

To Honorable County Council Members  
Honorable Steve Ehlmann, County Executive

April 13, 2018

The Housing Authority examination opened December 11, 2017 has been completed, and the final report is being issued today. The scope of the review covered January 1, 2017 through September 30, 2017. Fieldwork for the review was completed on January 31, 2018, and our report reflects the results of work performed through that date. Responses were requested for by February 28 and received on April 12, 2018.

The objectives of the review were to determine whether internal controls were adequate and effective, operations and records were in compliance with established standards, regulations, policies and procedures, and resources were being used efficiently.

The examination covered contract with NECAC and review of the Section 8 program. We reviewed the internal control environment surrounding those activities, as well as performed an evaluation of the effectiveness and efficiency with which department objectives are being achieved. In addition, reviews for compliance with the County Charter and Ordinances, Missouri Statutes, and internal policies and procedures were performed.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and consisted of examining, on a test basis, sufficient evidence to afford a reasonable basis, for our opinion.

In our opinion, except for the opportunities included in this report, internal controls were adequate and effective, and operations and records were in compliance with established standards.

The issuance of this report completes the formal examination process. However, if you wish to discuss any aspects of the audit or report, please contact me.

*Brent Statler*

Brent R. Statler, CPA, CGAP  
County Auditor

**Attachment**

Copy to Joann Leykam, Director of Administration  
Jennifer George, Assistant Director of Administration  
Robert Myers, Planning & Zoning Division Director  
Dianna Clair, NECAC Section 8 Director  
Bob Schnur, Director of Finance



**Housing Authority  
Examination Report  
Opened December 11, 2017**

Scope: January 1 – September 30, 2017

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**BACKGROUND AND INTRODUCTION**

**Authority and Activity:**

Section 121 of the County Code established the St. Charles County Housing Assistance Program (SCCHAP) and the Commission on Housing Assistance. The SCCHAP administers Section 8 Housing Choice Vouchers with the County Executive serving as the Chief Executive Officer of the program. Day-to-day operations of the SCCHAP are administered by the North East Community Action Corporation (NECAC) as defined by the contract between the County and NECAC.

The Commission on Housing Assistance acts as an advisory body to the County Executive regarding matters of administration, operation, and management of the SCCHAP.

**Funding:**

The primary funding for the Housing Assistance Program is provided by the Housing Assistance Program Fund (Federal Section 8 Program funds). The historical funding for the Housing Assistance Program is presented below.

<b>Housing Assistance Program Housing Assistance Program Fund (287) – Expenditures Fiscal Years 2012-2017</b>		
<b>Fiscal Year</b>	<b>Housing Vouchers &amp; Administrative Fee</b>	<b>Percentage of Funding Change</b>
2012	\$4,260,446	N/A
2013	\$4,065,798	-4.6%
2014	\$3,896,637	-4.2%
2015	\$4,276,432	9.7%
2016	\$4,414,498	3.2%
2017	\$4,142,618	-6.2%

Revenues generated by the Housing Assistance Program are deposited in the Housing Assistance Program Fund. The historical funding is presented below:

<b>Housing Assistance Program                      Housing Assistance Program Fund (287) – Revenues                      Fiscal Years 2012-2017</b>		
<b>Fiscal Year</b>	<b>Federal Revenue</b>	<b>Grant Revenue as a Percentage of Expenditures</b>
2012	\$4,164,091	97.7%
2013	\$3,936,523	96.8%
2014	\$3,956,882	101.5%
2015	\$4,284,250	100.2%
2016	\$4,548,306	103.0%
2017	\$4,142,618	100.0%

**Staffing:**

The County does not staff the SCCHAP. NECAC provides four employees (a program administrator, two counselors, and an inspector) to administer the program, plus administrative staffing. The Commission on Housing Assistance is comprised of volunteer members appointed by the County Executive and approved by the County Council.

## II. STATUS BOARD

The status board provides a summary of the Housing Authority’s functions and processes. Each cell located under a function represents an activity that is to be completed to ensure that the process is performed in an effective and efficient manner. The color of the cells represents the assessment regarding completion of the activity. The legend below gives a description of the definition of each color.

- Red indicates management's immediate attention is required.
- Yellow indicates an opportunity for improvement exists.
- Green indicates there is no action necessary at this time.
- Blue indicates a process that was not included in the scope of the review.
- Grey indicates a County issue that should be addressed by management but is not necessarily a direct responsibility of the audited department/office.

Commission on Housing Assistance	Waiting List	Eligibility and Household Selection	Unit Approval	Client Reviews & Recertification	Monthly Payment Accountability	Voucher Portability	Administrative/ Miscellaneous
5-member board appointed by the County Executive and approved by the Council.	When it's expected that vouchers will be available, SCCHAP will open the application process for 30 days	Families are selected from the waiting list as funding becomes available.	Families receiving a voucher have 60 days to locate an eligible unit with an owner that will accept the voucher.	Families receiving SCCHAP assistance are required to be recertified annually.	SCCHAP makes arrangements with landlords of approved units to receive housing payments.	Approved vouchers may be taken from one Public Housing Authority (initial PHA) to another (receiving PHA).	Administrative Plan: SCCHAP maintains a plan for the program based on HUD requirements.
Members serve 3-year terms and can be reappointed.	To begin the process, an applicant must complete an on-line application and is placed on the waiting list.	Preferred families are selected first, based on the date and time of the application.	The voucher amount is based on family size and income.	NECAC will contact families 120 days prior to the anniversary date.	Payments are made by direct deposit or check to the participant.	The receiving PHA has two options for transferred vouchers.	Plan changes are approved by the County Exec and then sent to HUD.

Commission on Housing Assistance	Waiting List	Eligibility and Household Selection	Unit Approval	Client Reviews & Recertification	Monthly Payment Accountability	Voucher Portability	Administrative/ Miscellaneous
Each member must possess a unique qualification: Property Codes, Public Health, Public Safety, & At-Large.	Applications are only accepted while the waiting list is open.	Extremely Low Income (ELI) Families may be selected ahead of other families on the waiting list.	Selected units are inspected by SCCHAP to ensure the unit meets HUD requirements and has a reasonable rent.	During the review, SCCHAP will determine that the families still meet eligibility guidelines and unit passes inspection (B1).	Payments are made for the amount of voucher; families are responsible for rent not covered by the voucher.	1. The receiving PHA can absorb the voucher into its program using its own funding.	Fraud Investigation: SCCHAP investigates any report of program fraud.
One member must be currently assisted by Section 8 Housing Choice Vouchers.	Approved applicants are placed on the waiting list based on defined preferences.	An ELI family has annual income at or below 30% of the area median income.	After unit approval, the family and landlord will execute a lease agreement.	Based on the review, changes to the housing payment are made as needed.	Families can also receive a utility allowance (paid directly to utility).	2. The receiving PHA can bill the initial PHA for the payments and fees.	Client/ Applicant Appeals: SCCHAP will hear appeals of denied clients/ applicants.
The Commission meets as needed with a period reserved for public comments.	When vouchers are available, applicants are notified of initial assessment and start to qualification for benefits.	ELI families must make up at least 75% of the families entering the program.	Any changes to the lease agreement must be forwarded to SCCHAP.	Interim reviews will be made for changes in family circumstances.	SCCHAP provides HAP register to NECAC to make the payment and record the transactions.	Families must be approved for portability based on program guidelines.	Insurance: SCCHAP is required to maintain certain insurance levels per the County contract.
The Commission hears matters related to the SCCHAP.		Families selected from the waiting list are given an eligibility interview to verify that they meet requirements.		Changes could include a change in family size, income, or rent.	NECAC reports to HUD monthly on all the units rented and amounts.	Families must meet the income requirement for the receiving PHA.	Funding Reconciliation (B2 & B3)

Commission on Housing Assistance	Waiting List	Eligibility and Household Selection	Unit Approval	Client Reviews & Recertification	Monthly Payment Accountability	Voucher Portability	Administrative/Miscellaneous
<p>Recommendations are made to the County Exec. Based on hearings.</p>		<p>Families provide documentation that is verified by NECAC.</p>			<p>HUD wires program funds and administrative fees to the County.</p>		
<p>All records of proceedings are filed with the Registrar.</p>		<p>NECAC performs a criminal history check on families and conducts continuous meetings w/ the County Police Department. (A1)</p>			<p>After receiving HUD funds, the County transfers all money to NECAC the same day (before 3 pm) or next business day (after 3 pm).</p>		
		<p>Families that are determined to be eligible will receive a voucher.</p>					
		<p>A home ownership plan is available for families that meet additional program criteria.</p>					
		<p>Qualified participants may participate in the Family Self Sufficiency program which is designed to reduce dependence on welfare benefits.</p>					

### **III. EXECUTIVE SUMMARY**

Following is a summary of opportunities for improvement which were noted during our review of the Housing Authority:

#### **A. Compliance Opportunities**

1. Security and Management Control Outsourcing Standard: There were several items that remained open from the most recent audit of the Security and Management Control Outsourcing Standard by the Missouri Highway Patrol.

#### **B. Control Opportunities**

1. Administrative Plan: During a review of the Administrative Plan, some standards were different than operating practices.
2. FSS Reconciliations: Although the Housing Authority appears to review FSS transactions for adjustments, the participant balance report is not reconciled to the Trial Balance (bank balance).
3. HUD Voucher Reconciliation: There was a \$65,744.33 difference between HUD voucher funding by the County and NECAC receipts from the County.

## Compliance - Security and Management Control Outsourcing Standard

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>The St. Charles County Housing Authority Program (SCCHAP) and the North East Community Action Corporation (NECAC) entered into a contract for the Security and Management Control Outsourcing Standard for which the SCCHAP, as the Authorized Recipient, has outsourced to NECAC the non-criminal justice administrative function of receiving and making fitness determinations for Section 8 housing applicants. NECAC reviews and makes all fitness determinations, disseminates criminal history directly to the applicant when necessary, and provides destruction of the criminal history records. With this agreement, the Missouri State Highway Patrol conducts periodic reviews to determine compliance with data to determine that controls exist over its use.</p>	<p>After a review of the most recent audit of the Security and Management Control Outsourcing Standard by the Missouri Highway Patrol, the following items remain unresolved:</p> <ol style="list-style-type: none"> <li>1) The SCCHAP needs to designate a Local Agency Security Officer (LASO) which must be a full-time employee of the SCCHAP;</li> <li>2) Persons with physical access to criminal history data must receive, review, and sign the Security Awareness Training (SAT) document and sign the acknowledgment form which should be renewed on a bi-annual basis;</li> <li>3) NECAC should add the SAT training to its Security Program; and</li> <li>4) A Non-Terminal Agency User Agreement is required between the St. Charles County Police Department and the SCCHAP.</li> </ol> <p><u>Note:</u> The requirements for items #1-3 are newer requirements since the original agreement.</p>	<p>Compliance with Non-Criminal Justice Policy.</p>	<p>The SCCHAP should:</p> <ol style="list-style-type: none"> <li>1) Designate an employee as the LASO;</li> <li>2) Review the new SAT document and sign the acknowledgment form upon completion, with the appointed LASO retaining the signed forms;</li> <li>3) Request that NECAC update their Security Program to include the SAT requirements; and</li> <li>4) Sign a Non-Terminal Agency User Agreement with the County Police Department.</li> </ol>	<p>SCCHAP does have an executed Non-Terminal Agency User Agreement with the Police Department. Copy enclosed.</p> <p>Since SCCHAP began implementing a process for conducting background checks, SCCHAP has worked closely with the MSHP to implement such checks. The MSHP has attempted to find ways of implementing this given the specific and one-of-a-kind structure of our housing authority in the State of Missouri. MSHP recognized that the requirement that the LASO be a St. Charles County employee was not a workable solution, as actual access to background check information is through St. Charles County's contractor-NECAC. After our last MSHP audit, the Patrol stated it would work on assisting NECAC with being assigned the ORI directly, and therefore the LASO assignment could be</p>

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
				<p>completed and be a NECAC employee. NECAC has not received word of an ORI assignment and in the meantime, SCCHAP has decided to pursue a more efficient background check process not using criminal history information through the MSHP and has contacted the MSHP about termination of the ORI.</p>

**Control – Administrative Plan**

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>HUD requires an administrative plan which establishes policies for carrying out the programs in a manner consistent with HUD requirements and local goals and objectives contained in the Public Housing Authority's (PHA) agency plan. All issues related to Section 8 not addressed in the plan are governed by such federal regulations, HUD handbooks and guidebooks, notices, and other applicable law. Policies in the administrative plan were designed to ensure compliance with the consolidated annual Contributions Contract and all HUD-approved applications for program funding.</p> <p>Some of the SCCHAP administrative plan polices state:</p> <p>a) "The SCCHAP will send written notification of the preliminary eligibility determination within 30 business days of receiving a complete application. Placement on the waiting list does not indicate that the family is, in fact, eligible for assistance. A final determination of eligibility will</p>	<p>During a review of the Administrative Plan, the following was noted:</p> <ol style="list-style-type: none"> <li>1) SCCHAP does not notify applicants of preliminary eligibility within 30 business days of receiving an application; they are notified of preliminary eligibility once vouchers become available. This notification includes the requirement for criminal background check(s) before going to the next phase of income eligibility;</li> <li>2) The wait list does not include the family unit size; and</li> </ol> <p><u>Note:</u> In both items, it appears the current process is based on current selection methods and the waiting period on the wait list.</p> <ol style="list-style-type: none"> <li>3) SCCHAP updated their operating procedures to perform subsequent unit inspections biennially rather than annually.</li> </ol>	<p>Opportunity for an updated and current administrative plan.</p>	<p>SCCHAP should update the administrative plan to reflect the current practices for online applications, eligibility notification, requirements of the wait list, and when subsequent unit inspections occur.</p>	<p>In December 2016, the administrative plan was updated (see page 53 of 299) to refer to online rather than paper application. Additional updates will be made.</p>

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>be made when the family is issued a HCV voucher. Applicants will be placed on the waiting list according to any preference(s) for which they qualify, and the date and time their complete application is received by the SCCHAP."</p> <p>b) The Administrative Plan and HUD require the following information to be included on the wait list: "applicant name; family unit size; date and time of application; qualification for any local preference; and racial or ethnic designation of the head of household."</p> <p>c) "Annual Inspections. HUD requires the SCCHAP to inspect each unit under lease at least annually to confirm that the unit still meets HQS. The inspection may be conducted in conjunction with the family's annual reexamination but also may be conducted separately."</p>				

**Control - FSS Reconciliation**

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>The Family Self-Sufficiency (FSS) Program is a Section 8 program designed to help participants become economically independent and self-sufficient. Regulations and guidelines are provided by the Department of Housing and Urban Development. The FSS program is a five-year program, in which the participant works with the NECAC Staff to set short-term, intermediate, and long-range goals. On-going support is given to the participants as they face barriers to self-sufficiency. An interest-bearing escrow account is established by the PHA for each participating family.</p> <p>Any increases in the family’s rent because of increased earned income during the family’s participation in the program result in a credit to the family’s escrow account. Once a family graduates from the program, they may access the escrow and use it for any purpose. NECAC has one interest bearing account for the St. Charles Housing Authority and the Lincoln County Housing Authority but maintains individual account balances by participant in their Tenmast software. Account balances are reported on the Housing Authority Trial Balance.</p>	<p>Although the Housing Authority appears to review FSS transactions for adjustments, the participant balance report is not reconciled to the Trial Balance (bank balance).</p> <p><u>Note:</u> As of 9/30/17, the Trial Balance amount exceeded the participant balance report by \$2,330.92.</p>	<p>Participant balances may be under/over funded.</p>	<p>The SCCHAP should ensure that the FSS escrow account balance is reconciled to the bank statement balance and reconcile any differences on a monthly basis.</p>	<p>The balances will be reconciled monthly.</p>

**Control - HUD Voucher Reconciliation**

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>The SCCHAP receives HUD funding through St. Charles County. HUD disburses monthly funding for vouchers and an administrative fee through direct deposits. The County receipts the funds into the Housing Authority Fund and then disburses the funds through wire transfer to NECAC, which records the receipts into the proper general ledger accounts for the SCCHAP. Annually the County reconciles the funds received and provided to NECAC to the actual amounts expended for the Section 8 program. If Section 8 funding exceeds actual activity, then the County will hold back funds within HUD guidelines and retain them in the County's Housing Authority Fund Balance.</p>	<p>There was a \$65,744.33 difference between HUD voucher funding by the County and NECAC receipts from the County.</p> <p><u>Note 1:</u> This difference represents the 2016 holdback the County made after the 2016 County Single Audit which was withheld from the May 2017 transfer to NECAC. The needed adjusting entry was not made.</p> <p><u>Note 2:</u> This difference would have eventually been resolved with the reconciliation during the County's 2017 Single Audit.</p>	<p>Proper reconciliation of voucher funds received to program activity.</p>	<p>The SCCHAP should ensure that NECAC makes an adjusting entry to identify the 2016 holdback. Also, the County should ensure they are notifying the NECAC of any holdbacks and/or entries (i.e. interest) to the County's Housing Authority Fund Balance.</p>	<p>The County will communicate with NECAC monthly any holdbacks to ensure more timely entries.</p>