



Issue Date December 15, 2006
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Audit Report Number 2007-LA-1004
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TO: Stephen Schneller, Director, Office of Public Housing, Region IX, 9APH

*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Los Angeles, Region IX, 9DGA

SUBJECT: The Housing Authority of the County of Contra Costa, Martinez, California, Did Not Adequately Determine and Support Section 8 Rents

## **HIGHLIGHTS**

### **What We Audited and Why**

In response to a request from the Office of Public Housing, we reviewed the Housing Authority of the County of Contra Costa's (Authority) administration of rent reasonableness determinations for units leased under its Section 8 Housing Choice Voucher program.

Our objective was to determine whether the Authority ensured that rents were reasonable and that its written procedures and internal controls were adequate to ensure compliance with U.S. Department of Housing and Urban Development (HUD) rules and regulations, and consequently, to ensure the use of federal funds was supported and for eligible purposes.

### **What We Found**

The Authority did not adequately determine reasonable rent or document support because written policies and controls were inadequate. Specifically,

- In some cases, the Authority compared assisted units to units that were vastly dissimilar and, therefore, provided no support for the contract rent.
- The Authority did not consider important factors that could affect the rental price, such as amenities, services provided, age of units, and square footage.
- The forms used to document the rent reasonableness determinations were often missing or incomplete and/or contained erroneous information.

The Authority also improperly used federal funds to pay for housing assistance overpayments caused by the Authority's delays in processing landlords' rent increase requests and did not reimburse HUD for those improper payments.

### **What We Recommend**

We recommend that the director of HUD's Office of Public Housing require the Authority to (1) support or reimburse HUD \$82,659 in unsupported housing assistance payments, (2) follow HUD-approved policies and procedures when performing rent reasonableness determinations and ensure that adequate quality control procedures are in place, (3) reimburse HUD \$77,997 in administrative fees, (4) repay HUD \$5,236 for subsidy overpayments resulting from processing delays, (5) repay additional subsidies disbursed due to late processing of rent increases from July 1, 2005, to the present, and (6) develop procedures that ensure the timely processing of rent increase requests; prevent the use of federal funds to pay for the Authority's errors or omissions; and address repayment of funds to HUD for overpayments resulting from the use of federal funds to pay for errors or omissions.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided the Authority a draft report on November 21, 2006, and held an exit conference on December 4, 2006. The Authority provided written comments on December 11, 2006. It generally agreed with the report. The complete text of the auditee's response can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Housing Authority of the County of Contra Costa (Authority) is a public housing agency as defined in the United States Housing Act of 1937, as amended, and in 24 CFR [*Code of Federal Regulations*] Chapter VIII. It was established in 1942 and currently owns 1,168 public housing units and 262 low-income tax credit units. The Authority also administers approximately 6,874 units under the Section 8 Housing Choice Voucher program. Section 8 housing choice vouchers allow income-eligible families to obtain affordable, decent, and safe housing. During the period from January through June 2006, the Authority paid more than \$37 million in housing assistance payments to landlords participating in the program. The Authority received more than \$2.8 million in administrative fees from the U.S. Department of Housing and Urban Development (HUD) for administering the Section 8 program for the same period.

The Authority's executive director held the position of deputy executive director for four years before becoming the acting executive director on October 1, 2005. On February 28, 2006, he became the executive director. The current director of housing assistance programs (Section 8) has worked for the Authority since November 2005.

As a result of the most recent review of the Authority's Section 8 Management Assessment Program, HUD designated the Authority's performance rating as troubled.

The *Code of Federal Regulations* requires housing authorities to determine whether rents are reasonable before approving a lease. The Housing Choice Voucher Guidebook states that "ensuring rent reasonableness is very important for effective program operations. If a PHA [public housing authority] approves rents that are too high, government funds are wasted, limited housing subsidies are squandered, and speculators may exploit the program to outbid potential homeowners. If rents are approved at levels lower than comparable units in the private market, the better owners do not participate in the program, or they participate only with their lowest cost and lowest quality units. In addition, families may be inappropriately restricted in where they can live."

To determine whether Section 8 rents are reasonable, housing authority inspectors compare the rents for the subject units to rents for similar unassisted units on the open market. For multifamily properties, they must compare the subject rent to rents for similar unassisted units on the premises. Rent reasonableness determinations are performed at various times, including but not limited to before entering into a housing assistance payment contract, before any increase in rent, and if there is a 5 percent decrease in the published fair market rent in effect 60 days before the anniversary date of the housing assistance payment contract. Housing authorities are required to document each rent reasonableness decision and maintain records showing the basis for that decision for at least three years.

There are a number of factors used to determine comparability. Among the factors housing authorities must consider are

- Location
- Quality
- Size
- Unit type
- Unit age
- Amenities
- Housing services
- Maintenance
- Utilities paid by the owner

The Authority's latest Section 8 administrative plan, dated 2005, showed that the above nine factors would be used to determine comparability. An additional factor, facilities, was added but not defined in the plan. The Authority's rent reasonableness survey forms included information meeting the requirements for all 10 factors. The plan, in accordance with HUD requirements, stated that the Authority would use an "appraisal system" to adjust for differences between Section 8 properties and unassisted units used in the rent reasonableness determination. In addition, the plan discussed acceptable sources for comparable rents. The data for unassisted units could be gathered from newspapers, realtors, professional associations, inquiries of owners, market surveys, the Internet, and other available sources. The plan did not require visits to comparable properties to verify whether the units were comparable to the subject unit.

The Authority defined market areas for rent reasonableness within its jurisdiction. Subject units within a defined housing market should be compared to similar units within the same area.

The Office of Public Housing recommended a review of the Authority's rent reasonableness procedures and determinations. The objective of the audit was to determine whether the Authority administered its Section 8 rent reasonableness determinations in accordance with HUD rules and regulations and, consequently, to ensure the use of federal funds was supported and for eligible purposes.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Follow Federal Requirements to Ensure That Section 8 Rents Were Reasonable

The Authority did not adequately perform rent reasonableness reviews to ensure that Section 8 rents were reasonable. It based Section 8 rents on units that were not comparable to the assisted units, including units of different structure types or in neighborhoods with different characteristics. In other cases, the Authority did not consider or make adjustments for significant differences that could affect the rent. Many of the required documents to support rent reasonableness determinations were missing, incomplete, or incorrect. We attribute these problems to the Authority's not having adequate procedures to ensure compliance with HUD requirements and its own policies for performing rent reasonableness reviews. Additionally, the Authority's quality controls over the rent reasonableness process were inadequate. As a result, the Authority spent \$82,659 in unsupported housing assistance payments, reduced subsidy funds available for program participants, and collected administrative fees from HUD to manage the Section 8 program while not in compliance with program requirements.

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#### **Inspectors Compared Different Structure Types and Different Areas**

In some cases, the Authority's inspectors compared vastly dissimilar units, including comparing duplexes to single-family homes, as well as homes of highly disparate quality and in very different neighborhoods. HUD's Housing Choice Voucher Guidebook outlines requirements for ensuring that assisted rents under the Housing Choice Voucher program do not exceed rents charged for comparable unassisted units. The guidebook stresses that "... the three most important factors in explaining differences in rents are the location of the unit, number of bedrooms in the unit, and type of unit." The Authority must conduct a market study and document explanations for deviations in these three major comparison factors.

The guidebook provides a method for use when a similar type of unit cannot be found in the same neighborhood as the assisted unit. It involves finding a similar unit in a different neighborhood, additional research to determine differences in prices between the neighborhoods, and a system for adjusting the rent based on those differences. The

Authority failed to adopt these or any adequate procedures to assure rent reasonableness when there were no similar comparable units within the locality.

Additionally, the inspectors did not have uniform procedures for classifying duplexes. Although the data system accepted duplexes as a unit type designation, some inspectors entered all duplexes as single-family homes, while others entered all duplexes as apartments. Since no one entered them as duplexes, they were used as comparables for dissimilar structure types. Moreover, because the inspectors did not have adequate information about the comparables, they could not have known about some of the differences that made certain units unacceptable as comparables.<sup>1</sup>

Of the 29 rent reasonableness determinations reviewed, 11 were based on comparisons to very dissimilar units, and it does not appear that the determinations could have been justified had the Authority had an established adjustment procedure. Therefore, we could not determine whether the \$38,940 in housing assistance payments for these units was reasonable (see appendix C for details). The following three examples are representative of these 11 problems.

Client Number T9906

The certification of rent reasonableness form was dated January 23, 2006. The subject unit type was a single-family home; however, one unit used as a comparable was a duplex, and the other was a small converted garage. Additionally, the two comparables were in poorer neighborhoods, and the converted garage was disproportionately smaller than the assisted unit. As a result, we cannot determine whether the \$4,140 in housing assistance payments to the landlord from January 23 through June 30, 2006, were reasonable.

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<sup>1</sup> Adequate information about the comparables can be obtained by different methods, including, but not limited to a short visit to the comparable unit for purpose of external observation of the unit and location qualities, services, and some amenities.

Subject unit – single-family



Comparable 1 – converted garage



Comparable 2 – duplex (one entrance in front and second unit entrance on the side)



Client Number T2748

The certification of rent reasonableness form was dated March 15, 2006. The subject unit type and both comparables were apartments; however, observation revealed the units were not acceptable for rent comparison. The assisted unit had two bedrooms and one bathroom, a clubhouse, and uncovered parking. It was in a very poor neighborhood on a busy street where the adjacent grocery store had an armed guard inside the front door, while both comparables were in quiet residential neighborhoods. Comparable 1 was a two-bedroom condominium but had two bathrooms and individual garages. Comparable 2 was a two-bedroom, two-bathroom apartment in a new development with vastly superior amenities, including on-site management, a learning center, a clubhouse, a fitness center, two heated pools, two Jacuzzis, private balconies or patios, walk-in closets, fireplaces, and ceiling fans. As a result, we cannot determine whether the \$4,390 in housing assistance payments to the landlord from February 1 through June 30, 2006, were reasonable.

Subject unit



Grocery store adjacent to subject unit



Comparable 1 - condominium



Comparable 2



Client Number T3134

The certification of rent reasonableness form was dated May 15, 2006. The subject unit type and both comparables were apartments; however, observation revealed that the units were not acceptable for rent comparison. The subject unit was 39 years old. It was in a below average neighborhood, did not appear to have any notable amenities, and was in a poorly maintained building. Both comparables were in a new complex by the bay. The comparables had on-site management. Their superior amenities included a barbeque/picnic area, a clubhouse with a full kitchen, a recreational lawn, three laundry rooms, after school clubs, and nine computer stations. The complex was clean with well-maintained lawns and streets. As a result, we cannot determine whether the \$759 housing assistance payment to the landlord from June 2 through 30, 2006, was reasonable.

Subject unit – unit immediately above has a boarded window



View directly across the street from subject unit



Comparables 1 and 2 – in the same complex



Comparables 1 and 2 – clubhouse and barbeque area



## Important Comparison Factors Were Ignored

The Authority ignored important comparison factors, such as unit quality, size, age, amenities, and services, when determining the reasonableness of Section 8 rents. The Authority only used the limited information entered into its data system. It used rent reasonableness survey forms to record information about all factors that it should consider for comparable units but did not observe the units in person to verify information. No survey forms were prepared for the subject units, although this information could have been obtained during required inspections. The Authority entered limited information from the survey form into its automated database management system, called UNIX, and the inspectors did not refer back to the form when the unit was used as a comparable for a rent reasonableness determination. The UNIX data system was limited to comparing information about the unit's structure type and location, basic appliances provided by the owner, utilities paid by the owner, and number of bedrooms and bathrooms in the unit. The data system did not accept or compare important information contained on the survey forms, including but not limited to the unit's quality, age, and amenities such as pools, spas, patios, decks, fenced yards, parking, or laundry facilities. The data system also failed to include services provided by the landlord.

The following chart shows which of the factors HUD considers significant and the factors considered by the Authority.

<b>Comparison factors required by HUD</b>	<b>Information accepted by the Authority's database</b>
1. Location	Yes
2. Quality	No
3. Size (number of bedrooms & square footage)	Yes - bedrooms and bathrooms No - square footage
4. Unit type	Yes
5. Unit age	No
6. Amenities	No - limited to basics (stove, drapes, refrigerator, carpets, dishwasher, disposal)
7. Housing services	No
9. Utilities the owner pays	Yes

If the inspectors had been required to fill out rent reasonableness survey forms for the Section 8 units, they could have compared all important factors on the forms, instead of using limited system data, and ensured that Section 8 rents were reasonable in comparison to those of similar units.

In addition, when the Authority's inspectors compared the rent for an assisted unit to rents for unassisted units available in the marketplace, they did not use an "appraisal" method to account for significant factors that would reasonably affect the rental prices in accordance with the Authority's Section 8 administrative plan. Therefore, under the Authority's current procedures, it may authorize the same rent amount for an older Section 8 unit offering no special amenities as an unassisted tenant may pay for a new unit with many amenities. Conversely, the Authority may also deny the rent requested for a significantly superior potential Section 8 unit after comparing the price to rents for smaller units with fewer amenities.

Of the 29 rent reasonableness determinations reviewed, 13 may have been justified if the Authority had used a system to identify and adjust for differences. Because the Authority did not establish or use such a system, we cannot determine whether \$43,719 in housing assistance payments for these units was reasonable (see appendix C for details).

### **Required Documentation Was Often Missing or Incorrect**

The documentation in the Authority's files was incomplete, missing, and/or erroneous, resulting in unreliable rent reasonableness determinations.

HUD requires housing authorities to document each rent reasonableness determination and its basis in the tenant files (PIH 7420.10G, Housing Choice Voucher Guidebook). Documents must be maintained for three years (24 CFR [*Code of Federal Regulations*] 982.158).

As mentioned above, the inspectors used a rent reasonableness survey form to record the information they obtained for unassisted units to be used as comparables and then entered the data into the UNIX automated database management system. However, the forms and/or database information were often incomplete or missing altogether. Sometimes the inspectors attached copies of newspaper or Internet advertisements to the forms to show how the units were identified. The inspectors did not always check the appropriate fields on the forms to show how they obtained the information about the comparable units. Other fields filled out inconsistently were the unit type (single-family, duplex, low-rise apartment, high-rise apartment), name and phone number of contact person, survey date, utilities paid by owner, year built, square footage, and quality of the unit. For the 29

sampled units, the Authority could not provide 16 of the 51<sup>2</sup> applicable survey forms, and 32 of the remaining 35 forms were missing important information (see appendix C for details).

We also noted cases in which the information on the survey forms and/or in the UNIX system was incorrect. The questionable data included an address that did not exist (when we visited the neighborhood, we found a public park instead of a house), two instances in which the number of bedrooms was incorrect, and 16 cases in which the unit type was incorrectly recorded (for instance, a duplex listed as a single-family home or apartment). Overall, we found 14 of the survey forms had errors, and when we checked the UNIX system information (in the 16 cases in which the forms were missing), we identified five additional errors.

### **Quality Control Procedures Were Inadequate**

The Authority's Section 8 administrative plan called for quality control reviews of selected tenant files (which document eligibility, certification, and approval of housing assistance payments) before initial tenant certification and at the completion of all tenant recertifications. However, there were no written review procedures specific to rent reasonableness determinations. The manager supervising the process told us she reviewed every rent reasonableness certification form but only to ensure that the dates for the two comparables were recent and the total rent for the assisted unit did not exceed the average rent for the two comparables. She did not review the survey forms to determine whether they were complete and accurate or whether the data in the database were correct. As a result, the Authority's management was unaware of the errors we observed during our review.

### **HUD Paid the Authority More Than \$2.8 Million in Administrative Fees**

The Authority received administrative fees from HUD that it did not properly earn due to its inappropriate administration of the Section 8 program. From January 1 through June 30, 2006, HUD paid the Authority more than \$2.8 million to administer its Section 8 program. During the same period, HUD provided more than \$37 million in housing assistance payments to landlords. The administrative fees benefited the Authority while it ignored HUD's requirements for the program's implementation.

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<sup>2</sup> The Authority used two comparables for each assisted unit. Some of the comparables were used for more than one assisted unit. Therefore, there were 51 rent reasonableness survey forms for 29 assisted units.

HUD pays public housing authorities an administrative fee for administering housing assistance payments under the Section 8 program. Regulations at 24 CFR [*Code of Federal Regulations*] 982.155 allow HUD to "...reduce or offset any administrative fee to the PHA [public housing authority], in the amount determined by HUD, if the PHA fails to perform PHA administrative responsibilities correctly or adequately under the program."

Since the Authority did not follow HUD's rent reasonableness requirements as a general practice during the audit period, the issues identified above were not limited to the sample items reviewed. Because determining rent reasonableness is only one administrative requirement for the program, we are recommending that HUD recapture a proportionate amount (2.7 percent)<sup>3</sup> of the fees paid to the Authority during the six-month audit period.

## Conclusion

The Authority did not adequately perform rent reasonableness determinations to support Section 8 rents paid through housing assistance payments. We attribute this to the Authority's failure to adopt procedures that would ensure compliance with HUD requirements and its own policies and not having adequate quality control procedures. As a result, the Authority paid \$82,659 in unsupported Section 8 housing assistance payments to the landlords of 24 of the 29 units reviewed (see appendix C). In addition, the Authority received more than \$2.8 million in Section 8 administrative fees while inappropriately administering the rent reasonableness determination requirement for its Section 8 program.

The Authority is aware of the problem in its determination of rent reasonableness. The executive director and the Section 8 director have agreed to change to a better data management system and revise written procedures.

## Recommendations

We recommend that the director, Office of Public and Indian Housing, Region IX, require the Authority to

1A. Support or reimburse HUD \$82,659 for unsupported Section 8 housing assistance payments from nonfederal funds.

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<sup>3</sup> The percentage is based on the proportionate number of Section 8 staff performing the tasks associated with rent reasonableness determinations and their input about the amount of time they spend on those tasks.

1B. Develop and implement adequate HUD-approved policies and procedures for performing and documenting rent reasonableness determinations, including adequate quality control procedures.

1C. Reimburse HUD \$77,997, which is 2.7 percent of the Section 8 administrative fees the Authority received from January 1 through June 30, 2006.

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## Finding 2: The Authority Improperly Used Housing Assistance Payment Funds to Pay Tenants' Portions of Rent Increases and Failed to Repay HUD for those Overpayments

The Authority failed to reimburse HUD \$5,236 for the housing assistance payment funds it used to pay for the tenants' portions of retroactive rent increases caused by processing delays. This occurred because the Authority was unaware of HUD requirements and lacked procedures for handling payments resulting from its own errors and omissions. As a result, less funding was available to house tenants, and the Authority retained administrative fees to which it was not entitled.

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### The Authority Processed Rent Increase Requests Late

Each of the 12 rent increase files we reviewed was processed by the Authority one to five months late (average of three months). Each file contained copies of letters the Authority sent to the tenants informing them that it would absorb the tenants' retroactive rent increase amounts. The letters indicated (1) that the rent increase requests were approved as of the corresponding effective dates requested by the owners, (2) the dates on which the assisted families were to start paying the increased amounts, and (3) the amounts the Authority would pay the owners on behalf of the tenants.

### The Authority Absorbed Tenants' Portion of Rent Increases

As a result of processing delays, the Authority absorbed a total of \$5,236 on behalf of the 12 tenants (see appendix D for details). Contrary to the prohibition of Section 982.515(c) of title 24 of the *Code of Federal Regulations* against the use of federal funds for ineligible purposes, the Authority used its housing assistance payment funds to absorb tenants' portion of the rent increases resulting from late processing. Section 22.5 of the Housing Choice Voucher Guidebook states that the assisted family or the landlord may not be held responsible for errors or omissions made by the housing authority. Section 22.2 of the guidebook includes late processing in its definition of "errors and omissions." The Authority acted appropriately by not holding tenants or owners responsible for its failure to process requests in a timely manner.

However, according to section 982.155(b)(3) of title 24 of the *Code of Federal Regulations* and section 22.5 of the guidebook, the Authority must repay HUD from its administrative fee reserve for any federal funds used for overpayments resulting from its omissions or errors. The Authority had no written procedures addressing payments for errors and omissions.

## Conclusion

According to the regulatory and guidebook requirements, the Authority must repay HUD \$5,236<sup>4</sup> from its administrative fee reserve for housing assistance payment funds it spends as a result of an error or omission. The Authority's use of housing assistance payment funds for this purpose is not allowed and it reduces the assistance available to other eligible families. The Authority's failure to pay these funds back to HUD is an ineligible retention of administrative fees.

Additionally, since processing delays and rent absorptions were observed in all 12 applicable sample items reviewed, we believe this problem has been occurring on a wider scale. Since the Authority was not aware that it violated HUD requirements during and after our audit period, as late as October 2006, this appears to be a continuing problem. During our review period (January through June 2006), the Authority identified that it approved 81 housing choice voucher rent increases. The Authority has already documented the rent amounts absorbed using housing assistance funds and should be able to readily identify all applicable rent increases. Therefore, the Authority must identify any additional payments in which it has absorbed the tenants' portions of retroactive rent increases due to late processing since July 1, 2005, and repay HUD from administrative fee reserves.

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<sup>4</sup> These amounts were paid based on the Authority's unsupported rent increase determinations (see above). However, since we are questioning the \$5,236 as ineligible, it has not been included as part of the questioned cost identified under appendix C or recommendation 1A.

## Recommendations

We recommend that the director, Office of Public and Indian Housing, Region IX, require the Authority to

2A. Repay HUD \$5,236 from its administrative fee reserve for overpaid subsidies resulting from processing delays.

2B. Determine additional housing assistance funds that the Authority used to absorb the tenants' portions of rent increases due to late processing of rent increase requests from July 1, 2005, to the present and repay HUD that amount from the Authority's administrative fee reserve.

2C. Develop and implement written procedures that ensure the timely processing of rent increase requests and address the reimbursement to HUD for payments using housing assistance payment grant funds resulting from any of the Authority's errors or omissions discovered after the fact. Additionally, the Authority must establish procedures to use nonfederal funds to pay for its errors and omissions when the Authority is aware of the reason for such payments.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we

- Reviewed 29 tenant files, selected on a nonstatistical basis, including 100 percent of new housing assistance payment contracts (nine total), plus rent increases exceeding the Authority's payment standard and/or fair market rent by more than 10 percent (12 total) and reinstated 2003 vouchers (eight total);
- Interviewed inspectors, eligibility interviewers, eligibility advisors, and Section 8 and financial management personnel;
- Reviewed HUD's and the Authority's Section 8 Management Assessment Program reports; and
- Conducted on-site visits to 29 Section 8 units and their comparable units.

We interviewed appropriate Authority and HUD Office of Public Housing management staff.

We performed on-site work at the Authority's Section 8 office at 1805 Arnold Drive, Martinez, California, from March through August 2006. The audit covered the period January through June 2006.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Administration of the Section 8 program as it relates to rent reasonableness determination in compliance with HUD regulations,
- Maintaining complete and accurate records, and
- Safeguarding Section 8 program resources.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority did not have policies and procedures in effect to properly administer the rent reasonableness determinations or safeguard Section 8 resources (finding 1).
- The Authority lacked procedures to ensure the use of nonfederal funds to pay for its errors and omissions and it lacked procedures to ensure reimbursement to HUD for the use of housing assistance payment funds to pay for those errors and omissions (finding 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/
1A		\$82,659	
1C			\$77,997
2A	\$5,236		

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

# APPENDIX B

## AUDITEE COMMENTS

### Auditee Comments

HOUSING AUTHORITY  
OF THE  
COUNTY OF CONTRA COSTA

December 11, 2006



Joan S. Hobbs, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of the Inspector General, Region IX  
611 West Sixth Street, Suite 160  
Los Angeles CA 90017-3101

Re: Response to Discussion Draft Audit Report dated November 21, 2006  
Housing Authority of the County of Contra Costa

Dear Ms. Hobbs:

The above subject audit report identified two findings that are considered weaknesses in the operational processes of the Section 8 Housing Choice Voucher Program. The Housing Authority's response to these issues follows:

**Finding 1: The Authority Did Not Follow Federal Requirements to Ensure That Section 8 Rents Were Reasonable**

The Housing Authority acknowledges that documentation of rent reasonableness determinations may have been incomplete and calls into question the validity of a rent that is reasonable for the subject area. The audit also called into question the documentation of comparable factors but this did not demonstrate any instance or pattern of under- or over-payment of rents.

The Housing Authority initial analysis of the files sampled by the OIG team is showing that the rents awarded were in fact reasonable and reflect market rate rents for the area of the subject unit. The documentation for this assessment will be provided to the HUD Director of Public Housing, 9APH, supporting the rents for the sampled tenant files. Rent reasonable determinations are a function of our inspectors' familiarity with the subject area and documenting this knowledge through rent reasonableness determination formal processes.

In order to enhance the authority's documentation and objectivity the Authority has already begun populating a more sophisticated comparable database integrated with the inspection management information system. This database contains a more complete listing of important factors in rent reasonable determination as outlined by HUD regulations and the Authority's Section 8 Administrative Plan. Further training of staff is ongoing to ensure more adequate documentation of inspectors' findings. More detailed procedures will also be available for staff to raise the consistency and quality of the data that is collected. Quality control management processes related to HQS will be expanded

to document audit of random sampling of inspections to determine compliance with rent reasonableness processes and documentation.

Finding 2: The Housing Authority Improperly Used Housing Assistance Payments Funds to Pay Tenants' Portions of Rent Increases and Failed to Repay HUD for those Overpayments.

The Authority acknowledges making payments for retroactive tenant rent increases in the cases of late processing or recertifications. The audit pointed out that these funds should have been paid from ongoing administrative fees rather than HAP funds.

Staff will be trained on new procedures and processes to provide for the timely completion of all recertifications. The Director of Assisted Housing now personally authorizes any retroactive tenant rent payments and designating the appropriate funding source, other than HAP, if there is any retroactive payment.

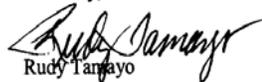
Conclusion

The Housing Authority looks forward to collaborating with the HUD Director of Public Housing, 9APH, Mr. Stephen Schneller, to remedy these audit findings. Upon further analysis of the audited tenant sampling the Authority may be able to reduce the amount of HUD funding to be returned. The Authority will ensure that all documentation to mitigate the audit findings and supporting action plans to remedy any future occurrence of the findings are provided to Mr. Schneller. The Housing Authority appreciates your willingness to revise any recommended repayments depending upon the outcome of its documented review and analysis of the audited tenant sampling.

We would like to take this opportunity to commend Sadie Cooper and Arthur Terzian-Ishkhans of your staff. They were always very professional and courteous toward our staff. The Housing Authority staff also thanks Mr. Stephen Schneller for his participation in the exit meeting.

Should you desire further discussion regarding this response or the report, please contact Acting Deputy Executive Director Mark Stephenson at 925-957-7090 or me at 925-957-8019.

Sincerely,

  
Rudy Tamayo  
Executive Director

Cc: Mr. Stephen Schneller, Director of Public Housing, 9APH

## APPENDIX C

### SUMMARY OF EXCEPTIONS FOUND

<b>Unreimbursed housing assistance paid during the audit period as a result of rent reasonableness determinations based on comparisons to unassisted units</b>			
<b>Tenant no.</b>	<b>Acceptable comparison</b>	<b>Unsupported-poor comparable(s)</b>	<b>Unsupported-no adjustment for differences</b>
T9837	\$5,639		
T9972			\$4,772
T9934			5,612
T9854	8,582		
T9912			4,457
T9865		\$2,726	
T9894			943
T9906		4,140	
T3672			1,128
T12760			1,198
T5768	1,112		
T9158			1,525
T3134		759	
T4120			871
T12734	1,673		
T12761	848		
T12752			1,779
T4265		4,255	
T1295		2,316	
T7967			7,595
T11671		5,240	
T6026			4,997
T4811		4,182	
T10110			7,048
T3640		5,453	
T3472		2,022	
T3013			1,794
T2748		4,390	
T11640		3,457	
<b>Subtotals</b>	<b>\$17,854</b>	<b>\$38,940</b>	<b>\$43,719</b>
<b>Total unsupported housing assistance</b>		<b>\$82,659</b>	

Summary of rent reasonableness survey form errors				
Tenant no.	Comparison address	Rent reasonableness survey form found	No. of blank fields on rent reasonableness survey forms	Incorrect information on survey forms and/or in UNIX
T9837	325 Rockrest Circle, San Ramon, CA 94583	Yes	Complete	Correct
	145 Lawnview Circle, Danville, CA 94526	Yes	2	Survey by -1/2 bath
T9972	5221 Forestgreen, Concord, CA 94521	Yes	4	Survey by -2 bath
	1042 Kaski Lane, Concord, CA 94521	Yes	3	Correct
T9934	5332 Catanzaro Way, Antioch, CA 94531	Yes	4	Survey by +1/2 bath
	4636 Fallow Ct., Antioch, CA 94531	Yes	3	Survey by +1 bedrm.
T9854	1048 Avocet Dr., Hercules, Ca 94547	No	N/A	UNIX by -1/2 bath
	1250 Teraya Ter., Hercules, CA 94547	No	N/A	Correct
T9912	3289 Madrone St., Antioch, CA 94509	Yes	3	Correct
	4202 Buchanan Ct., Pittsburg, CA 94565	Yes	1	Correct
T9865	5631 Main Street, Oakley, CA 94561	Yes	1	Correct
	110 W. 6th St., Antioch, CA 94509	Yes	2	Correct
T9894	2812 Greenwood, San Pablo, CA 94806	Yes	Complete	Correct
	2854 16th St., San Pablo, CA 94806	No	N/A	UNIX by +1 bath
T9906	411 1/2 W. 19 <sup>th</sup> St., Antioch, CA 94509	Yes	4	Survey by -1 bath
	110 W. 6th St., Antioch, CA 94509*	Yes-also used for T9865	2-also used for T9865	Correct-also used for T9865
T3672	2511 Carmelita Way, Pinole, CA 94564	No	N/A	UNIX by -1/2 bath
	1678 El Toro Way, Pinole, CA 94564	Yes	Complete	Correct
T12760	428 Chestnut, Brentwood, CA 94513	Yes	2	Survey by +1/2 bath
	166 Remington St., Brentwood, CA 94513	Yes	1	Correct
T5768	2692 Colusa St., Pinole CA 94564	Yes	1	Correct
	1537 Mann Dr., Pinole, CA 94564	No	N/A	Correct
T9158	4094 Castle Canyon, Antioch, CA 94531	Yes	2	Survey by +1/2 bath
	4636 Fallow Ct., Antioch, CA 94509*	Yes-also used for T9934	3-also used for T9934	Incorrect-also used for T9934
T3134	160 Paradise Dr., #7, Rodeo, CA 94547	No	N/A	Correct
	106 Paradise Dr., #5, Rodeo, CA 94547	No	N/A	Correct
T4120	4213 Spaulding Way, Antioch, CA 94531	Yes	1	Correct
	4605 Arabian Way, Antioch, CA 94531	Yes	1	Correct
T12734	1827 Vender Ct., Antioch, CA 94531	Yes	4	Survey by -1/2 bath
	1804 Crater Peak Way, Antioch, CA 94531	Yes	5	Survey by -1/2 bath
T12761	4520 Waterford, Oakley, CA 94561	Yes	5	Survey by -1 bedrm. & -1/2 bath
	4782 Canopy Lane, Oakley, CA 94561	Yes	2	Survey by -1/2 bath
T12752	4213 Spaulding Way, Antioch, CA 94531*	Yes-also used for T4120	1-also used for T4120	Correct-also used for T4120
	1059 Prewett Ranch, Antioch, CA 94531	Yes	3	Correct
T4265	913 Dartmouth Way, Concord, CA 94518	No	N/A	Correct
	1818 Woodsdale, Concord, CA 94521	Yes	1	Correct
T1295	1432 Darlene Dr., Concord, CA 94520	No	N/A	Correct
	146 Norman Avenue, Concord, CA 94520	Yes	1	Correct

<b>Summary of rent reasonableness survey form errors</b>				
Tenant no.	Comparison address	Rent reasonableness survey form found	No. of blank fields on rent reasonableness survey forms	Incorrect information on survey forms and/or in UNIX
T7967	428 Chestnut, Brentwood, CA 94513*	Yes-also used for T12760	2-also used for T12760	Incorrect-also used for T12760
	166 Remington St., Brentwood, CA 94513*	Yes-also used for T12760	1-also used for T12760	Correct-also used for T12760
T11671	1059 Prewett Ranch Drive, Antioch, CA 94531*	Yes-also used for T12752	3-also used for T12752	Correct-also used for T12752
	5039 Fernbank, Antioch, CA 94531	Yes	3	Survey by +1/2 bath
T6026	1411 Creekside Dr., #5, Walnut Creek, CA 94596	No	N/A	Correct
	1160 Lincoln Avenue, Walnut, Creek, CA 94596	Yes	2	Correct
T4811	410 O' Connor Dr., Pinole, CA 94564	Yes-wrong address	1	Wrong address
	1537 Mann Dr., Pinole, CA 94564*	No-also used for T5768	N/A-also used for T5768	Correct-also used for T5768
T10110	101 Charles Lane, Danville, CA 94526	Yes	2	Correct
	39 Terraced Hills Way, San Ramon, CA 94583	Yes	1	Correct
T3640	1735 Castro Street, Martinez, CA 94553	No	N/A	Correct
	1217 Court Street, Martinez, CA 94553	No	N/A	Correct
T3472	825 Coventry Circle, Brentwood, CA 94513	Yes	3	Correct
	374 Topaz, Brentwood, CA 94513	Yes	4	Survey by -1/2 bath
T3013	130 Mesa Court, Hercules, CA 94547	No	N/A	Correct
	2006 Forest Run, Hercules, CA 94547	No	N/A	Correct
T2748	21 Las Moradas Cr., San Pablo, CA 94806	No	N/A	UNIX by -1 bath
	15718 Crestwood Dr., #621, San Pablo, CA 94806	No	N/A	UNIX by -1 bath
T11640	305 Texas St., Oakley, CA 94561	Yes	4	Correct
	1002 W. 4 <sup>th</sup> St., Antioch, CA 94509	Yes	4	Correct
<b>Totals</b>		<b>16 forms missing</b>	<b>32 forms missing important information</b>	<b>14 survey form errors &amp; 5 UNIX errors of 16 reviewed</b>

\* Denotes unassisted units used as a comparison for more than one assisted unit. Errors on the survey forms for these comparison units were counted only once.

N/A denotes the survey form was missing and the field description is not applicable.

## APPENDIX D

### SUMMARY OF RETROACTIVE RENT INCREASE ABSORPTIONS DUE TO LATE PROCESSING

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<b>Tenant no.</b>	<b>Disallowed and/or unsupported rent increase absorptions</b>	<b>Period of the retroactive rent increase absorbed by the Authority</b>
T4265	\$300	\$100 per month, March through May 2006
T1295	\$200	\$100 per month, April through May 2006
T7967	\$957	\$319 per month, February through April 2006
T11671	\$918	\$306 per month, March through May 2006
T6026	\$492	\$164 per month, February through April 2006
T4811	\$155	\$31 per month, January through May 2006
T10110	\$300	\$100 per month, November 2005 through January 2006
T3640	\$685	\$137 per month, December 2005 through April 2006
T3472	\$533	\$533 for May 2006
T3013	\$300	\$100 per month, April through June 2006
T2748	\$192	\$48 per month, February through May 2006
T11640	\$204	\$102 per month, February and March 2006
<b>Total</b>	<b>\$5,236</b>	