Housing Authority - County of Los Angeles

February 12, 2008

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: FINAL OIG AUDIT REPORT

This is to inform you that I received, late yesterday afternoon, the official audit report on the Section 8 Tenant Eligibility and Reexaminations (copy attached). Furthermore, it has been posted on HUD's website for public review.

My quick review indicates that the report has basically remained intact and the recommendations have not been changed.

Please call me if you have any questions or need additional information.

CJ:sm
Attachment

c: William T Fujioka, Chief Executive Officer
Lari Sheehan, Deputy Chief Executive Officer
Raymond G. Fortner, Jr., County Counsel
Each Deputy

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FEB 2008

February 8, 2008

Mr. Carlos Jackson
Executive Director
Housing Authority of the County of Los Angeles
2 Coral Circle
Monterey Park, CA 91755

Dear Mr. Jackson:

Enclosed is our Audit Report on the Housing Authority of the County of Los Angeles' Housing Choice Voucher Program, specifically, tenant eligibility and reexamination determinations. Should you have any questions, please contact me or Vincent Mussetter, Assistant Regional Inspector General for Audit, at (213) 534-2280.

Sincerely,

Joan S. Hobbs
Regional Inspector General for Audit

Enclosure

cc: KJ Brockington, Director, Los Angeles Office of Public Housing, 9DPH

Zev Yaroslavsky, Supervisor, 3rd District
Chairman
Los Angeles County Board of Supervisors
500 West Temple Street, Room 383
Los Angeles, CA 90012

AUDIT REPORT

AUDIT OF TENANT REEXAMINATIONS

THE HOUSING AUTHORITY OF THE COUNTY OF LOS ANGELES

LOS ANGELES, CA

2008-LA-1007

February 8, 2008

OFFICE OF AUDIT
REGION IX
LOS ANGELES, CALIFORNIA

audit report

Issue Date
February 8, 2008
Audit Report Number
2008-LA-1007

TO: K. J. Brockington, Director, Los Angeles Office of Public Housing, 9DPH

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

SUBJECT: The Housing Authority of the County of Los Angeles, Los Angeles, California, Did Not Adequately Administer Its Section 8 Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the County of Los Angeles' (Authority) Section 8 tenant eligibility determinations for its Section 8 Housing Choice Voucher program. The Authority was selected based on its ranking in our auditability survey and was recommended for audit by the Los Angeles Office of Public and Indian Housing. Our objective was to determine whether the Authority determined tenant eligibility and performed annual reexaminations in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

Although no eligibility issues were identified during our testing (there was only one new admission within our sample), the Authority did not comply with HUD's requirements or its own administrative plan in performing reexaminations. It incorrectly calculated housing assistance payments, did not complete tenant reexaminations in a timely manner, and improperly changed reexamination due dates. We attribute these conditions to the Authority's lack of comprehensive procedures and controls, failure to provide ongoing training to staff and management, inadequate computer system controls, and management not providing the necessary oversight to ensure that the voucher program was administered properly. As a result, the Authority made improper and unsupported housing assistance payments, collected unearned administrative fees in excess of $3.6 million from HUD between 2005 and 2006, and continues to put its program at risk.

What We Recommend

We recommend that the Director of the Los Angeles Office of Public Housing direct the Los Angeles County Board of Supervisors (Board) to replace the executive director with someone who has sufficient Section 8 experience and who will devote the time necessary to ensure that the Assisted Housing Division is run efficiently. In addition, the Board should direct the new executive director to hire a director with sufficient Section 8 experience to head up the Assisted Housing Division.

We also recommend that the Authority reimburse its program $33,464 from nonfederal funds for the overpayment of housing assistance, reimburse the appropriate tenants $2,838 for the underpayment of housing assistance, and provide adequate support or reimburse the program $5,860 from nonfederal funds for the unsupported costs cited in this audit report. We further recommend that HUD require the Authority to add policies and procedures to its administrative plan and update the plan throughout the year to incorporate changes or clarification in guidance, and for HUD to withhold 10 percent of the Authority's administrative fee for fiscal year 2008 and future years, as necessary, until the Authority ensures that its new computer system has been properly implemented and the data transferred from its current system are accurate. Finally, the Director should direct the Authority to reimburse HUD $3.6 million, which is 10 percent of the Authority's administrative fee for fiscal years 2005 and 2006.

Auditee's Response

We provided the auditee with the draft report on December 21, 2007, and held an exit conference on January 14, 2008. The Authority provided draft written comments at the exit conference and final comments on January 25, 2008. The Authority generally agreed with most of our report findings, but disagreed with some of our conclusions and recommendations.

The complete text of the auditee's response without the voluminous exhibits, along with our evaluation of that response, can be found in appendix B of this report. The exhibits will be made available upon request.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Los Angeles (Authority) was created in 1938 to manage and develop affordable housing. Since 1938, the Authority has administered federally funded public housing, rental assistance programs, and services and special programs for residents of public and assisted housing. The Los Angeles County Board of Supervisors created the Los Angeles County Community Development Commission in 1982 and combined it with the Authority. The Community Development Commission manages programs in public and assisted housing, community development, economic development, and housing development and preservation to improve the quality of life in low- and moderate-income neighborhoods. The Authority comprises two divisions of the Community Development Commission. The Housing Management Division manages public housing and related programs and services, while the Assisted Housing Division administers the Housing Choice Voucher program under the U.S. Department of Housing and Urban Development's (HUD) Section 8 program. The housing choice vouchers allow very low-income families to obtain affordable, decent, and safe housing.

HUD's approved budget authority for the Authority's program for fiscal years 2005 and 2006 was $179.9 million and $181.6 million, respectively. The Authority currently has 20,721 Section 8 units and 2,964 low-rent units.

Under the Section 8 Housing Choice Voucher program, a public housing agency is required to establish a family's eligibility up front and then reexamine the income and composition at least annually. The reexamination determines the continued eligibility of the family and establishes the housing assistance payment amount. The public housing agency must establish a policy which ensures that reexaminations take effect within a 12-month period for each family. It is important that the public housing agency has tracking and monitoring procedures and systems in place to ensure that the reexaminations are initiated and completed on time. Verifications must be performed at reexamination to substantiate the tenant's updated certifications. If third-party verification information is not received in a timely fashion, the public housing agency should choose an acceptable alternate form of verification and document its efforts in the tenant's file. Tenant reexamination information is recorded on HUD Family Report (HUD-50058) and then electronically submitted to HUD's public housing information center.

HUD measures the performance of the public housing agencies that administer the Housing Choice Voucher Program through its Section 8 Management Assessment Program, which scores the agencies in 14 key areas or indicators. These performance indicators show whether public housing agencies help eligible families afford decent rental units at a reasonable subsidy cost as intended by federal housing legislation. The Section 8 Management Assessment Program uses HUD's national database of tenant information (the accuracy of the public housing agency's submissions to that system is, therefore, critical) and information from audits conducted by independent auditors. HUD annually assigns each public housing agency a rating for each indicator and an overall performance rating of high, standard, or troubled. If a public housing agency does not adequately perform on any of the 14 indicators or is assigned an overall performance rating of troubled, HUD will conduct on-site reviews to assess the magnitude and

seriousness of the problem. The public housing agency must implement a thorough corrective action plan that HUD will monitor to ensure improvement in program management.

HUD Performend a 2003 Rental Integrity Monitoring Review

In January 2003, the Los Angeles Office of Public Housing performed a rental integrity monitoring review and found that the Authority had conducted no reexaminations or only performed partial annual tenant reexaminations in three years. For the files selected in their sample, the error rate was 37 percent. Some of the other errors included not verifying earned income, not verifying asset income, and not properly calculating the utility allowance. The Authority notified HUD that all of the errors identified had been corrected.

A subcontractor, NTI/CVR, performed a rental integrity monitoring re-review in October 2003 and found more errors than in the first review. In 108 files reviewed, the subcontractor found that 79 files (73 percent) contained errors, including the same types of errors identified in the January 2003 rental integrity monitoring review. The re-review also indicated that only 27 of the 36 files that were previously reviewed by HUD had been satisfactorily corrected. Additionally, HUD did not know whether the Authority performed tenant reexaminations for the files in which a reexamination had not been performed or only partially performed.

HUD Performed a 2004 Section 8 Management Assessment Program Confirmatory Review

In 2003 the Authority received a low Section 8 Management Assessment Program score. In response to the score and the 2003 rental integrity monitoring reviews, HUD performed a Section 8 Management Assessment Program confirmatory review in 2004 to assess the Authority's Housing Choice Voucher program management and compliance with program requirements. The confirmatory review lowered the Authority's score, resulting in the Authority's being designated as a "troubled performer." The confirmatory review revealed a "serious level of noncompliance with HUD's Housing Choice Voucher program requirements." During March 2005, the Authority appealed its score, and the Los Angeles Office of Public Housing denied the appeal. During May 2005, the Authority appealed the score to the General Deputy Secretary of Public and Indian Housing. The appeal was granted for indicator 5 (housing quality standards quality control inspections), elevating the overall rating to standard.

The Authority Was Placed under a Corrective Action Plan

In response to the 2004 Section 8 Management Assessment Program review and the revised score, HUD's Los Angeles Office of Public Housing placed the Authority under a corrective action plan for the period August 1, 2005, through February 28, 2006, and designated it as "near troubled." The Authority submitted progress reports stating that the deficiencies had been corrected. The Los Angeles Office of Public Housing performed a closeout review, but the results were inconclusive in determining whether the Authority had satisfactorily addressed the issues in the corrective action plan. Therefore, the corrective action plan remained open.

The objective of the audit was to determine whether the Authority determined tenant eligibility and performed annual reexaminations in accordance with HUD rules and regulations.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Perform Annual Reexaminations in Accordance with HUD Rules and Regulations

Although no eligibility issues were identified for new admissions during our testing (there was only one new admission within our sample), the Authority failed to comply with HUD regulations and its own administrative plan regarding housing assistance payments. In all 25 tenant files reviewed, the Authority made errors in its reexamination process and incorrectly calculated housing assistance payments. The Authority also did not complete 4,710 tenant reexaminations in a timely manner, improperly changed annual reexamination due dates, and did not perform annual reexaminations. This noncompliance occurred because of the Authority's lack of comprehensive procedures and controls, failure to provide tenant eligibility training to its staff and management, inadequate computer system controls, and management not providing the necessary oversight to ensure that the voucher program was administered properly. As a result, the Authority improperly made $33,464 in overpayments, $2,838 in underpayments, and $5,860 in unsupported payments, and collected administrative fees from HUD in excess of $3.6 million to administer the Section 8 program while not in compliance with program requirements. Although the Authority reorganized its Assisted Housing Division (Section 8) during the course of our audit, and it was placed under its second corrective action plan, the Section 8 program continued to remain at high risk.

The Authority Incorrectly Calculated Housing Assistance Payments

We reviewed annual reexaminations from 25 tenant files and found that the Authority made errors in its reexaminations process and incorrectly calculated housing assistance payments for each tenant. The tenant files contained a total of 65 reexaminations or HUD Family Reports, 52 of which contained errors.

The Authority did not

- Calculate tenant income correctly for 17 tenants in accordance with 24 CFR [*Code of Federal Regulations*] 5.609;
- Use the correct utility allowance from its utility allowance schedule for 14 tenants in accordance with 24 CFR [*Code of Federal Regulations*] 982.517;
- Use the correct payment standard for 15 tenants in accordance with 24 CFR [*Code of Federal Regulations*] 982.505 and chapter 7 of HUD's Housing Choice Voucher Guidebook, 7420.10G; and
- Obtain third-party verification for seven tenants in accordance with 24 CFR [*Code of Federal Regulations*] 982.516 (see appendix C).

In addition, although the Authority had access to Enterprise Income Verification system reports, starting in July 2006, and the LEADER program reports, which are important tools for verifying tenant income and eligibility information, some of this information was not printed or used by the staff when applicable in determining eligibility.

These errors resulted in the Authority's overpaying $33,464 and underpaying $2,838. In addition, there was insufficient reexamination documentation in the Authority's system to support $5,860 in housing assistance payments for tenant 05.

The Authority Did Not Perform Annual Reexaminations in a Timely Manner

Contrary to the Authority's administrative plan, monitoring procedures, chapter 12 of HUD's Housing Choice Voucher Guidebook, and 24 CFR [*Code of Federal Regulations*] 982.516, the Authority was delinquent in performing 4,710 (27 percent) of the 17,723 annual reexaminations required for its Housing Choice Voucher program tenant inventory.

We initially identified delinquent annual reexaminations in HUD's Public Housing Information Center database for fiscal years 2004 through 2006, ranging from 21 in fiscal year 2004 to 9,011 in 2006, although some of these tenants had been terminated from the program. Upon being notified of the delinquencies, the Authority admitted that it had at least 1,900 late reexaminations for current tenants, some dating back to fiscal year 2001. We attempted to match late reexaminations between our Public Housing Information Center list and the Authority's list. Although some matched, others did not, making it difficult to determine whether the Authority's list was accurate and complete. During the course of our field work, the Authority ultimately identified that it had been delinquent on 4,710 reexaminations; however, due to the discrepancies with HUD's data, there may have been additional tenants with delinquent annual reexaminations and others who were delinquent before termination.

The Authority reported to HUD in the Section 8 Management Assessment Program for indicator 9, timely reexaminations, that it performed reexaminations satisfactorily. However, this was not the case, and as a result, the Authority received unearned administrative fees from HUD relating to these delinquencies. By failing to conduct reexaminations as required, the Authority paid 1,900 tenants $15.2 million[1] in housing assistance without performing reexaminations as required.

[1] This is one year of current housing assistance payments for the 1,900 delinquent tenant reexaminations, not taking into consideration the actual period in which the reexaminations were delinquent.

After we discussed the issue with the Authority and notified HUD, the Authority began a concerted effort to bring the delinquent reexaminations current. It also contracted with four retired Housing Authority of the City of Los Angeles employees to assist in completing the delinquent reexaminations. As of April 2007, the Authority had completed reexaminations for all 4,710 tenants, and it had performed quality assurance reviews on a sample of these reexaminations. The Authority's consultant, The Bronner Group, reviewed 519 of these reexaminations and found that 195 (38 percent) contained errors, resulting in the Authority's overpaying $4,054 and underpaying $1,902 in housing assistance. We were also told that Authority's supervisors performed additional quality control reviews; however, the Authority could not provide the number reviewed, errors found, or the amount of housing assistance over/underpayments identified. Although the Authority claimed the tenants' accounts were adjusted accordingly, it was unable to provide support. The Authority provided a list of delinquent annual reexaminations supposedly reviewed by its supervisors, but our sample review of five tenants found that most were actually reviewed by the consultant. In addition, we noted that in one case, an income discrepancy was ignored and in two cases, the annual reexamination dates were changed without explanation.

Additionally, in 13 of the 25 tenant files reviewed, the Authority did not perform annual reexaminations as required (see appendix C).

The Authority recently certified in its Section 8 Management Assessment Program that it had correctly calculated tenant rent for indicator 10, annual reexaminations. However, based on the errors and discrepancies noted above, HUD does not have assurance that the delinquent annual reexaminations were performed correctly.

The Authority Improperly Changed Annual Reexamination Due Dates

Of the 52 annual reexaminations reviewed, 36 (69 percent) were not completed in a timely manner (see appendix D). Of these, 28 were recorded from one to ten months late, while eight were completed early but had late effective dates. These reexaminations did not show up as delinquent because the annual reexamination due dates were changed contrary to chapter 12, section 12.1, of the Authority's administrative plan; chapter 11, page 104, of the Authority's admission and occupancy policy; and 24 CFR [*Code of Federal Regulations*] 982.516. Based on the Authority's administrative plan, the annual reexamination date is supposed to only change when a family moves to another unit; however, in all 36 cases, the family did not move, but the Authority changed the annual reexamination dates without justification and contrary to its policy.

Further, we found six annual reexaminations in which the housing assistance payment amounts remained the same as the prior year and other instances in which the amounts were the same for more than a year, indicating that the tenant data were not updated although a reexamination had been recorded. HUD wrote a finding on this issue in its

2003 rental integrity monitoring review report (see Background and Objectives section), so the Authority had been put on notice. Despite the financial impact to the tenants and HUD, it perpetuated the inaccurate due dates and total tenant and housing assistance payments instead of making the appropriate adjustments.

Although the Authority's manipulation of the system would give the appearance that the annual reexaminations had been completed correctly, the housing assistance payments would be inaccurate. Therefore, the Authority's prior Section 8 Management Assessment Program ascertions to HUD that it performed timely annual reexaminations where false.

The Authority's Administrative Plan Did Not Contain Enough Information to Effectively Assist Its Staff in Performing Their Duties

The Authority's administrative plan was not detailed enough to provide the staff essential guidance in performing their duties or carrying out their everyday tasks. Although the administrative plan cited the applicable *Code of Federal Regulations* requirements, it failed to provide specifics and examples to the staff regarding important areas that might impact housing assistance payment calculations. For instance, there was insufficient guidance concerning the verification of full-time college student status, which directly impacts the amount of income a family reports. As a result, we noted an instance in which the Authority did not adequately follow up, resulting in its overpaying $5,072 in housing assistance. If the Authority had provided staff with more detailed procedures, the problem might not have occurred. We previously cited the Authority in audit report 2007-LA-1007, dated April 3, 2007, for its administrative plan's not having sufficient guidance to ensure compliance with HUD's housing quality standards and inspection requirements.

The Authority also had not updated and amended the plan throughout the year when necessary, such as when HUD criteria changed. For example, the Authority did not make an adjustment when there was a change in 24 CFR [*Code of Federal Regulations*] 5.609(b)(9) in April 2006, impacting the amount of college financial assistance considered as income. The director of contract maintenance and her staff were unaware of the revision more than a year later. Therefore, there may have been a number of annual reexaminations processed after April 2006 with inaccurate income calculations that may have resulted in housing assistance overpayments.

The Authority Did Not Provide Essential Training to Its Staff and Management

Previously, the executive director had not considered training as an important component of staff and management development in understanding the Section 8 program. New program assistants, responsible for determining tenant eligibility, would receive training from a manager or shadow another program assistant for a few weeks to gain an understanding of the program and the Authority's systems. They would then be assigned their tenant case load and proceed to perform their duties. If the program assistants needed additional guidance on HUD's rules and regulations, they would either decipher the information for themselves or obtain it through other program assistants, managers, or the Authority's administrative plan. However, since the administrative plan was not adequate and managers and other program assistants had also not received formal training, the new staff members could easily misinterpret or receive inaccurate information on HUD's requirements, which led to incorrect housing assistance payments.

After we notified the executive director of the significance of our preliminary results and the Director of the Los Angeles Office of Public Housing advised him of the importance of training, he initiated formal training for the staff. Starting in January 2007, the Authority provided basic Section 8 training for its staff and management that was followed up with basic housing quality standards training. We were informed additional training sessions are planned.

The Authority's Computer System Lacked Essential Controls Restricting Staff from Changing Critical Tenant Reexamination Data

The Authority's computer system was inadequate and lacked the necessary controls to restrict staff from changing information that was essential for determining the housing assistance payments. The Authority also could not provide its general computer control procedures, including those to ensure proper authorization and recording of transactions and activities. The Authority's system, Emphasys, was designed between 1992 and 1995, and most of the Authority's staff could access the system. Because the system was always in "edit mode," critical information such as payment standards, utility allowances, and annual reexamination due dates were not locked after entry and could be changed without proper authorization. This control deficiency had a significant impact on whether the Authority accurately determined the effective dates of the annual reexaminations (as discussed above) and calculated the correct housing assistance payments. Further, its system had a validation feature to detect errors or contradictory information and notify the user to correct the problem. However, we were informed that most of the staff ignored these notifications and continued processing without

making corrections or changes. We were also informed that the Authority was about a year behind in obtaining vendor-provided patches.

Our analysis of the Authority's database identified a number of incorrect current and next recertification dates that should have been prevented by the system's validation feature. For example, for one tenant, the year for the next certification date, June 1, 2001, was before the current certification date of August 19, 2006. In addition, some of the tenants' next certification dates and original move-in and move-out dates were missing. After informing the Authority of these discrepancies, we were told that there were a number of data entry errors and the program assistants were experiencing difficulty in determining the anniversary dates for the next annual reexaminations. Instead of the program assistants' determining the annual reexamination dates, the system should populate this information as a control measure. Due to the control deficiencies and inaccurate data, there is no assurance that the Authority used correct annual reexamination due dates.

Before the start of the audit, the Authority initiated the planning and selection process of obtaining a new computer system because its system was old and outdated. During the course of the audit, the Authority announced that it had selected YARDI as its new computer system. The YARDI system would have very important fields populated so that the staff would not need to enter the information into the system, thereby minimizing the amount of data entry the case managers would perform in determining housing assistance payments. However, with the inaccurate existing data, HUD does not have assurance that the information in the new system would be accurate and reflect the correct annual reexamination due dates for the tenants currently receiving Section 8.

The Authority Reorganized the Assisted Housing Division in an Attempt to Improve Its Ability to Administrer the Section 8 Program

After we informed the Authority and HUD of our prelimary results in October 2006, the Authority retracted previous Section 8 Management Assessment Program assertions to HUD in the area of timeliness of reexaminations, and it voluntarily lowered its score. The executive director also announced his plans for a major reorganization of the Authority's Assisted Housing (Section 8) Division and major changes to upper management. The Authority began the implementation of this process in November 2006. First, the director was removed (this position remained vacant as of October 2007) and the assistant director and manager were removed from their positions and transferred to other departments. The Assisted Housing Division was then divided into three divisions, as follows:

1. The Management Services Division included the compliance unit responsible for performing quality assurance on all of the Section 8 Management Assessment

Program indicators. Its director was previously the Community Development Commission's human resources director, who had little knowledge of Section 8.

2. The Contract Maintenance Division was responsible for the majority of the tenant eligibility functions: interim reexaminations, annual reexaminations, and terminations. Its director was previously the quality assurance principal analyst.

3. The Applications and Eligibility Division was responsible for portability, housing quality standards inspections, lease-up, and determining whether applicants were eligible for Section 8 assistance. The unit supervisor for applications and eligibility was promoted to be the department's director with no Section 8 knowledge before joining the Authority in May 2006.

Of the three directors, only the director of contract maintenance had prior Section 8 experience.

Further, As of October 2007, the executive director had appointed the director of management services to be the acting director of the Assisted Housing Division although her backgound was in human resources with no Section 8 experience before November 2006. The director of the Applications and Eligibility Division was also responsible for the Contract Maintenance Division although she also had no previous Section 8 experience.

The Authority also contracted with a consultant, the Bronner Group, to assist in the reorganization effort and perform quality control reviews on the delinquent annual reexaminations as noted above.

The Authority Was Placed under an Additional Corrective Action Plan

In January 2007, the Los Angeles Office of Public Housing, along with HUD's Recovery and Prevention Center, performed a review to address issues identified in the prior corrective action plan (see Background and Objectives section of the report) and issues identified during the course of our audit. The assessment reconfirmed the Authority's Section 8 Management Assessment Program score for June 30, 2003, at 63 points instead of the 73 points submitted by the Authority. The Authority received a zero score on the following indicators:

- 3, determining of adjusted income;
- 6, housing quality standard enforcement;
- 7, expanding opportunities;
- 9, annual reexaminations;
- 10, correct tenant rent calculations;
- 12, annual housing quality standards inspections;

- 13, lease-up; and
- 15, deconcentration bonus.

The assessment confirmed that the Authority did not correct the deficiencies identified in the previous corrective action plan, despite its misleading claims to the contrary. In addition, after the assessment was completed, HUD's Los Angeles Office of Public Housing established a new corrective action plan, signed on August 22, 2007, which will remain in effect until HUD determines that all of the tasks have been completed.

Management Failed to Provide Necessary Oversight to Ensure That Vouchers Were Administered Properly

The executive director, who was ultimately responsible for ensuring that the Assisted Housing Division determined tenant eligibility and performed reexaminations in compliance with program requirements, was also responsible for nine other divisions in the Community Development Commission. Before the reorganization, the executive director had only met with the senior staff once every two weeks to discuss issues and left the management of the Authority to the director and assistant director of the Assisted Housing Division.

As illustrated by the significant problems above, the Authority did not determine tenant eligibility in a manner that complied with program requirements. We attribute these problems to the executive director's not spending enough time at the Authority, having little involvement in its day-to-day operations, and allowing the previous director of the Assisted Housing Division to run the entire operation. Before HUD's 2003 review, management should have been aware of the need to implement significant procedures and controls to correct the deficiencies. When HUD identified that there were annual reexaminations that had not been completed for more than a year, management should have taken action to correct housing assistance payment amounts and the inaccurate annual reexamination dates. Instead, the Authority wrote to HUD that it had completed actions to ensure that the problems had been corrected. Our audit and HUD's 2007 review showed that the problems had not been corrected. Therefore, management willingly and knowingly violated section 10(a) of the Authority's annual contributions contract and did not comply with 24 CFR [*Code of Federal Regulations*] 982.516 when it did not perform required annual reexaminations.

As stated above, the Authority reorganized the assisted housing division, but we do not know whether the reorganization will improve the administration of the program. We question some of the executive director's decisions, such as replacing the director and assistant director of the Assisted Housing Division with two individuals who had no Section 8 experience. These positions were responsible for critical Section 8 processes

that required program knowledge and experience. The two directors, along with their staff, only recently completed basic Section 8 training. It is unclear how they will be able to effectively interpret HUD rules and regulations and disseminate critical information to staff to ensure proper administion of the program when they, themselves, are in the process of learning this very complex program. This can result in the perpetuation of significant noncompliance issues.

We are also concerned with the number of tenants for whom the program assistants were responsible when completing the annual reexamination process. Previously, case managers (now called program assistants) were responsible for performing all tenant eligibility duties for 600 to 700 tenants from new contracts to terminations. Some staff informed us that the case loads were too high to properly complete the reexaminations. After the reorganization, the program assistants had an average caseload of 900 tenants and became responsible for current and delinquent annual reexaminations. Although the executive director created a Termination Division and an Interim Division that would be responsible for completing the terminations process and performing interim examinations, the bulk of the work remained with the program assistants. The distribution of the workload might not be appropriate, given the amount of work that is needed to complete an annual reexamination, and might result in further inaccuracies and delinquent annual reexaminations.

Conclusion

The Authority's management did not adequately administer the Section 8 voucher program. Despite HUD's attempts to provide remedial help through monitoring and a corrective action plan, the executive director did not enact substantive changes until we notified him of our interim results, and some of those changes have left the program at risk. The Authority should have known about these problems before they were identified by HUD in 2003. As a result, the Authority overpaid $33,464, underpaid $2,838, and could not support $5,860 in housing assistance, and it received in excess of $3.6 million in administrative fees (see appendix A) to perform tenant eligibility in 2005 and 2006 that it did not earn. In addition, the program continued to remain at risk due to poor and/or inexperienced management, inaccurate tenant eligibility data in its systems, and reexamination errors which put the accuracy of its housing assistance payments in question.

Recommendations

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

1A. Direct the Authority to reimburse its program $33,464 from nonfederal funds for the overpayment of housing assistance.

1B. Direct the Authority to reimburse the appropriate tenants $2,838 from program funds for the underpayment of housing assistance.

1C. Direct the Authority to provide adequate support for the housing assistance payments disbursed or reimburse the program $5,860 from nonfederal funds for the unsupported cost cited in this report (see appendix C).

1D. Review a sample of the 4,710 delinquent annual reexaminations and determine whether they were completed accurately and the housing assistance payments were adjusted as necessary.

1E. Direct the Authority to perform the prior annual reexaminations to make them current on the 13 tenants missing annual reexaminations, ensuring that the correct annual reexamination due dates are used (see appendix C) in accordance with the Authority's policies and HUD requirements, and make revisions to the housing assistance payments when necessary.

1F. Direct the Authority to correct the annual reexamination dates for the 18 tenants for whom the Authority improperly changed annual reexamination dates (see appendix C) so that they comply with Authority policies and HUD requirements and make revisions to the housing assistance payments when necessary.

1G. Direct the Authority to only change the tenants' annual reexamination due dates in accordance with its monitoring and administrative policies and HUD regulations.

1H. Require the Authority to add policies and procedures to its administrative plan and include examples to ensure that it is comprehensive enough for staff to use in performing their duties and update the plan throughout the year to incorporate changes or clarification in guidance.

1I. Require the Authority to implement a comprehensive training program for staff and management on its Housing Choice Voucher program, including HUD's Public Housing Information Center system, to ensure that the information is accurate before submission.

1J. Withhold 10 percent of the Authority's administrative fee starting in its fiscal year 2008 and future fiscal years, as necessary, until the Authority has had an independent review performed of its YARDI system to ensure that it has been properly implemented and the data transferred from its Emphasys system are accurate.

1K. Direct the Los Angeles County Board of Supervisors to remove the executive director from his respective position and replace him with someone who has sufficient knowledge of the Section 8 program and who will devote the necessary time to ensure that the Section 8 program is run in an efficient and effective manner.

1L. Direct the Authority to hire a director for the Assisted Housing Division who has sufficient Section 8 experience to ensure that the Section 8 program is run in an efficient and effective manner and in compliance with HUD requirements.

1M. Require the Authority to reimburse HUD $3,662,972, which is 10 percent of the Authority's administrative fee for fiscal years 2005 and 2006, in accordance with 24 CFR [*Code of Federal Regulations*] 982.152, for not adequately administering its program in compliance with HUD requirements.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed applicable laws, regulations, and the Authority's administrative plan.
- Reviewed HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 960, and 982; HUD's Public and Indian Housing Notices 2001-15, 2004-01, and 2007-15; the Authority's consolidated annual contributions contract; and HUD's Housing Choice Voucher Guidebook, 7420.10G.
- Reviewed the Authority's annual audited financial statements and organizational charts.
- Reviewed HUD's monitoring reports and corrective action plans for the Authority.
- Obtained and reviewed the Authority's tenant files and obtained supporting documentation from its Laserfiche and Emphasys computer systems.

We also interviewed appropriate Authority employees and HUD staff.

To achieve our objective, we relied in part on the computer-processed data in the Authority's database. We performed an assessment of the reliability of the data and found the data were not adequate; therefore, we performed additional procedures to verify the information received.

We statistically selected 51 of the Authority's tenants receiving housing assistance payments during our audit using an attribute statistical sampling method developed by our computer audit specialist. Our universe included 17,723 families receiving housing assistance payments. We reduced the sample to 20 of the 51 tenant files due to time constraints imposed by the number of errors encountered in each file reviewed. We determined that one sample tenant had ported to another jurisdiction; therefore, the responsibility for performing the annual reexamination lies with the receiving Authority. As a result, we eliminated this tenant from our sample and reviewed the remaining 19 tenants. We included six tenant file reviews performed during the audit survey that were nonstatistically selected, bringing our total sample to 25 tenants. Only one tenant sampled was a new admission, a transfer from the Housing Opportunities for People With AIDS (HOPWA) program. The Authority noted that one of the 25 vouchers we tested was actually a project-based voucher it had processed as a tenant-based voucher.

We extracted delinquent annual reexaminations from the Public Housing Information Center database for the Authority's fiscal years 2004 through 2006, and reviewed a nonstatistical sample of the tenant information. We also obtained a list from the Authority of delinquent annual reexaminations on tenants who were receiving Section 8 assistance.

We performed our on-site work between July 17, 2006, and July 11, 2007, at the Authority's office located at 12131 Telegraph Road, Santa Fe Springs, California. The audit covered the period July 1, 2004, through June 30, 2006, but was expanded when necessary.

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

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, 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 that annual reexaminations are completed accurately.
- Policies and procedures to ensure that valid and reliable data are obtained and maintained.
- Policies and procedures to ensure that resource use is consistent with laws and regulations.
- Policies and procedures to ensure that resources are safeguarded against waste, loss, and misuse.

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 item is a significant weakness:

The Authority did not implement adequate procedures and controls to ensure that it complied with HUD requirements.

FOLLOWUP ON PRIOR AUDITS

Audit of Housing Quality Standards - The Housing Authority of the County of Los Angeles, Audit Number: 2007-LA-1007, Issued April 3, 2007

The fieldwork for this audit was completed in conjunction with this assignment. The report contained two findings that the Authority's Section 8 units did not meet housing quality standards and the Authority did not complete timely housing quality standards inspections. On June 4, 2007, OIG entered into management decisions with HUD to correct the items mentioned in the recommendations, which were completed and closed by HUD by December 26, 2007.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1A	$33,464			
1B				$2,838
1C		$5,860		
1M			$3,662,972	
Totals	$33,464	$5,860	$3,662,972	$2,838

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. The administrative fees paid to the Authority to administer the Section 8 Housing Choice Voucher program were not fully earned because the Authority did not fulfill its administrative duties relative to tenant eligibility requirements. For fiscal years 2005 and 2006, the Authority received more than $36 million in administrative fees for administering the Section 8 program. We determined that at least 10 percent of the full-time employees in the Authority's Assisted Housing Division were performing tenant eligibility and reexamination functions. Therefore, we recommend that the Authority reimburse HUD 10 percent of the administrative fees, or $3,662,972.

4/ 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. In this instance, if the Authority implements our recommendations, it will ensure that tenants are reimbursed for personal funds they should not have expended as the Authority underpaid the amount of assistance they were entitled to receive under the Section 8 Housing Choice Voucher program. Once the Authority successfully improves its systems and controls, this will be a recurring benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

HOUSING AUTHORITY
of the County of Los Angeles
Administrative Office
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323.890.7001 • TTY: 323.838.7449 • www.lacdc.org

Gloria Molina
Yvonne Brathwaite Burke
Zev Yaroslavsky
Don Knabe
Michael D. Antonovich
Commissioners

Carlos Jackson
Executive Director

January 25, 2008

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 6th Street, Suite 1160
Los Angeles, CA 90017-3101

Dear Ms. Hobbs:

Thank you for providing the draft audit report. I appreciate the opportunity to respond to the findings and recommendations in the draft report and look forward to cooperating fully in order to reach a satisfactory resolution. In light of the gravity of your report's recommendations and the potentially harmful impact they may cause, we submit the attached materials for your review and reconsideration of the findings based on the facts outlined in this letter and the detailed attachments.

Comment 1

Comment 2

As we have continuously acknowledged our responsibility for problems that affected our program performance, we, nevertheless, are disappointed that the audit report failed to mention the improvements we have made since November 1, 2006. Further, we take exception to the accusation made in the report that we provided misleading information, manipulated data, took no action in key program areas, and put our program "at risk." We believe that our overall administrative and programmatic improvements challenge these accusations. Some of these improvements include:

- Increased Lease-up from a low 85.7% to 95.3%;
- Reduced Delinquency of Annual Inspections from 34% to 3%; and
- Reduced Delinquency of Annual Re-examinations from 12% to 1%.

We are also deeply concerned about your recommendations as related to HACoLA's new software program (YARDI Voyager), recaptured funds, and management replacement, and disagree with your unfounded comments regarding training and the agency reorganization. These recommendations, if implemented, would be detrimental to HACoLA's efforts to improve.

These efforts support the stabilization of our program's administration of 20,747 vouchers. Moreover, as provided to you in the comprehensive response to the findings (Attachment 3), we offer the following for your consideration:

- The audit covers errors identified in 25 files in FY 2005 and 2006, and makes reference to 2003-2005 reports and/or files. This information has been incorporated into our current training activities and program improvements.
- We have made significant progress in implementing YARDI. We are on target to reach our goal of completing the implementation by April 2008.
- Core program problems were identified and discussed in April 2006.
- The current management team has taken ownership of the issues and is responsible for overseeing the reorganization and the improved performance in lease-up, annual inspections, and annual re-examinations.
- Nearly 20 percent of the Commission's training budget over the past four (4) years was committed to Section 8.

Comment 3

Comment 4

We are also concerned about how these recommendations were developed. There was no evidence in the audit to demonstrate that the auditor made any attempt to obtain factual information to support the recommendations. Information was available in the "Organizational Overview Final Report (Nelrod Report)," (Attachment 1), a report submitted by HUD's technical advisor, the Nelrod Company. The Nelrod Report is an independent third-party assessment contracted for by HUD. The report was based on a 16 week onsite review, begun in August 2007, of major program areas. The HUD Area Office and the OIG were informed of the purpose and scope of the assessment. As the OIG was finalizing its audit report, information could have been gathered from Nelrod's progress reports to obtain a more balanced perspective of our ongoing progress.

We respectfully request that the following significant findings be removed:

YARDI VOYAGER

Comment 5

The implementation of a new enterprise software solution is an integral part of our improvement plan. It is difficult to understand the rationale of the recommendation to reduce our funding given that our implementation is on schedule.

Comment 5

We deliberately made considerable efforts to avoid future data problems by reviewing our program information before it was transferred into the new system. Other than the October 24, 2006 meeting with me, where the auditor expressed concerns about our pending procurement of the new software and its implementation, I am unaware of any other time the auditor discussed or sought information from staff or key management responsible for the YARDI implementation.

Comment 4

In contrast, the consultant team from the Nelrod Company had numerous meetings with our staff and reviewed various reports to support their conclusions. The Nelrod Report included a detailed assessment of the YARDI implementation activities, including a discussion of our data clean-up efforts.

RECAPTURED FUNDS

We disagree with the recommendation to recapture funds based on the following two reasons: 1) the appropriateness of the federal regulations cited as the authority to recapture; and 2) lack of acknowledgement for the substantial financial commitment made by HACoLA to improve the program.

Regulatory Citation

Comment 6

- The IG Report requests a payment of $3.6 million related to the reexamination of 25 files from FY 2005 and 2006. Your finding is based on a regulation that may not be applicable to this situation. Questions regarding the appropriateness of the citation were raised by us at the exit conference. Your Office indicated during that conference, that clarity would be forthcoming. On January 22, 2008 your office communicated to us that 24 CFR 982.152 and 982.155 provides the authority to recapture funds and to withhold future program funds, respectively.

  HACoLA has concerns about possible misinterpretations of these regulatory citations. The recommended recapture of $3.6 million is highly punitive to an organization that has accepted its responsibility for the previous problems, identified the need to improve, and proceeded to commit substantial funds for the necessary improvements. Therefore, we believe that your recommendation is contrary to the intent of 24 CFR 982.152, which emphasizes the use of available funds be directed for program improvements. Consequently, your recommendation would be financially detrimental to our current improvement activities.

We do agree that the citation would be appropriate when an agency has not taken the initiative to commit itself to addressing its problems. However, in our case, we recognized our problems and have continued to address them since April 2006. The Nelrod Report attests to our ongoing efforts.

Comment 6

- We disagree with your application of the citation as it appears that imposing a simple 10% penalty on a PHA's administrative fees without any basis for the amount may be arbitrary and inconsistent with administrative law that prevents the federal government from acting in such a manner.

- Neither the Code of Federal Regulations cited, nor any of the points discussed between the OIG, the Area Office, and HACoLA have since clarified how, and under what circumstances, it was proper to recapture such a large amount of administrative funding.

Additional Funds Allocated

Comment 7

The recommendation to repay $3.6 million, along with a 10% reduction from the administrative funds will have severe negative programmatic repercussions. The chart below identifies approximately $5.2 million of additional funds that were allocated to support our ongoing improvements.

The recommendation to recapture funding would indicate that the auditor did not consider the resources that HACoLA has committed, nor the plans it has implemented since April 2006. These efforts have resulted in improved compliance, utilization, and customer service.

Funds Allocated to Improve Section 8 Program

Categories	FY 2006-2007	FY 2007-2008	Totals
Professional Services	$ 132,468	$ 71,315	$ 203,783
Operational Improvements	$ 2,249,247	$ 2,938,027	$ 5,187,274
Housing Search Assistance	$ 84,998	$ 374,142	$ 459,140
Training	$ 108,702	$ 224,921	$ 333,623
Totals	$ 2,575,415	$ 2,608,405	$ 5,183,820

MANAGEMENT REPLACEMENT

Comment 8

We disagree with the recommendations. The rationale for such significant recommendations should not be subjective, but rather predicated on program outcomes and effectiveness.

Comment 4

The Nelrod Report provided such an analysis and reached an entirely different conclusion.

Comment 8

In reference to the position of the Executive Director, the recommendation to replace me is an issue that would be addressed by the Board of Supervisors.

With respect to the Acting Division Director, the report is silent on her role in achieving the current program results. The problems cited in the audit report were a result of administrative oversight deficiencies of the former management. She was appointed Manager in November 2006, and was responsible for implementation and oversight of the reorganization and its related activities. In addition, she was an integral part of the "crisis management team", charged with the responsibility of identifying and examining the problems within the division.

While she did not have experience specific to the Section 8 program, she did have extensive management experience that directly transferred to successfully assuming the responsibilities at hand. My assessment remains the same and is supported by her performance. The auditor's conclusion is unfair; she interviewed her once in January 2007 and never made an attempt to revisit this matter in the context of our progress. During her on-site assignment, the auditor did not discuss with me the concerns as stated in the audit report.

Lastly, on management structure, we will pursue filling a vacant Assistant Executive Director position to provide oversight of the HACoLA's divisions of Assisted Housing and Public Housing. The fast changing regulatory environment and the challenges it presents are at a point where HACoLA will benefit greatly from hiring an Assistant Executive Director.

REIMBURSEMENTS

We are in agreement with the findings associated with the 25 files identified in the report and have taken appropriate actions to correct the deficiencies in each file. We will reimburse the affected participants with the appropriate funds consistent with your recommendation.

OTHER AUDIT CONCERNS

Misleading Information Submitted to HUD

Comment 2

The audit report indicated that 'misleading' information was provided to HUD. At no time did I, as the Executive Director of the Community Development Commission (CDC), intentionally mislead HUD. If mistakes were made on information submitted to HUD, it was never done with the intention of misrepresenting the CDC.

In addition, I would like to address the auditor's assertion that we provided misleading information on our SEMAP certifications. As you know, SEMAP is HUD's rating system of 15 performance indicators. HACoLA is required to self-certify its performance for indicator Nos. 1-8. HUD provides the rating for indicator Nos. 9-15.

The auditor cited that we provided misleading information for indicator No. 9, Timely Annual Re-examinations. HACoLA certified for FY 2003-2004 SEMAP that we did not conduct timely reexaminations for each family. In the certification for that year, we checked the "No" box. For FY 2004-2005 SEMAP, we certified that we conducted timely reexaminations by marking "Yes". We can only conclude that the auditor's assertion applies to FY 2004-2005.

Comment 9

Our rationale for reporting "Yes" on indicator No. 9 was a direct result of HACoLA staff attending a HUD sponsored SEMAP Training Conference in August 2005. Training materials were provided which clearly stated that if 95% of a PHA's reexaminations were conducted on time, the PHA was to mark "Yes".

However, the official certification form for this instruction, HUD Form 52648, is in direct contradiction to this.

Given that the HUD sponsored SEMAP Training Conference provided the most up-to-date information on SEMAP, HACoLA followed the instructions provided during the training.

TIMELINE COMPARISON: HACoLA MAJOR REORGANIZATION & HUD ASSESSMENT/OIG AUDITS

Comment 10

Lastly, I am enclosing a timeline (Attachment 2) that identifies the period of HUD's assessment and audit findings in comparison to our reorganization activities. As you will see, reorganization activities commenced before the OIG audit. This timeline disputes the auditor's comments that HACoLA was not proactive in addressing its core problems.

SUMMARY OF HACoLA ON THE AUDIT REPORT

As we have stated previously, we accept full responsibility for our problems and committed to addressing them. Our final position regarding the findings is summarized below, with a detailed response in Attachment 3.

- The errors identified in the twenty-five (25) family worksheets are being corrected and the financial adjustments being made.

Comment 1

Comment 4

- I disagree with the audit report's findings regarding YARDI, the recapture of funds, and management replacement.

- I am disappointed that the audit report is silent on the major initiatives we have undertaken to eradicate our problems. Furthermore, it is unfair and unwarranted to classify our program as "at risk" when HUD's own third-party assessment concluded differently. The author of the Nelrod Report states, ***"if the staff continues to make improvements and take full advantage of the enabling actions by management, the HACoLA Housing Choice Voucher Program should be one of the country's best programs of its size within the next year."***

Sincerely,

CARLOS JACKSON
Executive Director

CJ:ML:dt

Attachments

c: Board of Supervisors
Housing Advisory Commission
Wiliam Fujioka, Chief Executive Officer

Comment 4

Attachment 1

Housing Authority of the County of Los Angeles
Organizational/MIS Overview
Final Report

Submitted to:
Howard Gentry, GTR
Cheryl Minyard, GTM
Pursuant to Performance Work Statement Item 7.2

December 14, 2007

I. Executive Summary

Overall, improvements instituted during the past 14 months have positioned the Housing Authority of the County of Los Angeles (HACoLA) to make substantial improvements for FYE 2008.

These performance improvements include significant improvements in HAP utilization, annual re-exams, and annual inspections. These improvements stem from the management approach of being an enabler. The management enabling actions include formal on-site rent calculation training by a recognized company, extensive involvement by three consultants to establish new work flow procedures, quality control procedures, and financial operations, investment in a Call Center, the use of a housing location firm and internet housing search service, a major investment in a comprehensive computer system, a third party reasonable rent determination system and other actions.

In addition, the interactions between HACoLA and other divisions of the Los Angeles County Community Development Commission appear to be very supportive. These divisions include IT, Budget, Finance, and HR. If the staff continues to make improvements and take full advantage of the enabling actions by management, the HACoLA Housing Choice Voucher Program should be one of the country's best programs of its size within the next year.

Three enabling actions are the primary focus of this report, 1- a comprehensive new organizational structure; 2- the implementation of the new YARDI Voyager software system; and 3- a thorough in-house and external training program. This report provides a summary overview update of the implementation status in these areas.

In addition, to bring final closure to the Task Order and to help transition HACoLA from this technical assistance, a list of the suggestions to continue improvements after the consultants leave is provided. HACoLA is under no obligation to implement these suggestions.

1

II. Organizational – Related Items

The review of the organizational structure studied the structure and staffing levels relative to the Work Flows to be sure the structure supported efficient workflows. Overall, the level of staffing appears to be adequate and the structure supports the work flows. HACoLA has demonstrated adequate flexibility within the organizational structure allowing staff to be re-deployed based on changing needs.

In November, 2006, the HACoLA changed the HCVP organization structure from a caseload-based structure in which staff may be responsible for more than one function to a functional-based structure in which staff are responsible for only one function. The three sub-divisions of the new structure include:

1. Quality Assurance/Public Relations with the primary responsibility of quality control and SEMAP documentation, responding to public inquiries, landlord outreach, the Call Center, and laserfiching.

2. The Management Services division is comprised of the Training, Program Enforcement, and Compliance units. The Training Unit provides a full compliment of external and internal training. The Program Enforcement Unit is responsible for tenant fraud investigation, criminal background checks, and training staff to prepare for informal hearings. The Compliance Unit maintains policies/procedures, including the Administrative Plan and PHA Plan, and researches proposed and new regulations.

3. The Program Operations sub-division is divided into three functional areas. The first area is Lease-Up/HQS which is comprised of the Intake/Review Unit, Voucher Issuance, Lease-Up Team unit, Annual Inspections, Portability, and HQS Operations. The second area is Contract Maintenance, comprised of the Annual Re-exams unit, Investigations and Terminations Unit, Owner Services/Small Cities, and Special Programs. The third area is the Palmdale satellite Section 8 HCVP office, which is basically a self enclosed HCVP operation.

The structure appears to be appropriately streamlined as mid-management level staff appear to be at a minimum number. However, the number of staff reporting to one supervisor may be stretched as up to 15 staff are reporting to the Lease-Up Team supervisor and up to 21 staff report to the Annual Re-Exams supervisor.

The following are key observations and recommendations made to help ensure the success of the new organizational structure.

Observations Concerning Organizational Chart

- For the most part the organizational structure appears to support the functional work flows quite well in that it is rare that more than one unit must work on one function. Therefore, the same supervisor is responsible for the completion of one function, thus enhancing efficiency.

- In addition, within units there is little structured need for communication between staff to finish a function, also enhancing efficiency.

- Within a self-contained organizational structure in which units and staff have more autonomy to complete various operational functions, different approaches to checks and balances are needed.

- After the new organizational structure was developed, HACoLA did not "walk away" from the structure as with many agencies. HACoLA monitored the functionality of the new structure and staff in key positions. As a result the structure was tweaked a few months ago by re-assigning a few key staff, separating SEMAP Quality Control from Compliance (policy and procedure development), and allowing the Operations Manager to be the "ramrod" or "the get-it-done position" for special endeavors.

- The caseload for the staff performing annual re-examinations is challenging as the caseload of about 83 annual re-exams per month, especially for a mail system, tends to be more labor intensive overall when compared to an interview system. HACoLA is monitoring the annual re-exam production closely. Significant progress has been made over the past 12 months as it appears the 12 month late re-exams are about 2.7%.

- In some cases the number of staff reporting to one supervisor appears to be maximized. If care is not taken to make each line staff as independent as possible while maintaining quality, progress and efficiency can quickly be compromised as too much supervisory time can be taken answering daily questions from line staff.

Recommendations Concerning Organizational Chart

- Participation in the Moving to Work program should be explored to determine if it can enable HACoLA to implement more operational efficiencies.

- Concerning Annual Re-exam production and caseload, closely monitor the implementation of the Annual Re-exam process with YARDI Voyager, scheduled for the end of March 2008. Ensure maximum efficiency especially with real time reports enabling staff to know the status of each Participant in the re-exam process. After maximum efficiency is ensured, re-determine the most appropriate caseload for annual re-exams and make adjustments as needed.

- HACoLA should consider sharpening its focus to make line staff more independent while achieving compliance and HAP utilization requirements. Although HACoLA is taking steps that will improve staff independence, a more comprehensive strategic approach is worthwhile considering. For example this strategy may include: 1- More clearly defined supervisory/line staff interaction protocols that require line staff to have a proposed answer or solution before bringing a question or problem to the supervisor; 2- Individualized, intra-net or hard copy desk top guides that enable line staff to have easy access to "cheat-cheats" for their specific, individual problem areas. 3- Allowing staff freedom to make mistakes out of conscious effort yet to learn and not repeat mistakes; and 4- Create a task management strategy so staff are consciously performing the best task at the best time in the best way. Utilize uniform actions and timing of actions for line staff for each function so all staff will perform key tasks as the same day and/or time. Also, consider organizing office areas and filing systems in each office in the same manner based on function.

- To improve checks/balances, anomaly reports should be used to help identify potential problems. For example, reports showing Participants with very low income compared to other Participants of the same size or reports showing very high rents compared to the average unit type and size could identify files that should be reviewed.

- The checks and balances system should be reviewed every four months to be sure it is being documented, consistently applied, and that it is effective.

III. MIS Implementation

Based upon a series of interviews, meetings, and reports the YARDI Voyager implementation appears to be on schedule. In addition an extremely high degree of effort has been underway since April, 2006 to make the conversion to YARDI Voyager a success. This effort has been produced by both the IT staff at the Los Angeles Community Development Commission and the HACoLA IT staff.

There is strong evidence the migration process to YARDI Voyager is primarily driven by the end user, not the IT departments or the software company. This critical aspect is evidenced by a very detailed revised business process re-engineering effort, including extensive work flows.

An extremely large number of different staff are playing a part in this conversion. Coordinating everyone's effort is a project manager specifically secured for the conversion. He offers HACoLA several years of federal agency experience with large, comprehensive IT systems.

YARDI is also committing significant executive and project management staff. A YARDI Vice President monitors the progress and meets with the HACoLA Steering Committee. One of the most experienced YARDI project managers is assigned to HACoLA. As a result of this integrated effort, staff report the IT instructions and the Operational instructions will be merged so the end user individual will have proper written procedures. For example, the training manual for the On-Line Waiting List is very good. It consists of colored screen prints with instruction boxes.

Based on HACoLA reports, the following Project Milestones are completed:

- Hardware installation 6/25-29/07
- Work Flow Process Definitions 7/5
- Software Installation 7/11
- Final Detailed Project Plan 8/7
- Waiting List Software Line 9/24

The following are the primary Project Milestones to complete the conversion:

- Sample Conversion 1/08
- Pilot Test 2/08
- Final Conversion 3/08
- Go-Live 4/08
- Continue with Fit/Gap Analysis 10/08
- Housing Management Software 9/08

Observations Concerning YARDI Implementation

- Sometimes in massive, complicated efforts such as this one, it is easy to over look the power of simplicity and completeness when communicating with the on line staff.

- If passed by Congress the Section 8 Voucher Reform Act will most probably require some software changes. The YARDI representatives state the YARDI contract with HACoLA requires YARDI to supply compliant software. However, the YARDI representative did not indicate if they were monitoring the potential new legislation or making plans to produce any software changes if needed.

- Although there appears to be a high level of interaction between IT and program staff, and although the Training Supervisor is in the position to know each field of YARDI Voyager, there does not appear to be one operations position to be responsible to know each data field and how it relates to other fields and all of the capabilities of the YARDI Voyager system.

Recommendations Concerning YARDI Implementation

- For each function ensure that step-by-step written procedures are developed for each end user that combine IT and HACoLA operational instructions. The Reviewer was informed that the YARDI instruction manual will be combined with the HACoLA operations manual.

- HACoLA may wish to assign a staff person to study SEVRA and identify software changes that may be needed. Then, contact YARDI to determine their plans to make changes if SEVRA is passed, and how long it may take. HACoLA then could plan an interim procedure that may be needed before new software is issued, recognizing that little time to plan and make changes may be provided.

- To maximize the YARDI capacity for efficiency and compliance, the Manager of Program Operations should be given the responsibility to know every YARDI Voyager field, how they interact and all software capabilities. In addition, this position should know how every set-up table controls data, how reports are created and the significance of the YARDI security system. Each Assistant Manager and Unit Supervisor should know the fields and capacities for their respective operations.

IV. Training

HACoLA utilizes a four-staff training unit. This unit assists with identifying the needs for training, designing and delivery in house training, and assisting with efforts to outsource training.

Training needs are identified by assessing PIC Fatal Errors, PIC quality control reviews, internal audits, and information concerning findings from internal and external reviews.

The primary training efforts for 2007 included:

- Train the Trainer courses about planning, preparation, and conducting/evaluating training sessions.
- Formal third party training about 50058 compliance and reasonable rent determination.
- In-house training concerning Medicare Prescription Drug Plan and Reasonable Accommodations.
- In-house customer service training.
- In-house comprehensive FSS procedures.
- In-house training about reviewing annual re-exam packets, utilizing state DPSS verifications, being a hearing officer, and supervisory training.
- PIC training from the HUD PIC Coach.
- Formal third party training concerning HQS, Lead Based Paint, Student Eligibility and Financial Assistance Procedures, Leadership Coaching, and Quality Control.
- Internal training concerning 12 occupancy related procedures.

The training calendar for 2008 is being developed. Training being considered for 2008 includes:

- Formal third party training concerning HQS and Customer Service.
- In-house training concerning occupancy issues such as EID, Fraud Prevention, Contract Terminations, Interim re-examinations, voucher issuance and briefings.
- In-house comprehensive training concerning the Moderate Rehabilitation Program and Specialized Programs such as Family Unification, Shelter Plus Care, and HOPWA.
- In-house training about calculation and verification.

- In-house Supervisory/Performance Management Workshop.
- In-house training about Compliance Unit Functions.
- In-house training about financial items such as abatement, and Owner/Family debts.
- Formal third party training concerning Section 8 Occupancy issues.

Observations Concerning Training Voucher Program

- As with most Agencies, compliance with DAI and CTRC is a primary need, even after basic HCVP Occupancy and Rent Calculation training.

- Although HACoLA does have Train the Trainer trainings, knowing the basics of Adult Education will help staff to develop more effective trainings.

- Program Specialists who do not know how to apply task management techniques may not be effective, even if they know the regulations.

Recommendations Concerning Training:

- Develop a File of Evidences of Professional Development for each staff person. In this file maintain both evidence of formal and informal group and individual training, and evidence concerning how the training was actually applied by the individual staff person, such as QC results.

- For individual one-on-one training concerning issues related to SEMAP indicators DAI and CTRC, utilize Reality Training based on problems identified during recently completed QC reviews. Identify individualized causes and cures.

- Obtain basic training about Adult Education, including the most effective ways adults learn and process information. Apply knowledge to in-house training and training materials.

- Train Program Specialists about Task Management, or how to do the Best Task at the Best Time in the Best Way (BBB training). This training can also be considered Habits of a Successful Program Specialist. This training includes basic task management techniques such as daily preparation and prioritization, how to finish tasks before starting new tasks, effectively dealing with people who take up too much time, limiting administrative work vs. increasing program operations work, understanding and working with how the "self" feels each day, maximizing the YARDI Voyager for individual efficiency, (using electronic notes) and other items. Basically, the training would be designed to make each day easier and more productive for each Program Specialist.

V. Suggestions to Continue Improvements after Consultants Leave:

- For DAI and CTRC error reduction, develop desk top guides that break the processes down to step-by-step actions. Target guides to specific challenges by specific staff. Put these guides on the HACoLA intranet.

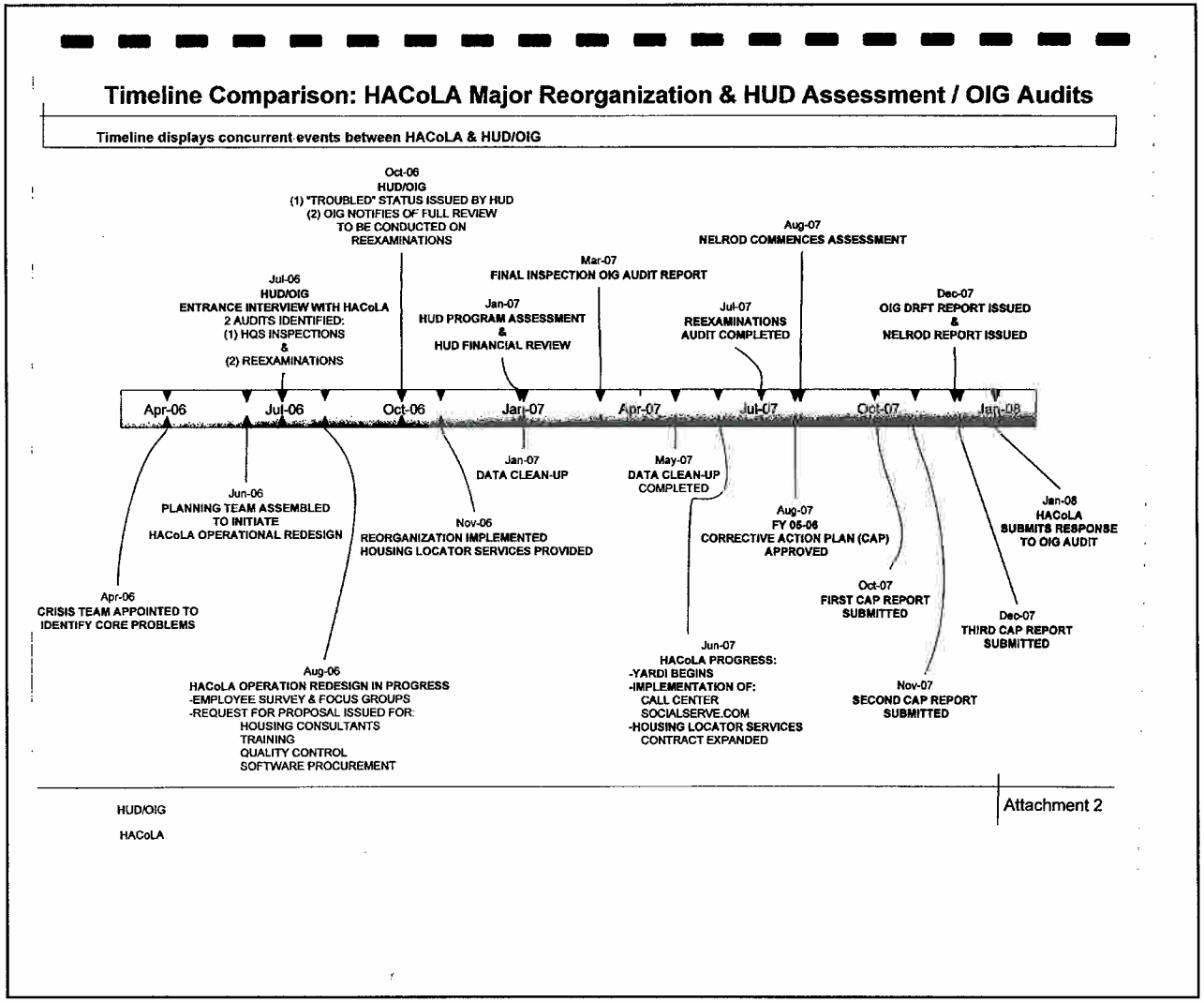
- Develop and use Real Time Process Reports that provide the exact process milestone for each participant per each Program Specialist. Separate reports would be used for the Voucher Issuance, Lease-Up, Annual Inspection, Portability, and Annual Re-exam processes. The purpose of the report is to be able to tell the exact status of each Participant and Program Specialist. Each process would have no more than 5 milestones. Each milestone would be coded into the software or would be tracked by a specific software action.

  For example, the Annual Re-Exam Process could have internal milestones such as: 1- Mailed Packet; 2- Received Packet; 3- Performing Interviews if needed; 4- Received Verifications; 5- TTP/Addendum. For each of these milestones, a free-field entered code, a software locator code, or a piece of data could be used. This data would be pulled and placed by the client's name on a report so staff know the exact status and can take appropriate action.

- Link the QC and individual training functions on an ongoing basis. Perform QC within 1 week of the action. Provide one-on-one feedback to individual staff within 1 week of the QC. Clearly identify the mistake, the cause of the mistakes, and what is needed to prevent repetition of the mistake (such as a cheat-cheat). Then hold staff accountable to not repeat the mistake. Maintain individual performance report cards.

- Have a system to obtain constant feedback from line staff about policies and procedures, and have strict control about changing procedures/forms.

- Once every four months compare how the SEMAP QC staff and the supervisors perform QC reviews. Reconcile differences.


Timeline Comparison: HACoLA Major Reorganization & HUD Assessment / OIG Audits
Timeline displays concurrent events between HACoLA & HUD/OIG
Oct-06
HUD/OIG
(1) "TROUBLED" STATUS ISSUED BY HUD
(2) OIG NOTIFIES OF FULL REVIEW
TO BE CONDUCTED ON
REEXAMINATIONS
Aug-07
NELROD COMMENCES ASSESSMENT
Mar-07
FINAL INSPECTION OIG AUDIT REPORT
Jul-06
HUD/OIG
ENTRANCE INTERVIEW WITH HACoLA
2 AUDITS IDENTIFIED:
(1) HQS INSPECTIONS
&
(2) REEXAMINATIONS
Jan-07
HUD PROGRAM ASSESSMENT
&
HUD FINANCIAL REVIEW
Jul-07
REEXAMINATIONS
AUDIT COMPLETED
Dec-07
OIG DRFT REPORT ISSUED
&
NELROD REPORT ISSUED
Apr-06
Jul-06
Oct-06
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Jan-07
DATA CLEAN-UP
May-07
DATA CLEAN-UP
COMPLETED
Jun-06
PLANNING TEAM ASSEMBLED
TO INITIATE
HACoLA OPERATIONAL REDESIGN
Nov-06
REORGANIZATION IMPLEMENTED
HOUSING LOCATOR SERVICES PROVIDED
Aug-07
FY 06-06
CORRECTIVE ACTION PLAN (CAP)
APPROVED
Jan-08
HACoLA
SUBMITS RESPONSE
TO OIG AUDIT
Apr-06
CRISIS TEAM APPOINTED TO
IDENTIFY CORE PROBLEMS
Oct-07
FIRST CAP REPORT
SUBMITTED
Dec-07
THIRD CAP REPORT
SUBMITTED
Aug-06
HACoLA OPERATION REDESIGN IN PROGRESS
-EMPLOYEE SURVEY & FOCUS GROUPS
-REQUEST FOR PROPOSAL ISSUED FOR:
HOUSING CONSULTANTS
TRAINING
QUALITY CONTROL
SOFTWARE PROCUREMENT
Jun-07
HACoLA PROGRESS:
-YARDI BEGINS
-IMPLEMENTATION OF:
CALL CENTER
SOCIALSERVE.COM
-HOUSING LOCATOR SERVICES
CONTRACT EXPANDED
Nov-07
SECOND CAP REPORT
SUBMITTED
HUD/OIG
HACoLA
Attachment 2

ATTACHMENT 3

COMPREHENSIVE RESPONSE TO IG RECOMMENDATIONS AND SIGNIFICANT ASSERTIONS

1A. Direct the Authority to reimburse its program $33,464 from nonfederal funds for the overpayment of housing assistance.

1A. The Housing Authority of the County of Los Angeles (HACoLA) agrees with the reimbursement of these funds resulting from errors in the determination of the family's adjusted income. The Office of the Inspector General (OIG), requested that the Assisted Housing Division's (AHD) Housing Choice Voucher (HCV) Section 8 program re-review the final re-calculations for each participant family to ensure that the proper amount of funds attributable to those contracts was reimbursed to the Housing Assistance Payments (HAP) account.

1B. Direct the Authority to reimburse the appropriate tenants $2,838 from program funds for the underpayment of housing assistance.

1B. The HACoLA agrees with the reimbursement of these funds resulting from errors in the determination of the family's adjusted income. The auditor provided the worksheet with the 25 families from the error files on her worksheets. Again, the interaction of HUD's OIG team and the HACoLA was beneficial and constructive in strengthening to the highest degree the accuracy and integrity of the data.

Adjustments for the underpayment of HAP have been made and are being credited to the affected families.

1C. Direct the Authority to provide adequate support for the housing assistance payments disbursed or reimburse the program $5,860 from nonfederal funds for the unsupported cost cited in this report (see appendix C).

1C. The HACoLA agrees with the reimbursement of these funds from a non-federal source.

1D. Review a sample of the 4,700 delinquent annual reexaminations and determine whether they were completed accurately and the housing assistance payments were adjusted as necessary.

1D. The HACoLA agrees with this recommendation. The AHD has performed Quality Control reviews on approximately 9% of those re-examinations. It was determined that they were completed accurately and HAP payments were adjusted as necessary.

1

Comment 11

Comment 12

(See Attachment 1 for the 9% Q/C Sample)

1E. Direct the Authority to perform the prior annual reexaminations to make them current on the 13 tenants missing annual reexaminations, ensuring that the correct annual reexamination due dates are used (see appendix C) in accordance with the Authority's policies and HUD requirements, and make revisions to the housing assistance payments when necessary.

1E. The HACoLA agrees with this recommendation. Annual reexaminations have been completed for these tenants and the current documentations are attached for your review.

(See Attachment 2 for these Missing Re-exams)

1F. Direct the Authority to correct the annual reexamination dates for the 18 tenants for whom the Authority improperly changed annual reexamination dates (see appendix C) so that they comply with Authority policies and HUD requirements and make revisions to the housing assistance payments when necessary.

1F. The HACoLA agrees with this recommendation. The re-examinations for the 18 tenants in question will be updated to accurately reflect their current state. Additionally, staff will make every attempt to verify information for the period in question, and make any necessary retroactive adjustments. The HACoLA understands the importance of maintaining current on re-examinations, along with improving our internal quality assurance processes.

The AHD will develop the methodology to address any outstanding issues and submit a plan to the Los Angeles Area Office within 30 days. HACoLA respectfully proposes that these actions will be completed within 180 days.

1G. Direct the Authority to only change the tenants' annual reexamination due dates in accordance with its monitoring and administrative policies and HUD regulations.

1G. The HACoLA agrees with this recommendation. A memorandum on the subject was issued to staff in 2006 from the former Division Director that must be reconsidered. The AHD will review and, if necessary, develop the language, and have an independent industry expert review it prior to submission to the Los Angeles Area office. It will go through the Agency Plan process, if needed, and will be in effect by July 1, 2008. These revisions will provide the basis for a fully compliant and consistent implementation of annual re-examination dates in accordance with the federal regulations and Voucher Management Guidebook.

2

It is important to note that federal regulations previously linked the contract anniversary date and the annual re-examination date, as cited below

"§ 982.516 Family income and composition: Regular and interim examinations. PHA responsibility for reexamination and verification: (1) The PHA must conduct a reexamination of family income and composition at least annually."

1H. Require the Authority to add policies and procedures to its administrative plan and include examples to ensure that it is comprehensive enough for staff to use in performing their duties and update the plan throughout the year to incorporate changes or clarification in guidance.

1H. The HACoLA agrees with the " general approach" to provide more detailed and specific guidelines for staff in a timely manner. The new management team is implementing procedures to ensure improved communication. However, the auditor recommendation to expand the Administrative Plan to include procedural changes is not an appropriate use of the document. The Administrative Plan is a policy document. According to 24 CFR 982.54, a "PHA must adopt a written administrative plan that establishes local policies for administration of the program in accordance with HUD requirements". It goes on to provide that the Administrative Plan must cover PHA policies on a variety of operational areas. Thus, as defined in the Code of Federal Regulations, the Administrative Plan is not a procedural document, and as such, the Housing Authority is not required to include procedural information in it.

Comment 13

The HACoLA has several methods of disseminating procedural information and changes to staff. A complete inventory of procedural workflows is available to staff on the intranet. As new policies require new procedures, a memorandum is distributed to staff via e-mail and is placed on the HACoLA's intranet. These methods allow staff to quickly and easily access the information at any time.

The report asserts that the HACoLA did not update its Administrative Plan in a timely manner throughout the year to reflect changes in HUD regulations, such as the amended rule for student eligibility. When the law became effective, the HACoLA was in the process of receiving comments on the following year's Annual Plan and Administrative Plan. In order to implement HUD's changes in a timely manner, a staff memorandum with the new policies and procedures was released to staff on the appropriate date; the changes were included in the FY 2006-2007 Administrative Plan for approval by the Board of Commissioners in March 2006, and submitted to HUD in April 2006.

Changes to the Administrative Plan require that the HACoLA first seek approval from its advisory board the Housing Commissioners and then from its governing board the Los Angeles County Board of Supervisors. As was previously stated, the HACoLA sought the appropriate approvals and incorporated the changes to the Administrative Plan.

3

Comment 13

A number of items on this subject warrants discussion, as the related facts or chronology presented by the auditor are neither accurate nor complete:

1. The HACoLA must point out that the report cites a case in point on this subject, specifically a new law regarding student eligibility and student financial aid. The report charges that there was insufficient guidance regarding the verification of full-time student status. Section 7.5 of the Administrative Plan specifically states that full-time student status will be verified. Section 7.6.10 outlines the specific documents that are acceptable in determining verification of full-time student status to reflect the proper third-party verification hierarchy. Full-time student status has been specified as an item to be verified in the Administrative Plan since 1989.

   On December 2005, HUD released guidance on a new law pertaining to student eligibility and the treatment of student financial assistance as income. The guidance released on that date amended 24 CFR 5.609 (b) to include a new paragraph, 5.609 (b) (9). The effective date of implementation was January 30, 2006. On that day, a staff memorandum was issued and placed on the intranet, implementing the new policies at the HACoLA. The memorandum described in detail the policy changes and new procedures and how to implement them, including the necessity for third party verification.

2. The report notes that the HACoLA was cited for not having sufficient guidance in its Administrative Plan to ensure HQS compliance. While the HACoLA maintains that the policies were in compliance with regulation, the Administrative Plan was updated this year to reflect guidance found in the HUD form 52850-A and the Housing Choice Voucher Guidebook.

(See Attachment 3 Sample of Workflow Analysis)
(See Attachment 4 Documentation on Student Financial Aid Issues)

1l. Require the Authority to implement a comprehensive training program for staff and management on its Housing Choice Voucher program, including HUD's Public Housing Information Center system, to ensure that the information is accurate before submission.

1l. The HACoLA agrees with this recommendation and has been providing a comprehensive approach since the reorganization in November 2006. The HACoLA has attached the comprehensive training curriculum for calendar year 2006 and 2007. A comprehensive training provided by Quadel Consulting to more than 150 employees in the AHD, and re-training for those who required

remedial support was a 2007 requirement. The management team and supervisors met with the HUD PIC "coach" at the urging of Pat Needham, from the Recovery Center. Multiple sessions have taken place and HACoLA management will request additional sessions as necessary. A training unit created during the re-organization has taken the lead on expanding training opportunities to as many of the line staff and new employees as possible.

Productive training sessions, along with technological advances intended to pre-test the accuracy of documents beings transmitted to HUD, have reduced the instances of fatal errors. HACoLA procured Tenmast's Software "QuicPIC", designed to analyze 50058 data, identify errors, and formulate the best solution to correct data. This system is an effective solution to clean up data before it is submitted to PIC. The system has been in use since April 2007; prior to that, HACoLA retrieved discrepancy reports from PIC and addressed any fatal errors.

Comment 14

For clarification, the executive director values training as an important component of staff and management development. In addition, this commitment is demonstrated by the amount budgeted for the past five years for training in the AHD. Training was an integral element of our reorganization plan.

03-04 $57,900
04-05 $57,900
05-06 $55,500
06-07 $54,500.
07-08 $54,500

Additionally, effective November 1, 2006, a Training Plan and Unit was implemented. The comments in the HUD Advisor Report are being incorporated into the training approach for this year. A copy of the reorganization plan was taken to the HUD Los Angeles Area Office on October 31, 2006, and provided to then Director Cecilia Ross. It illustrated the various components of the reorganization, including the training program.

(See Attachment 5 2007 2006 and 2007 Training Calendars)
(See Attachment 6 PIC Training Overview)

1J. Withhold 10 percent of the Authority's administrative fee starting in its fiscal year 2008 and future fiscal years, as necessary, until the Authority has had an independent review performed of its YARDI system to ensure that it has been properly implemented and the data transferred from its Emphasys system are accurate.

Comment 5

1J. The HACoLA disagrees with recommendation. HACoLA's response is stated in the cover letter. Attachments 7-9 support our position.

(See Attachment 7 Packet of Information on the YARDI Project Implementation Team)
(See Attachment 8 "Data Clean-up Report B")

5

(See Attachment 9 "Report Cards A & C"-companion pieces to 'B'")

1K. Direct the Los Angeles County Board of Supervisors to remove the executive director from his respective position and replace him with someone who has sufficient knowledge of the Section 8 program and who will devote the necessary time to ensure that the Section 8 program is run in an efficient and effective manner.

Comment 8

1K. The HACoLA disagrees with this recommendation. The HACoLA proposes to appoint an Assistant Executive Director to oversee the Housing Authority programs. This person will have experience managing housing authority programs and will provide direct oversight to the Assisted Housing Division and the Public Housing Division. The position is currently authorized but remains vacant. The need to sustain the improvements and to ensure that the issues in this report are corrected does require a persistent day-to-day oversight.

The Executive Director is responsible for the public housing programs, and the administration of other major HUD programs, including CDBG and HOME. These programs remain in good standing with HUD, and have received commendations from HUD for their success.

1L. Direct the Authority to hire a director for the Assisted Housing Division who has sufficient Section 8 experience to ensure that the Section 8 program is run in an efficient and effective manner and in compliance with HUD requirements.

Comment 8

1L. The HACoLA respectfully disagrees with this recommendation. HACoLA's response is stated in the cover letter.

1M. Require the Authority to reimburse HUD $3,662,972, which is 10 percent of the Authority's administrative fee for fiscal years 2005 and 2006, in accordance with 24 CFR [Code of Federal Regulations] 982.155, for not adequately administering its program in compliance with HUD requirements.

Comment 6

1M. The HACoLA disagrees with this recommendation. HACoLA's response is stated in the cover letter.

6

Comment 15

Comment 15

OTHER SIGNIFICANT ASSERTIONS RELATED TO THE FINDINGS

Computer System Lacked Adequate Controls

IG Audit Report: "The Authority's computer system lacked essential controls restricting staff from changing critical tenant re-examination data"

The HACoLA disagrees with this assertion. All users of the Emphasys software were assigned to pre-determined groups that were given security clearance based on the operative role of the group. No user could exceed the rights permitted by the group they belonged to and all who required it had the rights necessary to perform their job functions. All staff that performed functions related to HAP; i.e. Contracting, Interim and Annual Re-Examinations, etc, would have a need to make important changes in order to complete their work.

A. The authority's computer system was inadequate and lacked the necessary controls to restrict staff from changing information that was essential for determining the housing assistance payments.

The HACoLA disagrees with this assertion. As stated above, all users of the Emphasys software were assigned to pre-determined groups that were given security clearance based on the operative role of the group. No user could exceed the rights permitted by the group they belonged to and all who required it had the rights necessary to perform their job functions. All staff that performed functions related to HAP; i.e. Contracting, Interim and Annual Re-Examinations, etc, would have a need to make important changes in order to complete their work.

B. The Authority also could not provide its general computer control procedures, including those to ensure proper authorization and recording of transactions and activities.

The HACoLA disagrees with this assertion. The CDC requires that all users of Emphasys (and all other systems) first submit an IT Request Form, specifying the system or access level requested, and subsequently signed by a manager. The Community Development Commission (CDC) implemented the procedures several years ago. HACoLA's EIV security manual also outlines procedures for security of information in the tenant file including Emphasys. All training and use of the Emphasys product followed instruction manuals provided by the vendor in combination with the Agency's administrative plan and internal procedures

7

documented on instructional memorandums to staff and Visio cross-functional flowcharts when needed for clarity.

C. The Authority's system, Emphasys, was designed between 1992 and 1995, and most of the Authority's staff could access the system. Because the system was always in "edit mode", critical information such as payment standards, utility allowances, and annual re-examination due dates were not locked after entry and could be changed without proper authorization. This control deficiency had a significant impact on whether the Authority accurately determined the effective dates of the annual re-examinations (as discussed above) and calculated the correct housing assistance payments.

The HACoLA agrees with this assertion. The ability to input a utility allowance is part of the re-examination process. Also, it is occasionally necessary to adjust payment standard data for reasonable accommodation or to ensure that appropriate amounts are used when the effective date falls outside the range of the default values in the system. With the new YARDI system, the payment standard and utility allowance fields will only be accessible to supervisor to change for reasonable accommodation requests.

D. Its system had a validation feature to detect errors or contradictory information and notify the user to correct the problem. However, we were informed that most of the staff ignored these notifications and continued processing without making corrections or changes. We were also informed that the Authority was about a year behind in obtaining vendor-provided patches.

Comment 15

The HACoLA agrees with this assertion. The Emphasys system provides field-level validation, like all other major systems. Any fields that would result in a fatal error at PIC prevent the data from being completed until it is corrected. Once a record is submitted to PIC, the PIC system performs a record-level validation that can only be performed after transmission by the HACoLA. The HACoLA has long-standing procedures for routing any PIC errors back to the appropriate staff for correction. The HACoLA approach is to first evaluate the relevance of any available patches to see if they apply to the modules used by the HACoLA. If the patch does apply, the urgency of the patch is determined, whether it was mission-critical or not. The practice is to wait 6-8 weeks just in a case a supplemental patch is released to address the previous patch/problem – a practice that has proved to be prudent and effective.

E. Our analysis of the Authority's database identified a number of incorrect current and next recertification dates that should have been prevented by the systems' validation feature. For example, for one tenant, the year for the next certification June 1, 2001, was before the current

certification date of August 19, 2006. In addition, some of the tenants' next certification dates and original move-in and move-out dates were missing.

The HACoLA agrees with this assertion. Although all are in agreement that the goal is 100% accuracy on data entry, errors do happen. Whenever these are discovered, corrections are made. Any shortcomings in the system itself are outside the bounds of the Authority as the vendor (in this case, Emphasys) controls the features of the system. HACoLA's Training Unit has focused on improving data entry and reducing human errors over the past year.

F. The system should populate this information as a control measure. Due to the control deficiencies and inaccurate data, there is no assurance that the Authority used correct annual re-examination due dates.

The HACoLA agrees with this assertion. Better system-based control measures were one of the reasons the Authority proactively entered the procurement process for a new updated system. HACoLA's new Yardi system will lock the anniversary date filed which will assure correct future re-examination dates.

G. Before the start of the audit, the Authority was thinking of obtaining a new computer system because its system was old and outdated. After meeting with Office of Inspector General (OIG) and Los Angeles Office of Public housing officials to discuss the computer problems, the Authority announced that it had selected YARDI as its new computer system. The YARDI system would have very important fields populated so that the staff would not need to enter the information into the system, thereby minimizing the amount of data entry the case managers would perform in determining housing assistance payments. However, with the inaccurate existing data, HUD does not have assurance that the information in the new system would be accurate and reflect the correct annual re-examination due dates for the tenants currently receiving Section 8.

Comment 16

The HACoLA disagrees with this assertion. While elements of this characterization are true, the actual chronology of events is different, and those differences are important. The Housing Authority had issued an RFI in February 2006 to obtain as much market data as possible. The goal was to replace several agency-wide software systems to meet the need of the Public Housing and Assisted Housing Divisions. As a result of that effort, and in consultation with the Los Angeles County's Chief Information Office, which must be involved in all County department procurements of new hardware or software, an actual RFP was issued in August 2006. This activity was in progress before the entrance conference and in advance of the first actual meeting with the auditor in October 2006. In short, it was the Housing Authority that recognized the need to move out of the ECS system, and our plans were shared as an informational item

with the auditor. The Housing Authority, independent of any IG input, developed and managed this migration to a new system.

- The YARDI system replaces a system that uses 15-year old technology with cutting edge technology. The system flow is secure, and structured with the flexibility to accommodate agency-specific policies and procedures.
- In the YARDI system, all HAP is paid based on the 50058 data that is in effect at the time payments are generated. This ensures consistency with internal data and data transmitted to PIC.
- The conversion to YARDI is based on the 50058 data; the same data that is transmitted to PIC regularly by the Authority. Since the 50058 is the officially acknowledged record by the Authority and HUD, it is appropriate to base the conversion on this data.
- The Authority has invested considerable time and effort into 'cleaning up' the data in Emphasys to ensure regulatory and administrative compliance as well as data integrity across the board (as mentioned above).

Management Failed to Provide Necessary Oversight to Ensure That the Tenant Eligibility Program was Administered Properly

Comment 17

The HACoLA agrees with this assertion, which lead to the reorganization of the AHD. The reorganization resolved the issue of exorbitant caseloads assigned to each case manager. Moving from case management to function based operations decreased the caseload assignment of each housing specialist (previously case managers). Contract maintenance functions were separated and specific work units were created.

The units are as follows:

Re-Examination Unit – Handles all re-examination functions, which consist of reviewing annual packets, conducting third party verification, calculating Total Tenant Payment and completing annual re-examinations.

Interim Unit – Handles all Interims for all participants

Termination Unit – Handles all terminations processes.

The success of the new operation system is demonstrated by the reduction in delinquency from 13% to 1% within a one- year period.

SEMAP Rating – The HACoLA Gave Itself Points for the Annual Re-Examination Indicator

For fiscal year 2006, the HACoLA indicated that it was considering an appeal for this indicator due to the problems surrounding data cleanup issues regarding successful 50058 submissions. Upon further review of the data, the HACoLA filed no appeal on this indicator.

(See Attachment 10 PIC Commentary Indicating an Intention to Appeal- Not Done)

11

ATTACHMENTS

(See Attachment 1 for the 9% Q/C Sample)

(See Attachment 2 for these Missing Re-exams)

(See Attachment 3 Sample of Workflow Analysis)

(See Attachment 4 Documentation on Student Financial Aid Issues)

(See Attachment 5 2006 and 2007 Training Calendars)

(See Attachment 6 PIC Training Overview)

(See Attachment 7 Packet of Information on the YARDI Project Implementation Team)

(See Attachment 8 Data Clean-up Report B)

(See Attachment 9 Report Cards A & C- companion pieces to B)

(See Attachment 10 PIC Commentary Indicating an Intention to Appeal- Not Done)

OIG Evaluation of Auditee Comments

Comment 1 Our conclusions and recommendations are based on the problems identified with the Authority's tenant reexaminations within the scope of our audit period. Each tenant file we reviewed had errors impacting the amount of housing assistance payments, and many of the reexaminations had multiple errors as identified in appendix C. Since most of the files we reviewed were selected through a statistical sample, we would expect to see a similar rate of errors throughout the voucher program. HUD had previously identified similar issues in prior years and the auditee purportedly addressed the problems. Per our audit finding, this was not the case. The high rate of errors identified by the auditee's consultant confirms there were prevalent problems in the auditee's reexamination process. These problems have contributed to the Authority being put into troubled status and being placed under an additional corrective action plan.

Although the Authority's reorganization and ongoing computer system improvement efforts have been occurring after our audit period, and are therefore outside the scope of our audit, we met with key authority management during the course of our review to obtain an understanding of its progress. We acknowledge that the auditee began implementing changes that should improve its operations if implemented and managed properly, such as the added emphasis on training and a new computer system with additional controls. However, we question some decisions relating to the selection of key management personnel.

Comment 2 The Authority takes exception to statements in the report that it made misleading statements and manipulated the system. However, its practice of changing reexamination due dates in violation of its own administrative plan gives the appearance that reexaminations have been done timely, when they may have been overdue. In other instances, reexaminations had information copied from prior reexaminations without verification, a repeat finding from HUD's earlier reviews. This would also make reexaminations appear falsely current when they were overdue.

The Authority answered "yes" to the 2005 Section Eight Management Assessment Program indicator (9) that the authority completes a reexamination for each participating family at least every 12 months, (10) the authority correctly calculates tenant rent, and (12) the authority inspects each unit under contract at least annually. Per the results of our reexamination review, and our previous audit of the Authority's inspections, this was not the case.

In March 2006, the Authority certified it had completed all items under the 2005 corrective action plan. Some of these activities included having all voucher staff trained as needed to properly implement the recertification process, and ensuring that the annual recertification completion dates are within 12 months of the

anniversary date and that this information is correctly recorded on the HUD form 50058. Our review indicates this was not the case.

Comment 3 All facts and conclusions are documented in the audit workpapers and are fully supported in accordance with generally accepted government auditing standards.

Comment 4 The Nelrod Company was contracted by HUD to provide technical assistance to the auditee in conjunction with it most recent corrective action plan. The Nelrod Company began its work after the Board's acceptance of the contractor on August 28, 2007, and the report was issued on December 14, 2007, all subsequent to the completion of our audit field work. Although the report was not brought to our attention until the exit conference, we have reviewed the subject report and it generally discusses the auditee's new organizational structure, IT conversion progress, and training plans. The report makes observations and additional recommendations concerning these areas and focuses on periods outside of the scope of our audit. The report does not contradict issues discussed in our audit report.

Comment 5 The Authority's ongoing data clean-up efforts have been occurring after our audit period, so determining their full extent is outside the scope of our audit. We have reported on the problems that existed at the time of our review. During the course of the audit, we met with key authority management to discuss progress in its reorganization and other improvements. During those meetings the auditor discussed the need for accurate information to be transferred to the Authority's new YARDI system. We acknowledge the implementation of the new system is in progress. However, we continue to recommend HUD ensure the Authority fully implements the new system and that the data transferred to the system is accurate, and to withhold funds as necessary to ensure this is done.

Comment 6 24 CFR *[Code of Federal Regulations]* 982.152 and 155 allow HUD to reduce or offset administrative fees and reserves if the Authority fails to perform its administrative responsibilities correctly or adequately under the program. As stated in Appendix A, at least 10 percent of the Authority's staff work on the tenant eligibility and reexamination function. Based on the issues cited in the report, we have concluded the applicable fee was not properly earned. We have noted prior and current HUD notices that call for penalties or withholding of 10 percent of the administrative fee, such as PIH notices 2007-27, 2006-03, 2005-17, 2000-28, 96-20, etc. In keeping with HUD's practice we have limited the questioned administrative fees to 10 percent.

Comment 7 We have not received any documentation to show that the implementation of the recommendations will result in "severe negative programmatic repercussions." Information from HUD's 2007 limited financial management review of the Authority indicated that as of December 31, 2006, it had administrative fees and reserves of almost $8.4 million.

Comment 8 The executive director was in charge of the voucher program when the Section 8 issues were initially identified by HUD in 2003 (see the Background and Objectives section), and when they were supposedly corrected under the initial corrective action plan. However, per our audits (including our prior audit report 2007-LA-1007, issued on April 3, 2007) and HUD's 2007 review, the problems continued. The executive director's previous lack of day-to-day involvement in the operation of the Assisted Housing Division appears to have contributed to its problems. We were informed that once the current changes have been made, the executive director planned to again spend less time at the Authority. We believe a housing authority of this size, with the problems we noted, needs an executive director that can devote sufficient time to ensure the Section 8 program operates properly.

The current Assisted Housing Division director is only "acting" in this position. A permanent Division Director needs to be appointed. The acting director has no prior Section 8 experience and her background was in human resources, not the operation of a Housing Choice Voucher program. We previously discussed the lack of Section 8 experience and knowledge among the auditee's new management with the executive director on February 7, 2007.

We have no objection to the Authority hiring a second assistant executive director. However, the duties and responsibilities of this position have not been provided to us. Given the above, it is not clear this position will sufficiently make up for the executive director's lack of involvement.

Comment 9 The auditee has not submitted any documentation to support this assertion. There is no such HUD guidance or criteria, and the local HUD hub office could not corroborate the auditee's claims. According to the system extract pulled by HUD, the Authority had listed that 100 percent of its reexaminations had been completed on time as of June 30, 2005, which was not the case.

Comment 10 We have made some adjustments to the report to indicate that planning for the reorganization occurred prior to our notification of preliminary audit results; however, we cannot verify when this planning was initiated or to what extent, because inadequate documentation has been submitted on the matter. It is not clear why the auditee would appoint a "crisis team" in April 2006, per its timeline, immediately after certifying to HUD in March 2006 that it completed all activities on its corrective action plan to resolve these problems. The OIG and HUD were not informed of these planned changes until after we notified the auditee of our preliminary results. As acknowledged in the auditee's comments and timeline, the changes were implemented subsequent to those discussions.

Comment 11 The auditee states that its quality control reviews determined that reexaminations "were completed accurately." However, prior quality control reviews performed by the Bronner Group, reported in December 2006, showed that 40 percent of the reexaminations had errors. The quality control reports provided under attachment 1 included results from reviews performed by unknown persons between January 2007 and September 2007. These reports show various error rates of 20 to 100 percent of the files reviewed (38 percent overall), resulting in under and overpayments. We therefore remain concerned with the accuracy of those reexaminations not tested.

Comment 12 Based on the information submitted by the auditee, reexaminations have been performed in 2007 that should make the reexaminations current. However, the effective dates of the reexaminations and projected date of the next reexamination still do not appear to be in accordance with the tenant's anniversary dates (based on the information we have up to fiscal year 2006). There is also insufficient information to confirm that these reexams were done timely or that all appropriate adjustments have been made to the housing assistance payments or tenants' rent.

Comment 13 We note that during a July 11, 2007, meeting, in which the problems with the Authority's procedures were discussed, management previously agreed that the administrative plan needed to be revised to include more specific information.

We agree there is basic information in the Authority's administrative plan concerning the verification of full-time student status. However, the narrative was brief and there was insufficient information relating to when information should be obtained to verify students were maintaining their full-time course loads. As a result, we noted a lack of follow up by the Authority staff.

Although the auditee provided a staff memo concerning the change in policy, we noted that its director of contract maintenance was not aware of the change almost a year later. This demonstrates the need to maintain an updated and comprehensive source for the Authority's policies and procedures so that staff can easily identify changes in HUD requirements. The Authority may also develop additional reference material, such as the desk top guides suggested by Nelrod and the Bronner Group that are in compliance with its administrative plan and HUD requirements.

In addition to the examples cited in the body of the report, we also noted insufficient information concerning how the Authority handles erroneous housing assistance payments due to the Authority being late in processing a reexamination, as the policy only addresses instances when the tenant causes the reexamination to be late. There was also insufficient information concerning retroactive adjustments to the housing assistance payments when a tenant does not submit information timely that impacts housing assistance payments.

Comment 14 The auditee states it has had a commitment to training for the last five years per its budget, which includes amounts for fiscal years 2004 to 2006. Although dollars may have been budgeted, no information has been submitted to show Section 8 staff actually received formal training prior to the reorganization effort. During an October 25, 2006, meeting, the executive director informed us that training had not been considered as important in the past. However, we recognize the auditee's current emphasis on training.

Comment 15 We did not perform an audit of the auditee's existing computer system, but obtained an understanding of the system through discussions with the auditee's management and technical staff. The auditee provided no documentation on the existing computer system's procedures or controls. Overall, the system lacked controls and was insufficient to meet the Authority's needs; however, we acknowledge the Authority is implementing a new system to help resolve existing problems.

Comment 16 We stated in the report that the Authority was planning for this change prior to the initiation of the audit. However, we were not informed of this until after our initial finding was presented to the Authority. In any case, we have modified some of the wording in the report to reflect some of the Authority's concerns.

Comment 17 The auditee provides no information to support that the reorganization has reduced caseloads. Based on prior conversations with management, it is our understanding that a special team was assigned to exclusively work on the delinquents to improve the delinquency rate, so it is unclear whether the Authority can maintain its current delinquency rate under the current structure. We remain concerned that high case loads may not give staff enough time to perform reexaminations in compliance with HUD requirements.

Appendix C

SCHEDULE OF HOUSING ASSISTANCE PAYMENT ERRORS[2]

Tenant	Incorrect earned income calculation	Incorrect utility allowance	Incorrect payment standard	Not performing 3rd party verification	Improperly changed re-exam dates	Annual re-exams not performed	Incorrect rent calculation	Total un-supported	Total over-payment	Total under-payment
01	X	X	X	X	X	X	X		$3,269	
02	X	X		X	X	X	X		$24	$48
03	X	X	X		X	X	X		$2,331	
04	X	X	X	X		X	X		$1,494	
05	X	X	X	X	X	X	X	$5,860	$1,192	
06	X	X	X	X		X	X		$2,688	$240
07		X	X		X		X		$95	
08	X	X	X		X	X	X		$84	$1,496
09		X			X				$132	$378
10			X		X	X	X		$74	$246
11	X	X			X		X		$231	$15
12		X[3]	X[3]				X		$168	
13					X		X		$12	
14	X		X		X		X		$876	$192
15		X	X		X		X			$30
16	X				X	X	X		$2,160	
17	X				X	X	X		$1,402	
18	X	X		X	X		X		$5,072	
19	X	X		X			X		$1,572	
20	X					X	X		$3,434	
21			X		X		X		$59	$4
22			X			X	X		$146	$189
23	X				X		X		$729	
24	X		X		X		X		$1,102	
25	X		X			X	X		$5,118	
Total	**17**	**14**	**15**	**7**	**18**	**13**	**24**	**$5,860**	**$33,464**	**$2,838**

[2] The "X" identifies the errors that were found during the review of the tenant files for the Authority's fiscal years 2005 and 2006.

[3] The Authority incorrectly processed a project-based voucher as a tenant-based Housing Choice Voucher and applied an inapplicable payment standard in fiscal year 2005 and an incorrect utility allowance in 2005 and 2006.

Appendix D

SCHEDULE OF DELINQUENT ANNUAL REEXAMINATIONS

Tenant	Description	Date created	Date to HUD	Effective date	Actual reexamination date	Timeliness	Months late/early
01	Annual reexamination	Dec. 3, 2004	Dec. 10, 2004	Jan. 1, 2005	Oct. 1, 2004	Late	3
01	Annual reexamination	Aug. 2, 2006	Aug. 3, 2006	Sept. 1, 2006	Oct. 1, 2005[4]	Late/not performed	11
02	Annual reexamination	May 20, 2004	May 21, 2004	July 1, 2004	July 1, 2005[4]	Early/not performed	12
03	Annual reexamination	Oct. 19, 2004	Oct. 22, 2004	Dec. 1, 2004	Dec. 1, 2005[4]	Early/not performed	12
04	Annual reexamination	Nov. 17, 2005	Nov. 21, 2004	Nov. 24, 2004	Nov. 1, 2005[4]	Early/not performed	11
05	Annual reexamination	Dec. 3, 2004	Dec. 10, 2004	Feb. 1, 2005	Nov. 1, 2004	Late	10
05	Annual reexamination	July 8, 2006	July 13, 2006	Sept. 1, 2006	Nov. 1, 2005[4]	Late/Not performed	11
06	Annual reexamination	Dec. 22, 2004	Dec. 23, 2004	Nov. 29, 2004	Nov. 1, 2005[4]	Early/not performed	11
07	Annual reexamination	May 30, 2006	June 5, 2006	July 1, 2006	May 1, 2006	Late	2
08	Annual reexamination	May 27, 2004	May 28, 2004	July 1, 2004	June 1, 2004	Late	1
08	Annual reexamination	Sept. 16, 2005	Sept. 19, 2005	Oct. 1, 2005	June 1, 2005	Late	4
09	Annual reexamination	Nov. 18, 2004	Nov. 19, 2004	Jan. 1, 2005	July 1, 2004	Late	6
09	Annual reexamination	Apr. 28, 2006	May 4, 2006	May 1, 2006	July 1, 2005	Late	10
10	Annual reexamination	Sept. 11, 2004	Sept. 17, 2004	Nov. 1, 2004	May 1, 2004	Late	6
10	Annual reexamination	Sept. 17, 2005	Sept. 19, 2005	Nov. 1, 2005	May 1, 2005	Late	6
11	Annual reexamination	June 22, 2004	June 23, 2004	July 1, 2004	Nov. 1, 2004[5]	Early	4

[4] Annual reexaminations were not performed. The housing assistance payment amount was carried over from the previous year.

[5] Annual reexaminations were completed early; however, the effective dates are incorrect.

Tenant	Description	Date created	Date to HUD	Effective date	Actual reexamination date	Timeliness	Months late
11	Annual reexamination	May 17, 2005	May 20, 2005	July 1, 2005	Nov. 1, 2005[5]	Early	4
13	Annual reexamination	Aug. 11, 2004	Aug. 13, 2004	Oct. 1, 2004	Mar. 1, 2004	Late	7
13	Annual reexamination	Sept. 26, 2005	Sept. 30, 2005	Nov. 1, 2005	Mar. 1, 2005	Late	8
14	Annual reexamination	July 30, 2004	July 30, 2004	Sept. 1, 2004	Dec. 1, 2004[5]	Early	3
14	Annual reexamination	Sept. 28, 2005	Sept. 30, 2005	Oct. 1, 2005	Dec. 1, 2005[5]	Early	2
15	Annual reexamination	Oct. 25, 2005	Oct. 28, 2005	Dec. 1, 2005	May 1, 2005	Late	6
15	Annual reexamination	Apr. 20, 2006	Apr. 21, 2006	June 1, 2006	May 1, 2006	Late	1
16	Annual reexamination	Sept. 21, 2005	Sept. 23, 2005	Nov. 1, 2005	Oct. 1, 2005	Late	2
17	Annual reexamination	Apr. 12, 2006	Apr. 21, 2006	June 1, 2006	Feb. 1, 2006	Late	4
18	Annual reexamination	Dec. 8, 2005	Dec. 9, 2005	Feb. 1, 2006	Jan. 1, 2006	Late	1
20	Annual reexamination	Feb. 1, 2006	Feb. 10, 2006	Apr. 1, 2006	Dec. 1, 2005	Late	4
21	Annual reexamination	Feb. 24, 2004	Feb. 27, 2004	Apr. 1, 2004	Mar. 1, 2004	Late	1
21	Annual reexamination	Mar. 11, 2005	Mar. 11, 2005	May 1, 2005	Mar. 1, 2005	Late	2
21	Annual reexamination	Mar. 7, 2006	Mar. 10, 2006	Apr. 1, 2006	Mar. 1, 2006	Late	1
22	Annual reexamination	Mar. 29, 2005	Apr. 4, 2005	Mar. 1, 2005	Apr. 1, 2005[5]	Early	1
22	Annual reexamination	Mar. 30, 2006	Apr. 6, 2006	May 1, 2005	Apr. 1, 2006	Late	1
23	Annual reexamination	Feb. 10, 2005	Feb. 11, 2005	Apr. 1, 2005	May 1, 2005[5]	Early	1
23	Annual reexamination	Feb. 15, 2006	Feb. 17, 2006	Mar. 1, 2006	May 1, 2006[5]	Early	2
24	Annual reexamination	Feb. 17, 2005	Feb. 22, 2005	Apr. 1, 2005	May 1, 2005[5]	Early	1
25	Annual reexamination	Nov. 16, 2005	Nov. 21, 2005	Nov. 3, 2005	Aug. 1, 2005	Late	3

Appendix E

CRITERIA

The consolidated annual contributions contract, section 10(a), HUD Requirements, states that the housing authority must comply and must require owners to comply with the requirements of the U.S. Housing Act of 1937 and all HUD regulations and other requirements, including any amendments or changes in the law or HUD requirements.

24 CFR [*Code of Federal Regulations*] 5.609, Annual Income

(a) Annual income means all amounts, monetary or not.
(b) Annual income includes, but is not limited, to the full amount of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services, net income, dividends. It also includes periodic payments received from Social Security, welfare, unemployment, alimony, child support, Armed Forces pay. In addition, as of April 2006, section (9) was added, stating that for Section 8 programs only, any financial assistance in excess of amounts received for tuition that an individual receives under the Higher Education Act of 1965, from private sources, or from an institution of higher education, shall be considered income to that individual, except that financial assistance described in this paragraph is not considered annual income for persons over the age of 23 with dependent children. For purposes of this paragraph, financial assistance does not include loan proceeds for the purpose of determining income.
(c) Annual income does not include income for items such as the employment of children under the age of 18 years; a lump-sum addition to family assets; temporary, nonrecurring, or sporadic income; and earnings in excess of $480 for each full-time student 18 years or older.

24 CFR [*Code of Federal Regulations*] 982.152, Administrative Fee, allows HUD to "...reduce or offset any administrative fee to the PHA [public housing authority], in the amount determined by HUD, if the PHA fails to perform PHA administrative responsibilities correctly or adequately under the program." 24 CFR [*Code of Federal Regulations*] 982.152, Administrative Fee Reserve, allows HUD to direct an authority to use funds in its administrative fee reserve to improve administration of the program or to reimburse ineligible expenses.

24 CFR [*Code of Federal Regulations*] 982.158, Program Accounts and Records

(a) The Public Housing Authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping.

24 CFR [*Code of Federal Regulations*] 982.505, Voucher Tenancy: How to Calculate Housing Assistance Payment

(a) *Use of payment standard.* A payment standard is used to calculate the monthly housing assistance payment for the family. The "payment standard" is the maximum monthly subsidy payment.

(b) *Amount of monthly housing assistance payment.* The Public Housing Agency shall pay a monthly housing assistance payment on behalf of the family that is equal to the *lower* of:
(1) The payment standard for the family minus the total tenant payment; or
(2) The gross rent minus the total tenant payment

(c) *Payment standard for a family.*
(1) The payment standard for a family is the lower of:
(i) The payment standard amount for the family unit size; or
(ii) The payment standard amount for the size of the dwelling unit rented by the family.

24 CFR [*Code of Federal Regulations*] 982.516, Family Income and Composition: Regular and Interim Examinations

(a) *Public Housing Authority responsibility for reexamination and verification*
(1) The Public Housing Authority must conduct a reexamination of family income and composition at least annually.
(2) The Public Housing Authority must obtain and document in the tenant file third party verification, or must document in the tenant file why the third party verification was not available.

24 CFR [*Code of Federal Regulations*] 982.517, Utility Allowance Schedule

(a) Maintaining a schedule
(1) The Public Housing Agency must maintain a utility allowance schedule for all tenant-paid utilities, and provide HUD a copy.

24 CFR [*Code of Federal Regulations*] 982.518, Regular Tenancy; How to Calculate Housing Assistance Payment, states that the monthly housing assistance payment equals the gross rent, minus the higher of
(a) The total tenant payment; or
(b) The minimum rent as required by law.

HUD Notice PIH 2005-17, issued June 15, 2005, (renews and revises Notice 2000-13, issued April 7, 2000), states: "all PHAs that administer public housing or HCV [Housing Choice Voucher] programs must submit, on timely basis, 100 percent of family records to HUD's PIC [Public Housing Information Center] as set forth by 24 CFR Part 908 and the consolidated annual contributions contract (CACC). PIC is the Department's official system to track and account for public housing and HCV family characteristics of income, rent, and other occupancy factors. PHAs must submit their Form HUD-50058 records electronically to HUD for all current public housing and HCV families. PHAs must submit accurate records with no fatal edits (edits

that cause PIC to reject records to maintain integrity of the PIC data) for HUD to consider the records successfully submitted." In addition, it states: "PHAs must have a minimum of 95 percent Form HUD-50058 reporting rate for both public housing and HCV at the time of their annual assessment to avoid sanctions."

HUD's Housing Choice Voucher Guidebook, 7420.10G, April 2001, states as follows:

- **Chapter 5** (eligibility and denial of assistance): "Accurate determination of income eligibility, allowances, and family rent can occur only with full verification of all factors related to income and family circumstances. While the regulations regarding verification are brief, this activity takes a significant amount of time and attention in administration of the program. Well-designed verification procedures are essential to obtaining full and accurate information, which is essential for the best use of program funds and fair and equitable treatment of all participants. A PHA may resort to use of family certification of facts only when neither a third party nor documents are available."

- **Chapter 7** (payment standards): "Payment standards are used to calculate the housing assistance payment (HAP) that the PHA pays to the owner on behalf of the family leasing unit… The level at which the payment standard is set directly affects the amount of subsidy a family will receive and the amount paid by the program participants."

- **Chapter 12** (reexaminations): "The PHA is required to reexamine the income and composition of housing choice voucher families at least annually. The annual reexamination determines the continued eligibility of the family and establishes the housing assistance payment (HAP) to be made on behalf of the family… The PHA must establish reexamination procedures that allow for proper and timely verification of all information and advance notification to the family of any rent change. The PHA must establish a policy regarding annual reexamination effective dates that ensures that reexamination for every family takes effect within a 12-month period. It is important that the PHA has tracking and monitoring procedures and systems in place to ensure that the required reexaminations for each assisted family are initiated and completed on time. The PHA's plan for reexaminations should provide for supervisory monitoring of the timely initiation of the reexamination process, the progress of each reexamination, and its completion."

The Authority's administrative plan, chapter 12, Reexamination, section 12.1, states that when families move to another unit, reexamination is completed, and the anniversary date changed.

The Authority's admission and occupancy policy, chapter 11, page 104, states that reexaminations should be performed no later than 12 months from the anniversary of the tenant's move-in day.