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Audit Report Number	2005-LA-1008
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TO: Glenda Giffie, South Team Division Director of the Financial Management Center, PEVFB

Cecilia J. Ross, Director, Los Angeles Office of Public and Indian Housing, 9DPH

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

SUBJECT: Inglewood Housing Authority, Inglewood, California, Did Not Comply with the Housing Choice Voucher Program Portability Procedures and Responsibilities

HIGHLIGHTS

What We Audited and Why

We audited Inglewood Housing Authority (Authority) in Inglewood, California, in response to a request for audit from the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Public and Indian Housing. This is one of four audit reports resulting from our audit of the Authority.

Our objective was to determine whether the Authority complied with the Housing Choice Voucher program's portability procedures and responsibilities contained in HUD's Housing Choice Voucher Guidebook and Office of Public and Indian Housing notices.

What We Found

Contrary to the provisions in HUD's Housing Choice Voucher program requirements, the Authority did not comply with portability procedures and responsibilities. We reviewed the 143 portable tenant files, in which the initial public housing agency, Housing Authority of the City of Los Angeles, refused to pay the housing assistance payments because the Authority did not submit the initial bill within the required timeframe causing the Authority to exceed their budget by \$1.9 million. We also found that the Authority did not submit the appropriate documentation to ensure duplicate payments were not made on behalf of the ported tenants.

What We Recommend

We recommend that HUD's Financial Management Center not reimburse the Authority's Section 8 program for the \$1,991,283 in excess of its budget authority as was requested in its fiscal year 2004 yearend settlement statement. We also recommend that HUD's Los Angeles Office of Public and Indian Housing ensures the Authority develops and implements adequate portability procedures to ensure billings and documentation are submitted on time.

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

Auditee's Response

We provided the Authority with a draft report on July 5, 2005, and held an exit conference on July 28, 2005. The Authority provided written comments on August 11, 2005. The Authority disagreed with our report finding. 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

The City of Inglewood, located at Inglewood City Hall, One Manchester Boulevard, Inglewood, California, incorporated in 1908. The city administrator is responsible for setting operational goals, implementing legislative action, making policy decisions approved by the mayor and city council, monitoring the annual operating budget, overseeing the personnel system, and providing direction to all city departments to ensure they meet the needs of the community. The Authority is a blended component unit of the Community Development Department. The governing body is comprised of members of the city council and the mayor. Among its duties are the approval of the Authority's budget and appointment of management. The financial activities of the Authority are reported as a special revenue fund of the city. The housing manager has three levels of oversight: the director of community development, the deputy city administrator/community development and social services, and the city administrator/executive director of the Authority. The director of community development is the housing manager's immediate supervisor.

The Housing Choice Voucher program was created under the Housing and Urban Rural Recovery Act of 1983 to enable eligible lower income families to obtain modest housing in the private sector that is decent, safe, and sanitary. An eligible family may use a tenant-based voucher to lease a unit anywhere in the United States, leaving the first (initial) public housing agency that issued the voucher for the second (receiving) public housing agency. The receiving public housing agency decides whether it will administer or absorb an incoming portable family based on its leasing rate or utilization rate, the administrative cost of billing, and the location of the public housing agency. The receiving public housing agency must then promptly inform the initial public housing agency of its decision to administer and bill the initial public housing agency for the rental assistance or absorb the family into its own program.

The housing assistance payment contract is a written agreement between the public housing agency and the owner of a unit occupied by a Housing Choice Voucher program participant. Under the housing assistance payment contract, the public housing agency agrees to make housing assistance payments to the owner on behalf of a specific family leasing a specific unit.

This audit report is one of four audit reports resulting from our audit of the Authority. Our objective was to determine whether the Authority complied with the Housing Choice Voucher program's portability procedures and responsibilities contained in HUD's Housing Choice Voucher Guidebook 7420.10G and Notice 2004-12.

RESULTS OF AUDIT

Finding: The Authority Did Not Comply with Portability Procedures and Responsibilities

Contrary to HUD's Housing Choice Voucher program requirements, the Authority did not comply with portability procedures and responsibilities. We reviewed the 143 portable tenants for whom the initial public housing agency, Housing Authority of the City of Los Angeles, refused to pay the housing assistance payments because the Authority did not submit the initial bill to the Housing Authority of the City of Los Angeles within the six month timeframe. We also found that the Authority did not submit the family portability information form within 10 days to ensure duplicate payments were not made on behalf of tenants.

This occurred because the Authority did not establish or implement procedures to ensure compliance with the portability procedures in the Housing Choice Voucher Guidebook. As a result, the Authority had to unnecessarily absorb the 143 portable tenants and incurred excess costs of \$1,991,283 in housing assistance payments that exceeded the maximum allowed for fiscal year 2004. Ultimately, these families are at risk of losing their housing assistance.

The Authority Did Not Submit the Initial Bill within Six Months of the Voucher Issuance Date nor Keep Records of the Initial Billings

The Housing Authority of the City of Los Angeles refused to pay the housing assistance payments for 143 portable tenants because the Authority did not bill the Housing Authority of the City of Los Angeles within 180 days of the voucher issuance dates, as required by the Housing Choice Voucher Guidebook. We found that for 140 of the 143 portable tenants, the Authority billed the Housing Authority of the City of Los Angeles between 2 and 412 days late.

We also determined that for 28 of the 143 absorbed tenants the Authority did not keep adequate records of the initial billings to the Housing Authority of the City of Los Angeles. Therefore, the Authority had no record of whether it actually billed the Housing Authority of the City of Los Angeles, and if it did, the date of the billing. We had to rely on records kept by the Housing Authority of the City of Los Angeles to conclude that 25 of the Authority's initial billings were late (see appendix C). For the remaining three tenants, the Authority was unable to refute claims by the Housing Authority of the City of Los Angeles that the billings were

late. Consequently, the Authority had no alternative but to absorb these 28 portable tenants.

These 143 tenants had to be absorbed by the Authority because it does not have procedures in place to ensure that each incoming portable tenant is processed in a timely manner. We found that it took an average of 67 days for the Housing Authority of the City of Los Angeles to port the tenants to the Authority. That left 113 days for the Authority to bill the Housing Authority of the City of Los Angeles. The Authority has several steps to do within that 113 days including issuing a voucher, approving tenancy, executing a housing assistance payments contract, and submit the bill to the initial public housing agency.

The Authority must approve the assisted tenancy by ensuring that the

- owner is eligible,
- unit is eligible,
- unit has been inspected and meets housing quality standards,
- lease includes a tenancy addendum, and
- rent charged to the owner is reasonable.

Upon completion of these items, the owner and the Authority can execute a housing assistance payment contract.

**The Authority Did Not Submit
Part II of Form HUD-52665
within 10 Days of the Contract
Execution Date**

Our review also disclosed that for 142 of the 143 portable tenants, the Authority did not submit part II of the family portability information form (HUD-52665) within 10 days of the execution of the housing assistance payment contracts to the Housing Authority of the City of Los Angeles as required in the Housing Choice Voucher Guidebook and ranged from 20 to 481 days late. While the families are searching for units in the Authority's jurisdiction they are still under housing assistance payment contracts at the Housing Authority of the City of Los Angeles. Therefore, it is important that the Authority submits the form within 10 days to assure that the current housing assistance payment contract is terminated at the right time. This eliminates the potential risk that HUD could pay housing assistance payments for the same family at both public housing agencies. We were unable to determine whether any duplicate payments were made for these tenants, however the possibility exists. The problem occurred because the Authority did not establish or implement portability procedures to ensure they complied with the portability procedures in the Housing Choice Voucher Guidebook.

**The Authority Spent \$1.9 Million
In Housing Assistance Payments In
Excess of the Maximum Amount
Allowed**

As a result of the Authority's failure to bill the Housing Authority of the City of Los Angeles in a timely manner, the Authority had to absorb the 143 tenants and cover the cost of the housing assistance payments for these tenants. The Authority already reported to HUD it was fully utilizing all 1,002 units of their baseline allocation, the maximum number of vouchers the Authority is allowed to issue. When the Authority absorbed the portable tenants, it exceeded the baseline allocation and became overleased.

The Authority submitted its voucher for payment of annual contributions and operating statements, also known as their year end settlement statement, to HUD's Financial Management Center for submission and approval of the actual amount the Authority spent on housing assistance payments for each fiscal year. We reviewed the Authority's fiscal year 2004 year end settlement statement and determined that it is requesting reimbursement from HUD for \$8,868,765 in housing assistance payments versus \$6,877,482, the maximum amount allowed for the Authority to spend on housing assistance payments. Therefore, the Authority spent \$1,991,283 in additional housing assistance payments and in excess of its budget authority by not following HUD's portability procedures and should not be reimbursed for the overpayment it caused

**Families Are At Risk of Losing
Their Housing Assistance**

The Authority's failure to assure compliance with the portability requirements caused the Authority to become over leased, and ultimately the families being assisted above the Authority's baseline allocation as at risk of losing their housing assistance. The Authority has developed an attrition list¹ and plan to cancel the housing assistance payment contracts for the 143 portable tenants by the end of fiscal year 2005.

¹ During our review we identified inaccuracies with the attrition list and found at least three tenants in which the housing assistance payment contract may not need to be cancelled because the Housing Authority of the City of Los Angeles has agreed to pay the housing assistance payments (two tenants) or the tenant is no longer a program participant (one tenant). The details were communicated to the Authority under separate cover.

Recommendations

We recommend that the south team division director of the Financial Management Center

1A. Deny reimbursement to the Authority's Section 8 program for the payment in excess of its budget authority of \$1,991,283 that was requested in the fiscal year 2004 year-end settlement statement.

We recommend that the director of the Los Angeles Office of Public and Indian Housing

1B. Ensure the Authority develops and implements adequate portability procedures to ensure billings and documentation are submitted on time.

SCOPE AND METHODOLOGY

We performed the audit work from September 2004 through March 2005. The audit covered the portable tenants during the audit period of October 1, 2001, through September 30, 2003. We expanded the scope when necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Authority and other responsible City of Inglewood officials.

To determine whether the Authority was billing public housing agencies before the six-month billing deadline and whether the Authority is following HUD's current portability procedures, we

- Reviewed applicable HUD regulations at 24 CFR [*Code of Federal Regulations*] Part 982, Housing Choice Voucher Guidebook 7420.10G, and HUD's Public and Indian Housing Notice 2004-12.
- Selected a sample of 143 portable tenants (100 percent) that the Housing Authority of the City of Los Angeles rejected for payment and reviewed the corresponding tenant files.
- Obtained additional supporting documentation from the Housing Authority of the City of Los Angeles related to the portable tenants.
- Verified the Authority's attrition list and the schedule of rejected Authority/rejected Housing Authority of the City of Los Angeles ports to absorb to the portable tenants from the Housing Authority of the City of Los Angeles report to determine whether there were portable tenants in addition to the 143 tenants included on the Authority's list.
- Tested a nonstatistical sample of five tenants, using the lease date/execution of the housing assistance payment contract obtained from the Authority's HAPPY system, with the Multifamily Tenant Characteristic System port-in dates for tenants that ported from the Housing Authority of the City of Los Angeles to the Authority after July 19, 2004, to determine whether the Authority was following HUD's current portability procedures.

We performed our audit in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances.

INTERNAL CONTROLS

Internal controls are an integral component of an organization's management that provide 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 to ensure the Authority performs portability billing procedures in accordance with HUD regulations,
- Policies and procedures to ensure the Authority is safeguarding Section 8 program resources, and
- Policies and procedures to ensure the Authority has complete and accurate billing records for the tenant-based Section 8 program in accordance with HUD 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 item is a significant weakness:

The Authority did not establish or implement procedures to ensure that the timeframes were met for billing and submitting required forms (finding 1).

APPENDIXES

Appendix A

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

Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$1,991,283


1/ “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, de-obligation 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

 Inglewood California OFFICE OF THE CITY ADMINISTRATOR
August 11, 2005
Joan S. Hobbs Regional Inspector General for Audit Pacific/Hawaii Region, 9DGA 611 West Sixth Street, Suite 1160 Los Angeles, CA 90017-3101
Dear Ms. Hobbs:
SUBJECT: Discussion Draft Audit Report Housing Authority of the City of Inglewood Section 8 Program – Portability Procedures
We have reviewed the subject report and hereby offer our comments to the stated findings.
<ul style="list-style-type: none">• Finding: <u>The Authority did not comply with portability procedures and responsibilities:</u> The Authority did not submit the initial bill to the Housing Authority of the City of Los Angeles (HACLA) within the six month time frame. As a result, the Authority had to unnecessarily absorb 143 portable tenants and incurred excess costs of \$1,991,283 in housing assistance payments that exceeded the maximum allowed for fiscal year 2004.
Response: After several years of processing incoming portability clients from HACLA, we received a letter from them dated October 1, 2003 indicating that they had reached 100% Lease-Up, and they would no longer absorb portable families. Beginning in November 2003, we began to receive notices from HACLA indicating that they would not honor payment for HAP and administrative fees on behalf of families that ported to Inglewood from their jurisdiction. The reason, they cited, is because we failed to bill them within six months of the date they issued the voucher to the family, in accordance with Chapter 13 of the "Housing Choice Voucher Program Guidebook", page 13-9, <u>Portability Billing</u> .
However, this six-month billing deadline is in direct conflict with Chapter 13.5, page 13-7 of the "Guidebook", which states that the receiving PHA may <u>issue extensions based on its own policy and practices regardless of the initial PHA's policies</u> . The "Guidebook" fails to address the issue of an extension that exceeds the six-month
<hr/> <i>Community Beautification and Economic Development</i> ¹

Comment 1

voucher issuance date, and appears to put the receiving PHA at risk of having to absorb that family if it has not billed the initial PHA within six months of the initial PHA's voucher issuance date.

Comment 2

For several years prior to October 1, 2003, HACLA ported many families to Inglewood *after* the six-month billing deadline had expired. This led to a practice of routinely administering assistance to these families, and billing HACLA that, for a time, reimbursed us for administrative fees and HAP costs paid on behalf of these families. In fact, the letters HACLA sent indicating their refusal to pay reflects that practice (**Exhibit A**), along with their schedule of "Bill Back Contracts" (**Exhibit B**) which shows that families were ported to Inglewood *as much as 155 days beyond the six-month billing deadline*. This means that HACLA, by sending us the 52665's and 50058's and other required portability documents, gave its tacit approval for these families to port to our jurisdiction, therefore obliging our agency to assist these families.

CONCLUSION

Comment 3

24 CFR 982.355(d)(1) states: **The receiving PHA can absorb families "if funding is available under the ACC"**. This regulation only allows the receiving agency to absorb incoming portable families only if the receiving agency has sufficient funding under its ACC to accommodate the absorption. If there is insufficient funding, the receiving agency cannot be made to absorb portable families.

24 CFR 982.355(e)(6) states: **"A PHA must manage the PHA tenant-based assistance program in a manner that ensures that the PHA has the financial ability to provide assistance for families *that move out of the PHA program under the portability procedures...*"** This regulation clearly places the onus on the initial agency to ensure that it can pay for any and all families allowed to port out of its jurisdiction in the event the receiving agency does not have sufficient funding under its ACC to absorb those families.

In addition, HUD Notice PIH 2004-12, whose purpose is to clarify and improve portability procedures, states in Section 6: **"The receiving PHA may absorb the family into its own program once the HAP contract is executed on behalf of the family by the receiving PHA, assuming it has funding available under its ACC to do so."** and; **"HUD may in certain instances require the initial PHA to honor a billing submission that is received after the deadline (such as where the receiving PHA is over-leased and is in danger of not being able to stay under unit months available for its fiscal year)..."**

Regardless of these regulations, Inglewood was forced to absorb these portable families even though sufficient funding was not available under the ACC. We were pointed to Notice PIH 2004-7 which states, in part: **" If a PHA engages in over-leasing and/or maximized leasing, it must identify available ACC reserves in its account from pre-FFY 2003 appropriations, administrative fee reserves, or other sources**

to pay for the over-leasing/maximized leasing, or the PHA must take immediate steps to eliminate any current over-leasing/maximized leasing.”

We contacted our financial analyst to determine the amount of pre-2003 reserves available, and then developed an attrition plan, as requested by the local HUD office, to terminate families in order to stay within available funding. Our intent was to provide families with at least six-month notice of termination due to insufficient funding. We were requested by HUD to submit the attrition plan to the local HUD office for their approval prior to implementation.

The Inglewood Housing Authority ultimately assisted these incoming portable families to rent subsidized housing within its jurisdiction, in accordance with the intent of the U.S. Housing Act of 1937, the Section 8 Housing Choice Voucher Program and the regulations relative to portability. As a result, the Authority incurred significant administrative costs and HAP expenses which should be paid from the resources of the initial housing agency, as required by 24 CFR 982.355(e)(6).

The Authority should not be forced to absorb portable contracts in excess of funding authorized under its ACC, in accordance with 24 CFR 982.355(d)(1). The initial agency should be made to accept late billings as provided for under Notice PIH 2004-12.

Alternatively, we respectfully request that the following options available under 24 CFR 982.355 be considered to remedy this situation:

(f) **Portability funding.** (1) HUD may transfer funds for assistance to portable families to the receiving PHA from funds available under the initial PHA ACC.

(2) HUD may provide additional funding (e.g., funds for incremental units) to the initial PHA for funds transferred to a receiving PHA for portability purposes.

(3) HUD may provide additional funding (e.g., funds for incremental units) to the receiving PHA for absorption of portable families.

- **Finding: The Authority did not submit Part II of Form HUD 52665 within 10 days of the date of the Contract Execution Date. Late submissions ranged from 20 to 481 days late. While the families are searching for units in the Authority's jurisdiction they are still under housing assistance payments contracts at HACLA. Therefore, it is important that the Authority submits the form within 10 days to assure that the current housing assistance payment contract is terminated at the right time. This eliminates the potential risk that HUD could pay housing assistance payments for the same family at both public housing agencies.**

Comment 4

Response: As indicated in the response to the above finding, HACLA routinely ignored dates with regard to voucher expiration, outgoing portability submissions and billing deadlines. The Inglewood Housing Authority processed as many as 50 incoming HACLA ports per month and was encouraged to lease up these families without delay.

HACLA staff routinely submitted requests for portability documents previously sent. Inglewood staff would send the same documents two or three times, and HACLA staff would continue to insist that they did not receive the documents. The information provided by HACLA staff indicating that Inglewood submissions were from 20 to 481 days late cannot be relied upon if HACLA staff does not receive their mail in a timely fashion. During a recent meeting with HACLA staff, they readily acknowledged "problems" receiving mail from their own mailroom staff. In fact, the comment was made that the mailroom staff would often send documents to the wrong department, and that the mail "could end up anywhere" (**Exhibit C**).

Several other housing authorities have also experienced similar problems with HACLA staff claiming not to have received their portability billing submissions (**Exhibit D**). Inglewood staff began sending the portability documents to HACLA by certified mail several years ago, yet HACLA staff would still deny having received the documents, despite a HACLA staff person's signature on the receipt. We've even hand carried documents to HACLA, only to be told weeks later that they never received the documents.

Untimely billing cannot possibly result in HUD making housing assistance payments for the same family at both public agencies because, in this case, the receiving agency is billing the initial agency. As a result, *HUD only pays the initial agency*. The initial agency, in turn, is required to pay the receiving agency, thereby eliminating the potential for HUD to make duplicate payments to both agencies.

Furthermore, HACLA's portability procedures (**Exhibit E – Sec. 6**) state: "If you are currently on Section 8 in Los Angeles, you must follow our rules when you move. You must give your owner a 30-day notice in writing, pay your rent through the date you move, leave your unit in good, clean condition, return the keys to the owner, **and notify your worker on the day you move**. FAILURE TO DO THESE THINGS MAY DELAY YOUR SECTION 8 IN THE NEW UNIT, OR YOU CAN LOSE YOUR SECTION 8."

HACLA placed responsibility on the tenant to notify them when they moved. HACLA was then able to cancel the payment to the landlord. When billing notices are received, payments would resume to the receiving agency. Since the receiving agency does not bill HUD for these costs, there is, effectively, no possibility for HUD to make duplicate payments.

CONCLUSION

HUD Notice PIH 2004-12, whose purpose is to *clarify and improve portability procedures*, states in Section 6: "**The receiving PHA may absorb the family into its**

Comment 3

Comment 5

own program once the HAP contract is executed on behalf of the family by the receiving PHA, *assuming it has funding available under its ACC to do so.*" and; "HUD may in certain instances *require the initial PHA to honor a billing submission that is received after the deadline* (such as where the receiving PHA is over-leased and is in danger of not being able to stay under unit months available for its fiscal year)."

In addition, 24 CFR 982.355(e)(6) states: "A PHA must manage the PHA tenant-based assistance program in a manner that ensures that the PHA has the financial ability to provide assistance for families *that move out of the PHA program under the portability procedures.*..." This regulation clearly places the onus on the initial agency to ensure that it can pay for any and all families allowed to port out of its jurisdiction in the event the receiving agency does not have sufficient funding under its ACC to absorb those families, and;

24 CFR 982.355(d)(1) states: **The receiving PHA can absorb families "if funding is available under the ACC"**. This regulation only allows the receiving agency to absorb incoming portable families only if the receiving agency has sufficient funding under its ACC to accommodate the absorption. If there is insufficient funding, the receiving agency cannot be made to absorb portable families.

Therefore, Inglewood should be entitled to recover administrative fees and HAP expenses paid for all incoming HACLA portable families.

- **Finding: The Authority did not provide portable vouchers to the portable tenants.** Once the tenant has been ported to the Authority, the HCV Guidebook states the Authority should issue a voucher to the portable tenant. We found that, for all 143 tenants reviewed, the Authority did not provide the portable families a housing choice voucher to enable them to search in the Authority's jurisdiction. Additionally, by not issuing the voucher, the Authority could not use the voucher as a tool to monitor the amount of time remaining, after the tenant found housing, to submit the initial bill to HACLA, and thus, meet the 180-day time frame.

Response: The purpose of issuing a voucher to the incoming portable family is to enable it to search for housing within the receiving authority's jurisdiction. However, HACLA's portability procedures required families to provide a Request for Tenancy Approval (RTA) for a unit in the jurisdiction the family desired to relocate to before they would be allowed to utilize portability.

Exhibit E is the form HACLA provided to its Section 8 participants regarding portability. Paragraph 3 of the section entitled **How to Use Portability**, states: "If you are looking in the greater Los Angeles area (including Orange County, *find your unit and return your paperwork to us.*"

Paragraph 5 states: "You must always find a unit and turn in paperwork BEFORE YOUR VOUCHER EXPIRES"

HACLA submitted the family's RTA (**Exhibit F**) for a unit in Inglewood's jurisdiction along with the other portability documents. Inglewood staff immediately issued its own RTA (and other forms) to the family, who submitted the documents to the owner to make certain the unit was still available, and immediately scheduled the required HQS inspection. In approximately 90% of the files in question, Inglewood entered in to a HAP contract for the unit submitted on the incoming port family's RTA provided by HACLA (**Exhibit G**). Those HACLA - RTA units that were not contracted failed the HQS inspection and whether the owner or tenant decided not to rent the unit. Nevertheless, these families found other units in Inglewood and were ultimately placed in a subsidized unit.

CONCLUSION

Since HACLA required its families to find units prior to allowing them to port out, there was no need for Inglewood staff to issue the family a voucher to enable it to search for housing. However, Inglewood provided the family with the other forms and information necessary to ultimately contract the unit identified by the family in the HACLA - RTA. Issuing the family another voucher would serve no useful purpose, other than to comply with the requirement to issue the voucher.

Inglewood's failure to issue a voucher to the family had no negative impact upon the family's ability to search for housing within its jurisdiction, nor did it cause any unreasonable delay in Inglewood's ability to assist the family with contracting a unit.

Inglewood incurred considerable staff costs and HAP expenses for these families, and should not be denied payment for performing a task rendered completely useless and unnecessary by HACLA's portability policies and procedures.

In addition, HACLA's practice had been to routinely submit portability packages to Inglewood beyond the six-month billing deadline, thereby negating the need to use the voucher as a tool to monitor the 180-day billing deadline.

- **Finding: The Authority spent \$1.9 million in Housing Assistance Payments in excess of the maximum amount allowed. When the Authority absorbed the portable tenants, it exceeded the baseline allocation and became over leased. The Authority submitted its voucher for payment of annual contributions and operating statements to HUD's Financial Management Center for approval of the amount the Authority actually spent on housing assistance payments for each fiscal year. The Authority spent \$1,991,283 in excess of its budget authority by not following HUD's portability procedures and should not be reimbursed for the overpayment it caused.**

Comment 6

Response: HUD Notice PIH 2004-7 states, " If a PHA engages in over-leasing and/or maximized leasing, it must identify available ACC reserves in its account from pre-FY 2003 appropriations, administrative fee reserves, or other sources to pay for the over-leasing/maximized leasing, or the PHA must take immediate steps to eliminate any current over-leasing/maximized leasing."

We contacted our financial analyst to determine the amount of pre-2003 reserves available, and then developed an attrition plan, as requested by the local HUD office, to terminate families in order to stay within available funding. Our intent was to provide families with at least six-month notice of termination due to insufficient funding. We were requested by HUD to submit the attrition plan to the local HUD office for their approval prior to implementation.

The attrition plan was submitted in July 2004, and identified those families to be terminated as a result of insufficient funding. The plan was submitted again in August 2004. However, in January 2005, we were informed that the local HUD office did not need to approve the attrition plan; rather, it was a local agency decision that should be approved by the Board of Commissioners. We were then cautioned that we "could not terminate HACLAs families", the very same families that caused the over-leased situation. We were then told that we could not terminate senior citizens or disabled persons.

In February 2005, HUD Notice PIH 2005-9 was published, which stated: "PHA termination policies due to insufficient funding should be added to the administrative plan. Such policies should describe how the PHA will determine which HAP contracts will be terminated. Any PHA policies with respect to the resumption of assistance for the impacted families must also be included in the administrative plan. "

CONCLUSION

24 CFR 982.454 states: "The PHA may terminate the HAP contract if the PHA determines, in accordance with HUD requirements, that funding under the consolidated ACC is insufficient to support continued assistance for families in the program." Inglewood prepared its attrition plan that called for the termination of these families and submitted the plan to the local HUD office for their review and comment, as requested in part 3.4 of the October 19, 2004 Corrective Action Plan, and a 6/18/04 e-mail (**Exhibit H**). The plan was submitted June 24, 2004, with a detailed financial analysis (**Exhibit I**). In a letter dated October 7, 2004 (**Exhibit J**), the local office indicated that the plan was "not adequate", then informed Inglewood, after several months, that it was a "local agency decision to terminate families", and the local office did not have to approve the attrition plan.

At the time the attrition plan was prepared, PIH Notice 2005-9 did not exist, therefore the new requirement to describe the PHA's methodology for terminating families in its administrative plan did not apply.

Comment 7

The delays caused by the misinformation relative to the approval process for the attrition plan resulted in additional HAP costs and administrative fees over and above funding available from pre-2003 operating reserves.

Given the fact that the number of incoming portable families from one PHA is nearly equivalent to Inglewood's entire baseline voucher allocation, it is impossible for Inglewood to be expected to absorb these families under any circumstances, particularly considering Inglewood's 100% lease-up status, and nearly five-thousand families on its waiting list. Absorbing families from other housing authority jurisdictions requires Inglewood to use funding under its ACC, which is meant to serve the needs of its local low-income families, to instead use the money to support families from *outside* its jurisdiction, *thereby effectively ignoring the housing needs of its own residents*. In addition, Congress could not have intended for cities to use its other local funding sources to provide subsidized housing for families moving in from other cities.

Therefore, in accordance with the provisions of 24 CFR 982.355, we respectfully request that HUD:

- (1) Transfer funds for assistance to portable families to the receiving PHA from funds available under the initial PHA ACC.
- (2) Provide additional funding (e.g., funds for incremental units) to the initial PHA for funds transferred to a receiving PHA for portability purposes; and
- (3) Provide additional funding (e.g., funds for incremental units) to the receiving PHA for absorption of portable families.

SUMMARY

The primary objective of the current Section 8 Housing Choice Voucher program is to provide decent, safe and sanitary housing to low-income families, and to expand their housing choices by allowing them to use portability to seek housing anywhere in the United States of America. This program resulted from the merger of the old Section 8 rental Certificate and Rental Voucher programs. The Certificate program did not allow portability at all, and the Voucher program only allowed portability to areas within contiguous jurisdictional borders.

HUD regulations at 24 CFR 983.355(c)(10) states: **"When the family has a right to lease a unit in the receiving PHA jurisdiction under portability procedures in accordance with Sec 982.353(b), the receiving PHA *must provide assistance for the family*. Receiving PHA procedures and preferences for selection among eligible applicants do not apply, and the receiving PHA waiting list is not used. However, the receiving PHA may deny or terminate assistance for family action or inaction in accordance with Secs. 982.552 and 982.553."**

During 2003, the Housing Authority of the City of Los Angeles issued over 5000 vouchers to families on its waiting list in an effort to increase its utilization rate. Many of these families used portability to find housing outside of Los Angeles, and several hundred families decided to seek dwelling units in the City of Inglewood.

As a result, approximately 50 to 60 families per month were moving into Inglewood, which required the Housing Authority to increase staff to handle the increased workload. Many of these families were given permission to port out even though their voucher had expired. Many of these families were allowed to port out after the billing deadline had already passed. Many of these families were required to find units before they were allowed to port out, in conflict with existing HUD regulations.

If we assume, for a moment, that housing agencies were *private sector* business operations, the proposal to consider entering ***the business of portability would read as follows:***

I will refer to your agency upwards of 1,000 families. When you receive their paperwork, you must not delay in processing it. You must ensure that:

- You have adequate staff resources to provide the necessary assistance;
- You have adequate office space to house the additional staff;
- You provide computer equipment, software and supplies to the staff;
- You must assume the reporting responsibilities to the appropriate federal agency on the status of the families;
- You must inspect their units for compliance with Housing Quality Standards;
- You must conduct rent reasonableness tests on all units prior to contracting;
- After contracting the unit, you must ensure timely payments of required rental subsidy payments to the landlord, ***which may average over \$650 per month per family, or \$650,000 per month, or more, for the 1,000 families.***
- You must conduct annual inspections of the dwelling units and ensure continued compliance with applicable housing quality standards;
- You must conduct annual reexaminations of family income and composition, and thoroughly document independent 3rd party verification of their income, assets and expenditures;
- You must mediate landlord tenant disputes;
- You must ensure that these tenants are not committing fraud by dedicating resources to investigate when appropriate;
- You must ensure that these clients have fair hearings prior to terminating them from the program;
- You must be prepared to assist this family for the life of their participation, which could be up to 20 years or more;
- You cannot refuse to assist any family that I refer to you

You will not receive any start up costs; you must rely upon your own resources to assist these families.

In order to receive your compensation for these services, you must bill within 10 days of the contract execution date, and we will pay you 80% of the administrative fee you would normally receive, and 100% of the rental subsidy costs. However;

- If you are *one day late* in submitting your invoice, you will not be entitled to any compensation;
- If you submit your invoices on time, and our mailroom staff happens to lose it, you will not be entitled to any compensation.
- If your computer system should suffer any kind of glitch, which would cause you to not complete your annual reexaminations in a timely fashion, you will not be entitled to compensation.
- You must give my clients preferential treatment over any of your local clients that may need you to assist them by using your local resources to assist my clients, should we decide to not compensate you.

Any reasonable person would absolutely refuse to enter the business of portability under these terms, yet local ***housing authorities do not have the choice to refuse!*** These terms have created significant financial problems for smaller agencies that must administer assistance to incoming portable families in excess of their local HUD-approved baseline allocation and budget authority. Congress could not have possibly intended for municipalities to use local taxpayer funds to subsidize the cost of providing housing assistance to families outside of its jurisdiction. Yet this is precisely the situation that has been created by the conflicting and often confounding rules governing portability.

In addition, the issues with HACLA refusing to honor portability billings began when they determined that they did not have sufficient funding to cover the cost of the voucher they issued. However, an article published on November 9, 2004 in the Daily News of Los Angeles (**Exhibit K**) reported that *HACLA "inappropriately" shifted \$30 million to a non-profit agency to avoid paying the cost of issuing excess rental vouchers.* This fact was disclosed by a HUD OIG audit that said HACLA transferred the money from a reserve account then told the federal government that it didn't have the money to cover the cost of as many as 1,500 vouchers issued to low-income residents, many of whom were allowed to port out to Inglewood.

We therefore respectfully request that HUD approve the disbursement of funds from the FMC to reimburse the City of Inglewood for the cost of providing housing assistance to those families allowed to port from the Housing Authority of the City of Los Angeles, and transfer additional funds from HACLA's ACC to cover the cost of all HACLA port-ins.

If you have any questions or require additional information, please call me at 310-412-5301.

Sincerely,


Mark F. Weinberg
Executive Director

Attachments:

- Exhibit A: HACLA Letters to Inglewood Rejecting Portability Billing
- Exhibit B: HACLA Bill Back Contracts Showing Voucher Issue & Port Out Date
- Exhibit C: E-mail Statements re: HACLA Admission to Mail Receipt Problems
- Exhibit D: Comments From Other PHA's re: HACLA Mail Receipt Problems
- Exhibit E: HACLA Portability Procedures Requiring Submission of RTA
- Exhibit F: HACLA Portability RTA's, Vouchers, and HAP Contracts Executed by Inglewood Housing Authority
- Exhibit G: Schedule of Rejected HACLA Port-ins Contracted by Inglewood
- Exhibit H: CAP Requiring Submission of Attrition Plan for HUD Review & Comment 6/18/04 e-mail from HUD office requesting attrition plan
- Exhibit I: June 24, 2004 submission of Attrition Plan to Local HUD Office
- Exhibit J: October 7, 2004 Letter from HUD re: CAP and Attrition Plan
- Exhibit K: January 18, 2004 news article re: HACLA "Hiding \$\$30 million"

OIG Evaluation of Auditee Comments

Comment 1

Contrary to the Authority's claim, the billing deadline is not in direct conflict with Chapter 13.5, page 13-7. This section of the Guidebook is referring to issuing extensions to allow families more time to search for housing, not the billing that must occur within 180 days of the voucher issuance date. While we acknowledge that the Guidebook does not address the issue of an extension that exceeds the 180-day billing requirement, this was not an issue in this situation. The Authority had sufficient time to bill for the 143 portable tenants we reviewed, but did not do so. Further, as clarified in section 6 of Notice PIH 2004-12, "if the receiving public housing agency provides the family with search time beyond the expiration date of the initial public housing agency's voucher, it must inform the initial public housing agency of the extension and should bear in mind the billing deadline provided by the initial public housing agency. Unless willing and able to absorb the family, the receiving public housing agency should ensure that any voucher expiration date would leave sufficient time to process a Request for Lease Approval, execute a housing assistance payment contract, and cover the anticipated delivery time so that it will be received by the initial public housing agency by the deadline date."

Comment 2

We agree that the Housing Authority of the City of Los Angeles ported families to the Authority after the 180-day billing deadline expired; however, the Housing Authority of the City of Los Angeles has been paying the housing assistance payments for these tenants, and these were not included in our finding. The scope of our finding only included the 143 portable tenants that the Housing Authority of the City of Los Angeles refused to pay the Authority because there was sufficient time to bill within the 180-day requirement, and either the bill was late or the billings were not recorded and maintained.

Comment 3

The Authority was not forced to absorb the portable families as claimed; the lack of adequate procedures caused the Authority to absorb the portable families. Had the Authority established and implemented adequate procedures to ensure compliance with the portability procedures in the Housing Choice Voucher Guidebook, the Authority would have billed within 180 days as required, and then the Housing Authority of the City of Los Angeles would have been obligated to pay the housing assistance payments and administrative costs on these tenants.

HUD did not instruct the Authority to terminate families from the program. HUD instructed the Authority to ascertain the appropriate means and methods for assuring budget funds were sufficient to absorb the number of families renting. The Authority decided to rely solely on termination of families as a means of balancing the budgeted funds with the number of families being assisted through the section 8 voucher program.

Notice PIH 2004-12 does not apply to the circumstances in our finding because the vouchers for the 143 portable tenants were issued during 2002 and 2003, before the July 19, 2004 issuance of the Notice. Nevertheless, we wanted to point out that the Authority's citation in its response is incomplete and misconstrued the requirements. While the Authority correctly stated that the receiving public housing agency may absorb the family into its own program, the Authority left out the provision in the Notice that this may only be done if such a decision will not result in overleasing. Further, the Authority cited that HUD may in certain instances require the initial public housing agency to honor a billing submission that is received after the deadline. However, the Authority left out the next part of the requirement that stated that HUD may take action to address the receiving public housing agency's failure to submit the notification timely, which may include reducing the public housing agency's administrative fee and subsequently transferring units from the receiving public housing agency to the initial public housing agency.

We also noted the Authority failed to include important provisions in Notice PIH 2004-7. The Notice also stated that federal fiscal year (FFY) 2004 appropriations do not permit the public housing agencies to over lease or continue the practice of maximized leasing. "Any costs for over leasing will be disallowed from federal fiscal years 2003 and 2004 funds on the year-end settlement. HUD has no authority to provide funds to

support units leased in excess of the public housing agency's baseline and will not do so." The federal fiscal year 2004 Appropriation Act provides very direct language concerning the use of funds. HUD is directed to ensure prudent management and is authorized to take administrative actions, including sanctions, against public housing agencies that over-lease in a manner that displays a negligent or intentional disregard for the leasing limitations set by Congress.

Comment 4

The Authority faulted the Housing Authority of the City of Los Angeles' poor recordkeeping for the billing problems. If that is the case, then that only strengthens our position that it is incumbent upon the Authority to establish and maintain a billing system that included maintaining documentation evidencing when the bills were submitted. Had the Authority done so, it would not have been required to unnecessarily absorb the 143 tenants.

We disagree with the Authority's statement that untimely billing cannot result in HUD making housing assistance payments for the same family at both public housing agencies. If the tenant has an existing contract with the initial public housing agency, the initial public housing agency must remove the tenant from their system, thereby stopping the housing assistance payments before the payments start at the receiving public housing agency.

Comment 5

The section 8 voucher is a document allowing the family to go anywhere in the United States and rent a unit. By not issuing a revised voucher, the family did not have a valid voucher and cannot use the voucher to locate housing in another location. Consequently, the Authority inappropriately constrained the families' mobility by not issuing the new voucher as required by the section 8 voucher program. Nevertheless, we agreed that in the Authority's situation issuing another voucher may have been redundant since the families may have already located section 8 units in Inglewood. Therefore, we removed this section from our report.

Comment 6

We did not take issue with the attrition list or the need to terminate housing assistance payment contracts to correct the overleased situation. Had the Authority implemented adequate billing procedures it could have avoided becoming overleased.

Comment 7

We disagree with the Authority's request that HUD should approve the reimbursement of funds. In our opinion, it is not appropriate that HUD violate Notice PIH 2004-7's prohibition against paying for overleasing costs (see Comment 3) simply because the Authority chose to disregard the Housing Choice Voucher Guidebook requirements to comply with portability procedures.

Appendix C

SCHEDULE OF TENANTS WITHOUT BILLING RECORDS FOR THE FIRST SIX MONTHS

	1	2	3	4	5
	Tenant identification number	Issue date ²	Billing due date	Billing date (based on Housing Authority of the City of Los Angeles' spreadsheet)	Number of days late
1	1V2572	1/3/03	7/2/03	9/10/03	70
2	1V2772	3/25/03	9/25/03	3/4/04	161
3	1V2615	3/4/03	8/31/03	10/3/03	33
4	1V2573	12/12/02	6/12/03	4/29/04	322
5	1V2503	3/6/03	9/2/03	9/29/03	27
6	1V2473	3/7/03	9/7/03	9/29/03	22
7	1V2492	2/19/03	8/18/03	9/29/03	42
8	1V2577	2/20/03	8/19/03	9/10/03	22
9	6V6580	11/13/02	5/12/03	8/23/03	103
10	2V2550	3/11/03	9/11/03	9/29/03	18
11	2V2513	3/25/03	9/25/03	10/3/03	8
12	2V2543	3/6/03	9/6/03	9/15/03	9
13	1V2616	3/31/03	9/30/03	10/3/03	3
14	1V2449	1/30/03	7/29/03	9/21/03	54
15	2V2709	3/6/03	9/2/03	2/19/04	170
16	2V2486	10/25/02	4/23/03	9/2/03	132
17	2V2421	1/10/03	7/9/03	9/29/03	82
18	2V2246	8/14/02	2/10/03	11/5/03	268
19	1V2467	3/14/03	9/14/03	9/29/03	15
22	2V2622	2/25/03	8/25/03	10/9/03	45
21	1V2897	7/18/03	1/13/04	4/2/04	80
22	1V2613	1/23/03	7/22/03	10/3/03	73
23	2V2562	3/28/03	9/26/03	10/9/03	13
24	2V2832	8/19/03	2/15/04	2/19/04	4
25	ABS007	12/11/02	6/11/03	7/24/03	43

² On dates in the appendix of this report, we numerically formatted them in the sequence month, day and year instead of spelling it out. For example, the date March 12, 2003 was formatted as 3/12/03.