



Issue Date	September 27, 2005
Audit Report Number	2005-FW-1018

TO: Dan Rodriguez
Program Center Coordinator, Office of Public Housing, 6EPH

FROM: Frank E. Baca
Regional Inspector General for Audit, 6AGA

SUBJECT: The Housing Authority of the City of Houston, Houston, Texas, Violated HUD Regulations Concerning Section 8 Housing Choice Voucher Tenants and Units

HIGHLIGHTS

What We Audited and Why

As part of our strategic audit plan, we audited the Section 8 Housing Choice Voucher program administered by the Housing Authority of the City of Houston (Authority). We performed the audit to determine whether the Authority complied with U.S. Department of Housing and Urban Development (HUD) regulations concerning the overhousing of tenants, correctly calculating housing assistance payments, and ensuring that tenants resided in decent, safe, and sanitary housing.

What We Found

The Authority did not comply with HUD regulations because it did not effectively monitor the contractor it hired to manage its Section 8 programs. The Authority overhoused tenants, incorrectly calculated housing assistance payments, and paid assistance for tenants to reside in units that did not meet minimal decent, safe, and sanitary standards for at least one year.

The Authority terminated its contract with the contractor in October 2004 and resumed operating its Section 8 programs. It took some steps to correct

weaknesses in its inspections and assistance calculation processes. However, it must implement effective controls and a monitoring system to ensure that it complies with HUD's regulations.

What We Recommend

We recommend that HUD require the Authority to repay \$7.44 million, including \$2.4 million that it retained from its administrative fees and \$5.04 million that it paid to the contractor for which it did not receive adequate service. We also recommend HUD require the Authority to implement internal controls, and establish monitoring systems to ensure compliance with its contributions contract, which will result in more than \$7.9 million in funds being put to better use.

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

The Authority disagreed with the methodology, finding, and recommendations. The complete text of their response, along with our evaluation of that response, can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The City of Houston established the Housing Authority of the City of Houston (Authority) in 1938. The mayor appoints a five-member board of commissioners (board) to govern the Authority. The board hires an executive director to manage the Authority's day-to-day operations. The Authority keeps its records at its central office at 2640 Fountainview, Houston, Texas.

The Authority has operated its Section 8 rental assistance program since 1975. The U.S. Department of Housing and Urban Development (HUD) and the Authority entered into a consolidated annual contribution contract (contributions contract) which governs HUD's provision of funds under the Housing Choice Voucher program. During our audit period, October 1, 2002, through October 31, 2004, the Authority administered more than 13,000 housing choice vouchers. During that time, HUD paid the Authority \$208 million to fund its Housing Choice Voucher program, including \$15.5 million for administrative expenses.

During 2001, HUD designated the Authority "troubled" and gave it a low Section 8 Management Assessment Program score. The Authority contracted with Quadel Consulting (contractor) in December 2001 to manage and improve its Section 8 program performance. The contractor formed a subsidiary, Houston Housing Assistance Partnership, to perform the contract work. The contractor improved the Authority's score, taking it out of the "troubled" category. The contract called for the Authority to pay the contractor 85 percent of its administration fee. The Authority calculated that its contractor earned \$13,093,500 for administering the Housing Choice Voucher program during the audit period.

This audit is the final in a series of Section 8 Housing Choice Voucher program reviews of the Authority. Previous audits in the series measured how well the contractor performed two core functions, tenant functions and unit functions, called for by Section 2.02 of the Authority's initial contract with the contractor. Those functions included:

- Tenant residency in appropriately sized units¹;
- Accuracy in tenant files supporting assistance payments²; and
- Tenant residency in units that met or exceeded the minimum standards for decent, safe, and sanitary housing³.

This audit determined how much HUD paid the Authority to administer its Section 8 Housing Choice Voucher program, and whether the Authority complied with HUD regulations regarding overhousing of tenants, correctly calculating housing assistance payments, and ensuring that tenants resided in decent, safe, and sanitary housing. The Authority terminated the contractor's contract in October 2004 based, in part, on our earlier audit of overhoused tenants⁴.

¹ Report number 2004-FW-1010, Housing Choice Voucher Subsidy Standards, Housing Authority of the City of Houston, Houston, Texas, issued September 29, 2004.

² Report number 2005-FW-1006, Housing Authority of the City of Houston, Section 8 Housing Assistance Payments, Houston, Texas, issued March 25, 2005.

³ Report number 2005-FW-1007, Housing Authority of the City of Houston, Section 8 Housing Quality Standards, Houston, Texas, issued March 29, 2005.

⁴ Ibid. 1.

RESULTS OF AUDIT

Finding: The Authority Violated HUD Regulations Concerning Section 8 Housing Choice Voucher Tenants and Units

The Authority violated HUD regulations when it did not effectively monitor its contractor to ensure the contractor provided an acceptable level of service. Section 8 tenants lived in oversized units, overpaid or underpaid their shares of the rents, and lived in units that failed to meet minimal health and safety standards. As a result, HUD-subsidized families did not receive adequate services for the \$15.5 million HUD gave the Authority to manage its Section 8 Housing Choice Voucher program.

The Authority Did Not Ensure the Contractor Provided Good Service

The results of our three previous Section 8 Housing Choice Voucher program audits showed that the Authority did not ensure that its contractor provided an acceptable level of service because it did not effectively monitor the contractor. The contractor made numerous errors in managing the Authority's Section 8 Housing Choice Voucher program. The errors included overhoused tenants, erroneous assistance payments, and payments for housing units that did not meet minimal health and safety standards. Based on the prior audit work, we project that the Authority's failure to monitor the contractor effectively caused the Authority to:

1. Overpay at least \$797,000 for tenants to live in units larger than the Authority's policies allowed because the contractor chose not to follow the Authority's policies to avoid increasing its workload;
2. Overpay and underpay at least \$1.2 million in assistance payments for tenants because the contractor did not correctly perform or support assistance payment calculations in at least 52 percent of the Authority's more than 13,000 tenant files; and
3. Pay at least \$26.1 million for no less than 3,500 housing units that had not met the minimal health and safety standards for a year or more because the contractor passed units which should have failed inspection. The 3,500 units were 25 percent of the more than 13,000 assisted units during fiscal years 2003 and 2004.

The Authority's Initial Contract Lacked Controls

The Authority's initial contract with the contractor lacked some critical controls over tenant functions and unit functions described in its contract. The contract did not provide a method for the Authority to determine whether the contractor adequately performed the tenant and unit functions. It also did not provide

penalties for poor performance or requirements for the contractor to be financially responsible for its errors.

Although the initial contract established performance standards and linked them to HUD's Section 8 Management Assessment Program performance levels, it did not require the contractor to report specific data showing its progress in meeting the standards nor did it specify how the Authority would verify that the contractor met them. It required the contractor to manage the program in accordance with HUD's rules and regulations and to provide the Authority with monthly updates on the contractor's activities. However, the Authority did not independently verify that the contractor performed its tenant functions and unit functions appropriately. Since the Section 8 Management Assessment Program is a self-certification system, the Authority should have conducted an independent review of the contractor's performance to confirm the self-certification.

In late April 2004, after we began reviewing the Authority's Housing Choice Voucher program, the Authority extended the contract and improved it by including penalties for some types of poor performance. While the Authority recognized and improved some of the deficiencies in the original contract, its modified contract did not provide for independent monitoring of the contractor's performance.

The Authority's Monitoring

During the audit period, the Authority stated that it conducted monitoring of the contractor's performance. In a letter to auditors, the Authority stated that it used the following six methods to monitor the performance:

1. "Appointment of a capable contract administrator" to oversee the contractor's performance;
2. "Regular reporting procedures" which included requirements for the contractor to submit monthly performance reports to the contract administrator who reviewed them and forwarded the information to the executive director;
3. "Regular bi-weekly conference call with local (contractor) management" to address current issues;
4. "Regular quarterly meetings with (contractor) management" to discuss issues relating to Contractor performance;
5. "Formation of an Advisory Task Force" to meet and discuss Section 8 program issues and propose solutions to problem areas; and
6. "Monthly financial review," in which the Authority's finance department conducted reviews of payments, utilization, and bank reconciliations.

The Authority's Monitoring Was Insufficient.

Although, the Authority did some monitoring, it did not monitor the contractor sufficiently to detect the contractor's poor performance in carrying out tenant functions and unit functions. The Authority did not require sufficiently detailed or complete tenant function or unit function data from the contractor. Further, the Authority did not verify the data that it received. Instead, the Authority relied on the contractor's self-assessed performance which did not fully disclose the contractor's problems in operating the program.

The Authority did not know the extent of the tenant function errors or the severity of the file error rate because it did not require the contractor to report specific or complete data and did not independently monitor the tenant files. For example, in its July 2003 monthly report, the contractor reported that it detected 3,118 errors out of 20,171 items in 489 files that it reviewed, but it did not state the nature of the errors, or how many files contained errors. The nature of the errors covered more than 40 tested items that ranged from whether the file was neat and orderly to whether the assistance payment was calculated correctly. However, the Authority did not require this level of detail from the contractor.

The Authority should have known that the file errors were extensive because HUD reported a 100 percent error rate in the 93 sample files that it tested as part of its rental integrity monitoring in late 2002. HUD provided the report to the Authority on January 22, 2003. The contractor told the Authority that it found errors in 15.5 percent of the items that it reviewed between February 2003 and July 2003, but did not specify the nature of those errors or the number of files that contained the errors. Our review of a statistical sample of tenant files from October 2003 through October 2004 projected that at least 52 percent of the total tenant files contained errors that could affect assistance payments.

The Authority also did not verify the data reported by the contractor because it inappropriately relied on the contractor's self-assessed performance. For example, we found a high incidence of the contractor's inspectors passing units that should have failed their housing quality standards inspections. Our review showed that the Authority paid subsidies for more than 3,500 units that had not met the minimal health and safety standards for a year or more. To be aware of this problem, the Authority or a third party would have had to review a sample of the units.

In a letter to auditors, the Authority said that it "...reasonably relied on (the contractor's) expertise to effectively manage the program on a day-to-day basis to meet its contractual obligations." Our audit results show that relying on the contractor without independently verifying its performance resulted in a poorly operated Section 8 Housing Choice Voucher program.

HUD Had Recommended That the Authority Exercise More Control Over the Contractor

The Authority received several monitoring reviews from HUD’s local Office of Public and Indian Housing during 2003 and 2004. In a May 16, 2003 report to the Authority, HUD said that the Authority should exercise continuous supervisory quality control of its contractor. The report further stated that the Authority should exercise “Hands-on managerial and executive oversight of the Contractor with written internal reports...” Despite the recommendations, the Authority did not implement independent reviews.

HUD Paid the Authority \$15.5 Million and Did Not Receive an Appropriate Level of Services

Due to the Authority’s poor performance, HUD did not receive an appropriate level of services for the \$15,501,265 it provided the Authority to administer its Section 8 Housing Choice Voucher program. According to the contributions contract, the Authority was to ensure that qualified tenants received an appropriate amount of HUD assistance to reside in housing that met the minimal health and safety standards. The contributions contract requires the Authority to comply with HUD requirements, its administrative plan, and its approved program funding applications. It also requires the Authority to certify that it made assistance payments and conducted housing unit inspections in accordance with HUD regulations. The results of our prior audits showed that the Authority did not fulfill the terms of the contributions contract.

The Authority retained \$2,407,765 of the \$15,501,265 to oversee its contractor’s operation of its Section 8 Housing Choice Voucher program and paid or accrued \$13,093,500 to the contractor to operate the program, which HUD reclassified as “troubled” after the contractor’s departure. Despite the contractor’s poor performance, the Authority is ultimately responsible for the proper administration of its Section 8 program under the terms of the contributions contract. Since the Authority should have known of the contractor’s poor performance, but did not use the \$2.4 million of administrative fees that it retained to effectively monitor its contractor, those funds should be repaid to HUD. Further, HUD should recover from the Authority funds paid to the contractor for services it failed to provide, which we estimate to be at least \$5,040,997.⁵

⁵ See Scope and Methodology section on page 10 for an explanation of how we determined the amount of unsupported costs.

The Authority Fired the Contractor and Resumed Operating Its Section 8 program.

The Authority fired its contractor in October 2004, hired many of the contractor's employees, and resumed operating its Housing Choice Voucher program. As a result, the Authority will have more control over the \$7.9 million that it will have received in administrative fees between October 2004, and the scheduled contract termination date of November 30, 2005, because it has resumed full operation of its program. The \$7.9 million will be funds put to better use if the Authority implements controls and establishes a monitoring system to ensure its performance complies with its contributions contract.

Recommendations

We recommend that HUD require the Authority to:

- 1A. Reimburse HUD \$7,448,762, including \$2,407,765 that it should have used to properly monitor its contractor, and \$5,040,997 for inadequate contractor services due to the Authority's lack of monitoring.
- 1B. Implement internal controls and establish monitoring systems, including monitoring systems for future contractors that it might use to manage the Section 8 programs, to ensure compliance with its contributions contract, which will result in more than \$7.9 in funding being put to better use.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the Authority complied with HUD regulations regarding the overhousing of tenants, correctly calculating housing assistance payments, and ensuring that tenants resided in decent, safe, and sanitary housing. To accomplish the objectives, we obtained and reviewed:

- The consolidated annual contributions contract governing the funds that HUD provides the Authority to operate its Section 8 program;
- The contract between the Authority and its contractor;
- The results of previous Section 8 audits of the Authority;
- Various quality control documents, and queried appropriate Authority and HUD personnel regarding the contractor's performance; and
- Various financial documents related to the amounts that HUD paid the Authority to administer its Section 8 program and that the Authority paid to its contractor to manage the program.

Methodology

We did not use any samples in our audit. We reviewed the results of our previous Section 8 audits of the Authority, contracts, financial documents, and quality control documents that related to the contractor's performance.

We determined \$5,040,997 to be the minimum amount that HUD should recover from the Authority because the contractor did not fulfill its part of the contract properly and, therefore, should not have received the full amount of the contracted fee. The Authority calculated that the contractor earned \$13,093,500; however, the contractor's performance only merited a portion of that amount. To arrive at an estimate of what the contractor owed, we averaged the error rates for our prior audits in housing assistance payments and housing quality standards. Since 52 percent of tenants had errors in their files and 25 percent of units were unfit for tenant occupancy for a year or more, the average, a minimum of 38.5 percent, or \$5,040,997 of the funds that the Authority paid or accrued to the contractor were ineligible costs.

We conducted our fieldwork during March and April 2005 at the Authority's offices in Houston, Texas. Our audit period was October 1, 2002, through October 31, 2004; however, we extended the period as necessary.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures that the Authority put into place to reasonably ensure that the contractor calculated assistance payments accurately and properly supported the calculations and
- Policies and procedures that the Authority put into place to reasonably ensure that assisted units met or exceeded the minimal standards for decent, safe, and sanitary housing.

Significant Weaknesses

Based on our review, we believe the following item was a significant weakness:

- The Authority did not have adequate internal controls or monitoring systems to ensure it complied with Section 8 requirements and its contributions contract.

FOLLOW UP ON PRIOR AUDITS

There are three audits of the Authority with open recommendations that have a bearing on the objectives of this audit.

Housing Choice Voucher Subsidy Standards (2004-FW-1010)

The Authority is required to implement internal controls to avoid future overpayments projected to be at least \$3,232,953 resulting from overhousing tenants during the next four years. The Authority is supposed to have this requirement completed by October 31, 2005.

The Housing Authority of the City of Houston's Contractor, Houston, Texas, Did Not Correctly Calculate or Support Its Section 8 Housing Assistance Payments (2005-FW-1006)

The Authority is required to review 100 percent of tenant files and identify and repay HUD any ineligible housing payments, projected to be at least \$1,140,915. Further, the Authority is required to identify and reimburse tenants for any underpaid housing assistance, projected to be at least \$113,680. The Authority is also required to implement controls to prevent future housing assistance payment errors, projected to be at least \$1 million per year. The Authority is supposed to have these requirements completed by February 28, 2006.

The Housing Authority of the City of Houston's Contractor, Houston, Texas, Did Not Ensure Section 8-Assisted Units Were Decent, Safe, and Sanitary (2005-FW-1007)

The Authority is required to ensure that the 88 failed units identified during the audit meet housing quality standards, and if the units cannot be made decent, safe, and sanitary, to either abate the rent or terminate the tenant's voucher. The Authority is supposed to have this requirement completed by September 30, 2005. Additionally, the Authority is required to inspect all of its Section 8 Housing Choice Voucher-assisted units within the 12 months following the audit report and ensure the units meet the housing quality standards. The Authority is also required to ensure that it implements controls and procedures to prevent assisting units that would not meet housing quality standards during the year following the audit. Such spending is projected to be at least \$26.1 million. The Authority is supposed to have these requirements completed by February 28, 2006.

APPENDIXES

Appendix A

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

Recommendation Number	Unsupported <u>1/</u>	Funds to be Put to Better Use <u>2/</u>
1A	\$7,448,762	
1B		\$7,939,494
Totals	\$7,448,762	\$7,939,494

1/ 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 reporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ “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

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Commissioners
Laura Ramirez-Jaramila
Chair
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Shelia Smith

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Executive Director

**HOUSING AUTHORITY OF THE
CITY OF HOUSTON**

P. O. Box 2971 • Houston, Texas 77252-2971 • (713) 260-0800



More Than Just A Place To Live

Office of the Executive Director

September 19, 2005

Via Fax: 817.978.9316

Mr. Frank E. Baca
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
819 Taylor Street, Room 13A09
Fort Worth, Texas, 76102

Attn: Theresa A. Carroll, Assistant Regional Inspector General for Audit

**RE: DRAFT AUDIT REPORT ON HOUSING AUTHORITY OF THE CITY OF
HOUSTON'S CONTRACTUAL OBLIGATIONS
NUMBER 2005-FW-101X**

Dear Mr. Baca:

The Housing Authority of the City of Houston (HACH) has received and studied the draft report dated August 17, 2005, from the Office of Inspector General (OIG), the fourth in a series of OIG audits of HACH's Housing Choice Voucher (HCV) program for the period October 1, 2002 through October 31, 2004. Thank you for extending the time necessary for HACH to respond fully to your report.

While HACH has cooperated fully with HUD and the OIG in implementing comprehensive program improvements designed to address the program deficiencies identified in the three prior audits, **HACH strongly disagrees with the methodologies, finding and recommendations of the August 17th review.**

To date, HACH has already submitted the following responses to previous audits:

- Letter to D. Michael Beard dated September 17, 2004;
- Two letters to James McKay dated March 21, 2005.

The aforementioned letters include HACH comments regarding OIG then-draft findings related to: tenant residency in appropriately sized units, accuracy in tenant files supporting assistance payments, and tenant residency in units that met or exceeded the minimum standards for decent, safe and sanitary housing. In addition to the comments included in these earlier letters, HACH respectfully submits the following comments for your consideration:

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Summary of OIG Draft Report Finding and Recommendations

The OIG's draft audit report contains one finding, i.e. that, "The Authority violated HUD regulations concerning Section 8 Housing Choice Voucher Tenants and Units". Under this finding, the OIG states that:

- The Authority did not ensure that the Contractor provided good service;
- The Authority's monitoring was insufficient;
- HUD had recommended that the Authority exercise more control over the Contractor; and,
- HUD paid the Authority \$15.5 Million and did not receive appropriate level of services.

Based on this one finding, the OIG recommends that HUD require the Authority to:

- Reimburse HUD \$7,448,762. This figure was arrived at by averaging the file error rate calculated during the two prior OIG audits; and,
- Implement internal controls, including monitoring systems for future contractors that it might use to manage the Section 8 programs to ensure compliance with its contributions contracts.

HACH Response to Draft OIG Finding and Recommendations

HACH strongly disagrees with the OIG's methodologies, finding and recommendation based on the following factors:

The authority's efforts to monitor and enforce Contractor performance were reasonable and prudent. During the period covered by the OIG audit reports, HACH's Housing Choice Voucher (HCV) program was administered through a contract with Quadel Consulting Corporation (the Contractor). The contract began December 1, 2001 and was terminated by mutual consent on October 20th, 2004. HACH's reasons for contracting HCV program administration was to address program deficiencies that had resulted in a SEMAP designation of "troubled".

The Contractor hired by HACH is a Washington, D.C. based firm with extensive prior experience in the administration of HCV and public housing programs. Prior to entering into the contract, HACH was made aware of the Contractor's extensive contractual relationship with HUD. HUD has previously entered into large scale contracts with the Contractor for numerous HCV projects including preparation of the national HCV Guidebook in use at all PHAs around the country. The Contractor was also hired by HUD to assist "troubled" PHAs in developing and implementing corrective action strategies. For several years, the Contractor has conducted national trainings and conferences, many of which featured senior HUD officials as speakers and/or participants. Thus, based on HUD's own actions, HACH had reasonable cause to believe that the Contractor was fully qualified to administer HACH's Housing Choice Voucher Program.

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Comment 1

Comment 1

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The Contractor operated HACH's HCV program for approximately 34 months. During this time, the Contractor reported monthly to HACH on its performance, providing detailed statistical and narrative information that covered all major program and performance areas; furthermore, meetings with Contractor senior staff were held on site regularly to discuss program direction, problems and actions necessary to improve program efficiency. Over time, the level of detail provided by the Contractor regarding quality control and other activities improved in response to discussion with HACH.

While the contract was in effect, HACH exercised reasonable and prudent contract monitoring and oversight with an emphasis on monitoring actual results and outcomes. HACH's actions in this regard included:

- Appointment of a capable contract administrator to oversee Contractor performance;
- Monthly review of Contractor performance reports by the contract administrator and other executive staff;
- Weekly meetings with local Contractor staff to review issues and problems;
- Bi-weekly conference calls between HACH and Contractor senior staff, based in Washington, D.C., to review issues and progress;
- Quarterly review meetings between Contractor and HACH;
- Formation of an Advisory Task Force; and
- Monthly financial review including a review of payments and utilization.

The Contractor communicated frequently with HACH's contract administrator, particularly as it related to Contractor's work to address RIM-related Corrective Action Plan tasks.

As noted below, HACH's contract monitoring helped to ensure the agency's SEMAP scores improved dramatically while the Contractor was administering the HCV program. These improved SEMAP scores were validated by the local HUD office through confirmatory reviews. The improvements were due both to the Contractor's efforts and HACH's ongoing monitoring of the Contractor's operations. As part of its monitoring efforts, HACH met regularly with Quadel on-site staff to discuss issues and problems. HACH also relied on the Contractor's representations, the ongoing internal review of Contractor's reports, ongoing meetings and communications with the Contractor and HUD's subsequent certifications of HACH's SEMAP scores. While the OIG believes more monitoring could have been performed, we are convinced **HACH's fundamental approach to monitoring the Contract was sound and reasonable.**

When HACH learned of problems in rent calculation, file maintenance, and inspections through its own monitoring, HUD RIM reviews and OIG audits, HACH acted expeditiously to correct the problems cited. HACH revised its monitoring approach, took prompt corrective action, and, ultimately, took over direct program administration in October of 2004.

Subsequent to termination of the Contract by mutual agreement, HACH has undertaken a comprehensive Corrective Action Plan, approved by the local HUD office, to address all

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outstanding deficiencies including those noted in the OIG's three prior reviews. As part of these efforts, HACH has put in place an appropriate level of internal controls to ensure that program quality and performance is continuously monitored and assessed. Additionally, HACH has already rectified identified errors in rent calculations and "over-housing" by improving procedures, training staff and making payment to affected tenants or HUD.

The Authority's monitoring approach mirrored HUD's own monitoring method – the Section 8 Management Assessment Program (SEMAP). While acknowledging file errors and some inspection-related deficiencies noted in prior OIG reports, the real improvement to the HACH's program administration is verified by HUD itself. HUD's local office certified the 2002 and 2003 SEMAP scores at 65% and 69%, respectively. And, even though the HUD office did not accept the Contractor's final certification for 2004 of 73%, certifying HACH at 59%, this is a dramatic improvement over the 22% starting point of the contract.

Even if one assumes that the 59% FY 2004 score is upheld, this is still a 267 % improvement of the FY 2001 SEMAP score. While HACH fully intends to reach and maintain a "standard performer" (and, eventually, a "high performer") designation, the SEMAP scores provide documented evidence of the improvements made to HACH's HCV program in the last three years.

HACH's focus on monitoring the Contractor's SEMAP performance is appropriate and reasonable in light of the fact that SEMAP is the fundamental measurement system used by HUD to measure PHA performance in the administration of HCV program operations.

In addition to substantially improving the SEMAP score, HACH and the Contractor made many other significant program improvements during the period covered by the OIG audit. These included:

- Increasing overall program utilization rate from 86% in February 2002 to 98% by December 2002 and 100 % for 2003;
- Completing 99% of annual recertification's for 2002 and 2003;
- Processing extensive backlog of landlord rent requests; and
- Increasing owner satisfaction with program services as measured by professionally administered surveys;

The OIG's proposed recommendation requiring HACH to return administrative fees to HUD is unjust and based on unsound methodology. Further, it would seriously impair the Authority's efforts to further improve HCV program operations.

The total amount sought by the OIG is \$7,448,765, which includes 100 % of HACH's portion of the administrative fee (\$2,407,765) and 38.5 % (\$5,040,997) of the administrative fee paid by HACH to the Contractor..

The OIG report states that "to arrive at an estimate of what the contractor owed, we averaged error rates for our prior audits in housing assistance and housing quality standards.

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Since 52 percent of the tenants had errors in their files, and 25 percent of the units were unfit for tenant occupancy, the average, a minimum of 38.5 percent, or \$5,040,997 of the funds that the Authority paid or accrued to the Contractor were ineligible costs.”

Comment 4

The OIG recommends that the entire amount of administrative fees earned by HACH for its contract monitoring activities be recaptured. This is an extremely onerous and unjustified penalty. It is clear that HACH did, in fact, perform numerous services related to the HCV program. This includes all the contract monitoring efforts cited above, as well as additional planning, policy development and financial management. Among other accomplishments, HACH's contract monitoring efforts facilitated the improvements in SEMAP indicator performance previously cited.

Comment 5

Next, the OIG's recommendation that HACH pay back 38.5 % of the administrative fee paid to the contractor is equally unjustified and unfair. The OIG's methodology attaches a specific dollar value to the Contractor's failure to eliminate all file errors and to properly inspect all units. This methodology is not supported by an analysis of the cost of operating an effective HCV program, by the Contract's terms or by any regulatory citation. Further, the OIG's recommendation is fundamentally unsound in that it does not consider the entire range of tasks, activities and costs associated with operating on HCV program.

Successful HCV program administration involves a much wider range of work than that reviewed or cited in any of the OIG reports. These tasks include, but are not limited to:

- Intake and outreach;
- Maintenance of waiting lists;
- Conducting applicant briefing sessions;
- Providing assistance to clients searching for housing;
- Determining rent reasonableness;
- Conducting initial, annual and special inspections;
- Providing follow-up on inspection results;
- Leasing up units;
- Maintaining outreach to owners;
- Operating a Family Self-sufficiency Program
- Making payments to owners and participants;
- Maintaining automated records, including submission of 50058 forms to HUD;
- Policy and financial planning; and,
- Responding to HUD information and review requests.

Additionally, the OIG assertion that “25% of units were unfit for tenant occupancy for a year or more” is based on a questionable inspection method by the OIG. Approximately 75% of the units in question were inspected by the OIG more than 90 days after the Contractor's initial inspection, making it impossible to determine what the conditions were when the Contractor inspected. Note also that the OIG's re-inspection protocol is contradictory to that used by HUD's REAC quality control inspectors and with SEMAP standards, which require Quality Control inspections to take place no later than 90 days after initial inspection.

A Fair Housing and Equal Employment Opportunity Agency
Individuals with disabilities may contact the 504/ADA Administrator at 713-260-0528
TTY 713-260-0547 or 504_ADA@hach.org to request reasonable accommodations.

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Linking the percentage of earned administrative fees to specific file accuracy rates or specific inspection performance indicators is: a) unreasonable in light of the extensive additional program services provided by HACH and its Contractor in order to operate the HCV program; and, b) unfair in that it focuses on only a small number of performance indicators while singling out HACH for penalties that have not been applied across the board to HCV administering agencies; and c) does not recognize that HACH's designation by HUD as a "standard performer" acknowledges that its performance includes an "acceptable" error rate.

Comment 6

Finally, I wish to emphasize again that HACH has undertaken intensive, good faith efforts to bring the HCV program into full compliance with all applicable regulations. We intend to continue our efforts to ensure full compliance with all regulations and to address all of the findings resulting from the OIG and HUD reviews. However, the proposed OIG recommendations are unduly harsh and, if implemented, would result in a serious degradation of future program services. Subsequent to the OIG reviews, HACH has made extensive and ongoing efforts to provide quality housing services to Houston's low income families. HACH's efforts have included expenditure of substantial additional funds above and beyond the administrative fee amounts to address program deficiencies.

Comment 6

As I write this response, HACH staff is displaying extraordinary dedication in working to respond to the Hurricane Katrina national emergency. HACH's contribution to this effort vastly exceeds the efforts of every other PHA in the country. To date, over 2,100 new vouchers have been issued by HACH to assist households displaced by Hurricane Katrina. It must be noted that the costs to administer these additional vouchers is projected to exceed \$20 million in annual budget authority. Implementation of the proposed OIG recommendation would force HACH to divert over \$7 million from this critically important national objective, while also threatening to undermine the progress made to date in improving HCV operations.

It is HACH's hope that the above information will result in modification of the proposed OIG report.

Sincerely,



Ernie Etuk
Executive Director

cc: HACH Board of Commissioners

OIG Evaluation of Auditee Comments

Comment 1 In its response, the Authority claimed that its efforts to monitor the contractor and enforce the contract were reasonable and prudent. We disagree. The Authority failed to perform independent verifications of the contractor's performance regarding tenant and unit functions. Consequently, the results of the previous audits showed that the Authority's monitoring efforts were ineffective. The Authority allowed the contractor to over-house tenants, make errors in at least 52 percent of the total tenant files resulting in erroneous payments, and house at least 25 percent of its tenants in units that failed to meet the minimum decent, safe, and sanitary standards for a year or more.

In addition, the Authority argued the contractor was fully qualified to administer the Authority's Section 8 program. However, regardless of the contractor's qualifications, the Authority needed to independently monitor and verify the contractor's performance instead of relying on representations made by the contractor regarding its performance.

Comment 2 The Authority claimed that it learned of problems in rent calculations and inspections through its own monitoring. However, during the audit, the Authority was never able to provide any evidence to support this statement. For example, the Authority did not independently verify any inspection results that the contractor reported. Thus, we question how the Authority could have detected problems in areas it was not testing or verifying.

Comment 3 The Authority believes that its monitoring was appropriate because it improved its SEMAP scores. The Authority did improve its SEMAP scores. However, our audit objective was not to validate SEMAP scores, but to determine whether the Authority complied with HUD regulations regarding the overhousing of tenants, correctly calculating housing assistance payments, and ensuring that tenants resided in decent, safe, and sanitary housing. As the report states, we found a significant level of errors in the tenant and unit functions that the Authority hired its contractor to perform. Since the Authority could not show that it monitored the contractor sufficiently to be aware of the extent of the tenant or unit function errors, its monitoring was not appropriate or effective.

Comment 4 The Authority states that OIG's recommendation they should repay their entire amount of administrative fee is an extremely onerous and unjustified penalty. We disagree. Ultimate responsibility for the operation of its Section 8 program lay with the Authority and the Authority did not ensure that its contractor provided an adequate level of service. Also, we questioned the funds as unsupported costs so that HUD can make its own determination as to the amount that should be disallowed.

Comment 5 The Authority disagreed with our methodology used to determine 38.5 percent of the funds paid to the contractor that should be repaid to HUD. The Authority also argued that the 25 percent of units not fit for occupancy was based on

questionable OIG inspection methodologies. We used conservative estimates when we determined the amount of inappropriate service. For example, over 70 percent of the Authority's units failed our housing quality standards inspections. However, we only used those units with significant problems that obviously existed for a year or more and/or were fail items on the previous inspection by the Authority's contractor to estimate the amount HUD should recover.

Comment 6 The Authority stated that repaying all of the funds would seriously degrade future program services provided by the Authority. We agree such a repayment could have a negative impact on the Authority. However, HUD has the authority to determine the amount the Authority should repay, and how it should repay its misspent funds. We urge the Authority to work with HUD to resolve questioned amounts, and to improve the quality of its services.