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OFFICE of INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

Saginaw Housing Commission, Saginaw, MI

Section 8 Housing Choice Voucher Program

2012-CH-1012 **SEPTEMBER 27, 2012**

Issue Date: September 27, 2012

Audit Report Number: 2012-CH-1012

TO: Willie Garrett, Director of Public Housing, 5FPH

Kelly Anderson

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Saginaw Housing Commission, Saginaw, MI, Did Not Always Administer Its Section 8 Housing Choice Voucher program in Accordance With HUD's and Its Own Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), discussion draft audit report of our audit of the Saginaw Housing Commission's Section 8 Housing Choice Voucher program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.

September 27, 2012

The Saginaw Housing Commission, Saginaw, MI, Did Not Always Administer Its Program in Accordance With HUD's and Its Own Requirements

Highlights

Audit Report 2012-CH-1012

What We Audited and Why

We audited the Saginaw Housing Commission's Section 8 Housing Choice Voucher program. The audit was part of the activities in our fiscal year 2012 annual audit plan. We selected the Commission based upon our previous audits of its use of Federal funds and a request from HUD management to perform a comprehensive review of its programs. Our objective was to determine whether the Commission operated its program in accordance with HUD's and its own requirements. This was the third audit performed on the Commission.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to (1) reimburse its Family Self-Sufficiency program nearly $22,000 for escrow overpayments, (2) reimburse its participants nearly $12,000 for the underpayment of escrow funds, (3) provide support or reimburse HUD more than $812,000 from non-Federal funds, (4) ensure that nearly $178,000 in program funds was used appropriately, and (5) implement adequate procedures and controls to address the findings cited in this audit report.

What We Found

The Commission did not always administer its program in accordance with HUD's and its own requirements. It failed to ensure that program participants' Family Self-Sufficiency escrow account balances were calculated appropriately. Specifically, it (1) underfunded participants' graduation and port-out payments, (2) overpaid participants' graduation and interim payments, (3) underfunded participants' escrow account balances, (4) failed to recapture funds in its system due to incorrect escrow account balances, and (5) failed to maintain required documentation in its participants' files. Further, the Commission failed to (1) appropriately use HUD's Enterprise Income Verification system income discrepancy reports and (2) recover or reimburse its Section 8 Housing Choice Voucher program housing assistance and utility allowance payments for households with unreported or underreported income.

As a result of the Commission's noncompliance, HUD and the Commission lacked assurance that more than $1 million in program funds was used appropriately.

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BACKGROUND AND OBJECTIVE

The Saginaw Housing Commission was established in July 1947 by the City of Saginaw to provide safe, decent, sanitary, and affordable housing and create opportunities for self-sufficiency and economic independence to low- and moderate-income residents of Saginaw. The Commission's primary funding source is the U.S. Department of Housing and Urban Development (HUD) under the regulation of the State of Michigan's Act 18 of 1933, MCL 125.651-709e. The mayor of Saginaw appoints all housing commission board members to serve a 5-year term, and the city council ratifies the appointments with a majority vote. Residents of the Commission's housing developments are eligible for appointment. The Commission's board is a five-member volunteer board. The Commission's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Commission's day-to-day operations.

The Commission administers a Section 8 Housing Choice Voucher program funded by HUD. It provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of August 6, 2012, the Commission had 1,379 units under contract with annual housing assistance payments totaling more than $4.7 million in program funds.

The Family Self-Sufficiency program promotes the development of local strategies to coordinate public and private resources that help Housing Choice Voucher program participants and public housing tenants obtain employment that will enable participating families to achieve economic independence. The Family Self-Sufficiency program is administered by public housing agencies with the help of program coordinating committees. The program coordinating committees usually consist of representatives of local government, employment and job training agencies, welfare agencies, nonprofit providers, local businesses, and assisted families. Supportive services most commonly provided to program participants are child care, transportation, remedial education, and job training. The major components of the program are a contract of participation between the public housing agency and the family, an individualized training and services plan for each participating family member, and an interest-bearing escrow account. Credits to a family's escrow account are based on increased income earned by family members during the term of their contract. On completion of the program contract, a family may claim its escrow account if no family member is receiving welfare assistance.

Our objective was to determine whether the Commission operated its Section 8 Housing Choice Voucher program in accordance with HUD's and its own requirements, to include determining whether the Commission (1) accurately computed Family Self-Sufficiency escrow credits for program participants and maintained the appropriate eligibility documentation and (2) appropriately recovered housing assistance and utility allowance payments for households with income discrepancies.

RESULTS OF AUDIT

Finding 1: The Commission Failed To Operate Its Family Self-Sufficiency Program in Accordance With HUD's and Its Own Requirements

The Commission failed to operate its Family Self-Sufficiency program in accordance with HUD's requirements and its own program action plan. Specifically, it did not (1) appropriately calculate participants' escrow balances, (2) ensure that its coordinators effectively managed the program, and (3) ensure that participants' files contained required documentation. Further, the Commission failed to recapture nearly $123,000 in program funds that was inappropriately maintained its system and failed to notify its finance department of more than $50,000 in forfeitures entered into its system. It also did not ensure that its program bank account was appropriately maintained. The noncompliance occurred because the Commission failed to exercise proper supervision and oversight of its program and its staff did not fully understand the program's requirements. As a result, the Commission underpaid more than $11,500 and overpaid nearly $22,000 in escrow payments to its program participants and underfunded participants' escrow balances by more than $24,300. It also disbursed more than $17,000 in program funds to participants without proper support documentation and misused more than $573,000 in coordinator funds.

The Commission Did Not Appropriately Calculate Participants' Escrow Balances

We attempted to review the Commission's Family Self-Sufficiency program participant information during our audit period, January 1, 2010, through December 31, 2011. However, the Commission was unable to provide a list of current program participants and their correct escrow balances.[1] According to the Commission, before July 2010, its finance department maintained a list of all program participants and their escrow balances. The program coordinators did not always provide the finance department with changes to participants' escrow deposits, interim payments, graduation payments, and escrow forfeitures in a timely manner. Therefore, the list was not a good starting point for our review.

In July 2010, the Commission began entering program participants' escrow balances into its HMS system (system). However, it was unable to provide documentation to support participants' year-to-date escrow balances and how the balances were derived. The Commission's coordinators continued to maintain separate information regarding the participants' escrow balances, which did not match that in the Commission's system. The coordinators also inappropriately

[1] HUD's Regulations at 24 CFR (Code of Federal Regulations) 984.305(a)(2)(i)

allocated a ½ percent rate to each participant's monthly escrow balance, when the interest rate was variable.

We recalculated the interest rates, based on information from the Commission's bank, for each month between January 1, 2005, and December 31, 2011. Due to the large variances between our calculations and the Commission's, we determined that we would need to completely recalculate each of the 174 program participant escrow calculations from the time the participants began participating in the program. Each of the 174 participants was listed in the Commission's system as being active on the Commission's program during our audit period, January 1, 2010, through December 31, 2011.

The Commission did not appropriately calculate the program participants' escrow accounts. Of the 174 reviews completed, 84 participants' escrows were calculated incorrectly, 79 participants did not generate an escrow, and 11 participants were removed from the program with no escrow balance remaining in the Commission's system. Further in reviewing the documentation maintained in the 174 participant files, 60 contracts of participation had incorrect earned income and rent amounts, 98 contracts were not entered into within 120 days of the last certification,[2] and 382 annual participants' update reports were missing.[3]

Also, the 174 files contained 1,010 certifications. We reviewed all 1,010 of the certifications and determined that (1) 307 had incorrectly calculated escrow account credit worksheets, (2) 153 had escrow account credit worksheets that were not created in a timely manner and had no corresponding certification,[4] and (3) 382 were missing escrow account credit worksheets.

The Commission underfunded participants' graduation and port-out payments by $11,549, overpaid participants' graduation and interim payments by $21,560, underfunded participants' escrow accounts by $24,302, and failed to recapture $122,960 from its system for incorrect system balances. It allowed two participants to spend more than the amount that was in their escrow account. One participant had a negative escrow balance of $766 as of December 31, 2011. The remaining participant was removed from the program in September 2011 and had a negative escrow balance of $298. The Commission's Section 8 director made a positive adjustment to the participant's escrow account in the amount of $298 to remove the negative balance. However, the Commission was unable to provide documentation to support that the household repaid these funds. The funds are included in the inappropriate escrow calculations stated above.

The Commission also failed to ensure that it maintained its program escrow bank account appropriately. Based on our escrow calculations, the Commission had underfunded its family self-sufficiency account by $3,164.

[2] Form HUD-52650, Program Contract of Participation
[3] HUD's regulations at 24 CFR 984.305(a)(3)
[4] Form HUD-52652, Escrow Credit Worksheet

Its finance department maintained the bank balance and made deposits and withdrawals to the program bank account based on information provided by its Section 8 department. On January 17, 2012, the Section 8 director entered forfeitures totaling $50,376 for program households that had old escrow balances in the Commission's system. The participants were removed from the program between September 2002 and November 2011. However, the Section 8 director did not provide this information to the Commission's finance department so that it could move the escrow balances from the program bank account to the Commission's Section 8 account.

The Commission's Coordinators Did Not Effectively Oversee the Program

The Commission failed to maintain effective Family Self-Sufficiency program coordinators. The Commission employed seven coordinators at different times between 2005 and 2011. The coordinators did not effectively oversee the program. They failed to ensure that (1) participants' contracts were entered into in a timely manner and contained appropriate information, (2) escrow credit worksheets were completed for each recertification, (3) participants' escrows were calculated appropriately, (4) annual escrow credit reports were provided, (5) interest was allocated correctly, and (6) participants were not able to spend more than was available in their escrow credit accounts. The coordinators also did not appropriately calculate the Commission's mandatory slots.

The Commission received a 2-year waiver in 2003, reducing its mandatory program slots from 205 to 150. According to the coordinator's calculations, the number of mandatory slots for 2012 was 79. Based on the information from the waiver and the Commission's reported graduates, the number of slots for 2012 was 120. HUD's public housing revitalization specialist stated that the Commission's calculation of mandatory slots was incorrect and the Commission had not consistently submitted documentation to HUD to confirm the number of program graduates so the number of required program slots could be reduced.

HUD awarded the Commission grants totaling $600,448 under its Housing Choice Voucher-Family Self-Sufficiency Coordinator program from 2005 through 2011. These funds were made available to pay the salaries and fringe benefits for the Commission's coordinators under the stipulation that the Commission administer its Family Self-Sufficiency program in accordance with Federal requirements. The Commission used $573,170 of the funds from January 2005 through December 2011. Given that the Commission and its coordinators failed to maintain an effective program, the Commission may have not properly used the $573,170 in coordinator funds. Therefore, HUD should determine whether any of the grant funds used to pay the coordinator achieved the purpose of the program.

Participant Files Lacked Required Documentation

The Commission did not maintain documentation in its program participant files as required by HUD regulations and its program action plan.

We statistically selected 58 program participant files from a universe of 174 participants that were enrolled in the Commission's program from 2004 to 2011. The 58 participant files were reviewed to determine whether the Commission maintained documentation to support participants' admission to and continued participation in the program for participants listed as active in its system for the period January 1, 2010, through December 31, 2011. Our review was limited to the information maintained by the Commission in its program participant files.

Of the 58 program participant files reviewed,

- 54 files did not contain the client information and family needs assessments;
- 21 files did not contain the Commission's agency referral form;
- 21 files did not contain the Commission's authorization to release confidential information for referrals to program services;
- 19 files did not contain the Commission's program referral form for program services;
- 17 files did not contain the Commission's required correspondence between coordinators and service agencies for referrals provided;
- 15 participants did not have HUD-required interim goals;
- 14 files did not contain the Commission's individual action plans;
- 13 files did not contain the Commission's program termination checklist;
- 13 files did not contain the Commission's final escrow calculation statement for the terminated participants;
- 13 files did not contain the termination letters with the Commission's required information;
- 10 individual training and services plan addendums were not signed by the participant and the Commission;
- 7 contract extensions did not contain the new expiration date;
- 7 participants that had contract extensions or modifications did not have individual training and services plan addendums;
- 6 participants had final goals that were contrary to HUD's requirements;
- 6 individual training and services plans were not signed by the participant and a representative of the Commission;
- 4 files did not contain individual training and services plans;

- 4 files for program graduates did not contain documentation showing that the graduate met the obligations outlined in his or her contract of participation and individual training and services plan, the participant paid 30 percent of his or her monthly adjusted income for rent, and the participants did not continue to receive welfare assistance;
- 3 files did not contain program applications;
- 3 contract extension requests did not state how the extension would allow the participant to meet his or her goals;
- 1 file did not contain the form HUD-50058 family report showing that the participant had exited the program;
- 1 individual training and services plan did not contain specific interim goals and completion dates;
- 1 individual training and services plan did not include the final goal of seeking and maintaining suitable employment; and
- 1 file did not contain the Commission's program needs table.

The Commission also did not maintain the documentation required by its action plans to support 19 of the 25 (76 percent) approved interim escrow disbursement requests for 9 participants. Therefore, it disbursed $17,008 to program participants without obtaining the required supporting documentation.

The Commission updated its 2005 action plan in 2010. The original and updated action plans did not contain policies and procedures as required by HUD regulations. Specifically, the action plan did not contain policies and procedures required by HUD specifying the actions to be taken if a program participant family underreports income or assets or the Commission's policies for denying participation in its program to families that owe money to the Commission.

The Commission Failed To Exercise Proper Supervision and Oversight of Its Program

The noncompliance described above occurred because the Commission failed to exercise proper supervision and oversight of its program, and its staff did not fully understand the program's requirements. As previously mentioned, according to the Commission, the program coordinators, Section 8 director, and finance department did not always maintain effective communication. Therefore, changes that occurred in one department were not always provided to the other departments in a timely manner.

Further, the Commission's Section 8 director said that the errors in the program participants' escrow balances were due to staff turnover and a lack of understanding of the program. The Commission's program coordinator said that annual escrow statements were provided only to program participants that had earned an escrow.

The Commission's current executive director said that its program bank account, escrow credit worksheets, and escrow credit statements and the escrow balances in its system were incorrect. The Commission wanted to use its system to track its program participants' escrow balances. Therefore, the executive director requested that we assist the Commission in determining what its program bank account balance should have been as of December 31, 2011, so that it could make the appropriate adjustments.

The documents were missing from the participants' files because the Commission's staff lacked adequate program knowledge and controls to ensure that required documents were completed and maintained in the participants' files in accordance with HUD's and its own requirements. The Commission's program coordinator said that the client information and family needs assessment was a new form that was added to the Commission's program action plan when it was revised in 2010 and applicants did not like filling it out because the form was too long. The Commission's Section 8 director said that the Commission did not maintain the assessment or individual action plan as stated in its action plan because it believed the information was in each program participants' individual training and services plan.

The Commission updated its 2005 action plan in 2010. The original and updated action plans did not contain policies and procedures as required by HUD regulations. The Commission did not follow its HUD-approved program action plan when maintaining its program participant files.

Conclusion

The Commission failed to operate its Family Self-Sufficiency program in accordance with HUD's requirements and its own program action plan. As a result, it underfunded participants' graduation and port-out payments by $11,549, overpaid participant's graduation and interim payments by $21,650, underfunded participants' escrow balances by $24,303, failed to recapture $122,690 from its system for incorrect system balances, and failed to notify its finance department of more than $50,000 in forfeitures entered into its system.

It also allowed two participants to have negative escrow balances totaling more than $1,000 when it failed to ensure that the participants had appropriate funds to cover interim escrow disbursements. It also failed to ensure that its program bank account was maintained appropriately by underfunding the account by more than $3,100. Further, the Commission did not properly use program funds when it failed to maintain the appropriate documentation in program participants' files to comply with HUD's and its own requirements. The Commission disbursed $17,008 in program funds for participants without proper documentation.

HUD awarded the Commission grants totaling more than $600,000 under its Housing Choice Voucher-Family Self-Sufficiency Coordinator program from 2005 through 2011. The Commission used $573,170 of the funds from January 2005 through December 2011. Because the Commission and its coordinators failed to maintain an effective program, the Commission may have not properly used the $573,170 in coordinator grant funds. If the Commission does not implement adequate procedures and controls regarding its Family Self-Sufficiency program, we estimate that it could inappropriately use $27,278 in grant funds over the next year (see the Scope and Methodology section of this report).

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

1A. Reimburse its program $21,650 form non-Federal funds for the overpayment of escrow funds to the participants cited in this finding.

1B. Transfer $11,549 from its Section 8 Housing Choice Voucher program account to its Family Self-Sufficiency program account and make the underfunded graduation and port-out payments cited in this finding.

1C. Transfer $24,303 from its Section 8 Housing Choice Voucher program account to its Family Self-Sufficiency program account for the underfunded escrows cited in this finding.

1D. Transfer $3,164 from its Section 8 Housing Choice Voucher program bank account and transfer the funds to its Family Self-Sufficiency escrow bank account for the underfunding of its Family Self-Sufficiency escrow bank account cited in this finding.

1E. Recapture the $122,960 from its system and ensure that the funds are appropriately accounted for in its system and its Family Self-Sufficiency and Section 8 Housing Choice Voucher program bank accounts.

1F. Ensure that the $50,376 in forfeitures entered by the Section 8 director is appropriately accounted for in its system and its Family Self-Sufficiency and Section 8 Housing Choice Voucher program bank accounts.

1G. Develop and implement adequate procedures and controls regarding its Family Self-Sufficiency program to ensure that it follows Federal requirements and its HUD-approved action plan within the next 12 months to prevent $27,278 in program coordinator grant funds from being spent contrary to Federal requirements.

1H. Provide supporting documentation or reimburse its program $17,008 from non-Federal funds for the unsupported payments cited in this finding.

1I. Ensure that all of the required file documentation is complete, accurate, and maintained in its program participant files to support that the Commission is following its action plan and HUD's regulations.

1J. Implement adequate procedures and controls to ensure that all required documentation is complete, accurate, and maintained in the participants' files to support his or her the eligibility to participate in the program.

We recommend that the Director of HUD's Detroit Office of Public Housing

1K. Determine the amount of the $573,170 of coordinator grant funds that were actually earned by the Commission for meeting the program's requirements. The funds that are determined to be unearned should be reimbursed to HUD from non-Federal funds.

Finding 2: The Commission Did Not Effectively Use HUD's Enterprise Income Verification System Income Discrepancy Reports

The Commission did not effectively use HUD's Enterprise Income Verification system income discrepancy reports to recover or reimburse Section 8 Housing Choice Voucher program housing assistance and utility allowance payments for households with unreported or underreported income. This deficiency occurred because the Commission lacked adequate procedures and controls to ensure that it appropriately followed HUD's and its own requirements. As a result, it overpaid nearly $129,000 in housing assistance and utility allowances and earned more than $42,600 in administrative fees for the inappropriate overpayments.

The Commission Failed To Resolve Income Discrepancies

The Commission did not effectively use HUD's system income discrepancy reports to recover or reimburse program housing assistance and utility allowance payments for households with unreported or underreported income.

We reviewed 100 percent of the income discrepancy information for the 98 households reported in HUD's system having an income discrepancy. Our review was limited to information in HUD's system and the information entered into HUD's Public and Indian Housing Information Center database by the Commission.

Of the 98 files reviewed, 69 (70 percent) had unreported or underreported income totaling $446,138. The Commission overpaid $128,868 in housing assistance and utility allowances to the 69 households that had unreported or underreported income. It received $42,632 in program administrative fees related to the 69 households that were overpaid housing assistance and utility allowances during the period January 1, 2010, through December 31, 2011.

The balance of 29 files (98 less 69) did not have reportable errors. According to HUD's system, (1) 16 households had valid income discrepancies totaling $16,779 but did not meet the $2,400 income discrepancy threshold set by HUD, (2) 7 households were new admissions to the program and the income discrepancy was before the households' participation in the program, (3) 5 households did not have a valid income discrepancy, and (4) 1 household did not receive housing assistance payments during the period from January 1, 2010, through December 31, 2011.

The Commission's Procedures and Controls Had Weaknesses

The overpayment of housing assistance occurred because the Commission did not ensure that its staff took appropriate steps to recover overpaid housing assistance when unreported or underreported income was determined during the examination process. Additionally, the Commission did not update its Section 8 Housing Choice Voucher program administrative plan to include HUD's requirements for correcting income discrepancies. HUD's public and Indian housing program advisor stated that public housing agencies are required to review and compare the income reports to the previous information reported in each individual household's form HUD-50058 family report to determine whether an income discrepancy exists.

The Commission's Section 8 director stated that the Commission was late in performing annual reexaminations until October 1, 2010, when it came back into compliance with the recertification process. Further, the Commission did not believe that it was able to recapture overpaid housing assistance payments.

Conclusion

The Commission did not effectively use HUD's system income discrepancy report to recover or reimburse Section 8 Housing Choice Voucher program housing assistance and utility allowance payments for households with unreported or underreported income. As a result, it overpaid $128,868 in housing assistance and utility allowances related to the households with unreported or underreported income.

Further, the Commission earned $42,632 in program administrative fees for the incorrectly calculated housing assistance and utility allowance payments. In accordance with HUD's regulations at 24 CFR (Code of Federal Regulations) 982.152(d), HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

2A. Take the appropriate actions to determine whether the income discrepancies are valid and if so, pursue collection from the applicable households or reimburse its program $171,500 ($128,868 in housing assistance payments + $42,632 in administrative fees) from non-Federal funds for the overpayment of housing assistance cited in this finding.

2B. Update its program administrative plan to ensure that the administrative plan complies with HUD's Enterprise Income Verification requirements.

2C. Implement adequate procedures and controls to ensure that appropriate actions are taken when income discrepancies exceeding HUD's threshold are discovered during the examination process or during its review of the individual income reports.

2D. Develop and implement procedures and controls to ensure its program administrative plan is updated when new policies are established by HUD. The Commission should also implement adequate procedures and controls to ensure that it complies with HUD's regulations and its updated program administrative plan.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; regulations; HUD's program requirements at 24 CFR Parts 5, 982, and 984; United States Code; Office of Management and Budget Circular A-133; HUD Guidebook 7420.10G; HUD Public and Indian Housing Notice 2010-19; HUD's Voucher Management System; HUD's Public and Indian Housing Information Center database; and HUD's Enterprise Income Verification system.

- The Commission's accounting records; bank statements; general ledgers; Family Self-Sufficiency program household files; policies and procedures; board meeting minutes pertinent to the program; organizational chart; and annual audited financial statements for 2009, 2010, and 2011.

- HUD's files for the Commission and monitoring reviews of the Commission's Section 8 Housing Choice Voucher program.

We also interviewed the Commission's employees and HUD's staff.

Finding 1

We reviewed 100 percent of the Commission's Family Self-Sufficiency program participants listed as active in its system from January 1, 2010, through December 1, 2011, to determine whether the Commission appropriately calculated the participant's escrow.

Using data mining software, we statistically selected 58 program participant files from a universe of 174 participants on the Commission's program from January 1, 2010, through December 31, 2011. The 58 files were reviewed to determine whether the Commission had maintained the appropriate eligibility documentation for the period January 1, 2010, through December 31, 2011. Our sampling criteria used a 90 percent confidence level and precision of plus or minus 10 percent. Our review determined that the Commission did not maintain the appropriate eligibility documentation in the participants' files.

HUD awarded the Commission grants totaling $600,448 under its Housing Choice Voucher-Family Self-Sufficiency Coordinator program from 2005 through 2011. The Commission used $573,170 of the funds from January 2005 through December 2011. Because the Commission and its coordinators failed to maintain an effective program, the Commission may have not properly used the $573,170 in Coordinator Grant funds. If the Commission does not implement adequate procedures and controls regarding its Family Self-Sufficiency program, we estimate that it could inappropriately use $27,278 ($600,448 less $573,170) in grant funds over the next year.

Finding 2

We obtained HUD's Enterprise Income Verification system income discrepancy report for the Commission. The report contained 98 Section 8 households that had an income discrepancy as of January 21, 2012. We reviewed the income discrepancy information for the 98 household files.

We relied in part on data maintained by the Commission in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes (see findings 1 and 2 of this audit report).

We performed our onsite audit work from February to April 2012 at the Commission's office located at 1803 Norman Street, Saginaw, MI. The audit covered the period January 1, 2010, through December 31, 2011, but was expanded as determined necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We asked the Commission's executive director to provide comments on our discussion draft audit report by September 24, 2012. The Commission opted not to provide any written comments.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- The Commission lacked adequate procedures and controls to ensure compliance with HUD's requirements and its program action plan regarding (1) program participants' escrow calculations, (2) program participants' file documentation, and (3) the use of HUD's system for the recovery or repayment of overpaid and underpaid housing assistance and utility allowances (see findings 1 and 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$21,650		
1B	11,549		
1C			$24,303
1D			3,164
1E			122,960
1F		$50,376	
1G			27,278
1H		17,008	
1K		573,170	
2A		171,500	
Total	$33,199	$812,054	$177,705

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

2/ 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 the 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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

FEDERAL REQUIREMENTS AND THE COMMISSION'S PROGRAM ADMINISTRATIVE PLAN

Finding 1
HUD's regulations at 24 CFR 984.103 define an individual training and services plan as a written plan that is prepared for the head of the family and each adult member of the family who elects to participate in the program by the public housing agency in consultation with the family member and which sets forth

"(1) The supportive services to be provided to the family member;
(2) The activities to be completed by that family member; and
(3) The agreed upon completion dates for the services and activities. Each individual training and services plan must be signed by the public housing agency and the participating family member, and is attached to, and incorporated as part of the contract of participation. An individual training and services plan must be prepared for the head of the family."

HUD's regulations at 24 CFR 984.105(b)(2) state that the minimum size of a public housing agency's Section 8 Family Self-Sufficiency program is equal to the number of Section 8 certificate and voucher program units as calculated below:

"(i) Units included.
(A) The number of rental certificates and rental voucher units reserved under the combined FY [fiscal year] 1991/1992 Family Self-Sufficiency incentive award competition; plus
(B) The number of additional rental certificates and rental voucher units reserved in FY 1993 through October 20, 1998 (not including the renewal of funding for units previously reserved), minus such units that are excluded from minimum program size in accordance with paragraph (b)(2)(ii) of this section; minus
(C) The number of families who have graduated from the public housing agency's Section 8 Family Self-Sufficiency program on or after October 21, 1998, by fulfilling their contract of participation obligations."

HUD's regulations at 24 CFR 984.105(b)(3) state that the minimum program size for a public housing agency's public housing or Section 8 Family Self-Sufficiency program is reduced by one slot for each family that graduates from the Family Self-Sufficiency program by fulfilling its Family Self-Sufficiency contract of participation on or after October 21, 1998. If a Family Self-Sufficiency slot is vacated by a family that has not completed its Family Self-Sufficiency contract of participation obligations, the slot must be filled by a replacement family, which has been selected in accordance with the Family Self-Sufficiency family selection procedures set forth in 24 CFR 984.203.

HUD's regulations at 24 CFR 984.301(b) state that a public housing agency may employ appropriate staff, including a service coordinator or program coordinator, to administer its

Family Self-Sufficiency program, and may contract with an appropriate organization to establish and administer the Family Self-Sufficiency program, including the Family Self-Sufficiency account, as provided by 24 CFR 984.305.

HUD’s regulations at 24 CFR 984.302(b) state that the administrative fees paid to public housing agencies for HUD-approved costs associated with operation of a Family Self-Sufficiency program are established by Congress and subject to appropriations.

HUD’s regulations at 24 CFR 984.303(b)(2) state that for each participating Family Self-Sufficiency family that is a recipient of welfare assistance, the public housing agency must establish as an interim goal that the family become independent from welfare assistance and remain independent from welfare assistance at least 1 year before the expiration of the term of the contract of participation, including any extension thereof.

HUD’s regulations at 24 CFR 984.303(b)(4)(i) state that the head of the family should be required under the contract of participation to seek and maintain suitable employment during the term of the contract and any extension thereof. Although other members of the family may seek and maintain employment during the term of the contract, only the head of the family is required to seek and maintain suitable employment.

HUD’s regulations at 24 CFR 984.303(h) state that the contract of participation is automatically terminated if the family’s Section 8 assistance is terminated in accordance with HUD requirements.

HUD’s regulations at 24 CFR 984.305(a)(1) state that the public housing agency must deposit the Family Self-Sufficiency account funds of all families participating in the public housing agency’s Family Self-Sufficiency program into a single depository account. The public housing agency must deposit the Family Self-Sufficiency account funds into one or more of the HUD-approved investments.

HUD’s regulations at 24 CFR 984.305(a)(2)(i) state that the total of the combined Family Self-Sufficiency account funds will be supported in the public housing agency accounting records by a subsidiary ledger showing the balance applicable to each Family Self-Sufficiency family. During the term of the contract of participation, the public housing agency should credit periodically but not less than annually to each family’s Family Self-Sufficiency account the amount of the Family Self-Sufficiency credit determined in accordance with paragraph (b) of this section.

HUD’s regulations at 24 CFR 984.305(a)(2)(ii) state that the investment income for funds in the Family Self-Sufficiency account will be prorated and credited to each family’s Family Self-Sufficiency account based on the balance in each family’s Family Self-Sufficiency account at the end of the period for which the investment income is credited.

HUD’s regulations at 24 CFR 984.305(a)(3) state that each public housing agency will be required to make a report, at least once annually, to each Family Self-Sufficiency family on the status of the family’s Family Self-Sufficiency account. At a minimum, the report will include

"(i) The balance at the beginning of the reporting period;
(ii) The amount of the family's rent payment that was credited to the Family Self-Sufficiency account, during the reporting period;
(iii) Any deductions made from the account for amounts due the public housing agency before interest is distributed;
(iv) The amount of interest earned on the account during the year; and
(v) The total in the account at the end of the reporting period."

HUD's regulations at 24 CFR 984.305(b)(1) state that for purposes of determining the Family Self-Sufficiency credit, "family rent" for the rental voucher program is 30 percent of adjusted monthly income. The Family Self-Sufficiency credit should be computed as follows:

"(i) For Family Self-Sufficiency families who are very low-income families, the Family Self-Sufficiency credit should be the amount which is the lesser of:
(A) Thirty percent of current monthly adjusted income less the family rent, which is obtained by disregarding any increases in earned income (as defined in 24 CFR 984.103) from the effective date of the contract of participation; or
(B) The current family rent less the family rent at the time of the effective date of the contract of participation.
(ii) For Family Self-Sufficiency families who are low-income families but not very low-income families, the Family Self-Sufficiency credit should be the amount determined according to paragraph (b)(1)(i) of this section, but which should not exceed the amount computed for 50 percent of median income."

HUD's regulations at 24 CFR 984.305(b)(2) state that Family Self-Sufficiency families who are not low-income families should not be entitled to Family Self-Sufficiency credit.

HUD's regulations at 24 CFR 984.305(b)(3) state that the public housing agency must not make additional credits to the Family Self-Sufficiency family's Family Self-Sufficiency account when the Family Self-Sufficiency family has completed the contract of participation, as defined in 24 CFR 984.303(g), or when the contract of participation is terminated or otherwise nullified.

HUD's regulations at 24 CFR 984.305(c)(2)(ii) state that if the public housing agency determines that the family has fulfilled certain interim goals established in the contract of participation and needs a portion of the program account funds for purposes consistent with the contract of participation, such as completion of higher education (such as college, graduate school) or job training or to meet startup expenses involved in creation of a small business, the public housing agency may, at the public housing agency's sole option, disburse a portion of the funds from the family's program account to assist the family in meeting those expenses.

HUD's regulations at 24 CFR 984.305(f)(1) state that amounts in the Family Self-Sufficiency account should be forfeited upon the occurrence of the following:

"(i) The contract of participation is terminated, as provided in 24 CFR 984.303(e) or 24 CFR 984.303(h); or

(ii) The contract of participation is completed by the family, as provided in 24 CFR 984.303(g), but the Family Self-Sufficiency family is receiving welfare assistance at the time of expiration of the term of the contract of participation, including any extension thereof."

HUD's regulations at 24 CFR 984.305(f)(2)(ii) state that the Family Self-Sufficiency account funds forfeited by the family will be treated as program receipts for payment of program expenses under the public housing agency budget for the applicable Section 8 program and should be used in accordance with HUD requirements governing the use of program receipts.

Form HUD-52650, Program Contract of Participation, states that the income and rent numbers to be inserted on page 1 may be taken from the amounts on the last reexamination or interim determination before the family's initial participation in the Family Self-Sufficiency program unless more than 120 days will pass between the effective date of the reexamination and the effective date of the contract of participation. If it has been more than 120 days, the public housing agency must conduct a new reexamination or interim redetermination.

Form HUD-52650, Program Contract of Participation, states that the contract must include an individual training and services plan for the head of the family.

Form HUD-52650, Program Contract of Participation, states that interim goals must be specified along with the activities and services needed to achieve them.

Form HUD-52650, Program Contract of Participation, states that all completion dates included in the individual training and services plans must be on or before the contract of participation expires.

Form HUD-52650, Program Contract of Participation, states that the final goal listed on the individual training and services plan of the head of the family must include getting and maintaining suitable employment specific to that individual's skills, education, job training, and the available job opportunities in the area.

Form HUD-52650, Program Contract of Participation, states that if the housing agency decides to extend the term of the contract, the original expiration date listed on page 1 of the contract must be crossed out and the new expiration date added.

Form HUD-52650, Program Contract of Participation, states that any change(s) to an individual training and services plan must be included as a revision to the individual training and services plan (attachment) to which the change applies. The revision must include the item changed, signatures of the participant and an housing agency representative, and the date signed.

Form HUD-52652, Escrow Account Credit Worksheet, states that escrow credits must be determined at each reexamination and interim determination occurring after the effective date of the Family Self-Sufficiency contract of participation while the family is participating in the Family Self-Sufficiency program.

HUD's Housing Choice Voucher Guidebook 7420.10G, section 23.3, states that the action plan must also describe all program policies over which the public housing agency has discretion, including at least

- Policies and procedures for selecting participants;
- Policies for terminating or withholding housing choice voucher program assistance, supportive services, or participation for failure to comply with the contract of participation;
- Actions to be taken if an family underreports income or assets;
- The hearing procedures for families;
- Policies for denying participation to families owing money to the public housing agency or to families previously terminated from the program; and
- A policy providing a selection preference for portable families if the public housing agency will give portable families preference for program participation.

Section V, part B 1, of the Commission's 2005 action plan states that Section 8 recipients wishing to participate in the program will complete a program application form (exhibit C), which may be delivered or mailed to the coordinators at the Commission.

Section VI of the Commission's 2005 and 2010 action plans state that a request to extend the contract must be in writing and must include a description of how the extension will allow the family to complete the goals of its individual training and services plan. The request must demonstrate that "good cause" exists for granting the extension. If approved, the contract extension must not exceed 2 years.

Section VIII, Termination Process, part h, of the Commission's 2010 action plan states that if a contact has not been reestablished with the participant within 150 days from the last documented contact, coordinators will send a final termination letter. The letter will explain that the participant is being terminated 30 days from the mailing date of the letter. If the participant has funds in an escrow account, the letter will indicate the amount of funds to be forfeited. Additionally, the letter will explain the participant's right to appeal the termination through the grievance process.

Section VIII, Termination Process, part I, of the Commission's 2010 action plan states that if the participant does not respond to the final termination letter within 30 days, the participant's program contract of participation will be terminated. The program termination checklist will be employed to ensure that all relevant documents used by the coordinator, related to the terminated participant, are modified to reflect the termination. The termination will be recorded in the system on the program addendum as an "exit" update. A final form HUD-50058 and escrow calculation sheet will be printed and stored, along with a copy of the program termination checklist, in the terminated participant's file.

Section IX, part A, of the Commission's 2005 and 2010 action plan states that investment income should be credited periodically but not less than annually to each participating family's program escrow account. The participant will be provided with an annual report on the status of his or her escrow account, including current balance and interest income earned from the preceding year.

Section IX, part B5, of the Commission's 2005 action plan states that the participant may request the withdrawal of a portion of his or her escrow account before the completion of his or her contract of participation. The family must have funds available in its escrow account, and the purpose of the withdrawal must directly aid the family in completing its contract of participation.

Section XI of the Commission's 2005 and 2010 action plans state that all referrals completed by coordinators will be documented on a program referral form and forwarded to the program participant, along with instructions on how to make contact with the referral agency. Likewise, the referral agency will receive an agency referral form and an authorization to release confidential information form with appropriate participant information.

Section XIII, part B1, of the Commission's 2005 and 2010 action plans state that the coordinators' responsibility to program reporting includes

> "1. Maintenance and retention of all records pertaining to the program. These records will include: Needs Assessment, Contract of Participation, Individual Training and Services Plan, progress notes, referral forms and correspondence with participants and service agencies."

Finding 2

HUD's regulations at 24 CFR 5.240(c) state that the authority must verify the accuracy of the income information received from program households and change the amount of the total tenant payment, tenant rent, or program housing assistance payment or terminate assistance, as appropriate, based on such information.

HUD's regulations at 24 CFR 5.236(b)(1) state that any determination or redetermination of family income verified in accordance with this paragraph must be carried out in accordance with the requirements and procedures applicable to the individual covered program. Independent verification of information obtained from a State wage information collection agency or a Federal agency may be "(i) by HUD; (ii) in the case of the public housing program, by a public housing authority; or (iii) in the case of any Section 8 program, by a public housing agency acting as contract administrator under an annual contributions contract."

HUD's regulations at 24 CFR 5.236(b)(2) state that upon receiving income information from a State wage information collection agency or a Federal agency, HUD or when applicable, the public housing authority should compare the information with the information about a family's income that was "(i) provided by the assistance applicant or participant to the public housing agency."

HUD's regulations at 24 CFR 5.236(b)(3) state that when the income information reveals an employer or other income source that was not disclosed by the assistance applicant or participant or when the income information differs substantially from the information received from the assistance applicant or participant or from his or her employer, "(i) HUD or, as applicable or directed by HUD, the public housing authority should request the undisclosed employer or other income source to furnish any information necessary to establish an assistance applicant's or participant's eligibility for or level of assistance in a covered program. This information should be furnished in writing, as directed to: (B) the responsible entity (as defined in 24 CFR part 5.100) in the case of the public housing program or any Section 8 program; or (ii) HUD or the public housing authority may verify the income information directly with an assistance applicant or participant. Such verification procedures should not include any disclosure of income information prohibited under paragraph (b)(6) of this section."

HUD's regulations at 24 CFR 5.236(b)(4) state that HUD and the public housing authority should not be required to pursue these verification procedures when the sums of money at issue are too small to raise an inference of fraud or justify the expense of independent verification and the procedures related to termination, denial, suspension, or reduction of assistance.

HUD's regulations at 24 CFR 982.54(c) state that the authority must administer the program in accordance with its administrative plan.

HUD's regulations at 24 CFR 982.153 state that the authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

HUD's regulations at 24 CFR 982.516(f) state that the authority must establish procedures that are appropriate and necessary to ensure that income data provided by applicant or participant families are complete and accurate.

HUD's regulations at 24 CFR 5.233(a)(1) state that the requirements of this section apply to entities administering assistance under the "(ii) Section 8 Housing Choice Voucher (HCV) program under 24 CFR part 982."

HUD's regulations at 24 CFR 5.233(a)(2) state that processing entities must use HUD's Enterprise Income Verification system in its entirety

"(i) As a third party source to verify tenant employment and income information during mandatory reexaminations or recertifications of family composition and income, in accordance with §5.236, and administrative guidance issued by HUD; and

(ii) To reduce administrative and subsidy payment errors in accordance with HUD administrative guidance."

HUD's regulations at 24 CFR 5.233(b) state that failure to use the system in its entirety may result in the imposition of sanctions, the assessment of disallowed costs associated with any resulting incorrect subsidy or tenant rent calculations, or both.

HUD's regulations at 24 CFR 5.609(a)(2) state that annual income means all amounts, monetary or not, which are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date.

Public and Indian Housing Notice 2010-19, number 3, states that on December 29, 2009, HUD issued the final rule entitled Refinement of Income and Rent Determination Requirements in Public and Assisted Housing Programs: Implementation of the Enterprise Income Verification System - Amendments, which requires public housing agencies to use the system in its entirety to verify tenant employment and income information during mandatory reexaminations of family composition and income and reduce administrative and subsidy payment errors in accordance with 24 CFR 5.236 and administrative guidance issued by HUD.

Public and Indian Housing Notice 2010-19, number 6, states that all public housing agencies are required to review the system income report of each family before or during mandatory annual and interim reexaminations of family income and composition to reduce tenant underreporting of income and improper subsidy payments. The system is classified as an upfront income verification technique (or automated written third-party verification), which helps to identify income sources and amounts that the tenant may not have disclosed. This upfront income verification technique in many instances, will reduce the need to mail or fax third-party verification request forms to an income source. The system also provides various reports to assist public housing agencies with the following:

"a. Identifying tenants whose reported personal identifiers do not match the Social Security Administration database;
b. Identifying tenants who need to disclose a Social Security Number;
c. Identifying tenants whose alternate identification number (Alt ID) needs to be replaced with a Social Security Number;
d. Identifying tenants who may not have reported complete and accurate income information;
e. Identifying tenants who have started a new job;
f. Identifying tenants who may be receiving duplicate rental assistance;
g. Identifying tenants who are deceased and possibly continuing to receive rental assistance;
h. Identifying former tenants of Public and Indian Housing rental assistance programs who voluntarily or involuntarily left the program and have a reportable adverse status and/or owe money to a public housing agency or Section 8 landlord."

Public and Indian Housing Notice 2010-19, number 8, states that public housing agencies should begin with the highest level of verification techniques. Public housing agencies are required to access the system and obtain an income report for each household. The public housing agency is required to maintain the income report in the tenant file, along with the form HUD-50058 and other supporting documentation to support income and rent determinations for all mandatory annual reexaminations of family income and composition. If the income report does not contain employment and income information for the family, the public housing agency should attempt the next lower level verification technique.

Public and Indian Housing Notice 2010-19, number 10, states that public housing agencies can comply with and reduce the administrative burden of third-party verification requirements for employment, wage, unemployment compensation and Social Security benefits, and any other information that is verifiable using the system by

"a. Reviewing the system Income Report to confirm/validate tenant-reported income; and

b. Printing and maintaining a system Income Report (or a system Individual Control Number (ICN) page for interim reexaminations as prescribed in Section 12 of this Notice) in the tenant file; and
c. Obtaining current acceptable tenant-provided documentation to supplement the system information; and
d. Using current tenant-provided documentation and/or third party verification to calculate annual income."

Public and Indian Housing Notice 2010-19, number 11, states that the public housing agency must request written third-party verification under the following circumstances:

"a. When the tenant disputes the system information and is unable to provide acceptable documentation to support his/her dispute (24 CFR §5.236(b));
b. When the public housing agency requires additional information that is not available in the system and/or the tenant is unable to provide the public housing agency with current acceptable tenant-provided documentation. Examples of additional information, includes but is not limited to:
  i. Effective dates of income (i.e. employment, unemployment compensation, or social security benefits)
  ii. For new employment: pay rate, number of hours worked per week, pay frequency, etc.
  iii. Confirmation of change in circumstances (i.e. reduced hours, reduced rate of pay, temporary leave of absence, etc.)"

Note: 24 CFR 5.236(a), prohibits public housing agencies from taking adverse action based solely on system information.

Public and Indian Housing Notice 2010-19, number 12, states that the types of file documentation required to demonstrate public housing agency compliance with mandated use of the system as a third-party source to verify tenant employment and income information (24 CFR 5.233(a)(2)(i)) are as follows:

"A. For each new admission (form HUD-50058 action type 1), the public housing agency is required to do the following:
  i. Review the system Income Report to confirm/validate family-reported income within 120 days of the Public and Indian Housing Information Center submission date; and
  ii. Print and maintain a copy of the system Income Report in the tenant file; and
  iii. Resolve any income discrepancy with the family within 60 days of the system Income Report date.
B. For each historical adjustment (form HUD-50058 action type 14), the public housing agency is required to do the following:
  i. Review the system Income Report to confirm/validate family-reported income within 120 days of the Public and Indian Housing Information Center submission date; and
  ii. Print and maintain a copy of the system Income Report in the tenant file; and
  iii. Resolve any income discrepancy with the family within 60 days of the system Income Report date.

C. For each interim reexamination (form HUD-50058 action type 3) of family income and composition, the public housing agency is required to have the following documentation in the tenant file:
   i. Individual Control Number Page when there is no household income discrepancy noted on the household's Income Discrepancy Report tab or Income Discrepancy Report. (Public housing agencies have the discretion to print the system Income report, however, only the Individual Control Number page is required.)
   ii. System Income Report when there is an income discrepancy noted on the household's Income Discrepancy Report tab or Income Discrepancy Report.

D. For each annual reexamination of family income and composition, the public housing agency is required to have the following documentation in the tenant file:
   i. No Dispute of system Information: system Income Report, current acceptable tenant-provided documentation, and if necessary (as determined by the public housing agency), traditional third party verification form(s).
   ii. Disputed System Information: System Income report, current acceptable tenant provided documentation, and/or traditional third party verification form(s) for disputed information. See example 2 below.
   iii. Tenant-reported income not verifiable through the system: Current tenant-provided documents, and if necessary (as determined by the public housing agency), traditional third party verification form(s)."

Public and Indian Housing Notice 2010-19, number 14, states that to ensure that public housing agencies are aware of potential subsidy payment errors, they are required to monitor the following system reports monthly:

"1. Deceased Tenants Report
2. Identity Verification Report
3. Immigration Report."

To ensure that public housing agencies are aware of potential subsidy payment errors, they are required to monitor the following system reports quarterly:

"1. Income Discrepancy Report
2. Multiple Subsidy Report
3. New Hires Report (if your agency has an interim increase policy)."

Public and Indian Housing Notice 2010-19, number 15, explains how to use the system income report as a third-party source to verify tenant employment and income information. All system income reports contain the date the report was generated and by whom and the date the system received each type of information. To minimize tenant underreporting of income, public housing agencies are required to obtain a system income report for each family any time the public housing agency conducts an annual or interim reexamination of family income and composition. In accordance with 24 CFR 5.236(b)(2)(3), public housing agencies are required to compare the information on the system report with the family-reported information. If the system report reveals an income source that was not reported by the tenant or a substantial difference in the reported income information, the public housing agency is required to take the following actions:

“1. Discuss the income discrepancy with the tenant; and
2. Request the tenant to provide any documentation to confirm or dispute the unreported or underreported income and/ or income sources; and
3. In the event the tenant is unable to provide acceptable documentation to resolve the income discrepancy, the public housing agency is required to request from the third party source, any information necessary to resolve the income discrepancy; and
4. If applicable, determine the tenant’s underpayment of rent as a result of unreported or underreported income, retroactively*; and
5. Take any other appropriate action as directed by HUD or the public housing agency’s administrative policies.

*The public housing agency is required to determine the retroactive rent as far back as the existence of complete file documentation (form HUD-50058 and supporting documentation) to support such retroactive rent determinations.”

Note: A substantial difference is defined as an amount equal to or greater than $2,400 annually.

Public and Indian Housing Notice 2010-19, number 16, states that tenants are required to reimburse the public housing agency if they were charged less rent than required by HUD’s rent formula due to the tenant’s underreporting or failure to report income. The tenant is required to reimburse the public housing agency for the difference between the tenant rent that should have been paid and the tenant rent that was charged. This rent underpayment is commonly referred to as retroactive rent. If the tenant refuses to enter into a repayment agreement or fails to make payments on an existing or new repayment agreement, the public housing agency must terminate the family’s tenancy or assistance or both. HUD does not authorize public housing agency-sponsored amnesty or debt forgiveness programs. All repayment agreements must be in writing, dated, and signed by both the tenant and the public housing agency and include the total retroactive rent amount owed, amount of lump sum payment made at time of execution if applicable, and the monthly repayment amount. At a minimum, repayment agreements must contain the following provisions:

“a. Reference to the paragraphs in the Public Housing lease or Section 8 information packet whereby the tenant is in non-compliance and may be subject to termination of tenancy or assistance, or both.
b. The monthly retroactive rent repayment amount is in addition to the family’s regular rent contribution and is payable to the public housing agency.
c. The terms of the agreement may be renegotiated if there is a decrease or increase in the family’s income.
d. Late and missed payments constitute default of the repayment agreement and may result in termination of tenancy and/or assistance.”

Public housing agencies are required to determine retroactive rent amount as far back as the public housing agency has documentation of family reported income. For example, if the public housing agency determines that the family has not reported income for a period of 5 years and has documentation for only the last 3 years, the public housing agency is able determine only retroactive rent for the 3 years for which documentation is available. The monthly retroactive rent payment plus the amount of rent the tenant pays at the time the repayment agreement is executed should be affordable and not exceed 40 percent of the family's monthly adjusted income. However, public housing agencies have the discretion to establish thresholds and policies for repayment agreements in addition to HUD-required procedures.

Public and Indian Housing Notice 2010-19, number 17, states that the public housing agency's record retention policy will determine the length of time the public housing agency should maintain system printouts in a tenant file. Public housing agencies are authorized to maintain the system income report in the tenant file for the duration of the tenancy and no longer than 3 years from the end of participation date. In accordance with revised regulations, 24 CFR 908.101, public housing agencies are required to maintain, at a minimum, the last 3 years of the form HUD-50058 and supporting documentation for all annual and interim reexaminations of family income. All records are to be maintained for a period of at least 3 years from the effective date of the action.

Public and Indian Housing Notice 2010-19, number 23, states that public housing agencies are required to immediately implement all new and modified regulatory requirements of the Refinement of Income and Rent Determination Requirements in Public and Assisted Housing Programs: Implementation of the Enterprise Income Verification System - Amendments. HUD recognizes that many public housing agencies have already begun to modify existing policies and procedures to reflect use of the system during all mandatory annual and interim reexaminations. Public housing agencies should immediately update their policies and procedures to reflect these new regulatory provisions.

Office of Management and Budget Circular A-133 states that under budgetary guidance and Public Law No. 107-300, Federal agencies are required to review Federal awards and, as applicable, provide an estimate of improper payments. This includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements and includes any payment to an ineligible recipient and any payments for an ineligible service, duplicate payments, payments for services not received, and any payment that does not account for credit for applicable discounts.