

MARTHA INGLE



CLERK OF COURT, WALTON COUNTY, FLORIDA

Walton County Board of County Commissioners
Walton County Housing Agency
Section 8 Rental Assistance Audit

Martha Ingle
Clerk of the Court

Internal Audit Department

Johnny Street
Internal Audit Manager

Report 0121
October 2012

REPLY TO:

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Attachment A:

Management's Response to Recommendation for Improvements

MARTHA INGLE



CLERK OF COURT, WALTON COUNTY, FLORIDA

October 15, 2012

Board of County Commissioners

The Internal Audit Department has conducted a review of the Walton County Housing Agency's HUD Section 8 Rental Assistance. The review was conducted for the period of January 1, 2010 to June 30, 2012 to determine if the rental assistance payments were proper and accurate and complied with appropriate laws, rules, regulations, policies and procedures. Also to ensure the participant's met eligibility requirements set forth by HUD Section 8 Housing. The agencies procedures for selecting applicants were reviewed to ensure that the process was fair and equitable.

The audit was conducted in accordance with generally accepted government auditing standards, and included such tests as considered necessary for the area under review. These standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions. Based on the audit objectives, Internal Audit believes the evidence obtained provides a reasonable basis for the findings and conclusions.

Responses to our Recommendations for Improvement were received from the Citizen Services Director and are incorporated herein.

Internal Audit appreciates the cooperation of the personnel of the Walton County Housing Agency, County Administration and the Clerk's Finance Department during the completion of this audit.

Johnny R Street
Internal Audit Manager

Approved:

Martha Ingle
Clerk of Court

c: Gerry Demers, Assistant County Administrator
Brady Bearden, Director Citizen Services
Tom Baker, Executive Director Walton County Housing Agency

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EXECUTIVE SUMMARY

Executive Summary

The Internal Audit Department conducted a review of the Walton County Housing Agency (the Agency) HUD Section 8 Rental Assistance Program. The review included an examination of program activities for the period of January 1, 2010 through June 30, 2012. The scope of the audit included the administration of the rental assistance program to determine compliance with the Department of Housing and Urban Development (HUD) grant regulations, grant and Agency eligibility requirements, Florida Statutes and County policies, procedures, rules, and regulations. Since the County's External Auditors review Housing Assistance Program grant compliance each year, Internal Audit did not review grant compliance nor grant reporting requirements outside of the operational requirements. The objectives of this review were to determine:

- 1) Whether the rental payments were properly calculated and recorded;
- 2) Whether the tenants were eligible to receive assistance;
- 3) Whether documentation supporting the assistance was sufficient; and,
- 4) Whether internal controls over rental assistance were adequate.

In addition, the rental assistance waiting list was reviewed to ensure that all applicants had equal opportunity of being selected to participate in the program. In the opinion of internal audit, controls over the Agency's rental assistance and applicant selection process were adequate; however, the Agency did not have accounting and operating procedures for most of the program activities. The Agency has an Administrative Plan modeled after HUD's regulations and Code of Federal Regulations (CFR) Chapter 24; however, these are not agency specific steps used to achieve the Agency's plans and goals.

Based on the results of the work performed, it was determined that written operating procedures would be beneficial to the Agency and its goals. Opportunities for improvement were recognized and are included in this report. Internal Audit's recommendations for improvement are summarized as follows:

An Agency employee was temporarily assigned to another Division; however, the employee's compensation was paid from the Agency's funds. The Agency's funds are earmarked for HUD Section 8 Housing. The employee's new duties were not related to the Agency's operations.

The Agency received a grant from HUD to be used for salaries for a Family Self-Sufficiency Program. The Agency used the grant funding to establish salary stipends for the Agency's employees. The County does not have procedures governing this type of compensation increase.

The Agency reviews and attempts to verify income and expense documentation provided by applicants; however, sometimes errors and omissions of information occur during the application process or during re-certifications. Their efforts have identified certain participants who owe debts to the Agency for overpayment of assistance because of inaccurate information. In many cases the agency has been able to execute repayment agreements with the participants. The Agency has identified in excess of \$200,000.00 of debt owed to the County; however, the County does not have a receivable account for this debt.

The Agency uses an Administrative Plan as a guide for administering the Housing Program. This Plan mirrors HUD's Plan covering the policies of the rental assistance program. The Agency does not have a clearly defined set of written operating procedures. These procedures should clearly outline the processes used in administering the program and obtaining the Agency's goals.

The Agency's rental assistance program appears to be operating efficiently and effectively. The Agency has been providing services to over 300 Walton County families in need of assistance. The Agency's internal controls appear to be adequate. The controls should ensure that the program is being administered fairly and equitably.

INTRODUCTION



INTRODUCTION

Section 8 Rental Assistance Audit

Background

The Walton County Housing Agency was established to administer and disburse HUD Section 8 rental assistance funding to low and very low income families. Families may apply for rental assistance per HUD guidelines, the Agency's Administrative Plan as approved by HUD, and The United States Code of Federal Regulations (CFR) Section 24. The Section 8 Program was enacted as part of the Housing and Community Development Act of 1974, which re-codified the U.S. Housing Act of 1937. The Section 8 tenant-based assistance programs are federally funded and administered for Walton County by the Walton County Board of County Commissioners (BCC) through its Section 8 housing office.

Any Walton County resident may apply for rental assistance. Qualification is based on income and family size. The amount of assistance is based on a formula provided by HUD. Families will be assisted as long as funding is available. Once funding has been depleted, remaining applicants are placed on a waiting list and contacted when additional funding is available. The waiting list is developed using a lottery type method. This ensures that all eligible families have the same opportunity to receive assistance. As families become self-sufficient or are dropped from the program. The next applicant on the waiting list is contacted. From time to time the list becomes depleted and the Agency will begin taking new applications for families to be placed on the waiting list. The Agency places an advertisement in the local paper stating when new applications will be accepted.

In addition to the rental assistance funding, the Agency receives grant funding for the Housing Choice Voucher Family Self-Sufficiency (FSS) Program. The FSS program is designed to help families become self-sufficient and thus allowing them to move forward from the need for assistance. This funding is earmarked for salaries and benefits of the Agency staff. The purpose of the program is to enable participating families to increase earned income, reduce or eliminate the need for welfare assistance, and make progress toward economic independence and self-sufficiency.

The Agency regularly monitors the families receiving assistance. Routine inspections are conducted to ensure the rental unit is safe, clean, and suitable for occupancy. The participants documentation is also verified to ensure any changes in income or family size are reported to the Agency. Occasionally information that would affect the amount of rental assistance is not provided timely or intentionally. This may result in an overpayment of rental assistance. Once staff verifies an overpayment the participant is given the opportunity to provide restitution of the overpayment. The participant may be terminated from the program or allowed to pay back the overpayment in monthly installments.



INTRODUCTION

Section 8 Rental Assistance Audit

Those still in the program have the payment deducted from the amount of assistance provided by the agency; all other participants, make payments by money order or cashier's check to the Agency.

Scope, Objectives, and Methodology

The Section 8 rental assistance audit was conducted for the period of January 1, 2010 through June 30, 2012. The scope of the audit included a review of the Agency's application process, waiting list, rental recovery payments, and qualified applicants. The objective of the review was to determine if the application process and subsequent waiting list was administered fairly and equitable. In addition, rental recoveries were reviewed to ensure they were properly collected, documented, recorded, and deposited into the County's bank account. Further the rental assistance payments were reviewed to ensure they were properly calculated and dispersed to a valid vendor, and to ensure the process complied with the laws, rules, regulations, policies and procedures.

The methodology used in this audit was to review a sample of rental assistance payments processed during the audit period. The application was reviewed to determine if the applicant qualified for assistance. The waiting list was reviewed to ensure the process was fair and equitable. The assistance payment was recalculated based of HUD's determination formulas. The payment was traced to the vendor and the property owner of the rental unit was verified to ensure the payment was proper. The Agency staff was compared to a sample of vendors to determine if any relationships were evident. Finally, over payment collections were traced to deposits.

Overall Conclusion

Based on the results of the work performed, the procedures for administering the Section 8 rental assistance program appeared to provide adequate controls to ensure that the program is administer efficiently and effectively; however, the Agency did not have written operating procedures that would help ensure the controls are adequate and the Agency's goals are being met. The Agency, however, used the Administrative Plan's policies that did provide an adequate level on controls. Recommendations for improvement are included in this report.

**RECOMMEDATIONS FOR
IMPROVEMENT**

RECOMMENDATIONS
FOR IMPROVEMENT

Section 8 Rental
Assistance Audit

1. **The County does not have a Receivable Account for Debts Owed to the Agency by Section 8 Housing Participants.**

Internal Audit conducted a review of Section 8 rental assistance payments. Section 8 staff monitors the case files which includes information provided by outside sources and the client's. On occasion staff will determine that a participant did not provide complete or accurate information while applying for assistance or during re-certification. This results in an overpayment of rental assistance by the Agency. In an effort to continue helping a family in need the Agency will allow the participant an opportunity to return the overpayment. Many of the overpayments are such that it would be a hardship to provide full restitution immediately. The Agency, pursuant to their Administrative Plan and 24 CFR 982.552 may execute a payment agreement with the client. This agreement is between the head of household and spouse and the Agency and will allow payment of the debt over a specified time period.

For individuals still in the program the repayment is done by a reduction in the rental assistance payment equal to the monthly installment amount in the executed payment agreement. For others the payments are made by money order or cashier's checks that are either mailed to the Agency or dropped off at the office. The Agency uses a spreadsheet to track and collect the debt's owed from overpayments of rental assistance.

Internal Audit determined that at the time of this review the amount owed from overpayments was \$216,565.82. Also, at the time of the review which included most payments through June 2012, the Agency had collected \$32,857.08 for the fiscal year. It was noted that the County did not have a receivable account for this debt. Governmental accounting standards would require an accounts receivable be established due to the material amount of money owed.

Although the Agency does a satisfactory job with this receivable, Internal Audit noted certain errors in the recording of some information. One participant overpaid in the amount of \$70.00. This overpayment has been refunded. In addition, two deposits were not recorded on the spreadsheet; however, the ending balance of the payment account was correct. A receivable account would provide additional levels of controls that would ensure the person's account is current, correct, and complete.

RECOMMENDATIONS
FOR IMPROVEMENT

Section 8 Rental
Assistance Audit

Internal Audit Recommends the Agency contact Clerk's Finance to coordinate the establishment of a receivable account. Procedures should be developed to ensure that all payments are recorded to the account whether by bank deposit or rental assistance reduction.

Management's Response: In September, we requested guidance from the Clerk's Finance Office in setting this account up. It is now in place and effective October 1, 2012. The Agency Director is preparing an agency management procedure associated with cash handling and will incorporate into the Agency plan.

2. **Grant Funds were Improperly used to Pay County Employee.**

As part of the audit process, Internal Audit conducted a preliminary survey which included interviews with management and staff. During the interview process, Internal Audit was informed by management that the department's program coordinator had been temporarily assigned to Animal Control and had been there for several months. It was also determined that the employee's salary was still being paid with Federal grant funds earmarked for rental assistance administrative expenses and FSS program activities. The Federal funding from HUD must be used for HUD Section 8 functions; therefore, the salary should not have been paid through this funding source.

Internal Audit contacted Clerk's Finance regarding the salary payments. Finance took immediate action to rectify the improper funding of the employee's salary. The HUD administrative account was reimbursed \$19,502.67 from the County's general fund to correct the improper funding. The County does not have procedures that will ensure that transfer documentation is forwarded to the appropriate staff.

Internal Audit would like to commend management for recognizing the problem and Clerk's Finance for their swift response in correcting an improper use of Federal grant funding.

Internal Audit Recommends the County develop procedures that ensure Clerk's Finance is provided with documentation for County Employee transfers and re-assignments; especially when the transfer requires a funding change.

Management's Response: Management agrees with the Internal Audit recommendations and will put procedures in place to notify and provide documentation to Clerk's Finance of any transfers and reassignments. This will especially include any that require a funding change or transfer.

3. **The County does not have Procedures for Salary Increases Outside of the Compensation Plan.**

During the review of the salary payments, it was noted that the Agency had received additional funding in the form of a HUD grant for the Housing Choice Voucher Family Self-Sufficiency (FSS) Program. HUD provides these funds for program coordinator salaries in support of this program. Per grant requirements, the funds may only be used for salary and benefits. HUD awarded the County \$50,000 for 2007, \$25,000 for FY 2009, 30,000 for FY 2010, and \$30,000 for FY 2011 to support this program. The funds from the grants were used to provide additional pay in the form of a stipend to the Agency's three employees. The stipends resulted in additional compensation of 33% for the program coordinator, 37% for the secretary, and 9% for the Director. The FSS grant allows the funds to be pro-rated among program coordinators who share the duties outlined in the grant.

Internal Audit was informed that the Agency does not track time spent on FSS duties or activities. Because of this, Internal Audit could not determine if the proration was accurate or correct or if the salary stipends were justified. The grant requires the funds to be used in support of the duties and activities associated with family self-sufficiency. Without proper time reporting and program activity goals and documentation, the Agency cannot ensure the grant is being used as intended and that the salary stipends correctly reflect time spent on the program.

RECOMMENDATIONS
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The County does not have policies or procedures that govern stipends or salary increases as the result of federal or state grants. In most cases, compensation changes are part of the budgeting process each year. BCC Policy 28 Compensation Plan requires that the Human Resource Director, with input from the Director of Finance, will prepare the Compensation Plan annually during the budget approval process and present it to the County Administrator prior to presenting it to the BCC for approval and adoption. This plan addresses market adjustments (COLA's) and/or performance evaluations; however, it does not address additional funds for salary from grant proceeds or for salary stipends.

Internal Audit Recommends that County Management develop policies and procedures that provide guidance for salary increases outside of the compensation plan. County Administration should be consulted and should provide approval for all salary adjustments outside of Board approved increases. In addition, the Agency should develop time recording procedures that track the time spent on the FSS program to ensure the additional compensation supports FSS activities as outlined in the program requirements.

Management's Response: The Housing Director and Management are looking at procedures for administering the FSS Grant. HUD has no requirements or directions as to how these grant dollars are distributed to support the FSS Program. We currently have twenty-three (23) families on the program and each Agency employee is associated with all FSS tasks. We will develop a process to document how the monies are to be distributed or we will reject the FSS Grant and return to HUD.

4. The Agency does not have Written Operating Procedures.

As part of the Audit of Section 8 Housing, Internal Audit reviewed the procedures used in achieving the objectives and goals of the Agency. The Agency does not have written operating procedures. Section 8 management provides guidance through the policies of the Administrative Plan, memos and informal processes that allowed the Agency to achieve its objectives. However, a written procedures manual would help ensure internal controls are in place and properly disseminated to the staff. The following are examples of areas that could use such procedures and are not all inclusive;

RECOMMENDATIONS
FOR IMPROVEMENT

Section 8 Rental
Assistance Audit

- a) For rental assistance overpayments, the Agency calculates the overpayment and attempts to collect that amount from the client either through cashier's checks or money orders or a reduction in rental assistance.
- b) The Agency has only three employees and at times only one person is available in the office. A procedure which requires a separation of duties will help ensure that items such as the overpayments are properly received, recorded, and forwarded to Clerk's Finance for deposit. If segregation cannot be achieved the procedure should indicate the steps required that would ensure proper follow-up review.
- c) On the occasion that a family member or family friend comes into the office for rental assistance, a procedure for handling these cases should be established. Management issued a memo in January 2010 that prohibited staff from handling family cases; however, because of limited staffing Internal Audit found documents in case files that were signed by staff and a friend or family member. The date indicated this occurred after the memo was issued. There was no evidence that the document was reviewed by another staff member.
- d) Many of the HUD documents in the case files were signed by the participant only. These documents did not have signature blanks for staff to sign. Internal Audit could not determine which staff member accepted, reviewed, or filed the document. A procedure addressing this issue could be helpful if questions arise. It could include staff initials and date if appropriate.
- e) Applicants for assistance are placed on a waiting list. The policies and procedures used in this process should be fully documented to ensure the procedure is fair and equitable.

A written policy and procedures manual can also be helpful in training new staff members or providing guidance for current staff. The procedures should be specific to the Agency. Procedures can help ensure the Agency's objectives and goals are achieved efficiently and effectively.

Internal Audit Recommends the Agency develop written procedures that provide guidance for the processes needed to achieve the Agency's mission and goals.



RECOMMENDATIONS
FOR IMPROVEMENT

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Management's Response: The Agency Plan was last approved by the Board of County Commissioners in 2002. This entire plan is being revised and will include and provide guidance for the processes needed to achieve the Agency's mission and goals. This plan revision should be submitted to the BCC no later than March 2013.