



SINGLE AUDIT REPORT
Chicago Housing Authority
Year Ended December 31, 2012
With Reports of Independent Auditors

Ernst & Young LLP



Chicago Housing Authority

Single Audit Report

Year Ended December 31, 2012

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Report of Independent Auditors

The Board of Commissioners
Chicago Housing Authority

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Chicago Housing Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We did not audit the financial statements of the Chicago Housing Authority Employee's Retirement Plan (the Plan), which is shown as the Fiduciary Fund Type – Pension Trust Fund as of and for the years ended December 31, 2012 and 2011. 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 conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Pension Trust Fund were not audited in accordance with *Government Auditing Standards*.

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 report 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, 2012 and 2011, 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 and the Schedule of Funding Progress on pages 22 through 33 and 79, included in the Comprehensive Annual Financial Report, not included herein, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 audits 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 combining schedule of programs, included in the Comprehensive Annual Financial Report, not included herein, on pages 82 through 87; individual program schedules on pages 90 through 106; and Financial Data Schedules on pages 108 through 224 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 Introductory Section and the Statistical Section, included in the Comprehensive Annual Financial Report, not included herein, 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 April 30, 2013, 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

April 30, 2013

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 and Management
Chicago Housing Authority

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 year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 30, 2013. Our report includes a reference to other auditors who audited the financial statements of the Chicago Housing Authority Employee's Retirement Plan (the Plan), as described in our report on the Authority's financial statements. The financial statements of the Plan were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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 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 of this section 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.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

April 30, 2013

Single Audit Report

Report of Independent Auditors on Compliance with Requirements for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Board of Commissioners and Management
Chicago Housing Authority

Report on Compliance for Each Major Federal Program

We have audited of Chicago Housing Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2012. 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

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 major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as Findings 2012-01, 2012-02, and 2012-03. Our opinion on each major federal program is not modified with respect to these matters.

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2012-01	14.881	Moving to Work Demonstration Program	Reporting
2012-01	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Reporting
2012-02	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Special Tests and Provisions
2012-03	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Special Tests and Provisions

The Authority’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.

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 types of 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 federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2012-01, 2012-02, 2012-03, and 2012-04, that we consider to be significant deficiencies.

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2012-01	14.881	Moving to Work Demonstration Program	Reporting
2012-01	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Reporting
2012-02	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Special Tests and Provisions

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2012-03	14.856	Section 8 Project-Based Cluster (Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation)	Special Tests and Provisions
2012-04	14.866	Demolition and Revitalization of Severely Distressed Public Housing	Cash Management

The Authority’s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended December 31, 2012, and have issued our report thereon dated April 30, 2013, 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 OMB Circular A-133 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



July 24, 2013

Chicago Housing Authority

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

	Federal Department/ Pass-Through Entity/ Program Title/ Project Description	CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
14	<u>U.S. Department of Housing and Urban Development</u>			
	Section 8 Project-Based Cluster:			
	Section 8 – Substantial Rehabilitation/(City/State)	14.182		\$ 4,772
	Lower Income Housing Assistance Program – Section 8			
	Moderate Rehabilitation	14.856		<u>8,075,311</u>
	Total Section 8 Project-Based Cluster			<u>8,080,083</u>
	Mainstream Vouchers/Mainstream 5-Year Program	14.879		370,554
	Public and Indian Housing/Low-Rent Housing (Development)	14.850		1,342,574
	Demolition and Revitalization of Severely Distressed Public Housing	14.866		20,662,732
	Resident Opportunity and Supportive Services – Service Coordinators	14.877		53,112
	Section 8 Housing Choice Vouchers/HUD-Veteran Affairs Supportive Housing Program	14.871		1,939,403
	Moving to Work Demonstration Program:			
	Public and Indian Housing/Low-Rent Housing (Operations)			154,032,570
	Section 8 Housing Choice Vouchers			491,943,698
	Public Housing Capital Fund			<u>83,118,738</u>
	Total Moving to Work Demonstration Program	14.881		<u>729,095,006</u>
	CFP Cluster:			
	ARRA – Public Housing Capital Fund Competitive (Recovery Act Funded)/ Public Housing Capital Fund – FY 2009 CFRC	14.884		305,014
	ARRA – Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885		<u>1,177,063</u>
	Total CFP Cluster			<u>1,482,077</u>
	Total U.S. Department of Housing and Urban Development			<u>763,025,541</u>
16	<u>U.S. Department of Justice</u>			
	Passed through the Illinois Office of Attorney General			
	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	809042	<u>76,885</u>
	Total U.S. Department of Justice			<u>76,885</u>
17	<u>U.S. Department of Labor</u>			
	Passed through the Partnership for New Communities			
	ARRA – Program for Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors/Jobs for the Future	17.275	A2011-02182	<u>144,313</u>
	Total U.S. Department of Labor			<u>144,313</u>
	Total Expenditures of Federal Awards			<u>\$ 763,246,739</u>

Chicago Housing Authority

Notes to Schedule of Expenditures of Federal Awards

December 31, 2012

1. Single Audit Reporting Entity

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

2. Basis of Accounting

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

3. Categorization of Expenditures

The Schedule reflects federal expenditures for all individual grants that were active during the year. The categorization of expenditures by program included in the Schedule is based on the *Catalog of Federal Domestic Assistance* (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued annually. In accordance with the Authority's policy, the Schedule for the fiscal year ended December 31, 2012, reflects CFDA changes issued through December 2012.

4. Expenditures to Subrecipients

Of the federal expenditures presented in the Schedule, the Authority provided federal awards to subrecipients under CFDA 14.866, Demolition and Revitalization of Severely Distressed Public Housing, during the year ended December 31, 2012, as follows:

<u>Other Program Title</u>	<u>CFDA No.</u>	<u>Grant Reference No.</u>	<u>Amount Provided to Subrecipients</u>
Hope VI Community Supportive Services – 1994 Cabrini	14.866	IL06URD002I194	\$ 62,395
Hope VI Community Supportive Services – 1998 ABLA	14.866	IL06URD002I198	464,171
Hope VI Community Supportive Services – Madden/Wells	14.866	IL06URD002I100	54,627
Hope VI Community Supportive Services – 2001 Taylor A	14.866	IL06URD002I101	111,411
Hope VI Community Supportive Services – 2001 Rockwell	14.866	IL06URD002I201	57,341
			<u>\$ 749,945</u>

Chicago Housing Authority

Schedule of Findings and Questioned Costs

December 31, 2012

Part I – Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued (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 Section

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? X Yes None Reported

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

CFDA 14.856	– Unmodified
CFDA 14.866	– Unmodified
CFDA 14.881	– Unmodified
CFDA 14.884 and 14.885	– Unmodified

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

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Identification of major programs:

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

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

\$3,000,000

Auditee qualified as low-risk auditee?

Yes No

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Part II – Financial Statement Findings Section

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

None noted.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Part III – Federal Award Findings and Questioned Costs Section

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

Finding 2012-01 Reporting

Federal Program Information:

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

Public and Indian Housing (Public Housing)
Program Year: January 1, 2012 through December 31, 2012
Program No.: IL02-001-00010D

Section 8 Housing Choice Vouchers (HCV)
Program Year: January 1, 2012 through December 31, 2012
Program No.: IL002-VO

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

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate
Rehabilitation (Mod Rehab)
Program Year: January 1, 2012 through December 31, 2012
Program Nos.: Various

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

Per 24 CFR Part 908 and 24 CFR Section 982.158, the Public Housing Authority (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.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

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
- (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

PHAs are required to submit an Annual MTW Plan and Annual MTW Report that include the information listed in Form HUD-50900.

The following critical information must be included in the Annual MTW Plan and Annual MTW Report:

- (1) List planned sources and uses of MTW funds
- (2) List planned sources and uses of state or local funds
- (3) If applicable, list planned sources and uses of the central office cost center
- (4) List or describe use of single-fund flexibility, if applicable, describe uses across traditional program lines or special circumstances in support of an MTW activity

For 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).

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

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:

MTW Program (CFDA 14.881)

Eighty-five tenants were selected for testing compliance over the Form HUD-50058 reporting compliance requirement under CFDA 14.881. For the 85 tenants selected, 25 were Public Housing tenants, 60 were HCV tenants, and 2 exceptions were noted (2.4%). For one of two exceptions, one HCV tenant's biennial re-certification was not performed timely, resulting in no HUD-50058 being submitted. For the other testing exception, the tenant's income was incorrectly entered into the Authority's system, resulting in an incorrect key line item reported in the HUD-50058.

Four key line items were selected for testing of compliance over the Form HUD-50900 reporting compliance requirement under CFDA 14.881. These key line items related to both the MTW Annual Plan and the MTW Annual Report. Of the eight total key line items, we noted one line item (12.5%), "List planned sources and uses of state or local funds," was excluded from the MTW Annual Plan.

Mod Rehab Program (CFDA 14.856)

Forty tenants were selected for testing compliance over the Form HUD-50058 reporting compliance requirement under CFDA 14.856. We noted one tenant with incorrect information

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

reported on the tenant's Form HUD-50058. In addition, we tested 40 additional tenants as part of Special Tests and Provisions – Utility Allowances (Finding 2012-03) and noted 3 tenants with errors that resulted in the wrong information being reported on the Form HUD-50058. For all 4 of 80 tenants tested (5.0%), key line items on the Form HUD-50058 that were incorrectly reported related to tenant annual income and/or tenant rent.

Nine key line items were selected for testing of compliance over the Form HUD-60002 reporting compliance requirement under CFDA 14.856. Of the nine key line items, we noted one key line item, "Part II, Contracts Awarded, 2. Non-Construction Contracts (A) Total dollar amount of non-construction contracts awarded on the project," was improperly reported by the Authority.

Questioned Costs:

MTW Program (CFDA 14.881)

\$72 – related to the testing of the Form HUD-50058

Mod Rehab Program (CFDA 14.856)

\$78 – related to the testing of the Form HUD-50058

Context:

MTW Program (CFDA 14.881)

During fiscal year 2012, the Authority reported 17,441 and 34,904 active Public Housing and HCV tenants, respectively, under CFDA 14.881. All active tenants have a Form HUD-50058, which is filed annually (Public Housing) or biennial (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 two programs)

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

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

Mod Rehab Program (CFDA 14.856)

During fiscal year 2012, the Authority reported 1,259 active tenants under CFDA 14.856. All active tenants have a Form HUD-50058. The Authority was required to submit the following 48 reports to HUD (excluding Form HUD-50058) for MTW programs that covered the fiscal year under audit as follows:

- HUD-52663, *Requisition for Partial Payment of Annual Contributions* – 24 (one annually for each project)
- HUD-52681, *Voucher for Payment of Annual Contributions & Operating Statement* – 24 (one annually for each project)

Effect:

The Authority is not in compliance with federal reporting compliance requirements.

Cause:

MTW Program (CFDA 14.881)

Low-Rent

- HUD-60002 Report:
 - The Authority made an elimination entry on the Schedule of Expenditures of Federal Awards (SEFA), but not in the HUD-60002 report.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

- HUD-50900 MTW Annual Plan and Report
 - The planned sources and uses table includes state/local funds. A grant from the Illinois Department of Commerce & Economic Opportunity was included as ‘other funding’:
 - FY2011 Budgeted/Other Funding/\$2,6000,000
 - FY2012 Proposed/Other Funding/\$1,950,000

HCV

This error is not a result of miscalculating the income amount. The error was a result of a transposition error when the income amount was entered in the HUD Form-50058. Instead of typing \$796, the number entered was \$769. The error could be attributed to a visual perception as the numbers are very similar. The error was corrected immediately upon discovery.

Mod Rehab Program (CFDA 14.856)

We believe that the exception noted for 1 tenant, out of 40 selected for testing, with incorrect information reported on the tenant’s Form HUD-50058 was due to a one-time error by the contractor staff responsible for initial eligibility determinations and annual re-examinations.

As annual re-certifications are completed and information is input into Yardi, the system should point to the current Utility Allowance schedule to apply the correct utility allowance amount. However, for 3 tenants, out of the 40 selected for testing, the system inadvertently pointed to the incorrect schedule.

Recommendation:

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

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Views of Responsible Officials and Planned Corrective Actions:

MTW Program (CFDA 14.881)

Low-Rent

HUD 60002 Report

The Authority agrees with the audit finding on reported expenditures for one of the nine grants listed in HUD-60002 report for the year ended December 31, 2012. When compiling the data for the HUD-60002 report, we used a criterion to report program expenditures including all inter-fund transfers for the grant award. When preparing the Schedule of Expenditures of Federal Awards (SEFA), we have eliminated certain inter-fund transfers within the CFDA reporting clusters as transfers within a reporting cluster are not reported as expenses per the SEFA. The Authority recognizes the inconsistency and, going forward, will update the reporting procedures to ensure expenses reported on HUD 60002 align with that of SEFA. In addition, the Authority will explore the need to revise 2012 HUD 60002 filing.

HUD 50900 MTW Annual Plan and Report

Historically, the Authority submitted combined information but more recently (and after the 2012 plan) we report on state/local sources separately because HUD has since instructed us to do so. Moving forward, the Annual Plans will list the sources and uses of state/local funds separately.

HCV

The Authority has taken several steps to institute greater control over the HCV Program. In 2009 the Authority created an HCV Quality Control Department to monitor the HCV Program performance. In 2011, the Authority initiated a new innovative approach in the industry and awarded performance-based contracts to two reputable consulting companies to administer the HCV Program. The new approach has shown great success in the last three years' audits.

This issue will be addressed by continuing to share like examples in training.

The Authority's HCV Quality Control Department increased the sample size of annual re-examination reviews in 2012 from 130 to 180 files.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

The Authority also rates its program administrators under SEMAP for additional internal controls. Both program administrators scored “high performer.” Two hundred files were selected for SEMAP review under the SEMAP indicator Adjusted Income.

The Authority continues to improve its internal controls and internal reviews. Management does not believe the test performed reveals a systemic problem with regard to special reporting compliance.

Mod Rehab Program (CFDA 14.856)

We recognize there were exceptions noted for reporting testing. However, 95% of the tenants selected had no exceptions noted, and the total value of the exceptions noted was below \$200. A monthly review of income calculations and utility allowances is conducted utilizing the new PRA0005 PBV and Mod Rehab Unit Detail Report to ensure all income, rents, and utility allowances are correct. In addition, the Authority has increased its Quality Control reviews to ensure that accurate data is reported on the HUD-50058 to HUD and to PIC.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Finding 2012-02 Special Tests and Provisions (Vacant Units)

Federal Program Information:

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

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate
Rehabilitation (Mod Rehab)
Program Year: January 1, 2012 through December 31, 2012
Program Nos.: Various

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

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

Condition:

We selected 40 tenants for testing of the vacant units compliance requirement and noted exceptions in 4 of the tenants tested (10.0%). In all four instances, the tenants' files did not contain the Notice to Terminate document.

Questioned Costs:

None

Context:

During fiscal year 2012, the Authority had 232 vacancies of Mod Rehab tenants.

Effect:

The Authority has a significant deficiency in internal control over compliance with the special tests and provisions requirements of CFDA 14.856 as it relates to vacant units.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Cause:

Required tenant notification documentation was not scanned into the Authority's file management system by the contractor's responsible for vacant units.

Recommendation:

The Authority should strengthen existing policies, procedures, and internal controls to ensure compliance with federal special tests and provisions requirements of CFDA 14.856 as it relates to vacant units.

Views of Responsible Officials and Planned Corrective Actions:

The Authority, through its contractors, will update its policies and procedures regarding vacant units. Specifically, policies will be implemented to ensure all required documents are gathered and are scanned into the Authority's file management system on a timely basis.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Finding 2012-03 Special Tests and Provisions (Tenant Utility Allowances)

Federal Program Information:

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

CFDA 14.856 – Lower Income Housing Assistance Program – Section 8 Moderate
Rehabilitation (Mod Rehab)
Program Year: January 1, 2012 through December 31, 2012
Program Nos.: Various

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

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

Condition:

Forty tenants were selected for compliance testing over the tenant utility allowance requirement. For 3 of 40 (7.5%) tenants tested, the tenant utility allowance was calculated incorrectly.

Questioned Costs:

\$36

Context:

During fiscal year 2012, the Authority reported 271 active tenants with a utility allowance for CFDA 14.856.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Effect:

The Authority is not in compliance with the federal special tests and provisions requirements of CFDA 14.856 as it relates to utility allowances.

Cause:

As annual re-certifications are completed and information is input into Yardi, the system is supposed to point to the current Utility Allowance schedule to apply the correct utility allowance amount. However, the system inadvertently pointed to the incorrect schedule for these three tenants.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Actions:

A monthly review of utility allowances is conducted utilizing the new PRA0005 PBV and Mod Rehab Unit Detail Report to ensure all utility allowances are correct. Additionally, the Authority has increased its Quality Control reviews to ensure the accuracy of the utility allowances being applied.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Finding 2012-04 Cash Management

Federal Program Information:

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

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

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Per OMB Circular A-133 (§__.300), the Authority is required to maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition:

Eight of the 29 requests for payment by HUD were selected for compliance testing, noting all payments were for revitalization projects. Of the eight items tested, one (12.5%) request for payment by HUD did not include evidence of review and sign-off by the Treasurer.

Questioned Costs:

None

Context:

Twenty-nine requests for payment from HUD were processed during the fiscal year totaling \$15,464,888.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

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

Effect:

The Authority has a significant deficiency in internal control over compliance with the cash management requirement of CFDA 14.866.

Cause:

Management believes the one occurrence is an isolated incident and simply a failure of execution and confirmation between Treasurer and Financial Assistant.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Actions:

The draw procedure has been modified to include a routing fund info sheet that is prepared by Treasury Analyst prior to eLOCCS draw execution, reviewed and initialed by Treasurer, and made part of document package which is being monitored and filed by the Authority's Treasury Department's new Treasury Specialist. We believe that this procedure will eliminate any possible error in this process.

Chicago Housing Authority

Summary Schedule of Prior Audit Findings

**Federal Award Findings and Questioned Costs
Year Ended December 31, 2011**

Finding 2011-01 Eligibility (CFDA 14.881, CFDA 14.856)

Corrective action taken

Finding 2011-02 Reporting (CFDA 14.881, CFDA 14.856)

See Finding 2012-01

Finding 2011-03 Special Tests and Provision (HQS Enforcement – CFDA 14.881)

Corrective action taken

Finding 2011-04 Special Tests and Provisions (Tenant Utility Allowances, Housing Quality Standards, and Contract Rent Adjustments – CFDA 14.856)

Tenant Utility Allowances: See Finding 2012-03

Housing Quality Standards: Corrective action taken

Contract Rent Adjustments: Corrective active taken

Finding 2011-05 Special Tests and Provisions (Vacant Units – CFDA 14.856)

See Finding 2012-02

Finding 2011-06 Reporting (CFDA 14.866)

Corrective action taken

Chicago Housing Authority

Summary Schedule of Prior Audit Findings (continued)

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

Finding 2010-01	Corrective action taken
Finding 2010-02	See Finding 2012-01
Finding 2010-03	See Finding 2012-03
Finding 2010-04	Corrective action taken
Finding 2010-05	Corrective action taken
Finding 2010-06	Corrective action taken
Finding 2010-07	Corrective action taken
Finding 2010-08	Corrective action taken
Finding 2010-09	Corrective action taken
Finding 2010-10	Corrective action taken

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