




Issue Date
May 13, 2005

Audit Report Number
2005-BO-0001

TO: Donna Ayala, Director, Office of Public Housing, 1APH
Elizabeth A. Hanson, Director, Real Estate Assessment Center, PX

FROM: 
John Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: Office of Public and Indian Housing, Region 1, Boston, MA, Approved Incorrect
Operating Subsidies for Several Public Housing Agencies

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD) Office of Public Housing, Boston Hub's review process for operating subsidy calculations for public housing agencies administering low-income public housing programs within Region 1. During a prior audit of a public housing agency, we found that the Office of Public Housing, Boston Hub had not identified that the public housing agency incorrectly calculated its operating subsidy. Our audit was initiated to review the operating subsidy calculations for public housing agencies within Region 1 for Federal fiscal years 2004 and 2005.

What We Found

The Office of Public Housing, Boston Hub incorrectly approved \$1,313,673 in operating subsidies for public housing agencies in Federal fiscal years 2004 and 2005. The Office of Public Housing, Boston Hub reviewed operating subsidy submissions but did not always identify errors made by public housing agencies and incorrectly changed public housing agency data on the operating subsidy forms. Additionally, the Office of Public Housing, Boston Hub had not

implemented a quality control process to ensure the accuracy of the operating subsidy determinations approved. As a result, the Office of Public Housing, Boston Hub provided some public housing agencies less than their eligible subsidy, while providing other public housing agencies more than their eligible subsidy.¹ When OIG brought this issue to the attention of the Office of Public Housing, Boston Hub, it immediately began corrective action. As of April 28, 2005, the Office of Public Housing, Boston Hub had submitted \$932,939 in revisions to the Real Estate Assessment Center's Financial Management Division, and \$27,305 of these revisions had been processed. We modified our report to address the corrective action taken.

What We Recommend

We recommend that the Director of the Office of Public Housing, Boston Hub implement a quality control process to ensure the accuracy of the operating subsidy determinations approved, recover \$446,148 in excess subsidies approved in Federal fiscal year 2004, and ensure that Real Estate Assessment Center's Financial Management Division implements the \$932,939 in revisions that the Office of Public Housing, Boston Hub submitted. We also recommend that the Office of Public Housing, Boston Hub evaluate whether the recovered excess subsidies from Federal fiscal year 2004 can be used to fund public housing agencies that received less than their eligible subsidy in Federal fiscal year 2004. In addition, we recommend that the Director of the Real Estate Assessment Center modify the Microsoft Excel spreadsheet used for the operating subsidy determination.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

The complete text of HUD's Office of Public Housing, Boston Hub's response, along with our evaluation of that response, can be found in appendix B of this report. We did not include the revised HUD forms and other supporting documentation that HUD provided with its response due to the volume.

¹ Of the incorrect subsidies, \$530,985 related to underpayments and \$782,688 related to overpayments. The incorrectly approved subsidy amount represents less than one percent of the determinations processed by the Office of Public Housing, Boston Hub for Federal fiscal years 2004 and 2005.

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BACKGROUND AND OBJECTIVES

The United States Housing Act of 1937 as amended by the Quality Housing and Work Responsibility Act of 1998 authorizes operating subsidies for public housing agencies administering U.S. Department of Housing and Urban Development (HUD) low-income housing programs. HUD provides annual operating subsidies through the Public Housing Operating Fund program² to help public housing agencies pay some of the cost of operating and maintaining public housing units. Operating subsidies are essential for public housing agencies to provide cost-effective, decent, safe, and affordable dwellings for low-income and very low-income tenants who pay no more than 30 percent of their adjusted income for rent. HUD, using data supplied by the public housing agency, calculates operating subsidies using a formula.³ The formula in use for Federal fiscal years 2004 and 2005 is shown in appendix E.

In Federal fiscal year 2004, HUD funded public housing agencies at 98.1 percent of the approvable operating subsidy. For Federal fiscal year 2005, the current funding level for public housing agencies is 89 percent of the approvable operating subsidy. As of January 31, 2005, HUD had provided public housing agencies with a fiscal year end of December 31, 2005, with 25 percent of this initial operating subsidy for the first quarter. HUD may adjust this subsidy level throughout the year until it determines the final subsidy level for Federal fiscal year 2005. For Region 1, HUD provided more than \$172.3 million in operating subsidies for Federal fiscal year 2004 and had made more than \$71.0 million in subsidy determinations for Federal fiscal year 2005 as of January 31, 2005.

Public housing agencies that want to receive operating subsidies must complete and return the operating subsidy package, which includes various forms, required certifications, and approvals, to the local field office. HUD must rely on the public housing agencies' data to determine the operating subsidy for each public housing agency. Once the public housing agency submits the operating subsidy package to the local field office, a HUD financial analyst reviews this package by

- Ensuring that all required forms are submitted;
- Checking the data for accuracy, mathematical errors, and completeness;
- Entering the data into a Microsoft Excel spreadsheet (also referred to as the Excel tool⁴); and
- Entering modifications to the public housing agency data in the HUD modification section of the Excel tool.

After completing the review, the financial analyst forwards a copy of the Excel tool and form HUD-52723 to the Real Estate Assessment Center's Financial Management Division. The Financial Management Division does not review any of the documentation that supports the

² The regulations governing the Public Housing Operating Fund program are in 24 CFR [Code of Federal Regulations] Part 990.

³ HUD had proposed changing this formula, and some proposed changes pertinent to our review included not paying for long-term vacant units and revising the required operating subsidy forms.

⁴ See appendix D for explanation of "Excel tool."

numbers in the calculations. It determines the aggregate amount of funding for the public housing agencies, and the Chief Financial Officer obligates the funding through HUD's Line of Credit Control System. The public housing agencies are able to draw down funding through the Line of Credit Control System. HUD has discretion in adjusting the amount approvable for operating subsidy to determine an appropriate funding level for the year.

Despite this review process, another Office of Inspector General (OIG) audit of a public housing agency found that the public housing agency incorrectly calculated its operating subsidy, and HUD did not catch various errors during its review process. As a result, we performed an audit of operating subsidy determinations for public housing agencies within Region 1 for Federal fiscal year 2004 and 2005.

Our objective was to determine the extent of incorrect operating subsidy determinations approved for public housing agencies located within Region 1. We determined whether

- 1) Add-on amounts for changes in public housing agencies' units were computed correctly; these changes in units can occur due to a agency's phase-down due to demolition, long-term vacancies, and unit reconfigurations were computed correctly⁵
- 2) The correct projected occupancy percentage was used;
- 3) The allowable utility expense level⁶ was correct when a public housing agency identified long-term vacancies;
- 4) The manual calculations were correct; and
- 5) The number of unit months available was correct.

⁵ Appendix D provides definitions of an "add-on, phase-down due to demolition, long-term vacancies, and unit reconfigurations."

⁶ Appendix D provides a definition of "allowable utility expense level."

RESULTS OF AUDIT

Finding 1: HUD Incorrectly Approved \$1,313,673 in Operating Subsidies

HUD's Office of Public Housing, Boston Hub incorrectly approved \$1,313,673 in operating subsidies for public housing agencies within Region 1 in Federal fiscal years 2004 and 2005, but it can correct some of the incorrect determinations. The incorrectly approved operating subsidy determinations occurred when the Office of Public Housing, Boston Hub did not identify errors made by public housing agencies and incorrectly changed some public housing agency data on the operating subsidy forms. Additionally, a review process was in place for the operating subsidy submissions from public housing agencies, but the Office of Public Housing, Boston Hub did not have a quality control review process that would ensure the accuracy of the operating subsidy determinations processed. As a result, HUD provided some public housing agencies less than their eligible subsidy in Federal fiscal year 2004, provided others excess subsidies, and may continue to repeat these determination errors in Federal fiscal year 2005 if action is not taken.

Incorrect Operating Subsidy for Federal Fiscal Year 2004

The Office of Public Housing, Boston Hub incorrectly approved operating subsidies totaling \$905,165 for 20 public housing agencies in Federal fiscal year 2004. Of this amount, 10 public housing agencies received \$459,017 less than their eligible subsidy, and 10 other public housing agencies received \$446,148 more than their eligible subsidy. As of January 31, 2005, HUD's records indicated that the 20 public housing agencies with errors had drawn down \$21,251,349 of the \$31,162,839 available. The following table shows the quantity and number of errors:

Federal Fiscal Year 2004			
Office	Public Housing Agencies Processed	Public Housing Agencies with Errors	Absolute Value of Errors
Hartford Program Center	30	9	\$523,549
Boston Hub Office	133	10	\$379,219
Recovery and Prevention Corps ⁷	2	1	\$2,397
Total	165	20	\$905,165

⁷ We limited our review to the public housing agencies administered by the Office of Public and Indian Housing's Recovery and Prevention Corps for Region 1.

See appendix C for a list of public housing agencies with errors for Federal fiscal year 2004.

Incorrect Operating Subsidy for Federal Fiscal Year 2005

The Office of Public Housing, Boston Hub incorrectly approved \$408,508 in operating subsidies for 11 public housing agencies for Federal fiscal year 2005, but the Office of Public Housing, Boston Hub can make revisions. These incorrect determinations may result in six public housing agencies receiving \$336,540 more than their eligible subsidy and five receiving \$71,968 less than their eligible subsidy. As of January 31, 2005, HUD had obligated \$1,718,723, and \$443,749 had been drawn down by these 11 public housing agencies.

Federal Fiscal Year 2005			
Office	Public Housing Agencies Processed	Public Housing Agencies with Errors	Absolute Value of Errors
Hartford Program Center	14	2	\$331,446
Boston Hub Office	58	7	\$62,184
Recovery and Prevention Center	2	2	\$14,878
Total	74	11	\$408,508

See appendix C for a list of public housing agencies with errors for Federal fiscal year 2005.



We identified five types of errors as follows:

- A. Errors in determining the add-on amounts for public housing agencies' phasedown of demolition, long-term vacancies, and unit reconfiguration;
- B. Projected occupancy percentage errors;
- C. Errors in the allowable utility expense level when a public housing agency has long-term vacancies;
- D. Manual calculation errors; and
- E. Unit Months Available⁸ errors.

⁸ See appendix D for an explanation of "unit months available."

Frequency of Errors ⁹					
Error Type	A. Add-Ons	B. Projected Occupancy Percentage	C. Allowable Utility Expense Level	D. Manual Calculations	E. Unit Months Available
Federal fiscal year 2004	8	9	3	4	2
Federal fiscal year 2005	5	1	4	3	2
Total errors ¹⁰	13	10	7	7	4

Reasons for Errors

Several factors contributed to the determination errors. Public housing agencies submitted incorrect data or inaccurate supporting documentation for add-ons, such as long-term vacancies and public housing agency phasedown for demolition of units. In addition, public housing agencies submitted incorrect data or did not always carry over the correct numbers from one supporting form to another, such as data from form HUD-52728 to the corresponding form HUD-52723. Another factor contributing to the errors was the public housing agency or Office of Public Housing, Boston Hub using the incorrect occupancy percentage on the form HUD 52728, “HA Calculation of Occupancy Percentage for a Requested Budget Year.” However, HUD has proposed a change to the rules for operating subsidy and will no longer be using this form in Federal fiscal year 2006, which should eliminate this type of error.

Another contributing factor was the Office of Public Housing, Boston Hub’s failure to identify public housing agencies’ incorrect data or calculations or incorrectly revising public housing agencies’ data. Additionally, the Office of Public Housing, Boston Hub did not always ensure that the operating subsidy packages contained all supporting documentation and required forms. We found one instance in which a public housing agency had not submitted the required form HUD-52728, used in determining its occupancy percentage, for several years. Also contributing to the errors was a lack of an independent quality control review of the approved operating subsidy determinations. The need for such a review was highlighted by the significant number of errors in determinations processed by an inexperienced and untrained financial analyst who reviewed all of the Federal fiscal year 2004 determinations for one office. In addition, the Real Estate Assessment Center does not verify any of the supporting documentation, although it compares the electronic data submitted by the HUD field office with the faxed form HUD-52723.

⁹ Appendix C provides detail by public housing agency.

¹⁰ Six public housing agencies had a combination of two or more types of errors.

Finally, the spreadsheet cells in the Excel spreadsheet used for operating subsidy determinations did not always have calculated cells and had data entry cells in which HUD staff made entry or mathematical errors. We found mathematical errors in the cells on the Excel spreadsheet that could have been set up to make computations, such as the cells for per unit audit cost and add-ons for nondwelling units, long-term vacant units, and unit reconfigurations. If the Real Estate Assessment Center's Financial Management Division converted these data entry cells to calculated cells, HUD could reduce the frequency of mathematical errors.

HUD Has Begun Corrective Action

The Office of Public Housing, Boston Hub has begun taking corrective action for errors identified in Federal fiscal year 2005 determinations. As of April 28, 2005, the Office of Public Housing, Boston Hub had submitted \$932,939 revisions to the Real Estate Assessment Center's Financial Management Division¹¹ However, the Appropriation Law for Federal fiscal year 2005 states that HUD cannot use the 2005 appropriations to fund operating subsidies in any prior year. This limits the corrective action the Office of Public Housing, Boston Hub can take for the incorrect Federal fiscal year 2004 determinations since HUD committed all available funds for Federal fiscal year 2004. For the public housing agencies that received more than their eligible subsidy, the Office of Public Housing, Boston Hub can require them to return the excess funds. For the public housing agencies that received less than their eligible subsidy, the Office of Public Housing, Boston Hub is exploring whether it can give the reimbursed excess subsidies to those agencies. However, the use of reimbursed funds will not resolve the entire issue since the Office of Public Housing's shortfall is greater than the excess subsidies. The Office of Public Housing, Boston Hub will have to determine whether it can make up this shortfall to the public housing agencies that received less than their eligible subsidy.

Conclusion

The Office of Public Housing, Boston Hub did not always identify errors made by public housing agencies and, at times, incorrectly changed public housing agency data on the operating subsidy forms. Additionally, the Office of Public Housing, Boston Hub did not have an adequate quality control process to ensure the accuracy of the operating subsidy determinations it approved. As a result, the Office of Public Housing, Boston Hub provided lower operating subsidies to some public housing

¹¹ The Office of Public Housing obtained and analyzed additional RI005 add-on for phase-down data and questioned \$307,205; we initially questioned \$94,197. Also, we removed questions costs of \$46,379 for CT028 because the Office of Public Housing was able to obtain additional data to justify the vacant units.

agencies while providing excess subsidies to others. These determination errors can affect a public housing agency's ability to provide decent, safe, and affordable housing for low-income families. The Office of Public Housing, Boston Hub needs to strengthen its process for reviewing operating subsidy submissions from public housing agencies and its operating subsidy determinations to ensure that it provides the appropriate amount of operating subsidy to each public housing agency.

Recommendations

We recommend that the Director of Public Housing

1A. Implement a quality control process that ensures the accuracy of operating subsidy determinations approved by the Office of Public Housing, Boston Hub.

1B. Require the public housing agencies that received \$446,148 in excess subsidies in Federal fiscal year 2004 to reimburse HUD.

1C. Ensure that the Real Estate Assessment Center's Financial Management Division completes the \$932,939 in revisions that the Office of Public Housing, Boston Hub submitted.

1D. Determine the correct Operating subsidy amount for public housing agency CT003 for Federal fiscal year 2004, as indicated in appendix B.

1E. Evaluate whether HUD can use reimbursed 2004 funds to make up part of the shortfall for public housing agencies that received \$459,017 less than their eligible subsidy.

1F. Determine what other options are available to the Office of Public Housing, Boston Hub to make up any remaining shortfalls for the public housing agencies that received less than their eligible subsidy in Federal fiscal year 2004 and, if feasible, make up the shortfall.

We recommend that the Director of the Real Estate Assessment Center

1G. Direct its Financial Management Division to consider revising cells in the Excel tool spreadsheet to calculate the fields for per unit audit cost and add-ons for nondwelling units, long-term vacant units, and unit reconfigurations.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we reviewed

- The 2004 and 2005 Appropriations laws, applicable sections of 24 CFR [Code of Federal Regulations] Part 990, “The Public Housing Operating Fund Program,” applicable Public and Indian Housing notices, directions for applicable operating subsidy forms, and guidance provided by the Real Estate Assessment Center’s Financial Management Division.
- The Office of Public Housing, Boston Hub Operating Subsidy files at the offices in Boston, MA, and Hartford, CT; and the Excel tool files submitted to the Real Estate Assessment Center for public housing agencies within Region 1.
- Interviews with the Office of Public Housing, Boston Hub’s financial analysts, division directors, and the Real Estate Assessment Center’s Financial Management Division staff.

Public housing agencies may have one of four possible fiscal years beginning January 1, April 1, July 1, or October 1. To understand the operating subsidy process, we gained an understanding of how the public housing agency’s fiscal year relates to the Federal fiscal year and the due date for operating subsidy calculations (see tables below).

Federal Fiscal Year 2004 October 1, 2003, to September 30, 2004		
Public Housing Agency Fiscal Year Begins	Public Housing Agency Fiscal Year Ends	Operating Subsidy Due to Real Estate Assessment Center ¹²
1/1/2004	12/31/2004	November 21, 2003
4/1/2004	3/31/2005	December 12, 2003
7/1/2004	6/30/2005	April 30, 2004
10/1/2004	9/30/2005	June 11, 2004

Federal Fiscal Year 2005 October 1, 2004, to September 30, 2005		
Public Housing Agency Fiscal Year Begins	Public Housing Agency Fiscal Year Ends	Operating Subsidy Due to Real Estate Assessment Center ¹³
1/1/2005	12/31/2005	November 19, 2004
4/1/2005	3/31/2006	December 10, 2004
7/1/2005	6/30/2006	April 29, 2005
10/1/2005	9/30/2006	June 10, 2005

¹² Any revisions for fiscal years beginning January 1, 2004, and April 1, 2004, were due by June 1, 2004, and revisions for fiscal years beginning July 1, 2004, and October 1, 2004, were due by August 15, 2004, with the exception of new and deprogrammed units.

¹³ Any revisions for fiscal years beginning January 1, 2005, and April 1, 2005, are due by June 3, 2005, and revisions for fiscal years beginning July 1, 2005, and October 1, 2005, are due by August 12, 2005, with the exception of new and deprogrammed units.

We analyzed the Office of Public Housing, Boston Hub's operating subsidy determinations totaling \$172,213,529 for 165 public housing agencies for Federal fiscal year 2004. We recalculated these agencies' operating subsidy amounts using form HUD-52723, "Operating Fund: Calculation of Operating Subsidy," and form HUD-52728, "HA Calculation of Occupancy Percentage for a Requested Budget Year (RBY)." If these forms identified long-term vacant units, we also analyzed form HUD-52722-A, "Calculation of Allowable Utilities Expense Level (AUEL)." Public housing agencies accepted into the Moving to Work program follow different regulations from typical public housing agencies. For this reason, we did not analyze operating subsidy data for three public housing agencies located within Region 1 that were accepted into the Moving to Work program.

For Federal fiscal year 2005, we reviewed operating subsidy determinations totaling \$71,001,199 for 74 public housing agencies with fiscal years ending December 31, 2005, and March 31, 2006. We excluded two public housing agencies in this category because they did not submit completed forms by December 31, 2004. As of January 31, 2005, HUD had obligated \$7,462,651¹⁴ for Federal fiscal year 2005 for the 74 public housing agencies reviewed.

We performed our audit work at the Office of Public Housing Boston Hub Office located in Boston, MA, and at the Hartford Program Center located in Hartford, CT. The Recovery and Prevention Corps¹⁵ in Cleveland, OH, made determinations for 2 of the 165 public housing agencies within Region 1. We included these public housing agencies in our review as the Recovery and Prevention Corps reports to the Boston Hub.

We did not validate the public housing agencies' data on the forms. For two public housing agencies, we requested additional information from the public housing agency for specific items because the financial analyst did not believe the information on file was accurate.

We performed our audit work from July 15, 2004, through January 31, 2005. Our audit period covered operating subsidy submissions processed between October 1, 2003, and December 31, 2004. We performed our review in accordance with generally accepted government auditing standards.

¹⁴ As of January 31, 2005, HUD had obligated funds for Federal fiscal year 2005 to 38 of the 74 public housing agencies that we reviewed, which were public housing agencies with a fiscal year end of December 31, 2005.

¹⁵ The Recovery and Prevention Corps supports the Public Housing field offices to prevent at-risk public housing agencies from becoming troubled and to facilitate the recovery of troubled public housing agencies.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls over the requisitioning of funds by public housing agencies
- Controls over computer-processed data
- Controls over the obligation and disbursement of funds to public housing agencies

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- Information submitted by public housing agencies to HUD is not always accurate. HUD relied on the information provided by public housing agencies on the operating subsidy forms (finding 1).

Appendix A

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

Recommendation Number	Ineligible ^{1/}	Unsupported ^{2/}	Unreasonable or Unnecessary ^{3/}	Funds To Be Put to Better Use ^{4/}
1B	\$446,148			
1C ¹⁶				\$408,508

- 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 audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 4/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

¹⁶ Since HUD may not be able to reimburse the public housing agencies, that received less than their eligible funds in Federal fiscal year 2004, based on Appropriations Laws for 2004 and 2005, we did not include FFY 2004 underpayments in this figure.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



HUD - OIG
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U.S. Department of Housing and Urban Development

Office of Public Housing
Boston Hub
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street
Boston, Massachusetts 02222-1092

April 13, 2005

Memorandum for: John Dvorak, Regional Inspector General for Audit, Region 1, IAGA

From: Donna J. Ayala, Director of Public Housing, New England, IAPH

Subject: Response to Draft Audit on calculations of operating subsidies

This responds to your draft report submitted to the Office of Public Housing (OPH) for New England and the Real Estate Assessment Center (REAC) via email from Cristine O'Rourke on March 15, 2005. I have consulted with REAC on Headquarters policy decisions needed in response to this audit as it has national implications. Consideration has also been given to the fact that the new Operating Subsidy Proposed Rule will soon be published for comment, REAC systems will be reprogrammed for the new operating subsidy calculations and PHAs will be submitting data directly into the new system.

The audit disclosed one finding "HUD Incorrectly Approved \$1,147,044 in Operating Subsidies" covering two different appropriation years (FFYs 2004 and 2005), with 7 corrective actions. The finding is based on five basic errors in the calculation of operating subsidy:

- A. Incorrect determination of add-ons related to long-term vacancies, phase down for demolition, unit reconfiguration.
- B. Incorrect projected occupancy percentage used.
- C. Incorrect determination of the allowable utility expense level when long-term vacancies are identified.
- D. Manual calculations.
- E. Incorrect unit months available used.

The report cites several reasons for the errors, including "Public Housing Authorities (PHAs) submitted incorrect data or inaccurate supporting documentation for add-ons, such as long-term vacancies and PHA phase down for demolition of units. In addition, PHAs submitted incorrect data or did not always carry over the correct numbers from one supporting form to another; such as data from form HUD-52728 to the corresponding form HUD-52723. Another factor was PHA or HUD using the incorrect occupancy percentage on form HUD 52728, HA Calculation of Occupancy Percentage for a Requested Budget Year. However, HUD has proposed a change to calculations and rules for operating subsidy and will no longer be using this form in FFY 2006 which should eliminate this type of error". In all of

Comment 1

Phone (617) 994-8400

www.hud.gov

espanol.hud.gov

Fax (617) 565-7305

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

the above cases of PHA error, it is our determination that the burden is on the PHA to submit correct data to HUD. Except in the case of current FY 2005 submissions, where there is still time for PHA revisions to be submitted and correctly funded, we do not intend to correct prior year PHA errors unless there are recaptures of overpayments needed.

Corrective actions taken to date:

For the federal fiscal year (FFY) 2005 calculation errors, we reviewed all identified cases and made all necessary corrections (see Attachment).

For errors found in prior FFY 2004, Appropriation Law and HQ policy govern the processing of revisions.

Response to IGA Recommendations (Page 10):

1A. Implement a quality control process that ensures the accuracy of operating subsidy determinations approved by HUD.

Response: We will use a checklist to ensure that all required forms are submitted to the Field Office prior to completing our review of these budgets.

1B. Require the public housing agencies that received \$233,140 in excess subsidies in FFY 2004 to reimburse HUD.

Response: Yes, we will ensure that excess FFY 2004 subsidies are reimbursed to HUD. HQ has a draft notice that discusses the procedures for repaying funds. The notice puts forth options for repaying subsidies but these options must be approved by OGC, CFO, and other HUD offices during the notice clearance process. Once the options are approved, HQ will provide PHAs with the procedures to repay funds.

1C. Submit revisions to the Real Estate Assessment Center's Financial Management Division for the \$382,919 in errors identified in FFY 2005 through which PHAs received excess subsidies.

Response: This has been completed (unless we noted disagreement) and should be removed from the final report as a recommended action to be completed.

1D. Ensure that revisions are submitted to the Real Estate Assessment Center's Financial Management Division for the \$71,968 in errors identified in FFY 2005 through which PHAs received less than their eligible subsidies.

Response: This has been completed (unless we noted disagreement) and should be removed from the final report as a recommended action to be completed.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

1E. Evaluate whether HUD can use reimbursed 2004 funds to make up part of the shortfall for public housing agencies that received \$459,017 less than their eligible subsidy.

Response: FFY 2004 carryover funds may be used to fund PHAs that received less than their eligible 2004 subsidies. PHAs/FO will submit revisions for errors through which PHAs received less than their eligible FFY 2004 subsidies UNLESS these errors were the fault of the PHA. Prior year revisions may only be submitted for "unusual circumstances", and PHA errors are not considered an unusual circumstance. HQ will consider, and the Assistant Secretary will approve, these revisions on a case-by-case basis. This action has been completed, all corrections have been submitted to HQ (unless we noted disagreement) and should be removed from the final report as a recommended action to be completed.

1F. Determine what other options are available to HUD to make up any remaining shortfalls for the 12 PHAs that received less than their eligible subsidy in FFY 2004 and, if feasible, make up the shortfall.

Response: Only FFY 2004 funds can be used to fund PHAs that received less than their eligible FFY 2004 subsidies, as described in 1E. This recommended action should be removed from the final report.

The draft IGA report recommended that the Director of the REAC:

1G. Direct its Financial Management Division to consider revising cells in the Excel tool spreadsheet to calculate the fields for per unit audit cost and add-ons for nondwelling units, long-term vacant units, and unit reconfigurations.

Response provided by REAC to OPH Boston for inclusion in this response: In order to have the Excel tool spreadsheet calculate add-ons for nondwelling units, long-term vacant units, and unit reconfigurations, data fields would need to be added where the PHA/FO could enter the number of units in these categories. Adding a data field requires HUD to go through the Paperwork Reduction Act process. Since HUD has a proposed Operating Fund rule in clearance, HQ prefers to await the outcome of the proposed rule prior to making time consuming and costly changes to the existing system.

Because of the order in which FOs must enter data into the Excel tool spreadsheet [on the form HUD-52723, per unit month audit costs (line A12) = whole dollar audit costs (line E2) divided by unit months available (UMAs) but data is entered in the order UMAs, line A12, line E2], HQ felt it would not be logical to make line A12 a calculated cell. This can also be addressed once the outcome of the proposed rule is known.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

Comments from Financial Analysts by PHA:

Hartford Program Center:

CT001 - Bridgeport HA FYE 9/30/05

Revision sent to HQ 4/6. Revision amount \$48,124.
Issue: PHA did not properly account for LTV.

CT003 - Hartford HA FYE 12/31/04

Disagree with IG - No revision will be made.

Issue: Vacant Units

IG generated changes due to November 2004 submission of Requested Budget Year HUD Form 52728, by the HHA. The HHA claims 99 units vacant due to market conditions.

The HHAs support submitted consisted of the following:

"The Authority experienced difficulty in renting our elderly units due to an abundance of elderly developments in Hartford, CT. There are a total of 99 vacancies directly impacted by this abundance of elderly units. The Authority has advertised in local news papers and journals the availability of our elderly units in Hartford, CT."

In addition, the HHA stated that new developments are coming on line in Hartford.

We went on-site and requested additional information to support the HA efforts in renting up these units. The only additional information provided was an approval letter from HUD dated August 1987 which allowed the HA to lease 15 units to persons other than elderly.

We are not accepting the HHAs support for these 99 vacant units due to market conditions.

CT006 - Waterbury HA FYE 6/30/05

Revision sent to HQ 4/6. Revision amount: \$72,584.

Issue: PHA failed to properly account for LTV units & corresponding adjustments.

CT027 - Stratford HA FYE 12/31/04

Revision sent to HQ 4/6. Revision amount: \$10,065.

Issue: PHA / HUD used incorrect occupancy % of 98%.

Comment 3

CT036 - Portland HA FYE 3/31/05

Revision sent to HQ 4/6. Revision amount: \$1,526

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3

Issue: Occupancy %. HUD used 97% based on anticipated occupancy. OIG used 96%.

CT031 - Torrington HA FYE 12/31/04

Revision sent to HQ 4/6. Revision amount: \$655

Issue: PHA claimed LTV units, which should have been included in UMA - <3% vacancy.

CT066 - Brooklyn HA FYE 9/30/05

Revision sent to HQ 4/6. Revision amount \$3,875

Issue: Occupancy %. PHA / HUD used 97% anticipated. OIG used 82% actual vacancy.

CT025 - Winchester HA FYE 6/30/05

Revision sent to HQ 4/6. Revision amount \$577.

Comment 3

Issue: PHA took an add-on for 1 LTV unit that has actually been deprogrammed.

CT056 - Bloomfield HA FYE 6/30/05

Revision sent to HQ 4/6. Revisions amount \$5,409.

Issue: Occupancy %. PHA / HUD used 97% based on full anticipated occupancy. IG used actual of 88%.

FFY 2005

CT031 - Torrington HA FYE 12/31/05

Revision sent to HQ 4/6. Revision amount: \$166

Issue: PHA claimed LTV units that should have been included in UMA <3% vacancy.

CT003 - Hartford HA FYE 12/31/05

Revision will be sent to HQ 4/6. Revision amount: \$331,280

Issue: PHA failed to decrease units eligible for transitional funding, demo phase down by 75 S*8 vouchers received.

Comment 4

CT028 - Vernon HA FYE 12/31/05

Disagree with IG - No revision will be made

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Auditee Comments

Issues: OIG claims 18 units vacant due to market conditions as unallowable. We disagree that the 18 units do not qualify for this status.

Project: Court Towers - 72 units (41 - 0 bedrooms, 31 - 1 bedroom). Project is Elderly Designated.

Impediments to leasing units:

- Efficiency units are approximately 350 square feet
- High rise building, many elderly do not want to reside above the 2nd floor
- Limited parking, 72 units - only 28 parking spaces
- Availability of other senior housing in surrounding geographic area
- Conversion of efficiencies to 1-bedroom units limited by building firewalls

Steps taken by PHA to lease up:

- Advertising outside geographic area
- Targeting near elderly, age 50 and older
- Converting efficiencies to 1-bedroom units. To date the HA has converted 9 efficiencies to 6 one bedroom units
- Planning to convert more efficiencies, as funds and building code will allow
- Renovated lobby, community room and laundry facilities
- Contacted residents in other projects, including state units attempting to relocate them to Court Towers

Subsequent Steps to be taken by PIH

- On-site inspection of project
- Determination of units that can be converted to larger units
- Assist with utilization of available PHA funds for conversion
- Work with PHA on an aggressive marketing plan
- Removal of Elderly Designation if necessary which will open units to a larger tenant pool
- Disallow vacant units due to market conditions for future operating subsidy calculation if warranted

NOTE: As of March 1, 2005, there are 26 vacant units in this project. We do not consider these units to be long-term vacant units as the occupied and vacant units vary with occupancy and turnover.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boston Hub:

2004

MA014 Revere -

The average monthly dwelling rental charge from 2003 was not correctly carried forward to 2004.
Correction sent to HQ - faxed a revision on Feb. 9, 2005 to correct original submission but has not heard anything from REAC regarding my request.

MA024 Brockton -

Revision sent to HQ on 2/9 with IG being copied.

Finding based upon the wrong PUM amount being used for the audit costs. As submitted we used .93 rather than .52 The correct amount is based upon audit costs of \$7,809 divided by 15,036. Although the PHA reported audit costs of \$7,809 on the PFS form, the back up submitted reported \$14,004, which was 2 years of audit costs. The fee accountant used the \$14,004 amount and thus .93 (14,004 divided by 15,036) and was processed that way.

MA034 North Adams -

Revision sent to HQ on 2/24 with IG being copied.

Finding is based upon 10 long-term vacancies (LTV) and the Allowable Utilities Expense Level (AUEL) PUM being changed from \$114.18 to \$118.06. The error was caused liked Fitchburg by not reducing the unit months available (UMA) by the LTV UMA 120 (10 X12) on the utility form 52722A. Same issues as Fitchburg.

2005

MA014 Revere -

Revision faxed a revision on Feb. 9, 2005 to correct original submission.

The average monthly dwelling rental charge from 2003 was not correctly carried forward to 2004.

MA037 Fitchburg -

Revision sent to HQ on 2/24 with IG being copied.

Finding is based upon 45 long-term vacancies (LTV) and the Allowable Utilities Expense Level (AUEL) PUM being changed from \$104.69 to \$191.93. The error was caused by not reducing the unit months available (UMA) by the LTV UMA 540 (45 X12) on the utility form 52722A.

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3

This UMA is the denominator, which the total estimated cost is divided by to arrive at the AUEL for the PFS.

2004

MA110 - Bourne, MA133 - Rockland & RI024 - East Greenwich - project occupancy percentage used was reduced. The PHA did complete the HUD form 52728 Occupancy form but did not take the reduced rate on the 52723 form. If the PHA did not request the reduced rate, then the subsidy was calculated using the 97%. (I did not make the adjustment in the HUD calculation column) It is the opinion of Headquarters that if the PHA did NOT request the reduced rate, then we will not process the revision.

RI005 - Newport

Corrections completed and forwarded to HQs.

2005

RI020 - Smithfield - there was a discrepancies between the excel file and the hard copy. The hard copy was correct and the excel file was incorrect. Headquarters is supposed to verified that there are no discrepancies between the hard copy and the excel file. There was no calculation error.

MA006 - Fall River - this is regarding one long-term vacancy. When the PHA submitted the Occupancy Form, they did not indicate any long-term vacancies. The IG questioned the form because the PHA did not complete the form. The PHA was called and asked to submit a report indicating each unit and the occupancy date. One unit was unoccupied for longer than 12 months, actually since 1998. We revised the PFS to remove that one unit. This also resulted in a change to the utility form because of the change in the UMAs.

Comment 5

RI003 - Woonsocket this is regarding phase down funding as an add-on. The PHA used 67% instead of 66%. We had already noted the error and made the correction on the FYE 12/31/2006 PFS when the IG found it. Should this be a finding?

Revised the PFS HUD form 52723 for all above PHAs and submitted them to HQs for processing.

NH011 - Berlin The actual audit amount was different than the amount that was submitted. The correction for \$1,586 is being processed (if HQ allows) for this quarter.

Corrected in this funding cycle.

Comment 6

NH005 - Concord NH-

Disagree with the finding. No correction will be made, as there is no basis to the finding

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Auditee Comments

Comment 3

The occupancy report that was sent to this office was not correct. I used the numbers from my calculations and I believe they are correct. If I were to use the I.G. numbers we owe the CHA another \$5,428. I called the CHA and they agreed with me that they made an error. I faxed the information to the I.G. and that is the last I heard of it until you gave me this error list. Furthermore, while they were doing this review we were in the middle of getting our budgets to HQ by a deadline and my focus at the time was making sure the PHAs were funded. For that reason, I set priorities and did not dedicate a lot of time to assisting them but did provide them everything they requested.

Lewiston (ME00500105J):

Sent to HQ's for corrections. Presently, HQ's is **considering** this error for an adjustment.

Error Key A: Unit Reconfiguration Funding - \$24,807 @ 98.1% = \$24,336

Error Key B: Occupancy % - Should read 96% instead of 97% - \$10,589 @ 98.1% = \$10,388

HQ's is **not considering** this error for an adjustment. HQ's believes that the Authority should have filled out the Form HUD 52728 correctly in the first place.

Old Town (ME01800106M):

Sent to HQ's for corrections

Error Key D: Audit PUM and Dollar Amount did not equal - \$722

This error was fixed and the Authority is **presently receiving the additional subsidy.**

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	OIG's Calculation	Net Difference	Absolute Difference	Revisions Submitted to REAC/FMD?	Revisions Submitted to REAC/FMD as of 1/31/05	Error Types	HQ's Processed
2004	CT003	12/31/2004	\$4,745,838	\$5,126,572	(\$380,734)	\$380,734	no	\$0	B	24,236
2004	MA005	6/30/2005	\$959,599	\$994,322	(\$34,723)	\$34,723	yes	\$14,723	A, B	\$ 24,236
2004	MA034	9/30/2005	\$514,647	\$528,121	(\$13,474)	\$13,474	yes	\$13,474	C	
2004	CT027	12/31/2004	\$319,120	\$529,185	(\$210,065)	\$10,065	yes	\$10,065	B	
2004	NH005	9/30/2005	\$324,723	\$330,151	(\$5,428)	\$5,428	no	\$0	D	
2004	CT056	6/30/2005	\$24,549	\$29,958	(\$5,409)	\$5,409	yes	\$5,409	B	
2004	CT066	9/30/2005	\$41,250	\$45,125	(\$3,875)	\$3,875	yes	\$3,875	B	
2004	MA133	6/30/2005	\$47,595	\$50,459	(\$2,864)	\$2,864	yes	\$2,864	B	
2004	CT036	3/31/2005	\$145,059	\$146,585	(\$1,526)	\$1,526	yes	\$1,526	B	
2004	RI024	6/30/2005	\$102,804	\$103,723	(\$919)	\$919	yes	\$919	B	
Subtotal Underpayments FFY 2004					(\$459,017)			\$72,855		
2004	RI003	12/31/2004	\$2,635,634	\$2,635,364	\$270	\$270	yes	\$270	A	\$ 270
2004	CT025	6/30/2005	\$102,334	\$101,757	\$577	\$577	yes	\$577	A	
2004	CT031	12/31/2004	\$478,423	\$477,768	\$655	\$655	yes	\$655	A	
2004	NH011	6/30/2005	\$82,431	\$80,845	\$1,586	\$1,586	yes	\$1,586	D	
2004	CT020	12/31/2004	\$1,121,235	\$1,118,838	\$2,397	\$2,397	Handled by RPC	?	A	
2004	MA024	12/31/2004	\$2,444,407	\$2,438,359	\$6,048	\$6,048	yes	\$6,048	D	
2004	MA014	3/31/2005	\$336,851	\$330,149	\$6,702	\$6,702	yes	\$6,702	D	
2004	CT001	9/30/2005	\$10,849,652	\$10,801,528	\$48,124	\$48,124	yes	\$48,124	A, B, C, E	
2004	CT066	6/30/2005	\$2,361,955	\$2,289,371	\$72,584	\$72,584	yes	\$72,584	A, C, E	
2004	RI005	3/31/2005	\$3,324,733	\$3,230,536	\$94,197	\$94,197	yes	\$94,197	A	
Subtotal Overpayments FFY 2004					\$233,140			\$230,743		
Total for FFY 2004			\$31,162,839	\$31,388,716	(\$225,877)	\$692,157				

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Federal Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	OIG's Calculation	Net Difference	Absolute Difference	Revisions Submitted to REAC/FMD?	Revisions Submitted to REAC/FMD as of 1/31/05	Error Types
2005	MA037	12/31/2005	\$136,706	\$193,237	(\$56,531)	\$56,531	yes	\$56,531	C
2005	CT022	12/31/2005	\$747,886	\$760,312	(\$12,426)	\$12,426	Handled by RPC	?	C
2005	MA110	3/31/2006	\$25,791	\$27,786	(\$1,995)	\$1,995	yes	\$1,995	B
2005	MD118	3/31/2006	\$189,153	\$189,875	(\$722)	\$722	yes	\$722	D
2005	RI012	3/31/2006	\$267,720	\$268,014	(\$294)	\$294	yes	\$294	D
Subtotal Underpayments FFY 2005					(\$71,968)			\$59,542	
2005	CT001	12/31/2005	\$562,434	\$562,268	\$166	\$166	yes	\$166	A, C, E
2005	MA006	3/31/2006	\$4,620,776	\$4,620,598	\$178	\$178	yes	\$178	A, C, E
2005	RI020	12/31/2005	\$86,934	\$85,960	\$974	\$974	yes	\$974	A
2005	MA014	3/31/2006	\$445,126	\$443,636	\$1,490	\$1,490	yes	\$1,490	D
2005	CT020	12/31/2005	\$833,952	\$831,500	\$2,452	\$2,452	Handled by RPC	?	A
2005	CT028	12/31/2005	\$173,947	\$127,568	\$46,379	\$46,379	no	\$0	A, B, C, E
2005	CT003	12/31/2005	\$5,356,681	\$5,025,401	\$331,280	\$331,280	yes	\$331,280	A
Subtotal Overpayments FFY 2005					\$382,919			\$334,088	
Total for FFY 2005			\$13,447,106	\$13,136,155	\$310,951	\$454,887		\$393,630	
Total errors for Federal fiscal years 2004 and 2005					\$85,074	\$1,147,044			

Error Key

- A. Incorrect determination of add-ons related to long-term vacancies, phase down for demolition, unit reconfiguration).
- B. Incorrect projected occupancy percentage used.
- C. Incorrect determination of the allowable utility expense level when long-term vacancies are identified.
- D. Manual calculations.
- E. Incorrect unit months available used.

Note: NH

Note: RI003 - it was corrected before the IG audit

Note: MA133, RI024, RI003, and RI020- Disagree with findings; however, revisions to Form HUD-52723 have been submitted to HO's

Note: MD00500105J - Submitted \$34,723, however HUQ's approved \$24,336 - Error Code A only

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

OIG Evaluation of Auditee Comments

- Comment 1** HUD's Office of Public Housing, Boston Hub staff needs to consider the possibility that the new formula will not be ready and that they will again need to detect the incorrect public housing agency calculations that we identified.
- Comment 2 CT003**
HUD's Office of Public Housing, Boston Hub needs to determine whether any of these 99 units are long-term vacant units by obtaining the vacancy report for these units as of the time of the operating subsidy submission in Federal fiscal year 2004. If any of these units are long-term vacant units, then HUD's Office of Public Housing, Boston Hub needs to revise the form HUD-52728, "HA Calculation of Occupancy Percentage for a Requested Budget Year (RBY)" to determine the new projected occupancy percentage, new Unit Months Available, and carry these numbers forward to form HUD-52723, "Operating Fund: Calculation of Operating Subsidy". Additionally, if any of these units are long-term vacant units, HUD's Office of Public Housing, Boston Hub will have to adjust the form HUD-52723 for the Utility Expense Level change and include an add-on for long-term vacancies. By not accepting these 99 units as units vacant due to market conditions, the \$380,734 underpayment error that we identified will decrease significantly.
- Comment 3 ME005, CT056, CT066, MA133, CT036, RI024, MA110,**
If the public housing agency anticipated 97% as the occupancy percentage, then the projected occupancy percentage that it computed on form HUD-52728 should have agreed with what was on form HUD-52723. Since the public housing agency computed a lower percentage using this form's directions, we used its number in our determinations. Form HUD-52728 states that this projected occupancy percentage is to be used on form HUD-52723, Part B line 11. Additionally, HUD's Office of Public Housing, Boston Hub must review these forms for completeness, accuracy, and mathematical correctness. To ensure accuracy, HUD's Office of Public Housing, Boston Hub should determine the reason that the public housing agency is requesting a higher percentage than it computed on form HUD-52728.
- Comment 4 CT028**
Based on additional supporting documentation obtained by the Financial Analyst for this public housing agency, we concur with the use of market conditions and edited the finding and recommendations.

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AUDITEE COMMENTS AND OIG'S EVALUATION

Comment 5 RI003

This has not been accepted in HUDCAPS, therefore, we did not include the \$270 in the final number of REAC Financial Management Division processed corrections.

Comment 6 NH005

The Financial Analyst subsequently agreed and submitted the revision to the REAC Financial Management Division on April 27, 2005.

Appendix B

Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	HUD's Calculation	HUD's Calculation	Net Difference	Absolute Difference	Revisions Submitted to REAC FMD?	Revisions Submitted to FMD as of 4/28/05	Error Types	HQ's Processed	DIG Comments
2004	CT003	12/31/2004	\$4,745,838	\$5,126,572	(\$380,734)	\$270	\$380,734	no	\$0	B		See DIG comment 2.
2004	ME005	6/30/2005	\$369,589	\$894,322	(\$524,733)	\$577	\$84,723	yes	\$34,723	A, B	\$ 24,336	Accept. See DIG comment 3.
2004	MA004	9/30/2005	\$514,847	\$528,121	(\$13,274)	\$13,474	\$13,474	yes	\$13,474	C		Accept.
2004	CT027	12/31/2004	\$519,120	\$529,185	(\$10,065)	\$10,065	\$10,065	yes	\$10,065	B		Accept.
2004	NH005	9/30/2005	\$324,723	\$330,151	(\$5,428)	\$5,428	\$5,428	yes	\$5,428	D		Accept. See DIG comment 6.
2004	CT066	6/30/2005	\$24,549	\$29,958	(\$5,409)	\$5,409	\$5,409	yes	\$5,409	B		Accept. See DIG comment 3.
2004	CT066	6/30/2005	\$41,250	\$45,125	(\$3,875)	\$3,875	\$3,875	yes	\$3,875	B		Accept. See DIG comment 3.
2004	MA133	6/30/2005	\$47,595	\$50,459	(\$2,864)	\$2,864	\$2,864	yes	\$2,864	B		Accept. See DIG comment 3.
2004	CT036	3/31/2005	\$145,059	\$148,585	(\$3,526)	\$1,526	\$1,526	yes	\$1,526	B		Accept. See DIG comment 3.
2004	RI024	6/30/2005	\$102,804	\$103,723	(\$919)	\$919	\$919	yes	\$919	B		Accept. See DIG comment 3.
Subtotal Underpayments FFY 2004			\$7,425,164	\$7,884,291	(\$459,127)	\$459,127	\$459,127		\$78,283			
2004	RI003	12/31/2004	\$2,635,634	\$2,635,364	\$270	\$270	\$270	yes	\$270	A	\$ 270	Accept. See DIG comment 5.
2004	CT025	6/30/2005	\$102,334	\$101,757	\$577	\$577	\$577	yes	\$577	A		Accept.
2004	CT081	12/31/2004	\$478,423	\$477,788	\$635	\$635	\$635	yes	\$635	A		Accept.
2004	NH011	6/30/2005	\$92,431	\$90,845	\$1,586	\$1,586	\$1,586	yes	\$1,586	D		Accept.
2004	CT020	12/31/2004	\$1,121,255	\$1,118,838	\$2,417	\$2,397	\$2,397	yes	\$2,397	A		Accept.
2004	MA024	12/31/2004	\$2,444,407	\$2,438,359	\$6,048	\$6,048	\$6,048	yes	\$6,048	D		Accept.
2004	MA014	3/31/2005	\$336,851	\$330,149	\$6,702	\$6,702	\$6,702	yes	\$6,702	D		Accept.
2004	CT001	9/30/2005	\$10,849,652	\$10,801,528	\$48,124	\$48,124	\$48,124	yes	\$48,124	A, B, C, E		Accept.
2004	CT006	6/30/2005	\$2,361,955	\$2,289,371	\$72,584	\$72,584	\$72,584	yes	\$72,584	A, C, E		Accept.
2004	RI005	3/31/2005	\$3,324,733	\$3,017,528	\$307,205	\$307,205	\$307,205	yes	\$307,205	A		Accept. We originally showed \$34,197 as the overpayment, but this number increased based on additional work performed by HUD as a result of our review.
Subtotal Overpayments FFY 2004			\$23,737,855	\$23,291,607	\$446,148	\$446,148	\$446,148		\$446,148			
Total for FFY 2004			\$51,162,839	\$51,175,708	(\$12,869)	\$905,165			\$624,431			
Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	HUD's Calculation	Net Difference	Absolute Difference	Revisions Submitted to REAC FMD? <td>Revisions Submitted to FMD as of 4/28/05 <td>Error Types <td></td> <td></td> <td></td> </td></td>	Revisions Submitted to FMD as of 4/28/05 <td>Error Types <td></td> <td></td> <td></td> </td>	Error Types <td></td> <td></td> <td></td>			
2005	MA037	12/31/2005	\$136,706	\$192,237	(\$55,531)	\$55,531	yes	\$55,531	C			Accept.
2005	CT022	12/31/2005	\$747,898	\$760,312	(\$12,414)	\$12,426	yes	\$12,426	C			Accept.
2005	MA110	3/31/2006	\$25,791	\$27,786	(\$1,995)	\$1,995	yes	\$1,995	B	\$ 1,995		Accept. See DIG comment 3.
2005	ME018	3/31/2006	\$189,153	\$189,975	(\$822)	\$722	yes	\$722	D			Accept.
2005	RI012	3/31/2006	\$267,720	\$268,014	(\$294)	\$294	yes	\$294	D			Accept.
Subtotal Underpayments FFY 2005			\$1,267,268	\$1,439,224	(\$171,956)	\$171,988		\$171,988				
2005	CT031	12/31/2005	\$562,434	\$562,288	\$146	\$146	yes	\$146	A, C, E			Accept.
2005	MA006	3/31/2006	\$4,620,776	\$4,620,598	\$178	\$178	yes	\$178	A, C, E			Accept.
2005	RI020	12/31/2005	\$86,304	\$85,960	\$344	\$374	yes	\$374	A	\$ 974		Accept.
2005	MA014	3/31/2006	\$445,126	\$443,636	\$1,490	\$1,490	yes	\$1,490	D			Accept.
2005	CT020	12/31/2005	\$633,952	\$631,500	\$2,452	\$2,452	yes	\$2,452	A			Accept.
2005	CT003	12/31/2005	\$5,356,681	\$5,025,401	\$331,280	\$331,280	yes	\$331,280	A			Accept.
Subtotal Overpayments FFY 2005			\$11,909,903	\$11,969,363	(\$59,460)	\$59,460		\$59,460				
Total for FFY 2005			\$13,273,159	\$13,008,687	\$264,472	\$405,608		\$405,608				
Total errors for Federal fiscal years 2004 and 2005					\$261,703	\$1,313,673		\$632,639				
Total errors for Federal fiscal years 2004 and 2005								\$632,639				

Appendix B

Error Key

- A. Incorrect determination of add-ons related to long-term vacancies; phase down for demolition, unit reconfiguration).
- B. Incorrect projected occupancy percentage used.
- C. Incorrect determination of the allowable utility expense level when long-term vacancies are identified.
- D. Manual calculations.
- E. Incorrect unit months available used.

Note: NH

Note: R1003 – It was corrected before the IG audit

Note: MA133, R1024, R1003, amend R1020- Disagree w/IG findings; however, revisions to Form HUD-52723 have been submitted to HQ's

Note: ME0600105J - Submitted \$34,723, however HUC's approved \$24,336 - Error Code A only

DIG Note: We look CTC08 out of the above list of PHAs with errors. See DIG comment 4

ERRORS IDENTIFIED BY PUBLIC HOUSING AGENCY FOR FEDERAL FISCAL YEARS 2004 AND 2005

Federal Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	OIG's Calculation	Net Difference	Absolute Difference	Error Types
2004	CT003	12/31/2004	\$4,745,838	\$5,126,572	(\$380,734)	\$380,734	B
2004	RI005 ¹⁷	3/31/2005	\$3,324,733	\$3,017,528	\$307,205	\$307,205	A
2004	CT006	6/30/2005	\$2,361,955	\$2,289,371	\$72,584	\$72,584	A, C, E
2004	CT001	9/30/2005	\$10,849,652	\$10,801,528	\$48,124	\$48,124	A, B, C, E
2004	ME005	6/30/2005	\$959,599	\$994,322	(\$34,723)	\$34,723	A, B
2004	MA034	9/30/2005	\$514,647	\$528,121	(\$13,474)	\$13,474	C
2004	CT027	12/31/2004	\$519,120	\$529,185	(\$10,065)	\$10,065	B
2004	MA014	3/31/2005	\$336,851	\$330,149	\$6,702	\$6,702	D
2004	MA024	12/31/2004	\$2,444,407	\$2,438,359	\$6,048	\$6,048	D
2004	NH005	9/30/2005	\$324,723	\$330,151	(\$5,428)	\$5,428	D
2004	CT056	6/30/2005	\$24,549	\$29,958	(\$5,409)	\$5,409	B
2004	CT066	9/30/2005	\$41,250	\$45,125	(\$3,875)	\$3,875	B
2004	MA133	6/30/2005	\$47,595	\$50,459	(\$2,864)	\$2,864	B
2004	CT020	12/31/2004	\$1,121,235	\$1,118,838	\$2,397	\$2,397	A
2004	NH011	6/30/2005	\$82,431	\$80,845	\$1,586	\$1,586	D
2004	CT036	3/31/2005	\$145,059	\$146,585	(\$1,526)	\$1,526	B
2004	RI024	6/30/2005	\$102,804	\$103,723	(\$919)	\$919	B
2004	CT031	12/31/2004	\$478,423	\$477,768	\$655	\$655	A
2004	CT025	6/30/2005	\$102,334	\$101,757	\$577	\$577	A
2004	RI003	12/31/2004	\$2,635,634	\$2,635,364	\$270	\$270	A
Subtotal			\$31,162,839	\$31,175,708	(\$12,869)	\$905,165	

¹⁷ Based on the error we identified for this public housing agency, HUD performed additional work and determined the error amount was greater than our determination. We revised our numbers to incorporate the new error amount and revised operating subsidy calculation.

Federal Fiscal Year	Public Housing Agency	Agency Fiscal Year End	HUD's Calculation	OIG's Calculation	Net Difference	Absolute Difference	Error Type
2005	CT003	12/31/2005	\$5,356,681	\$5,025,401	\$331,280	\$331,280	A
2005	MA037	12/31/2005	\$136,706	\$193,237	(\$56,531)	\$56,531	C
2005	CT022	12/31/2005	\$747,886	\$760,312	(\$12,426)	\$12,426	C
2005	CT020	12/31/2005	\$833,952	\$831,500	\$2,452	\$2,452	A
2005	MA110	3/31/2006	\$25,791	\$27,786	(\$1,995)	\$1,995	B
2005	MA014	3/31/2006	\$445,126	\$443,636	\$1,490	\$1,490	D
2005	RI020	12/31/2005	\$86,934	\$85,960	\$974	\$974	A
2005	ME018	3/31/2006	\$189,153	\$189,875	(\$722)	\$722	D
2005	RI012	3/31/2006	\$267,720	\$268,014	(\$294)	\$294	D
2005	MA006	3/31/2006	\$4,620,776	\$4,620,598	\$178	\$178	A, C, E
2005	CT031	12/31/2005	\$562,434	\$562,268	\$166	\$166	A, C, E
Subtotal			\$13,273,159	\$13,008,587	\$264,572	\$408,508	
Total errors for Federal fiscal years 2004 and 2005						\$1,313,673	

Error Key

- A. Incorrect determination of add-ons related to long-term vacancies, phase down for demolition, unit reconfiguration).
- B. Incorrect projected occupancy percentage used.
- C. Incorrect determination of the allowable utility expense level when long-term vacancies are identified.
- D. Manual calculations.
- E. Incorrect unit months available used.

Appendix D

DEFINITIONS

Add-ons for changes in Federal law or regulation and other eligibility - Costs that were not included in 1975 when allowable expense levels were developed that are now being incurred by public housing agencies. Add-ons compensate public housing agencies for these costs. Additionally, items that do not fit in the other areas of the operating subsidy calculation are included as an add-on in determining the approvable operating subsidy amount for the fiscal year; e.g., transitional funding for demolished units and unit reconfiguration add-ons.

Allowable expense level - The per unit per month dollar amount of expenses (excluding utilities and expenses allowed under 24 CFR [Code of Federal Regulations] 990.108) computed in accordance with 24 CFR [Code of Federal Regulations] 990.105, which is used to compute the amount of operating subsidy.

Allowable utility expense level - The per unit per month dollar amount of utilities expense, computed as provided in 24 CFR [Code of Federal Regulations] 990.107, "Computation of Utility Expense Level."

Excel tool - The Real Estate Assessment Center's Financial Management Division created the Excel tool to collect operating subsidy information from the field offices for each public housing agency. Real Estate Assessment Center prepopulated the Excel tool with certain information and certain edit checks. HUD staff must download the Excel tool from the HUD Intranet and return, via e-mail, the completed Excel tool to the Financial Management Division. The Excel tool looks the same as form HUD-52723.

Long-term vacant units - A unit will be considered a long-term vacancy and will not be considered available for occupancy in any given public housing agency's requested budget year if the public housing agency determines that

- (1) The unit has been vacant for more than 12 months at the time the public housing agency determines its actual occupancy percentage;
- (2) The unit is not either
 - i. A vacant unit undergoing modernization or
 - ii. A unit vacant for circumstances and actions beyond the public housing agency's control; and
- (3) The public housing agency determines that it will have a vacancy percentage of more than 3 percent and will have more than five vacant units for its requested budget year, even after adjusting for vacant units undergoing modernization and units that are vacant for circumstances and actions beyond the public housing agency's control, as defined in this section.

Phase-down for demolition units - Units that HUD has approved for demolition and were vacated in fiscal year 1995 and after. Public housing agencies must exclude these units from the determination of unit months available, but HUD allows an add-on subsidy for these units.

Unit months available - Project units multiplied by the number of months the project units are available for occupancy during a given public housing agency's fiscal year. A unit is considered available for occupancy from the date established as the end of the initial operating period for the project until the time the unit is approved by HUD for deprogramming and is vacated or is approved for nondwelling use. In the case of a public housing agency development involving the acquisition of scattered site housing, refer to 24 CFR [Code of Federal Regulations] 990.104(b).

Unit reconfiguration - A unit reconfiguration occurs when a public housing agency combines two or more units into a larger unit to house at least the same number of people. In a unit reconfiguration, the related unit months should be excluded from the unit months available for the requested budget year; however, these units are eligible for an add-on subsidy amount equaling the allowable expense level for the number of unit months not included.

Appendix E

OPERATING FUND FORMULA

\$,\$\$\$	Per unit month allowable expenses and additions
\$\$\$	Less per unit month dwelling rental income
\$\$	Less per unit month nondwelling income
\$\$\$	Subtotal – per unit month income (deficit)
#	Multiply number of unit months available
\$\$	Subtotal – income or deficit before add-ons ¹⁸
\$	Add add-ons
\$	Add (subtract) prior year utility adjustments ¹⁹
\$\$\$	Total – approvable operating subsidy for the fiscal year

¹⁸ Add-ons are additional funding provided by HUD for items such as FICA (Federal Insurance Contributions Act) contributions, unemployment compensation, the Family Self Sufficiency program, unit reconfigurations, long-term vacant units, phasedown for demolition, nondwelling units approved for operating subsidy, funding for resident participation, and other approved funding. We define specific add-ons in appendix D.

¹⁹ As of January 31, 2005, HUD is not funding utility adjustments. As a result, HUD is not providing additional money for shortfalls in utilities from the prior year, nor is HUD recovering overpayments of utilities in prior years.