



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

OFFICE OF PUBLIC AND INDIAN HOUSING

September 28, 2017

Natalie Erdman
Executive Director
Madison Community Development Authority
30 W. Mifflin Street, Suite 501
Madison, WI 53703-2589

Re: PIH Compliance Monitoring Review Report Transmittal

Dear Ms. Erdman:

This letter is to transmit the results of the PIH Compliance Monitoring Review that HUD Milwaukee Field Office (HUD MKE) staff completed at the Madison Community Development Authority (MCDA) from August 15, 2017 through August 17, 2017. HUD MKE staff reviewed the performance of the Authority's programs and compliance with HUD program requirements and regulations.

The objective of the review team was to perform a limited review focused on compliance with program requirements and regulations. While performance issues may be noted in this report, the primary focus is compliance. Rather than examining any one area exhaustively, this review touches on multiple areas of compliance in an effort to provide the Authority with meaningful feedback for sustained compliance.

The review team was comprised of four HUD MKE staff and included Dena Hunt, Diane Schultz, Scott Koegler, and Eric Hau. The review focused on the areas of administrative compliance in the Governance and Management of MCDA and the Housing Choice Voucher (HCV) and Public Housing (PH) programs specifically. The team conducted both remote assessments of information that MCDA provided and conducted on-site interviews of the MCDA board as well as key MCDA staff to determine administrative performance and compliance.

The results of the review are enclosed in the attached report. It identifies areas where MCDA's activities constitute *best practices*. The report also identifies *observations* in areas that may be worthy of change, and *concerns* in areas that likely would benefit from change or ongoing improvement. The review identified **16 findings of non-compliance with Federal regulations**. **All findings of non-compliance with Federal regulations must be corrected.** *Please provide MCDA's planned or*

completed actions that address all findings of non-compliance with Federal regulations within 30 calendar days.

If you have questions, please contact Scott Koegler at scott.c.koegler@hud.gov or 414-935-6732. We appreciate your cooperation.

Sincerely,

 Recoverable Signature

X Lucia M. Clausen

Signed by: LUCIA CLAUSEN

Lucia Clausen, Acting PIH Director
Wisconsin Public Housing
Program Center, 5IPH

cc: Tom Conrad, Acting Housing Program Director, MCDA

Compliance Monitoring Review

*Madison Community Development Authority
September 27, 2017*

Executive Summary

The Madison Community Development Authority (MCDA) was one of the agencies that participated in Compliance Monitoring Reviews by HUD's Office of Public Housing in 2017. Field Office staff reviewed the Authority's programs and compliance with HUD program requirements and regulations.

The review team found the following best practices in MCDA operations, including:

- Governance: MCDA is creating a resident advisory board consisting of residents from each public housing development and members from the HCV program.
- Governance: The creation and utilization of a Reasonable Accommodation Guidebook to ensure consistency across MCDA operations of reasonable accommodation requests from participants.
- Governance: Cooperation with the Madison Health Department on Elevated Blood Lead Level reporting.
- HCV Program: Tenant files were found to be organized using a folder system and utilized a checklist for consistency.
- HCV Program: 99+% of the landlords participate in HAP payments by using ACH transactions.
- HCV Program: Use of a part time staff member for relations with landlords that participate in the program.

As further detailed in this report, the Authority also has areas in which it can improve, including:

- Many MCDA policies including the PHA Plan, Administrative Plan and the Admissions and Continued Occupancy Plan (ACOP) do not reflect recent updates to HUD regulations and guidance. This deficiency contributes to many of the findings noted in the report.
- Many aspects of MCDAs financial management are not in compliance with the General Depository Agreement (GDA) or the collateralization requirements which lead to several findings and concerns.
- In general MCDA has established policies and procedures across both the Public Housing and Housing Choice Voucher program. However, these policies and procedures are not consistently followed or applied by staff at the various Public Housing projects or between the PH and HCV programs.

Results

Detailed results of the PIH Compliance Monitoring Review are presented below, by area and program.

□ Governance

The HUD MKE team reviewed MCDA's bylaws, board minutes, policies, and (wherever possible) supporting materials. Based on this review, the review team reports the following best practices | findings | concerns | observations.

- **Best Practice:** Governance: MCDA is creating a resident advisory board consisting of residents from each public housing development and members from the HCV program. The review team was impressed with the priority the board places on developing a framework to encourage input from participants in the programs administered by MCDA.
- **Best Practice:** The creation and utilization of a Reasonable Accommodation Guidebook to ensure consistency across MCDA operations of reasonable accommodation requests from participants. Reasonable Accommodations are typically a weak area in PHA operations so the implementation of a guidebook to assist staff in dealing with these requests is commended by the review team.
- **Best Practice:** MCDA cooperation with the Madison Health Department on the reporting and tracking of Elevated Blood Lead Levels (EBLL). HUD guidance states that PHAs should work with their local health departments to receive reports on program participants that are tested with EBLL. However, many PHAs experience difficulty with this requirement. Establishing a formal MOU with the health department to ensure timely response to potential lead concerns in both Public Housing and HCV is a model that can be followed by other PHAs.
- **Finding GOV 1:** MCDA's procurement policy is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200.
 - **Regulatory citation:** 2 CFR 200.318 through 2 CFR 200.326
 - **Corrective action:** MCDA must revise its procurement policy to remove all references to regulations that are no longer in effect (i.e. 24 CFR 85) and replace those regulatory references with the appropriate sections of 2 CFR 200 that are in effect. Additionally, MCDA's procurement policy must make reference to the different procurement methods outlined in 2 CFR 200.320 (micro-purchases, small purchases, sealed bids, competitive proposals, and non-competitive proposals) and ensure that the dollar thresholds for each are not exceeded. Finally, MCDA's procurement policy should identify, by job title, each person or persons authorized to take part in the different procurement methods and identify maximum dollar amounts that coincide with those authorities. To demonstrate that corrective actions have been taken to address this finding, please provide HUD MKE a copy of MCDA's revised and ratified procurement policy.
- **Finding GOV 2:** MCDA's disposition policy for non-real property (e.g. equipment) is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200. Specifically, MCDA's current disposition policy has no requirement to contact HUD for disposition instructions for equipment purchased with HUD funds.
 - **Regulatory citation:** 2 CFR 200.62; 2 CFR 200.313; 2 CFR 200.333; 2 CFR 200.443

- **Corrective action:** MCDA must revise its disposition policy to remove all references to regulations that are no longer in effect (e.g. 24 CFR 85) and replace those regulatory references with the appropriate sections of 2 CFR 200 that are in effect. MCDA’s revised disposition policy must adopt the definition of Equipment at 2 CFR 200.33. Additionally, in order to comply with the regulations at 2 CFR 200.313 (e), MCDA’s disposition policy must mandate that MCDA will request disposition instructions from HUD when MCDA seeks to dispose of equipment items. HUD MKE would emphasize (and MCDA’s disposition policy must mandate) that even in those cases where item of equipment is fully depreciated for accounting purposes, MCDA must still request disposition instructions for that item of equipment as per 2 CFR 200.313 (e). To demonstrate that corrective actions have been taken to address this finding, please provide HUD MKE a copy of MCDA’s revised and ratified disposition policy.

- **Finding GOV 3-a:** MCDA’s capitalization policy dollar threshold is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200. MCDA’s current capitalization policy sets dollar threshold capitalization levels at \$10,000 whereas 2 CFR 200.12 and 2 CFR 200.33 require that non-real property assets (e.g. equipment) with useful lives of more than one year be capitalized at the *lesser of* the Authority’s established level or \$5,000.
 - **Regulatory citation:** 200.12; 200.13; 200.33
 - **Corrective action:** MCDA must revise its capitalization policy to remove all references to regulations that are no longer in effect and replace those regulatory references with the appropriate sections of 2 CFR 200 that are in effect. The definition of Capital Assets at 2 CFR 200.12 includes “equipment” as one of its constituent parts. 2 CFR 200.33 defines “equipment” as tangible personal property with a useful life of more than one year and a per-unit acquisition cost that is the *lesser of* the Authority’s capitalization level or \$5,000. Therefore, MCDA’s revised capitalization policy must adopt a capitalization level no greater than \$5,000 for non-real property assets. To demonstrate that corrective actions have been taken to address this finding, please provide HUD MKE a copy of MCDA’s revised and ratified capitalization policy.

- **Finding GOV 3-b:** MCDA’s capitalization policy does not accord proper capitalization treatment to certain types equipment and other capital assets as required by the Uniform Administrative Requirements at 2 CFR 200. MCDA’s current capitalization policy immediately and fully expenses HVAC equipment, engines, and full roof replacements in conflict with 2 CFR 200.12.
 - **Regulatory citation:** 200.12; 200.13; 200.33; 200.436; 200.439
 - **Corrective action:** The definition of Capital Assets at 2 CFR 200.12 includes “equipment” as one of its constituent parts. 2 CFR 200.33 defines “equipment” as tangible personal property with a useful life of more than one year and a per-unit acquisition cost that is the *lesser of* the Authority’s capitalization level or \$5,000. Therefore, any HVAC equipment, engines, or other equipment that meet these criteria must be capitalized rather than expensed. Additionally, the definition of Capital Assets at 2 CFR 200.12 (b) includes (emphasis ours): “Additions, improvements, modifications, *replacements*, rearrangements, *reinstallations*,

renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).” Therefore, roof replacements or any actions listed in 2 CFR 200.12 (b) that materially impact the value or useful life of other capital assets (e.g. equipment items) must be capitalized rather than expensed. In conclusion, MCDA’s capitalization policy must be revised to accord proper treatment to all capital assets. To demonstrate that corrective actions have been taken to address this finding, please provide HUD MKE a copy of MCDA’s revised and ratified capitalization policy.

- **Finding GOV 4:** MCDA is not in compliance with Paragraph 2 of the General Depository Agreement (GDA), which requires MCDA to have a segregated bank account for all MCDA funds. MCDA has no segregated account and instead deposits funds received from HUD as well as all program proceeds in a bank account that commingles funds for the entire city of Madison.
 - **Regulatory citation:** The Annual Contributions Contract; PIH Notice 96-33; Form HUD 51999
 - **Corrective action:** Section 9 of the Annual Contributions Contract (Form HUD 53012-A) requires that MCDA deposit all HUD funds “... in accordance with the terms of the General Depository Agreement...”. Paragraph 2 of the General Depository Agreement (Form HUD 51999) requires: “All monies deposited by the HA with the Depository shall be credited to the HA in a separate interest bearing account...”. MCDA has no segregated account and instead deposits funds received from HUD as well as all program proceeds in a bank account that commingles funds for the entire city of Madison. To demonstrate that corrective actions have been taken to address this finding, MCDA must provide documentation to HUD MKE of MCDA having established a segregated account for MCDA funds as well as properly executed, unmodified GDA for that account. *Please also note: No addenda or revisions to the GDA, HUD Form 51999, are permissible.*

- **Finding GOV 5:** MCDA is not in compliance with PIH Notice 96-33, which lists acceptable collateralization instruments. MCDA and its banking institution executed an addendum* to the General Depository Agreement (GDA), HUD Form 51999, which outlines at Paragraph 1 (a) that amongst other instruments, PHA funds may be collateralized with “... letters of credit drawn upon the Federal Home Loan Bank of Cincinnati...”. Letters of credit are not on the list of acceptable collateralization instruments identified in PIH Notice 96-33.
 - **Regulatory citation:** The Annual Contributions Contract; PIH Notice 96-33; Form HUD 51999
 - **Corrective action:** Section 9 of the Annual Contributions Contract (Form HUD 53012-A) requires that MCDA deposit all HUD funds “... in accordance with the terms of the General Depository Agreement...”. Paragraph 2 of the General Depository Agreement (Form HUD 51999) requires: “Any portion of HA Funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD in a notice.” PIH Notice 96-33, Attachment A, Paragraph 4 provides requirements for Demand and Savings

Deposits and states: “A deposit in excess of the insurance coverage may be made at a depository institution provided that it is 100 percent collateralized by any of the securities listed under paragraphs 1, 2, and 3 of this Attachment.” Letters of credit are not listed in paragraphs 1, 2, and 3 of Attachment A to PIH Notice 96-33. To demonstrate that corrective actions have been taken to address this finding, MCDA must provide documentation to HUD MKE that MCDA’s segregated, newly established, bank account (see Finding GOV4) only allows for collateralization of its assets from those listed in PIH Notice 96-33, Attachment A, Paragraphs 1, 2, and 3. **Please note: No addenda or revisions to the GDA, HUD Form 51999, are permissible.*

- **Finding GOV 6:** MCDA has no formal, documented method for allocating costs amongst benefitting programs. Additionally, MCDA has no formal, documented method for allocating costs amongst individual Low Rent Public Housing projects. As one condition for items of cost to be allowable, the 2 CFR Subpart E – Cost Principles require that, they be allocable to benefitting programs in accordance with the relative benefit received.
 - **Regulatory citation:** 2 CFR 403; 2 CFR 200.405 (d); 2 CFR 200.416; 24 CFR 905.200 (b) (16); 24 CFR 990.190 (d); 24 CFR 990.280
 - **Corrective action:** MCDA receives funding from several funding streams including the Housing Choice Voucher, Low Rent Public Housing, Capital Fund, Multifamily Housing, and ROSS federal programs. Several MCDA staff and many MCDA selected items of cost benefit programs objectives in varying degrees. For example, Madison's Executive Director of the Community Development Authority and the Housing Operations Program Manager provide oversight of many of the programs in MCDA’s portfolio. Likewise, the Modernization Grants Manager provides procurement technical assistance for several programs. Additionally, several costs, such as audit costs, benefit all programs in MCDA’s portfolio in varying degrees. Consistent with 2 CFR 403, 2 CFR 200.405 (d), 2 CFR 200.416, 24 CFR 905.200 (b) (16), 24 CFR 990.190 (d), 24 CFR 990.280 MCDA must have a reasonable, documented basis for assigning its costs. To demonstrate that corrective actions have been taken to address this finding, MCDA must provide documentation to HUD MKE of how costs are to be allocated on a cost by cost basis.

- **Finding GOV 7:** The finances of MCDA are fully integrated with those of the City of Madison (see Finding GOV 4). As such, any MCDA cash is merely a pro-rata portion of the City of Madison’s cash as a whole. The City of Madison’s cash and cash equivalents include several investment instruments that are not on the list of HUD-approved investments.
 - **Regulatory citation:** The Annual Contributions Contract; PIH Notice 96-33; Form HUD 51999
 - **Corrective action:** Section 9 of the Annual Contributions Contract (Form HUD 53012-A) requires that MCDA deposit all HUD funds “... in accordance with the terms of the General Depository Agreement...”. Paragraph 2 of the General Depository Agreement (Form HUD 51999) requires: “Any portion of HA Funds

not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD in a notice.” PIH Notice 96-33, Attachment A, provides a listing of HUD-Approved Investment Instruments. The city of Madison’s Investments By Broker statement for the period ending June 30, 2017, included several instruments that are not on the listing of HUD-Approved Investment Instruments including investments in corporate debt and municipal debt. To demonstrate that corrective actions have been taken to address this finding, MCDA must provide documentation to HUD MKE that MCDA’s segregated bank account (see Finding GOV4) has been established. Thereafter, MCDA must provide the investment register for MCDA. The investment register must only contain investments that are on the listing of HUD-Approved Investment Instruments and should detail the type of instrument, date of purchase, purchase price, interest rate, and applicable date of sale or maturity.

- **Concern GOV 1:** Given that MCDA has no segregated bank account and instead deposits funds received from HUD as well as all program proceeds in a bank account that commingles funds for the entire city of Madison (see Finding GOV4), the preparation of MCDA bank reconciliations is extremely cumbersome. HUD MKE expects, however, that once a segregated bank is established in order to resolve Finding GOV4, the matching of program expenses to transactions that appear on the bank statement will be much less onerous.
- **Concern GOV 2:** Both during and after its August 15th through August 17th compliance review, HUD MKE requested the entire bid packages and procurement files for MCHA’s large procurements. MCHA did not provide the requested files until September 7th, 2017. As such, HUD MKE has the following concerns with respect to MCHA’s procurement file maintenance:
 - The amount of time that transpired between HUD MKE’s request and MCHA’s providing the files suggests that there may be record keeping challenges with respect to bid packages and procurement files.
 - According to interviews with MCHA staff, there is only one person, the Modernization Grants Manager, who negotiates, maintains, and has access to the complete bid packages and procurement files.
 - In reviewing the bid packages and procurement files, HUD MKE did not observe any documentation of the total amount of bids received, from whom, and in what amount.

As such, HUD MKE strongly recommends that MCHA senior management review the procurement management processes to address items 1, 2, and 3 immediately above. 2 CFR 200.403 outlines the criteria affecting the allowability of costs and amongst other factors requires that costs be “necessary and reasonable...” and “adequately documented...”. Absent stronger processes in maintaining and administering bid packages and procurement files, MCHA is in danger of not complying with these requirements.

- **Concern GOV 3:** MCDA is compliant with HUD’s requirement that at least one commissioner be a resident of the agency’s Public Housing. However, the MCDA by-

laws indicate, the composition of the Board of Commission be represented by two residents.

- **Observation GOV 3:** MCDA board and management does not have a system to regularly review procedures and policies to determine compliance with current program regulations or their effectiveness on MCDA operations. The team recommends that MCDA establish a system or schedule to review policies and procedures on a regular basis (bi-annually perhaps).

□ Housing Choice Vouchers

The HUD review team reviewed MCDA's voucher utilization, reporting, Housing Assistance Payments (HAP) register, financial statements, HCV policies, payment standards, utility allowance schedule(s), tenant files, and (wherever possible) supporting materials. Based on this review, the review team reports the following best practices | findings | concerns | observations.

- **Best Practice:** Tenant files were found to be organized using a folder system and utilized a checklist for consistency.
- **Best Practice:** 99+% of the landlords participate in HAP payments by using ACH transactions.
- **Best Practice:** The advantageous use of a part time staff member for outreach and vendor relations contributes to superior relations with landlords that participate in the program
- **Best Practice:** Inspector input and maintenance of a rent database ensure suitable rent reasonableness determinations.
- **Finding HCV 1:** The MCDA conducted the last Utility Allowance study in 2015. The utility allowance schedule must be reviewed on an annual basis. Any changes equal to or greater than 10% must be incorporated into a revised Utility Allowance Schedule. MCDA is also required to maintain information supporting its annual review of the Utility Allowance Schedule.
 - **Regulatory citation:** 24 CFR 982.517(c)
 - **Corrective action:** MCDA must conduct a review of its Utility Allowance Schedule and provide evidence of this review and any revisions made to the schedule to the MKE FO. MCDA should also establish an annual schedule to complete these reviews in accordance with 24 CFR 982.517.
- **Finding HCV 2:** Interviews with MCDA staff indicate that the authority policy is to forgive debts after seven (7) years unless there is a court ordered judgement. PIH Notice 2017-12: Administrative Guidance and Effective and Mandated Use of the Enterprise Income Verification (EIV) System states that HUD does **not** authorize any PHA-sponsored amnesty or debt-forgiveness.
 - **Regulatory citation:** PIH Notice 2017-12
 - **Corrective action:** MCDA needs to revise the debt policy to state that there is no amnesty or debt-forgiveness in the HCV program. This policy should be incorporated into written PHA policy including any SOP and the Administrative Plan.

- **Concern HCV 1:** MCDA does not have an internal audit procedure for case file reviews. The PHA relies on the annual SEMAP sample review to audit files. The SEMAP review is the minimum program requirement. MCDA may benefit from an internal, random audit procedure in which files are reviewed for accuracy, consistency and regulatory compliance.
- **Concern HCV 2:** MCDA does not appear to have an adequate system to document regulatory compliance with the requirements to Project Base Vouchers (PBV) in the HCV program. When project basing vouchers into new developments or when substantial rehabilitation is a requirement of the AHAP or HAP, MCDA is required to comply with the Environmental Review requirements outlined in 24 CFR 58. As such, please review MCDA policies and procedures to ensure compliance with 24 CFR 982 and PIH Notice 2015-05: Project Based Voucher (PBV) Guidance.
- **Observation HCV 1:** Supporting materials for MCDA’s most recent SEMAP certification are well-organized, with the process and results thoroughly documented. Samples were drawn correctly, methods were recorded, and source materials were easily accessible.
- **Observation HCV 2:** HCV participant files were well organized using a unified folder system to ensure consistency. MCDA also utilized a checklist to ensure complete and accurate documentation in the participant files.
- **Observation HCV 4:** Staff levels are appropriate for the program size and complexity. The division of work load and internal staffing structure contribute to program efficiency and success.

□ Public Housing

The HUD review team reviewed MCDA Public Housing occupancy, year-to-date financial statements, lead-based paint testing results, work orders, tenant accounts receivable, unit/development conditions, and (wherever possible) supporting materials. Based on this review, the review team reports the following best practices | findings | concerns | observations.

- **Finding PH 1:** The MCDA ACOP was last revised thoroughly revised in 2012. There have been periodic updates including 2013 and 2017; however, a review of the ACOP, associated policies, and practices of MCDA have shown areas that require updates. The following changes are mandatory in nature:
 - a. *Federally Mandated Exclusions from Income:* HUD publishes a list of mandates exclusions from income that must be reflected in MCDA's ACOP. When applying HUD's rent formula certain income payments are excluded from income. These exclusions are specified periodically in a Federal Register notice. The last publication of this listing was on May 20, 2014. MCDA's ACOP lists the previous federally mandated exclusions, but is not inclusive of the May 20, 2014 publication.
 - **Regulatory citation:** 24 CFR 5.609, *Federal Register* (FR Vol 79 No

07/May 20, 2014).

- b. *Community Service and Self-Sufficiency*: A review of public housing tenant files (see Attachment A) indicates MCDA is not collecting required documentation from participants for Community Service and Self-Sufficiency (CSSR). MCDA correctly identifies CSSR in their ACOP and lease. 2 CFR 960.605 requires public housing authorities to administer CSSR requirements. In summary, each adult resident must annually certify they are exempted from CSSR requirements or are meeting a 96 hours per year in community service or self-sufficiency activities. PHAs must maintain the document in the public housing participant file. Participants found to be in non-compliance with the provision must be notified by the PHA that their lease may not be renewed upon expiration. Participants are given an opportunity to come back into compliance with a written agreement with the PHA and complying with CSSR. MCDA must document all tenants are either exempted from or are meeting CSSR requirements. Please document that the tenants files in Attachment A are addressed and submit a timeframe for full CSSR implementation in the required CAP.
- **Regulatory citation:** 24 CFR 960.600-.609, PIH Notices 2015-12 and 2016-05
- c. *Lead Based Paint*: A review of public housing of the MCDA ACOP and tenant files indicates MCDA is not fully compliant with Lead Based Paint (LBP) regulations and guidance (see Attachment A). The MCDA ACOP is largely silent on these requirements. 24 CFR 965.701 makes the Lead Safe Housing Rule (LSHR) and Lead Disclosure Rule (LDR) applicable to public housing built prior to 1978. Under LSHR, PHAs must conduct LBP inspections, which MCDA has completed. Additionally, under LDR, PHAs must inform tenants of the hazard of lead-based paint and make a disclosure statement that advised the tenant of the presence of any known LBP or LBP hazards in the unit, common areas servicing the unit and exterior area. Alternatively, the disclosure must indicate that the owner has no knowledge of the presence of any LBP or LBP hazards. The disclosure must list any records or reports available to the owner and make them available to the tenant upon request. Lastly under LDR, PHAs must provide the "Protect Your Family From Lead in Your Home." The MCDA ACOP and some tenant files reflect this was being completed. For tenant residing in properties built prior to 1978, MCDA must ensure a LBP disclosure in each tenant file. The MCDA ACOP should also be updated to include the LDR.
- **Regulatory citation:** 24 CFR 965.701, 24 CFR Part 35, and PIH Notice 2011-44
- d. *Flat Rent*: A review of public housing tenant files indicates, MCDA is not collecting required forms from tenants for Flat Rent/Income Based Rent (see Attachment A). The MCDA ACOP is in compliance with the Flat Rent requirements.. However, the ACOP policy is not being implemented at the public housing developments. In 2014, statutory changes were made requiring public housing agencies to implement a Flat Rent. Flat Rents were to be set at no less than 80 percent of the applicable Fair Market Rent or an exception fair market rental at the discretion of the HUD Secretary and to account for reasonable utilities cost. At admissions and on an annual basis PHAs, must offer the choice of Income Based Rent or Flat Rent. This choice must be documented in the

tenant file. The MCDA must ensure the tenant choice of Income Based Rent or Flat Rent.

- **Regulatory citation:** 24 CFR Part 960 and 24 CFR Part 903, PIH Notices 2014-12 and 2015-03.
 - e. *Designated Housing:* The MCDA ACOP states that the MCDA has designated Gay Braxton Apartments (WI003000200), Brittingham Apartments (WI003000400), Romnes Apartments (WI003000300) and Tenney Park Apartments (WI003000200) as Disabled and Elderly. The MCDA does **not** have a HUD approved Designated Housing Plan on file with the MKE HUD Field Office. The references to Designated Housing must be removed. As such MCDA may only elect to have preferences. However, should the MCDA run out of applications that meet the selected preferences, applications must be selected in waiting list order as prescribed by MCDA ACOP.
 - **Regulatory citation:** 24 CFR Part 945
 - o **Corrective Action:** The MCDA must update its ACOP and related policies, and ensure practices are consistent with the above requirements. Additionally, MCDA must correct any and all marketing materials, including websites, newspapers, and brochures that include the incorrect Disabled and Elderly designations. Finally, MCDA must provide documentation to HUD MKE of the materials that were affected as well as documentation of it having corrected the materials affected. *Please note: failure to promptly remove the inaccurate designations could result in Fair Housing Act violations.*
- **Finding PH 2:** MCDA has no current procedures, system, or schedule for the inventory of equipment or supplies. It is also unclear when or whether inventories have been conducted in the past.
 - o **Regulatory citation:** 2 CFR 200.41; 2 CFR 200.62; 2 CFR 200.94; 2 CFR 200.314;)
 - o **Corrective action:** 2 CFR 200.62 (a) (2) requires that in order to demonstrate effective internal control in managing Federal awards, MCDA must: “Maintain accountability over assets;”. For MCDA as a whole, inclusive of the administrative and maintenance departments, there is no current procedure, system, or schedule for the inventory of equipment or supplies. To demonstrate that corrective actions have been taken to address this finding, MCDA must provide documentation to HUD MKE that it has developed an inventory control system which includes procedures, a system, and the schedule for conducting inventories of MCDA assets.
- **Finding PH 3:** The MCDA insurance coverages were reviewed against the requirements of the Annual Contributions Contract and the requirements of 2 CFR 200. The MCDA does not maintain a fidelity bond as required by 2 CFR 200.304.
 - o **Regulatory Citation:** 2 CFR 200.304
 - o **Corrective action:** The MCDA must procure and maintain insurance coverages as required by 2 CFR 200.304 including the requirement for a fidelity bond or employee dishonesty coverage.

- **Finding PH 4:** Within the public housing lease is a Non-Standard Rental Provision related to Repayment Agreements that states the MCDA is not required to enter into a repayment agreement, but may choose not to. HUD however, requires PHAs to enter into Repayment Agreements.
 - **Regulatory Citation:** PIH Notice 2017-12
 - **Corrective action:** PIH Notice 2017-12: Administrative Guidance and Effective and Mandated Use of the Enterprise Income Verification (EIV) System details repayment agreements on page 15. Tenants are required to reimburse PHAs if they were charged less rent than required by HUD's rent formula due to the tenant's underreporting or failure to report income. The tenant is required to reimburse the PHA the difference between the tenant rent that should have been paid and the tenant rent that was charged as far back as the PHA has documentation. If a tenant refuses to enter into a repayment agreement or fails to make payments on an existing or new repayment agreement, the PHA **must** terminate the family's tenancy or assistance or both. HUD does **not** authorize any PHA-sponsored amnesty or debt-forgiveness. The Non-Standard Rental provision must clarify the repayment agreement statement reflective of the requirements of PIH Notice 2017-12.

- **Finding PH 5:** Interviews with MCDA staff indicate that authority policy is to forgive debts after seven (7) years unless there is a court ordered judgement. PIH Notice 2017-12: Administrative Guidance and Effective and Mandated Use of the Enterprise Income Verification (EIV) System states that HUD does **not** authorize any PHA-sponsored amnesty or debt-forgiveness.
 - **Regulatory citation:** PIH Notice 2017-12
 - **Corrective action:** MCDA must revise its debt policy and state that there is no amnesty or debt-forgiveness in the Public Housing program. This policy should be incorporated into written PHA policy including any SOP and the ACOP.

- **Finding PH 6:** The MCDA conducted the last Utility Allowance study in 2015. The utility allowance schedule must be reviewed on an annual basis. Any changes equal to or greater than 10% must be incorporated into a revised Utility Allowance Schedule. MCDA is also required to maintain information supporting its annual review of the Utility Allowance Schedule.
 - **Regulatory citation:** 24 CFR 965.507
 - **Corrective action:** MCDA must conduct a review of its Utility Allowance Schedule in accordance with 24 CFR 965.505 and the MCDA ACOP. MCDA should also establish an annual schedule to complete these reviews in accordance with 24 CFR 965.507.

- **Finding PH 7:** For Family Self-Sufficiency (FSS) participants, PHAs are to fill out Box 2a of the HUD Form 50058 with code 8 and Box 2k with "Yes." MCDA does not have an individual FSS program, yet four (4) tenants are indicated as participating in FSS (see Attachment B).

- **Regulatory citation:** HUD Form 50058 Instruction Manual
 - **Corrective action:** MCDA must remove the indicators from Boxes 2a and Box 2k for the FSS Program Indicators.
- **Concern PH 1:** The MCDA Public Housing Property Managers appear to all be well-versed in the proper calculation of rental subsidy. However, the property managers use three separate processes in the collection of required forms and verifications. MCDA should investigate a standard process and checklist for public housing tenant files. HUD MKE does understand that there may be other affordable housing programs layered at the properties, but public housing requirements will not vary from property to property.
 - **Concern PH 2:** Through conversations with MCDA staff, it was found that MCDA is not auditing public housing tenant files to ensure file consistency and proper rental subsidy calculation. An additional recommendation is for the creation of a public housing file audit completed by staff in the COCC similar in nature to SEMAP.
 - **Concern PH 3:** MCDA does not conduct any additional background reviews for participants at interim or recertification. While background reviews are established by PHA policy, the regulations have specific requirements to deny or terminate participants in the LRP program (e.g. lifetime sex offender, criminal drug activity in public housing). By not conducting reviews of these items at recertification MCDA misses the opportunity to determine continuing compliance with these requirements.
 - **Concern PH 4:** To their credit, MCDA develops budgets on an Asset Management Project (AMP) by AMP basis. HUD MKE however, has the concern that after those budgets are developed, MCDA upper-management and Property Managers for the AMPs may not be engaging in sufficient discussions to determine why budgeted-to-actual amounts are either significantly above or below forecast. HUD MKE recommends such engagement to help ensure the best oversight of the current AMP budgets and also to facilitate and fully inform future budgets.
 - **Concern PH 5:** The ACOP for MCDA states that the Minimum Rent for the LRP program is \$50 dollars. The ACOP also outlines the hardship exemptions to the required Minimum Rent. A review of 50058s reporting in the PIC system show inconsistent reporting of the Minimum Rent and no participants coded as qualifying for a hardship exemption. Our review did not allow the team to conduct a detailed tenant file review of this item. However, for a program the size of MCDA it seems unlikely that no participants qualify for the hardship exemption. Also, the PIC reports indicate participants who are not paying the Minimum Rent, yet the hardship indicator is not selected. At a minimum, this likely indicates errors and inconsistencies in the reporting of Minimum Rent and hardship. MCDA should conduct a review of all 50058 that indicate Minimum Rent is not being paid to determine errors for correction. MCDA staff should also be trained on the Minimum Rent and hardship exemption policies and the correct way to record those on the 50058.
 - **Concern PH 6:** MCDA has an established policy for late payment of rent. However,

interviews with site staff at various projects indicates that the policy is not being consistently applied across the Public Housing program. To ensure uniform treatment of program participants consistent application of late payment policies should be applied at all properties in the MCDA Public Housing portfolio.

- **Observation PH 1:** MCDA does not appear to be utilizing any of the administrative streamlining options outlined in PIH Notice 2016-05 such as revised Earned Income Disallowance calculation and Mixed Family Rent calculation and three-year Reexaminations for those on Fixed Incomes. For many PHAs, this has provided a cost-savings.
- **Observation PH 2:** The guidance in PIH Notice 2017-03: HUD Guidance on Instituting and Enforcing Smoke Free Public Housing Policies appears to be well-underway at MCDA properties.
- **Observation PH 3:** MCDA has fully implemented the VAWA 2013 requirements outlined in PIH Notice 2017-18.
- **Observation PH 4:** MCDA does not appear to be utilizing any of the administrative streamlining options outlined in PIH Notice 2016-05. For many PHAs, this has provided a time-savings and cost-savings.

Conclusion

We thank the Madison Community Development Authority Board and staff for the courtesy and cooperation shown to the HUD review team during our visit. As outlined in this report, MCDA is performing effectively in a number of areas, and helping to serve important needs in the Madison area. We also appreciate MCDA's responsiveness to HUD's recommendations in areas where compliance is lacking or performance can be improved. ***Within 30 days of the date of this report, please respond with actions proposed to address each of the cited corrective actions.*** For your convenience, a summary of the report's corrective actions is provided below.

Corrective Action Summary

- **Finding GOV 1:** MCDA's procurement policy is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200.
 - **Corrective action:** MCDA must provide its revised and ratified procurement policy.
- **Finding GOV 2:** MCDA's disposition policy for non-real property (e.g. equipment) is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200. Specifically, MCDA's current disposition policy has no requirement to contact HUD for disposition instructions for equipment purchased with HUD funds.
 - **Corrective action:** MCDA must provide revised and ratified disposition policy.
- **Finding GOV 3-a:** MCDA's capitalization policy dollar threshold is not in compliance with, nor does it reference, the Uniform Administrative Requirements at 2 CFR 200.
 - **Corrective action:** MCDA must provide revised and ratified capitalization policy.
- **Finding GOV 3-b:** MCDA's capitalization policy does not accord proper capitalization treatment to certain types equipment and other capital assets as required by the Uniform Administrative Requirements at 2 CFR 200.
 - **Corrective action:** MCDA must provide revised and ratified capitalization policy.
- **Finding GOV 4:** MCDA is not in compliance with Paragraph 2 of the General Depository Agreement (GDA), which requires MCDA to have a segregated bank account for all MCDA funds.
 - **Corrective action:** MCDA must provide documentation to HUD MKE of MCDA having established a segregated account for MCDA funds as well as properly executed, unmodified GDA for that account.
- **Finding GOV 5:** MCDA is not in compliance with PIH Notice 96-33, which lists acceptable collateralization instruments.
 - **Corrective action:** MCDA must provide documentation to HUD MKE that MCDA's segregated, newly established, bank account (see Finding GOV 4) only allows for collateralization of its assets from those listed in PIH Notice 96-33, Attachment A, Paragraphs 1, 2, and 3.
- **Finding GOV 6:** MCDA has no formal, documented method for allocating costs amongst benefitting programs.
 - **Corrective action:** MCDA must provide documentation to HUD MKE of how costs are to be allocated on a cost by cost basis.

- **Finding GOV 7:** The City of Madison's (and therefore MCDA's) cash and cash equivalents include several investment instruments that are not on the list of HUD-approved investments.
 - **Corrective Action:** MCDA must provide documentation to HUD MKE that MCDA's segregated bank account (see Finding GOV 4) has been established. Thereafter, MCDA must provide the investment register for MCDA. The investment register must only contain investments that are on the listing of HUD-Approved Investment Instruments and should detail the type of instrument, date of purchase, purchase price, interest rate, and applicable date of sale or maturity.

- **Finding HCV 1:** MCDA's Utility Allowance review is out of date.
 - **Corrective Action:** MCDA must conduct a review of its Utility Allowance schedule.

- **Finding HCV 2:** MCDA policy is to forgive debts after seven years.
 - **Corrective Action:** MCDA needs to revise its policies to preclude any amnesty or forgiveness of debts by program participants.

- **Finding PH 1:** The MCDA ACOP was last revised thoroughly revised in 2012. There have been periodic updates including 2013 and 2017; however, a review of the ACOP, associated policies, and practices of MCDA have shown areas that require updates.
 - **Corrective Action:** The MCDA must update its ACOP and related policies, and ensure practices are consistent with the above changes.

- **Finding PH 2:** : MCDA has no current procedures, system, or schedule for the inventory of equipment or supplies.
 - **Corrective action:** MCDA must provide documentation to HUD MKE that it has developed an inventory control system which includes procedures, system and the schedule for conducting inventories of MCDA assets

- **Finding PH 3:** The MCDA does not maintain a fidelity bond as required by 2 CFR 200.304.
 - **Corrective action:** The MCDA must procure and maintain insurance coverages as required by 2 CFR 200.304 including the requirement for a fidelity bond or employee dishonesty coverage.

- **Finding PH 4:** The lease contains non-standard lease provisions regarding entering into repayment agreements with participants.
 - **Corrective Action:** The Non-Standard Rental provision must clarify the repayment agreement statement and be reflective of the requirements of PIH Notice 2017-12.

- **Finding PH 5:** MCDA policy is to forgive debts after seven (7) years unless there is a court ordered judgement.

- **Corrective action:** MCDA needs to revise the debt policy to state that this is no amnesty or debt-forgiveness in the Public Housing program.
- **Finding PH 6:** MCDA conducted the last Utility Allowance study in 2015.
 - **Corrective action:** MCDA must conduct a review of its Utility Allowance Schedule in accordance with 24 CFR 965.505 and the MCDA ACOP.
- **Finding PH 7:** MCDA does not have an individual FSS program, yet four (4) tenants are indicated as participating in FSS.
 - **Corrective action:** MCDA must remove the indicators from Boxes 2a and Box 2k for the FSS Program Indicators.

Attachment A - Public Housing Tenant File Reviews

Unit ID 070017 – The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice and CSSR annual certification was not in the file.

Unit ID 012591—The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice, Flat Rent/IBR selection documentation, and CSSR annual certification was not in the file.

Unit ID 070013 –The tenant file was well organized. Included in the rent income calculation was exempted income – LHEAP assistance. This tenant should have an interim certification completed. Additionally, the LBP Disclosure Notice and Flat Rent/IBR selection documentation was not in the file. The HUD Form 50058 indicates this resident is in compliance with the CSSR requirements and is not exempted from the requirement, but the CSSR annual certification was not in the file.

Unit ID 060137 – The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice, Flat Rent/IBR selection documentation, and Section 214 Immigration Status Declaration was not in the file. Additionally, the HUD Form 50058 stated the tenant is not in compliance with the requirements of CSSR. An email in the file indicated the tenant was not meeting the community service or self-sufficiency activities, but it did not appear that MCDA staff notified the tenant of the non-compliance.

Unit ID 147906 – The tenant file was well organized and rental subsidy was properly calculated. The LBP Disclosure was in this tenant file; however, the Flat Rent/IBR selection documentation and CSSR annual certification were not in the file. The HUD Form 50058 noted that the tenant is a FSS participant, but there was no supporting documentation in the file.

Unit ID 090037 – The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice, Flat Rent/IBR selection documentation, and CSSR annual certification was not in the file. This tenant was zero income, which in a prior tenant file was documented with a questionnaire, was not present in the file.

Unit ID 013077 – The tenant file was well organized and rental subsidy was properly calculated. The LBP Disclosure was in this tenant file; however, the Flat Rent/IBR selection documentation and CSSR annual certification were not in the file.

Unit ID 152042 – The tenant file was well organized and rental subsidy was properly calculated. The LBP Disclosure was in this tenant file; however, the Flat Rent/IBR selection documentation and CSSR annual certification were not in the file.

Unit ID 180021 – The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice, Flat Rent/IBR selection documentation, and CSSR annual certification was not in the file.

Unit ID 040044 – The tenant file was well organized and rental subsidy was properly calculated. However, the LBP Disclosure Notice, Flat Rent/IBR selection documentation, and CSSR annual certification was not in the file.

Attachment A – HUD Form 50058 Accuracy

The following tenants have an FSS indicator in Box 2a and Box 2k:

- J. Slark
- J. Jankowski
- A. Doaga
- M. Noble

Attachment B – HCV Tenant File Reviews

Unit ID R/Rich – Annual transaction, fixed income. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID P/Rose - Voluntary Withdrawal. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID D/Grim - Annual, WPS income. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID T/Fla - Transaction in process, reviewed last annual. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID K/Fox - Annual transaction, fixed income. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID A/Aux - Annual transaction. Medical deductions under threshold and handled correctly. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID O/Bar - Annual transaction, minimum tenant payment. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID T/Hil - Annual transaction, earned income. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID R/Eng - Annual transaction. The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.

Unit ID W/War - Annual transaction, earned income (2). The tenant file was well organized and the rental subsidy was properly calculated. The file used the folder system and included a file checklist.