
AUDIT REPORT



HOUSING AUTHORITY OF BALTIMORE CITY
SECTION 8 CERTIFICATE AND VOUCHER
PROGRAMS
BALTIMORE, MARYLAND

2001-PH-1003

MARCH 28, 2001

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



Issue Date	March 28, 2001
Audit Case Number	2001-PH-1003

TO: William D. Tamburrino, Director, Public Housing Program HUB

Daniel G. Temme

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Housing Authority of Baltimore City
Section 8 Certificate and Voucher Programs
Baltimore, Maryland

We completed an audit of the Housing Authority of Baltimore City's (HABC) Section 8 Certificate and Voucher Programs. Our report contains four findings with recommendations requiring action by your office. Based on the serious nature of the findings in this report, we recommend HUD take administrative actions against the HABC as prescribed in Section 15 of the Consolidated Annual Contributions Contract (ACC).

Within 60 days, please give us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Allen Leftwich, Assistant District Inspector General for Audit, at (215) 656-3401.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Executive Summary

We conducted an audit of the Housing Authority of Baltimore City's (HABC) Section 8 Certificate and Voucher Programs. The purpose of our review was to determine whether the HABC was effectively and efficiently managing its Section 8 Program according to terms and conditions of its Consolidated Annual Contributions Contract (ACC) and applicable Federal regulations.

We found the HABC is not properly administering its Section 8 Program according to the terms and conditions of its ACC and applicable Federal regulations, and is in fact, in substantial default of its contract with HUD. Specifically, the HABC does not: have a financial management system that accurately accounts for and reports the results of Section 8 activities; operate its Section 8 Program according to HUD guidelines; fully utilize available Section 8 resources; and have a management information system that timely gathers, tracks, records, and reports critical program data to HABC management and HUD. Further, as detailed throughout this report, the HABC has demonstrated it does not currently have the capacity to successfully develop and implement appropriate systems and procedures to correct identified systemic deficiencies in its Section 8 Program. As a result of the HABC's mismanagement of its Section 8 Program, more than 2,000 families on the HABC's waiting list of 16,000 households are not being provided available program benefits; and existing program recipients and landlord/owners are not being properly serviced by the HABC. The primary issue areas are summarized below, and detailed in the Finding section of this report.

HABC's Financial Management of its Section 8 Program Is Inadequate

We observed fundamental weaknesses in the HABC's overall financial management of its Section 8 Program in the areas of: gathering, recording, and reporting accurate data to HUD; accurately and timely disbursing housing assistance payments to owners; and accounting of program receipts and disbursements. Because of the HABC's inability to effectively meet its financial responsibilities, financial reports submitted to HUD are often inaccurate. In fiscal years 1999 and 2000, the HABC submitted claims for excessive administrative fees of more than \$3.2 million, and HUD paid at least \$279,952 in excess fees to the HABC. Furthermore, the HABC paid landlords/owners more than \$730,000 in excess rental assistance during the same period.

HABC Is Not Properly Administering Its Section 8 Program

The HABC is not properly administering key operational components of its Section 8 Program according to its ACC and HUD Regulations. Specifically, the HABC does not have adequate controls and procedures in place to manage its Section 8 Program according to HUD requirements. We observed fundamental deficiencies in HABC's: file maintenance and record keeping; tenant income verification

and file documentation; inspection process over Housing Quality Standards (HQS); waiting list administration; accounting for Section 8 portable units; and staff assignments and training. As a result of these deficiencies, the HABC's Section 8 Program is barely functional; and the HABC continues to mismanage and waste scarce resources that should be used to provide housing opportunities to low-income families of Baltimore.

HABC Is Not Fully Utilizing Its Section 8 Resources

The HABC is not fully utilizing its Section 8 resources in providing affordable housing to its low-income residents. In 1997/1998 HUD recaptured \$74 million of unused Section 8 operating reserves, and another \$50 million of unused operating reserves have accrued in its accounts between 1997 and 2000. Although HABC officials cited a variety of reasons why it was not fully utilizing its Section 8 funds, we found the HABC is not properly managing its Section 8 Program. For example, in fiscal year 2000, the HABC significantly overstated the number of ACC units (by more than 900) it had under lease, and also failed to lease more than 1,300 additional units funded pursuant to a litigation settlement (Thompson Court Decree) in 1996. As a result, more than \$124 million of Section 8 funds have either been recaptured by HUD or allowed to accrue in its operating reserve accounts instead of being used to provide much needed housing opportunities for more than 16,000 families on HABC's waiting lists.

HABC Does Not Have A Management Information System (MIS)

The HABC does not currently have an automated management information system (MIS) that supports its Section 8 Program. Even though HABC management was aware that its previous computer system was not Y2K compliant in 1997, it has not been able to successfully develop, test and implement a replacement system, and has been operating its Section 8 Program without a MIS since December 1999. Further, adequate contingency plans were not developed and implemented to ensure program operations would not be adversely affected during an interim period in which the HABC was working to install its new system. Unfortunately, the HABC continues to experience delays in its efforts to install its new MIS, and the reliability of program data now being processed manually by temporary employees continues to erode. Thus, we question how effective the new system will be,

when or if it becomes fully operational, in supporting the HABC's administration of its Section 8 Program.

During the course of our audit, the Greater Baltimore Committee (GBC) and the Presidents' Roundtable completed a citywide report, "Managing for Success", which included a review of the HABC's Section 8 Program. The GBC cited similar problems and characterized the HABC's Section 8 Program as barely functional. Because of the continuing problems at the HABC, which are detailed in this report, and have also been raised in the GBC report and local media, the new Mayor of Baltimore pledged to adopt many of the recommendations contained in the GBC's report. Additionally, the Mayor recently asked for and received the HABC Executive Director's resignation and hired a new Executive Director on December 4, 2000. Although the initial actions taken by the new Mayor are encouraging, much more work will need to be done to turn the HABC's program around.

As a result of the serious nature of the findings in this report, we recommended HUD take appropriate administrative actions against the HABC as prescribed in Section 15 of the ACC. We have also made recommendations for the HABC to repay \$1,013,756 of questioned expenditures, and made recommendations designed to improve the operation of the Section 8 Program.

We discussed the findings and recommendations with HABC and HUD staff during the audit. The HABC and HUD were also given a draft report for comment. The HABC's Executive Director agreed with the report indicating the report reinforces his views that the Section 8 Program suffers from major flaws. HUD program officials also agreed with the draft report. The HABC's written comments are contained in Appendix C and summarized elsewhere in this report.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Table of Contents

Management Memorandum	i
Executive Summary	iii
Introduction	1
<hr/>	
Findings	
1 HABC's Financial Management of Its Section 8 Program Is Inadequate	3
2 HABC Is Not Properly Administering Key Operational Components Of Its Section 8 Program	17
3 HABC Did Not Fully Utilize Available Section 8 Resources	27
4 HABC Needs To Implement A Section 8 Management Information System	35
<hr/>	
Management Controls	41
<hr/>	
Follow Up On Prior Audit	43
<hr/>	
Appendices	
A Schedule of Questioned Costs	45
B HQS Violations Cited	47
C Auditee Comments	49

D Distribution

53

Abbreviations

ABA	Annual Budget Authority
ACC	Annual Contributions Contract
ACLU	American Civil Liberties Union
CAATs	Computer Assisted Audit Tools
CFR	Code of Federal Regulations
GBC	Greater Baltimore Committee
HA	Housing Authority
HABC	Housing Authority of Baltimore City
HAP	Housing Assistance Payments
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IT	Information Technology
MIS	Management Information System
MTCS	Multifamily Tenant Characteristics System
OIG	Office of Inspector General
PHA	Public Housing Authority
PIH	Public and Indian Housing
PUPM	Per Unit Per Month
TADS	Tenant Accounts Data System
YESS	Year-End Settlement Statement
Y2K	Year 2000

Introduction

The Housing Authority of Baltimore City (HABC) was organized in 1937 under the laws of the State of Maryland to develop, acquire, and operate low-rent housing programs. A five member Board of Commissioners, appointed by the Mayor, governs the HABC. The Executive Director is Paul T. Graziano. The HABC's main office is located at 417 East Fayette Street in Baltimore, Maryland, and the Section 8 office is located at 300 Cathedral Street in Baltimore, Maryland.

The HABC administers its Section 8 Program pursuant to an ACC with the Maryland State Office of HUD. Under the ACC, HUD agrees to provide financial assistance to the HABC and the HABC agrees to comply with HUD requirements in administering its Section 8 Program. Financial assistance from HUD to the HABC, for the Section 8 Certificate and Voucher Programs for fiscal years 1998 through 2000, was \$167 million. As of June 30, 2000, the HABC reported it administered 8,119 units and expended \$42.7 million for these units in fiscal year 2000.

The purpose of our audit was to determine whether the HABC was effectively and efficiently managing its Section 8 Program according to the terms and conditions of its ACC and applicable Federal requirements.

The specific objectives were to determine whether the HABC: (1) developed and implemented adequate financial and management systems that provided complete and accurate reporting to HUD; (2) charged administrative fees according to HUD guidelines; (3) maintained an updated housing assistance payments register with a complete and accurate count of Section 8 Program units; (4) had an accounting system that adequately tracked program receipts and disbursements associated with its Section 8 Program; (5) adequately administered key operational areas of the Section 8 Program; (6) established procedures and provided adequate monitoring and oversight in the areas of file maintenance and record keeping, tenant income verification, and Housing Quality Standards (HQS); (7) administered its waiting list and properly accounted for Section 8 portable units, staff assignments, and training; (8) fully utilized its Section 8 ABA; and (9) developed and implemented an automated management information system.

Audit Objectives

The audit was conducted between March 2000 and January 2001, and generally covered the period July 1, 1998 through June 30, 2000. The audit period was extended where necessary. To accomplish the audit objectives, we reviewed procedures and tested compliance at the HABC as follows:

- reviewed disbursements including housing assistance payments to owners and tenant utility allowance payments as well as other costs charged to the Section 8 Program to determine if disbursements were reasonable;

- reviewed administrative fees to determine if unit counts were accurate and fees were calculated according to HUD guidelines;
- conducted physical inspections of 37 units to ensure compliance with HQS;
- examined 54 tenant files to determine if annual certifications were performed properly and file documentation supported housing assistance payments to owners; and
- reviewed waiting lists to determine whether applicants were selected properly.

We reviewed utilization of Section 8 resources by reviewing the HABC's year-end settlement reports submitted to HUD. We used audit related software to analyze computer data maintained by HABC. During the audit, we interviewed applicable staff from HUD and the HABC.

Our audit was conducted in accordance with generally accepted government auditing standards.

HABC's Financial Management Of Its Section 8 Program Is Inadequate

Even though the HABC has claimed over \$11.6 million in administrative fees (for fiscal years 1999 and 2000) from HUD to administer its Section 8 Program, it has not been able to effectively manage its program to provide full financial accountability of its resources and disbursements according to its ACC and applicable HUD Regulations. Specifically, we identified fundamental weaknesses in the HABC's overall financial management of its Section 8 Program in the areas of:

- Maintaining and reporting accurate data to HUD;
- Accurately and timely disbursing housing assistance payments to owners; and
- Establishing controls over program receipts and disbursements.

During our review HABC officials stated, and we observed, that the Section 8 Department generally operated autonomously within the HABC. Because of this autonomy, the Finance Department often relied entirely on the data, which we found to be inaccurate, that the Section 8 Department provided to process its housing assistance payments and prepare required financial reports. Further, even though HABC officials expressed concern over the management of the Section 8 Department and the accuracy of the data provided, which were exacerbated by not having a functional MIS, (See Finding 4), little was done to address these concerns and implement appropriate corrective action. As a result of the HABC's inability to effectively carry out its financial responsibilities, financial reports submitted to HUD are often inaccurate and excess rental payments are made to owners. For example, in fiscal year 2000, the HABC submitted a claim to HUD that overstated administrative fees by \$3 million. Fortunately, HUD identified the error and adjusted the claim. However, in the same period, we found the HABC claimed and received excess administrative fees of \$279,952, due to overstating its unit count. In addition, the HABC paid its owners/landlords \$733,804 of excessive rental assistance.

Criteria

Section 14 a. of the ACC for the rental Certificate and Voucher Program states the housing authority (HA) must maintain complete and accurate books of accounts and records for a program. The books and records must be in accordance with HUD requirements, and must permit a speedy and effective audit.

Section 14 b. states the HA must furnish HUD such financial and program reports, records, statements, and documents at such times, in such form, and accompanied by such supporting data as required by HUD.

Section 15 a (1) of the ACC between the HABC and HUD provides that upon written notice, HUD may take over the Section 8 Programs if the HA has failed to comply with any obligations under the ACC or under a contract for housing assistance payments with an owner.

HABC Financial Reports
Are Not Complete and
Accurate

HABC financial reports submitted to HUD covering over \$50 million of annual Section 8 Program resources are not complete and accurate. HUD financial reporting guidelines require housing authorities to submit an annual reconciliation of all program receipts and expenditures. Since HUD provides Section 8 resources based on the HABC's approved budget, it requires an annual financial reporting of actual Section 8 Program receipts and disbursements (HUD Form 52681 Year-End Settlement Statement [YESS]) to reconcile discrepancies and make necessary adjustments. As detailed throughout this finding, the HABC did not maintain adequate supporting documentation to substantiate its year-end reconciliation. For example, in preparation for its most recent year-end settlement submission to HUD for its fiscal year ending June 30, 2000, HABC's Comptroller asked the MIS and Section 8 staffs to compile information regarding the number of units the HABC had under lease. Correspondence obtained from the HABC indicates responsible staff could only provide the comptroller with their best estimate of units under lease. However, as discussed below, a simple comparison of unit based administrative fees, claimed for its fiscal years 1999 and 2000, should have alerted the HABC Finance Department of the reporting error since units under lease remained relatively constant, but the administrative fees claimed jumped from \$4.3 million in fiscal year 1999 to \$7.3 million (70% increase) in fiscal year 2000.

Also, the HABC made numerous reporting errors which resulted in the HABC: receiving excessive administrative fees from HUD; paying its owner/landlords excessive housing assistance payments; and not properly accounting for voided checks and salary expenses. These issues are discussed in more detail below.

The HABC Claimed Excessive Administrative Fees

Section 8 administrative fee revenue is calculated using per unit per month (PUPM) factors published annually by HUD multiplied by the number of units under lease for each month during the year. Altogether, we found the HABC claimed excessive administrative fees of more than \$3.2 million in fiscal years 1999 and 2000. In fiscal year 1999, we found the HABC claimed and HUD paid \$163,496 in excessive administrative fees, because it calculated its administrative fees on Section 8 vouchers and certificates issued, not under lease as required. Further, as we discuss later in this finding, an additional \$279,952 in excessive administrative fees was claimed and paid to the HABC for the period January through June 2000, because it was overstating the number of units it had under lease. We also found the HABC claimed another \$2.8 million in excessive administrative fees in fiscal year 2000 due to a calculation error; however, HUD identified and adjusted the claim, along with the prior years' adjustment during the year-end review process.

Since the HABC reported its units under lease had remained relatively constant during fiscal years 1999 and 2000, it would stand to reason that administrative fee revenues would also remain constant, and any large variance should have alerted the HABC of an obvious error. However, as we illustrate below, the HABC claimed and certified \$3 million more in administrative fee revenues in fiscal year 2000 (\$7.3 million vs \$4.3 million) than in fiscal year 1999 even though there was no significant change in the number of leased units it reported.

Administrative Fee Revenues

Fiscal Year	As Reported by HABC	
	Administrative Fee	Units Under Lease at Year End
1997	\$3.6 Million	7108
1998	\$4.0 Million	7584
1999	\$4.3 Million	7747
2000	\$7.3 Million	8119

Officials within the Finance Department indicated they did not question the lease data provided by the Section 8 Department and assumed that it was correct. Considering the significance of the variance from the prior years, staff should have questioned the fee before certifying and submitting it to HUD for approval.

Using the HABC’s most recent certification of units under lease, we recalculated the administrative fee revenues and determined the HABC claimed at least \$2.8 million of excess administrative fees in fiscal year 2000. As illustrated below, we calculated the HABC’s administrative fee revenue for fiscal year 2000 to be \$4.5 million, not \$7.3 million claimed by the HABC. Thus, it appears the Finance Department simply miscalculated its administrative fee.

OIG Calculated FY 2000 Administrative Fee

Certificate and Voucher Units Under Lease (As reported by HABC)	PUPM	Earned Administrative Fee (Units x PUPM x 12 Months)
600	\$49.64	\$ 357,408
<u>7,519</u>	<u>\$45.41</u>	<u>\$4,097,253</u>
<u>8,119</u>		<u>\$4,454,661</u>
Note: Per administrative fee guidelines PUPM rates are higher for first 600 program units. For presentation purposes the recalculation was based on units under lease at year-end not every month.		

It should be noted that both HUD financial reviewers and OIG staff independently identified this overcharge; however, it is alarming that HABC staff submitted a certified report with such an obvious error.

The HABC Overstated Its Units Under Lease

During our audit, we found the HABC did not know with certainty the number of units it had under lease and, therefore, only reported its best estimate to HUD. Since the number of leased units impacts almost every aspect of program operations, including the calculation of the HABC’s administrative fee revenues, it is essential that the HABC maintain an accurate account of its leased units at all times. Further, as described in Finding 3 of this report, the HABC stated one of the primary reasons it had not utilized its program resources more effectively, i.e. leased units, was that it believed it was at or near its ACC unit limitations.

Using Computer Assisted Audit Tools (CAATs), we analyzed HABC's housing assistance payments (HAPs) for January through June 2000 to determine the actual number of payments that were made on behalf of specific tenants in the Section 8 Program. Since the HABC does not maintain a HAP register, we used HABC payment data to owners, because we believe this payment data to be the most credible data maintained by the HABC. To ensure we obtained an accurate unit count, and that tenants were only counted once, we determined the total number of payments made and then adjusted for one-time adjustments and duplicate payments made by the HABC. We also quantified the number of units attributed to Section 8 tenants who had moved to other jurisdictions since the HABC was still responsible for reimbursing housing assistance payments to other housing authorities.

As illustrated below, we found the HABC was overstating its lease unit count by an average of 1,025 units per month for the sample test period of January through June 2000. Consequently, thousands of eligible families unnecessarily remained on HABC waiting lists instead of being provided the opportunity to find affordable, decent, safe, and sanitary housing. Further, the HABC claimed, and HUD paid, an additional \$279,952 of administrative fee revenues due to the HABC overstating its leased unit count.

Comparison of HABC’s Units Under Lease With OIG’s Analysis

	Reported by HABC	OIG Recalculated		
Month	Units Under Lease	Units Under Lease	Units Overstated (See Note)	Excess Administrative Fees (Units Overstated x \$45.41)
January 2000	7,818	6,673	1,145	\$51,994
February 2000	7,853	6,619	1,234	\$56,036
March 2000	7,920	6,808	1,112	\$50,496
April 2000	7,963	7,096	867	\$39,370
May 2000	8,005	7,100	905	\$41,096
June 2000	8,119	7,217	902	\$40,960
Total				\$279,952

Note: To mitigate possibly understating units in our recalculation due to the HABC not timely entering new units into its payment process, we further analyzed the net effects of monthly one-time adjustments and utility allowance payments, and compared data to prior months to determine the effect on our analysis. We also included an additional 700 units per month, based on our review of payments to other housing authorities for Section 8 portable units.

Unfortunately, HABC’s records prior to January 2000 were not auditable and as such, we were not able to determine whether the HABC overstated its units and collected excess administrative fees before that time. Additionally, since the HABC still has not implemented a functional MIS, (see Finding 4), in all likelihood total units are still overstated.

The HABC Improperly Charged Expenses to the Section 8 Program

A limited review of Section 8 Program disbursements other than HAPs disclosed the HABC charged salary and fringe benefit costs of an employee not working in the Section 8 Certificate and Voucher Programs. These costs included salary averaging about \$36,000 a year, plus related fringe benefits from 1995 to 1999, plus a leave payout totaling \$7,378 when the employee left HABC. Consequently, HABC overstated costs of the Section 8 Certificate and Voucher Programs by the costs of this employee.

In February 2000, the HABC wrote off \$163,245 of outstanding checks that were still on its books from as early as 1990. As a normal business practice outstanding checks should be voided if they are not presented for payment within a reasonable time period. As a result, HABC overstated Section 8 expenses reported to HUD.

As a result of the aforementioned errors, coupled with the deficiencies in the two areas discussed below, HABC was unable to provide supporting documentation to provide complete and accurate reporting according to HUD requirements.

The HABC Failed to Accurately Pay Housing Assistance Payments

The HABC failed to timely and accurately pay owners for units in its Section 8 Program. For example, in March 2000, the HABC failed to pay owners housing assistance payments for over 3,000 families or approximately one third of its program participants. These problems occurred because the HABC(s): (1) does not maintain a current housing assistance payments register that identifies the total number of units under lease; (2) does not have a functional management information system; and (3) Finance Department relied entirely on information provided by the Section 8 Department, and did not perform any independent verification of the payment process. Consequently, owners were not paid timely and accurately. Further, from December 1999 through September 2000, we found the HABC paid \$733,804 in duplicative and questionable housing assistance payments and utility allowance payments to its owners.

Part B. Section 7 of the housing assistance payments contract for Section 8 Tenant-Based Assistance between the HABC and owner requires the housing authority to make prompt housing assistance payments to the owner at the beginning of each month.

We reviewed a sample of payments to owners before and after the HABC's March 2000 payment problems to determine whether HABC's payment processing deficiencies were isolated to March or if more extensive problems existed. Using CAATs, we tested housing assistance payments to determine if duplicative payments were made and whether individual disbursements exceeded monthly rental thresholds. As illustrated below, we found the HABC paid \$733,804 in duplicative and questionable housing assistance payments and that the payment problems were not isolated only for March 2000. Specifically, we found numerous instances where two owners were paid for the same tenant, and numerous instances where owners were repeatedly paid three to five times the monthly rent for a tenant.

Questionable Housing Assistance Payments and Tenant Utility Allowance Payments

Category	Test	Frequency	Amount
Duplicate Payments (January through September 2000)	Two or more exact payments for the same tenant.	243	\$120,424
Questionable housing assistance payments (January through September 2000)	Two or more payments for the same tenant for the same month for at least two months.	545	\$248,252
Payment Adjustments (January through September 2000)	Monthly housing assistance payments exceed \$1,000 more than once.	95	\$151,518
Unusually Large Payment Adjustments (December 1999)	Monthly housing assistance payments and/or utility allowance exceeding \$1,000 and \$100, respectively.	89 / 279	\$213,610
			<u>\$733,804</u>

Using CAATs, we analyzed the HABC’s monthly housing assistance payments for January to September 2000 to determine whether:

- two or more exact payments were made for the same tenant;
- two or more payments were made for the same tenant for the same month, for at least two months, (indicated the HABC continued to pay two owners for the same tenant when a tenant moved from one unit to another); and
- housing assistance payments exceeded \$1,000 and/or tenant utility allowance exceeded \$100 (amount exceeds what is normally paid for recurring monthly housing assistance or tenant utility allowance payments).

As detailed below, we found over 1,200 duplicative and questionable housing assistance and tenant utility allowance payments totaling \$733,804.

Duplicate Payments

From January through September 2000 the HABC paid 243 duplicate payments totaling \$120,424. We provided HABC management with a complete listing of the duplicative payments and asked them to verify whether the payments were made in error. The Finance Department confirmed the payments were duplicates and blamed the Section 8 staff, as they provided finance with payment data.

The HABC continued to pay two owners for the same tenant when a tenant moved from one unit to another. From January through September 2000, we found 545 of these questionable occurrences valued at \$248,252. This analysis was developed at the conclusion of our audit fieldwork. Accordingly, we provided HABC management with a complete listing of these payments and asked them to verify whether the payments were made in error.

From January through September 2000 the HABC made 95 unusually large housing assistance payments totaling \$151,518. Further analysis of the questionable payments and discussions with Finance Department officials indicated the payments were intended to be one-time housing assistance payment adjustments to catch up on modifications resulting from 26 tenant recertifications and/or new move-ins. However, the Finance Department processed these payments as recurring monthly payments and; therefore, these payments continued to be paid to landlords in addition to the correct monthly housing assistance payments. Several examples are illustrated below:

HAP Overpayments

Owner	Amount	Month	Comments
1.	\$3,375	May 2000	Intended to be one-time adjustment for December 1999 move-in (5 x \$675)
	\$675	May 2000	Monthly HAP
	\$3,375	June 2000	Overpayment
	\$675	June 2000	Monthly HAP
	\$3,375	July 2000	Overpayment
	\$675	July 2000	Monthly HAP
	\$3,375	August 2000	Overpayment
	\$675	August 2000	Monthly HAP
	\$3,375	September 2000	Overpayment
	\$675	September 2000	Monthly HAP
Between July through September 2000 owner was overpaid \$13,500 or 20 extra monthly rental payments.			
2.	\$2,328	June 2000	Intended to be one-time adjustment for January 2000 move-in
	\$380	June 2000	
	\$2,328	July 2000	Overpayment
	\$380	July 2000	Monthly HAP
	\$2,328	August 2000	Overpayment
	\$380	August 2000	Monthly HAP
Between June through August 2000 owner was overpaid at least \$4,656			

Large Payment Adjustments (December 1999)

While performing follow-up analysis for the duplicate payments described above, we identified an unusually large payment made in December 1999 and, therefore, expanded our testing to include this period. Specifically, using CAATs, we analyzed the HABC's monthly housing assistance payments for December 1999 to determine whether housing assistance payments to owners and utility allowance payments to tenants exceeded \$1,000 or \$100, respectively. We found 89 questionable owner payments valued at \$175,055, and 279 questionable utility allowance

payments valued at \$38,555. Further analysis of a sample of the questionable payments indicated it was generally a one-time occurrence, unlike the recurring payment adjustments described above. HABC officials initially thought the large payments in December 1999 were also intended to be one-time adjustments; however, our subsequent verification of the three largest cases did not support this conclusion, and the HABC could not provide any other reasonable explanation. These three examples are illustrated below:

Owner	Amount	Month	Comments
3. Regular monthly HAP of \$400 made for all periods before and after unexplained payment	\$7,359.98	December 1999	HABC could not explain any rationale for payment.
4. Regular monthly HAP of \$500 made for all periods before and after unexplained payment	\$5,983.31	December 1999	HABC could not explain any rationale for payment.
5. Regular monthly HAP of \$575 made for all periods before and after unexplained payment	\$4,312.49	December 1999	HABC could not explain any rationale for payment.

Financial Controls Over Program Receipts and Disbursements Are Not Adequate

During our review, HABC officials stated, and we observed, that the Section 8 Department generally operated autonomously, and the Finance Department relied entirely on data provided by Section 8 to process payments and prepare required financial reports. Further, much of the data entry has been completed by temporary employees and, therefore, is vulnerable to errors. It is also unclear why finance officials so readily accepted and relied on data provided by the Section 8 Department since they repeatedly expressed concerns over the capability of Section 8 management and the quality of the data. Prudent business practice would prescribe that some level of independent

The HABC Did Not
Maintain A HAP Register

verification over financial transactions and the propriety of data would have been conducted by the Finance Department, since they ultimately certify as to the accuracy of financial data reported to HUD. Due to the results generated from our payment testing, the HABC's Finance Department purchased the data mining software used by us in our review.

HUD Handbook 7420.6, Housing Assistance Payments Program Accounting Handbook, Chapter 3, paragraph 12h. provides guidelines for the HA to maintain an up-to-date housing assistance payments register which will enable the PHA to verify the housing owner's monthly requests for housing assistance payments and subsequent adjustments. The housing assistance payments register shall provide data for:

- name and address of the family;
- name and address of the owner;
- dwelling unit size;
- effective date of the lease;
- expiration date of the lease;
- monthly contract rent payable to the owner;
- monthly rent payable by the family; and
- monthly housing assistance payment.

Contrary to HUD guidelines, the HABC did not maintain a HAP register. Without this control document, the HABC was unable to provide an accurate status of total program units according to HUD requirements and, therefore, it had no mechanism to:

- Reconcile monthly housing assistance payment disbursements to control totals (units and amounts) to ensure owner and tenant payments were accurate;
- Ensure owner payments were made promptly for all new families coming into the Section 8 Program;
- Accurately quantify and support administrative fee revenues; and
- Ensure its year-end reconciliation reports submitted to HUD were complete and accurate.

Notwithstanding the HABC's failure to maintain a HAP register, the HABC did not properly oversee its payment processing. For example, we found the HABC routinely

paid rental subsidies exceeding \$1,000 and as much as \$7,000 without any level of review.

Even though HABC executive management was aware of the continuing problems, which were exacerbated by not having a functional MIS (See Finding 4), little was done to address these concerns and implement appropriate corrective actions. Recently, the Mayor of Baltimore asked for and received the HABC Executive Director's resignation and hired new executive management.

* * * * *

In summary, the HABC does not have adequate financial accountability over its Section 8 Program. The HABC's failure to recognize the importance of its mission and demonstrate any significant improvement is discouraging. Unless newly appointed executive management recognizes the need to completely rededicate its efforts and place great urgency towards overall improvement, it appears the HABC will continue to mire in its inefficiency. In our opinion, the Department needs to take expedient action according to the terms of Section 15 of its ACC with the HABC to turn the program around.

Auditee Comments

The HABC agreed with the report in its entirety and has provided a written response that outlines a 16 point corrective action plan designed to dramatically improve its Section 8 Program (Appendix C).

Recommendations

We recommend you:

- 1A. Take appropriate administrative actions as detailed in Section 15 of the ACC for the Section 8 Rental Certificate and Rental Voucher Programs.

In addition, the recommendations below and throughout the remainder of the report are designed to improve the overall operation of the HABC Section 8 Program. We recommend you require HABC to:

- 1B. Repay \$279,952 in excessive administrative fees, and \$733,804 of questionable and duplicative payments to owners and tenants, unless the HABC is able to provide documentation supporting the eligibility of some of the fees and payments.
- 1C. Seek recovery of overpayments made to owners and tenants.
- 1D. Implement financial system controls and procedures to ensure books and records are maintained according to HUD requirements and year-end reports are complete and accurate. At a minimum these procedures should provide for: (1) reconciliation of monthly housing assistance payments to owners and tenants to a master housing assistance payments register; (2) accurate calculation of administrative fee revenues; and (3) supervision to ensure quality control oversight.

HABC Is Not Properly Administering Key Operational Components Of Its Section 8 Program

The HABC is not properly administering key operational components of its Section 8 Program. Specifically, the HABC does not have adequate controls and procedures in place to manage its Section 8 Program according to its ACC and HUD Regulations and requirements. We observed fundamental deficiencies in HABC's Section 8 Program in the areas of:

- file maintenance and record keeping;
- tenant income verification and file documentation;
- Housing Quality Standards (HQS);
- waiting list administration;
- Section 8 portable units accountability; and
- staff assignments and training

We observed problems in these areas for a variety of reasons. Primarily, the HABC does not have a functional MIS, (See Finding 4). Additionally, executive management has not placed any urgency in ensuring Section 8 management and staff were properly supervised and trained, nor did they develop and implement procedures to ensure program operations were maintained during system development. Consequently, the HABC's Section 8 Program is barely functional, and the HABC continues to mismanage and waste scarce resources intended to provide housing opportunities to its low-income residents.

Criteria

Section 10 of the ACC requires the HA to comply with the requirements of the U.S. Housing Act of 1937 and all HUD Regulations and other requirements. Further, Section 14 of the ACC requires the HA to maintain complete and accurate books of account and records for its program in accordance with HUD requirements to permit a speedy and effective audit.

Title 24 CFR 982.204(b) requires that the waiting list at a minimum must contain the date and time of the application.

Title 24 CFR, 982.401 states that Section 8 housing must comply with HQS during the term of the assisted lease. To meet HQS, units must:

- be structurally sound;
- provide adequate space and security for each resident and their belongings;
- be free of pollutants in the air at levels that threaten the health of residents;
- provide adequate facilities that are in proper operating condition;
- have adequate heating and/or cooling facilities;
- have adequate illumination and electricity;
- be maintained in sanitary condition;
- meet the lead-based paint requirement; and
- include a smoke detector on each occupied level.

24 CFR 982.503 states that the HA must determine a reasonable rent.

24 CFR 5.617(a) requires a re-examination of family income and composition at least annually. In addition, Part (b)(2) requires the Section 8 family to submit documents necessary to determine or audit a family's eligibility to receive housing assistance for determining the family's annual income, adjusted income, or total tenant payment.

PIH Notices 99-2 and 2000-13 require all HAs that are administering tenant-based assistance programs to submit, on a timely basis, 100 percent of family records to HUD's Multifamily Tenant Characteristics System (MTCS). To avoid sanctions under the Notices, the minimum acceptable reporting rate to MTCS is 85 percent.

PIH Notice 96-54 provides the specific HUD guidelines and details the billing process when the receiving HA (HABC) does not absorb the portable family into its program. The bill must be forwarded to the initial HA within 10 working days from the date of the housing assistance payments contract and must be received within six months from the date the initial HA issued the certificate/voucher to the portable family. The bill submitted by the receiving HA to the initial HA must be on Form HUD-52665, "Family Portability Information".

HUD Handbook 7420.7, Chapter 4, paragraph 4-5d.(1) states that the tenant's income must be verified by third parties. Third party contacts must be transmitted through the mail rather than handled directly by the tenant to ensure

valid results. Also, Chapter 5, paragraph 5-1 requires the HA to conduct HQS inspections at least once a year.

Record Keeping

As we detailed in Finding 1, the HABC did not maintain a housing assistance payments register. The housing assistance payments register is a basic program requirement and should provide an up-to-date universe and summary information on all units administered under the program. Without maintaining this register the HABC cannot adequately administer its Section 8 Program according to HUD requirements.

The HABC also does not comply with HUD reporting requirements for data entry into the Multifamily Tenant Characteristics System (MTCS). In December 1999, the HABC only reported 39 percent of its total Section 8 certificate and voucher units. HABC did improve to 67 percent for October 2000, but it still was well below the required 85 percent. Further, we tested the quality of HABC MTCS data with file documentation for unit inspections and found MTCS data did not agree with actual inspection dates in 19 out of 20 cases.

HABC officials said they have not been able to maintain a current housing assistance payments register or report complete and accurate data on their Section 8 Program to HUD because the HABC does not yet have a functional information system (see Finding 4). Although HABC officials attributed the problems noted above to not having a functional information system, we found the HABC also does not properly maintain its tenant files, which is essential in an environment completely dependent on manual processing. For example, the HABC was not able to provide us with 168 of 409 tenant files (40 percent) we requested for our review. As we discuss in more detail below, information in tenant files that were provided often was not complete or was not completed timely, and did not support payments to owners.

File Maintenance

We judgmentally selected 106 tenant files to determine if tenants were being recertified according to HUD guidelines and documentation in the file supported the HABC's determinations. Due to the number and significance of duplicative and questionable housing assistance payments we identified (see Finding 1), we also requested and

reviewed all the tenant files (303) for three of the largest landlords to determine whether the tenant files contained adequate documentation to support the housing assistance payments that were made to these landlords between April to June 2000. As we detail below, Section 8 staff were only able to locate and provide us with 241 of the 409 (59 percent) files. The details of our file review follow.

The HABC was not able to locate and/or timely provide us with 52 of 106 tenant files (43 tenant files not provided, 9 tenant files provided subsequent to our review) we requested. However, for the 54 files that were provided and reviewed, we noted numerous deficiencies in the HABC's recertification process. Specifically, we found:

- 16 files did not have documents verifying tenants' income at initial certification.
- 24 files did not have adequate documents verifying tenants' income on the recent recertification.
- 25 files did not have birth certificates supporting all family members.
- 7 files did not have a timely HQS inspection report including one property that was not inspected since 1996, when it had failed.
- 36 files did not have documents supporting the reasonableness of the units' rent.
- 1 file did not have a timely recertification.

Tenant Income
Verification/Supporting
File Documentation

As reported in Finding 1 of this report, we found numerous instances where the HABC made duplicative and questionable payments to its landlords. Because of the significance and serious nature of the HABC's housing assistance payment problems, we expanded our testing by requesting all the tenant files (303 files) for three large landlords to determine if the documentation in the tenant files supported the housing assistance payments made to these landlords between April to June 2000. Unfortunately, the HABC could only provide us with 178 of the 303 files as detailed below:

Owner	Files Requested	Files Provided	Files Not Provided	% Not Provided
A	71	42	29	41%
B	135	99	36	27%
C	97	37	60	62%
TOTALS	303	178	125	41%

For the 178 files the HABC did provide, we compared the most recent housing assistance payments documented on the HUD-50058 to the Finance Department's payment database for the corresponding period and found numerous discrepancies between the payment amounts and the file data. These discrepancies are as follows:

- Housing assistance overpayments totaling \$5,963 were made to owners. Also, six owners were paid two payments with no explanation in the file;
- Housing assistance payments did not agree with the housing assistance payments on the applicable HUD-50058 (24 cases);
- Tenant files did not have a HUD-50058 for the payment period reviewed (9 cases). One of the tenant files indicated the tenant had not been recertified since August 1995;
- File data indicated tenant moved out of unit (2 cases) and; therefore, housing assistance payments should not have been paid;
- One tenant file had a current HUD-50058, but the previous one was completed in 1991;
- Unable to verify housing assistance payments adjustment with supporting file documentation (2 cases); and

- No housing assistance payments were made even though file documentation indicated payment was due (4 cases).

Details of the above deficiencies were provided to the Section 8 Department for their review.

Housing Quality Standards (HQS)

The HAP contract requires that Section 8 owners provide a dwelling that meets HQS standards in return for housing assistance payments administered by PHA. PHA's are required to perform unit inspections to fulfill its administrative responsibility to ensure that the owner's dwellings meet HQS standards.

In order to determine whether HABC units met HQS, we judgmentally selected 40 units that were recently inspected by the HABC and re-inspected the units. Our initial sample size of 40 units was subsequently reduced to 37 because three of the tenants left the Section 8 Program prior to the date of our inspection. Of the 37 units inspected 35 failed our inspection. On average each unit had about five violations, although we did inspect a few units that had as many as 10 to 12 deficiencies. Of particular note, for seven units that were initially failed by the HABC inspector and then subsequently passed, we found the deficiencies that caused the unit to fail had not been corrected. Also, we identified two units we believe the HABC inspectors clearly should have failed based on the nature of the deficiencies cited during our inspection. We provided our inspection results to the HABC for their review and corrective action as appropriate. Our inspection results are also summarized in Appendix B.

Waiting List Administration

We reviewed the HABC's administration of its Section 8 waiting list and found that the HABC continues to use staff resources to take new applications, even though it cannot reasonably accommodate the existing waiting list of over 16,000 applicants. In fact, some applicants have been on the waiting list for over 10 years. Furthermore, the HABC was not even able to use the waiting list between March and September 2000, as it had to give priority to its existing public housing residents and Section 8 tenants who were forced to move from the units in which they were living when their housing assistance was terminated. We also noted that the HABC was not recording the time an

applicant was placed on the waiting list according to HUD guidelines and for some applicants the date was listed as “00/00/00”.

The Section 8 Director indicated he did not make the decision to keep the waiting list open and believed the decision was more for political reasons, as the HABC did not want to give the appearance it was not assisting its residents. We believe that HABC staff resources used to take new applications and manage the growing list could have been better used in managing its more pressing problems to include maintaining current tenant files, and actually assist its residents rather than just giving the appearance it was performing a worthwhile function.

Accounting for Section 8 Portables

HUD guidelines provide Section 8 voucher holders with the ability to use their vouchers outside the issuing HA’s jurisdiction. The vouchers, termed Section 8 portable units are accounted for based on specific guidance depending on whether or not the jurisdiction the tenant moves to absorbs the unit into its program. When the jurisdiction does not absorb the unit it still has the responsibility to pay the housing assistance payments to the owner and seek reimbursement from the original HA, who will continue to administer the unit in its program.

The HABC had a number of Section 8 tenants from other HAs that moved to Baltimore City, but the HABC decided not to absorb these tenants into its Section 8 Program. According to HUD guidelines the HABC paid the housing assistance payments to the owners and applicable utility allowances to these tenants on behalf of the HA administering the unit, and expected to be subsequently reimbursed. However, when the HABC subsequently billed the applicable HAs for these tenants, the other HAs did not pay the HABC for these units because the HAs indicated that the HABC did not send in the required documentation showing the HABC executed a HAP contract for the particular tenants and landlords. According to Section 8 staff the required documentation was always sent timely, and they could not understand why these HAs were refusing to pay HABC the housing assistance payments for these units that totaled \$1.7 million at the end of FY 1999. Despite the HABC’s indication that required documentation was provided to the applicable HAs, in

Staff Assignments and Training

March of 2000 the HABC wrote off \$514,342 of the \$1.7 million and absorbed the units into its program. The write-off represented amounts due prior to FY 1998. Consequently, in the current year, the HABC's Section 8 Program absorbed the financial burden of these units without accurately representing the actual cost and number of units in its year-end settlement statement.

During our review, we asked the HABC Section 8 Department to provide us with a complete roster of its employees and their current case workload. The HABC was not able to provide us with this basic information. Instead, they prepared a memo indicating employee's case workload for November 1999, but at the same time questioned the accuracy of their own data. Additionally, the HABC did not have any written documentation indicating training that its Section 8 staff has taken.

The HABC's Inspector General communicated his concerns over the lack of capacity of the Section 8 Department in several reports and memorandums to HABC management. Specifically, in a memorandum regarding the current state of the HABC's effectiveness in operating its program pursuant to the computer shutdown, the IG indicated staff were not properly trained and questioned the reliability and competency of temporary employees.

* * * * *

HABC officials said not having a functional management information system (see Finding 4) was the primary cause for many of Section 8 deficiencies. The absence of an automated MIS has certainly contributed to the current state of the HABC's Section 8 Program, however, executive management has not placed any urgency in ensuring Section 8 management and staff were properly trained and supervised. Further, they did not take appropriate actions to establish alternative procedures to ensure program operations were not adversely affected during the interim period while the new system is being implemented. As we detailed above, the HABC did not maintain an adequate inventory of tenant files and could not provide us with the number of staff and their specific work responsibilities.

Additionally, an independent report prepared by the GBC noted similar concerns with the HABC's management of its

Section 8 Program. The report stated, “The Section 8 Program is perceived by its participants, its partners, and the broader community as inefficient, inflexible, and uncooperative. If this perception is to change, either the program needs to be privatized or the culture of the Section 8 Division must be changed, the staff trained in the fundamentals of customer service, and their performance judged in accordance with quantifiable goals established by HABC”. The GBC report indicated high error rates in (1) verification and calculation of adjusted Section 8 family income; (2) HQS inspections; and (3) documentation of rent reasonableness. GBC also stated that formal supervisory quality control reviews were not conducted on an ongoing basis.

In summary, the HABC is not properly managing its Section 8 Program according to HUD requirements. The HABC’s Section 8 Program is barely functional, and the HABC continues to mismanage and waste scarce resources intended to provide housing opportunities to its low-income residents.

Auditee Comments

The HABC agreed with the report in its entirety and has provided a written response that outlines a 16 point corrective action plan designed to dramatically improve its Section 8 Program (Appendix C).

Recommendations

We recommend that you ensure the HABC’s Section 8 Program:

- 2A. Develops and implements procedures to improve its operation of the Section 8 Program. Specifically the HABC needs to:
 - Maintain a complete and accurate updated housing assistance payments register and ensure this critical information is entered into HUD’s MTCS system.
 - Maintain tenant files for every unit in its Section 8 Program. A tenant file maintenance system should be developed and files should be controlled to ensure they are not lost or misplaced. Additionally, tenant files should provide supporting

documentation that clearly documents tenants were recertified according to HUD requirements.

- Maintain Section 8 rosters and staff assignments. This critical information should facilitate management's oversight of the Section 8 Program.
- Maintain employee training records and ensure staff is adequately trained in program requirements and the operation of its MIS when implemented.
- Ensure HQS inspections are performed according to HUD requirements, and units failing HQS inspections are re-inspected to ensure cited deficiencies have been corrected.
- Administer its waiting list according to HUD requirements, and ensure it appropriately and timely bills for Section 8 portable units. Additionally, the HABC should follow-up and collect disputed receivables as appropriate.

2B. Obtain reimbursements and adjust payments based on deficiencies disclosed in our review of tenant files.

2C. Ensure HQS violations are corrected at properties that failed HQS inspections during our review.

HABC Did Not Fully Utilize Available Section 8 Resources

The HABC is not fully utilizing its Section 8 funding. In 1997/1998 HUD recaptured \$74 million of unused ACC reserves, and another \$50 million of unused resources have accrued in its reserve accounts between 1997 and 2000. HUD guidelines require a HA to develop and implement procedures to ensure it utilizes its Section 8 ABA primarily to fund the baseline number of units approved in the ACC. Additionally, the HA should also evaluate the anticipated costs associated with leasing its ACC baseline number of units, and then determine if additional ABA funds are available to assist more families. Although, HABC officials cited a variety of reasons why it was not fully utilizing Section 8 funds, we found the HABC simply does not manage its Section 8 Program effectively. Specifically, we found the HABC:

- overstated the number of units it has under lease and, therefore, has not implemented any leasing initiatives, as it incorrectly believed its occupancy was at or near ACC baseline levels;
- did not evaluate the historical costs of its leasing per unit to determine if additional funds would be available to assist more families; and
- has not been able to adequately lease units with funding provided pursuant a litigation settlement (Thompson Court Decree).

As a result of HABC not effectively managing its Section 8 Program, \$124 million of Section 8 funds have been recaptured and/or continue to accrue in its operating reserve accounts instead of providing much needed housing opportunities for 16,000 families on HABC's waiting lists. For fiscal year ending June 2000, we estimated the HABC could have leased an additional 2,500 units. Further, unless the HABC is able to completely turn around its program administration and carefully evaluate the level of HUD funds provided to maximize the number of families it can assist, it stands to lose future Section 8 funding. Unfortunately, the low-income citizens of Baltimore would bear the consequences of this regrettable outcome, as less and less resources would be available to satisfy much needed housing opportunities.

Criteria

HUD Notices (PIH 96-68, PIH 97-59, PIH 98-22, PIH 98-58) provided budget guidance for the PHA to use in administering its Section 8 Program. These notices state the PHA is required to plan and continually monitor its funding, as PHAs are ultimately responsible for ensuring that the program is appropriately managed to keep costs in line with the funding provided by HUD. HUD guidance

states a PHA can lease the number of units that can be fully supported by its ABA.

Federal Register notices, dated October 21, 1999 and April 19, 2000, continue to instruct PHAs to lease as many units as could be supported by its ABA. Specifically, the April 2000 register states that PHAs have significant flexibility to manage the programs within the available funding including the amount of program reserves available in each PHA's ACC Reserve Account, and encourages PHAs to evaluate program characteristics (demographics of waiting list, turnover rate, future renewal funding) and assist as many families as funding levels permit.

Background

In November 1997, HUD recaptured Section 8 reserves based on Public Law 105-18. The Public Law instructed HUD to recapture \$5.8 billion in Section 8 reserves. Seventy-four million of this recapture came from unused HABC Section 8 reserves. Even though HUD guidance instructed PHAs to utilize program resources to assist as many families as could be supported by its ABA, the HABC continued to measure its leasing solely based on its incorrect unit counts, and has built up an additional \$50 million of unused resources at the end of fiscal year 2000.

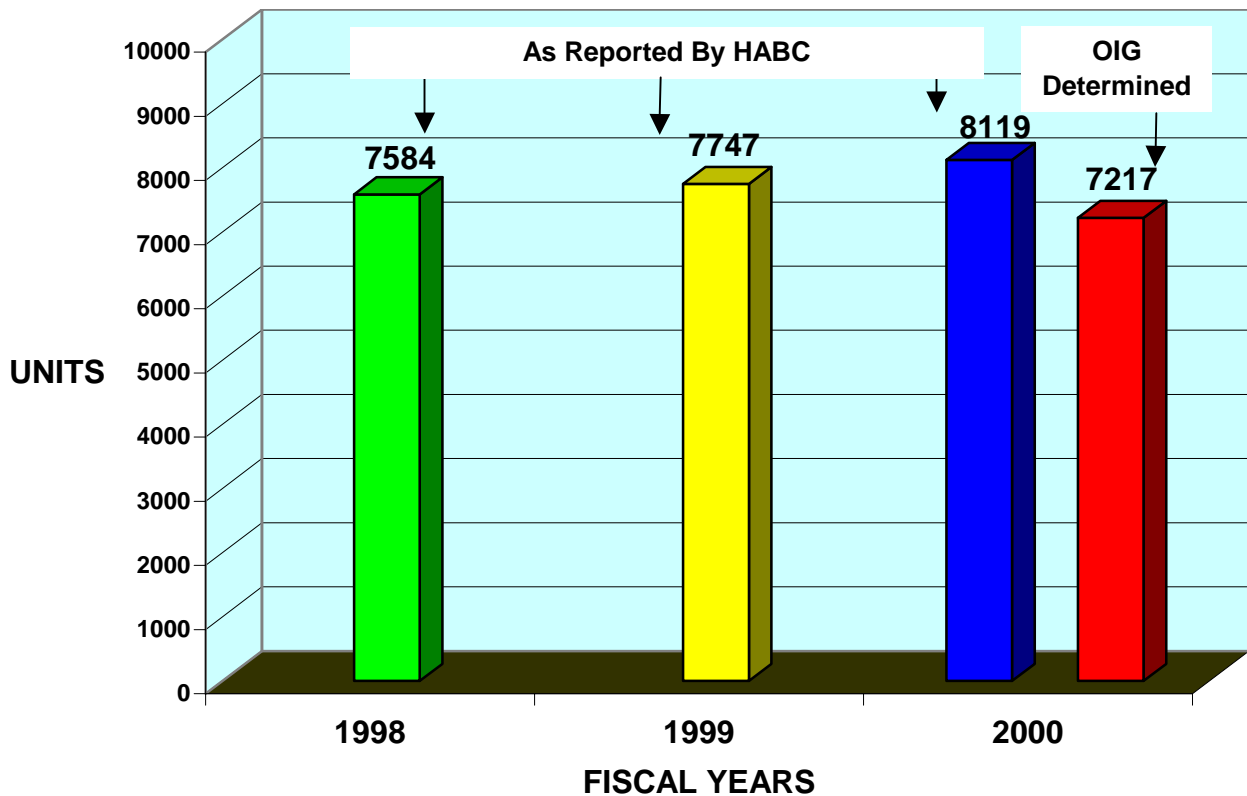
HABC Overstated Its Units Under Lease And Did Not Adequately Evaluate Available Funding

Using the HABC's Year End Settlement Statements (YESS) for fiscal years ending 1998 through 2000, we compared the HABC reported number of leased units with our own unit calculation and determined the HABC is significantly overstating its number of leased units. For example, we estimated the HABC overstated its leased units on average of 1,025 units per month from January through June 2000. Our detailed analysis is discussed below and in Finding 1 of this report. Additionally, the HABC did not adequately evaluate the anticipated costs associated with leasing its ACC baseline number of units, and then determine if additional ABA funds were available to assist more families according to HUD guidelines. Consequently, the HABC is not utilizing its Section 8 resources efficiently by any measure (ACC Unit Allocations or ABA).

Units Under Lease

Because the HABC does not effectively manage its Section 8 Program it is unable to accurately determine the number of units it has under lease. The HABC reported 8,119 units were under lease on its June 30, 2000 YEES. However, we determined the HABC’s actual unit utilization, including move out portables not absorbed by other Housing Authorities, is around 7,200 units, well below its reported 8,119 units and less than 90 percent of its ACC baseline of 8,422 units. As illustrated below, the HABC has significantly overstated the number of units it has under lease and, therefore, has not implemented any leasing initiatives, as it incorrectly believed its occupancy was at or near ACC baseline levels.

Units Under Lease



HABC’s records prior to January 2000 were not auditable and, as such, we were not able to determine whether its units under lease were accurate for prior years.

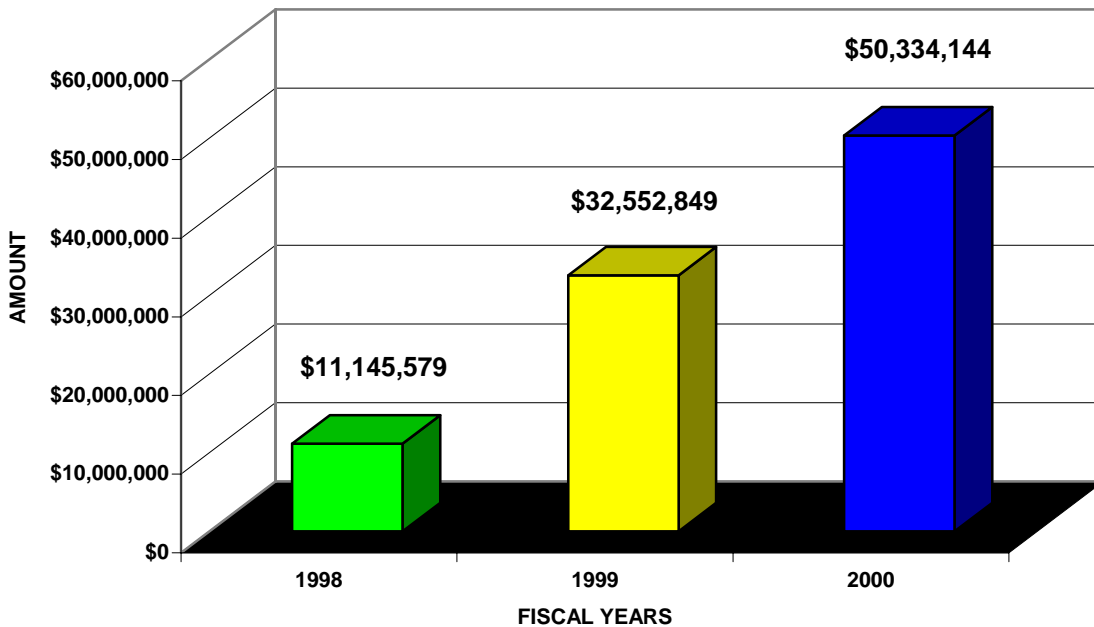
ABA Funding

The HABC received \$167.3 million of ABA for the three years ending 1998 through 2000.

Annual Budget Authority			
Year	Amount	Expended	Accrued Into Operating Reserve
1998	\$ 47.6 Million	\$ 41.7 Million	\$ 5.9 Million
1999	59.3 Million	41.3 Million	18.0 Million
2000	60.4 Million	42.7 Million	17.7 Million
Total	\$167.3 Million	\$125.7 Million	\$ 41.6 Million

The HABC did not use \$41.6 million of the \$167.3 million (25 percent) of ABA provided between 1998 through 2000 and operating reserves have increased to more than \$50 million.

Ending Operating Reserves



As discussed below, \$15 million of the \$50 million in HABC's accumulated operating reserves were specifically earmarked for the Thompson Court Decree litigation, and were also not effectively utilized. The remaining \$35 million could have been used to assist more families in the HABC's Section 8 Program. According to HUD guidelines, even if the HABC had correctly reported the number of units leased, it still should have implemented aggressive leasing measures to assist additional families since so much funding was available.

For example, in fiscal year 2000, HUD provided the HABC over \$60 million of Section 8 funds. We determined \$11 million of the \$60 million was provided pursuant to the Thompson Court Decree. However, as shown above, the HABC did not have a system to track its units under lease accurately and, therefore, was clearly not in a position to evaluate how many units it could have leased to fully utilize its ABA. Consequently, the HABC only spent \$42,687,241 accounting for the large increase in program reserves between fiscal years 1999 and 2000. The HABC invested the \$17,668,177 excess funds and earned \$684,503 of investment income as of November 2000.

The HABC Has Not Adequately Leased Units Pursuant To The Thompson Court Decree

The Thompson Court Decree was the result of a lawsuit brought by Carmen Thompson and five other public housing families, represented by the American Civil Liberties Union (ACLU), alleging that the HABC and HUD engaged in racial and economic segregation through site selection and development of public housing in Baltimore City since 1937.

On June 25, 1996, the parties entered into a Partial Consent Decree, approved by a United States District Court Judge of Maryland. A key component of the settlement called for HUD to provide funding for and the HABC to issue 1,342 new tenant-based Section 8 special vouchers to relocate families from areas of minority concentration in the City of Baltimore to non-impacted areas in the City of Baltimore and surrounding counties.

Our earlier review of the Thompson Court Decree (Audit No. 2001-PH-1801, dated January 24, 2001) found the HABC has made little progress in implementing the terms and conditions of the Decree to provide desegregated

housing opportunities to families residing in Baltimore City public housing, public housing applicants, and Section 8 families on the waiting list. Based on records provided by the HABC, we found the HABC had assisted no more than 51 of the 1,342 families in moving from impacted to non-impacted areas.

HABC officials gave various reasons why it was unable to fully utilize its Section 8 funding. The primary reason cited was the HABC said its occupancy was at or near ACC baseline unit allocations, and it did not want to expend funds to hire additional staff and administrative resources needed to lease additional units in case HUD subsequently reduced its Section 8 budget authority. Additionally, the HABC said its ABA included funds that could only be used to lease units according to the Thompson Court Decree.

We believe the HABC does not fully utilize its Section 8 funding because it simply does not have the financial and operational capacity to effectively administer its Section 8 Program. HUD guidelines provide flexibility to PHAs to manage their programs within the available funding including the amount of program reserves available in each PHA's ACC Reserve Account, and encourage PHAs to evaluate program characteristics and assist as many families as funding levels permit. However, a fundamental assumption in this critical evaluation is that PHAs have the capacity to accurately report the number of units under lease as a starting point. The HABC's mismanagement, specifically not knowing how many units it had under lease, and its inability to comply with the terms and conditions of the Thompson Court Decree weighed heavily on the number of units under lease. Specifically, without even considering additional units that could have been leased with available ABA, we determined the HABC could have leased an additional 2,500 units (1,200 for its Section 8 Program and 1,300 pursuant to the Thompson Court Decree).

Recently, the GBC and the Presidents' Roundtable completed a citywide report, "Managing For Success", which included a review of HABC's Section 8 Program. The GBC also cited the HABC for its failure to utilize program resources, including the Thompson Court Decree

and has made numerous recommendations that the Mayor has pledged to adopt.

* * * * *

In our opinion, the HABC is not meeting its program mission of providing affordable housing to its low-income families in the City of Baltimore. Specifically, the HABC has over 16,000 families on its Section 8 waiting lists, and its inability to effectively manage its Section 8 Program resources has resulted in thousands of families being deprived of housing opportunities the program is designed to serve.

Auditee Comments

The HABC agreed with the report in its entirety and has provided a written response that outlines a 16 point corrective action plan designed to dramatically improve its Section 8 Program (Appendix C).

Recommendations

We recommend you:

- 3A. Recapture the HABC’s unused operating reserves and reallocate the program resources to other jurisdictions as appropriate.
- 3B. Ensure all investment income earned on Section 8 resources are offset against HABC’s cash requirements for its Section 8 Program.
- 3C. Ensure the HABC implements procedures to fully budget Section 8 resources provided by HUD and assist as many families as possible. These procedures should provide for a thorough analysis of the cost of its units under lease and the need to issue additional vouchers to compensate for anticipated turnover.

(THIS PAGE LEFT BLANK INTENTIONALLY)

HABC Needs To Implement A Section 8 Management Information System

The HABC does not currently have an automated Management Information System (MIS) that supports its Section 8 Program. Even though HABC management was aware that its previous information system was not Y2K compliant as early as 1997, it has not been able to successfully develop, test, and implement a replacement system; and has been operating its Section 8 Program without a MIS since December 1999. Further, adequate contingency plans were not developed and implemented to ensure program operations would not be adversely affected during the interim period in which the HABC was working to install its new system. HABC executive management has failed to properly manage and coordinate the system development among its Section 8, Finance, and Information Technology (IT) Divisions, and as such the HABC continues to experience numerous delays in its efforts to install its new information system while the reliability of program data now being processed manually by temporary employees continues to erode. Thus, we question how effective the new system will be, when or if it becomes fully operational, in supporting the HABC's administration of its Section 8 Program so it can meet its program mission in providing affordable housing opportunities to its residents.

A well-designed management information system is a critical component of a housing authority's operation. It allows staff to gather, track, record, and report on critical measures of the housing authority's Section 8 Program. The information allows housing authority staff and its management to make informed business decisions to ensure the program is operating effectively and efficiently. Critical Section 8 Program areas of a MIS include:

- leasing and voucher issuance;
- applications and waiting list management;
- Housing Quality Inspections;
- housing assistance payments;
- tenant eligibility and recertification;
- rent reasonableness;
- utility allowance calculations;
- financial and operational reporting; and
- quality control

Background

The Section 8 Director confirmed that plans for a new system began in 1997. According to HABC's Section 8 Director, neither he nor his staff was consulted on the contractor selected to develop the proposed computer system. HABC's Finance Director stated that the contractor who was working with and installing the

HABC’s client server system for the rest of the Authority was noncompetitively awarded the Section 8 MIS Project. The Section 8 Director provided the following timeline in his dealings with the contractor representatives.

Period	Remarks
November 1997 to March 1998	Section 8 staff had meetings with contractor representative about three days for each week during this period.
March 1998 to June 1998	Contractor representative was writing functional specification for the Section 8 system even though contractor was not officially awarded a contract.
June 1998 to June 1999	No Activity. Contractor representative was not onsite at the Authority.
June 1999 to present	Design work and system preparation started.

Since the Section 8 Director’s opinion was not solicited, he stated he did not communicate any of his concerns about the contractor or the delays in implementing the system, as he believed it was more of an information technology responsibility.

Total purchase order costs incurred during fiscal year 2000 for the development of the Section 8 system were \$446,919. Additionally, the HABC’s Inspector General (IG) reported concerns over the significant labor costs in temporary employees and overtime payments associated with the manual processing of its Section 8 Program, which further threatened the financial viability of its program.

HABC’s IG Appointed To Oversee The Section 8 Project

In June of 1999, because of the continuing delays and impediments, HABC’s former Executive Director asked the HABC’s IG to oversee the Section 8 Project. We questioned the appropriateness of the IG’s role, since it appeared to conflict with his ability to provide independent reviews of the HABC’s operations. Additionally, we questioned whether the IG had the requisite technical knowledge to coordinate the development and installation of a computer system. The IG agreed this assignment conflicted with his IG responsibilities and indicated he did not have an information technology background. He said he reluctantly accepted this assignment because he did not

believe he was in a position to decline since he reported to the Executive Director.

The IG said he created a timeline of actions needed to ensure the HABC was in position to function with or without the new system. Specifically, the IG provided a chronology of his instructions to the affected departments in order to prepare for the HABC's readiness and its ability to manage the Section 8 Program during system development. However, he indicated the Section 8 Director was not responsive in ensuring his department would be ready and did not timely develop a manual contingency system.

<u>DOCUMENT</u>	<u>DATE</u>
Y2K Action Plan	June 23, 1999
Y2K Contingency Plan	August 26, 1999
Y2K 90 Day Readiness Report	October 4, 1999
Y2K "Zero Day" Plan	October 15, 1999

Section 8 Director Waited
Until The Last Minute To
Test The Manual System

The Y2K 90-day readiness report identified that Section 8 Tenant Accounts Data System (TADS) would not be Y2K compliant by 12/31/99. Nevertheless, the IG stated that the Section 8 Director waited until the last minute to run the manual system before the mainframe became inoperable. In 2000, HABC had to rely on this untested manual system because the mainframe was dismantled. Additionally, even though contingency plans did provide for the retention of Section 8 data for eventual migration to its new system, this data was generally not retained and is inaccurate. Specifically, we asked the HABC to provide us with the Section 8 data; and we were advised the data was only maintained on electronic tape cartridges, which were only compatible with the mainframe system that was dismantled. As expected, the HABC's trial and error implementation of manual processing resulted in the significant problems described throughout this report.

Since the HABC's IG had on-going concerns with the Section 8 Department's preparedness, he communicated these concerns to HABC's new senior management in a management advisory report in early 2000. In the report, the IG indicated a myriad of problems still existed with the Section 8 contingency systems. Specifically, the IG's report indicated the contingency system was not run parallel to the dismantled mainframe system, nor was training conducted

prior to its implementation. Further, the system was labor intensive and dependent on staff overtime and temporary staff that may not be supported by administrative fee revenues. In addition to the technical problems cited by the IG, he also cited management issues that contributed to the dilemma, which included lack of collaboration by its divisions in the problem solving process, and no one individual has taken responsibility. Specifically, as late as December 1999, Section 8 management stated that all of the responsibility for a backup system fell on the MIS Department and; therefore, Section 8 took no action to ensure contingency systems were in place prior to dismantling the mainframe.

In September 1999, the Section 8 Director estimated that the new system would be ready by Spring 2000. However, the estimate has been pushed back several times and the HABC's written response stated it was now exploring the purchase of an "off the shelf" software package. Further, as reported in Findings 1 and 2, the HABC does not maintain a housing assistance payments register, and cannot account for many of its tenants' files. Therefore, the HABC has no assurance, that when the new system becomes operational, it will have accurate data available to enter into the system to ensure a smooth migration to its new system takes place.

In its recent citywide report, the GBC also cited the HABC's failure to implement a MIS as a continuing management problem. Specifically, the GBC stated the Section 8 Program has had to perform most functions manually, resulting in inefficiency, frequent errors, and inadequate controls over the payment process. Further, the GBC stated the Section 8 Department lacks the internal capacity to adequately represent its interests in discussions with the IT Department, and to take the necessary steps to install, test, load, and bring up the new applications.

* * * * *

In summary, the HABC's inability to develop and implement a management information system or adequately implement contingency plans has resulted in the waste and misuse of program resources and the continued erosion of its Section 8 Program. Consequently, the HABC is not providing affordable housing opportunities to low-income

residents of the City of Baltimore according to HUD guidelines.

Auditee Comments

The HABC agreed with the report in its entirety and has provided a written response that outlines a 16 point corrective action plan designed to dramatically improve its Section 8 Program (Appendix C).

Recommendations

We recommend you:

- 4A. Closely monitor the HABC's implementation of its management information system to ensure the HABC: (1) meets revised timelines for system implementation; and (2) begins to reconstruct program data to ensure complete and accurate data entry. If the HABC is unable to meet its revised goals and demonstrate tangible progress towards the implementation of a functional management information system, take appropriate administrative action.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Management Controls

In planning and performing our audit of the HABC, we considered the management controls to determine our auditing procedures and not to provide assurance on management control. HABC's management is responsible for establishing effective management controls. Management control is the process effected by HABC's Board, managers, and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

Management Controls Assessed

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

- Financial management, including program receipts and disbursements;
- Compliance with Section 8 Program requirements and reporting to HUD;
- Utilization of Section 8 Program funds; and
- Reliability of HABC's management information system.

For each of these activities, we assessed the risk, control environment, control activities, and internal monitoring and reporting functions. We made our assessment and gained our understanding through a testing of the transactions in each of the activities.

Significant Weaknesses Found

It is a significant weakness if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Our audit disclosed significant weaknesses with HABC's: financial administration, including program receipts and disbursements (Finding 1); compliance with Section 8 Program requirements and reporting to HUD (Finding 2); utilization of Section 8 Program funds (Finding 3); and reliability of its management information system (Finding 4).

(THIS PAGE LEFT BLANK INTENTIONALLY)

Follow Up On Prior Audits

The HUD Office of Inspector General recently completed two reviews that relate to this audit as follows:

Title	OIG Audit Related Memorandum Number	Remarks
Assessment of HABC's Progress in Implementing the Section 8 Component of the Thompson Court Decree	No. 2001-PH-1801	The audit memorandum was issued January 24, 2001 and contained 3 recommendations.
Housing Authorities Year 2000 Readiness Activities	No. 00-PH-166-0801	OIG noted that HABC was not Y2K ready

(THIS PAGE LEFT BLANK INTENTIONALLY)

Schedule of Questioned Costs

Finding Number	Ineligible 1/	Unsupported 2/
1	\$279,952	\$733,804

- 1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations.
- 2/ Unsupported amounts are not clearly eligible or ineligible, but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs).

(THIS PAGE LEFT BLANK INTENTIONALLY)

HQS Violations Cited

<u>Number</u>	<u>Sanitary Facilities</u>	<u>Food Preparation and Waste Disposal</u>	<u>Space and Security</u>	<u>Thermal Environment</u>	<u>Illumination And Electricity</u>	<u>Structure and Materials</u>	<u>Interior Air Quality</u>	<u>Lead-based Paint</u>	<u>Site and Neighborhood</u>	<u>Sanitary Condition</u>	<u>Smoke Detectors</u>	<u>Total Violations Per Unit</u>
1						3		2				5
2						1						1
3						2		1		1		4
4						3						3
5								1				1
6		1				1						2
7			1			7		3				11
8	2						1			2		5
9						4					1	5
10	1	2		1		2				1		7
11	2	2	1				1					6
12	2		1			2	2	2		1		10
13						3				1		4
14												0
15			4			2					1	7
16			1			5	1			1		8
17	1							2				3
18			1					1	1	1		4
19			1			1				3		5
20	3	3		1		4					1	12
21	1							1				2
22		2	1					1		1		5
23	2	1						2				5
24						3		1				4

Appendix B

HQS Violations Cited

Number	Sanitary Facilities	Food Preparation and Waste Disposal	Space and Security	Thermal Environment	Illumination and Electricity	Structure and Materials	Interior Air Quality	Lead-based Paint	Site and Neighborhood	Sanitary Condition	Smoke Detectors	Total Violations Per Unit
25		2		1		3						6
26	2					3				1		6
27	1	1	2			3		3			1	11
28	1	1			3	1						6
29												0
30	1	1	1		1	3						7
31	1					1	1					3
32					1	1	1	1				4
33	2				2	3	1					8
34	1											1
35			1			2		1				4
36	1					2		2				5
37						1					1	2
	24	16	15	3	7	66	8	24	1	13	5	182

Seven units that were failed by the HABC inspector and then subsequently passed but we found the deficiencies that caused the unit to fail were not corrected.

Two cases that we believe that the HABC inspectors should have failed the unit instead of passing it based on the nature of the deficiency disclosed in our inspection.

Passed HQS.

Auditee Comments



HOUSING AUTHORITY OF BALTIMORE CITY

417 E. FAYETTE STREET • P.O. BOX 1917 • BALTIMORE, MARYLAND 21202-3134

Paul T. Graziano, Executive Director

March 19, 2001

Daniel G. Temme
District Inspector General for Audit
Mid-Atlantic, 3AGA
U. S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Dear Mr. Temme:

I have reviewed the draft audit of the Housing Authority of Baltimore City's Section 8 Program and I agree with your four findings concerning major deficiencies in areas of financial management, administration, utilization of resources and the management information system. We will be reviewing and taking appropriate actions relating to the \$279,952 in excess administrative fees and \$734,804 overpayment to Section 8 property owners. Your report certainly reinforces the view which I already held, that the program suffers from major flaws.

I have outlined our corrective plan of action below, including those already taken:

- 1) My appointment by the Mayor/Housing Authority of Baltimore City Board of Commissioners as the new Housing Commissioner/Executive Director. I have over 25 years of experience operating Section 8 Programs. Among my achievements are the dramatic turnaround of a deeply troubled Section 8 program in Boston and the continued high performance of the New York City Housing Authority (NYCHA) Section 8 program, the largest in the country.
- 2) The appointment of Deborah Vincent as the new Deputy Executive Director (effective March 19, 2001). She has invaluable Section 8 experience both at local public housing authorities and at the highest levels of HUD Central.

Daniel G. Temme
March 19, 2001
Page 2

- 3) Requested and accepted the resignation of the Director of Leased Housing and Chief of the Section 8 Program – the highest ranking persons charged with the responsibility for day to day program administration.
- 4) An Acting Director, Michael Kramer, has been appointed to oversee the timely restoration of the Section 8 program. He brings a wealth of administrative and supervisory experience having performed many difficult assignments over a 27 year career at NYCHA.
- 5) Initiated immediate steps to restructure the organizational hierarchy so that responsibility for Section 8 Operations will be at the Associate Deputy Executive Director level reporting directly to the Deputy Executive Director. Previously the Department had been placed at an inappropriately low reporting level as an adjunct to the Public Housing Operations.
- 6) The recruitment process for selection of a permanent Associate Deputy Executive Director will commence forthwith.
- 7) An interim assessment is already underway and certain management improvements will be implemented without delay. This will include a review and assessment of the capabilities of each person assigned to Section 8 Program administration. A further refinement of the organizational structure will be completed within 30 days and will be based on successful models, employed in New York and Boston, which include “rental” and “management teams” and a separate team for the project-based programs.

Finally, each Housing Advisor (caseworker) will be given specific and clearly defined case loads based on reasonable criteria including specific geographic assignment .
- 8) Qualified skilled personnel will be added immediately and further personnel adjustments will be implemented upon completion of the restructuring plan.
- 9) HABC will procure comprehensive training for all managers, inspectors and housing advisors to enable them to accurately carry out their functions.

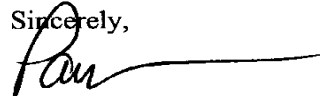
Daniel G. Temme
March 19, 2001
Page 3

- 10) An MIS/EDP consultant with significant Section 8 operational expertise has reviewed the agency's Section 8 computer needs and presented a draft RFP, which is currently being modified, for the purchase of an "off the shelf" system in a timely manner. In the interim prior to the award of a contract, the HABC developed "TADS" (tenant data) system will be updated and "bridged" with the Great Plains financial system.
- 11) Arrangements have been initiated to close the Section 8 waiting list (except for emergencies) as soon as practicable.
- 12) The HABC will absorb all incoming portable vouchers, effective immediately (and retroactively).
- 13) We will seek HUD approval to increase the FMR to the 50th percentile to reduce the concentration of Section 8.
- 14) We will immediately undertake a programmatic and financial review to determine the number of units currently under HAP Contract. This will culminate in the creation of the HAP Register as recommended in the audit, and as procedurally required.
- 15) We will prepare a leasing schedule to ensure that we achieve full program utilization as soon as practicable.
- 16) We will prepare a modified administrative budget reflective of the appropriate staff necessary to effectively manage the HABC Section 8 program.

These steps and others will ensure dramatically improved Section 8 operations at the Housing Authority of Baltimore City. Some of these plans have already been discussed with the Baltimore HUD Office. We will work closely and keep them apprised of our progress.

Please contact me at (401) 396-3232 should you have any questions concerning this matter.

Sincerely,



Paul T. Graziano
Executive Director

(THIS PAGE LEFT BLANK INTENTIONALLY)

Distribution

Director, Public Housing Program, HUB, Baltimore Area Office, 3BPH

Secretary's Representative, Mid-Atlantic, 3AS

Audit Liaison Officer, 3AFI

Special Agent in Charge, 3AGI

DIGA's

Baltimore Area Coordinator, 3BS

Departmental Audit Liaison Officer, FM (Room 2206)

Deputy Chief Financial Officer for Finance, FF (Room 2202)

Director, Office of Budget, FO (Room 3270)

Acquisitions Librarian Library, AS (Room 8141)

Principal Staff

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen
Senate Office Building, US Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706
Hart Senate Office Building, US Senate, Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House
Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, US GAO, 441 G Street, N.W.,
Room 2474, Washington, DC 20548, Attn: Stanley Czerwinski

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, House of Representatives, Washington, DC 20515

The Honorable Henry Waxman, Ranking Member, Committee on Government Reform, 2204
Rayburn Building, House of Representatives, Washington, DC 20515

Mr. Steve Redburn, Chief, Housing Branch, Office of Management & Budget, 725 17th Street,
N.W., Room 9226, New Executive Office Building, Washington, DC 20503

Executive Director, Housing Authority of Baltimore City, 417 E. Fayette Street, PO Box 1917,
Baltimore, MD 21202-3134