



OFFICE OF INTERNAL AUDIT

Report to the
Board of Supervisors

Pinal County Housing and Community Development Department Section 8 Program

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EXECUTIVE SUMMARY

The Office of Internal Audit has completed an audit of the Pinal County Housing and Community Development (PCHCD) department Section 8 Housing Choice Voucher (HCV) program. The audit was included in the Office of Internal Audit's Fiscal Year 2011-2012 Annual Audit Plan approved by the Board of Supervisors.

The purpose of our audit was to review internal controls over the HCV program, in particular the eligibility and selection process, and ensure controls are designed to provide reasonable assurance regarding compliance with applicable laws and regulations. The audit was planned and conducted in accordance with Generally Accepted Government Auditing Standards.

After completing planned audit procedures, Internal Audit staff concluded internal controls over the HCV program are sufficient to provide reasonable assurance the program is administered in accordance with federal Housing and Urban Development (HUD) regulations and is operating effectively and efficiently.

During the course of our audit we identified the following area for improvement:

The PCHCD Section 8 Administrative Plan has not been updated to include a requirement to use the Enterprise Income Verification (EIV) system for recertification. Internal Audit verified that PCHCD is using HUD's EIV system for recertification procedures; however, the current Plan identifies five Up-front Income Verification (UIV) resources and does not mention HUD's EIV system mandate.

Our specific recommendation for improvement was:

The Pinal County Housing and Community Development Director, and the Section 8 Supervisor, should update the Administrative Plan to include all current statutory and regulatory changes. Updates should include retention guidance for hard copy and electronic supporting documentation.

The following report provides additional details of our audit finding and observations. Internal Audit would like to thank the management and staff of the Pinal County Housing and Community Development Department for their cooperation and assistance during this audit.

Lori Brooks
Pinal County Internal Audit Officer

Audit Scope and Methodology

The purpose of our audit was to review internal controls over the Section 8 voucher program, in particular the eligibility and selection process, and ensure controls are designed to provide reasonable assurance regarding compliance with applicable laws and regulations. Our specific objectives were to:

- Analyze internal controls over the Section 8 voucher program; in particular, **eligibility and selection**.
- Determine if the Section 8 **waiting list** is designed to provide reasonable assurance regarding compliance with applicable laws and regulations.
- Determine if internal controls over the **recertification** process are properly designed to provide reasonable assurance regarding compliance with applicable laws and regulations.
- Evaluate the Pinal County Section 8 **Administrative Plan** and determine if Plan provisions are in accordance with HUD requirements.

To accomplish our objectives, we:

- Interviewed appropriate Section 8 program staff
- Reviewed policies, procedures and other documents related to Section 8
- Determined compliance with applicable HUD regulations
- Attended a Section 8 new tenant briefing held during the audit
- Reviewed the Pinal County Section 8 Administrative Plan
- Compared the vendor list with current Pinal County employees
- Examined selected participant files for appropriate documentation

Overall Conclusion

Our overall conclusion is internal controls over the HCV program are sufficient to provide reasonable assurance the program is administered in accordance with federal Housing and Urban Development (HUD) regulations and is operating effectively and efficiently.

Background

Section Eight (8) of the federal Housing Act of 1937¹ authorizes payment of rental housing assistance to private landlords on behalf of low-income households. The largest rental assistance program in the nation is the Housing Choice Voucher (HCV) program. HCV is a “tenant-based” program, assisting very low-income families, the elderly, and the disabled. A family participating in the HCV program is responsible for finding a suitable housing unit where the landlord agrees to participate in the program and receive monthly housing assistance payments (HAP) on behalf of the program participant. Any price difference, between the HAP and actual monthly rent, is paid for by the program participant.

The rent amount paid to the property owner is established at the beginning of the HAP contract term. By law, the amount cannot exceed 110 percent of the applicable fair market rent (FMR). FMR rates are determined by the federal Housing and Urban Development department (HUD) for each housing market area (HMA). The HMA for Pinal County is Phoenix-Mesa-Scottsdale and the table below displays FMR since fiscal year 2008.²

Final Fair Market Rent Amount by Fiscal Year	Efficiency	+/- over prior yr	One Bedroom	+/- over prior yr	Two Bedroom	+/- over prior yr
FY 2012	\$ 619	-7%	\$ 721	-7%	\$ 870	-7%
FY 2011	\$ 666	2%	\$ 776	2%	\$ 936	2%
FY 2010	\$ 654	5%	\$ 762	5%	\$ 919	5%
FY 2009	\$ 624	2%	\$ 727	2%	\$877	2%
FY 2008	\$ 609	10%	\$ 715	10%	\$ 862	10%

Funding for the HCV program is achieved using an Annual Contribution Contract (ACC)³ between HUD and the Pinal County Housing and Community Development (PCHCD) department. The following table, provided by the PCHCD department, shows HCV program revenue and costs for the past two years. According to information provided by PCHCD⁴, Use percentages over 100% are due to using funds recaptured from HAP payments the prior year.

	FY 2010/2011	Use %	FY 2011/2012	Use %
Total HAP Grant Amount	\$2,944,322	-	\$1,908,036	-
HAP Paid Out	\$2,688,855	91%	\$1,955,565	102%
Administrative Revenue	\$ 463,300	-	\$ 250,572	-
Administrative Expense	\$ 487,197	105%	\$264,493	106%
Vouchers allotted	7008	-	4672	-
Vouchers Utilized	5935	85%	4023	86%

Section 8 programs also include a variety of "project-based" rental assistance programs. Project-based housing is limited to specific apartment complexes and requires the owner to reserve some or all of the units for low-income tenants. In return for limiting units, the federal government makes

¹<http://www.hud.gov/offices/ogc/usha1937.pdf>

² http://www.huduser.org/portal/publications/PDF/CMAR_Phoenix-Mesa-ScottsdaleAZ_10.pdf

³http://www.huduser.org/portal/glossary/glossary_a.html#acc

⁴ Pinal County Managing for Results (Housing and Community Development) Annual Report FY 2010-2011

up the difference between the tenant's contribution and the rent specified in the owner's contract with the government. To obtain additional information about the Housing Choice Voucher program follow the web link provided below:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/about/fact_sheet

Administrative Plan

Local Public Housing Authorities (PHA's) create an Administrative Plan to describe the policies they use to govern the administration of the Section 8 Housing Choice Voucher Program. The purpose of the plan is to clarify those policies left to local discretion, such as specific eligibility criteria and waitlist management, are in accordance with the U. S. Department of Housing and Urban Development (HUD) regulations. The following link connects to the current Pinal County Housing and Community Development Department Administrative Plan on file.

<http://pinalcountyaz.gov/Departments/Housing/Documents/Downloads/Section%208%20Administrative%20Plan%20II.pdf>

HUD regulations governing the Section 8 Housing Choice Voucher Program are documented in the Code of Federal Regulations, 24 CFR Part 982, 24 CFR Part 5 and 24 CFR Part 35.

Waiting List

There are currently two-hundred and seventy-one (271) applicants on the PCHCD Section 8 Waiting List. Since the demand for housing assistance often exceeds the resources available, long waiting periods for HUD assistance is common; in fact, a PHA may close its waiting list when it has more families on the list than can be assisted in the near future.

Public Housing Authorities may establish local preferences to select applicants from its waiting list. Local preferences consider the housing needs and priorities of a particular community; for example, PHAs may give a preference to a family who is (1) homeless or living in substandard housing, (2) paying more than 50% of its income for rent, or (3) are involuntarily displaced. Families who qualify for any such local preferences move ahead of other families on the list who do not qualify for any preference.

The Pinal County Housing and Community Development Department allows first preference on the waiting list for families that have been displaced by government action, extensive damage as a result of a declared disaster, or domestic violence. Second preference is accorded to elderly, disabled or handicapped whose head of household is receiving income based on their inability to work. A third preference is granted to applicants who reside or work within Pinal County.

Eligibility and selection

Under Federal Code § 982.201 the Public Housing Authority (PHA) may only admit an **eligible** family to the program. To be eligible the applicant must be a "family," must be income-eligible, and must be a citizen or a non-citizen who has eligible immigration status.

Eligibility verification includes:

1. Family status – Group of people related by blood, marriage, adoption or affinity that live together in a stable family relationship for 12 consecutive months.

2. Very low income (less than 50% of area median income) or extremely low income (less than 30% of area median income). To determine eligibility guidelines, Public Housing Authorities use the median income limits and service areas developed by HUD. Pinal County is part of the Phoenix-Mesa-Glendale metropolitan service area (MSA). (See income limits for Pinal County in **Table I**)
3. All family members must provide a social security number.

Table I

Income Limit Category	Family Size					
Median Income \$ 66,400	1 person	2 person	3 person	4 person	5 person	6 person
Very Low (50% of median)	\$23,250	\$26,600	\$29,900	\$33,200	\$35,900	\$38,550
Extremely low (30% of median)	\$13,950	\$15,950	\$17,950	\$19,900	\$21,500	\$23,100

Recertification

All Section 8 families are recertified once a year. The purpose is to make certain that the information the PHA has about family composition, income, and deductions are correct. Recertification also allows the PHA to recalculate, if necessary, the rental portion to be paid to the landlord for rental assistance

Lease Process

The eligible family contacts the prospective landlord. The landlord screens the family, conducts reference and background checks, and determines whether the family is suitable to rent their unit. When the landlord agrees to rent the unit to the family and the family accepts, the landlord and the family complete and submit the Request for Tenancy Approval to start the leasing process.

The PHA determines if the family is income-eligible for the unit and, if the family is income-eligible for the unit, the leasing documents are prepared. HUD requires that the unit meet certain Housing Quality Standards (HQS), and it also must pass rent reasonableness. If both of these criteria are met, the leases and contracts will be executed and the Housing Assistance Payments (HAP) will be provided.

Pinal County Performance Management (PCPM)

The Pinal County Housing and Community Development Department Section 8 program has two key performance indicators (KPI) reported in compliance with the Pinal County Performance Management (PCPM) program.

KPI #1 – Achieve HUD high performance rating for Section 8 Voucher Choice program of 100% - This indicator refers to a rating HUD assigns to Public Housing Authorities based on their assessment of 14 key areas. Quarterly performance data had not been entered in PCPM by Housing at the time of the audit; however, Internal Audit verified, through HUD reported data, the current HUD Section Eight Management Assessment program (SEMAP) score for the Pinal County Housing and Community Development Department Section 8 program is (79%); with an overall performance rating of STANDARD. The following link connects to the HUD site reporting current PHA SEMAP scores.

<http://www.gpo.gov/fdsys/pkg/CFR-2011-title24-vol4/xml/CFR-2011-title24-vol4-part985.xml>

KPI #2 – Increase utilization of Housing Choice Vouchers by 4 % - Internal Audit reviewed Housing Assistance Payment (HAP) registries for September 2011 and December 2011 and verified the information presented was accurately reported.

SEPTEMBER - 2011

Increase utilization of Housing Choice Vouchers by 4% quarterly (In SBP)			
(Total vouchers currently utilized) / (Total vouchers expected to be utilized)			
Annual Target	Numerator	Denominator	Quarterly Analysis
100.00%	510	555	23 Vouchers were issued in the month of September and we are working on 64 client files in hopes all will qualify and receive a Voucher. We hope to raise utilization and house as many clients as possible prior to the end of the next quarter. This will be an on going goal as we always have several clients a month
Year End Estimate	Current Year End Estimate	Actual	
100.00%	100.00%	91.89%	

DECEMBER 2011

Increase utilization of Housing Choice Vouchers by 4% quarterly (In SBP)			
(Total vouchers currently utilized) / (Total vouchers expected to be utilized)			
Annual Target	Numerator	Denominator	Quarterly Analysis
100.00%	509	555	Currently there are 509 Vouchers under lease with 44 Voucher holders out looking for units. On Jan. 6th we pre-qualified 25 applicants and will be pulling 25 more applicants from the end of the month. Lease up has been a problem due to a new rule of the Housing Dept that clients are not happy with.
Year End Estimate	Current Year End Estimate	Actual	
100.00%	100.00%	91.71%	

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS

A. Administrative Plan

The Public Housing Agency (PHA) Plan (Plan) is a comprehensive guide to the PHA policies, programs, operations and strategies for meeting local housing needs and goals. There are two parts to the PHA Plan; the Annual Plan submitted to HUD every year and the Five-Year Plan submitted to HUD once every 5th PHA Fiscal Year.

Internal Audit reviewed both plans and confirmed the current plans were approved by the Pinal County Board of Supervisors on May 11, 2011; however, we found **the five-year Administrative Plan was not appropriately updated to include all current statutory and regulatory changes.** (See Recertification section, report page 11, for audit recommendation)

B. Waiting List

The Annual Plan for Fiscal Year (FY) 2011/2012, states, “The demand for affordable rental property remains strong in Pinal County as evidenced by the closure of our Housing Choice Voucher (HCV) program waiting list for three years. There have been as many as 1200 households on our waitlist for 169 units of public housing and 584⁵ HCV vouchers.” There are currently 271 applicants on the HCV waiting list.

The application process involves two phases. The first phase, or pre-application phase, requires a family to provide limited basic information (name, address, phone, etc.). Upon receipt of the initial application PCHCD makes a preliminary determination of eligibility.

If the family is ineligible, PCHCD will notify the applicant, state the reason for ineligibility, and offer an informal hearing opportunity. If eligibility is established, PCHCD notifies the family, in writing, of the date and time of placement on a waiting list and the approximate amount of time before housing assistance may be offered. After initial eligibility is determined, PCHCD will not remove an applicant’s name from the waiting list unless:

- A. The applicant requests, in writing, that their name be removed
- B. The applicant fails to respond to a written request for information or misses a scheduled appointment, without establishing mitigating circumstances (lack of transportation, etc.)
- C. The applicant does not meet either the eligibility or screening criteria for the program (during the final eligibility phase)
- D. The applicant has been issued a Housing Choice Voucher

According to the PCHCD Administrative Code, Section 4.7, “The reason for all removals from the waiting list shall be carefully documented in the applicant’s file and retained for three years from the date the file is closed.” Internal Audit examined files for several applicants removed from the waiting list and confirmed applicants did receive letters stating the results of the informal hearing process and any subsequent removal from the waiting list. We also found the PCHCD department Housing Secretary maintains an informal hearing log, which briefly documents the date, reason, and

⁵ This number is a monthly approximation of the number of vouchers that can be provided dividing the total appropriations provided by HUD for annual rent payments. Ex. \$3,000,000 / 12 months/ 584 vouchers = \$428 per voucher recipient.

outcome of informal hearings and confirmed files are retained for three years. **There are no recommendations for improvements at this time.**

C. Eligibility

According to the Pinal County Housing and Community Development department Administrative Plan (Plan) (Section 3.2F), PCHCD conducts criminal background checks on all adult household members, including live-in aides, as a prerequisite to determining suitability for tenancy. Plan procedures instruct, "... background checks will be made through state or local law enforcement, or court records, in those cases where the household member has lived in the local jurisdiction for the past three years. If the individual has lived outside the local area, the PCHCD may contact law enforcement agencies where the individual had lived or request a check through the FBI's National Crime Information Center (NCIC)."

Internal Audit examined ten (10) HCV client files to verify documentation of proper eligibility in the following categories:

1. Eligible income (Extremely low income /30% of median)
2. Eligible families admitted to the program
3. Eligibility interviews conducted and verifying applicant proper documentation (Social Security cards, etc.)
4. Background checks, including sex offender registry check, were conducted
5. Rental unit passed inspection
6. Reasonableness of rent was established

Internal Audit confirmed HCV program staff use a "Checklist for pre-qualifying" that includes all categories examined. The checklist is signed and dated by staff conducting verification procedures and all supporting documentation is maintained in applicant files. **There are no recommendations for improvements at this time.**

D. Recertification

A family's eligibility for assistance is based on its income in accordance with program rules. Changes in income or family composition can affect the amount of assistance a tenant receives. According to the Pinal County Housing and Community Development department Administrative Plan (Plan), "...within 365 calendar days of the anniversary of a housing assistance payment (HAP) contract," PCHCD will conduct a recertification of all program clients to assess continuing eligibility and determine appropriate housing assistance payments paid on behalf of the family.

On January 27, 2009 HUD published a final rule, at 74 FR 4832, effective January 31, 2010 entitled, "Refinement of Income and Rent Determination Requirements in Public and Assisted Housing Programs." The final rule requires Owners and Management Agents (O/As) obtain Enterprise Income Verification (EIV) access to reexamine, or annually recertify, family composition and income. HUD stated failure to use the system may result in the imposition of sanctions and/or the assessment of disallowed costs associated with any incorrect subsidy or recalculation.

Internal Audit confirmed HCV program staff use the EIV system to recertify participants; however we found the PCHCD Administrative Plan (Plan), *Section 10.0 Verification*, has not been updated to reflect the mandate to use the EIV system for recertification. PCHCD's current Administrative Plan

identifies five Up-front Income Verification (UIV) resources and does not mention the 2010 HUD EIV mandate.

Also, page 53 of the Administrative Plan states, “Once the (verification) data has served its purpose it shall be destroyed by either burning or shredding.”

The new HUD rule states, “...documentation be retained along with the form HUD-50058(Family Report), for 3 years after a household ends its participation. Electronic retention of form 50058 and supporting documentation fulfills the retention requirement...” During our testing we contacted HUD staff⁶ and confirmed, “...PHA’s are required to maintain EIV income reports in the tenant file for the duration of tenancy and no longer than three years from the end of participation date.” HUD staff counseled, “...additional guidance is available in HUD handbook 2400.25, Rev.2. Chg-2: HUD *Information Technology Security Policy*, dated August 22, 2011. The guidebook is available online at: <http://www.hud.gov/offices/adm/hudclips/handbooks/cioh/2400.25/index.cfm>

Also, HUD *Public Housing Occupancy* guidelines require PCHCD to notify clients within ninety (90) days, in writing, when they are reexamining a client’s income and circumstances. Internal Audit tested ten (10) client files to determine if annual recertification notification was sent to clients within the recommended time period and found all clients received proper notice.

Recommendation

The Pinal County Housing and Community Development Director, and the Section 8 Supervisor, should update the Administrative Plan to include all current statutory and regulatory changes. Updates should include retention guidance for hard copy and electronic supporting documentation.

Attachment: **Management Response and Action Plan**

⁶ Timothy McCarthy, OMB HUD Program Analyst

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>The Pinal County Housing and Community Development Director, and the Section 8 Supervisor, should update the Administrative Plan to include all current statutory and regulatory changes. Updates should include retention guidance for hard copy and electronic supporting documentation.</i></p>	Yes	<p>The Administrative Plan will be updated by checking any legislative changes and HUD regulatory amendments which have occurred since the Plans last update.</p>	6-30-2012	<p>Adeline Allen Cheri Buie</p>