

SINGLE AUDIT REPORT

Chicago Housing Authority
Year Ended December 31, 2013
With Reports of Independent Auditors

Ernst & Young LLP



Chicago Housing Authority

Single Audit Report

Year Ended December 31, 2013

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the basic financial statements, not included herein, of the Proprietary Fund Type and Fiduciary Fund Type activities of the Chicago Housing Authority, as of and for the years ended December 31, 2013 and 2012, 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 these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Chicago Housing Authority 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, 2013 and 2012. 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, 2013 and 2012, 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.

Adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

As discussed in Note 1 to the financial statements, not included herein, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" effective January 1, 2013. Our opinion is not modified with respect to this matter.

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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago Housing Authority's basic financial statements. The 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 227, 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 15, 2014 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 15, 2014



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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements, not included herein, of the Proprietary Fund Type and Fiduciary Fund Type activities of the Chicago Housing Authority (the Authority) as of and for the years ended December 31, 2013 and 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 15, 2014. 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.

Ernst + Young LLP

April 15, 2014

Single Audit Report



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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 of the
Chicago Housing Authority
Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited 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, 2013. 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as Finding 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

| Finding No. | CFDA No. | Program (or Cluster) Name | Compliance Requirement |
|--------------------|-----------------|--------------------------------------|-----------------------------------|
| 2013-001 | 14.881 | Moving to Work Demonstration Program | Reporting |

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 a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2013-001 that we consider to be a significant deficiency.

| Finding No. | CFDA No. | Program (or Cluster) Name | Compliance Requirement |
|--------------------|-----------------|---|-----------------------------------|
| 2013-001 | 14.881 | Moving to Work Demonstration Program | Reporting |

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, 2013, and have issued our report thereon dated April 15, 2014, 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

August 7, 2014

Chicago Housing Authority

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

| | Federal Department/Pass-Through Entity/ Program Title/Project Description | CFDA Number | Pass-Through Entity Identifying Number | Total Expenditures |
|----|---|----------------|--|----------------------------------|
| 11 | <u>U.S. Department of Commerce</u> ARRA - Broadband Technology Opportunities Program Total U.S. Department of Commerce | 11.557 | | \$ 653,648 <u>653,648</u> |
| 14 | <u>U.S. Department of Housing and Urban Development</u> Section 8 Project-Based Cluster: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation Total Section 8 Project-Based Cluster | 14.856 | | <u>7,947,407</u> 8,601,055 |
| | Public and Indian Housing/Low-Rent Housing (Development) | 14.850 | | 3,534,553 |
| | Demolition and Revitalization of Severely Distressed Public Housing | 14.866 | | 5,953,939 |
| | Resident Opportunity and Supportive Services – Service Coordinators | 14.877 | | 52,222 |
| | Housing Voucher Cluster: Section 8 Housing Choice Vouchers/HUD-Veteran Affairs Supportive Housing Program | 14.871 | | 3,536,000 |
| | Mainstream Vouchers/Mainstream 5-Year Program | 14.879 | | <u>478,187</u> 4,014,187 |
| | Moving to Work Demonstration Program: Public and Indian Housing/Low-Rent Housing (Operations) | | | 139,991,178 |
| | Section 8 Housing Choice Vouchers | | | 486,642,066 |
| | Public Housing Capital Fund | | | <u>104,297,926</u> |
| | Total Moving to Work Demonstration Program | 14.881 | | <u>730,931,170</u> |
| | Total U.S. Department of Housing and Urban Development | | | <u>752,433,478</u> |
| 16 | <u>U.S. Department of Justice</u> Pass-Through Illinois Criminal Justice Information Authority Edward Byrne Memorial Justice Assistance Grant Program Total U.S. Department of Justice | 16.738 | 410042 | <u>242,595</u> 242,595 |
| 66 | <u>Environmental Protection Agency</u> ARRA - Brownfields Assessment and Cleanup Cooperative Agreements Total Environmental Protection Agency | 66.818 | | <u>87,397</u> 87,397 |
| 81 | <u>U.S. Department of Energy</u> Pass -Through Illinois Department of Commerce and Economic Opportunity ARRA – Energy Efficient Appliance Rebate Program (EEARP) Total U.S. Department of Energy | 81.127 | 2012-05773-01 | <u>333,296</u> <u>333,296</u> |
| | Total Expenditures of Federal Awards | | | <u>\$753,750,414</u> |

Chicago Housing Authority

Notes to Schedule of Expenditures of Federal Awards

December 31, 2013

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, 2013, reflects CFDA changes issued through December 2013.

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, 2013, 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 – 1998 ABLA | 14.866 | IL06URD002I198 | \$ 609,225 |
| Hope VI Community Supportive Services – 2001 Taylor A | 14.866 | IL06URD002I101 | 452,085 |
| Hope VI Community Supportive Services – 2001 Rockwell | 14.866 | IL06URD002I201 | 375,077 |
| | | | <u>\$ 1,436,387</u> |

Chicago Housing Authority

Schedule of Findings and Questioned Costs

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 14.850 – Unmodified

CFDA 14.871/14.879 – 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 | Moving to Work Demonstration Program |
| CFDA 14.850 | Public and Indian Housing |
| CFDA 14.871/14.879 | Housing Voucher Cluster |

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

\$3,000,000

Auditee qualified as low-risk auditee?

 Yes X 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 2013-001 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, 2013 through December 31, 2013
Program No.: IL02-001-00010D

Public Housing Capital Fund (Capital Fund)
Program Year: January 1, 2013 through December 31, 2013
Program No.: IL06P00250113

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.

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

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

- (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

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).

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

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Condition:

Eighty tenants were selected for testing of controls over the Form HUD-50058 reporting compliance requirement under CFDA 14.881. For the 80 tenants selected, 40 were Public Housing tenants, and 40 were HCV tenants, and one control deviation was noted (1.25%) under Public Housing. In addition, eighty tenants were selected for testing of compliance over the Form HUD-50058 reporting compliance requirement under CFDA 14.881. For the 80 tenants selected, 40 were Public Housing tenants, and 40 were HCV tenants, and one compliance exception was noted (1.25%) under Public Housing. In both instances, the issue primarily related to the incorrect use of third-party documentation in the calculation of tenant rent which impacted amounts reported to HUD in the Form HUD-50058.

For the Capital Fund HUD-60002 report, the key line item “Part I Contracts Awarded-1(D) Total Number of Section 3 businesses receiving contracts” was reported incorrectly to HUD. As this is an annual report, we noted 1 error out of 9 key line items in total for this report (11% error rate in key line items tested).

For the Public Housing HUD-60002 report, the key line items “Part II, Contracts Awarded, 2. Non-Construction Contracts (A) Total Dollar amount of non-construction contracts awarded to Section 3 businesses” and “Part II Contracts Awarded-2(D) Total Number of Section 3 businesses receiving Non-Construction Contracts” were reported incorrectly to HUD. As this is an annual report, we noted 2 errors out of 9 key line items in total for this report (22% error rate in key line items tested).

Questioned Costs:

\$105 – related to the testing of the Form HUD-50058

Context:

During fiscal year 2013, the Authority reported approximately 17,930 and 33,480 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 bi-annually (HCV). The Authority was required to submit the following 19 reports to HUD (excluding Form HUD-50058) for MTW programs that covered the fiscal year under audit as follows:

- HUD-52723, *Operating Fund Calculation of Operating Subsidy* – one (annually)

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

- 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)
- 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)

Effect:

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

Cause:

Public Housing

Form 50058

The property management staff incorrectly calculated tenant income in error by using the wrong third-party documentation.

Form 60002

Through a manual process, the vendor count for two Section 3 Business Concerns was double counted (not the contract values) on a sorted Excel spreadsheet. An automated process has been in development and should be finalized by the next HUD-60002 report, eliminating manual errors.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Capital Fund

Form 60002

The wrong line from a manual Excel spreadsheet used as back-up documentation was referenced. The correct dollar value was on the line below. Controls are being worked on at the present moment to automate this process and should be finalized by the next HUD-60002 report, eliminating manual errors.

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.

Views of Responsible Officials and Planned Corrective Actions:

Public Housing

Form 50058

Both deviations were onetime errors made by staff performing annual certifications. Responsible staff will be required to attend public housing rent calculation training.

Form 60002

Controls are being worked on to automate this process and should be finalized by the 2014 HUD-60002 report, eliminating manual errors. This was the first year that CHA was able to report on a robust Section 3 Business Concern program. All procedures have been improved on a regular basis as we build and implement this program, under the Voluntary Compliance Agreement with HUD. We have been working with the software system we use to track payments to Primes and Subcontractors on all contracts with Compliance requirements. We have added reporting functions, tracking capabilities, and additional features to the software exclusively for CHA and Section 3. We are optimistic that these upgrades will enhance our reporting capabilities and decrease the chance of any future findings.

Chicago Housing Authority

Schedule of Findings and Questioned Costs (continued)

Capital Fund

Form 60002

Controls are being worked on to automate this process and should be finalized by the 2014 HUD-60002 report, eliminating manual errors. This was the first year that CHA was able to report on a robust Section 3 Business Concern program. All procedures have been improved on a regular basis as we build and implement this program, under the Voluntary Compliance Agreement with HUD. We have been working with the software system we use to track payments to Primes and Subcontractors on all contracts with Compliance requirements. We have added reporting functions, tracking capabilities, and additional features to the software exclusively for CHA and Section 3. We are optimistic that these upgrades will enhance our reporting capabilities and decrease the chance of any future findings.

Chicago Housing Authority

Summary Schedule of Prior Audit Findings

**Federal Award Findings and Questioned Costs
Year Ended December 31, 2012**

Finding 2012-01 Reporting (CFDA 14.881, CFDA 14.856)

See Finding 2013-001 as it relates to CFDA 14.881.

Finding 2012-02 Special Tests and Provisions (Vacant Units – CFDA 14.856)

Corrective action taken

Finding 2012-03 Special Tests and Provisions (Tenant Utility Allowances – CFDA 14.856)

Corrective action taken

Finding 2012-04 Cash Management (CFDA 14.866)

Corrective action taken

**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

Chicago Housing Authority

Summary Schedule of Prior Audit Findings (continued)

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 taken

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