



## **HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority**



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

Issue Date: September 5, 2012

Audit Report Number: 2012-KC-0003

TO: Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of HUD's receivership of the East St. Louis Housing Authority.

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 913-551-5872.



September 5, 2012

## HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority

# Highlights

Audit Report 2012-KC-0003

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) receivership of the East St. Louis Housing Authority. We selected this audit based on the length of receivership and issues identified during recent external audits of the Authority.

Our objective was to determine whether HUD effectively oversaw and managed the recovery and turnaround of the Authority during the three period ending in September 2011.

### What We Recommend

We recommend that HUD develop and implement a receivership plan for the Authority. We also recommend that HUD improve its structure for managing receiverships, permanently fill the director position within ORO, and develop adequate accountability mechanisms for HUD staff whose primary responsibilities involve receiverships.

### What We Found

HUD did not effectively oversee and manage the recovery and turnaround of the Authority. Specifically, it did not have an adequate structure for its staff and did not develop a receivership plan specific to the Authority. This condition occurred because HUD did not have consistent leadership in its Office of Receivership Oversight (ORO). As a result, the Authority continued to be under receivership after 26 years and has continued to experience significant management and operational deficiencies.

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## **BACKGROUND AND OBJECTIVES**

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The role of the U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing is to ensure safe, decent, and affordable housing; create opportunities for residents' self-sufficiency and economic independence; and ensure fiscal integrity by all program participants.

The East St. Louis Housing Authority provides housing to low-income families, the elderly, and people with disabilities in St. Clair County, IL. It owns and operates more than 1,900 units of public housing within East St. Louis and serves more than 600 households using the Section 8 voucher program. During the past 3 years, the Authority has received more than \$69 million in HUD funding.

The Authority is one of seven public housing authorities under an administrative receivership. Administrative receivership is a process whereby HUD declares a public housing authority in substantial default of its annual contributions contract and takes control of the authority under the powers granted to the HUD Secretary by the United States Housing Act of 1937 as amended. Under administrative receiverships, HUD appoints one or more HUD staff members to work onsite at the housing authority to manage and operate the housing authority's operations and conduct the affairs of the housing authority. HUD provides oversight in a manner consistent with the statutory, regulatory, and contractual obligations of the housing authority. The Authority has been under receivership since 1985.

For the administrative receivership of the Authority, HUD has chosen not to appoint staff to work onsite at the Authority. Instead, a HUD representative serves part time as the Authority's board of commissioners. An employee from the Milwaukee, WI, field office was appointed as the Authority's receiver beginning in April 2011. Before that, an employee from the Chicago, IL, regional office served as the receiver for approximately 9 years. Each of these receivers served in this position in addition to normal supervisory positions in their respective offices.

In February 2007, the Office of Receivership Oversight (ORO) was formally established and given the authority to manage, monitor, and provide ultimate oversight for public housing authorities placed in receivership status. This office is run by an Acting Director, who also serves as the full-time Director of the Office of Field Operations. ORO was headed by a dedicated full-time Director from March 2010 until June 2011. Before that, the position was held by a political appointee.

The mission of ORO is to oversee and manage the recovery and turnaround of housing authorities under HUD administrative receivership, leading to the eventual return of the public housing authorities to local control.

Our objective was to determine whether HUD effectively oversaw and managed the recovery and turnaround of the Authority during the three-year period covering October 2008 through September 2011.

## RESULTS OF AUDIT

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### Finding: HUD Did Not Effectively Oversee and Manage the Receivership of the Authority

HUD did not effectively oversee and manage the recovery and turnaround of the Authority. This condition occurred because HUD did not have consistent leadership in ORO. As a result, the Authority continued to be under receivership after 26 years and has continued to experience significant management and operational deficiencies.

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#### HUD Did Not Effectively Oversee and Manage the Authority

HUD did not effectively oversee and manage the recovery and turnaround of the Authority during the three year period ending in September 2011. Specifically, it did not have an adequate structure in place for its staff and did not develop a receivership plan specific to the Authority.

In an October 2006 briefing related to the establishment of ORO, HUD acknowledged that the management situation for receiverships was confusing and needed improvement. It noted that there were no standardized procedures for handling receiverships and that the Office of Field Operations was handling them on an ad hoc basis and did not have time for receiverships. These conditions persisted during our review period.

#### Lack of Adequate Structure

HUD did not have a clear structure laying out the roles and responsibilities of the HUD-appointed receiver, ORO staff, and other HUD field and program staff to ensure that staff could easily coordinate to aid in the recovery and turnaround of the Authority. While the receiver and the ORO employee working with the Authority's receivership had received some guidance for their positions, it was not comprehensive or official. HUD also did not have guidance specifying how much time the receiver should allocate to the role. For the Authority's receivership, the receivers were expected to continue in their normal supervisory roles which only allowed them a limited amount of time to serve as receiver.

HUD's regional structure also did not allow for significant presence at the Authority. Because the Authority is located in Region 5, HUD appointed a receiver located 300 miles away in the Chicago regional office and later one 370 miles away in the

Milwaukee field office despite there being a Region 7 HUD office located only five miles from the Authority. Due to these geographical limitations and the limited time nature of the receiver role, the majority of the time the receivers' devoted to the Authority was spent traveling to and attending the monthly board meetings in East St. Louis.

Further, the roles and responsibilities of the receivers and ORO employee assigned to the Authority were not clearly or consistently included in employee performance plans. The receiver role was not listed as a critical element or standard in the current or former receivers' performance plans. Additionally, while the fiscal year 2011 performance plan for the ORO employee assigned to the Authority included some measurable goals, the fiscal year 2012 plan did not.

#### Lack of Receivership Plan for East St. Louis

HUD did not have a written plan guiding the recovery of the Authority. While HUD Web pages discuss a five-phase process for receiverships that included situation assessment, stabilization, recovery plan development, recovery plan implementation, and transition and sustainability, this process was never fully developed and was not implemented for use with HUD's receivership of the Authority.

HUD had informal goals to prepare the Authority to be turned back to the City of East St. Louis. However, it did not have a written plan that included measurable goals and required assessments throughout the receivership to ensure that HUD was aware of any current or developing operational issues at the Authority.

### **HUD Did Not Have Consistent Leadership**

HUD did not have consistent leadership in ORO. The office was originally approved for up to seven staff positions, including a director, who would report directly to the Assistant Secretary for Public and Indian Housing. The office had not been fully staffed, and the roles and responsibilities of staff fluctuated significantly throughout our audit period. The role of director had been filled by several people since the office was established and had not consistently been a full-time position. The current Acting Director also serves as the full-time Director of the Office of Field Operations. His primary involvement with receiverships had been reviewing monthly status reports and working on the required quarterly receivership reports to Congress. HUD was not consistent in its submission of these reports, having submitted several reports late and reports covering 4-to-6-month periods on several occasions.

The former full-time ORO Director indicated that she was in the process of revising outdated unused policies and developing new ones during her tenure but that they were not fully drafted or operational. The current Acting Director had

not continued the development of policies and procedures since he took over in June 2011.

## Recent Developments

The current receiver had made strides in expanding the role beyond attending the monthly board meetings. For example, he was trying to obtain additional training for Authority employees in the areas of property management, financial and site-based budgeting, and contract administration and procurement.

In September 2011, HUD began its rollout of a new program called the Public Housing Authority Recovery and Sustainability Initiative (PHARS). While this initiative is designed for troubled housing authorities, not specifically for those under receivership, a PHARS team had been assigned to the Authority. The team did not plan to use the full PHARS approach; however, it was not yet clear how its work would affect or interact with the receivership process.

## The Authority Has Remained in Receivership for 26 Years

The Authority continued to be under receivership after 26 years and has continued to experience significant management and operational deficiencies. While the Authority was under receivership, HUD should have been working to ensure that the Authority was operating properly and in a manner consistent with its statutory, regulatory, and contractual obligations, preparing it to be turned back to local control. However, during our review period, various reviews and monitoring scores identified extensive issues at the Authority.

### Monitoring Scores

The Authority received troubled and substandard performance scores in both the Public Housing Assessment System (PHAS) and Section 8 Management Assessment Program (SEMAP) assessments in 2010 and 2011.

	2010	2011
PHAS category	Substandard Physical	Substandard management
SEMAP category	Troubled	Troubled

For the Section 8 score, the Authority was listed as troubled in 2010 due to reporting issues. After a confirmatory review, the Authority was again listed as troubled for 2011 due to inspection issues and various calculation and income indicators.

### HUD Reviews

During a 2009 onsite review, HUD found systemic errors in tenant files related to utility allowance calculations and verifications of tenant Social Security numbers,



income, assets, and expenses. HUD concluded that the tenant files were not organized and were difficult to audit and cited a lack of knowledge of requirements and a lack of quality control procedures. It also found that the Authority overreported on its 2009 SEMAP score.

During a 2010 Recovery and Reinvestment Act of 2009 review, HUD determined that more than \$50,000 spent by the Authority was for an operational expense and, therefore, not allowed.

#### Financial Statement Audits

The Authority received several findings during its 2009, 2010, and 2011 financial statement audits. The findings included several material misstatements as well as issues related to the Authority's public housing and Section 8 tenant files, housing quality inspections, and waiting list.

#### Office of Inspector General Audits

Since 2008, HUD's Office of Inspector General (OIG) had performed three audits identifying issues in the Authority's use of public housing, Section 8, and Recovery Act funds. The Authority did not comply with requirements for procurement and contract management, capital fund draws, and unit health and safety. The related audit reports cited inadequate internal controls, a lack of awareness and understanding of requirements, and management issues at the Authority.

During our audit period, HUD was also aware of issues regarding the Authority's conversion to asset management, submission of annual PHA plans, and processing of environmental reviews. Appendix B provides more information on these issues and on the reviews and monitoring scores discussed above.

## **Conclusion**

Because HUD had not effectively overseen and managed the receivership, it did not have assurance that the Authority was operating properly and in a manner consistent with its statutory, regulatory, and contractual obligations. Further, it did not have assurance that the Authority was prepared to operate independently or be turned back to local control. This condition is illustrated by the extensive management and operational deficiencies present at the Authority despite 26 years in receivership.

HUD needs to improve its structure for managing receiverships and develop a receivership plan for the Authority with continual assessments, decision points, measurable goals, and accountability mechanisms. If HUD implements our recommendations, we believe that it will be in a position to address the persisting and developing issues at the Authority and help move the Authority toward a successful recovery.

## Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations

- 1A. Develop and implement a receivership plan for the Authority that includes sufficient assessments (of Authority progress and HUD resources needed), decision points, measurable goals, and accountability mechanisms.
- 1B. Permanently fill the director position within the ORO with a full-time staff person.
- 1C. Develop and implement adequate policies and procedures to improve its structure for managing receiverships. These policies and procedures should detail the roles and responsibilities of receivers, ORO, and other field and program staff needed to aid in the recovery and turnaround of public housing authorities under receivership.
- 1D. Develop adequate accountability mechanisms for HUD staff whose primary responsibilities involve receiverships (such as HUD-appointed receivers and ORO staff).

## SCOPE AND METHODOLOGY

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To accomplish our audit objective, we

- Interviewed the current and former HUD-appointed receivers for the Authority.
- Interviewed current and former employees of ORO.
- Interviewed HUD regional staff with responsibilities related to the Authority.
- Reviewed recent monitoring scores and HUD reviews of the Authority.
- Reviewed recent HUD OIG audit reports related to the Authority.
- Reviewed the Authority's financial statement audits.
- Reviewed monthly and quarterly reports on receivership.
- Reviewed HUD's policies and procedures.
- Reviewed documentation maintained by the current and former receivers.
- Reviewed performance appraisals for the current receiver, former receiver, and current ORO employee.

We performed our audit between October 2011 and May 2012. We conducted field work at HUD headquarters at 451 7<sup>th</sup> Street Southwest, Washington, DC; the Chicago regional office located at 77 West Jackson Boulevard, Chicago, IL; and the Milwaukee field office located at 310 West Wisconsin Avenue, Milwaukee, WI.

Our audit generally covered the period October 1, 2008, through September 30, 2011. We expanded our period as necessary to account for the recently issued HUD OIG report on the Authority's Recovery Act funds and to account for recent developments that affect the receivership.

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.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls over the management of receiverships.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD did not have adequate policies and procedures for its receivership (see finding).

# APPENDIXES

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments



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#### MEMORANDUM

**FOR:** Carrie Gray, CPA, Assistant Regional Inspector General,  
HUD Office of Inspector General, St. Louis

**FROM:** Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

**SUBJECT:** Response to Discussion Draft Report – HUD's Receivership of the East St. Louis  
Housing Authority (ESLHA)

**Comment 1**

The Office of Inspector General's draft report rightly states that the East St. Louis Housing Authority (ESLHA) has been in receivership for much too long. While we dispute the finding that the sole cause of the lack of progress is leadership turnover in the ORO, we share the OIG's concern that the current approach to managing and recovering the housing agency has not resulted in resolution of all of the impediments to returning the agency to local control. For this reason, I am convening a team to consider the OIG findings, including its conclusions about the leadership of the Office of Receivership Oversight (ORO). This team will be responsible for recommending a course of action to conclude the East St. Louis Housing Authority receivership.

**Comment 2**

It would be helpful if the report were to acknowledge several significant improvements that have been made through the HUD receivership recently. The PHAS score for the ESLHA has improved. In 2010, it was designated as substandard physical. In 2011, that scored improved to standard physical performer in 2011. There was a change to the way that the PHAS scores were calculated with the publishing of the PHAS Interim Rule on February 23, 2011, which added a heavy emphasis on occupancy. This change caused the ESLHA to score substandard on the management indicator. This does not indicate a decline in the quality of management at the agency, but reflects a new emphasis on vacancy reduction at the Department.

There will be a SEMAP Confirmatory Review completed at the ESLHA the week of August 20<sup>th</sup>, 2012. We anticipate that the review will result in the removal of the agency from the troubled designation.

All audit findings, both for ARRA and the OIG, have been addressed and corrections made to attend to the noted deficiencies. It is important to note that these types of deficiencies have been found at numerous HAs and are not unique to the ESLHA.

## OIG Evaluation of Auditee Comments

**Comment 1** We agree with HUD’s plan to convene a team to consider the OIG findings, examine the leadership of ORO, and recommend a course of action for its receivership of the Authority. As explained in the report, we recommend that HUD improve its structure for managing receiverships, permanently fill the director position within ORO, and develop accountability mechanisms for staff whose primary responsibilities involve receiverships. We also recommend that HUD develop and implement a receivership plan for the Authority that includes sufficient assessments (of Authority progress and HUD resources needed), decision points, measurable goals, and accountability mechanisms.

**Comment 2** As illustrated in our finding and Appendix B, various reviews and monitoring scores throughout our audit period identified extensive issues at the Authority. Some areas where the Authority had repeated findings from various sources include inspections and property condition, tenant eligibility, and annual reexaminations. Additionally, HUD was aware of issues regarding the Authority’s conversion to asset management, submission of annual PHA plans, and processing of environmental reviews.

Because these issues existed and persisted during the receivership, we recommend that HUD’s plan for the receivership going forward include continual assessments, measurable goals, and accountability mechanisms.

## Appendix B

### SUMMARY OF REVIEWS AND MONITORING SCORES

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#### **Public Housing Assessment System (PHAS) Score**

The Public Housing Assessment System (PHAS) Score measures four major operational areas: physical, financial, management, and resident satisfaction. For the fiscal year ending in 2011, HUD added a new capital fund indicator, which was previously part of the management indicator.

While the Authority was assigned standard designations for its PHAS score in both the 2008 and 2009 fiscal years, it received substandard designations for the 2010 and 2011 fiscal years. Detailed information on the 2010 and 2011 scores is shown in the chart below.

	2010 Maximum Score	2010 Score	2011 Maximum Score	2011 Score
Physical Indicator	30	14	40	25
Financial Indicator	30	23	25	20
Management Indicator	30	26	25	10
Resident Indicator	10	8	n/a	n/a
Capital Fund Indicator	n/a	n/a	10	10
Total	100	71	100	65
Overall PHAS Designation		Substandard Physical		Substandard Management

On October 13, 2011, the Chicago Field Office Director sent the current HUD representative a letter requesting a proposed recovery plan within 30 days based on the 2010 score of 71 points. The letter also indicated that HUD was initiating actions to develop and execute a binding Recovery Agreement with the Authority, as required by statute, to document and ensure that recovery efforts have been put into place.

#### **Section 8 Management Assessment Program (SEMAP) Performance Ratings**

The Section 8 Management Assessment Program (SEMAP) measures 14 key performance areas of public housing agencies that administer the housing choice voucher program. SEMAP is used to remotely measure performance based on information submitted to HUD's database of tenant information and audits conducted annually by independent auditors. If a housing authority is assigned an overall performance rating of troubled, HUD will conduct an on-site review to assess the magnitude and seriousness of the problems.

The Authority was assigned high performance ratings on its 2008 and 2009 SEMAP scores. However, HUD found that the Authority had overreported on its 2009 SEMAP score (see 2009

HUD Review summary below). Since then, the Authority received an overall performance rating of troubled for the 2010 and 2011 fiscal years.

According to HUD staff, the Authority’s 2010 SEMAP Performance Rating was troubled in 2010 due to reporting issues. Based on this rating, the Authority underwent a confirmatory review in August 2011 to get off of the troubled list. However, while the Authority had self-certified to a score of 100 percent for the 2011 period, HUD’s review of the Authority’s files found that

- The Authority did not have signed contracts and leases in all tenant files reviewed.
- The Authority did not verify and calculate tenant rent correctly.
- The Authority did not complete annual reexaminations in a timely manner.
- The Authority did not complete annual inspections in a timely manner.
- The Authority did not re-inspect the required number of units.
- The Authority did not meet the required 30-day time period for correcting non-life threatening deficiencies identified during inspections.

Based on these review results, HUD adjusted the SEMAP score to 80 points, which is 55 percent of the 145 points possible. Therefore, the Authority’s overall performance rating for the fiscal year ending 3/31/2011 was troubled. Detailed information on both the 2010 and 2011 scores is shown in the chart below.

Indicator Number	Maximum Score	2010 SEMAP Certification	2011 SEMAP Certification	2011 Confirmed Score
1 - Selection from Waiting List	15	15	15	15
2 - Reasonable Rent	20	15	20	20
3 - Determination of Adjusted Income	20	15	20	0
4 - Utility Allowance Schedule	5	0	5	5
5 - HQS Quality Control	5	0	5	0
6 - HQS Enforcement	10	10	10	0
7 - Expanding Housing Opportunities	5	5	5	5
8 - Payment Standards	5	5	5	5
9 - Timely Annual Reexaminations	10	0	10	0
10 - Correct Tenant Rent Calculations	5	0	5	0
11 - Pre-Contract HQS Inspections	5	0	5	0
12 - Annual HQS Inspections	10	0	10	0
13 - Lease-up	20	20	20	20
14 - Family Self-Sufficiency	5	0	5	10
Total Points	145	85	145	80
Total Percentage		59%	100%	55%
Overall Performance Rating		Troubled	High Performer	Troubled

Based on the 2010 rating, the Authority was required to submit a corrective action plan by October 28, 2011. The Authority submitted a plan on November 4, 2011.



## **2009 HUD Review**

In August 2009, HUD performed a Tier II Review of the Authority. The purpose of this type of review is to address improper payments and other high-risk elements.

During this onsite review, HUD found systemic errors in tenant files related to utility allowance calculations and verifications of tenant Social Security numbers, income, assets, and expenses. HUD concluded that the tenant files were not organized and were difficult to audit and cited a lack of knowledge of requirements and a lack of quality control procedures. It also found that the Authority overreported on its 2009 SEMAP score. Summary information on HUD's findings is included in the chart below.

Review Section	Summary of Findings
Rental Integrity Monitoring	<ul style="list-style-type: none"> <li>• Finding 1 – The Authority did not always obtain written third party verification of information related to income, assets, expenses, and other factors that affect the determination of adjusted income or income-based rent.</li> <li>• Finding 2 – The Authority did not maintain a copy of the documentation used to verify social security numbers for all members of the household in some files.</li> <li>• Finding 3 – The Authority did not complete some annual reexaminations in a timely manner.</li> <li>• Finding 4 – The Authority did not accurately calculate utilities paid by the tenant.</li> <li>• Finding 5 – The Authority's section 8 files were missing information and contained errors on annual reexaminations.</li> <li>• Finding 6 – The Authority's public housing files were missing information and contained errors on annual reexaminations.</li> </ul>
Up-front Income Verification	The review report did not cite any findings in this area.
Section 8 Management Assessment Program	<ul style="list-style-type: none"> <li>• Finding 7 – The Authority did not follow proper procedures for administering its section 8 waiting list and mishandled four people on the list.</li> <li>• Finding 8 – The Authority did not update its utility allowance schedule based on the typical costs.</li> <li>• Finding 9 – The Authority could not provide supporting documentation necessary to demonstrate that it has a system in place for compliance with the housing quality standards quality control inspections.</li> <li>• Finding 10 – The Authority could not show that 98% of newly leased units passed housing quality standards inspections before the beginning date of the assisted lease and HAP contract.</li> </ul>
Financial Management Review	<ul style="list-style-type: none"> <li>• Finding 11 – The Authority does not have a valid general depository agreement.</li> </ul>

## **Financial Statement Audits**

While the Authority received unqualified reports on its financial statements each year, the auditors identified both material weaknesses in internal controls over financial reporting and significant deficiencies in internal controls over federal programs each year. For the 2011 fiscal year, they also identified material weaknesses in controls over federal programs.

The findings cited several material misstatements as well as issues related to the Authority's public housing and Section 8 tenant files, housing quality inspections, and waiting list. The following chart summarizes the findings identified each year.

Finding Year / Number	Finding Area	Status
2009-01	Control and Review of Certain General Ledger Accounts	This finding was cleared during fiscal year 2010.
2009-02	Public Housing Low Rent Program - Tenant File Deficiencies	A similar finding was noted during fiscal year 2011 (see 2010-02).
2010-01	Material Adjustments to Financial Statements	A similar finding was noted during fiscal year 2011 (see 2011-01).
2010-02	Public Housing Low Rent Program – Eligibility	This finding was cleared during fiscal year 2011.
2010-03	Public Housing Low Rent Program – Waiting List	This finding was cleared during fiscal year 2011.
2011-01	Material Adjustments to Financial Statements	n/a
2011-02	Housing Choice Voucher Program – Eligibility and Reporting	n/a
2011-03	Housing Choice Voucher Program – Housing Quality Standards	n/a
2011-04	Capital Fund Program – Reporting	n/a

Note – The fiscal year 2009 financial statement audit also cited three findings related to HUD and HUD OIG reviews. These findings were all listed as closed by HUD regional management on the 2010 report.

## **Office of Inspector General Audits**

Audit Report No. 2012-KC-1002

Issue Date: March 2, 2012

Title: The East St. Louis Housing Authority Did Not Properly Manage or Report on Recovery Act Capital Funds

HUD OIG audited the Authority's American Recovery and Reinvestment Act of 2009 Public Housing Capital Fund program. Our audit objective was to determine whether the Authority complied with applicable procurement requirements and properly managed its

Recovery Act contracts, properly drew down and expended funds for eligible activities, and properly reported its Recovery Act activities.

We concluded that the Authority (1) improperly awarded Recovery Act-funded contracts, (2) improperly approved change orders, (3) did not enforce the fair labor standards prevailing wage rate requirements in its contracts, (4) paid for a Recovery Act contract before receiving HUD approval to obligate or expend the funds, (5) improperly drew down all of its administrative fees, and (6) reported incomplete and inconsistent information on the number of jobs created and the amounts expended on Recovery Act contracts.

These conditions occurred because the Authority misunderstood some requirements, was unaware of other requirements, and had inadequate controls.

As a result, the Authority used Recovery Act funds for more than \$2.3 million in unsupported expenses and \$47,000 in ineligible expenses and failed to ensure that all contractors paid the appropriate wages, and its reported use of Recovery Act funds was not accurate.

Audit Report No. 2011-KC-1002

Issue Date: March 1, 2011

Title: The East St. Louis, IL Housing Authority Drew Capital Funds for Unsupported and Ineligible Expenses

HUD OIG audited the Authority's Public Housing Capital Fund program. Our audit objective was to determine whether the Authority had proper support for its capital fund draws. We concluded that the Authority drew down grant funds for ineligible items and without adequate support. Specifically, it made unsupported draws, excessive administration draws, draws for force account labor without prior approval, draws above the invoiced amount, and duplicate draws. This condition occurred because the Authority had inadequate internal controls and management circumvented the normal process in an attempt to meet the disbursement deadline. As a result, HUD had no assurance that \$171,687 in capital funds was properly spent.

Audit Report No. 2009-KC-1005

Issue Date: March 2, 2009

Title: The East St. Louis, Illinois, Housing Authority's Section 8 Voucher Program Units Did Not Always Meet HUD's Housing Quality Standards

HUD OIG audited the Authority's Section 8 Housing Choice Voucher program. Our audit objective was to determine whether the Authority's Section 8 program units met HUD's housing quality standards. We found that 79 percent of the Authority's Section 8 program units materially failed to meet HUD's housing quality standards. The violations occurred because Authority inspectors lacked knowledge of the requirements. Most of the inspectors had not recently received housing quality standards training and were unaware of requirements in the Authority's administrative plan. As a result, the

Authority’s tenants were subjected to health- and safety-related violations, and the Authority paid more than \$64,000 in housing assistance for units that materially failed to meet housing quality standards.

**Other Deficiencies Identified by HUD**

*Conversion to Asset Management*

In March 2010, HUD notified the Authority that it had not demonstrated a successful conversion to asset management based on reviews completed by Nan McKay, a private vendor. The referenced review reports summarized deficiencies previously identified in the Authority’s Year 2 Submission and indicated whether the Year 3 Submission met the requirements for those same criterion.

	Year 2 Submission	Year 3 Submission
Criterion 1 – Project Based Accounting	Fail	Fail
Criterion 2 – Project-Based Management	Fail	Fail
Criterion 3 – Central Office Cost Center	Fail	Fail
Criterion 4 – Centralized Services	Fail	Pass

For criterion 1, the vendor concluded that the Authority’s operating budgets are not considered reasonable and its operating statements do not meet asset management requirements. For criterion 2, the vendor concluded that the AMPs continue to be under-managed and poorly maintained. The vendor also found that financial records are inconsistent and appear to be duplicated with different results. For criterion 3, the vendor indicated that the Authority had not demonstrated that the Central Office Cost Center was financially feasible based on a review of the submitted operating statements. For criterion 4, the vendor found that the Authority had established reasonable fees for central maintenance and appeared to be in compliance with the criterion requirements.

*Submission of Annual PHA Plans*

The Authority had issues with the annual PHA plan process for the past 10 years. According to HUD regional staff, the Authority

- Did not consistently have a Plan approved at the initial review threshold.
- Did not consistently follow Headquarters and field office instructions concerning the creation of their Plan, file types to be used, and submission procedures.
- Appeared to be resistant to following field office instructions to correct their initial submission.

HUD indicated that the Authority may need training and assistance before submitting its next plan.

*Processing of Environmental Reviews*

The Authority had issues with the environmental review process for its developments.

Prior to 2011, the City of East St. Louis performed environmental reviews for the Authority under 24 CFR Part 58. However, after a 2011 HUD OIG audit report revealed extensive issues in the city’s Community Development Block Grant Program (2011-KC-1001), HUD discovered that the city’s Part 58 environmental reviews were deficient.

Based on this discovery, HUD began performing the environmental reviews for the Authority under 24 CFR Part 50.

According to HUD regional staff, the Authority has had several issues with the Part 50 process. For example, the Authority's phase two reports often lacked detail and did not indicate why testing was performed, why issues were cleared, or include the supporting documentation. HUD indicated that it was often difficult to get correct information from the Authority and that the Authority did not have anyone on staff who understood the environmental review process and standards. Because the city has flood plain and site contamination issues, it is important that the Authority have staff that have environmental backgrounds and can work with environmental consultants.

HUD indicated that the Part 58 reviews previously performed by the City of East St. Louis had issues as well and that additional flood plain and contamination remediation work should have been completed for at least one development site reviewed under the Part 58 process.