

## SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

### Spokane Housing Authority Spokane County July 1, 2013 through June 30, 2014

**2014-001    The Spokane Housing Authority did not have adequate internal controls to comply with the requirements of its Section 8 Housing Choice Voucher federal grant program.**

<b>CFDA Number and Title:</b>	14.871 Section 8 Housing Choice Vouchers
<b>Federal Grantor Name:</b>	U. S. Department of Housing and Urban Development (HUD)
<b>Federal Award/Contract Number:</b>	WA19V05550106
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Known Questioned Cost Amount:</b>	\$3,720
<b>Potential Questioned Cost Amount:</b>	\$310,066

#### ***Background***

The Spokane Housing Authority manages low-income housing opportunities in Whitman, Pend Oreille, Lincoln, Steven, and Spokane counties. The Housing Authority received \$26.3 million for the Section 8 Housing Choice Voucher Program in fiscal year 2014. The program is designed to aid very low-income families in obtaining decent, safe and sanitary rental housing by issuing vouchers. The grantor approved the Authority to issue more than 5,000 Housing Choice Vouchers for the year ending June 30, 2014.

The Housing Authority accepts applications for rental assistance, selects eligible applicants and issues vouchers after confirming eligibility for assistance. The family must then locate and lease a suitable dwelling. The Housing Authority pays the property owner a portion of the rent on behalf of the family.

## *Description of Condition*

The Housing Authority is responsible for designing and following internal controls that provide reasonable assurance regarding the compliance with all federal requirements. Our audit found deficiencies in internal controls that led to the following noncompliance:

### *Eligibility*

The Housing Authority must ensure only eligible applicants are admitted to the program, determine the appropriate amount of housing assistance payments and utility allowances and maintain complete and accurate records to support payments in accordance with federal requirements and its own administrative plan. Eligibility requirements include determining the family meets certain income limits. The calculation of family income affects the amount of assistance for each family.

We selected a random sample of 29 tenant files and found all were eligible for the Program but three contained housing assistance calculation errors. One resulted in an overpayment of \$156. Specifically, the Authority's eligibility specialists:

- Selected a utility allowance that did not agree to the approved Utility Allowance Schedule.
- Used an incorrect number of pay periods when calculating annual income.
- Failed to include the tenant's disability allowance when calculating annual income.

### *Housing Quality Standards Enforcement*

To ensure the rental units meet Housing Quality Standards, the Housing Authority must inspect units leased under the Program at the time of initial leasing and at least annually thereafter. The Housing Authority must not make any housing assistance payments for units that fail to meet the Standards, unless the owner corrects the defect within a specified period and the Housing Authority verifies correction of the failure.

Inspectors must re-inspect failed properties before the established payment termination deadlines. We selected a random sample of 29 failed inspections and identified three instances where the re-inspection was not conducted timely and payments were not withheld after the termination deadline. This resulted in an overpayment of \$3,564.

The control weaknesses that led to noncompliance within these areas are considered significant deficiencies.

## ***Cause of Condition***

### ***Eligibility***

The income verification process is a manual, labor intensive process that varies for each eligible family. Although the Authority has developed a control process that includes obtaining the required documents and a supervisory review of some income calculations, clerical errors in calculating family income occurred and were not corrected.

### ***Housing Inspection Standards Enforcement***

Program participants are provided an official notification of termination deadline in which assistance will cease if required repairs are not made. Due to staff turnover, the Housing Authority did not conduct re-inspections prior to the termination dates and proper communication and inspection oversight was not performed by the Housing Quality Standards Supervisor.

## ***Effect of Condition and Questioned Costs***

### ***Eligibility***

The Housing Authority's calculation errors resulted in incorrect housing assistance payments. Our audit identified overpayments of \$156 which we are reporting as known questioned costs. Based on our sample, we estimate the total likely questions costs from overpayments are \$30,108.

### ***Housing Quality Standards Enforcement***

The Housing Authority failed to terminate housing assistance payments when re-inspection and correction of housing quality issues was not conducted timely. Our audit identified overpayments of \$3,564 which we are reporting as known questioned costs. Based on our sample, we estimate the total likely questions costs from overpayments are \$279,958.

## ***Recommendation***

We recommend the Housing Authority:

- Continue its efforts in establishing adequate internal controls to ensure compliance with all federal requirements for its Section 8 Housing Choice Vouchers Program including Allowable Costs, and Housing Quality Standards Enforcement.
- Consult with HUD about repayment of questioned costs identified in this finding.

## ***Housing Authority's Response***

*The Spokane Housing Authority acknowledges the questioned costs identified in this finding and will continue its efforts in establishing adequate internal controls to ensure compliance with all federal requirements for the Section 8 Housing Choice Vouchers Program to include allowable costs and Housing Quality Standards enforcement. A Quality Assurance Administrator position was established specifically responsible for compliance and quality control reviews utilizing applicable program regulations, funding source requirements, and SHA policies, systems and practices. The quality control reviews consist of both random quality control HQS inspections and random quality control file audits. This position will work closely with management to review and recommend changes in policies/procedures, forms and documentation requirements in accordance with review findings and applicable federal, state, local and agency regulations, rules, laws, and procedures. All questionable costs identified have been reviewed by program management staff and corrections have been made.*

## ***Auditor's Remarks***

We appreciate the steps the Housing Authority is taking to ensure future compliance with Section 8 Housing Choice Voucher Program. We will evaluate the Housing Authority's internal controls to ensure compliance during our next audit.

## ***Applicable Laws and Regulations***

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 24 of the Code of Federal Regulations Section 982.153 states:

The PHA must comply with the consolidated ACC, the application, HUD regulations and other requirements, and the PHA administrative plan.

Title 24 of the Code of Federal Regulations Section 5.653 states in part:

Section 8 project-based assistance programs: Admission—Income eligibility and income-targeting.

(b) Who is eligible?—(1) Basic eligibility. An applicant must meet all eligibility requirements in order to receive housing assistance. At a minimum, the applicant must be a family, as defined in §5.403, and must be income-eligible, as described in this section. Such eligible applicants include single persons.

(e) Income used for eligibility and targeting. Family annual income (see § 5.609) is used both for determination of income-eligibility and for income targeting under this section.

Title 24 of the Code of Federal Regulations Section 982.516 states in part:

Family income and composition: Regular and interim examinations.

(a) PHA responsibility for reexamination and verification.

(1) The PHA must conduct a reexamination of family income and composition at least annually.

(2) The PHA must obtain and document in the tenant file third party verification of the following factors, or must document in the tenant file why third party verification was not available:

(i) Reported family annual income;

(ii) The value of assets;

(iii) Expenses related to deductions from annual income; and

(iv) Other factors that affect the determination of adjusted income.

Title 24 of the Code of Federal Regulations Section 982.158(d) states:

The PHA must prepare a unit inspection report.

Title 24 of the Code of Federal Regulations Section 982.404 states in part:

(a) Owner obligation.

(1) The owner must maintain the unit in accordance with HQS.

(2) If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of the HAP contract.

(3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verified the correction. If a defect is life threatening the owner must correct the defect within no more than 24 hours. For all other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

(4) The owner is not responsible for a breach of the HQS that is not caused by the owner, and for which the family is responsible (as provided in §982.404(b) and §982.551(c). (However, the PHA may terminate assistance to a family because of HQS breach caused by the family.)

Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, states in part:

Section .510

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs) not just the questioned costs specifically identified

(known questioned costs) The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program

Office of Management and Budget Circular A-133 Compliance Supplement, Part 4, 14.871, states in part:

#### E. Eligibility

##### 1. Eligibility for Individuals

Most PHAs devise their own application forms that are filled out by the PHA staff during an interview with the tenant.

The head of the household signs (a) one or more release forms to allow the PHA to obtain information from third parties; (b) a federally prescribed general release form for employment information; and (c) a privacy notice. Under some circumstances, other members of the family are required to sign these forms (24 CFR sections 5.212 and 5.230).

The PHA must do the following:

a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).

b. For both family income examinations and reexaminations, obtain and document in the family file third-party verification of (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 982.516).

c. Determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR part 5 subpart F (24 CFR section 5.601 *et seq.*) (24 CFR sections 982.201, 982.515, and 982.516).

d. Select tenants from the HCVP waiting list (see III.N.1, “Special Tests and Provisions – Selection from the Waiting List”) (24 CFR sections 982.202 through 982.207).

e. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR section 982.516).

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in internal controls over compliance in its *Codification of Statements on Auditing Standards*, section 935, as follows:

**.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Material weakness in internal control over compliance.**

A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.



**Probable.** The future event or events are likely to occur.

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.