



**OFFICE OF INSPECTOR GENERAL (OIG)
CHA AUDIT COMMITTEE
CHICAGO, IL**

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OIG case #2016-06-00001 – Public Housing Over Income

Elissa Rhee-Lee, Inspector General
Michael Kosanovich, Deputy Inspector General
Beatriz Martinez, OIG Senior Auditor
Ellaye Accoh, OIG Senior Auditor



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A. Executive Summary

I. Background

The authority to perform this audit is pursuant to the Board approved Inspector General Charter, which states that the OIG has the power and duty to audit the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked to identify inefficiencies, waste, fraud, abuse, misconduct and mismanagement, as well as to promote economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to audit CHA operations and make recommendations for improvement, when appropriate. CHA management is responsible for establishing and maintaining processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity.

➤ **Standards:**

The OIG conducts audits of programs in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and *The Principles and Standards for Offices of the Inspector General*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to identify conditions and/or an environment that results in and/or could result in waste, fraud, abuse, misconduct or mismanagement.

Due to previous audit observations from the CHA Internal Audit Department and HUD's 2015 Over income Families Residing in Public Housing Units Audit report. The OIG selected and conducted an audit of the Public Housing Over Income Population. Also, this topic was part of the OIG 2016 Audit Program Plan.

All departments impacted by this audit cooperated fully with the OIG staff. We thank CHA management for its cooperation and willingness to better improve the program.

II. Objective

1. Review CHA's Public Housing program and determine the extent to which subsidized public housing units are occupied by over income families.
2. Review CHA's internal controls and procedures as it relates to the review, approval, and processing of rent calculation.
3. Determine whether CHA is in compliance with HUD's rent requirements.

III. Scope

The original scope for the Public Housing Over Income audit was for residents with a 50058 effective date of January 1, 2015 through December 31, 2015. However, the scope was adjusted to January 1, 2016 through December 31, 2016 to provide relevant information to the Property Office.



IV. Approach and Methodology

The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures include, but are not limited to, utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with key personnel from the following departments:

1. Legal Department
2. Property Office
3. Private Property Management (PPM) firms

The OIG tested, on a sample basis, Public Housing families for compliance with HUD’s income limits and rent calculation.

V. Sample Selection

Using a judgmental sampling method, the OIG selected 18% (10 out of 56) of the CHA’s public housing sites.

Region	PPM	Site	Prop Type	Management Address
1	Habitat	022-Lathrop Homes	Traditional-Family	2000 W. Diversey
1	Habitat	074-Edith S. Sampson Lincoln & Sheffield	Traditional-Senior	2720 N SHEFFIELD Ave
2	Realty & Mortgage	093-Horner - Westhaven	Traditional-Family	1834 W Washington
2	Realty & Mortgage	070-William Jones 1447 S. Ashland Ave.	Traditional-Senior	1447 S Ashland
3	WCDC	039-Washington Park 613 E. 40th St. Chicago, IL 60653	Traditional-Family	613 E. 40th St.
3	WCDC	082-Kenneth Campbell 6360 S. Minerva Ave. Chicago, IL 60637	Traditional-Senior	6360 S. Minerva
4	McCormack Baron	035-SS Region 4 - Including PII (SW-W- SE)	Traditional-Family	1324 S Loomis, 60608
4	McCormack Baron	063-Las Américas 1611 S. Racine Ave.	Traditional-Senior	1611 S Racine, 60608
5	Eastlake	025-Lowden	Traditional-Family	200 W. 95th St.
5	Eastlake	041-Mahalia Jackson Apartments	Traditional-Senior	9141-9177 S. Chicago Ave.



VI. Summary of Results

The following table provides an overview of the observations and recommendations included in this report. Details of each observation and recommendation can be found in their respective sections to follow:

Executive Summary: Audit Observation and Recommendations

	Observations	Potential/Actual Result	Risk Level ¹	Recommendations
1.	Over Income Families -124 families out of 220 (56%) are 120% over income.	Actual	Low	Implement HUD's H.R. 3700 – 114th Congress (2015-2016) TITLE I--SECTION 8 RENTAL ASSISTANCE AND PUBLIC HOUSING.
2.	Incomplete tenant files-13 out of 20 family files and 2 out of 10 senior files are incomplete.	Actual	High	Management should strengthen the internal controls so that all the required documents are completed and maintained in the tenant file in order to comply with federal requirements.
3.	HUD's rent Requirements- Approximately 1,000 CHA residents (6% of households) will be affected by HUD's new Flat Rent requirement.	Actual	Low	Review the consent decree to determine if the residents at Henry Horner can start paying 30% of the adjusted gross income.

B. Observations and Recommendations

I. Over Income Families

Observation: Risk Level: Low

The Department of Housing and Urban Development (HUD) sets income limits for its programs based on the median income of residents in the Chicago metropolitan area.

The chart below outlines the income limits for CHA's Public Housing program. These income limits represent the maximum allowable income that a family can have at initial screening in order to be eligible to receive CHA housing subsidy.

HUD's Income Guidelines - Effective 4/18/2016:

	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
80% of Area Median Income*	\$43,050	\$49,200	\$55,350	\$61,500	\$66,450	\$71,350	\$76,300	\$81,200

**HUD updates these figures annually based on regional changes in income.*

CHA provided public housing assistance to as many as 220 families whose annual household income exceeded HUD's Income Guidelines (at the 80% limit), which is 1% (220 out of 16,018) of CHA's total Public Housing Portfolio.²

¹ We ranked findings as High, Medium, or Low Risk, to indicate urgency of recommended actions.

High Risk: Lack of prompt action by Management may severely impact the agency mission/operation in the short run and/or may expose the agency to violation of laws and regulations.

Medium Risk: Lack of corrective action by Management will materially and adversely impact operation in the long run. Action is needed to prevent or mitigate loss.

Low Risk: Action by Management is necessary to improve operations and/or to correct minor control weakness.

² Data extracted from Yardi on 2.09.2017



- Out of the 220 families, 124 families (56%) are 120% over income. All are paying less than 30% of the adjusted gross income (See Appendix 1 – 120% Over Income Families in Public Housing for full details).
 - 34 families out of 124 (27%) are covered by the Henry Horner consent decree.

HUD’s H.R. 3700 – 114th Congress (2015-2016) TITLE I--SECTION 8 RENTAL ASSISTANCE AND PUBLIC HOUSING states:

“(Sec. 103) If a PHA determines that a tenant’s income is greater than 120% of the area median income for two consecutive years, the PHA must: (1) charge the tenant the greater of the fair market rent or the amount of the government subsidy for the unit, or (2) terminate the tenancy. HUD may increase or decrease the income limitation based on unique local conditions, such as construction costs, unusually high or low family incomes, vacancy rates, or rental costs.”

Recommendations:

Implement HUD’s H.R. 3700 – 114th Congress (2015-2016) TITLE I section 103--SECTION 8 RENTAL ASSISTANCE AND PUBLIC HOUSING

Management Response:		
<input checked="" type="checkbox"/> Concur with observation and recommendation	<input type="checkbox"/> Do not concur with observation and recommendation	<input type="checkbox"/> Concur with part of the observation and recommendation
<p>The Property Office concurs with this observation.</p> <p>The noted recommendation is consistent with the over income public housing tenancy requirements as established by the Housing Opportunity Through Modernization Act (HOTMA). PHAs, however, are unable to implement the provisions of this statute without HUD’s issuance of final rule making on the policy.</p>		
Custodian:	Ketsia Colinet (Housing Policy & Occupancy – Property Office)	
Implementation Timeline:	TBD	



II. Incomplete Tenant Files

Observation: Risk Level: High

During the fieldwork,

- CHA was going through a transition period of PPMs (new management) in 2016.
- Realty & Mortgage and McCormack Baron staff did not have access to the Enterprise Income Verification (EIV) System.

We tested 20 files from the selected Family Sites and 10 files at the selected Senior Sites to review and observed incomplete tenant files. The following list of documents shows the number of files that were either missing or incomplete:

Tenant Files ³	Incomplete/Missing	
	Family	Senior
Rent choice letter on file	5	0
What was selected (Income Based/Flat Rent)	4	0
EIV Household Summary Report	5	1
Income Verification Forms	5	0
Asset Verification	3	0
Zero Income Checklist Worksheet and Affidavit Verification of Non-Cash (if applicable)	4	N/A
HUD Form 9886-Authorization for the Release of Information/Privacy Act Notice	1	0
Current Lease	1	1
Signed Lease	3	1

- After completion of the audit fieldwork (where files were noted to be incomplete) the above conditions has been corrected by the Property Department.

Recommendations:

Management should strengthen internal controls to ensure all the required documents are completed and maintained in the tenant file in order to comply with HUD's Handbook 4350.3 Occupancy Requirements of Subsidized Multifamily Housing Programs as it relates to the record retention requirements.

Management Response:		
<input checked="" type="checkbox"/> Concur with observation and recommendation	<input type="checkbox"/> Do not concur with observation and recommendation	<input type="checkbox"/> Concur with part of the observation and recommendation
Property Office concurs with observation and recommendation. Property Office portfolio managers will conduct 1% monthly and 12% annually tenant file audits utilizing the YARDI Audit Tool.		
Custodian:	Eric Garrett (Deputy Chief – Property Office)	
Implementation Timeline:	TBD	

³ See Appendix 2 – Tenant Files Review for full details



III. HUD's rent requirements

Observation: Risk Level: Low

Limited testing was conducted for the rent requirements due to the new HUD requirement which states:

The 2014 federal budget approved by Congress for the Department of Housing and Urban Development (HUD) created a new rule for setting flat rents.

- The new rule states that flat rents must be no less than 80 percent of the fair market rent (FMR).
- This means that the minimum flat rent level for CHA properties will be the amount in the chart below.

CHA expected the new flat rents to be effective for residents with re-certifications beginning August 2016.

- The new law also states that increases in rent due to changes in flat rent cannot exceed 35% annually.
- For residents whose rent would increase more than 35%, the changes will be phased in over 3 years.

1. Approximately 1,000 CHA residents (6% of households) have currently selected the flat or ceiling rent option. Out of the 1,000 residents that selected the flat or ceiling rent option, there are 124 residents that are 120% over income.

a. 2016 Flat Rent:

HUD-required minimum new flat rents	0 BR	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
80% of Chicago Fair Market Rents	\$688	\$801	\$941	\$1,196	\$1,424	\$1,638	\$1,852

b. Ceiling Rent:

CHA Ceiling Rent	0 BR	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
	N/A	\$346	\$408	\$510	\$571	\$656	N/A

2. Henry Horner has been under a consent decree since 1995. As of February 2017, the consent decree was still active. The site has 286 families. Due to the consent decree, out of the 286 families, 158 (55%) are not paying 30% of the adjusted gross income. Residents at Henry Horner are currently paying ceiling rent from the 2003 schedules. HUD notice PIH 98-41 (HA) Issued July 23, 1998 states "Any such ceiling rents cannot be used in reexaminations after September 30, 1998, unless the provisions are extended by law." Per the Legal Department, CHA is taking the following position in regards to Henry Horner consent decree:

"Henry Horner is still covered by an active Consent Decree. All issues involving tenancy changes affecting the residents must be negotiated with the Plaintiffs' counsel based upon Paragraph 16 of the Consent Decree. The parties must reach a consensus on the changes or resolve the conflict before the federal court judge overseeing the Consent Decree. Due to a previous unsuccessful ruling by the federal judge, CHA is currently in negotiations with Plaintiffs' counsel to transition remaining Horner families to the current ACOP. Current changes to the Horner Superblock will require the families remaining at the site to phase into paying 30% for rent based on the RAD rental requirements."



Recommendations:

1. Continue implementing HUD’s flat rent requirements.
2. Review the consent decree to determine if the residents at Henry Horner can start paying 30% of the adjusted gross income.

Management Response:		
<input type="checkbox"/> Concur with observation and recommendation	<input type="checkbox"/> Do not concur with observation and recommendation	<input checked="" type="checkbox"/> Concur with part of the observation and recommendation
<p>Property Office Concur with part of the observation and recommendation, however, at this time we cannot require Henry Horner implement flat rent requirements until all phases are completed and total unit count under this decree is satisfied.</p>		
Custodian:	Eric Garrett (Deputy Chief – Property Office)	
Implementation Timeline:	TBD	