



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING
Quality Assurance Division

April 10, 2023

Willie Hines, Jr
Executive Director
Housing Authority of the City of Milwaukee
809 North Broadway
Milwaukee, Wi 53202

Dear Mr. Hines, Jr.

The Department of Housing and Urban Development (HUD), Office of Housing and Voucher Programs (OHVP), Quality Assurance Division (QAD) has completed the **Housing Authority of the City of Milwaukee, (HACM) WI002**, Financial Management and Management Operations Review (FMR/MOR) of the Housing Choice Voucher (HCV) program. The primary goal of the review was to ensure that Housing Choice Voucher (HCV) Program funds had been appropriately expended and properly reported, and to examine the effectiveness and efficiency of the HCV Program Management and Operations.

The Financial Management Review (FMR) objectives included (but were not limited to):

- Reconciliation of the **Unrestricted Net Position (UNP)** balances.
- Reconciliation of the **Restricted Net Position (RNP)** balances as of December 2016, December 2017, December 2018, December 2019, December 2021 and the most current closed accounting month.
- Validation and analysis of **Administrative Expenses** for the most recent 12 months.
- Analysis of specific line items on the Financial Data Schedule (FDS) submission, including inter-program transfers.
- Analysis of the PHA's financial viability and review of contract costs.
- Determination if appropriated funds have been expended for the purpose intended.
- Confirmation of the availability of cash and/or investments sufficient to support the UNP, RNP, and Net Administrative Fees.

The Program Management/Operations (MOR) review objectives include (but not limited to):

- Review participant files for accuracy by completing a Rental Integrity Monitoring (RIM) review.
 - Enterprise Income Verification (EIV).
 - Evaluation of the HCV program Utilization.
 - PHA Management (Annual Plan).
 - Special Purpose Voucher Review.
 - Operations (organizational chart, program staffing levels, etc.)
 - Project Based Voucher administration.
 - File review of Family Self Sufficiency (FSS) Forfeitures.
 - Examine the Family Self-Sufficiency (FSS) program (if applicable).
 - Analyze Fraud Recovery efforts.

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Housing Authority of the City of Milwaukee (WI002)

- Inspect the administration of Project-Based Voucher (PBV) program (if applicable).
- Assess the overall management and operation of the HCV program.

The results of our review are presented in the attached report, **QAD-FMR-MOR-2023-WI002**. The report contains four (4) FMR Findings and eight (8) MOR Findings for which a Corrective Action Plan (CAP) must be prepared in MS Word format and sent to LeVon Lamy at Levon.L.Lamy@hud.gov, with a copy furnished to Shirley Wong at Shirley.Wong@hud.gov. However, if the HACM opposes the Findings, the CAP must contain sufficient documentation to support any disagreement. Responses must be received within 30 days from the date of this report.

We appreciate the cooperation extended to the QAD staff during our review.

Sincerely,



MaryAnn Creager
Supervisory Program Analyst
Quality Assurance Division

Attachments: QAD-FMR-2022-WI002 Report
Corrective Action Plan (CAP)

cc: Shirley Wong, PIH Director, Milwaukee Program Center
June Burnes, FMC Division Director
Miguel Fontanez-Sanchez, Director HCV Financial Management Division
Brenda Johnson-Turner, Associate Deputy Assistant Director, OFO

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BACKGROUND

The Department of Housing and Urban Development (HUD), Office of Public Housing and Voucher Programs (OPHVP), Quality Assurance Division (QAD) conducted a Financial Management Review (FMR) and Management & Operations Review (MOR) of the Housing Choice Voucher (HCV) program for the Housing Authority of the City of Milwaukee (HACM) (WI002). The review was scheduled because the QAD has continued concerns with the financial condition of the HACM HCV program based on the Independent Public Auditor (IPA) audits submitted to HUD. The IPA audits have shown recurring audit findings on the financial statements beginning at Fiscal Year End (FYE) 2019 and continuing to FYE 2021. In addition to the multiple years of IPA findings, during Federal Fiscal Year (FFY) 2015 the QAD completed an on-site FMR resulting in multiple findings and corrective actions: **QAD-FMR-2015-WI002, dated March 24, 2016**. Further, multiple prior reviews that have been conducted at the HACM, including the QAD Voucher Management System (VMS) **Review QAD-VMS-WI002 dated March 2017, QAD-VMS-R-2021-WI02 dated July 16, 2021**, and HUD Office of the Inspector General (OIG) **report 2009-CH**.

More recently the Milwaukee HUD Field Office conducted a Compliance Review during which they noted some of the same issues that are listed as Findings in this report. The Letter was issued directly by the Field Office to the Housing Authority of the City of Milwaukee as **20221228 WI002, On-Site Monitoring Letter, dated December 28, 2022**.

As presented in the QAD-FMR-2015-WI002 report, the QAD identified:

- Incorrect reporting of Restricted Net Position (RNP) and Unrestricted Net Position (UNP) into the Voucher Management System (VMS),
- Portability expenses and revenues were incorrectly tracked and reported,
- Family Self-Sufficiency (FSS) Escrow deposits were unreconciled, and
- HACM had inappropriately charged an application reactivation fee to applicant families.

Following up on the above referenced reviews, and at the request of the Milwaukee Field Office, the QAD conducted another on-site FMR and a MOR during December 6-15th, 2022. The QAD once again utilized the financial and program records provided by the HACM staff and what was found by the reviewers in a random sample of applicant/participant files.

The FMR was intended to include:

- Calculation of the Restricted Net Position (RNP) and Unrestricted Net Position (UNP) account balances,
- Verification of whether the HACM HCV program had sufficient cash and investments on-hand to cover the calculated RNP and UNP account balances, and
- Examination of the HACM administrative expenses to determine if appropriated funds were expended for the intended purposes.

The MOR was intended to assess the overall management and operation(s) of the HCV program. The MOR included a random sampling review of the HACM HCV participant files and the Family Self-Sufficiency (FSS) program.

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SUMMARY

The scope of the QAD on-site FMR/MOR was January 1, 2017, through November 30, 2022, or the most recently closed period. Source records provided by the HACM were utilized including, but not limited to, prior Independent Audit Reports, trial balances, general ledgers, bank statements and additional data submitted by the HACM to the Financial Assessment Subsystem (FASS). The FMR and MOR review results are discussed below.

FINANCIAL MANAGEMENT REVIEW (FMR)

The FMR revealed not only a continuation of the previous practices as outlined in the above referenced report(s), but a further degradation of internal controls. Substantive errors in the financial recording and reporting appear to be prevalent, pervasive, and systemic. Continued financial management weaknesses exist and are explained in the body of this report. Based on the significance of the reporting and recording discrepancies coupled with the inadequate condition of the financial records provided by HACM, we were unable to calculate the Restricted Net Position and/or Unrestricted Net Position balances.

Financial Management system(s)

It is important to discuss the overall financial management process and software systems utilized by the HACM both for the programmatic requirement(s) and the financial management and record keeping requirement(s).

Therefore, for the purposes of this report, references to Central Finance are referring to the HACM Central Office Cost Center (COCC) entity-wide accounting personnel. Program Finance is referring to the individual(s) conducting program level recording and/or reporting, e.g., HAP and Utility payment generation and data gathering for the Voucher Management System (VMS) reporting. Additionally, in July 2019 the HACM software changed from Visual Homes to Yardi® for program purposes, but not for finance and accounting.

The Central Finance utilizes Multiview, a legacy system, for all entity-wide financial and accounting functions. Program Finance utilizes Yardi® software for all housing functions, including but not limited to eligibility, annual and interim certifications, processing housing assistance and utility assistance payments, and data gathering for the monthly VMS report.

Based on the information provided by the HACM staff, a Yardi® report is generated monthly from which the Central Finance staff completes a Journal Entry recording the programmatic financial activities into the Multiview system. However, it does not appear that reconciliation(s) are conducted between Yardi® and Multiview to capture any retroactive payments and/or recaptures. Additionally, Port-Out Administrative fee payments are being incorrectly recorded within the entry for HAP payments. The below illustrations demonstrate the journal entry and the associated information from Yardi®:

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HACM JOURNAL VOUCHER

Entry ID	1458
Company	714
JE Date:	8/31/2022
JE Reversal Date:	

Unit	Account	Project	Description:	Debit:	Credit:
714	471500		Section 8 HAP Payments	3,020,212.85	
714B	111105		RAP-US Bank		3,020,212.85
			August 2022 HAP Payments		

Aug 2022	
Section 8 HAP Payments	3,018,638.38
Section 8 HAP Portability-In	0.00
Portability Administrative Fees	1,574.47
FSS Escrow	0.00
Total Dwelling Rent	0.00
Total General Expenses	3,020,212.85
Total Revenue	0.00
Total Expenses	3,020,212.85

Further analysis demonstrates substantial variances, not only between Yardi® and Multiview, but also with the information reported to the VMS and the Real Estate Assessment Center (REAC) Financial Assessment Subsystem (FASS-PH) on the Financial Data Schedule (FDS). As illustrated below, there does not appear to be cross system reconciliation(s). The VMS reporting of HAP expenditures is:

Cross system analysis of reported HAP totals

	2020	2021	2022 (Jan to Sept)
Yardi®	\$ 33,812,257.38	\$ 34,914,400.62	\$ 27,493,486.21
Multiview	\$ 33,423,617.31	\$ 34,151,956.94	\$ 26,769,050.73
VMS	\$ 34,219,484.00	\$ 35,039,573.00	\$ 26,381,215.00
FDS	\$ 33,439,222.00	\$ 34,184,182.00	N/A

Audited Financial Statements

Upon review and analysis of the audited financial statements submitted to REAC, the below listed items were discovered:

- **Fiscal Year 2017 Audited Financial Statements**
 - Restricted Net Position
 - HAP revenue appears to have been under reported by \$55,891 or 6 months of RAD disbursements.
 - A December 2017 check write off totaling \$31,251 does not appear to be included in the RNP calculation.
 - \$8,550 appears to have been recorded incorrectly as HAP expenses. However, the funds were generated from:
 - HAP/Utility being recorded as Other Revenue.
 - FSS Escrow Interest earned – recorded as administrative record rather than HAP record.
 - An FSS escrow payout being recorded incorrectly to HAP rather than against the liability account.
 - Unrestricted Net Position
 - A December check write off totaling \$31,251 appears to have been included to UNP rather than correctly to RNP.

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- FSS Escrow interest earned of \$570.11 appears to have been incorrectly included.
- **Fiscal Year 2018 Audited Financial Statements**
 - Restricted Net Position
 - Administrative Fees of \$1,790 appear to have been inappropriately included.
 - There is an unexplained prior year adjustment of \$55,891.
 - Unrestricted Net Position
 - Administrative fees earned of \$600 appear to have been incorrectly recorded as HAP revenue.
 - A Xerox refund of \$239 appears to have been incorrectly recorded to Port-In Admin Fees.
 - HAP overpayment reimbursements of \$5,239 appears to have been recorded as administrative revenue rather than HAP revenue.
 - Utility overpayment reimbursements of \$2,940 appears to have been recorded as administrative revenue rather than HAP revenue.
- **Fiscal Year 2019 Audited Financial Statements**
 - Restricted Net Position
 - Administrative funding of \$38,730 appears to have been incorrectly recorded as HAP revenue.
 - Unexplained audit adjustment(s) transferring \$122,582 from the Administrative unrestricted account to the HAP restricted account.
- **Fiscal Year 2020 Audited Financial Statements**
 - Restricted Net Position
 - Administrative funding of \$1,000 appears to have been incorrectly recorded as HAP revenue.
 - Port Out admin fees appear to have been incorrectly recorded to HAP expenses.
 - Unrestricted Net Position
 - Other Income records a \$10,997 unexplained bank adjustment.
 - Utility allowance refunds of \$735 appear to have been recorded to Administrative unrestricted account rather than credited to HAP expenses account.
- **Fiscal Year 2021 Audited Financial Statements**
 - Restricted Net Position
 - Port Out Administrative Fee *expenses* and FSS Interest earned *revenue*, among other administrative expenses totaling \$331,229 were incorrectly recorded as HAP expenses.
 - Unrestricted Net Position
 - Other income totaling \$153 was incorrectly posted as FSS deposits.
 - Utility payment refunds totaling \$4,410 were incorrectly posted to Administrative unrestricted account rather than being correctly credited to HAP expense account.
 - An auditor adjustment of \$299,563 for RAD vacancies exceeds the amount recorded in the general ledger(s) by \$297,838.

Credit Card Usage

Preliminary review and analysis related to the employee utilization of PHA credit card(s) indicates that HACM has a 'P-Card' policy which includes a listing of ineligible expenditures. However, it appears that HACM does not follow its policy. Staff was unable to provide all signed P-Card policy acknowledgement forms for employees issued said cards. Additionally, when requesting documentation

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to support expenditures charged to the credit cards, the HACM staff mentioned that “*Compiling receipts for credit card purchases is a continuing challenge, we are still waiting on some receipts...*”; essentially indicating that no records can be found to support expenditures.

A generalized review of the credit card statements, without supporting documentation, revealed what appears to be regular and habitual utilization of the credit card(s) for ineligible purposes. Based on the previously mentioned review of transactions there are at least \$49,876.16 in questionable and/or disallowed costs. Coupling, what appears to be, a disregard for credit card utilization policy with the lacking supporting documentation and/or business use justification(s) it is reasonable to question the validity of all costs billed to the credit card(s). Detailed review and analysis of credit card transaction(s) is required to confirm the validity of and eligibility of billed expenditures not only within the restrictions of the funds utilized to pay the credit card bill(s), but also within the written policy of the HACM.

Bank Reconciliations

Review of the HACM bank reconciliations revealed the below:

- The QAD was on site in December 2022, but the last month of bank reconciliation(s) completed by HACM was May 2022. The HACM is seven months behind in bank reconciliations.
- As illustrated in the below, there are multiple adjustments to the bank balance for which the HACM staff were unable to provide supporting documentation, therefore adjustments cannot be considered reliable.
- Discussions with the HACM staff revealed that entries are made to the “*other revenue*” account, as either a debit or credit, when unable to determine what the expense is for; admittedly effected simply to force book balancing.
- In short it appears there are more than \$3 Million in forced adjustments to the bank reconciliation.
- Documentation was requested for the below illustrated adjustments, but **none** was provided:

ADJUSTED PER BANK BALANCE		2,510,834.41
BALANCE PER BOOK (G/L)	5,727,417.54	
Reversal of 2017 Invoice	(4,229.40)	
Victory Manor	(158,400.00)	
WVG Scattered Sites	(64,800.00)	
Transfer to TF	(3,000,000.00)	
Fraudulent Checks	(7,700.00)	
Intercompany Settlement 8/27/20-Bank Side	(4,631.55)	
Intercompany Settlement 8/28/20-Bank Side	314.00	
Intercompany Settlement 10/31/20-Bank Side	(2,930.49)	
October 2020 SRO	3,494.00	
October Escrow Transfer	62.36	
Variance	22,237.98	
ADJUSTED PER BOOK BALANCE		2,510,834.44

Voucher Management System (VMS)

The HACM utilizes the information in the Yardi® system to generate reporting for the Voucher Management System (VMS). Review and analysis of their data gathering, and reporting process revealed that:

- Program staff gather unit month and expenditure information from the Yardi® system,
- Central Finance staff gather administrative expense, cash, UNP and RNP information.

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In addition to that process, it was discovered that the HACM has a practice of including administrative expenses in the monthly amount of Housing Assistance Payments (HAP) reported each month. This intentional misreporting has over-stated the amount of HAP payments made on behalf of participants and would most likely have artificially increased the HAP budget authority on an annual basis. This practice is further outlined below:

- The excel worksheet is completed for unit months and expenses from the Yardi® system.
- The HACM Staff then forces 'manual payments' into the expenditures for the month.
 - For the purposes of this section 'manual payments' are defined as differential payments due to the late processing of annuals and/or interim(s), and any other change that would have increased the payment required from the participant household. The minimum notification period required is 30 days.
 - It is the practice of the HACM to not pay the differential between the original amount and the increased amount of HAP until the participant has had their full 30-day notice of increase. From that point it is the practice of the HACM to 'force' the retroactive increases that the participant(s) would have paid were it not for the failure of the agency to timely process the paperwork into the monthly expenses reported in VMS.
 - Retroactive payment(s) of this nature, which are due to the inaction of the PHA, should be absorbed by the administrative fees of the HACM as it was their error.
- As of December 7, 2022, the HACM had included \$12,025 in 'manual payments' in the August HAP expenses and \$22,141 in the January 2022 expenses.
 - Information reviewed appears to indicate that year-to-date these manual adjustment(s) have totaled \$166,021. Additionally, a backward extrapolation would indicate that there are approximately \$150,000 to \$200,000 **per year** in over-reporting of HAP expenditures.
 - Not only will a repayment of these expenses be required, but a full review of VMS for whatever duration this practice has been in existence is required to determine the full amount of funds required to be repaid from administrative fees to HAP. However, a VMS Review cannot take place until such time the HACM finance and program records are corrected as outlined in the Findings section of this report.

Revenue recognition

Review of the revenue recognized on the HACM books that was disbursed from the HUD Financial Management Center (FMC) revealed that in June 2022 a HAP disbursement from the FMC was recorded on the HACM ledgers as **\$1,000,000** more than what was received. This over-reporting of received funding went undetected by the HACM Central Finance staff until brought to their attention by the QAD staff during our review in December 2022. This material over-statement of income went un-noticed for six months. This discrepancy further illustrates the HACM failure in reconciliation of accounts.

Combining the previously described financial management weaknesses, the misrepresentation of receipts and the fact that it went undetected for an extended period leads to reasonable concern that there is/has been a complete breakdown of internal control(s) and internal quality control procedures are either non-existent or not followed.

SOLVENCY

SUMMARY OF CASH

Due to the significance of the outlined financial management and recording issues outlined in this report, and that of the Milwaukee Field Office, and the magnitude of what appear to be undocumented adjustments on the bank reconciliation, the overall cash position is currently indeterminable.

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CARES ACT FUNDS

The HACM received supplemental administrative fees in the amount of \$1,536,408. Review of the financial records indicate that the HACM appears to indicate that the full allocation was utilized within the allowable timeframe. As outlined in Notice PIH 2020-08 funds were available for obligation until December 31, 2020, and that date was subsequently extended to June 30, 2021, in Notice PIH 2020-18 with a final subsequent extension to December 31, 2021, in Notice PIH 2020-24.

However, review the financial records of the HACM appear to have duplicated these expenses within the account(s) set up for CARES Act and within the HCV general ledger. However, given the overall condition of the financial records this amount **must** be confirmed upon the completion of the corrective action(s) to ensure this assertion is accurate.

CALCULATED RNP AND UNP ACCOUNT BALANCES

Based on the following, the RNP and UNP balances are current indeterminable:

- Significance of the previously outlined poor financial management and incorrect financial recording and reporting,
- The need for extensive financial file reconstructions, and
- The failed attempt to validate applicant/participant file(s) due to:
 - Missing documents,
 - Mis-calculated HAP, and
 - Other issues outlined in the MOR section of this report.

RESULTS OF REVIEW - FMR

As indicated throughout this report, both the financial and applicant/participant records were:

- Unproducible, nonexistent or were kept in a condition that did not allow for a speedy and effective audit,
- In a condition that would not allow for the unqualified calculation of UNP and RNP balances and,
- It was not possible to accurately calculate the cash available to cover the HCV program cost to include available HAP funds.

Further, it should be noted that based on the current condition of the financial records there appears to have been minimal, if any, progress from the findings out lined in **QAD-FMR-2015-WI002**. This current report contains repeat findings.

The condition of the financial and applicant/participant records provided by the HACM contributes to a failure on part of the HACM to fulfill its fiduciary duties as they pertain to the Annual Contribution Contract (ACC) and HUD regulations. The HACM may be in default of the ACC and may be referred for further enforcement action.

FMR - FINDINGS

Finding No. FMR 2023-1: The HACM HCV financial records and book of accounts continue to be non-compliant with the regulatory requirement(s) and require significant improvement.

Condition: The HCV general ledgers financial recording and reporting could not be properly and effectively tracked. There is no reliable audit trail, and the supporting documentation is either missing or inadequate. **This is a repeat finding from QAD-FMR-2015-WI002.**

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Criteria: The 24 CFR § 982.158(a) requires the PHA to maintain complete and accurate accounts and other records for the program in accordance with HUD requirements.

Cause: The HACM financial records do not accurately reflect the true financial position. The Financial Management Review (FMR) section of this report (above) outlines in specific detail the existing deficiencies which must be corrected. Through our review of documentation and interviews with HACM program and finance staff it appears that the expertise required to rectify the discrepancies outlined in this report is inadequate amid the current PHA staff.

Further, Multiview appears to be an inadequate and/or antiquated financial management system. The system does not allow for proper tracking of program files which drive the financials. Financial transactions must be properly recorded and reported in accordance with Federal Regulation as well as HUD guidelines for segregation of program and project funds. The HACM has purchased the Yardi® accounting module, which if utilized in conjunction with the program module(s), would resolve many of the foregoing issues.

Corrective Action No. FMR 2023-1a: A reconciliation of the financial data between Yardi® and the Multi-view system is required. Any variances must be researched, reconciled, corrected and prior period adjustments prepared for correction of the UNP and/or RNP balances previously incorrectly reported to HUD (*see also MOR Findings and Corrective Action(s) for MOR-2023-1 through 8 below. The MOR corrective actions may need to take place prior to being able to accurately correct financials*).

Corrective Action No. FMR 2023-1b. The HCM Executive Director is responsible for ensuring through forensic audit a reconstruction of the full financial records to determine the true and accurate financial position. The HACM and/or contracted auditor must look specifically at those items trending toward possible misuse of funds and other possible misrepresentation of the financial status not previously determined. This audit and reconstruction must begin with at least January 1, 2017, moving forward to the most current closed accounting period. However, the beginning date must take into consideration the **QAD-FMR-2015-WI002** finding(s) and be sufficient to determine all corrections required for the prior year's erroneous Financial Data Schedule reporting. The HACM Executive Director must work with the QAD and Milwaukee Field Office to develop and review the plan of action for reviewing/reconstructing the financial records as needed based on the outcome of the forensic audit. An agreed determination of funds owed back to HUD Held Reserves or to Treasury will be made throughout the corrective action plan process. *The HACM Executive Director must provide timelines and proposed dates for completion of each corrective action.*

Corrective Action No. FMR 2023-1c: The Board, Executive Director, and financial staff must be provided extensive approved training on HUD financial recording and reporting. In addition, the financial staff must be provided extensive training on the current PHA financial and program management software.

Corrective Action No. FMR 2023-1d: The HACM Executive Director must ensure that the Yardi® software is properly installed and/or set up to allow for the proper programmatic separation and tracking of the various programs administered. The HACM must provide sufficient documentation to QAD to demonstrate the software set up and usability as designed.

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Corrective Action No. FMR 2023-1e: The HACM must develop a process by which the information from Yardi® will be accurately reflected, and updated, in the Multiview system **if Multiview is continued to be used.**

Note: Based on the QAD finding in this report, the continued use of Multiview is not recommended.

The HACM must provide sufficient documentation to QAD to demonstrate that this process has been established, and what the implementation process and timeline will be. The process must be sufficient to provide for a clear delineation of program funds that does not rely simply on “backing out” different program funds from one master account. This corrective action may be met simply by utilizing the Yardi® Finance and Accounting module for its intended purpose.

Corrective Action No. FMR 2023-1f: The HACM Executive Director must ensure that, upon completion of the financial reconstruction the VMS is updated, and the appropriate prior period adjustments are entered into FDS. HACM must provide QAD with sufficient documentation to demonstrate how the balances were calculated, what the required adjustments are and validation that these adjustments have been submitted to the respective reporting system.

Finding No. FMR 2023-2: There are Material Disallowed and Questionable Expenses.

Condition: During our review of financial records and programmatic files we found multiple instances of HCV funds being used for purposes outside of the statutory, regulatory and HUD Policy guidance. Notably HCV HAP funding was being utilized to pay administrative expenses. Additionally, the Credit Card Usage section of this report outlines inconsistencies within the HACM policy and actual utilization of credit cards.

Criteria: 24 CFR § 982.152; Notice PIH-2015-17; Notice PIH-2022-14 among others; A PHA HCV administrative fees may only be used to cover costs incurred to perform PHA HCV administrative responsibilities for the program in accordance with HUD regulations and requirements. Additionally, HCV Housing Assistance funds may only be utilized for Housing Assistance Payments and other associated expenses (FSS Escrow deposits, Utility Allowance(s), etc.)

Cause: In most instances the disallowed costs were a result of the HACM executive and/or financial staff not understanding the program or not understanding fiscal and appropriation law.

Effect: Due to the condition of the financial records, and because we were not provided with reliable financial records, we were unable to determine with 100% accuracy a total for the disallowed and questionable expenses and/or if any additional misappropriation of funds may have occurred. The misuse of HCV funds is a violation of the Agency’s ACC agreement as well as Appropriation Law. In addition, it inhibits the Agency from being able to meet their HCV administrative obligations or to assist as many families as possible with the funds provided. However, the QAD estimates misappropriation of funds may reach into the tens if not hundreds of thousands of dollars.

Corrective Action No. 2023-2a: The HACM Executive Director must, as part of the financial reconstruction, determine the timeframe involved where retroactive active rent increases were paid from HAP funds, and have inappropriately been included in VMS reporting as HAP expenses rather than administrative expenses. It is a violation of appropriation law to use current year HAP funds to cover prior year HAP deficits, administrative reserves must be used instead. The total misreporting of funds must be determined, and sufficient documentation provided to QAD demonstrating the total

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amount of the required repayment for this item. Once determined, immediate reimbursement to the HCV HAP (HUD Held Reserves) account will be required from non-Federal funds.

Corrective Action No. 2023-2b: The HACM Executive Director must, as part of the financial reconstruction review all relevant financial records, including credit card utilization. Schedules must be prepared with sufficient supporting documentation to identify all questionable and/or disallowed transactions for which repayment will be required. All HACM supporting documentation must be provided to QAD through the Corrective Action Plan process.

Once the full and agreed to amount of debt owed back to the program and/or Treasury is determined, the case will be referred to the QAD Debt Collection and Repayments Agreement Team for resolution. The HACM will be contacted by that office.

Finding No. FMR 2023-3: HACM is not properly tracking Family Self Sufficiency (FSS) program Escrow accounts.

Condition: The HACM has failed to properly record FSS escrow account balances. The HACM has improperly claimed FSS escrows and interest for participants after their contracts expired or they otherwise exited the FSS program. The bank statements for the HACM FSS Escrow depository account(s) is/are non-interest bearing, despite the HACM financial statements recording interest to participant escrow accounts. The HACM also failed to properly credit participant escrow accounts upon increases in earned income. In addition, several participants were discovered to never have had an FSS addendum completed in their 50058 submissions in PIC. In one case a participant file was reviewed that did not appear in either PIC or any of the documents HACM provided to QAD.

Criteria: 24 CFR § 984.303 – Contract of Participation, 24 CFR § 984.305 – FSS Escrow Account, Notice PIH-2016-08 “Accurate Reporting of FSS Escrow Balances”, PIH-REAC Accounting Brief #26 – “Financial Reporting for the Family Self-Sufficiency Program”

Cause: The HACM was unable to provide documentation supporting, or reconciling, the FSS Escrow balances to the bank account(s) and/or tenant ledger(s). It appears that during a changeover in HACM software in 2019, baseline income and rents were not properly entered into the new system, resulting in a failure to properly credit many participants. It was also found that the FSS Participant Escrow Report provided to QAD which listed all HCV FSS participants defined as current with HACM, instead contained numerous participants who had either exited the program or whose Contracts of Participation were found to have expired.

Effect: The QAD could not independently confirm the actual amount of FSS escrow funds that the HACM should be holding for FSS participants. A partial review of participant files revealed that HACM improperly claimed at least \$39,763 in FSS escrows and interest for participants after their participation in the FSS program had ended. It was not possible given the time on site for the QAD to calculate the total amount of funds that may have been inappropriately recorded and reported. The QAD returned on-site to the HACM during the week of February 20, 2023, to conduct further analysis of the FSS Program. **Therefore, a supplemental report will be issued specifically related to the execution of the FSS Program. Additional findings and required Corrective Actions will be included in the supplemental report.**

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Finding No. FMR 2023-4: The RNP and UNP Account Balances Were Incorrectly Calculated and Incorrectly Reported in the VMS and FDS.

Condition: The HACM miscalculated and misreported RNP and UNP in its FDS and VMS submissions.

Criteria: Notice PIH-2015-17; VMS User’s Manual; 24 CFR § 982.151; 24 CFR § 982.158

Cause: As discussed previously in this report, the HACM has reported varying totals between VMS, FDS and their internal financial statements and at times none of these three systems reflect the same amount(s). This appears to have been caused by mis-recording, and/or not recording year end audit adjustments.

Effect: At certain times, HUD must make use of RNP, UNP, and cash reporting to calculate funding, offsets, or cash management disbursements. As such, the reporting of these balances in the VMS must be accurate. By failing to maintain complete and accurate accounts and other records for the HCV Program, the HACM failed to provide HUD with information useful in determining the RNP and UNP balances. The HACM actual financial position was not distinctly presented to the Department.

Corrective Action No. FMR 2023-4a: For previously potential incorrectly reported totals, the HACM Executive Director must ensure immediately determination for which of the totals were accurate and make the appropriate reporting correction(s). Likely, this will be completed in conjunction with Corrective Actions noted above as related to re-creation and reconciliation of the program and financial records.

Corrective Action No. FMR 2023-4b: The HACM Executive Director must ensure that upon completion of recalculation as outlined in the previous findings and corrective actions, immediate preparation prepare the appropriate prior period adjustment to be reported in FDS and the HACM internal financial records.

MANAGEMENT & OPERATIONS REVIEW

Participant File Reviews

Initially, the QAD randomly selected 263 participant files for review. After examining 19 files, the QAD made the determination to suspend file reviews because of the poor condition of the files. This equates to a 100% error rate and continued effort on part of QAD was deemed impractical. More details about the file conditions are listed below.

The QAD reviewed New Admission, Annual Reexamination, and Interim Reexamination actions. Based on the 19 files reviewed, the QAD determined the following:

HAP		Utility Reimbursement Payments	
Overpayment	Underpayment	Overpayment	Underpayment
\$182,448	\$30,648	\$7,728	\$2,124

Given the 100% error rate in files an extrapolation of over payments could equate to more than \$1.1M.

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RESULTS OF THE MOR

The review indicates that the systemic internal control failure(s) are not confined to the financial management of the HACM. It should be noted that conversation(s) with staff revealed that the HACM is six (6) to eight (8) months behind in processing the documentation provided by applicants/participants. Further, this backlog brings into question the validity and completeness of the interim and annual reexaminations.

It should be noted that the HACM staff provided requested participant files for review, and informed QAD staff that in addition to the paper files an effort had been made to scan and attach the documents to the applicant/participant electronic files within Yardi®. However, when reviewed, the paper files were missing significant amounts of information/documentation and the Yardi® files were missing significant amounts of information. Further complicating the issue is that the paper files and the electronic files did not always match and/or contain the same information.

Additionally, the QAD noted that the HACM only sends the signature pages for reexaminations, not the documents in their entirety. This has the effect of binding participants to requirements they have not reviewed and/or of which they are unaware. This is potentially creating a scenario involving a program termination for reasons of which the household is completely unaware regardless of the documentation being signed.

Systemic Findings

Finding MOR 2023-1: The HACM is not paying correct HAP to owners.

Criteria: 24 CFR Part 982.505

Finding MOR 2023-2: The HACM has not conducted an annual review of utility allowances to confirm that individual (category) utility rates have not changed by 10 percent or more since the last utility allowance update. Although the last utility allowance review indicated a change of 10 percent or more, the rates were not changed in the system.

Additionally, it was noted that there was no documentation to verify the utility allowance utilized for the units.

Criteria: 24 CFR Part 982.517; Notice PIH 2016-05

Finding MOR 2023-3: The HACM did not verify income, assets, deductions, citizenship, and Social Security information in accordance with HUD rules and regulations. Specifically, during the review, it was noted the necessary documentation and verification to satisfy the HUD requirements was missing. Examples are listed below:

- Enterprise Income Verification (EIV)

In some instances, the HACM used EIV to determine the participant's employment income, but the annualized income was lower than the actual income. The HACM did not comply with Section 10 of Notice PIH 2018-18, which states,

PHAs can comply with and reduce administrative burden of third-party verification requirements for employment, wage, unemployment compensation and Social Security benefits, and any other information that is verifiable using EIV by:

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- a. Reviewing the EIV Income and IVT Reports to confirm/validate tenant-reported income.
 - b. Printing and maintaining the EIV Income and IVT Reports in the tenant file.
 - c. Obtaining current acceptable tenant-provided documentation to supplement the EIV information; and
 - d. Using current tenant-provided documentation and/or third-party verification to calculate annual income.
 - o The files did not show that the HACM conducted the review.
- Self-Certification of Income

In some instances, the HACM used the income noted on the Personal Declaration. Self-certification of income should only happen after all efforts have been made to third party verify the income, unless the PHA has an approved CARES Waiver (See PH and HCV-3 Family Income and Composition: Annual Examination; Income Verification Requirements). In this case, the waiver allows the PHAs to consider self-certification as the highest form of income verification.

The HACM is not reconciling the information provided by the participant via the Personal Declaration, and information for other sources, such as EIV.
 - Excluding SSI-E benefits

The HACM is not including State SSI-E benefits in the amount of \$95.99 as income. According to Section 4.1.1 of the State of Wisconsin SSI-E Handbook, "*Since the E Supplement is countable income for purposes of subsidized housing, 30% of the increased income attributable to the E Supplement will be paid as rent.*" It is possible to reduce the rent increase due to the E Supplement if the person documents that the additional income is used for medical expenses or for disability-related expenses that enable the recipient or a resident family member to be employed. ***No such documentation was found in the files.***
 - Child Support

In one instance, the HACM counted the gross amount of child support received by the family in the year prior to admission as income. Note, three months prior to admission, the family did not receive any child support payments.
 - Zero Income

There is no documentation in the file when a family claims zero income. It is standard industry practice for the family to complete some type of zero income certification when claiming to have no income in the household.
 - Assets

In most of the files reviewed, it was noted that the family did not have assets. It does not appear that HACM is performing due diligence related to assets. For example, there were instances where participants listed checking accounts on their Personal Declaration forms and there was nothing listed on the 50058. Additionally, agencies, such as the Social Security Administration, rarely send checks manually and in most of the files for families receiving Social Security, there is no checking or savings accounts identified as an asset.

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Criteria: 24 CFR Part 5.216, 5.508, 5.609-611; 24 CFR Part 982.516

Finding MOR 2023-4: The HACM is not calculating the tenant rent correctly.

Criteria: 24 CFR Part 982.515-517

Finding MOR 2023-5: The HACM did not conduct re-exams timely. In multiple files it was noted that the effective date of the Annual Reexamination was after the first day of the month.

Criteria: 24 CFR Part 982.516

Finding MOR 2023-6: There was no documentation in the files provided that showed the process for approving a unit.

Criteria: 24 CFR Part 982.305

Finding MOR 2023-7: In all files reviewed, it was noted that the HACM did not properly execute the form. Specifically, the PHA is having applicants/participants execute Authorization for the Release of Information/Privacy Act Notice (form HUD-9886) that do not include the PHA contact information.

Criteria: 24 CFR Part 5.230(c).

Finding MOR 2023-8: Participant files were not properly safeguarded as related to Personally Identifiable Information (PII).

Criteria: All HUD employees and contractors to include Public Housing Authorities/Agencies are obligated to safeguard PII about applicants, residents, and participants in PHA housing assistance programs as described in numerous federal statutes and regulations, including:

- a. Title 5 U.S.C. Section 552a, "Records Maintained on Individuals" [The Privacy Act of 1974, as amended]
- b. Title 6 U.S.C. Section 142, "Privacy Officer"
- c. 44 U.S.C. 3501 et seq., Paperwork Reduction Act (PRA)
- d. Public Law 107-347, "E-Government Act of 2002"
- e. Title 44 U.S.C., Chapter 35, Subchapter III, "Information Security" [The Federal Information Security Management Act of 2002, as amended (FISMA)]
- f. OMB A-130 "Managing Information as a Strategic Resource" (July 2019)
- g. OMB A-108 "Federal Agency Responsibilities for Review, Reporting, and Publication under the Privacy Act" (December 2019)
- h. OMB Memorandum M-17-12, "Preparing for and Responding to a Breach of Personally Identifiable Information" (January 2017)
- i. HUD Notice PIH 2015-06. U.S. Department of Housing and Urban Development (HUD) Privacy Protection Guidance for Third Parties.

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Cause: During the QAD review of files at the physical site of the program office we found boxes in walkways with boxes reaching nearly five feet tall, in stairwells, stacked on desks where in many cases documents with applicant social security numbers, names and other PII was clearly visible to anyone passing by. Papers were stuffed in file folders and/or lying open faced on desktops. Some of these areas were accessible by the public.

Additional Critical Notes:

- Payment Standards could not be verified.
- PIC and tenant files did not match.

Corrective Actions No. MOR-2023-1 through 8:

The HACM Executive Director must ensure a complete a 100 percent file review and ensure all necessary corrections are made to comply with the HCV rules and regulations, as well as statutory and regulatory guidelines. The current HACM program staff is not sufficiently trained with the proper expertise to complete this review. As noted above under the FMR section of this report, the Executive Director should strongly consider contracting out the program management process to a great extent. The consultant/contractor should also be engaged to ensure that Yardi® input is accurate and ensure corrections are made where warranted, which in turn will drive accurate financials.

The contractor or consultant should also ensure that files are properly maintained and safeguarded.

Within 30 days of the date of this report, please provide a written Corrective Action Plan (CAP) to Levon.L.Lamy@hud.gov with a copy furnished to Shirley.Wong@hud.gov . The CAP must incorporate a detailed and comprehensive plan to correct the findings included in this report for both the FMR and MOR findings. Additionally, if the HACM disagrees with any of the Findings, complete documentation must be attached to the CAP to support the HACM position.

Once the CAP process has been completed a return on-site visit by the QAD will take place to ensure accurate and complete corrective actions have been accomplished. The return visit is fully supported and requested by the Milwaukee Field Office.

RESOURCES

VMS guidance on RNP and UNP calculation

[VMS User's Manual](#) (Voucher Management System (VMS) Release 17.0.0.0)

[Notice PIH-2015-17](#), Use and Reporting of Administrative Fee Reserves

[Office of Housing Choice Vouchers](#)

[Documents and Guidance](#)

HUD website that includes *Financial Reporting* and *FASS PH Systems and IMS/PIC*. Some of the information (provided through links) include the following:

- [Accounting Briefs](#)
- [Financial Data Schedule Line Definition Guide](#) (updated July 2020)
- [PIH Notices](#)

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CARES Act for Public Housing Agencies

(End of the Report)