

AUDIT REPORT



HOUSING AUTHORITY OF THE CITY OF TACOMA

2005-SE-1005

MAY 24, 2005

OFFICE OF AUDIT, NORTHWEST/ALASKA REGION
SEATTLE, WASHINGTON



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Audit Report Number 2005-SE-1005

TO: Harlan Stewart, Director, Northwest Office of Public Housing, OAPH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Northwest/Alaska Region,
OAGA

SUBJECT: The Housing Authority of the City of Tacoma Could Improve Its Section 8
Program, Tacoma, WA

HIGHLIGHTS

What We Audited and Why

As part of the Inspector General's Annual Audit Program, we audited the tenant-based Section 8 program of the Housing Authority of the City of Tacoma (Authority). We wanted to determine whether the Authority has adequate internal controls to operate its housing choice voucher program and its quality control program in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The Authority generally has adequate internal controls to operate its housing choice voucher program in accordance with HUD requirements. Our review determined that the Authority's internal controls provide reasonable assurance that it correctly determines tenant eligibility, satisfactorily verifies tenant-adjusted income, accurately calculates housing assistance payments, effectively maintains HUD housing quality standards, and properly manages its portability program. However, we found that the Authority could improve its ability to provide Section 8 assistance by recovering and using excess housing assistance payments, or by

returning those funds to HUD. Authority records show more than \$30,000 in such excess payments in fiscal year 2004 that could have been used to provide housing assistance to needy families. This occurred because the Authority does not have an effective process to account for excess housing assistance payments. We also found that the Authority does not document its Section 8 Management Assessment Program quality control reviews, because it does not have a formal Section 8 Management Assessment Program.

What We Recommend

We recommend that you require the Authority to implement a process to account for excess housing assistance payments, and institute a Section 8 Management Assessment Program plan that meets HUD quality control review requirements.

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 requested the Authority's response on May 16, 2005, and received the Authority's written comments on May 18, 2005. The Authority's letter is dated May 16, 2005. The Authority generally disagreed with our report. The complete text of the Authority's response, along with our evaluation of that response can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

Housing Authority of the City of Tacoma

The Housing Authority of the City of Tacoma (Authority) was created in 1940 by the City of Tacoma to provide housing opportunities for eligible individuals within the city. The mayor of the City of Tacoma appoints a five-member board of commissioners that directs the affairs and activities of the Authority. In fiscal year 2004, the U.S. Department of Housing and Urban Development (HUD) paid the Authority \$25,272,900 to operate 3,524 Section 8 units.

Section 8 Housing Choice Voucher Program

The housing choice voucher program is the federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets program requirements. Public Housing agencies administer the HUD-funded housing choice vouchers that pay a housing subsidy directly to the landlord on behalf of the participating family, who then pays the difference between the actual rent and the subsidy amount. Public Housing agencies determine family eligibility based on income and family size, and determines the amount of tenant subsidy. Annually, the agency verifies family income and composition, and also ensures the unit meets minimum housing quality standards.

Our objective was to determine whether the Authority has adequate internal controls to operate its tenant-based Section 8 program in accordance with HUD requirements, specifically to determine whether the Authority has adequate internal controls to:

1. Assist only eligible families;
2. Verify tenant income;
3. Calculate and pay tenant subsidies accurately;
4. Maintain HUD housing quality standards;
5. Recoup housing assistance payments if required; and
6. Manage its voucher portability program in accordance with HUD requirements.

We also reviewed the Authority's quality control program.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Fully Reconcile Its Fiscal Year 2004 Section 8 Funds

The Authority did not fully reconcile its Section 8 funds at the year-end settlement. In fiscal year 2004, the Authority did not return more than \$30,000 in excess housing assistance payments to HUD as required. As a result, these funds were not available to assist needy families. This occurred because the Authority does not have an effective process to account for excess housing assistance payments.

The Authority Did Not Return More Than \$30,000 in Excess Section 8 Payments to HUD

The Authority did not fully reconcile its fiscal year 2004 Section 8 funds and did not return more than \$30,000 in excess housing assistance payments to HUD at the annual settlement, as required.

The housing choice voucher program requires housing authorities to prepare year-end settlement reports to reconcile any differences between the estimated Section 8 funds requisitioned during the year and the actual program expenditures. This reconciliation may result in an overpayment due HUD or an underpayment due the housing authority.

In operating its Section 8 program, the Authority sometimes inadvertently makes excess housing assistance payments to landlords. For example, an excess payment may occur when a tenant vacates a unit without informing the Authority. Once aware of the discrepancy, the Authority's computer system automatically recoups the excess payment from the next check to the landlord. However, if there is no next check, the Authority does not always recoup the excess payment. Since these excess payments do not provide assistance for eligible tenants, they are ineligible expenses, and any amount the Authority does not recoup is an overpayment due HUD at the year-end reconciliation. In fiscal year 2004, the Authority did not return \$33,012 in excess housing assistance payments to HUD at the annual settlement.

This occurred because the Authority does not have an adequate process to account for excess housing assistance payments to landlords. As a result, these funds are not available to provide housing assistance to needy families.

Recommendations

We recommend that you:

1A. Require the Authority to implement a process to account for excess payments to landlords.

1B. Require the Authority to repay the \$33,012 in fiscal year 2004 ineligible housing assistance payments.

Finding 2: The Authority Does Not Document Its Section 8 Management Assessment Program Quality Control Reviews

The Authority does not document its Section 8 Management Assessment Program quality control reviews. As a result, HUD cannot independently verify that the Authority operates its Section 8 program in accordance with HUD requirements. The Authority does not have the required documentation because it does not have a formal quality control program.

The Authority Cannot Prove It Required Quality Control Reviews

The Authority does not document its Section 8 Management Assessment Program quality control reviews as required.

Under the Section 8 Management Assessment Program, HUD sets performance standards for key areas of Section 8 program management to measure whether a housing authority administers its Section 8 program properly and effectively. For the key areas of waiting list selection, rent reasonableness, adjusted income determination, housing quality standards quality control reinspections, and housing quality standards enforcement, housing authorities must select and review a quality control sample to determine whether the documented work in those areas conforms to program requirements. Housing authorities then compare the results of their quality control sample reviews to the performance standards and certify the results to HUD.

Housing authorities must also document their quality control sample reviews so HUD can carry out its responsibility of verifying the Section 8 Management Assessment Program certifications, as required by 24 CFR [Code of Federal Regulations] Part 985.105. However, Authority staff told us they keep no documentation of their quality control sample reviews for waiting list selection, rent reasonableness, adjusted income determination, and housing quality standards enforcement. We reviewed Authority records of housing quality standards quality control reinspections conducted on 10 different dates. Our nonstatistical sample¹ of 14 of 41 of these reinspections found that only two met the Section 8 Management Assessment Program requirement that the reinspections be conducted on units that had been inspected within the preceding three months (see appendix C).

¹ See the Scope and Methodology section for the sampling methodology.

Therefore, the Authority does not have the required documentation of its fiscal year 2004 Section 8 Management Assessment Program quality control sample reviews. The Authority does not have this documentation because it does not have a formal Section 8 Management Assessment Program. As a result, HUD cannot use the Section 8 Management Assessment Program to assess whether the Authority operates its Section 8 program to help eligible families afford decent housing at the correct cost.

Recommendations

We recommend that you:

- 2A. Require the Authority to implement a Section 8 Management Assessment Program that meets HUD requirements.
- 2B. Perform an onsite confirmatory review to verify the Authority's Section 8 Management Assessment Program certifications.

SCOPE AND METHODOLOGY

Our review covered the period of July 1, 2003, through June 30, 2004 (fiscal year 2004).

To accomplish our objectives, we reviewed Authority financial records and client files and interviewed Authority and HUD program staff. We performed our fieldwork at the Authority's office in Tacoma, Washington, from December 2004 through March 2005.

We used 100 percent sampling to ensure the Authority used the correct payment standards and utility allowances in its calculations. We checked all 24 payment standards and all 338 utility allowance computer inputs against the Authority's established payment standards and utility allowances. We used the results to analyze the Authority's internal controls for calculating housing assistance payments, tenant contributions, and utility allowances.

We used a 100 percent sampling to determine whether HUD made any excess housing assistance payments paid for any of the nine portability tenants who had left the Section 8 program in fiscal year 2004. We used the results in our analysis of the Authority's internal controls over its portability program.

We used 100 percent sampling to determine if the Authority properly abated the housing assistance payments for the 17 housing quality standards abatements. We used the results in our analysis of the Authority's internal controls over its housing quality standards program.

We used statistical sampling for our review of the Authority's internal controls over the operation of its housing choice voucher program because we wanted to reach a conclusion based on projections from the sample. We compared information in selected tenant files against HUD requirements to determine if the Authority determined tenant eligibility, verified tenant adjusted income, accurately calculated housing assistance payments, maintained housing quality standards, and managed its portability program. We found that the Authority has adequate internal controls to operate its housing choice voucher program in accordance with HUD requirements. We designed our samples with a confidence level of 90 percent and a critical error rate of 10 percent.

We used nonstatistical sampling for our review of the Authority's Section 8 Management Assessment Program housing quality standards quality control inspections. Our review checked the Authority's reinspection documentation against the inspection records in the tenant files. Nonstatistical sampling is an efficient means of determining whether the Authority's documentation of its reinspections meets HUD requirements. The Authority provided the records of 41 reinspections done on 10 dates as supporting documentation for their fiscal year 2004 housing quality standards quality control reinspections. We reviewed all available tenant files for the reinspections done on January 22, 2004, and the first readily available tenant file for one reinspection done on each of the other nine days, for a total of 14 of the 41 reinspections. Since this is a "go/no-go" test of the documentation, any discrepancies will mean the

documentation does not meet HUD requirements. While we did not project our results on the universe, we used our results to determine whether the documentation met HUD requirements (see finding 2).

We conducted the audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are 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.

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations - Policies and procedures that management implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management implemented to reasonably ensure valid and reliable data are obtained.
- Compliance with laws and regulations - Policies and procedures that management implemented to reasonably ensure resources are used consistent with laws and regulations.

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 (as reported in the findings) are significant weaknesses:

The Authority does not have adequate internal control processes for:

- Recouping or reconciling excess housing assistance payments (finding 1)
- Documenting Section 8 Management Assessment Program quality control reviews (finding 2)

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Ineligible 1/	Unsupported 2/	Unreasonable or Unnecessary 3/	Funds to Be Put to Better Use 4/
1B	\$33,012			



- 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 polices 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.
- 4/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	TACOMA HOUSING AUTHORITY	BOARD OF COMMISSIONERS  Hyun Um, Chair Stanley Rumbaugh, Vice Chair Willie Stewart Roslynn Watson Greg Mowat
	May 16, 2005	
	By mail and email	
	Mr. Ross C. Franklin, Staff Auditor Office of Inspector General for Audit U.S. Department of Housing & Urban Development Seattle Federal Office Building 909 First Avenue, Suite 125 Seattle, WA 98104-1000	
	Re: IG Draft Audit Report THA's Section 8 Voucher Program	
	Dear Mr. Franklin:	
	<p>The Housing Authority of the City of Tacoma (THA) recently received a draft Audit Report from the Inspector General's Office (IG). The draft Audit Report summarized the results of the IG's audit of THA's Housing Choice Voucher Program. We appreciate, and support, the IG's primary conclusion THA's "internal controls provide reasonable assurance that it correctly determines tenant eligibility, satisfactorily verifies tenant-adjusted income, accurately calculates housing assistance payments, effectively maintains HUD housing quality standards, and properly manages its portability program." The IG also proposed two findings. THA wishes to respond to these findings. You gave us until May 18th to do so.</p>	
	<p>1. Finding: The Authority did not fully reconcile its FY 2004 Section 8 Funds</p>	
	<p>The first draft finding concludes that, "[t]he Authority did not fully reconcile its Fiscal Year 2004 Section 8 funds". This pertains to inadvertent overpayments that THA (and all other PHAs with Voucher programs) make to landlords who fail to inform THA that the tenant has moved out. This is an infrequent but ever present aspect of the program for all PHAs. In most cases, THA recovers this overpayment by deducting it from future payment due on other tenants of the same landlord. The recovery problem arises when the tenant in question is the last program tenant of that landlord. In such cases, any recover must come from other efforts. Such overpayments appear to constitute less than .1% of the program's rental payments.</p>	
	<p>THA agrees that its procedures need bolstering to better ensure the timely and adequate effort to collect these overpayments. In response, THA has established new procedures to identify and follow-up on all overpayments to vendors with only one THA client within 30 days. THA feels</p>	
	902 South L Street • Tacoma, Washington 98405-4037 Phone 253-207-4400 • Fax 253-207-4440	

Ref to OIG Evaluation

Auditee Comments

Comment 1

Mr. Ross C. Franklin
May 16, 2005
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that this procedure adequately resolves the main issue noted in the finding and fulfills the IG's first recommendation under this finding.

THA, however, believes that the IG's draft conclusion is incorrect in two ways. **First**, the title of the finding suggests that THA did not properly prepare its year end settlement report for Fiscal Year 2004. This is not an accurate. **Second**, the draft report also recommends that THA repay the full amount of these overpayments to HUD. This is also mistaken.

The IG draft report incorrectly concludes that, upon discovery, such overpayments become a debt that THA immediately owes to the United States Department of Housing and Urban Development (HUD). THA does not agree with this conclusion. It is inconsistent with the federal regulations regarding fraud recoveries pursuant to 24 CFR Part 792. That regulation clearly states that housing authorities are allowed to retain the greater of (1) 50% of the amount recovered, or (2) the cost to recover the overpayment. Since some of the overpayments in question were the result of landlord "fraud", it is clear that the amounts recovered, if any, are not due to HUD until actually recovered. Since the audit finding did not differentiate between overpayments due to landlord fraud and those due to other reasons, and since the regulations do not provide clear guidance on non-fraudulent overpayments, THA contends that all overpayments are not due until recovered. If this is correct, then the title and the description of the above finding are not accurate.

Comment 2

The IG's draft also proposes to "require the Authority to repay the \$33,012 in fiscal year 2004 ineligible housing assistance payments." This appears mistaken in two ways. **First**, the amount is incorrect. Subsequent to the audit, THA has determined that for most of the \$33,012 amount in question the related checks were voided and no overpayment resulted. **Second**, in other cases, THA determined that landlord fraud occurred, and pursuant to the regulation I cite above reimbursement is not due to HUD until collected. For the remaining actual overpayments not stemming from fraud, THA agrees that they should be repaid to HUD, but only if THA can successfully recover the overpayments.

2. Finding: The Authority does not document its Section 8 management assessment program quality control reviews.

The second draft finding states that, "[t]he Authority does not document its Section 8 management assessment program Quality Control Reviews." In accordance with this finding, the IG recommends to HUD that it should, "require the Authority to implement a Section 8 Management Assessment Program that meets HUD requirements".

This finding pertains to two main issues: (1) in some cases, THA did not perform its management inspections within 90 days of the staff inspection; and (2) even though THA does perform the management reviews, it does not keep a record of which clients' file received the review. THA agrees that its processes need strengthening in these ways. It has already initiated procedures to ensure documented compliance.

Ref to OIG Evaluation

Auditee Comments

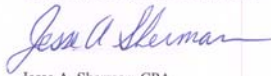
Mr. Ross C. Franklin
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In summary, THA requests the IG to reconsider the presentation of the first finding and to provide more definitive guidance on the overpayment issue. In addition, THA acknowledges the deficiencies associated with both findings. It has already implemented procedures to adequately address the issues.

We enjoyed working with you and your staff on this audit. We appreciate your work and the opportunity it gives us to improve our performance.

Sincerely,

TACOMA HOUSING AUTHORITY



Jesse A. Sherman, CPA
Director of Finance

OIG Evaluation of Auditee Comments

- Comment 1** We disagree. On the Year-End Settlement Statement (form HUD-52681), the Authority certified that “housing assistance payments have been or will be made only in accordance with Housing Assistance Payments Contracts or Rental Voucher Contracts in the form prescribed by HUD and in accordance with HUD regulations and requirements.” Our position is that the excess payments are ineligible and as such, should not be charged to HUD. HUD regulations at 24 CFR [Code of Federal Regulations] 982.311(a) state that “(h)ousing assistance payments may only be paid to the owner during the lease term, and while the family is residing in the unit.” The Authority documents upon which we based our eligibility determination show that the Authority made housing assistance payments for units where the lease was no longer in effect, for units in which the families were not residing, or for tenants who did not meet eligibility requirements. Regarding the Authority’s contention that the excess payments are not due to HUD until they are recovered, we believe the Authority should discuss this with HUD during the resolution process.
- Comment 2** We believe the \$33,012 is the correct amount of excess payments. At the exit conference, the Authority provided a spreadsheet with the amounts due for the fiscal year 2004 excess payments. The total of that spreadsheet, \$56,853, equals the amount in the computer printout of fiscal year 2004 excess payments the Authority provided during the audit. The spreadsheet and other documentation provided by the Authority show voided checks to landlords for \$22,969. After deducting this amount from the total and making other adjustments justified by Authority documentation, we determined that the amount of fiscal year 2004 housing assistance payments is \$33,012. We will provide the documents to HUD program staff.

Appendix C

HOUSING QUALITY STANDARDS QUALITY CONTROL REINSPECTION DATES

Client ID #	Quality control reinspection date	Previous inspection date	Meets 3-month requirement
126152	01/22/2004	10/02/2003	Yes
132151	01/22/2004	09/09/2003	No
134332	01/22/2004	09/11/2003	No
130018	01/22/2004	10/02/2003	Yes
119116	01/22/2004	03/14/2003	No
111085	08/28/2003	03/25/2003	No
135964	11/20/2003	03/13/2003	No
135803	03/04/2004	04/22/2003	No
129857	12/04/2003	03/20/2003	No
121122	10/23/2003	03/13/2003	No
100689	10/09/2003	03/07/2003	No
111559	09/18/2003	03/06/2003	No
108992	09/04/2003	10/10/2002	No
126433	10/02/2003	03/05/2003	No