



# City of Bowling Green

## Internal Auditor's Office

Follow-up Report on Section 8 Housing Choice Voucher Program Audit

Project# 2010-05

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Deborah Jenkins, CFE, CICA

## **Transmittal Letter**

TO: Kevin D. DeFebbo, City Manager  
Harold Wills, Audit Committee Chair  
Chair Jean Cherry, Audit Committee Vice-Chair  
Charles T. Hays, Audit Committee Member  
James Martens, Audit Committee Member  
Bruce Wilkerson, Commissioner and Audit Committee Member

CC: Vallory Schocke, Housing Division Manager

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the *Charter of the Internal Auditor's Office*, I hereby submit my follow-up report covering the Section 8 Housing Choice Voucher Program of the City of Bowling Green's Housing and Community Development Department. The objective of this follow-up report was to determine if the Housing Division implemented the four (4) recommendations made in an earlier report, *Section 8 Housing Choice Voucher Program Audit* (Project# 2008-11, issued on June 30, 2008 and finalized on July 17, 2008). The results of the *Section 8 Housing Choice Voucher Program Audit*, which are contained within this report, have been discussed with management.

### **Results in Brief**

The Housing Division is very responsive and has fully implemented two of the four recommendations and most of the remaining two recommendations. The two partially implemented recommendations can become fully implemented with just a couple of relatively small changes.

It has been a pleasure working with the Housing Division staff. They have a well ran program and are very open to any recommendations. The Housing Choice Voucher Program's internal controls as well as policies and procedures have been the most thoroughly established of the divisions I have had the opportunity to audit thus far. I am pleased with the improvements made and I look forward to seeing their continued success.

Sincerely,

Deborah Jenkins, CFE, CICA  
Internal Auditor

### **Objective**

The objective of this follow-up audit was to determine if the Housing Division implemented the four (4) recommendations made in an earlier report, *Section 8 Housing Choice Voucher Program Audit* (Project# 2008-11, issued on June 30, 2008 and finalized on July 17, 2008).

### **Scope and Methodology**

The scope of this follow-up audit included Section 8 Housing Choice Voucher (HVC) Program operations from January 1, 2009 through June 30, 2009. To determine the implementation status of prior recommendations, I performed the following:

- Interviewed Housing Division and Finance Department Personnel
- Reviewed the original audit report
- Performed test work to determine compliance with various recommendations
- Analyzed the results of the test work performed and discussed results with management

### **Conclusion**

The Housing Division is very responsive and has fully implemented two of the four recommendations and most of the remaining two recommendations. The two partially implemented recommendations can become fully implemented with just a couple of changes.

## Results of the Follow-up Audit

### Previous Observation and Recommendation:

#### 1. “Policy timing restrictions should be consistently documented.”

**Prior Auditor Recommendation:** *Housing management has been very proactive in increasing the efficiency of their operations. Prior to the start of this audit, Housing and Community Development Department management shifted all inspections from the Housing Division, which has a total staff of three (3), to the Code Enforcement Division of the department. In doing so, there are four (4) inspectors and a division supervisor which should increase the timeliness of the HQS inspections and offer supervisory QC inspections, according to management. Also, any inspections that are delayed past the 14 day requirement due to owner request will have a note entered into the Yardi Software documenting the request.*

*In addition, the quality control inspection documentation was also changed. Prior to the fall of 2006, the QC inspections were maintained and documented within a paper file. The file was lost in 2006 which caused the housing division to conduct all of the year’s quality control inspections within a limited amount of time to meet SEMAP reporting deadlines. Since that occurrence, the QC inspections are entered into Yardi software, according to management, as they are completed to ensure proper documentation.*

**Prior Management Response:** *Once a Request for Tenancy Approval (RTA) is submitted and approved, housing staff contact the landlord to schedule the initial inspection for the next available time slot. Staff is very conscientious in making sure that the inspection is completed within HUD’s prescribed 14 day limit. However, occasionally the landlord may request a later date because the unit is not ready for inspection. Prior to the audit, these anomalies were noted on the weekly schedule, explaining why the inspection may fall outside the 14 day window. As the weekly schedule was destroyed when no longer needed, there was no permanent documentation of the landlord’s request. Per the auditor’s suggestion, housing staff now documents on the RTA form (1) the date the RTA is approved and (2) any reason that the inspection is scheduled outside the 14 day limit.*

### **Current Status: PARTIALLY IMPLEMENTED**

There were no inspections outside of the RTA approval date found within the samples tested for follow-up. The office has only been able to issue preference vouchers as well as accept port-in vouchers from other jurisdictions since 2008. They are not able to accept new applications since they are at their full rental complement. The QC inspections are entered into Yardi consistently for electronic documentation of the inspections. However, the quality control (QC) inspections still need proper timing selection. According to the Housing Choice Voucher Program Handbook, QC inspections “*must be no older than three months at the time of the inspection.*”

In the random sample selected for follow-up testing, four (4) of the eight (8) QC inspections were after the stated time requirement including:

- 4 months 20 days
- 3 months 13 days
- 3 months 9 days
- 3 months 14 days

The report used to select QC inspections should only include inspections that can reasonably schedule a corresponding QC inspection within three months. Only one of the eight tested was more than 30 days past the three month requirement.

**2. “Landlord Overpayment tracking and monitoring system should be developed.”**

**Prior Auditor Recommendation:** *The amounts due should be entered to the landlord ledger within the Yardi software. This would help track the notification date and make it easier for the Housing Division Manager to follow up and monitor re-payments. There should be a standard format of notification and documentation as well as consistent procedures in place that require follow-up notices and debarment, if necessary, within a stated timeframe. Once a re-payment is received, the payment should be credited to the landlord’s ledger identifying the received date within Yardi so that the re-payment can be easily traced to the City’s financial software (Logos).*

**Prior Management Response:** *Based on the auditor’s recommendation, three procedures will be put in place to track landlord overpayments.*

1. *A standard form letter will be used to notify a landlord of an overpayment and the amount due to the PHA.*
2. *A monthly tracking system will be put in place to track any outstanding invoices and a standard schedule of collection notices will be utilized, leading to a notice of debarment after two past due notices.*
3. *Housing staff has already begun to electronically document amounts due from landlords by entering an outstanding invoice into the Yardi financial software. Once the payment is recovered, this invoice is reconciled and the amount recovered is posted to the electronic landlord ledger as a credit.*

**Current Status: IMPLEMENTED**

Standard form letters have been created and implemented to notify landlord of overpayment, notify of overdue notice, as well as a debarment notice when needed. Copies of these letters are included in Attachment A. The overpayments are entered into Yardi and any outstanding repayments can be found within the system by running a monthly report. All selected overpayments were traced back to the City’s financial software.

### 3. “Segregation of duties in HAP process needs improvement.”

**Prior Auditor Recommendation:** *The Finance Department should directly mail all Housing Division checks each month while providing the Logos software payment registers to the Housing Division Manager prior to mailing for verification and documentation. This would allow housing management to review, verify and approve check payment amounts while creating proper segregation of duties.*

**Prior Management Response:** *Housing staff agrees with the auditor’s suggestion that there should be segregation of duties regarding processing and mailing of Housing Assistance Payment (HAP) checks. With current staffing levels in the Housing Division, the only solution is to have the checks mailed by staff outside the Housing Division. As the Finance Department mails all other checks from the City, it makes sense that they should also mail the HAP checks from the Housing Division. Shifting this task to the Finance Department has been discussed in the past, but was never implemented. A small number of checks will continue to be mailed by housing staff, due to extra documentation that must accompany them (i.e. mortgage assistance checks for the voucher assisted homeowners), but all others can be mailed directly from the Finance Department once printed.*

*Housing staff will continue to verify and approve payment amounts by reviewing the Logos payment register prior to mailing.*

#### **Current Status: IMPLEMENTED**

The Finance Department directly mails all Housing Division checks after providing the check register to the Housing Division Manager for approval. Utility checks are still mailed through the housing division office in order to attach required unit detail for proper application of payment by the various utilities as well as any checks that require extra documentation. In addition, the Finance Department has implemented ACH payment process where landlords and other vendors can sign up to receive direct deposits of their payments instead of receiving a check in the mail.

### 4. “Documentation and collection activities for administrative repayment agreements should be strengthened.”

**Prior Auditor Recommendation:** *Housing management should research other viable options to collect the balances of the current repayment agreements by potentially partnering up with other governmental agencies or contracting with a collection agency to assist in collecting outstanding balances. I recommend using governmental employment databases to verify employment statuses for tenants with agreement balances for the City to potentially collect the balances. I also recommend implementing a monitoring process on a quarterly basis that can coincide with SEMAP to verify a sample of income reports for tenants who have the ability to be employed and are not due for recertification through available governmental employment databases. This additional monitoring would help catch tenant fraud and abuse earlier and minimize the total*

repayment amounts due. Lastly, I would recommend that housing staff ensure the repayment agreement has been signed by the tenant when the first payment is received.

**Prior Management Response:** *With sufficient staffing, there are many things that could be done to monitor income more closely so that potentially large repayment amounts could be avoided. Tracking, verifying, and documenting income is very labor intensive. Historically, the Housing Division has been proactive in monitoring income: prior to the implementation of the Enterprise Income Verification (EIV) system in 2005, housing staff verified tenant reported income against local SWICA (State Wage Information Collection Agency) data as part of the annual recertification process. This is not something that was required by HUD, but something that staff felt paid high dividends in an enhanced ability to accurately calculate housing assistance payments and recover overpayment of assistance from under reported income.*

*Presently, reported income is verified against EIV at annual recertification. Additionally, housing staff uses EIV in the interim between recertification if there is reason to believe that there may be under reporting on the part of the tenant. The auditor's suggestion that this system be utilized more regularly between annual recertification to catch unreported income before the overpayment becomes too large is valid, given adequate staff. However, given current staffing levels, the demand on staff time to implement this suggestion is too great and would impede staff's ability to remain compliant with required HUD activities.*

*Many Repayment Agreements are never signed because, once notified of the amount due, the tenant never responds and is eventually terminated from the program. If the tenant never responds to the notification letter and never comes into the office, there is no way to get a signature. However, when a tenant does respond to the notification letter and comes into the office to make an initial payment, the staff person receiving the payment is responsible to secure a signature on the Repayment Agreement. The auditor has pointed out that housing staff has been lax in getting this signature. Housing staff has been reminded that this signature is required.*

*Turning uncollected Repayment Agreements over to a collection agency is something that the Housing Division will explore. As HUD allows 1/2 of all collections to be retained by the PHA as administrative fees, only aging uncollected amounts would be considered for collection. As the auditor has pointed out, there is the potential that past tenants with outstanding debts could now have become productive wage earners who have the ability to repay the amounts owed to the PHA. Housing staff will meet with legal staff and management to determine the efficacy of this suggestion and follow up on it as deemed appropriate.*

**Current Status: PARTIALLY IMPLEMENTED**

All repayment agreements with corresponding payment, with one exception, did contain the tenant's signature on the agreement. The one exception had received only one payment and there was a post-it as well as a "sign here" tag requesting the staff to obtain

their signature at the next payment. Collection amounts have increased due to monitoring and entry into the HAPPY Software, which is a privately owned online database where various public housing authorities (PHA's) can enter any tenant who left owing money to the authority.

The chart below indicates that the number of agreements written and collection amounts have been increasing due to various reasons, but mainly due to increased availability of resources to cross reference names and social security numbers with the Social Security Administration and other resources to monitor for tenants who do not fully report income or fulfill certain tenant responsibilities. In FY2008, 52.84% of the corresponding agreement total was collected and in FY2009, 45 agreements were created and fully collected; which was more than the total amount of agreements written in 11 of the 12 prior fiscal years.

<b>FY</b>	<b>Total</b>	<b>Total Agreements</b>	<b>No. with Remaining Balance</b>	<b>Remaining \$</b>	<b>% Collected</b>
FY04/05	\$42,486.70	32	27	\$33,341.97	21.52%
FY05/06	\$19,124.76	20	15	\$12,590.64	34.17%
FY06/07	\$29,626.35	25	21	\$20,322.20	31.40%
FY07/08	\$36,369.83	50	12	\$17,151.53	52.84%
FY08/09	\$74,145.23	107	62	\$51,821.97	30.11%
FY09/10*	\$12,757.39	25	19	\$11,653.72	8.65%

\*FY10 contains data from July 1, 2009- September 4, 2009

Also, effective September 14, 2009, PHA's will have the ability to enter the following information directly into HUD's system:

1. Amount of debt owed by a former tenant to a PHA;
2. If applicable, indication of executed repayment agreement;
3. If applicable, indication of bankruptcy filing;
4. If applicable, the reason for any adverse termination of the family from a Federally assisted housing program.

*This information will be used by HUD to create a national repository of families that owe a debt to a PHA and/or have been terminated from a Federally assisted housing program. (Federal Register, Volume 74 Issue 168)*

This new nationwide entry system will allow all PHA's to avoid providing assistance to families who owe debt to a PHA or have previously been unable to comply with HUD program requirements. Assuming PHA's consistently enter tenant agreements into this national repository, it should greatly decrease the number of families with repayment agreements and allow the City to receive repayment from families who have moved away from the City's program only to begin receiving benefits from another PHA.

There should still be a system implemented to attempt collection from prior tenants with repayment agreements whom are no longer in the program. The nationwide system being implemented through HUD will increase the collections from tenants who are either 1.) still in the program with another PHA or 2.) try to re-apply to the program, but there is

currently no system in place to attempt collection from prior tenants who are no longer a participant in the housing program. The only penalty is not being able to re-enter the program. As of June 30, 2010, the City of Bowling Green's Housing Choice Voucher Program had calculated that \$274,378.10 was still outstanding from tenant repayment agreements.

# **Attachment A**

Housing and Community  
Development Department  
1017 College Street  
Post Office Box 430  
Bowling Green, KY 42102-0430



Housing Division  
Telephone (270) 393-3715  
Facsimile (270) 393-3168  
www.bgky.org

Date: \_\_\_\_\_

To: \_\_\_\_\_ invoice # \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NOTICE OF OVERPAYMENT**

Dear \_\_\_\_\_:

We have identified an overpayment of housing assistance for the following tenant in the following amount. This overpayment must be repaid to the Section 8 Office within 30 days.

Tenant: \_\_\_\_\_

Address: \_\_\_\_\_

Amount Due: \$ \_\_\_\_\_

Reason: \_\_\_\_\_

Please make checks payable to City of Bowling Green—Section 8 and mail to Elvira Ramic, City of Bowling Green, P O Box 430, Bowling Green, KY 42102-0430. If you have questions, you may call Ms. Ramic at 270-393-3294. Thank you.

Sincerely,

Vallory Schocke  
Housing Division Manager

doc#253399 5/08

**EQUAL HOUSING OPPORTUNITY**

**EQUAL OPPORTUNITY EMPLOYER**

TDD Number 1-800-648-6056 (for the hearing/speech impaired only)

Housing and Community  
Development Department  
1017 College Street  
Post Office Box 430  
Bowling Green, KY 42102-0430



Housing Division  
Telephone (270) 393-3715  
Facsimile (270) 393-3168  
www.bgky.org

Date: \_\_\_\_\_

To: \_\_\_\_\_ invoice # \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**PAST DUE NOTICE**

Dear \_\_\_\_\_:

You were previously notified that an overpayment of housing assistance had been made on the following tenant in the following amount. This overpayment must be repaid to the Section 8 Office immediately. Failure to repay this overpayment may result in debarment.

Tenant: \_\_\_\_\_

Address: \_\_\_\_\_

Amount Due: \$ \_\_\_\_\_

Reason: \_\_\_\_\_

Please make checks payable to City of Bowling Green—Section 8 and mail to Elvira Ramic, City of Bowling Green, P O Box 430, Bowling Green, KY 42102-0430. If you have questions, you may call Ms. Ramic at 270-393-3294. Thank you.

Sincerely,

Vallory Schocke  
Housing Division Manager

doc#253401 5/08

**EQUAL HOUSING OPPORTUNITY**

**EQUAL OPPORTUNITY EMPLOYER**

TDD Number 1-800-648-6056 (for the hearing/speech impaired only)

Housing and Community  
Development Department  
1017 College Street  
Post Office Box 430  
Bowling Green, KY 42102-0430



Housing Division  
Telephone (270) 393-3715  
Facsimile (270) 393-3168  
www.bgky.org

Date: \_\_\_\_\_

To: \_\_\_\_\_

invoice # \_\_\_\_\_

**NOTICE OF DEBARMENT**

Dear \_\_\_\_\_:

You were previously notified that an overpayment of housing assistance had been made on the following tenant in the following amount. This overpayment must be repaid to the Section 8 Office immediately or you will be debarred from participation, effective 30 days from the date of this notice.

Tenant: \_\_\_\_\_

Address: \_\_\_\_\_

Amount Due: \$ \_\_\_\_\_

Reason: \_\_\_\_\_

Please make checks payable to City of Bowling Green—Section 8 and mail to Elvira Ramic, City of Bowling Green, P O Box 430, Bowling Green, KY 42102-0430. If you have questions, you may call Ms. Ramic at 270-393-3294. Thank you.

Sincerely,

Vallory Schocke  
Housing Division Manager

doc#253402 5/08

EQUAL HOUSING OPPORTUNITY

EQUAL OPPORTUNITY EMPLOYER

TDD Number 1-800-648-6056 (for the hearing/speech impaired only)