



# **CHICAGO HOUSING AUTHORITY OFFICE OF INSPECTOR GENERAL CHICAGO, IL**

**OIG File #A2019-05-001 – Audit of PPM Tenant Accounts Receivable**

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## ACRONYMS

- **CHA:** Chicago Housing Authority
- **HUD:** U.S. Department of Housing and Urban Development
- **OIG:** Office of the Inspector General
- **PPM:** Private Property Management Company
- **TAR:** Tenant Accounts Receivable
- **PIC:** Public and Indian Housing Information Center
- **PHA:** Public Housing Agency
- **P.A:** CHA Property Accounting
- **P.O:** CHA Property and Asset Management Office

## A. Executive Summary

### I. Authority and Role

The authority to perform this audit is pursuant to the Board approved *Inspector General Charter*, which states that the Office of the Inspector General (OIG) has the authority and duty to audit the administrative programs of the Chicago Housing Authority (CHA). The OIG is tasked with identifying inefficiencies, waste, fraud, abuse, misconduct and mismanagement, as well as promoting economy, efficiency, effectiveness, and integrity in the administration of CHA programs and operations. The role of the OIG is to conduct independent audits of CHA operations and programs and make recommendations for improvement when appropriate. CHA management is responsible for establishing and maintaining measurable processes to ensure that CHA programs operate economically, efficiently, effectively, and with integrity.

#### Standards

The OIG conducts audits of programs in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and The Principles and Standards for Offices of the Inspector General. Those standards apply to performance audits of government agencies, and require that we plan and perform the audit to provide objective analysis, findings and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.<sup>1</sup>

#### Independence

The OIG auditors involved in this audit are free both in fact and appearance from personal, organizational, and external impairments to independence. All opinions judgments, conclusions, and recommendations are impartial and should be viewed as impartial by third parties.

### II. Background

Based on findings noted in the CHA Internal Audit draft report of PPM Operation Revenue Review dated April 2019, prior OIG investigations on rent collection frauds, and concerns expressed by CHA Chief Property and Asset Management Officer, the OIG selected an audit of CHA's Tenant Account Receivable.

In October and November 2015, CHA entered into a three-year agreement, with a two-year extension option, with PPMs to rent, lease, operate, and manage CHA's Properties. Under the terms of the contract, the PPMs shall fulfill all services customarily associated with third party multi-unit property management, including but not limited to:

- Complying with all applicable local, state and federal laws, regulations, codes;
- Purchasing all materials, equipment, tools, appliances, supplies and services necessary for the proper maintenance and repair of the Properties as authorized in the Property Operating Budget pursuant to HUD Regulations and CHA's Procurement Policy;
- All services shall be performed in conformity with the Governing Documents, Management Plan, Request for Proposal, as they may be modified from time to time by

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<sup>1</sup> The U.S. Government Accountability Office, Comptroller General of the U.S. (2018). *Government Auditing Standards* (The Yellow Book). Washington, DC: GAO.

CHA and upon appropriate written notice to the PPM of those modifications, and other direction CHA may provide from time to time.

PPM contracts for the management of CHA properties in region 2 and region 3 were cancelled in May and June 2019 respectively.

### **III. Objective**

1. To assess whether PPMs' ability to collect rent owed by residents conforms with: "Activities that are customarily associated with third party multi-unit property management" (*Private Property Management Agreement*)
2. To ascertain whether PPMs are adhering to the CHA's minimum standards in rent collections.
3. To ascertain whether delinquent Past -Tenant Accounts Receivable (TAR) balances are electronically reported to HUD.
4. To ascertain whether TAR balances are properly reflected in the tenant ledger.
5. To provide the CHA with an independent analysis of cash inflow processes that the PPM utilized when performing services and activities on behalf of the CHA as required by the contracts.
6. Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste and abuse of the rent collection process at CHA Traditional and Mixed-Finance properties.

### **IV. Scope**

The initial scope period of this audit was for activity performed between January 1, 2018 to December 31, 2018. After a review of CHA's "bad debt report," which details rent owed over 90 days by each past resident, the scope was adjusted to January 1, 2018 to June 30, 2019, in order to capture additional relevant information.

### **V. Approach, Methodology and Sample Selection**

The audit was performed by conducting interviews, reviewing documentation, inspections, testing and other measures deemed necessary. Other measures included but are not limited to utilizing investigative techniques to collect, analyze, evaluate and interpret relevant data.

Relevant research includes:

1. Property Management Procedural Manual for the Traditional Portfolio
2. Property Management Financial Procedures Manual
3. Private Property Management Agreement
4. FY2018 Residential Lease Agreement
5. Regulatory and Operating Agreement among Chicago Housing Authority and Mixed Finance Developers

Interviews were conducted with the following:

1. P.O. personnel to gain an understanding of their roles and responsibilities in oversight of the PPMs.

2. CHA's Law Department to obtain an understanding of their roles and responsibilities in the eviction complaint process based upon the 14-Day demand letters (written notice that gives a tenant the option to comply with lease agreement, pay rent, or to leave).

3. PPM firms to acquire an understanding of their functions and responsibilities with regards to the tenant rent collection process.

In addition to interviews, site visits were performed and consisted of testing the aggregate rent balance due at each site, balances due by tenants and 14-Day notices issued to tenants.

Material deficiencies and/or relevant issues was discussed with PPM firms and communicated to CHA's Property and Asset Management Office (P.O.). The OIG provided CHA management with a draft report with observations and allowed CHA management time to respond. Management submitted written responses, which are incorporated in the report. The final report was presented to the Chief Executive Officer and the Audit Committee.

The OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives to identify conditions and/or an environment that results in, or could result in, waste, fraud, abuse, misconduct or mismanagement.

### **Sample Selection**

For the purpose of this audit, the OIG used a judgmental sampling method<sup>2</sup>. The OIG pulled Yardi Report Tenant Rent Roll (PHA25A) as of June 30, 2019. From the report, the OIG selected CHA traditional portfolio sites with high cumulative uncollected rent balance relative to their monthly rent amount. To ensure that the last month rent charged is not used in the computation, OIG subtracted the monthly property rent charged from the total uncollected rent balance as of June 30, 2019. The resulting amount was divided by the monthly rent charged to arrive at rent balance percentage of tenant rent charged. Properties with cumulated rent balances above 50% of their monthly rent charged were selected for detail testing.

Mixed-finance properties were selected for balance confirmation or based on complaints of possible illegality in rent collection.

The following tables represent the selected sites for detail testing.

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<sup>2</sup> Judgmental sampling is a non-statistical sampling method where specific items are selected based on the Auditor's professional knowledge about the population (Institute of Internal Auditors).

CHA Traditional Portfolio Sites Selected for Detail Testing						
A	B	C	D	E	F	G
Formula					E-D	% F/D
			Monthly	Uncollected	Uncollected Balance	Uncollected Balance Minus
PPM	Units	Property	Rent	Rent Balance	Minus	Monthly Rent Divided
	Counted	Region	Charged	As June 2019	Monthly Rent	By Monthly Rent Charged
Habitat		032-SS Region 1				
	1,256	Total a032000	348,075.00	578,163.43	230,088.43	66%
McCormack		001-ABLA				
	305	Total a001000	84,371.00	172,837.08	88,466.08	105%
East Lake		002-Altgeld/Murray				
	1,450	Total a002000	326,670.00	717,969.96	391,299.96	120%
East Lake		025-Lowden				
	123	Total a025000	26,062.00	51,305.85	25,243.85	97%
East Lake		034-SS Region 4				
	323	Total a034000	86,322.00	214,113.15	127,791.15	148%
McCormack		035-SS Region 2				
	434	Total a035000	110,536.00	493,483.50	382,947.50	346%
East Lake		038-Trumbull				
	422	Total a038000	105,954.00	192,996.49	87,042.49	82%
W.C.D.C		039-Washington Park				
	200	Total a039000	51,855.00	94,585.14	42,730.14	82%

CHA Mix-Finance Portfolio Sites Tested	
PPM	Building #
The Community Builders	113-Oakwood Shores 1A
	137-Oakwood Shores 2A
	114-Oakwood Shores Ter P
	145-Oakwood Shores P2 B1
	130-Oakwood Shores 1B
	153-Oakwood Shores P2 C Mercy
Realty and Mortgage	027-Mohawk North
	088-Old Town Square
	104-Old Town Village West
Leasing & Management Company	122-Keystone Place
	162-Dorchester
The Michaels Organization	117-Mahalia Place
	127-Hansberry Square
	163-Gwendolyn Place
	168-City Gardens
	139-Coleman Place

## VI. Summary of Results

The Audit revealed the following:

- 14-Day notices were not consistently issued and /or enforced to tenants in timely manner.
- Mixed-finance developments were not consistently recording tenant rent received into the CHA's accounting system (Yardi),
- Tenants' rent balances were not always transferred to their new units,
- In some cases, tenants' rent accounts show excessive adjustments in Mixed finance developments.
- In the case of one Mixed finance development property manager, tenants' financial records were manipulated to generate inaccurate rent charges,
- Delinquent Past -Tenant Accounts Receivable (TAR) balances were not consistently reported to HUD

The above listed observations are some of the causes for high outstanding rent balance in the CHA accounting record.

Details of each finding and recommendation can be found in their respective sections to follow.

All departments and PPMs impacted by this audit cooperated fully with the OIG staff. The OIG thanks CHA management for its cooperation and willingness to improve the program.

As of middle of 2019, McCormack Baron and W.C.D.C are no longer managing CHA property.

## B. Findings and Recommendations

### Finding 1: High Rent Balance

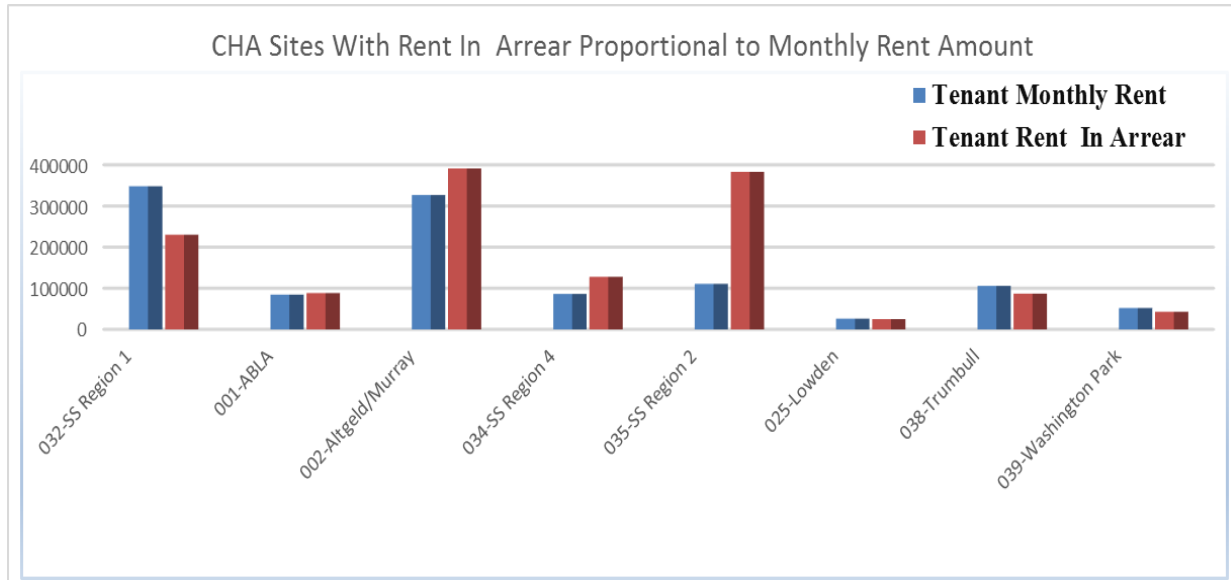
**Risk Level: High**

The OIG noted that as of June 30, 2019, the CHA's Yardi system reflected a total uncollected rent of \$5,352,647 and rent in arrears (more than 30 days overdue) of \$1,580,794.

The following table illustrate the condition in June 2019 per portfolio.

Tenant Rent Roll and Rent In Arrears As of 06/30/2019			
	Tenant Balance Due	Monthly Tenant Rent	Rent In Arrear
CHA Units Include Mixed Income	\$ 5,352,647.74	\$ 3,771,853.00	\$ 1,580,794.74
CHA No Mix-Income	\$ 3,343,050.01	\$ 2,807,301.00	\$ 535,749.01
Mixed -Income Only	\$ 2,009,597.73	\$ 964,552.00	\$ 1,045,045.73

The following chart illustrates rent in the arrearage proportion of the monthly rent for the selected sites. Among the CHA family sites, Scattered Site Region 2 has rent in arrears amounted to more than three times the monthly rent as shown in the chart.



During the audit, the OIG noted that often CHA’s Legal Department and site managers delayed enforcement of the 14-Day demand rent notices.

Chapter 9.3.2 of the Property Management Procedural Manual states that: *“The 14-Day Demand for Rent for unpaid rent will be drafted by property managers.”*

During the audit, the OIG noted that the 14-Day demand letters were not consistently issued and enforced by the PPMs. As a consequence, the 14-Day demand letter is trivialized, and tenants accumulated large TAR balances.

The 14-Day demand letter is the initiation of a legal process that should be meaningful and enforced. It should be issued as the last resort for public housing rent collection.

CHA should consider establishing a Safe Harbor provision to minimize the use of 14-Day demand letter for unpaid rent. A Safe Harbor notice should be sent to tenants missing a rent payment due date to timely remind them of the available resources such as rent hardship suspension, financial management, and wrap-around social service support programs.

**Risk:**

- Loss of revenue;
- Inefficient administration of the program;

**Recommendation:**

- 1) PPMs comply with Chapter 9.3.2 of the Property Management Procedural Manual.
- 2) The CHA Law Department continue to assess the 14-Day demand letters to evaluate appropriate legal action to pursue unit recovery on behalf of CHA
- 3) The CHA should establish a Safe Harbor provision as described above.



<b>Management Response:</b>		
<input checked="" type="checkbox"/> Concur with Findings and recommendation	<input type="checkbox"/> Do not concur with Findings and recommendation	<input type="checkbox"/> Concur with part of the Findings and recommendation
<p>Management concurs with the findings and recommendations. Property and Asset Management will 1) direct and monitor PPMs compliance with the Property Management Procedural Manual; 2) coordinate with the CHA Law Department in on-going assessment of the appropriateness and timing of 14-Day demand letters; and 3) provide Safe Harbor consideration for residents. Residents and/or adult authorized family members of the resident’s household may be eligible for Safe Harbor and may seek it when unable to comply with the work requirement.</p> <p>Further, all cases eligible for 14-Day demand letters must be reviewed and approved by Portfolio Management before referral to CHA’s Legal Department. In appropriate cases, residents are referred to the RSC and a social service provider. In addition, residents may enter into one rent repayment plan in any consecutive 12-month period. Collectively, these measures serve to assist residents in remaining lease compliant and avoiding rent arrearages.</p>		
<b>Custodian:</b>	Eric Garrett	
<b>Implementation Timeline:</b>	Q2 2021	

**Finding 2: Tenant Balances Not Transferred**

**Risk Level: High**

The OIG identified instances where current tenant balances for outstanding rent owed were not transferred to their new accounts. The balances were simply ignored or left to be written off. For example, T.B was moved from unit 1649 to unit 1604 in the same development. Prior to the move, the tenant had a \$1,825.97 balance on her ledger for client / tenant ID# bxxx287. After transfer, the tenant was assigned a new client / tenant ID#lxxx287 with a zero balance. The old balance of \$1,825.97 was moved to bad debt along with the old client/tenant ID and written off.

*PM Finance Procedures Manual states:*

**A) CHA initiates the transfer and tenant owes a balance to CHA**

*1. The PM where the resident is moving from (Outgoing PM) will communicate with CHA Property Accounting (via Asset Management) to request assistance transferring the resident’s balance. The Outgoing PM must communicate with the receiving PM in writing, the correct AR balance being transferred. If the balance is a debit (amount owed), the Outgoing PM will adjust the tenant’s ledger by creating a negative charge - using “rent” charge code, then apply a ‘zero receipt’ to merge all charges to zero. 2. After the adjustment, the receiving PM will move the tenant into the new development. The PM must charge the balance owed from the previous development and the new security deposit.*

**B) If the tenant initiated the transfer and owes a balance to CHA**

*1. Tenant will be processed as move-out from the development he/she is moving from. 2. Tenant should pay any balances owed to existing property before he/she can be moved into a new development. As well as any security deposit will be applied against the balance*

owed. 3. If not paid, CHA's Property Accounting department will transfer the balance due from the tenant's old ledger to the tenant's new ledger, upon notification.

During the audit, the OIG noticed that the above procedures were not observed. Tenants were transferred inter-development and/or intra-development without transferring the balance owed from previous units or developments. OIG noted 15 instances across various properties. Those balances ranged from \$1,000 to \$17,000.

The following table illustrates notable of instances of balances not transferred:

Development Name	Property #	Address	Tenant Name	Unit Code	Client Code	Transferred Month	Current Balance	Balance Transferred
035-SS Region 2	a032000	1111 N. Kedzie Ave. A	XXXX ABBB	NC0600	t0194306	Dec-17	\$ 768.75	No
035-SS Region 2	a035000	3333 W 19TH ST. Apt. C		NC0583	t0220716	May-19	\$11,120.00	No
035-SS Region 2	a035000	6666 W 18th PL apt. C		NC0574	706186p			
093-Horner - Westhaven	a093000	8888 W. Warren Bl. A	ABBA XXXX	261144	t0220187	Mar-19	\$17,533.00	No
093-Horner - Westhaven	a093000	7777 W. Monroe St. 7A		241828	569235p			
137-Oakwood Shores 2A	a137000	1111 E PERSHING RD 301	JOHN DODO	OAK078	t0147952	May-16	\$ 7,712.00	No
099-Hilliard Family-Holsten P1	a099000	0000 S CLARK ST		HIF006	t0033384			
For privacy reasons, the OIG altered tenants' names, and addresses.								

These situations are partially attributable to high turnover of PPM site staff working on the CHA portfolio combined with a lack of continued training.

Lack of proper training also caused PPM staff to not maintain the client code or client/tenant ID during the transfer process as noted in the table. Maintaining the client/tenant ID codes allows CHA to access a tenant's history in one record as opposed to scattered across multiple ID codes.

**Risk:**

- Loss of revenue;
- Lack of oversight of the PPM by P.O.
- Inefficient administration of the program.

**Recommendations:**

- 1) PPMs should undergo Yardi training, including retraining PPM personnel with an emphasis on proper transferring of tenant balances.
- 2) CHA or its designees should inform tenants that are in this condition (rent balance attached to their old tenant ID) and make adjustments to their account if necessary.

Management Response:		
<input type="checkbox"/> Concur with Findings and recommendation	<input type="checkbox"/> Do not concur with Findings and recommendation	<input checked="" type="checkbox"/> Concur with part of the Findings and recommendation

Management concurs with the finding and recommendation number 1. Management does not concur with recommendation 2 as the PMs are responsible for informing tenants that rent balances from their old accounts will be transferred, as necessary.

Mandatory Yardi training for PMs includes Tenant Accounts Receivable training. Additionally, Property Accounting works with the PMs on balance transfers and tenant ledger corrections. PMs can only transfer balances between properties that they manage (intra-development transfers). Transfers outside their purview is performed by CHA's Property Accounting team 90 days after a tenant has moved out. Transfer to another development is treated and processed as a move-out. At the time of move-out, PMs should make tenants aware of their balance and that the balance (positive or negative) will be transferred to their new ledger.

Going forward, PMs will be required to transfer tenant's past ledger balance within 15 days to their new ledger (intra-development transfers). PMs must complete tenant ledger review, perform the "Deposit Accounting Function" and process the rent roll monthly so the Yardi system updates the tenant's ledger after the PMs transfer the appropriate balance. Property Accounting will be responsible for transferring non-intra-development balances within 45 days.

<b>Custodian:</b>	Eric Garrett
<b>Implementation Timeline:</b>	Q1 2021

**OIG's Concluding Response:**

CHA PO has oversight responsibility of the PMs' expected actions. Nevertheless, Recommendation 2 was modified to state: "CHA or their designee should inform tenants that are in this condition (rent balance attached to their old tenant ID) and make adjustments to their account if necessary."

Management's response provides an action plan to address the OIG's finding and recommendations.

**Finding 3: Mixed-Finance Property Manager Falsifying Tenant Records Risk Level: High**

At two Mixed-finance developments, the OIG determined a property manager had falsified tenant records and misappropriated tenants' rent payment money orders.<sup>3</sup> An estimated \$79,800<sup>4</sup> in tenant rent was pocketed by the property manager from 2017-2019.

To carry out the fraud scheme, the site manager reduced participant rent amounts by reducing the family income status in HUD Form 50058. These unauthorized and unapproved site manager actions generated lower rent charges to tenants' ledger accounts. Unaware of the management action, tenants continued submitting money-orders for the higher amounts. The site manager cashed or deposited the money orders into her personal account. To conceal her fraudulent activity, she made money-orders for a lower amount to pay the tenants' rent to prevent 14-Day notices and avoid an increase of receivable account balance.

<sup>3</sup> This case is currently under criminal investigation.

<sup>4</sup> This estimated amount is based on analysis of tenant rent paid during the months January 2018, 2019 and 2020.

**What is the purpose of the Form HUD-50058?**

The data collected on the form provides HUD with a picture of the people who participate in subsidized housing programs. Public Housing Agencies (PHAs) collect and electronically submit information contained on the Form HUD-50058 to HUD. The Public and Indian Housing Information Center (PIC) system then captures this information and creates reports used to:

- analyze the subsidized housing programs,
- monitor PHAs,
- detect fraud, and
- provide information to Congress and other interested parties

The OIG identified 52<sup>5</sup> potential such unauthorized interim HUD-50058 submissions. These suspicious activities were possible because the site manager was allowed to collect rent, post rent, change tenants’ 50058 forms, and make adjustments to tenant ledgers. During the fiscal year 2018, over \$203,000 in adjustments were made to 30 tenants’ ledgers. This adjustment is more than the total rent charged and over two times the rent collected.

During the audit, the OIG noted the lack of clarification on which CHA Department, i.e. Property Office or Property Accounting, has ultimate responsibility for verifying the accuracy of rents collected at Mixed-Finance sites.

**Risk:**

- Loss of revenue;
- Potential for judicial action;
- Inefficient administration of the program.

**Recommendations:**

- 1) CHA should ensure a segregation of duties for rent collection and re-certification functions.
- 2) Portfolio Manager should periodically review tenant files for interim adjustments.
- 3) P.O. and P.A. departments should coordinate their efforts to establish a process to ensure that rent collected by Mixed-Finance managers are reviewed for accuracy.

<b>Management Response:</b>		
<input type="checkbox"/> Concur with Findings and recommendation	<input type="checkbox"/> Do not concur with Findings and recommendation	<input checked="" type="checkbox"/> Concur with part of the Findings and recommendation
Management concurs with the finding, but not the recommendations. Since the time of the illegal activity of the individual property manager, Property and Asset Management and Property Accounting have been more actively involved in addressing TAR and rent collections, and review of tenant balances for MF properties. Property Accounting prepares an Exception Report that is shared with PMO to monitor various issues. Property and Asset Management will continue this process and create formal responsibilities and procedures.		
<b>Custodian:</b>	Eric Garrett	
<b>Implementation Timeline:</b>	N/A	

<sup>5</sup> This estimation is based on assumption that every interim 50058 was fabricated.

**OIG's Concluding Response:**

Management's response provides an action plan to address the OIG's finding and recommendations.

**Finding 4: Excessive Material Adjustments to Tenant Account Risk Level: High**

The OIG noticed that in 2018, adjustment to tenant account increased to 43% of the total rent charged for the year in some Mixed-finance developments. For example, at Lake Park Crescent, the total rent charged for the year was \$419,381, while the write-off amount was \$157,352.

According to the PM Financial Procedures Manual, *"If the A/R Clerk needs to make manual adjustment charges, prior authorization should be given by the Property Manager"*.

This Table Illustrates the Rent Adjustment Relative to Rent Charged and Rent Collected.								
AMP	Beginning Balance	Charges	Other (i.d. security deposit)	Payment	Adjustment	Balance Due	% of Charges over Adjustment	% of Payment over Adjustment
<b>105-Lake Park Crescent 105000</b>								
Total 105-Lake Park Crescent	\$ 83,782.79	\$ 419,381.32	\$6,852.17	\$ 284,480.30	\$(157,352.27)	\$68,183.71	-38%	55%
<b>116-Roosevelt Square 116000</b>								
Total 116-Roosevelt Square	\$ 98,269.37	\$ 493,383.00	\$1,122.00	\$ 391,024.99	\$(173,949.43)	\$27,799.95	-35%	44%
<b>117-Mahalia Place 117000</b>								
Total 117-Mahalia Place	\$ 29,695.84	\$ 210,976.00	\$ 318.00	\$ 123,903.66	\$ (81,593.54)	\$35,492.64	-39%	66%
<b>122-Keystone Place 122000</b>								
Total 122-Keystone Place	\$ 123,265.60	\$ 190,783.96	\$ 913.03	\$ 95,267.40	\$(203,077.97)	\$16,617.22	-106%	213%
<b>133-Roosevelt Square Phase II 133000</b>								
Total 133-Roosevelt Square Phase II	\$ 101,317.54	\$ 447,544.02	\$2,250.00	\$ 344,314.36	\$(190,743.69)	\$16,053.51	-43%	55%
<b>153-Oakwood Shores P2 C Mercy 153000</b>								
Total 153-Oakwood Shores P2 C M	\$ 33,326.80	\$ 125,055.00	\$1,045.00	\$ 51,593.23	\$ (48,397.00)	\$59,436.57	-39%	94%
<b>166-Rosenwald Courts Apt 166000</b>								
Total 166-Rosenwald Courts Apt	\$ 71,790.49	\$ 177,638.13	\$8,113.00	\$ 153,971.00	\$(100,375.96)	\$ 3,194.66	-57%	65%

As shown in the above table, properties with excessive adjustments were Mixed-finance sites. In 2018, at Keystone total adjusted amount was 213% of the rent amount collected, and at Oakwood Shores P2 it was 94% of the rent amount collected.

Excessive and frequent adjustments of tenant accounts create an environment for fraud schemes. See finding No.3.

**Risk:**

- Loss of revenue;

- Lack of oversight of the PPM by P.O
- Inefficient administration of the program.

**Recommendations:**

Consistent with both the PM Financial Procedures Manual (for traditional public housing properties) and OIG Advisory No. 18: “Mixed -Finance Management Agents’ Rent Collection Processes”:

- 1) All Property Management Agents including the Mixed-Finance should obtain approval of the CHA Property Office prior to applying resident rent charge credits.
- 2) Property Management Agents should be required to provide the CHA Property Office with supporting documentation whenever resident rent charge credits are entered.

Management Response:		
<input type="checkbox"/> Concur with Findings and recommendation	<input type="checkbox"/> Do not concur with Findings and recommendation	<input checked="" type="checkbox"/> Concur with part of the Findings and recommendation
Management concurs in part with the findings and recommendations. In the future, material credit adjustments will require CHA approval and all adjustments will require a note in the tenant memo section explaining and justifying the adjustment. Documentation must be provided for material adjustments.		
<b>Custodian:</b>	Eric Garrett	
<b>Implementation Timeline:</b>	Q1 2021	
OIG’s Concluding Response:		
Management’s response provides an action plan to address the OIG’s finding and recommendations.		

**Finding 5: Mixed-Finance Property Not Consistently Updating Tenant Records**

**Risk Level: High**

The Mixed-finance owners were not consistently recording tenant rent collected into the CHA Yardi system as expressed by the respective regulatory and operating agreements with CHA. Consequently, tenants have large rent balances in Yardi. Therefore, TAR balances in the Mixed-finance properties cannot be verified.

The Regulatory and Operating Agreement between Chicago Housing Authority and Mixed Finance Developers states:

*Owner shall cause the Management Agent to perform all the duties and responsibilities normally associated with management of public housing and shall cause the Development, its units, appurtenances and grounds to be maintained and secured according to standards acceptable to the Authority and HUD, including, but not limited to, the following as pertaining to the PHA-Assisted Units: (1) preparing reports as directed by the Authority*

*using the Authority’s Management Information Systems (“MIS”) <sup>6</sup>, or any other system mutually agreed upon by the Authority and Owner, and maintaining office records, books, accounts and reports in a manner satisfactory to the Authority; (2) as directed by the Authority, using the Authority’s MIS which may-include all functions of the system of record purchased by the Authority, including, but not limited to, work orders, housing eligibility, tenant accounting, accounts payable, general ledger, bank reconciliation, payroll, purchasing, fixed assets, inventory control and modernization/development. Owner shall cause the Management Agent to use the system of record (or replacement software) as provided by the Authority at no cost to the Owner or the Management Agent. The Authority reserves the right to change the software and also utilize forms and spreadsheets to input information into the system of record, provided that any extraordinary operating cost related thereto shall be paid by the Authority.*

During the audit, the OIG reviewed the ledgers for tenants residing in CHA units located in Mixed-finance developments. In an effort to verify tenants’ ledger balances obtained through the CHA’s Yardi system with the PPM management records, the OIG noticed that the PPMs were not consistently recording tenant rent collected into the CHA’s Yardi system.

The Mixed-finance owners use different systems other than CHA’s Yardi to maintain tenant accounting and recording. They were not updating tenants’ account ledgers in CHA’s Yardi. As a result, tenant account receivables have unjustifiable and unverifiable balances. The unrecorded rent payments are more than a decade old in some cases. For example, one tenant’s rent payment activity from 8/03/2007 to 4/02/2008 was not recorded in the CHA’s system of record. The lack of documentation and management turnover make impossible any verification of the historical TAR.

During the audit, the OIG brought this preliminary finding to the attention of P.O. In response, the CHA Management instructed Mixed-finance owners to clean up the TAR balance in CHA’s Yardi, to improve the reliability of the Yardi data.

**Risk:**

- Loss of revenue;
- Lack of oversight of the PPM by P.O
- Inefficient administration of the program.

**Recommendation:**

- 1) CHA should review the public housing portion of Mixed-Finance rent records (rent paid by CHA’s tenants only) and match them to the CHA tenant account receivable to ensure that timely and accurate Yardi entries occur.
- 2) Any variance should be documented before adjustments are made.

<b>Management Response:</b>		
<input type="checkbox"/> Concur with Findings and recommendation	<input checked="" type="checkbox"/> Do not concur with Findings and recommendation	<input type="checkbox"/> Concur with part of the Findings and recommendation

<sup>6</sup> MIS is the old CHA system to record accounting information.



Management does not concur with the finding and recommendations. In order to review and match MF owner rent records to CHA tenant payments, CHA would need access to those records and system applications. This is not feasible and CHA may incur costs in obtaining and monitoring that information.

Property and Asset Management will continue to monitor Yardi rent processing by Mixed Finance owners. Property and Asset Management must require MF owners to comply with their contractual obligation to update tenant records in CHA's Yardi system.

<b>Custodian:</b>	Eric Garrett
<b>Implementation Timeline:</b>	N/A

**OIG's Concluding Response:**

The OIG did not recommend that CHA obtain access to MF owner rent records. MF owners already have access to CHA Yardi and need to record rent collected from CHA's tenants into CHA Yardi. Recommendation 1 was revised to state: "CHA should review the public housing portion of Mixed-Finance rent records (rent paid by CHA's tenants only) and match them to the CHA tenant account receivable to ensure that timely and accurate Yardi entries occur.

Irrespective of management's non-concurrence with the finding and recommendation, their response provides an action plan to address the OIG's finding and recommendation.

**Finding 6: Delinquent Past-Tenant Accounts Receivable (TAR) Balances Not Reported to HUD Risk Level: High**

During the audit the OIG noticed TAR balances amounting to \$1,265,285.91 from January 1, 2018 to December 31, 2018. This TAR was not reported to HUD as required of the PHA.

The following table represents bad debts reported in CHA's Lawson general ledger for 2014 through 2018.

<b>Bad Debt Recorded in Lawson</b>					
Year	2014	2015	2016	2017	2018
Net Bad Debt	\$ 931,853.61	\$ 853,585.88	\$ 1,080,105.22	\$1,144,676.52	\$ 1,265,285.91

24 CFR part 5.233 § 5.233 mandates the use of HUD's Enterprise Income Verification (EIV) System:

*HUD requires PHAs to report certain information at the conclusion of your participation in a HUD rental assistance program.*

*1. Amount of any balance you owe the PHA or Section 8 landlord (up to \$500,000) and explanation for balance owed (i.e. unpaid rent, retroactive rent (due to unreported income and/ or change in family composition) or other charges such as damages, utility charges, etc.); and*



2. Whether or not you have entered into a repayment agreement for the amount that you owe the PHA; and
3. Whether or not you have defaulted on a repayment agreement; and
4. Whether or not the PHA has obtained a judgment against you; and
5. Whether or not you have filed for bankruptcy; and
6. The negative reason(s) for your end of participation or any negative status (i.e., abandoned unit, fraud, lease violations, criminal activity, etc.) as of the end of participation date.

**Penalties for noncompliance.** Failure to use the EIV system in its entirety may result in the imposition of sanctions and/or the assessment of disallowed costs associated with any resulting incorrect subsidy or tenant rent calculations, or both.

**Risk:**

- Regulatory non-compliances;
- Inefficient administration of the program.

**Recommendation:**

- 1) P.O should work with the Property Accounting Department to re-evaluate the accuracy of the bad debt records.
- 2) After reviewing the records, submit the bad debt balances to HUD.

Management Response:		
<input type="checkbox"/> Concur with Findings and recommendation	<input type="checkbox"/> Do not concur with Findings and recommendation	<input checked="" type="checkbox"/> Concur with part of the Findings and recommendation
Management concurs in part with the finding and recommendations. On a monthly basis, Property Accounting will continue to work with Property and Asset Management and the PM on the accuracy of the bad debt records. Property Accounting will work with Property and Asset Management to ensure compliance with the processes and requirements for submitting delinquent balances to HUD.		
<b>Custodian:</b>	Eric Garrett	
<b>Implementation Timeline:</b>	Q1 2021	

OIG's Concluding Response:
Management's response provides an action plan to address the OIG's finding and recommendations.