



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

OIG case #2015-03-0019 – HAP Overpayment

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A. Executive Summary

I. Background

The authority to perform this review is pursuant to the Board approved *Inspector General Charter*, which states that the OIG has the power and duty to review the programs of the Chicago Housing Authority (CHA). The OIG is tasked to identify inefficiencies, waste, fraud, potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to review CHA operations and make recommendations for improvement. CHA management is responsible for establishing and maintaining processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity. The OIG conducts reviews of programs in accordance with *The Principles and Standards for Offices of the Inspector General*. Based on previous audit observations, and as part of the 2015 Audit program plan, the OIG selected an operational review of the Housing Assistance Payments (HAP) Overpayments.

Twice a month, the CHA process HAP to landlords in the HCV program. These payments have to be connected to a current 50058 form (tracking file for all CHA tenants). There are three (3) departments responsible for the effective processing of HAP; HCV (Housing Choice Voucher) Accounting, HCV Program, and HCV contracts (CVR and Nan McKay (NMA)). A “HAP overpayment” is created when a HAP is processed incorrectly. CHA identifies HAP overpayments in Yardi and tracks them in SharePoint (software utilized by CHA). CHA has a third-party collection firm Gila, LLC (Gila) tasked to recoup the HAP overpayments.

II. Objective

1. Determine whether CHA’s HAP overpayment procedures are in compliance with HUD regulations and CHA’s Administrative Plan.
2. Determine if CHA procedures are effective and efficient in (a) identifying, (b) preventing, (c) collecting, and (d) writing-off HAP overpayments.

III. Scope

The scope period of this review was initially for HAP processed between January 1, 2014 and December 31, 2014. This period was expanded to 2015 based upon additional information. The review of HAP process was completed on a random sample basis.

IV. Approach and Methodology

This review was performed by conducting interviews, reviewing documentation, analysis and random sample testing. In addition, the OIG utilized investigative techniques to collect, analyze, evaluate and interpret relevant data. Interviews were conducted with:

1. Kathryn Ludwig, Deputy Chief/ HCV Program
2. Cheryl Burns, HCV Program Director
3. Kendrick White, Manager of Financial Compliance, HCV Program

4. Dharmesh Panchal, Manager/HCV Accounting, Comptroller's Office-HCV Accounting
5. Judy Valentine, Payables Specialist, Comptroller's Office-HCV Accounting
6. Ervin Lollar, HAP Research Assistant, Comptroller's Office-HCV Accounting
7. HCV contracts (CVR and NMA)

Selection: Sample testing was based on the size of the entire population.

The OIG will provide HCV Program Department a draft report with observations and allow management time to respond in writing. The OIG will present the final report to the Audit Committee that will include the responses from the pertinent management team. The final report will also be submitted to the CEO, Eugene Jones and the impacted CHA departments.

V. Summary of Results

The following table provides an overview of the observations and recommendations included in this report. Details of each observation and recommendations can be found in the Observation and Recommendations section.

See Appendix 1 for full work flow of the HAP process by department.

	<u>Observations</u>	<u>Risk Level</u> ¹	<u>Recommendations</u>
I.	Security access groups in Yardi are not currently established based on staff's responsibilities.	High	The HCV Program department complete the Yardi Security Access review and implement necessary protocols to grant access based on roles and responsibilities and monitor on an on-going basis.
II.	HAP overpayments of \$15,106 were identified during the audit.	High	CVR and NMA continue to review the HCVEXC003 Multiple Subsidies report in Yardi
III.	The HCV Accounting department currently does not document the results for the multiple subsidies QC review.	Low	CHA should document the use of the multiple subsidies report which provides the most accurate information for HAP overpayment.
IV.	CVR/NMA are earning incentives/disincentives based on .03% sample size (42 out of 43,688); this sample size is not a reasonable representation of the total population.	High	The HCV Program department evaluate the current QC activities, including reviewing the size of the sample to determine if sample size tested reasonably represents total population to accurately evaluate their performance.
V.	The HCV Accounting Manager currently is able to perform multiple activities in the collection process.	Medium	The HCV Accounting department should review internal controls and procedures to minimize fraud risk to the agency.
VI.	The HCV Accounting department is currently processing write-offs for HAP overpayment accounts from 2011 and older.	High	The HCV Accounting department should be current (November 2014) with the processing of the write-offs for HAP overpayment both in Yardi and Lawson.

B. Observations and Recommendations

I. Yardi Security Access

Yardi is CHA's main system used to track tenants 50058s and process HAP. An internal control questionnaire was conducted with HCV staff and contractors (CVR and NMA) to understand the current HAP process.

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

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

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

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

Observation: Risk Level: High

1. Security access groups in Yardi are not currently established based on staff's roles and responsibilities. HCV staff and contractors (CVR, NMA and Property Managers), with different functions, have the ability to create and edit vendor records and make manual adjustments in Yardi (over 350 staff agency wide had full access (26 HCV staff)). The audit trail is not available to identify who may have made changes to the vendor card or tenant records. The issuance of unauthorized and/or fraudulent payments are possible, thus the agency is at a high fraud risk. After a status meeting on November 12, 2015 with the HCV department, the CEO instructed HCV Program Management to take immediate action to mitigate this risk. The HCV Program department and the Information Technology System department are reviewing the security groups in Yardi at an agency-wide level and are making adjustments in accordance with staff's responsibilities.
2. Old tenant records can be re-activated by staff who have full access in Yardi, therefore creating a risk of issuing unauthorized payments.

Recommendations:

1. The HCV Program department should continue reviewing the security groups in Yardi at an agency-wide level and make adjustments in accordance with staff's responsibilities. Implement new vendor reports (audit tracking update) in the QC process.
2. The HCV Program should evaluate whether old tenant records need to be re-activated for any legitimate business reason. If so, controls need to be in place to mitigate the fraud risk environment.

Management Response:

This issue was raised to HCV Management in November 2015. HCV took immediate steps to change the access groups that allowed 26 staff the ability to edit a vendor, create a manual adjustment and create an Electronic Funds Transfer. HCV has also begun the process of eliminating access to any group that has access that is unnecessary for their job functions.

II. Non-Compliance with HUD regulations and CHA's policies and procedures as it relates to HAP Overpayment.

Testing was conducted to assess compliance with the following policies:

- i. HUD's HAP contract provisions (revised by CHA under MTW 1/17/2013 ref Handbook 7420.8) provides the following:
Part B Section 7 a (4) states "Housing assistance payments shall only be paid to the owner while the family is residing in the contract unit during the term of the HAP contract. The PHA shall not pay a housing assistance payment to the owner for any month after the month when the family moves out."
- ii. CHA's policies, procedures, and protocols related to HAP:
CHA HCV Administrative plan (Version 12/01/2012) Chapter 13-6 provides the following "*the HAP contract terminates at the end of the calendar month that follows the calendar month in which the CHA gives written notice to the owner. The owner is not entitled to any housing assistance payment after this period, and must return to the CHA any housing assistance payment received after this period.*"

Observation: Risk Level: High

Although, multiple departments conduct Quality Control (QC) activities, these QC activities do not seem to be comprehensive enough to minimize HAP overpayments. In 2014 the monthly average number of HAP processed was 38,208. OIG identified tenants with multiple payments in the same HAP process and randomly tested thirty-eight (38) tenants. Out of the thirty-eight (38) tenants tested, four (4) (11% of the total tested) were identified with HAP overpayments totaling \$15,106. All HAP overpayments were forwarded to HCV Program department and HAP has since been recouped. The following table summarizes the 2014 HAP overpayments:

Vendor Number	Vendor (landlord)	Tenant Number	Participant	Overpayment	Recoup
v0031717	BAC INVESTMENT LLC	T0118517	Johnson, Darnell	\$ 3,476.00	\$ 3,476.00
v0020872	TACTICAL INVESTMENT LLC	T0104719	Fulton, Letisa	\$ 1,149.00	\$ 1,149.00
v0028773	SOUTH POST OAK PROPERTIES LLC	N022817	Triplett, Kimberly	\$ 6,111.00	\$ 6,111.00
v0027152	MOHAMED ZACKRIA	T0118375	Gray, Tanya	\$ 4,370.00	\$ 4,370.00
Total				\$ 15,106.00	\$15,106.00

Recommendations:

Enhance QC activities by increasing interdepartmental collaboration and communication. CHA should also continue to review the HCVEXC003 Multiple Subsidies report in Yardi to review the HAP overpayment.

Management Response:

These four files highlighted a key exception area that was missed after transition of HCV Financial Compliance staff (three of the four errors were from 2015 after the manager left and one was from 2014). HCV will reinstitute testing for incorrectly placed lease end dates (LED) in Yardi. Each of these errors were the result of a clerical error where staff utilized the wrong date for the end date of a lease or did not place a lease end date when placing a contract on hold. All dollars were recouped in 2015, and the reporting to track incorrectly placed LED will expose any other errors and enable CHA to recoup dollars from owners that were erroneously paid.

III. QC process used to identify and prevent the HAP overpayments

An internal control questionnaire was prepared and used to conduct interviews with the HCV Accounting department and HCV staff including contractors (CVR and NMA) to obtain an understanding of the QC process as it relates to the HAP process.

Observation: Risk Level: Low

As of January 2016, the HCV Accounting department stated that the HCVEXC003 Multiple Subsidies report is being used and 100% of the exceptions are reviewed. When exceptions are noted, they are forwarded to the appropriate contractors. However the HCV Accounting department could not provide supporting documentation for the multiple subsidies QC review. Due to the lack of supporting documentation, the OIG

was unable to analyze the results of the multiple subsidies QC review conducted by the HCV Accounting department.

Recommendations:

Departments tasked with QC functions should document results and evaluate current QC activities, including reviewing the size of the sample.

Management Response:

Going forward HCV Accounting will ensure that documentation exists for the results of each QC review of the check runs.

IV. Check run QC

As part of the contractual obligation between CHA and CVR/NMA the HCV Program department performs monthly QCs to determine incentives/disincentives for CVR and NMA. An internal control questionnaire was prepared and used to conduct interviews with the HCV department to obtain an understanding of the check run QC process as it relates to HAP.

Observation: Risk Level: High

The HCV department performs QC activities around HAP process. However, the sample size represents .03% of the total population (42 out of 43,688); this sample size does not reasonably represent the total population to accurately review their performance. The HCV department performs the QC between 2 and 3 months (depending on the QC activity) after the HAP check run. Some of the activities do not change from month to month (over 3K activity). This QC activity is directly tied to CVR and NMA monthly incentives/disincentives.

Recommendations:

HCV Program department should evaluate current QC activities, including reviewing the relevant categories and the size of the sample tested to determine if sample size tested reasonably represents the total population and the relevant categories.

Management Response:

Due to limited resources, HCV established its QC review criteria based on key exception areas that we believe represent a high risk for fraud and error. Our Check Run QC sample files are extracted from files that fit criteria specifically pertaining to the activity being tested. The entire check run as a single item is not reviewed in its entirety due to the variety of actions that are represented within a given check run. HCV staff will work to identify other non-high risk areas to test in order to ensure acceptable performance keeping in mind the impact to staffing sizes. The table below highlights each area tested and a description of what is reviewed.

Test	Test Description	Sample Size	Average Qualifying Records	Testing %
Checks over 3K	Identifies all HAP payments of \$3,000 or more.	10	10	100%
3 or more months	Identifies the reason multiple HAP payments (3 or more) were made in one month.	30	1,026	3%
Overpayments	Identifies overpaid HAP to ensure corrective action has been taken to recoup overpayments.	30	100	30%
Manual adjustments	Identifies all manual adjustments created by vendors to ensure accuracy.	30	72	42%
Multiple subsidies	Identifies HAP payments issued to multiple owners for one participant	30	230	13%
Change of ownership*	Identifies HAP payments after ownership change to ensure proper issuance.	10	59	17%
Total unique records audited per month		140	1,497	10.69%

* Change of ownership processed by Central office only

Please note: While the average number of qualifying records for the '3 or more months' test exceed 1,000 per month, the sample size has remained consistent with other tests due to a 99.98% pass rate.

Also, HCV has proposed an increase in sample size to 50 records per month effective January 2016. The table below reflects the new sample size and testing percentage after proposed increase.

Test	Test Description	Sample Size	Average Qualifying Records	Testing %
Checks over 3K	Identifies all HAP payments of \$3,000 or more.	N/A	10	100%
3 or more months	Identifies the reason multiple HAP payments (3 or more) were made in one month.	50	1,026	5%
Overpayments	Identifies overpaid HAP to ensure corrective action has been taken to recoup overpayments.	50	100	50%
Manual adjustments	Identifies all manual adjustments created by vendors to ensure accuracy.	50	72	69%
Multiple subsidies	Identifies HAP payments issued to multiple owners for one participant	50	230	22%
Change of ownership*	Identifies HAP payments after ownership change to ensure proper issuance.	20	59	34%
Total unique records audited per month		220	1,497	14.70%

* Change of ownership processed by Central office only

V. Collection of HAP Overpayments using collection vendor

As part of the collection process, CVR and NMA mail a demand letter to the landlord when a HAP overpayment occurs and the landlord does not have any other current tenants. If they have current tenants receiving HAP, the overpayment is withheld from these payments. CVR and NMA create an electronic file in SharePoint to track HAP overpayments. Delinquent collections of 60 days (or 90 days if extension was granted) or more from date of the demand letters are sent to Gila. When payments are sent to CHA, by the landlord, the Accounting Manager opens the mail and forwards the checks to the Accounting Assistant. The Accounting Assistant logs the checks and makes the deposit.

Testing was conducted to review and identify deficiencies in the collection process performed by the HCV Accounting department.

Observation: Risk Level: Medium

1. Current procedures do not require a log of all checks received by mail by the HCV Accounting Manager. Therefore, checks could be lost or misappropriated without detection. The HCV Accounting Manager is able to open the mail and approve the operating bank reconciliation.
2. When CHA receives checks from a landlord, checks are returned to the landlord with instructions to forward the payments directly to Gila. After a status meeting on October 26, 2015 with the HCV department, this process was changed. The HCV Accounting department's new process includes the endorsement of checks that are forwarded to Gila. In addition, landlords are asked, via letter, to send future payments directly to Gila.

Recommendations:

1. Review internal controls and procedures to minimize fraud risk to the agency. Create a log for checks received by the staff opening the mail.
2. Enforce new procedures for collection and update procedures to reflect change in process.

Management Response:

1. HCV Accounting has revised its procedures to accommodate better segregation of duties that now utilize four separate staff member in this process as follows:
 - HAP Analyst opens mail, which is delivered twice a day, checks are logged to the received check spreadsheet
 - Accounting Assistant receives checks for deposit and checks are logged to deposit check spreadsheet
 - HCV Accountant reconciles bank statement, which includes reviewing the received and deposited checks logs
 - HCV Accounting Manager reviews and approves Bank Reconciliation
2. The above change was implemented as of January 7, 2016 and HCV Accounting procedures were updated to reflect this change.

VI. Write-off HAP Overpayments (Receivable)

As part of the collection process and HCV Accounting department procedures, when CHA is unable to collect outstanding HAP overpayments, a write-off (expense) of the HAP overpayment is executed. Prior to the write-off, CHA sends demand letters as soon as the HAP overpayment is identified.

Testing was performed to review and identify deficiencies within the write-off process conducted by the HCV Accounting department.

Observation: Risk Level: High

The HCV Accounting department is currently processing write-offs for HAP overpayment accounts from 2011 and before (4 years behind executing this process). The current value of this receivable is approximately \$6,264,090 (as of 12/15/2015) causing both Yardi and Lawson to have inaccurate account balances. CHA staff tasked to manage HAP accounting function relies on other staff members for certain accounting concepts.

Recommendations:

The HCV Accounting department should be current (November 2014) with the processing of the write-offs for HAP overpayment both in Yardi and Lawson. CHA staff tasked to manage accounting function should take steps to update their skills and understanding of the relevant accounting concepts.

Management Response:

The HCV Accounting group agrees it is behind in updating Yardi information relating to write offs. Please note that an expense has been recorded on the general ledger and the financial position of the Authority is accurate. However, we do recognize that the Yardi detail needs to be updated and that a reclassification is required between the expense line items on the general ledger.

As of 12/31/2015, we have made the appropriate journal entry to reflect accurate balances and will work diligently to become current on the Yardi detail. Again, this has had no overall impact on the financial position of the organization. With regards to the \$6,264,090 balance, HCV Accounting, prior to this audit, had been working with CHA's ITS Department and Yardi to develop an automated Yardi process to update this write off activity as the manual process is very resource intensive. While we will continue to pursue this automated approach, HCV Accounting staff will take the appropriate action to update Yardi before the end of Q3 2016.

Regarding CHA staff utilizing others for certain accounting concepts, training and other educational opportunities had been made available and utilized by members of the team and Finance management has taken steps to ensure additional training is taken on by staff.