590,441.53
North Dakota Housing Finance Agency	North Dakota	\$178,046.00	\$5,341.38	\$14,243.68	\$14,243.68	\$33,828.74
California Affordable Housing Initiatives, Inc.	Northern California	\$7,074,911.99	\$212,247.36	\$565,992.96	\$565,992.96	\$1,344,233.28
Columbus Metropolitan Housing Authority	Ohio	\$6,552,749.14	\$196,582.47	\$524,219.93	\$524,219.93	\$1,245,022.33
Oklahoma Housing Finance Agency	Oklahoma	\$1,515,888.14	\$45,476.64	\$121,271.05	\$121,271.05	\$288,018.74
Oregon Housing and Community Services	Oregon	\$831,417.93	\$24,942.54	\$66,513.43	\$66,513.43	\$157,969.40
Pennsylvania Housing Finance Agency	Pennsylvania	\$5,969,106.14	\$179,073.18	\$477,528.49	\$477,528.49	\$1,134,130.16
Puerto Rico Housing Finance Corporation	Puerto Rico	\$1,662,849.00	\$49,885.47	\$133,027.92	\$133,027.92	\$315,941.31
Rhode Island Housing and Mortgage Finance Corporation	Rhode Island	\$1,444,679.00	\$43,340.37	\$115,574.32	\$115,574.32	\$274,489.01
South Carolina State Housing Finance and Development Authority	South Carolina	\$2,416,347.73	\$72,490.43	\$193,307.82	\$193,307.82	\$459,106.07
South Dakota Housing Development Authority	South Dakota	\$293,898.00	\$8,816.94	\$23,511.84	\$23,511.84	\$55,840.62
Los Angeles LOMOD Corporation	Southern California	\$10,053,842.43	\$301,615.27	\$804,307.39	\$804,307.39	\$1,910,230.05
Tennessee Housing Development Agency	Tennessee	\$3,637,652.53	\$109,129.58	\$291,012.20	\$291,012.20	\$691,153.98

Contract administrator	Contract administrator for	Total basic fee paid during fiscal year 2006	Fees paid for incentive-based performance standards			Total fees paid for tasks 8, 11, and 12
			Task 8 – 3% of the basic fee	Task 11 - 8% of the basic fee	Task 12 - 8% of the basic fee	
Southwest Housing Compliance Corporation	Texas	\$7,690,767.10	\$230,723.01	\$615,261.37	\$615,261.37	\$1,461,245.75
Housing Authority of the City of Bremerton	Utah	\$380,960.00	\$11,428.80	\$30,476.80	\$30,476.80	\$72,382.40
Vermont State Housing Authority	Vermont	\$233,854.00	\$7,015.62	\$18,708.32	\$18,708.32	\$44,432.26
Jefferson County Assisted Housing Corporation	Virginia	\$1,884,543.00	\$56,536.29	\$150,763.44	\$150,763.44	\$358,063.17
Housing Authority of the City of Bremerton	Washington	\$2,324,543.34	\$69,736.30	\$185,963.47	\$185,963.47	\$441,663.24
West Virginia Housing Development Fund	West Virginia	\$498,277.91	\$14,948.34	\$39,862.23	\$39,862.23	\$94,672.80
Wisconsin Housing and Economic Development Authority	Wisconsin	\$3,217,389.20	\$96,521.68	\$257,391.14	\$257,391.14	\$611,303.96
Cheyenne Housing Authority	Wyoming	\$197,118.00	\$5,913.54	\$15,769.44	\$15,769.44	\$37,452.42
Totals		\$143,355,182.38	\$4,300,655.47	\$11,468,414.57	\$11,468,414.57	\$27,237,484.61

Appendix D

SCHEDULE OF INTEREST THAT COULD HAVE BEEN EARNED HAD INTEREST-BEARING ACCOUNTS BEEN USED FOR HOUSING ASSISTANCE PAYMENTS FROM OCTOBER 1, 2005, THROUGH SEPTEMBER 30, 2006

Contract administrator	Contract administrator for	Average daily balance	Days the average daily balance was held	Average interest rate	Interest that could have been earned from Oct. 1, 2005, through Sept. 30, 2006
Kentucky Housing Corporation	Kentucky	\$129,815.24	365	2.68%	\$3,479.05
Housing Authority of the City of Bremerton	Nebraska	\$51,071.73	271	2.68%	\$1,016.23
North Carolina Housing Finance Agency	North Carolina	\$73,256.01	365	2.68%	\$1,963.26
Los Angeles LOMOD Corporation	Southern California	\$1,507,767.37	364	2.68%	\$40,297.46
Housing Authority of the City of Bremerton	Utah	\$51,434.71	274	2.68%	\$1,034.78
Housing Authority of the City of Bremerton	Washington	\$229,968.87	364	2.68%	\$6,146.28
Cheyenne Housing Authority	Wyoming	\$9,528.05	59	2.68%	\$41.28
New Jersey Housing and Mortgage Finance Agency	New Jersey	\$96,004.15	12	2.68%	\$84.59
Arizona Department of Housing	Arizona	\$34,621.34	85	2.68%	\$216.08
Total					\$54,279.01

Appendix E

SCHEDULE OF INTEREST EARNED ON HOUSING ASSISTANCE PAYMENTS FROM OCTOBER 1, 2005, THROUGH SEPTEMBER 30, 2006

Contract administrator	Contract administrator for	Interest earned on housing assistance payments from Oct. 1, 2005, through Sept. 30, 2006	Interest earned from Oct. 1, 2005, through Sept. 30, 2006, that HUD did not plan to recover in response to recommendation 1B in report number 2007-FO-0003	Interest earned on housing assistance payments before Oct. 1, 2005, that HUD did not plan to recover in response to recommendation 1B in report number 2007-FO-0003	Total interest that HUD did not plan to recover in response to recommendation 1B in report number 2007-FO-0003
Massachusetts Housing Finance Agency	Massachusetts	\$39,748.87	-	-	
Michigan State Housing Development Authority	Michigan	\$1,548.35	-	-	
New York State Housing Trust Fund Corporation	New York	\$6,607.46	-	-	
Pennsylvania Housing Finance Agency	Pennsylvania	\$30,636.53	-	-	
Indiana Housing and Community Development Authority	Indiana	\$27.91	-	-	
Maryland Department of Housing and Community Development	Maryland	\$43,861.14	-	-	
Columbus Metropolitan Housing Authority	Ohio	\$17.06	-	-	
California Affordable Housing Initiatives, Inc.	Northern California	\$42.54	\$42.54	\$99.12	\$141.66
Georgia HAP Administrators, Inc.	Illinois	\$1,767.42	\$1,767.42	\$1,111.49	\$2,878.91
North Tampa Housing Development Corporation, Inc.	Florida	\$487.71	\$487.71	\$670.75	\$1,158.46
Louisiana Housing Finance Agency	Louisiana	-	-	\$72.54	\$72.54
Jefferson County Assisted Housing Corporation	Virginia	\$3,260.52	\$3,260.52	\$22.49	\$3,283.01
Assisted Housing Services Corporation	District of Columbia	\$15.65	\$15.65	\$165.01	\$180.66
Jefferson County Assisted Housing Corporation	Connecticut	\$1,867.10	\$1,867.10	\$16.33	\$1,883.43
Colorado Housing and Finance Authority	Colorado	\$2,953.05	\$2,953.05	\$2,549.61	\$5,502.66
Total		\$132,841.31	\$10,393.99	\$4,707.34	\$15,101.33