



SINGLE AUDIT REPORT  
Chicago Housing Authority  
Year Ended December 31, 2011  
With Reports of Independent Auditors

Ernst & Young LLP



Chicago Housing Authority

Single Audit Report

Year Ended December 31, 2011

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## Report of Independent Auditors

The Board of Commissioners of the Chicago Housing Authority  
Chicago, Illinois

We have audited the basic financial statements, not included herein, of the Proprietary Fund Type and Fiduciary Fund Type activities of the Chicago Housing Authority as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Chicago Housing Authority's basic financial statements. These financial statements are the responsibility of the Chicago Housing Authority's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Chicago Housing Authority Employee's Retirement Plan (the "Plan"), which is shown as the Fiduciary Fund Type – Pension Trust Fund as of and for the years ended December 31, 2011 and 2010. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plan, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Pension Trust Fund were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the Chicago Housing Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Chicago Housing Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proprietary Fund Type activities and the Fiduciary Fund Type activities of the Chicago Housing Authority as of December 31, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012, on our consideration of the Chicago Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States require that the Management's Discussion and Analysis and the Schedule of Funding Progress on pages 22 through 33 and 77, included in the Comprehensive Annual Financial Report, not included herein, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago Housing Authority's basic financial statements. The combining schedule of programs, included in the Comprehensive Annual Financial Report, not included herein, on pages 80 through 85, individual program schedules on pages 88 through 104 and Financial Data Schedules on pages 106 through 222, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago Housing Authority's basic financial statements. The accompanying Introductory Section and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Ernst + Young LLP*

April 30, 2012

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance With *Government Auditing Standards*

The Board of Commissioners and Management of the  
Chicago Housing Authority  
Chicago, Illinois

We have audited the financial statements of the Proprietary Fund Type and Fiduciary Fund Type activities of the Chicago Housing Authority (the Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 30, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Chicago Housing Authority Employee's Retirement Plan (the Plan), as described in our report on the Authority's financial statements. The financial statements of the Plan were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We

did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

April 30, 2012

# Single Audit Report



## Report of Independent Auditors on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Board of Commissioners and Management of the  
Chicago Housing Authority  
Chicago, Illinois

### Compliance

We have audited the Chicago Housing Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's federal programs for the year ended December 31, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2011-01 through 2011-06.

## **Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2011-04 and 2011-06 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2011-01 through 2011-03 and 2011-05 to be significant deficiencies.

## **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements, not included herein, of the Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated April 30, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and

is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

August 3, 2012, except for the paragraph  
on the schedule of expenditures of  
federal awards, as to which the date  
is April 30, 2012

# Chicago Housing Authority

## Schedule of Expenditures of Federal Awards

Year Ended December 31, 2011

Federal Department/Pass-Through Entity/ Program Title/Project Description	CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
14 <u>U.S. Department of Housing and Urban Development</u>			
Section 8 Project-Based Cluster:			
Section 8 – Substantial Rehabilitation/(City/State)	14.182		\$ 68,255
Lower Income Housing Assistance Program – Section 8			
Moderate Rehabilitation	14.856		<u>8,055,903</u>
Total Section 8 Project-Based Cluster			8,124,158
 Mainstream Vouchers/Mainstream 5-Year Program	14.879		378,361
 Public and Indian Housing/Low-Rent Housing (Development)	14.850		(1,931,377)
 Demolition and Revitalization of Severely Distressed Public Housing	14.866		23,040,657
 Resident Opportunity and Supportive Services – Service Coordinators	14.870		161,250
 Section 8 Housing Choice Vouchers/HUD-Veteran Affairs Supportive Housing Program	14.871		1,967,633
 Moving to Work Demonstration Program:			
Public and Indian Housing/Low-Rent Housing (Operations)			174,896,513
Section 8 Housing Choice Vouchers			463,218,460
Public Housing Capital Fund			<u>61,833,059</u>
Total Moving to Work Demonstration Program	14.881		699,948,032
 CFP Cluster:			
ARRA – Public Housing Capital Fund Competitive (Recovery Act Funded)/			
Public Housing Capital Fund – FY 2009 CFRC	14.884		35,834,184
ARRA – Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885		<u>9,736,771</u>
Total CFP Cluster			45,570,955
Total U.S. Department of Housing and Urban Development			<u>777,259,669</u>

# Chicago Housing Authority

## Schedule of Expenditures of Federal Awards (continued)

Federal Department/Pass-Through Entity/ Program Title/Project Description	CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
<b>16 U.S. Department of Justice</b>			
Passed through the Illinois Office of Attorney General			
ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	809042	\$ 110,859
Total U.S. Department of Justice			<u>110,859</u>
<b>17 U.S. Department of Labor</b>			
Passed through the City of Chicago Department of Family and Supportive Services			
ARRA – WIA Youth Activities/Youth Summer Employment	17.259	L81XL639TJ1	(379)
ARRA – WIA Youth Activities/Youth Ready 2010	17.259	74174	(49,026)
Total ARRA – WIA Youth Activities			<u>(49,405)</u>
Passed through the Partnership for New Communities			
ARRA – Program for Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors/Jobs for the Future	17.275	A2011-02182	546,442
Total U.S. Department of Labor			<u>497,037</u>
<b>66 Environmental Protection Agency</b>			
ARRA – Brownfields Assessment and Cleanup Cooperative Agreements	66.818		112,603
Total Environmental Protection Agency			<u>112,603</u>
<b>81 U.S. Department of Energy</b>			
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		946,947
Total U.S. Department of Energy			<u>946,947</u>
<b>93 U.S. Department of Health and Human Services</b>			
Passed through the City of Chicago Department of Family and Supportive Services			
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program/Illinois YES 2010	93.714	87874	86,424
Total U.S. Department of Health and Human Services			<u>86,424</u>
Total Expenditures of Federal Awards			<u><u>\$ 779,013,539</u></u>

# Chicago Housing Authority

## Notes to Schedule of Expenditures of Federal Awards

December 31, 2011

### 1. Single Audit Reporting Entity

The Chicago Housing Authority (the Authority) includes expenditures in its schedule of expenditures of federal awards (the Schedule) for all federal programs administered by the same funds, agencies, boards, and commissions, including component units, included in the Authority's reporting entity used for its basic financial statements.

### 2. Basis of Accounting

The Schedule has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

### 3. Categorization of Expenditures

The Schedule reflects federal expenditures for all individual grants that were active during the year. The categorization of expenditures by program included in the Schedule is based on the *Catalog of Federal Domestic Assistance* (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued annually. In accordance with the Authority's policy, the Schedule for the fiscal year ended December 31, 2011, reflects CFDA changes issued through December 2011.

### 4. Expenditures to Subrecipients

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients under CFDA 14.866, Demolition and Revitalization of Severely Distressed Public Housing, during the year ended December 31, 2011, as follows:

Other Program Title	CFDA No.	Grant Reference No.	Amount Provided to Subrecipients
Hope VI Community Supportive Services – 1994 Cabrini	14.866	IL06URD002I194	\$ 39,479
Hope VI Community Supportive Services – 1996 ABLA Brooks	14.866	IL06URD002I296	59,987
Hope VI Community Supportive Services – 1998 ABLA	14.866	IL06URD002I198	568,025
Hope VI Community Supportive Services – 2001 Taylor A	14.866	IL06URD002I101	104,660
Hope VI Community Supportive Services – 1996 Taylor B	14.866	IL06URD002I196	2,500
Hope VI Community Supportive Services – 2008 Stateway	14.866	IL06URD002I108	102,883
			<u>\$ 877,534</u>

Chicago Housing Authority

Schedule of Findings and Questioned Costs

December 31, 2011

**Part I – Summary of Auditor’s Results**

**Financial Statements Section**

Type of auditor’s report issued (unqualified, qualified, adverse, or disclaimer): Unqualified

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

Significant deficiency(ies) identified?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?   X   Yes      No

Significant deficiency(ies) identified?   X   Yes      None Reported

Type of auditor’s report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

CFDA 14.856 – Unqualified

CFDA 14.866 – Unqualified

CFDA 14.881 – Unqualified

CFDA 14.884 and 14.885 – Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?   X   Yes      No

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

**Part I – Summary of Auditor’s Results (continued)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA 14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)
CFDA 14.866	Demolition and Revitalization of Severely Distressed Public Housing
CFDA 14.881	Moving to Work Demonstration Program
CFDA 14.884 and CFDA 14.885	ARRA – CFP Cluster (ARRA – Public Housing Capital Fund Competitive (Recovery Act Funded) and ARRA – Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded)

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

Yes     No



Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

**Part II – Financial Statement Findings Section**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None noted.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section**

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

#### **Finding 2011-01 Eligibility**

##### *Federal Program Information:*

U.S. Department of Housing and Urban Development  
CFDA 14.881 – Moving to Work Demonstration Program (MTW):

Public and Indian Housing  
Program Year: January 1, 2011 through December 31, 2011  
Program No.: IL02-001-00010D

Section 8 Housing Choice Vouchers  
Program Year: January 1, 2011 through December 31, 2011  
Program No.: IL002-VO

U.S. Department of Housing and Urban Development  
Section 8 Project-Based Cluster:

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate  
Rehabilitation  
Program Year: January 1, 2011 through December 31, 2011  
Program Nos.: Various

##### *Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

#### MTW Program (CFDA 14.881)

Most public housing authorities (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, 5.230, and 5.601 through 5.615).

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

The PHA must:

- 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, 960.259, and 982.516).
- For both family income examinations and re-examinations, 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 Sections 960.259 and 982.516).
- 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 960.253, 960.255, 960.259, 982.201, 982.515, and 982.516).
- Select tenants from the waiting list (24 CFR Sections 960.206 through 960.208 and 982.202 through 982.207).
- Re-examine 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 Sections 960.253, 960.257, 960.259, and 982.516).

In addition, the Authority is participating in the Department of Housing and Urban Development's (HUD) MTW Demonstration Program. The Authority's initial MTW Demonstration Agreement was signed by the Authority and HUD on February 6, 2000, at which time HUD allowed the Authority to implement its Plan for Transformation. On June 26, 2008, the Authority and HUD signed the Amended and Restated MTW Agreement that extends the Authority's participation in the MTW Demonstration Program until 2018. Through this agreement, HUD waived selected statutory and regulatory requirements to allow the Authority flexibility in achieving the stated objectives of the MTW Demonstration Program. As such, per the Authority's Section 8 Housing Choice Vouchers (HCV) Administrative Plan, re-examination of family income and composition under the HCV program is performed biennially.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section**

##### Mod Rehab Program (CFDA 14.856)

The PHA or owner, as applicable, must:

- Verify the eligibility of applicants by (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full-time student and immigration status, and unusual medical expenses) through third parties; (c) documenting inspections and tenant certifications, as appropriate; and, (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction, as shown in HUD's published notice transmitting the Limits for Low-Income and Very Low-Income Families Under the Housing Act of 1937. For the Mod Rehab SRO Program, eligible individuals must be homeless upon entry into the program (24 CFR Sections 880.603, 881.601, 882.514, 882.808, 833.701, 884.214, 886.119, and 886.318).
- Determine the total tenant rent payment in accordance with 24 CFR Section 5.613.
- Select participants from the waiting list in accordance with the admission policies in its administrative plan and maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list. For the Mod Rehab SRO Program, eligible individuals may be referred to the PHA for eligibility determination as a result of the owner's/sponsor's outreach or through the PHA waiting list (24 CFR Sections 880.603, 881.601, 882.514, 882.808(b)(2), 883.701, 884.214, and 886 Subparts A and C).
- Re-examine family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary (24 CFR Sections 5.617, 880.603, 881.601, 882.515, 884.218, 886.124, and 886.324).

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section**

##### *Condition:*

##### MTW Program (CFDA 14.881)

Eighty tenants were selected for testing of controls over the eligibility compliance requirement under CFDA 14.881. For the 80 tenants selected, 40 were Public and Indian Housing (Low-Rent) tenants, and 40 were HCV tenants. Three HCV tenants tested (3.8%) of the 80 had a control deviation as follows:

- For one of the HCV tenants, the tenant's file did not include the required eligibility documentation such as the application for continued eligibility, the identification documents, the release and consent forms, and the required EIV form along with supporting third-party documentation.
- For the other two HCV tenants, the tenants' files did not include the *Debts Owed to Public Housing Agencies and Terminations* (HUD-52675) form.

One hundred tenants were selected for testing of compliance over the eligibility compliance requirement under CFDA 14.881. For the 100 tenants selected, 40 were Low-Rent tenants, and 60 were HCV tenants. For 12 of 100 tenants tested (12%), exceptions were noted. Of the 3 Low-Rent tenants tested with exceptions, 3 related to 2011 recertifications. Of the 9 HCV tenants tested with exceptions, 6 related to 2011 recertifications, and 3 related to 2010 recertifications. Exceptions can be categorized as follows:

##### *Low-Rent*

For 3 out of 100 (3%) tenant recertifications tested under CFDA 14.881, exceptions were noted as follows:

- For two of three, the *Debts Owed to Public Housing Agencies and Terminations* (HUD-52675) form was not completed as required, and the tenants' income was not calculated correctly based on current third-party support.
- For one of three, the tenant's income was not calculated correctly based on current third-party support.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### *HCV*

For 9 out of 100 (9%) recertifications tested under CFDA 14.881, exceptions were noted as follows:

- For three of nine, the required biennial re-examination for the tenant was not performed. Therefore, the HUD-50058 Family Report was not completed as a result of the Authority failing to perform the required biennial re-examination.
- For one of nine, the tenant's income was not calculated correctly based on current third-party support.
- For one of nine, the *Debts Owed to Public Housing Agencies and Terminations* (HUD-52675) form was not completed as required.
- For one of nine, third-party income verification support was not available to support the calculation of the tenant's annual income.
- For one of nine, the tenant's biennial re-examination was not performed timely.
- For one of nine, the *Debts Owed to Public Housing Agencies and Terminations* (HUD-52675) form, Authorization for Release of Information/Privacy Act Notice (HUD-9886) form, and the Authority's Addendum to the Authorization for the Release of Information/Privacy Act were not completed as required.
- For one of nine, documentation to support the amount that was reported as medical expense deduction was not provided in the tenant's file.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### Mod Rehab Program (CFDA 14.856)

Twenty-five tenants were selected for testing of controls over the eligibility compliance requirement under CFDA 14.856. Three tenants tested (12%) of the 25 had a control deviation as follows:

- For two tenants tested, the tenants' files did not contain the Application for Continued Eligibility, the Authorization for the Release of Information/Privacy Act Notice (HUD-9886) and the Chicago Housing Authority – Addendum to the Authorization for the Release of Information/Privacy Act Notice, the Enterprise Income Verification, and the Debts Owed to Public Housing Agencies and Terminations (Form HUD-52675). One of these tenants was also missing the required identification documentation.
- For one tenant tested, the tenant's file did not include the required Enterprise Income Verification form along with supporting third-party documentation.

Forty tenants were selected for testing of compliance over the eligibility compliance requirement. For 4 of 40 tenants tested (10%), exceptions were noted. Exceptions can be categorized as follows:

- For one of four, all deductions available to the tenant were not applied appropriately in the calculation of the tenant's allowance.
- For three of four, the tenant's annual income was not calculated correctly based on current third-party support at the time of recertification.

##### *Questioned Costs:*

None

##### *Context:*

##### MTW Program (CFDA 14.881)

During fiscal year 2011, the Authority reported approximately 17,334 and 35,555 active Low-Rent and HCV tenants, respectively.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### Mod Rehab Program (CFDA 14.856)

During fiscal year 2011, the Authority reported 1,259 active tenants for CFDA 14.856.

##### *Effect:*

The Authority is not in compliance with eligibility requirements of the federal programs.

##### *Cause:*

##### MTW Program (CFDA 14.881)

##### *Low-Rent*

Errors were made by the Authority's private property management companies during the re-certification process.

##### *HCV*

In late 2010, the Authority transitioned the vendors that manage its HCV program to two vendors under a performance-based contract. In addition, the Authority changed its policy relative to processing non-required recertifications in 2010. During this transition time, some assignments of the next recertification date fell out of line with the change to biennial recertifications.

##### Mod Rehab Program (CFDA 14.856)

The three control deviations related to missing required documents were due to an error with the Authority's scanning system/software.

The four compliance exceptions related to income deduction and annual income calculations were due to one-time errors committed by contractor staff responsible for initial eligibility determinations and annual re-examinations.



## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### *Recommendation:*

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of eligibility activities is maintained and to enable compliance with federal eligibility requirements.

##### *Views of Responsible Officials and Planned Corrective Actions:*

##### MTW Program (CFDA 14.881)

##### *Low-Rent*

The Authority concurs that income was not calculated correctly. In one of these instances, the tenant was charged the “ceiling rent” based on the Horner Consent Decree, and the correct income calculation would not have a net effect on the rent calculation.

The Authority continues to require all private property management companies to participate in biannual public housing rent calculation certification and further requires that any private property management employee that is not certified in public housing rent calculation be prohibited from conducting re-examinations. The Authority’s internal Quality Control Analysts (QCAs) continue to review samples of annual re-examinations to ensure compliance with HUD regulations and Authority policies. In 2010, QCAs reviewed 10% of tenant file folders; in 2011, QCAs reviewed 15% of tenant file folders; and in 2012, QCAs will review 20% of tenant file folders.

##### *HCV*

The Authority, pursuant to the MTW Agreement with HUD, performs certification of the HCV participant households on a biennial basis. The Authority is audited for eligibility for this two-year period during which the certification of the household may be valid. This audit report, as stated above, includes files with exceptions from 2010 and 2011. The audit performed in 2010 also includes files from 2009 and 2010. The Authority believes that this practice of auditing for a two-year period distorts the significant program control and compliance improvements that the Authority has attained.

In reviewing progress over the past four years, the Authority has demonstrated continued improvement since implementing its Quality Control Department in 2009. Eligibility control has

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

shown a gradual improvement in the last four years, while eligibility compliance shows significant improvement with the exception of the transition period of late 2010 to mid-2011.

In late 2010, the Authority transitioned the vendors that manage its HCV program to two vendors under a performance-based contract. The new systems, while not quite perfected, began to perform as intended, and progress was noted. The single audit of the HCV program highlighted 3 eligibility control and 9 eligibility compliance errors in 2011. Of the 12 exceptions noted, 7, or 58%, are related to missing documents. Of the 7 cases, 3, or 42%, of the missing documents were not related to rent calculation, but rather to notifying the tenant of the mandate to report any debts owed. The Authority is currently undergoing a request for proposal, as described below, to upgrade its electronic file management system to address missed documents in the scanning process. All documents have since been obtained to bring the files to a corrected status.

Of the remaining five findings, three, or 60%, were a failure to perform the required recertification, and one was for failing to perform a recertification timely. The Authority changed its policy relative to processing non-required recertifications in 2010; during this transition time, some assignments of the next recertification date fell out of line with the change to biennial recertifications. Having now gone through the complete biennial cycle and additional training, we believe that this is no longer an issue. All of the files cited during this audit have been corrected.

Of the 12 compliance findings, 1, or 8%, was related to the incorrect calculation of tenant rent. The Authority has implemented a tiered file review process that ensures files are correctly calculated moving forward. In addition, the Authority will continue conducting regular trainings to emphasize the importance of correct income calculation.

In 2011, the HCV Program launched a project to develop a web-based quality control monitoring tool to allow the contractors and the Authority to review participant file reviews directly from the Yardi system. The updated quality control tool was finalized and implemented in April 2012. Reports will be created to assist the Authority to monitor trends in performance moving forward.

Additional technological improvements include:

- A workflow system to ensure that each required element of the annual certification process is followed both in a timely and compliant fashion. The workflow system is in its final testing stages.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

- An electronic management system upgrade is planned during 2012. The Authority is looking to award a contract to a reputable technology firm in 2012 to enhance or replace the existing electronic image system FileNet and to update the electronic document management system for verification and document reporting. This will reduce the index and storing errors and will combine powerful document management with ready-to-use workflow and process capabilities to automate the image filing.

The Authority is committed to the continued strengthening of its quality control performance and demonstrates a strong effort to improve its processes.

#### Mod Rehab Program (CFDA 14.856)

The Authority currently has a request for proposal issued for award of new scanning software that will enable better quality control review of missing tenant file documents. In the meantime, the Authority will increase its quality control reviews to ensure that these scanning errors do not occur in the future.

In addition, we recognize that there were exceptions noted for eligibility testing. However, 90% of the tenants selected had no compliance exceptions noted. Furthermore, the total value of the compliance exceptions was below \$1,500. A new quality control tool has been implemented to increase productivity and detect eligibility and reporting errors. Finally, all contractor staff responsible for initial eligibility determinations and annual reexaminations has been retrained on the proper way to calculate annual income. The Authority has also increased its quality control reviews in this area to ensure that income deductions and annual income are accurately calculated.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### **Finding 2011-02 Reporting**

###### *Federal Program Information:*

U.S. Department of Housing and Urban Development  
CFDA 14.881 – Moving to Work Demonstration Program (MTW):

Public and Indian Housing  
Program Year: January 1, 2011 through December 31, 2011  
Program No.: IL02-001-00010D

Section 8 Housing Choice Vouchers  
Program Year: January 1, 2011 through December 31, 2011  
Program No.: IL002-VO

U.S. Department of Housing and Urban Development  
Section 8 Project-Based Cluster:

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate  
Rehabilitation  
Program Year: January 1, 2011 through December 31, 2011  
Program Nos.: Various

###### *Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

Per 24 CFR Part 908 and 24 CFR Section 982.158, the PHA is required to submit the Form HUD-50058, Family Report, electronically to HUD each time the PHA completes an admission, annual re-examination, interim re-examination, portability move-in, or other change of unit for a family. The PHA must also submit the Form HUD-50058 when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

The following key line items on the Form HUD-50058 contain critical information:

- Line 2a – Type of action
- Line 2b – Effective date of action
- Line 3b, 3c – Last name, first name

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

- Line 3e – Date of birth
- Line 3n – Social security numbers
- Line 5a – Unit address
- Line 5h – Date unit last past inspection
- Line 5i – Date of last annual inspection
- Line 7i – Total annual income
- Line 13h – Contract rent to owner
- Line 13k – Tenant rent
- Line 13x – Mixed family tenant rent
- Line 17a – Participation in special programs – participation in the Family Self-Sufficiency (FSS) Program
- Line 17k(2) – FSS account information – balance

#### *Condition:*

#### MTW Program (CFDA 14.881)

One hundred twenty tenants were selected for testing of compliance over the Form HUD-50058 reporting compliance requirement under CFDA 14.881. For the 120 tenants selected, 60 were Low-Rent tenants, and 60 were HCV tenants. For 10 of 120 tenants tested (8.3%), exceptions were noted. Of the 10, 7 were Low-Rent tenants, and 3 were HCV tenants. Of the 3 HCV tenants tested with exceptions, 2 related to 2011 recertifications, and 1 related to 2010 recertifications. Exceptions can be categorized as follows:

#### *Low-Rent*

For 7 of 120 (5.8%) recertifications tested under CFDA 14.881, key line items on the Form HUD-50058 were incorrectly reported related to tenant annual income and/or tenant rent.

#### *HCV*

For 3 out of 120 (2.5%) recertifications tested under CFDA 14.881, key line items on the Form HUD-50058 were incorrectly reported related to tenant annual income, tenant rent, and/or housing assistance payments (HAPs).

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### Mod Rehab Program (CFDA 14.856)

Sixty tenants were selected for testing of compliance over the Form HUD-50058 reporting compliance requirement under CFDA 14.856. For 5 of 60 tenants tested (8.3%), key line items on the Form HUD-50058 were incorrectly reported related to tenant annual income and/or tenant rent.

##### *Questioned Costs:*

None

##### *Context:*

##### MTW Program (CFDA 14.881)

During fiscal year 2011, the Authority reported approximately 17,334 and 35,555 active Low-Rent and HCV tenants, respectively, under CFDA 14.881. The Authority was required to submit the following 18 reports to HUD (excluding Form HUD-50058) for MTW programs that covered the fiscal year under audit as follows:

- HUD-52723, *Operating Fund Calculation of Operating Subsidy* – one (annually)
- HUD-60002, Section 3 Summary Report, *Economic Opportunities for Low- and Very Low-Income Persons* – two (annually for two programs)
- HUD-52681-B, *Voucher for Payment of Annual Contributions and Operating Statement* – 12 (monthly)
- *Financial Assessment Sub System, FASS-PHA* – one (annually)
- HUD-50900, *Moving to Work Form* – one (annually)
- *Annual MTW Plan and Annual MTW Report* – one (annually)

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### Mod Rehab Program (CFDA 14.856)

During fiscal year 2011, the Authority reported 1,259 active tenants under CFDA 14.856. All active tenants have a Form HUD-50058.

##### *Effect:*

The Authority is not in compliance with federal reporting requirements.

##### *Cause:*

##### MTW Program (CFDA 14.881)

##### *Low-Rent*

Errors were made by the Authority's private property management companies during the re-certification process.

##### *HCV*

Of the three exceptions noted, all can be attributed to the miscalculation of income and utility allowance, which led to erroneous HAP and tenant portions being reported in the HUD-50058 form. One of the three (33%) exceptions is from the first quarter of 2011 processed by the new contractor, a period where the new contractor was hiring and training new staff.

##### Mod Rehab Program (CFDA 14.856)

The exceptions noted for incorrect annual income and tenant rent calculations were due to one-time errors by the contractor staff responsible for initial eligibility determinations and annual re-examinations.

##### *Recommendation:*

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of reporting activities is maintained and to enable compliance with federal reporting requirements.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### *Views of Responsible Officials and Planned Corrective Actions:*

##### MTW Program (CFDA 14.881)

##### *Low-Rent*

The Authority acknowledges income and rent calculation errors. In 2010 and 2011, the Authority's QCAs reviewed 10% and 15% of all tenant files, respectively; beginning January 2012, the Authority increased the QCAs review of tenant file folder to 20%. Where income/rent calculation errors are found, the Private Property Managers are required to make corrections through an interim re-examination and the management fee may be withheld.

The Authority recently developed an automated tenant file folder review tool to facilitate the QCAs' review of the tenant file folders (including income/rent calculations and maintenance of HUD/Authority required documentation.). This review tool structured the review process for both the Authority's public housing and Section 8 programs. The Authority continues to require Private Property Managers to be certified in rent calculation biannually.

##### *HCV*

The Authority, pursuant to the MTW Agreement with HUD, performs annual certification of the HCV participant households on a biennial basis. The Authority is audited for eligibility for this two-year period during which the certification of the household may be valid. This audit report, as stated above, includes files with exceptions from 2010 and 2011. The audit performed in 2010 also includes files from 2009 and 2010. The Authority believes that this practice of auditing for a two-year period distorts the significant program control and compliance improvements that the Authority has attained.

The Authority continues to improve its internal control and internal review of eligibility and reporting. Management does not believe the test performed reveals a systemic problem with regard to special reporting compliance. There were no control deviations identified in the control testing.

The Authority is committed to the continued strengthening of its quality control performance and demonstrates a strong effort to improve its processes.

Corrections have been made to all four files, and ongoing training will address these issues going forward.



## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### Mod Rehab Program (CFDA 14.856)

We recognize there were exceptions noted for reporting testing. However, 90% of the tenants selected had no exceptions noted, and the total value of the exceptions noted was below \$1,500. A new quality control tool has been implemented to increase productivity and detect eligibility and reporting errors. Finally, all contractor staff responsible for initial eligibility determinations and annual re-examinations has been retrained on the proper way to calculate annual income and tenant rent. In addition, the Authority has increased its quality control reviews to ensure that accurate data is reported on the HUD-50058 to HUD and to PIC.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

**Part III – Federal Award Findings and Questioned Costs Section (continued)**

**Finding 2011-03 Special Tests and Provisions (HQS Enforcement)**

*Federal Program Information:*

U.S. Department of Housing and Urban Development  
CFDA 14.881 – Moving to Work Demonstration Program:

Section 8 Housing Choice Vouchers  
Program Year: January 1, 2011 through December 31, 2011  
Program No.: IL002-VO

*Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

For units under HAP contract that fail to meet housing quality standards (HQS), the PHA must require the owner to correct any life-threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR Sections 982.158(d) and 982.404).

*Condition:*

We selected 60 tenants for testing of HQS enforcement and noted exceptions in 2 of the tenants tested (3.3%). In both instances, the Authority did not follow up on the failed inspection in a timely manner.

*Questioned Costs:*

None

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

*Context:*

During fiscal year 2011, the Authority reported approximately 34,539 active HCV tenants who participated in field inspections, of which 20,937 tenants had failed their inspection.

*Effect:*

The Authority is not in compliance with the special tests and provisions requirements of CFDA 14.881 as they relate to HQS enforcement.

*Cause:*

In both instances the initial inspection series were incorrectly closed. Upon discovery of this error, the Authority rescheduled the inspection series at a later date. The timing of the rescheduling of inspections did not account for the correction of data entry errors. Thus, if an error in a failed inspection that required a reinspection was not corrected by the morning of the following business day, it was inadvertently omitted from the rescheduling process.

*Recommendation:*

The Authority should strengthen existing policies, procedures, and internal controls to enable compliance with federal special tests and provisions requirements of CFDA 14.881 as they relate to HQS enforcement.

*Views of Responsible Officials and Planned Corrective Actions:*

The Authority is committed to the continued strengthening of its quality control performance and demonstrates a strong effort to improve its processes.

This system error described under Cause has subsequently been corrected.

The Authority has demonstrated a significant decrease in the error rate from 8% in 2008 to just 3% in the last two years. There have been no exceptions in the control test in the last four years.

Similarly, the financial impact of the exceptions for the HCV Program has decreased from \$2,847 in 2010 to \$0 in 2011.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

In 2011, the Authority's contractor responsible for inspections ended its subcontract and began processing inspections itself. The inspections results, previously maintained in the eMIMS system (the proprietary software of the inspections subcontractor), is now entered directly into the Authority's system of record, Yardi.

The contractor also added a weekly quality control process called the Stale Inspection Report. This report identifies any inspection that requires a reinspection that has not been scheduled. Each item appearing on the report is researched on a case-by-case basis. This process is designed to identify and schedule missed reinspections before they are due.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

#### **Finding 2011-04 Special Tests and Provisions (Tenant Utility Allowances, Housing Quality Standards, and Contract Rent Adjustments)**

##### *Federal Program Information:*

U.S. Department of Housing and Urban Development  
Section 8 Project-Based Cluster:

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate  
Rehabilitation  
Program Year: January 1, 2011 through December 31, 2011  
Program Nos.: Various

##### *Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

##### Tenant Utility Allowances

The PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types; (b) make an annual review of tenant utility allowances to determine their reasonableness; and (c) adjust the allowances, when appropriate (24 CFR Sections 5.603, 880.610, 881.601, 882.510, 882.808(k), 883.701, 884.220, 886.126, and 886.326).

##### Housing Quality Standards

The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary (24 CFR Sections 880.612, 881.601, 882.516, 882.808(n), 883.701, 884.217, 886.123, and 886.323).

##### Contract Rent Adjustments

The PHA or owner applies or ensures annual adjustments to contract rents are applied. The HAP contract specifies the method to be used to determine rent adjustments. Adjustments must not result in material differences between rents charged for assisted units and comparable unassisted units except as those differences existed at contract execution. Special adjustments to contract rents, within the original contract term, may also be made to the extent deemed necessary by the

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

PHA or HUD (24 CFR Sections 880.609, 881.601, 882.410, 882.808(e), 883.701, 884.109, 886.112, and 886.312).

*Condition:*

#### Tenant Utility Allowances

Sixty tenants were selected for compliance testing over the tenant utility allowance requirement. For 13 of 60 (22%) tenants tested, an incorrect tenant utility allowance schedule was used in the allowance calculation.

#### Housing Quality Standards

Sixty tenants/units were selected for compliance testing of the HQS inspection process. Of the 60 tenants tested, 12 (20%) tenants tested under CFDA 14.856 had various exceptions that can be categorized as follows:

- For 10 of 12, the HQS inspection was performed in 2011, but it was not completed annually based on the last HQS inspection documented by the Authority. The program is required to conduct an HQS inspection annually.
- For 1 of 12, the inspection results letters sent to the tenant and owner were not available, and the HQS inspection was performed in 2011, but it was not completed annually based on the last HQS inspection documented by the Authority.
- For 1 of 12, a reinspection to ensure that the unit passed an HQS inspection was not performed.

#### Contract Rent Adjustments

Sixty tenants were selected for compliance testing over the contract rent adjustments requirement. Of the 60 tenants tested, 10 (16.7%) tenants tested under CFDA 14.856 had various exceptions that can be categorized as follows:

- For 7 of 10, no contract rent adjustment was recorded in Yardi.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

- For 2 of 10, the incorrect operating cost adjustment factor (OCAF) was used in the calculation of the rent adjustment.
- For 1 of 10, the contract rent adjustment was recorded in Yardi before the effective date of the adjustment.

In addition, we noted that for 27 of 60, the contract rent adjustment was not recorded in the Authority's property system Yardi until fiscal year 2012.

#### *Questioned Costs:*

##### Tenant Utility Allowances

\$170

##### Housing Quality Standards and Contract Rent Adjustments

None

#### *Context:*

##### Tenant Utility Allowances

During fiscal year 2011, the Authority reported 251 active tenants with a utility allowance for CFDA 14.856.

##### Housing Quality Standards and Contract Rent Adjustments

During fiscal year 2011, the Authority reported 1,259 active tenants for CFDA 14.856.

#### *Effect:*

The Authority is not in compliance with the utility allowance, HQS, and contract rent adjustments requirements of CFDA 14.856.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

##### *Cause:*

##### Tenant Utility Allowances

The contractors responsible for applying the utility allowance to the tenants inadvertently used the wrong utility allowance schedules.

##### Housing Quality Standards

In 2011, to ensure inspections were performed annually, the Authority switched to a bulk inspection schedule. This schedule was designed to ensure all unit inspections were performed prior to the HAP anniversary date for that property. Even though units were inspected in 2011, some were not inspected within 365 days of the date the units last passed an inspection.

##### Contract Rent Adjustments

The Authority considers the compliance exceptions to be one-time errors.

In addition, for the issue related to contract rents not being recorded in Yardi until 2012, the contractor responsible for rent adjustments performs an annual reconciliation between contract rents recorded on the HUD-50058 to the HAP contracts. This reconciliation and the subsequent corrections of miscoded contract rents on the HUD-50058 were performed in 2012.

##### *Recommendation:*

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of tenant utility allowances, housing quality standards, and contract rent adjustments under CFDA 14.856 is maintained and to enable compliance with the aforementioned federal requirements.

##### *Views of Responsible Officials and Planned Corrective Actions:*

##### Tenant Utility Allowances

All Authority staff has been retrained on the proper administration of the utility allowance in Yardi, and a thorough audit of the unit screens in Yardi has been conducted to ensure that the utility allowances match the executed HAP contracts. A monthly review of utility allowances is



## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

conducted to ensure all utility allowances are correct utilizing the PRA0005 PBV and Mod Rehab Unit Detail Report. Additionally, the Authority has increased its quality control reviews to ensure the accuracy of the utility allowances.

#### Housing Quality Standards

To ensure inspections are performed annually, the bulk month for each site will be revised annually, effectively creating an 11 month, rather than one-year annual inspection cycle.

To ensure reinspections are performed, the Authority's contractor responsible for inspections amended its inspection scheduling routine to pull inspections for rescheduling to be based upon any failed inspection within a prescribed time period that was loaded into Yardi, regardless of the date of the inspection. This has ensured that any result that is not loaded in a timely manner, or that is corrected due to an error, is pulled for scheduling.

The contractor has also added a weekly quality control process called the Stale Inspection Report. This report identifies any inspection that requires a reinspection that has not been scheduled. Each item appearing on the report is researched on a case-by-case basis. Erroneous data in Yardi is corrected, and any needed reinspection is scheduled. This process is designed to be proactive in identifying and scheduling missed reinspections before they are due.

#### Contract Rent Adjustments

For the issue related to contract rents not being recorded until 2012, it is management's opinion there is nothing in the Mod Rehab regulations that addresses when a contract rent adjustment has to be recorded. This had no impact on the tenant's portion of the rent.

However, we recognize the need to ensure contract rents are being recorded and recorded on a timelier basis. The Authority has revised its procedures and implemented an automated tracking site, via SharePoint, that assists and alerts the proper staff to ensure time frames are adhered to for processing rent increases. With the revised procedures, rent increases will be processed in Yardi 30 days in advance of the effective date. As a quality control measure on all contract rent adjustments, the Authority will run the PRA0005 PBV and MOD Rehab Unit Detail Report within 14 days after the effective date of any approved rent increase to ensure that each unit reflects the most recent and accurate contract rent amounts. If any errors are identified, they will be corrected within 48 hours.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

**Part III – Federal Award Findings and Questioned Costs Section (continued)**

**Finding 2011-05 Special Tests and Provisions – Vacant Units**

*Federal Program Information:*

U.S. Department of Housing and Urban Development  
Section 8 Project-Based Cluster:

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate  
Rehabilitation

Program Year: January 1, 2011 through December 31, 2011

Program Nos.: Various

*Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

The PHA or owner must reduce claims for assistance on vacant units under certain circumstances. However, there are instances where special claims are allowed for vacancy losses, unpaid rent, and tenant damages on eligible units (24 CFR Sections 880.611, 881.601, 882.411, 882.808(f), 883.701, 884.106, 886.109, and 886.309).

*Condition:*

Seventeen tenants were selected for testing of controls and compliance over the vacant units compliance requirement. For 1 of 17 units tested (6%), the owner of the unit was paid for five months for a unit that had been vacated per the Authority's vacancy report.

*Questioned Costs:*

\$2,535

*Context:*

There were 168 vacancies reported during the year under the CFDA 14.856 program.

*Effect:*

The Authority is not in compliance with special tests and provisions requirements of the federal program as they relate to vacant units.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

*Cause:*

The contractor did not receive a vacancy report from the owner until April 2011. At that point the unit had been vacant for at least five months.

*Recommendation:*

The Authority should strengthen existing procedures and controls over the special tests and provisions requirements of its federal award programs.

*Views of Responsible Officials and Planned Corrective Actions:*

The Authority, through its contractors, will update its policies and procedures regarding vacant units. Specifically, policies will be implemented to address how the owner reimburses the Authority for receiving payments for vacant units, especially when the owner withholds vacancy information in order to continue to receive payment for those vacant units.

# Chicago Housing Authority

## Schedule of Findings and Questioned Costs (continued)

### Part III – Federal Award Findings and Questioned Costs Section (continued)

#### **Finding 2011-06 Reporting**

*Federal Program Information:*

U.S. Department of Housing and Urban Development  
CFDA 14.866 – Demolition and Revitalization of Severely Distressed Public Housing  
(HOPE VI)  
Program Years: 1994, 1996, 2000, 2001, 2002, and 2008  
Program Numbers: Various

*Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

Quarterly Progress Reports

Revitalization grant reporting requirements state that “the HOPE VI Quarterly Progress Report is the primary instrument used to collect data about ongoing HOPE VI revitalization progress. It is a comprehensive program management tool that provides HUD with the information necessary to track program progress. This report replaces the requirements of the five page narrative report and SF-269 that were previously used to report program progress. The exact program format changes regularly as the program evolves, and grantees are given explicit instructions from HUD each quarter.”

*Condition:*

Twenty-one reports were selected for compliance testing (20 quarterly reports [13 demolition and 7 revitalization] and 1 yearly HUD-60002 report). As a result of our testing, we identified 7 of 21 reports (all quarterly progress reports) with compliance exceptions (33.3%) as follows:

- For 1 of 21, information did not agree to the HUD eLOCCS reports, and the information did not agree to the Authority’s quarterly trial balance.
- For 6 of 21, information did not agree to support provided by the court-appointed receiver, Habitat.

*Questioned Costs:*

None

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

*Context:*

There were a total of 81 reports required to be submitted during the fiscal year or required to be submitted subsequent to year-end that related to the fiscal year under audit.

*Effect:*

The Authority is not in compliance with federal reporting requirements.

*Cause:*

Demolition Grant Reporting

One quarterly progress report, for grant IL06URD002D598, due to oversight, does not match the September 30, 2011, fund availability report. It was not updated on the third quarter HUD-52837 report and reflects the prior (second) quarter amount.

Revitalization Grants

The HOPE VI reporting system established by HUD and its third-party vendors has inherent limitations for reporting HOPE VI activity, including updating cumulative amounts and correcting balances once errors are noted. These limitations cause balances reflected to appear in error in the third-party system.

*Recommendation:*

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of reporting activities is maintained and to enable compliance with federal reporting requirements. For the revitalization grants, expenditures reported should be reconciled back to source documentation quarterly, to support the figures ultimately reported to HUD.

## Chicago Housing Authority

### Schedule of Findings and Questioned Costs (continued)

#### **Part III – Federal Award Findings and Questioned Costs Section (continued)**

*Views of Responsible Officials and Planned Corrective Actions:*

##### Demolition Grant Reporting

The grant IL06URD002D598 report was corrected in the following (fourth) quarter and agrees to the December 31, 2011, fund availability report.

##### Revitalization Grants

It is management's view that the underlying transactions are correct. The Authority continues to work closely with HUD and its vendors to refine the reporting system and the data input protocols to provide accurate information in a useable format.

## Chicago Housing Authority

### Summary Schedule of Prior Audit Findings as of August 3, 2012

#### **Federal Award Findings and Questioned Costs Year Ended December 31, 2010**

##### **Finding 2010-01 Eligibility (CFDA 14.881)**

See Finding 2011-01

##### **Finding 2010-02 Reporting (CFDA 14.881)**

See Finding 2011-02

##### **Finding 2010-03 Special Tests and Provision (Utility Allowance – CFDA 14.881 and Tenant Utility Allowance – CFDA 14.856)**

CFDA – 14.881: Corrective action taken

CFDA – 14.856: See Finding 2011-04

##### **Finding 2010-04 Special Tests and Provisions (HQS Enforcement and HQS Inspections – CFDA 14.881)**

HQS Enforcement: See Finding 2011-03

HQS Inspections: Corrective action taken

##### **Finding 2010-05 Special Tests and Provisions (Contract Rent Adjustments – CFDA 14.856, Housing Quality Standards – CFDA 14.856, and Housing Assistance Payment – CFDA 14.881)**

CFDA – 14.881: Corrective action taken

CFDA – 14.856: See Finding 2011-04

##### **Finding 2010-06 Schedule of Expenditures of Federal Awards**

Corrective action taken

Chicago Housing Authority

Summary Schedule of Prior Audit Findings as of August 3, 2012 (continued)

**Finding 2010-07 Eligibility and Special Tests and Provisions – Participants and Work Sites (CFDA 93.714)**

Program ended during 2010. No further action taken.

**Finding 2010-08 Special Tests and Provisions (CFDA 93.714)**

Program ended during 2010. No further action taken.

**Finding 2010-09 Reporting (CFDA 93.714)**

Program ended during 2010. No further action taken.

**Finding 2010-10 Reporting (CFDA 14.866)**

See Finding 2011-06

**Federal Award Findings and Questioned Costs  
Year Ended December 31, 2009**

Finding 2009-01	See Finding 2011-06
Finding 2009-02	See Findings 2011-01 and 2011-02
Finding 2009-03	Corrective action taken
Finding 2009-04	Corrective action taken
Finding 2009-05	See Finding 2011-04
Finding 2009-06	See Findings 2011-01 and 2011-02
Finding 2009-07	See Finding 2011-03
Finding 2009-08	Corrective action taken
Finding 2009-09	See Finding 2011-04



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