



CHICAGO HOUSING AUTHORITY

2016 SINGLE AUDIT REPORT

SINGLE AUDIT REPORT AND
ACCOMPANYING SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

Chicago Housing Authority
Year Ended December 31, 2016
With Reports of Independent Auditors

Ernst & Young LLP



Chicago Housing Authority

Single Audit Report and Accompanying
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2016

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Report of Independent Auditors

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

Report on the Financial Statements

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Chicago Housing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Employees' Retirement Plan (the Plan), which is shown as the Fiduciary Fund Type – Pension Trust Fund as of and for the years ended December 31, 2016 and 2015. Those statements were audited by other auditors whose report 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 also did not audit the financial statements of Britton Budd, Kenmore and Pomeroy Limited Liability Partnerships, which are described in Note 10 as blended component units as of and for the years ended December 31, 2016 and 2015, and which statements reflect total assets constituting 3.9% and 4.0% of the total assets reflected on the statements of net position as of December 31, 2016 and 2015, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the identified blended component units, is based on the reports 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 and Britton Budd, Kenmore and Pomeroy Limited Liability Partnerships were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the 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, 2016 and 2015, 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.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis, Schedule of Changes in Plan's Net Pension Liability and Related Ratios, and Schedule of Plan Contributions on pages 26 through 37 and page 90 through 91 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 which 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 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.

Supplementary and Other Information

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 combining schedule of programs on pages 94 through 99, individual program schedules on pages 102 through 122 and Financial Data Schedules on pages 124 through 250 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 basic financial statements. Such 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 basic financial statements or to the basic 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 as a whole.

The accompanying Introductory Section and the Statistical Section have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 8, 2017 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* in considering the Chicago Housing Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

June 8, 2017



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

The Board of Commissioners, Chief Executive Officer, and
Chief Financial Officer of the Chicago Housing Authority
Chicago, Illinois

We have audited, 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, the financial statements, not included herein, of the Proprietary Fund Type and Fiduciary Fund Type activities of the Chicago Housing Authority (the Authority) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated June 8, 2017. Our report includes a reference to other auditors who audited the financial statements of the Authority Employees' Retirement Plan (the Plan) and certain blended component units, as described in our report on the Authority's financial statements. The financial statements of the Plan and the certain blended component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 8, 2017



Report of Independent Auditors on Compliance for the Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Commissioners, Chief Executive Officer, and
Chief Financial Officer of the Chicago Housing Authority
Chicago, Illinois

Report on Compliance for Each Major Federal Program

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) *Compliance Supplement* that could have a direct and material effect on the Authority's major federal programs for the year ended December 31, 2016. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on CFDA 14.881

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.881 Moving to Work Demonstration Program as described in finding numbers 2016-001 for Eligibility, 2016-002 for Reporting and 2016-003 for Special Tests and Provisions: N2 – Public Housing Waiting List. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

Qualified Opinion on CFDA 14.881

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 14.881 Moving to Work Demonstration Program for the year ended December 31, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2016.

Other Matters

The Authority's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on

internal control over compliance in accordance with the Uniform Guidance, 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 2016-001, 2016-002, and 2016-003 to be material weaknesses.

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2016-001	14.881	Moving to Work Demonstration Program	Eligibility
2016-002	14.881	Moving to Work Demonstration Program	Reporting
2016-003	14.881	Moving to Work Demonstration Program	Special Tests and Provisions: N2 – Public Housing Waiting List

The Authority’s responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Authority’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended December 31, 2016, and have issued our report thereon dated June 8, 2017 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 financial statements as a whole.

Ernst + Young LLP

June 8, 2017

Chicago Housing Authority

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2016

	Federal CFDA Number	Total Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Housing and Urban Development Direct Awards:			
Section 8 Project-Based Cluster:			
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	\$ 8,196,314	\$ –
Hope VI Cluster:			
Demolition and Revitalization of Severely Distressed Public Housing	14.866	3,504,466	–
Public-Housing Capital Fund/Emergency Safety and Security Grant	14.872	248,845	248,845
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services	14.877	796,565	796,565
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers/HUD-Veteran Affairs Supportive Housing Program	14.871	8,581,555	–
Mainstream Vouchers	14.879	456,182	–
Total Housing Voucher Cluster		<u>9,037,737</u>	–
Moving to Work Demonstration Program:			
Public and Indian Housing/Low-Rent Housing (Operations)		165,190,771	–
Section 8 Housing Choice Vouchers		502,496,912	–
Public Housing Capital Fund		111,369,988	–
Total Moving to Work Demonstration Program	14.881	<u>779,057,671</u>	–
Jobs-Plus Pilot Initiative	14.895	590,494	584,269
Juvenile Reentry Assistance Program	14.897	44,185	44,185
Total U.S. Department of Housing and Urban Development		<u>801,476,277</u>	<u>1,673,864</u>
 Total Expenditures of Federal Awards		 <u>\$ 801,476,277</u>	 <u>\$ 1,673,864</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

Chicago Housing Authority

Notes to Schedule of Expenditures of Federal Awards

December 31, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Chicago Housing Authority (the Authority) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following applicable cost principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Authority has not elected to use the 10% de minimis direct cost rate as allowed under the Uniform Guidance.

Chicago Housing Authority

Schedule of Findings and Questioned Costs

December 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (unmodified, qualified, adverse, or disclaimer)

Unmodified

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

Internal control over major federal program:

Material weakness(es) identified?

 X Yes No

Significant deficiency(ies) identified?

 Yes X No

Type of auditor’s report issued on compliance for major federal program (unmodified, qualified, adverse, or disclaimer):

CFDA 14.856 – Unmodified
CFDA 14.866 – Unmodified
CFDA 14.871/14.879 – Unmodified
CFDA 14.881 – Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X Yes No

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

None identified.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse).

Finding 2016-001 Eligibility

Information on the Federal Program:

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

Public and Indian Housing (Public Housing)
Program Year: January 1, 2016 through December 31, 2016
Program No.: IL002-001-00015D

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

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).

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 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 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).

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Select tenants from the waiting list (24 CFR sections 960.206 through 960.208 and 982.202 through 982.207).

Reexamine family income and composition at least once every 12 months (Public Housing program) or 24 months (HCV program) and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR section 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) Moving-to-Work (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 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, reexamination of family income and composition under the HCV program is performed bi-annually.

Condition:

Eighty-five individuals were selected for testing of compliance with, and controls over, the eligibility requirements for the program. For the 85 individuals selected, 60 were Public Housing applicants, and 25 were HCV applicants. In our testing of the Authority's controls over the eligibility requirements, there were six Public Housing tenants for which eligibility control deviations were noted (10% Public Housing program deviation rate; 7.06% overall MTW deviation rate). The nature of the control deviations identified related to untimely or missing signatures by the certification specialists or the tenants on key eligibility documentation. In our testing over the eligibility compliance requirements, there were four Public Housing tenants for which compliance exceptions were noted (6.67% Public Housing program exception rate; 4.71% overall MTW exception rate). Of the exceptions identified, the issues were due to the certification specialists not including all income from the family file documents or third-party verification of reported family annual income on the Form HUD-50058, the tenant's rent payment not being calculated using the documentation from third-party verification, or the failure to perform the re-examination within the required timeframe.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Questioned Costs:

\$962 – CFDA 14.881

Context:

The Public Housing program and HCV program had 15,921 tenants and 44,953 tenants on its rent rolls, respectively, as of December 31, 2016.

Effect:

The Authority has a material weakness in internal control over compliance with the eligibility requirements of CFDA 14.881.

Cause:

Staff responsible for annual certifications made errors which went undetected. Reasons for these errors included failure to obtain timely or any signatures by the tenants on key documentation, using the incorrect form to verify income, neglecting to verify proper third-party income documentation and failure to perform the re-examination within the required timeframe.

Identification as a Repeat Finding, if Applicable:

This is a repeat finding from the prior audit and the prior year audit finding number is Finding 2015-001.

Recommendation:

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of eligibility activities is properly maintained and reviewed in order to comply with federal eligibility requirements.

Views of Responsible Officials and Planned Corrective Actions:

Management has concurred on the exceptions identified. Refer to Notes and Findings/Action Plans prepared by the Authority as an attachment to this report.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Finding 2016-002 Reporting

Information on the Federal Program:

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

Public and Indian Housing (Public Housing)
Program Year: January 1, 2016 through December 31, 2016
Program No.: IL002-001-00015D

Public Housing Capital Fund (Capital Fund)
Program Year: January 1, 2016 through December 31, 2016
Program Nos.: IL06P002501-15; IL06R002501-15; IL06R002502-15

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:

- (1) Line 2a – Type of action
- (2) Line 2b – Effective date of action
- (3) Line 2k – FSS participation now or in the last year
- (4) Line 3b, 3c – Last name, First name
- (5) Line 3e – Date of birth
- (6) Line 3n – Social Security numbers
- (7) Line 5a – Unit address
- (8) Line 5h – Date unit last past HQS inspection
- (9) Line 5i – Date of last annual HQS Inspection
- (10) Line 7i – Total annual income
- (11) Line 13h – Contract rent to owner
- (12) Line 13k – Tenant rent

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

- (13) Line 13x – Mixed family tenant rent
- (14) Line 17a – Participation in special programs – participation in the Family Self Sufficiency (FSS) Program
- (15) Line 17k(2) – FSS account information – balance

For each capital fund grant and each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD-60002 annually (24 CFR sections 135.3(a) and 135.90).

The following key line items on the Form HUD-60002 contain critical information:

- (1) 3. Dollar Amount of Award
- (2) 8. Program Code
- (3) c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- (4) d. Part II, Contracts Awarded, 1. Construction Contracts:
 - A. Total dollar amount of construction contracts awarded on the project
 - B. Total dollar amount of construction contracts awarded to Section 3 businesses
 - D. Total number of Section 3 businesses receiving construction contracts
- (5) e. Part II, Contracts Awarded, 2. Non-Construction Contracts:
 - A. Total dollar amount of all non-construction contracts awarded on the project/activity
 - B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
 - D. Total number of Section 3 businesses receiving non-construction contracts

Condition:

Eighty-five individuals were selected for testing of compliance with, and controls over, the Form HUD-50058 reporting requirements for the program. For the 85 individuals selected, 60 were Public Housing applicants, and 25 were HCV applicants. In our testing of the Authority's controls over the Form HUD-50058 reporting requirements, there were eight Public Housing tenants for which reporting control deviations were noted (13.33% Public Housing program deviation rate; 9.41% overall MTW deviation rate). In all of the instances, the issue related to key line items on the Form HUD-50058 being stated incorrectly, including date of birth, Social Security numbers and total annual income. In our testing over the Form HUD-50058 reporting compliance requirements, eight Public Housing tenants with reporting compliance exceptions were identified (13.33% Public Housing exception rate; 9.41% overall MTW exception rate). Of these exceptions, the nature of the issues identified were due to not including all income from the family file

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

documents or third-party verification of reported family annual income on the Form HUD-50058, the tenant's rent payment not being calculated using the documentation from third-party verification, or due to key line items on the Form HUD-50058 being stated incorrectly, including date of birth, Social Security numbers, and total annual income.

For the Low Rent Form HUD-60002 report, the key line items "Part II, Contracts Awarded, 1. Construction Contracts: D. Total number of Section Three businesses receiving construction contracts" and "Part II, Contracts Awarded, 2. Non-Construction Contracts: D. Total number of Section 3 businesses receiving non-construction contracts" were reported incorrectly to HUD. As this is an annual report, we noted two errors out of seven key line items in total for this report (28.57% error rate in key line items tested).

For the Capital Fund HUD-60002 report, the key line item "Part II, 1. Contracts Awarded, 1. Construction Contracts: D. Total number of Section Three businesses receiving construction contracts" was reported incorrectly to HUD. As this is an annual report, we noted one error out of seven key line items in total for this report (14.29% error rate in key line items tested).

Questioned Costs:

\$962 – CFDA 14.881

Context:

The Public Housing program and HCV program had 15,921 tenants and 44,953 tenants on its rent rolls, respectively, as of December 31, 2016. All active tenants have a Form HUD-50058, which is filed annually (Public Housing) or bi-annually (HCV). The Authority was required to submit the following 19 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-52725, *Schedules of Compensation and Position* – one (annually)
- HUD-60002, Section 3 Summary Report, *Economic Opportunities for Low-and Very Low-Income Persons* – two (annually for each program)

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

- HUD-52681-B, *Voucher for Payment of Annual Contributions and Operating Statement* – 12 (monthly)
- FASS-PHA, *Financial Assessment Sub System* – one (annually)
- HUD-50900, *Annual MTW Plan and Annual MTW Report* – one each (annually)

Effect:

The Authority has a material weakness in internal control over compliance with the reporting requirements of CFDA 14.881.

Cause:

Public Housing – Form HUD-50058

The property management staff incorrectly calculated tenant income by using the incorrect documentation and failed to retain the proper documentation in each tenant's file.

Public Housing and Capital Fund – Form HUD-60002

The key line item errors identified were misreported due to human error. Per the B2Gnow system (the primary data source of the Form HUD-60002 report), the key line items were correctly listed, but not appropriately transferred over to the Form HUD-60002. Further, this error was not detected through Quality Control review by management.

Identification as a repeat finding, if applicable:

Public Housing

For Form HUD-50058, this is a repeat finding from the prior audit and the prior year audit finding number is Finding 2015-002. For Form HUD-60002, this is not a repeat finding from the immediately prior audit.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Capital Fund

For Form HUD-60002, this is a repeat finding from the prior audit and the prior year audit finding number is Finding 2015-002.

Recommendation:

The Authority should strengthen existing policies, procedures, and internal controls so that adequate documentation of reporting activities is properly maintained and reviewed in order to comply with federal reporting requirements.

Views of Responsible Officials and Planned Corrective Actions:

Management has concurred on the exceptions identified. Refer to Notes and Findings/Action Plans prepared by the Authority as an attachment to this report.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Finding 2016-003 Special Tests and Provisions: N2 – Public Housing Waiting List

Information on the Federal Program:

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

Public and Indian Housing (Public Housing)
Program Year: January 1, 2016 through December 31, 2016
Program No.: IL002-001-00015D

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

Per 24 CFR sections 960.202 through 960.206, the PHA must establish and adopt written policies for admission of tenants. The PHA tenant selection policies must include requirements for applications and Waiting Lists, description of the policies for selection of applicants from the Waiting Lists, and policies for verification and documentation of information relevant to acceptance or rejections of an applicant.

Condition:

100 tenants were selected for testing of compliance with and controls over both the addition of new applicants to the Waiting Lists and the selection of applicants from the Waiting Lists. For the 100 tenants selected, 50 were Public Housing applicants, and 50 were HCV applicants, and each of these samples was split between testing new additions to the Waiting Lists and testing the placement of applicants from the Waiting Lists.

As a result of our testing applicants placed into units from the Waiting Lists in FY2016, we identified three Public Housing tenants where the Authority's Wait List procedures were not properly followed in the placement of a sample of 25 applicants from the Public Housing Waiting Lists. In the errors identified, the issues related to the incorrect exclusion of applicants from consideration for placement in an available unit due to errors in the manual process of sorting the Waiting List based on an applicant's preferences or priority according to the Authority's policies. These errors evidence a design deficiency in applying the Authority's tenant selection policies and represent control and compliance exceptions (12% Public Housing error rate).

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Questioned Costs:

None

Context:

The Public Housing program and HCV program had 6,995 applicants and 42,700 applicants on its Waiting Lists, respectively, as of December 31, 2016. During the year ended December 31, 2016, the Public Housing program and HCV program had 859 and 2,050 applicants, respectively, placed from the Waiting Lists into units.

Effect:

The Authority has a material weakness in internal control over compliance with the special tests and provisions requirements of CFDA 14.881 as it relates to the placement of applicants from the Public Housing Waiting Lists.

Cause:

The filtered Waitlist for the Public Housing program which discloses potential candidates for move-in included applicants that were not working (a preference that is considered unallowable to be selected) or incorrectly excluded applicants from consideration for placement in an available unit.

The noted exceptions have been confirmed for Traditional Family and Senior Housing Waitlist samples. The exceptions are as a result of the current manual process by which Waitlists are generated and filtered. Several steps must be taken to manually filter Waitlists to include and/or exclude applicants for various eligibility criteria and preferences (work requirement, geographic preference, mobility preference, sensory preference, etc.).

Identification as a repeat finding, if applicable:

This is a repeat finding from the prior audit and the prior year audit finding number is Finding 2015-003.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Recommendation:

The Authority should implement application-based controls to eliminate the manual aspects of the sorting and identifying of applicants from the Public Housing Waiting Lists based on their preferences and priorities, in accordance with the Authority's policies, to enable compliance with federal Waiting List requirements.

Views of Responsible Officials and Planned Corrective Actions:

Management has concurred on the exceptions identified. Refer to Notes and Findings/Action Plans prepared by the Authority as an attachment to this report.

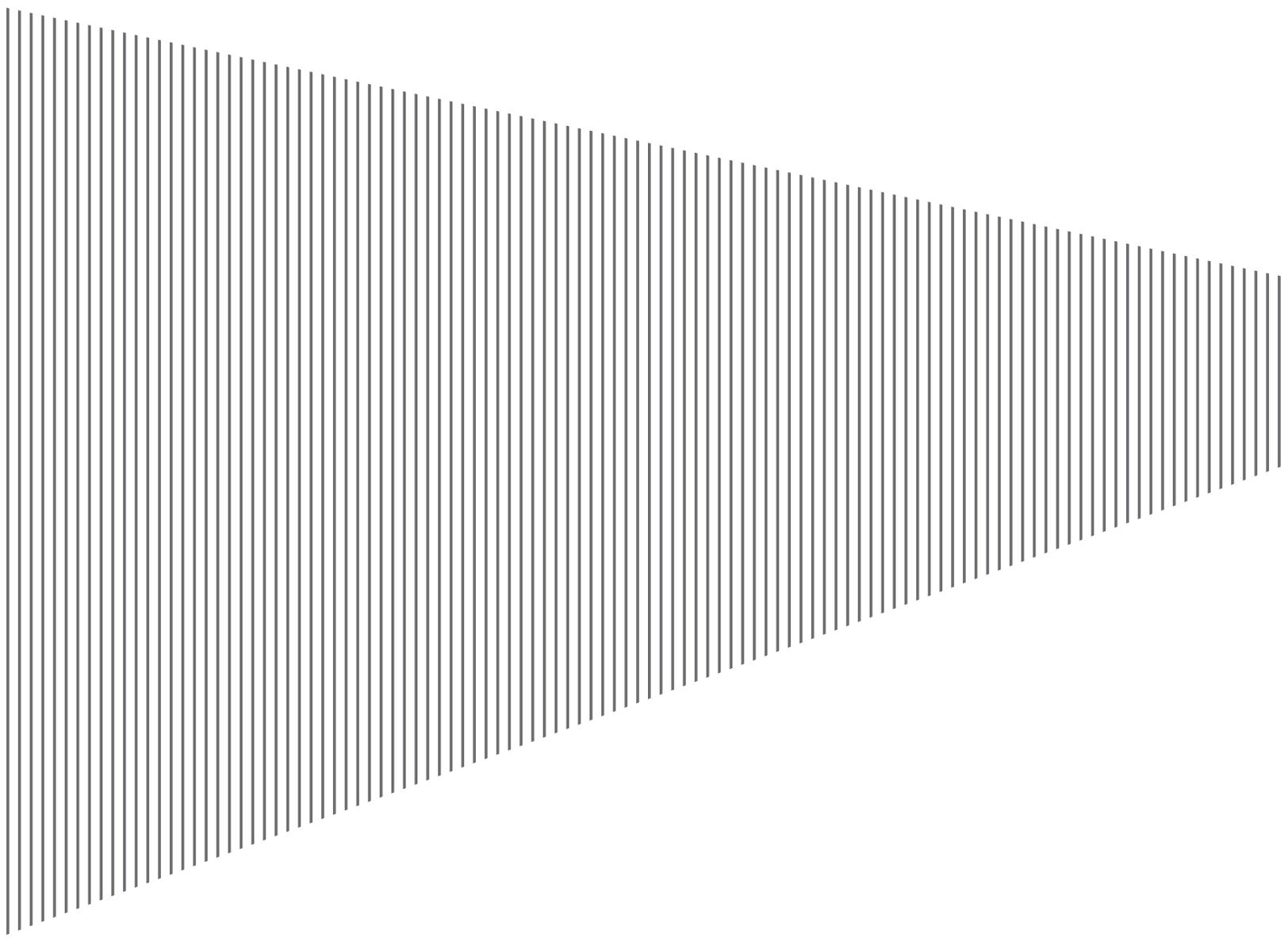
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CHICAGO HOUSING AUTHORITY

2016 SINGLE AUDIT REPORT

NOTES AND FINDINGS AND CORRECTIVE ACTION PLANS



Chicago Housing Authority

Summary Schedule of Prior Audit Findings

John T. Hooker
Chairperson

Matthew Brewer
Craig Chico
Mark Cozzi
Dr. Mildred Harris
John G. Markowski
M. Bridget Reidy
Francine Washington
Board of Commissioners

Eugene Jones, Jr.
Chief Executive Officer

Financial Statement Findings for the Year Ended December 31, 2015:

- None identified

Federal Award Findings and Questioned Costs for the Year Ended December 31, 2015:

- **Finding 2015-001 Eligibility (CFDA 14.881)**
 - Refer to current year Finding 2016-001
 - Recurrence reason: Form HUD-50058 – Added training and quality control techniques did not increase the level of accuracy in the reporting requirements.
- **Finding 2015-002 Reporting (CFDA 14.881)**
 - Refer to current year Finding 2016-002
 - Recurrence reason: Form HUD-50058 – Added training and quality control techniques did not increase the level of accuracy in the reporting requirements.
 - Recurrence reason: Form HUD-60002 – The 2016 errors are not a reoccurrence from the previous audit period. The 2015 error was on the Excel spreadsheet, not in SPEARS, and the error was due to duplicate entry of a vendor in the B2Gnow System (because the names entered were slightly different) which resulted in counting the vendor twice during excel data manipulation. For 2016, there was no error in the Excel spreadsheet figures.

Chicago Housing Authority
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Federal Award Findings and Questioned Costs for the Year Ended December 31, 2015 (continued):

- **Finding 2015-003 Special Tests and Provisions: N2 – Public Housing Waiting List Reporting (CFDA 14.881)**
 - Refer to current year Finding 2016-003
 - Recurrence reason: Manual waitlist filtering process. Occupancy coordinated with the Information Technology department to develop a more efficient method of generating waitlists. Waitlist processes were developed in 2016 which resulted in less manual manipulation, however, additional development was deemed necessary to further enhance this process.

Financial Statement Findings for the Year Ended December 31, 2014:

- None identified

Federal Award Findings and Questioned Costs for the Year Ended December 31, 2014:

- **Finding 2014-001 Special Tests and Provisions: N2 Public Housing Waiting List (CFDA 14.881)**
 - Refer to current year Finding 2016-003; and Finding 2015-003
 - Recurrence reason: Manual waitlist filtering process.



**Real Estate Assessment Center
Financial Assessment Subsystem (FASS-PH)**

Attachment: Notes and Findings / Action Plans

PHA Information

PHA Code: IL002

Fiscal Year End Date: 12/31/2016

PHA Name: Chicago Housing Authority (“Authority”)

Submission Type: Audited/A133

John T. Hooker
Chairperson

Matthew Brewer
Craig Chico
Mark Cozzi
Dr. Mildred Harris
Meghan Harte
John G. Markowski
Cristina Matos
Francine Washington
Board of Commissioners

Eugene Jones, Jr.
Chief Executive Officer

Finding 2016-001 Eligibility

Contact Person: Chief Property Officer

Planned Actions: Continuous File Reviews, Training and Accountability

The Authority will require a qualified site staff member from the Private Property Management Firm to prepare or update resident files for initial occupancy or recertification along with initialing and dating each item on all control sheets in the front of each file section. Upon completion, the file is to be reviewed by a second qualified site staff member for accuracy and completeness. Training of CHA and site staff will be conducted. All CHA and site staff will be required to maintain Rent Calculation Certification on a Bi-Annually Basis.

Portfolio Managers, from the Property Office, will be required to review two resident files every week utilizing the **YARDI *Tenant File Auditing Tool***. Portfolio Manager, upon completion of their review, is required to initial and provide the date the audit was performed at the bottom of each control page.

Anticipated Completion Date: Fourth (4th) Quarter 2017



**Real Estate Assessment Center
Financial Assessment Subsystem (FASS-PH)**

Attachment: Notes and Findings / Action Plans

PHA Information

**PHA Code: IL002
Fiscal Year End Date: 12/31/2016
PHA Name: Chicago Housing Authority (“Authority”)
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Board of Commissioners

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Chief Executive Officer

Finding 2016-002 Reporting

Corrective Action Plan Form HUD-50058:

Contact Person: Chief Property Officer

Planned Actions: Continuous File Reviews, Training and Accountability

The Authority will require a qualified site staff member from the Private Property Management Firm to prepare or update resident files for initial occupancy or recertification along with initialing and dating each item on all control sheets in the front of each file section. Upon completion, the file is to be reviewed by a second qualified site staff member for accuracy and completeness. Training of CHA and site staff will be conducted. All CHA and site staff will be required to maintain Rent Calculation Certification on a Bi-Annually Basis.

Portfolio Managers, from the Property Office, will be required to review two resident files every week utilizing the **YARDI Tenant File Auditing Tool**. Portfolio Manager, upon completion of their review, is required to initial and provide the date the audit was performed at the bottom of each control page.

Anticipated Completion Date: Fourth (4th) Quarter 2017



**Real Estate Assessment Center
Financial Assessment Subsystem (FASS-PH)**

Attachment: Notes and Findings / Action Plans

PHA Information

PHA Code: IL002
Fiscal Year End Date: 12/31/2016
PHA Name: Chicago Housing Authority
Submission Type: Audited/A133

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Finding 2016-002 Reporting

Corrective Action Plan Form HUD-60002:

Contact Person: Chief Procurement Officer

Audit Finding Response: The two items identified were data entry errors made when manually transferring figures from the excel spreadsheet to the HUD-60002 report/SPEARS System. These were caught immediately after submission. However, SPEARS data entry corrections could not immediately be done since HUD has to unlock the file in order for CHA to make the corrections. Once HUD unlocked the file, CHA immediately made the corrections.

Additionally, the 2016 errors are not a reoccurrence from the previous audit period. The 2015 error was on the Excel spreadsheet, not in SPEARS, and the error was due to duplicate entry of a vendor in the B2Gnow System (because the names entered were slightly different) which resulted in counting the vendor twice during excel data manipulation. For 2016, there was no error in the Excel spreadsheet figures. The Excel spreadsheet was accurate and as stated above, the errors were in the data entered into the SPEARS System.

Planned Actions: To prevent the reoccurrence of these errors, staff will thoroughly review all data entered into the SPEARS system for accuracy before submitting.

Anticipated Completion Date: The next HUD-60002 reporting cycle in January 2018.

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**Real Estate Assessment Center
Financial Assessment Subsystem (FASS-PH)**

Attachment: Notes and Findings / Action Plans

PHA Information

PHA Code: IL002
Fiscal Year End Date: 12/31/2016
PHA Name: Chicago Housing Authority (“Authority”)
Submission Type: Audited/A133

**Finding 2016-003 Special Tests and Provisions: N2 – Public
Housing Waiting List**

Corrective Action Plan:

Contact Person: Chief Property Officer

Planned Actions: Automated Batch Waitlist Selection Process

Occupancy Department will work with the Authority’s Information Technology Systems Department to create an automated batch waitlist selection process that eliminates various manual filtering processes.

Additionally, CHA intends to transition from a General Family Waitlist to Site-Based Waitlists. As part of this transition, First-Available Waitlists will no longer exist and therefore general waitlist selection processes will improve.

Anticipated Completion Date: Fourth (4th) Quarter 2017



CHICAGO HOUSING AUTHORITY

2016 SINGLE AUDIT REPORT

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