



Issue Date November 7, 2005

Audit Report Number 2006-LA-1002

TO: Cecilia Ross, Director, Office of Public Housing, 9DPH

Joan S. Hobbs

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

SUBJECT: The Housing Authority of the City of Los Angeles, Los Angeles, California,
Did Not Adequately Determine and Support Section 8 Rents

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of the City of Los Angeles' (Authority) Section 8 rent reasonableness determination for its Section 8 housing choice voucher program. The Authority's new Executive Director requested we review various aspects of its Section 8 program due to his concerns regarding the prior administration of the program.

The objective of the audit was to determine whether the Authority administered its Section 8 rent reasonableness determinations in accordance with HUD rules and regulations.

What We Found

The Authority did not administer its Section 8 rent reasonableness determinations in accordance with HUD rules and regulations. We determined the Authority did not adequately document rent reasonableness determinations to ensure Section 8 rents were reasonable before entering into housing assistance payment contracts. We attributed these conditions to the Authority not following HUD approved policies and procedures.

In addition, the Certifications for Rent Reasonableness forms used to document the rent reasonableness determination were incomplete, missing, and/or contained erroneous information.

What We Recommend

We recommend that HUD's director of the Office of Public and Indian Housing require the Authority to (1) support or reimburse HUD \$186,881 in unsupported Section 8 housing assistance payments, and (2) follow HUD-approved policies and procedures when performing rent reasonableness determinations, as well as ensuring the Certifications for Rent Reasonableness are complete.

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

Auditee's Response

We provided the Authority a draft report on October 6, 2005, and held an exit conference with the Executive Director on October 6, 2005. The Authority provided written comments on October 20, 2005. The written comments fully agreed with our report findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix D of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Adequately Determine and Support Section 8 Rents	5
Scope and Methodology	9
Internal Controls	10
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	11
B. Schedule of Deficiencies and Unsupported Housing Assistance Payments	12
C. U.S. Code of Federal Regulation requirements – Rent Reasonableness	13
D. Auditee Comments and OIG’s Evaluation	14

BACKGROUND AND OBJECTIVES

The Authority was organized as a public housing authority in 1938 to provide low-cost housing to individuals meeting established criteria. The Authority is a state-chartered public agency that provides the largest stock of affordable housing in the Los Angeles area. The Authority gets the majority of its funding from HUD. However, the Authority has built numerous key partnerships with city and state agencies, nonprofit foundations, community-based organizations, as well as private developers. As of January 2005, the Authority had 45,237 housing choice vouchers issued and was over leased by about three percent. During 2003 and 2004, the Authority paid over \$690 million in housing assistance payments to landlords participating in the program. In addition, the Authority received over \$73 million in administrative fees for administering the Section 8 program for both years.

The Authority administers its Section 8 program under HUD's housing choice voucher program. The housing choice vouchers allow very low-income families to obtain affordable, decent, and safe housing.

The Authority is already aware there is a problem in its determination of rent reasonableness. In a letter dated March 27, 2005, the Authority requested the Office of Inspector General to perform an audit of this area. During 2004, MD Strum Housing Services, an independent contractor, conducted a review of the housing quality standards inspection function of the Authority's Section 8 Department. In its report, dated February 17, 2005, MD Strum identified the need to improve uniformity with rent comparable functions. MD Strum stated a HUD issued mandate to the Authority, requiring the Authority to meet its lease-up rate, could have caused higher rents to be paid than were justified.

In the 2004 Section Eight Management Assessment Program submission prepared by the Authority, it stated it did not have and, therefore had not implemented, a reasonable written method to determine and document for each unit leased that the rent to an owner was reasonable based on current rents for comparable unassisted units. The Authority gave itself zero points for this SEMAP indicator. The Los Angeles Office of Public Housing Assessment for the same year confirmed this and required a corrective action plan to fix the deficiencies shown for rent reasonableness. However, we determined the Authority had a reasonable written method, but it did not document the steps performed and it lacked a common database from which to draw comparables.

The objective of the audit was to determine whether the Authority administered its Section 8 rent reasonableness determinations in accordance with HUD rules and regulations, and consequently, supported housing assistance payments.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Adequately Determine and Support Section 8 Rents

The Authority did not adequately perform rent reasonableness in order to determine and support Section 8 rents paid through housing assistance payments. We attribute this to the Authority not following HUD-approved policies and procedures in performing rent reasonableness reviews. As a result, the Authority spent \$186,881 in unsupported housing assistance payments.

HUD Requires Rent Reasonableness Determinations

The Code of Federal Regulations requires housing authorities to determine whether rents are reasonable prior to approving a lease. In order to determine whether Section 8 rents are reasonable, Authority housing inspectors compare the rent for the subject unit to rents for similar unassisted units in the marketplace. In addition, they must compare the subject rent to rents for any similar units on the premises. Rent reasonableness determinations are performed at various times. These include, but are not limited to, prior to entering into a housing assistance payment contract, before any increase in rent, and on an annual basis. The Authority must ensure Section 8 rents are neither too high nor too low. If the rents are too high, the limited housing assistance payments are wasted and eligible individuals and families are not served. If rents are too low, there is the risk that property owners may not participate in the program.

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

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

Housing authorities are required to document the rent reasonableness decision and maintain records showing the basis for it for three years. The Authority's HUD-approved Section 8 administrative plans for 2003 and 2004 showed the above factors would be used to determine comparability. An additional factor entitled facilities, which includes the availability of playgrounds, storage, parking, etc., was added. The plans also state, whenever possible, comparable units should be located within a one-mile radius of the subject unit. The housing inspector is allowed to go outside the area as long as the comparable unit "is located in a like and similar neighborhood" and there is documentation showing the reason for the deviation.

In addition, the plans discuss acceptable sources for comparable rents. If the inspector does not obtain data from on-site visits to comparable unassisted units in comparable areas, alternative sources for obtaining comparable units could be used. For these the inspectors are required to drive by the units to determine whether the units are in fact comparable to the subject unit. These alternative sources include data provided by real estate publications services such as the Multiple Listing Service or the California Market Data Cooperative.

Unsupported Rent Reasonableness Determinations

Our review determined the documentation in the tenant files was incomplete, missing, and/or erroneous. We also determined housing inspectors used alternative sources for comparables, such as publications showing properties for sale, without driving by the units to verify if they were comparable. Therefore, there was no assurance the purported comparable properties were like and similar to the subject unit as is required.

Authority housing inspectors are required to document rent reasonableness determinations using a form called Certification of Rent Reasonableness. The form is prepared by the housing inspector to document the determination that the Section 8 rent is reasonable based on comparable properties. During interviews with various Authority Section 8 employees, we determined that comparable rents were expected to equal or exceed the subject unit's rent. For instance, we interviewed the Authority's Acting Director of Section 8 who stated comparable unit rents were "expected" to justify the rents requested by the landlord of the subject unit, and that inspectors routinely used the highest comparables.

We reviewed 33 tenant files and determined 30 (91 %) of the Certification of Rent Reasonableness forms were incomplete, missing, and/or contained erroneous information. For example, the certification forms often did not support whether the subject unit and its comparables were the same unit size, type, or age, as well as whether

they had the same amenities, facilities, or housing and maintenance services. Therefore, neither we nor the Authority staff could determine that properties were comparable to the subject unit.

The following two clients are representative of the problems we found in the client files:

Client #206393

The Certification of Rent Reasonableness form was dated July 23, 2002, and showed the subject unit type was a multi-unit building; however, the two units shown as comparables were both triplexes. In addition, both of the comparable units were outside of the one-mile radius. There was no justification for obtaining the comparable units outside of the one-mile radius. One of the comparable units was 1578 square feet while the subject unit was 1080 square feet, a significant size difference of 498 square feet. Neither the subject unit nor the two comparable units showed any information regarding the quality, services, and utilities paid by owner, amenities, or facilities. The age of the subject unit was estimated at five years old, and the two comparable units were estimated at 40 years old and 92 years old, respectively.

In addition, the housing inspector used a real estate publication called the California Market Data Cooperative as the source for obtaining the comparables. This publication provides information on residential and investment properties offered for sale rather than for rent. We interviewed the housing inspector who could not adequately explain the above omissions, but agreed mistakes were made during the rent reasonableness determination. As a result, we determined the Authority paid \$5,166 in unsupported housing assistance payments to the landlord of client #206393.

Client #237744

The Certification of Rent Reasonableness form was dated July 8, 2003. The form did not show the square footage or source of the comparable for either of the units. In addition, the form did not show the building age of the first comparable unit, and the form was missing the unit type information for the second comparable. The first comparable showed a rent of \$950; however, we determined the rent was inflated. We researched the Authority's Wintegrate computer system to determine whether properties used as comparables were assisted. We determined the first comparable for the subject unit was indeed a HUD-assisted unit, and the rent was actually \$850 instead of the \$950 reported on the Certification of Rent Reasonableness form. Based on this erroneous information, both comparable units were actually \$850 a month. Therefore, the contract rent of \$925 was unsupported. We were not able to interview the housing inspector who performed the rent reasonableness determination because he was on administrative leave. However, we were able to determine the Authority paid \$9,816 in unsupported housing assistance payments to the landlord of client #237744.

See Appendix B for a summary of all deficiencies noted during the review.
See Appendix C for the Code of Federal Regulations that apply to rent reasonableness determinations.

Conclusion

The Authority did not adequately perform rent reasonableness in order to determine and support Section 8 rents paid through housing assistance payments. We attribute this to the Authority not following HUD-approved policies and procedures in performing rent reasonableness reviews. As a result, the Authority paid \$186,881 in unsupported Section 8 housing assistance payments to the landlords of 30 of the 33 files reviewed.

Recommendations

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

- 1A. Support or reimburse HUD \$186,881 for unsupported Section 8 housing assistance payments from nonfederal funds.
- 1B. Ensure HUD-approved policies and procedures are followed when performing rent reasonableness determinations, as well as completing the Certifications for Rent Reasonableness.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed 33 tenant files;
- Interviewed inspectors, eligibility interviewers, eligibility advisors, and Section 8 and financial management personnel;
- Reviewed HUD and the Authority's Section 8 Management Assessment Program reports; and
- Conducted on-site visits to selected Section 8 units and their comparable units.

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

We performed onsite work at the Authority's administrative office at 2600 Wilshire Boulevard, Los Angeles, California, from April through August 2005. The audit covered the period of January 1, 2003, through December 31, 2004.

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

INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, or 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 internal controls over the following areas were relevant to our audit objectives:

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

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, the following internal control is considered a significant weakness:

- Authority did not follow policies and procedures in effect to properly administer the rent reasonableness determinations or safeguard Section 8 resources (finding 1).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/
-----------------------	----------------

1A

\$186,881

1/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

These costs were calculated based on the monthly rents paid since the last recertification.

Appendix B

SUMMARY OF DEFICIENCIES

	Client #	1	2	3	4	5	6	7	8	9	10	11
1	108328					X	X	X				\$ 5,850.00
2	143238		X			X						\$ 7,620.00
3	061274	X			X		X	X	X	X	X	\$ 4,392.00
4	231817											\$ -
5	*156572											\$ 2,290.00
6	206393	X	X	X	X		X	X	X	X	X	\$ 5,166.00
7	127687		X				X	X		X		\$ 954.00
8	246897		X				X	X	X			\$ 2,921.00
9	131860		X		X	X	X	X	X	X		\$ 4,536.00
10	070367	X	X	X		X	X	X		X	X	\$ 1,568.00
11	245344			X			X	X	X			\$ 10,484.00
12	245042		X	X	X		X	X	X			\$ 10,614.00
13	102183		X		X	X	X	X			X	\$ 4,740.00
14	254605		X	X		X	X	X			X	\$ 6,899.00
15	037860			X							X	\$ 5,160.00
16	039150	X	X	X	X	X	X	X	X	X	X	\$ 7,908.00
17	250792											\$ -
18	249285											\$ -
19	204095		X		X		X	X				\$ 7,572.00
20	098173		X								X	\$ 5,316.00
21	020490		X		X	X	X	X	X		X	\$ 3,430.00
22	254764				X		X	X	X		X	\$ 12,517.00
23	217723	X	X	X	X	X	X	X	X	X	X	\$ 1,329.00
24	039289											\$ 4,311.00
25	237744	X	X	X	X	X					X	\$ 9,816.00
26	258024		X				X	X				\$ 9,012.00
27	266273						X	X	X	X	X	\$ 5,180.00
28	131800	X	X	X	X	X	X	X	X	X		\$ 3,275.00
29	255235	X					X	X			X	\$ 9,680.00
30	266082	X			X	X	X	X			X	\$ 8,298.00
31	246470		X				X	X				\$ 9,680.00
32	232072	X		X	X					X	X	\$ 8,097.00
33	027169		X			X	X	X				\$ 8,266.00
	Totals	10	19	11	14	13	23	23	12	10	16	
	% of Total	30%	58%	33%	42%	39%	70%	70%	36%	30%	48%	\$ 186,881.00

*Client # 156572 tenant file had no Certification of Rent Reasonableness form, therefore, we were unable to determine whether the comparables supported the rent.

LEGEND

- | | | |
|--------------|--|---------------------------|
| 1. Location | 5. Unit Age | 9. Utilities |
| 2. Unit Size | 6. Amenities | 10. Source of Comparables |
| 3. Unit Type | 7. Facilities | 11. Unsupported HAP |
| 4. Quality | 8. Housing Services & Maintenance Services | |

Appendix C

APPLICABLE CODE OF FEDERAL REGULATIONS

The following sections of the Code of Federal Regulations apply to rent reasonableness determinations:

- 24 CFR 982.507 states housing authorities may not approve a lease until the rent has been determined reasonable and that the rent determination is based on other comparable unassisted units.
- 24 CFR 982.158 requires housing authorities to keep records for three years documenting its determination that rent paid to an owner is reasonable.
- 24 CFR 982.54 requires housing authorities to prepare a written administrative plan establishing local policies for administering the Section 8 program in accordance with HUD guidelines.

APPENDIX D

AUDITEE COMMENTS AND OIG'S EVALUATION



HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
AN EQUAL EMPLOYMENT OPPORTUNITY-AFFIRMATIVE ACTION EMPLOYER
2600 Wilshire Boulevard • Los Angeles, California 90057 • (213) 252-2500
TTY (213) 252-5313

COMMISSIONERS
ELENORE A. WILLIAMS, Chairperson

EXECUTIVE DIRECTOR
RUDOLF MONTIEL

October 20, 2005

Joan S. Hobbs
Regional Inspector General for Audit
Office of Inspector General
611 West Sixth Street, Ste 1160
Los Angeles, CA 90017-3101

Re: Response to the Audit Report - Rent Reasonableness Program

Dear Ms. Hobbs:

I wish to thank you for the audit that was recently done by your office at our behest. It is the objective, under my administration, to have this agency become the best public housing authority that it can be. It is for this reason that we requested an audit by the Office of the Inspector General.

Following is our response to your letter dated October 6, 2005 regarding the Discussion Draft Audit Report of our Rent Reasonableness Program.

The Housing Authority agrees to pay \$186,881 for unsupported Section 8 housing assistance payments to landlords as a result of not adequately performing rent reasonableness to determine and support Section 8 rents paid. The Housing Authority will determine the viability of recapturing funds from landlords in cases where we overpaid.

The Housing Authority (HACLA) has taken immediate actions to ensure that rents charged by landlords to Housing Choice Voucher Program (HCVP) participants are reasonable and do not exceed the rent amounts for comparable unassisted units, and to bring our Rent Reasonableness determination program into compliance with HUD's approved Policy.

IMMEDIATE STEPS

Although the Housing Authority had a written method to determine rent reasonableness, we did not properly document our procedures and steps performed. To immediately resolve this we carried out the following actions:

- Developed written procedures for obtaining comparables and accurately completing the Rent Reasonableness Determination form.
- Revised and distributed the Rent Reasonableness Determination form to delete owner certification block used to certify interior unassisted comparable.
- The owner's certification of interior unassisted comparable rents is now collected on the Request for Tenancy Approval (RFTA) for initial contracts and re-contracts as well as on the internal Comparable Rent Certification form for contract rent adjustments.
- Retrained Housing Inspectors on completing the Rent Reasonableness Determination form in its entirety.
- If the unit fails its inspection the contracting process is stopped or if the client fails to return documentation as required, the contract will not be finalized.
- Housing Inspector Supervisors conduct quality control of 100% of the rent reasonableness determination forms completed daily.
- Housing inspectors are held accountable for completing a Rent Reasonableness Determination form for each annual and/or initial inspection conducted.
- Conduct monthly quality control review of a minimum of 9% of tenant files to ensure that file contains completed rent reasonableness forms.
- Established an additional quality control review by the Internal Control Division, which ensures program compliance to prevent, detect and resolve fraud.

MID-TERM STEPS

As part of the Memorandum of Understanding between HUD and the Housing Authority of the City of Los Angeles (HACLA), HACLA was required to solicit a contractor to conduct rent reasonableness. On October 18, 2004, Request for Proposals (RFP) No. 7399 was issued to identify a vendor that could provide rent comparable data on a monthly basis through the term of the contract.

On April 7, 2005, the Housing Authority Board of Commissioners approved the selection of Applied Real Estate Analysis, Inc (AREA) to develop an automated rent calculation system by February 1, 2006. HUD approved the Housing Authority's decision to contract with AREA on April 28, 2005.

AREA's system will calculate rents for HCVP units more accurately through its statistical analysis model of sub markets. It will also allow consistent determination of comparable rents, while improving customer service and reducing staff time required to determine appropriate rents.

To conduct field data collection, AREA subcontracted with Gold Coast Appraisals (GCA), a local firm with extensive experience in preparing rent comparability surveys.

Joan S. Hobbs
Regional Inspector General for Audits
October 20, 2005
Page 3 of 3

AREA's statistical analysis model will identify five comparable units and uses local market data to calculate a reasonable rent for the subject property. Within each sub market, AREA will establish values for unit amenities, updating them annually. The system generates an electronic form, which can be printed and stored in tenant files, that documents the characteristics of the selected comparable units, the market-defined adjustments to rents based on the differences between the comparable units and the subject property and the specific rent calculated by the module.

This process will allow the Authority to ensure that the rent amounts currently charged by landlords participating in the Section 8 Program do not exceed the rents in the unassisted rental market. It will also expedite the contracting process, ensure accuracy, reliability and consistency in the rent reasonableness process, and increase customer satisfaction.

Furthermore, AREA will regularly update comparable rents using the criteria established by HUD and included in the HACLA Section 8 Administrative Plan.

We appreciate the opportunity to use the information provided in your report to improve our Rent Reasonableness determination procedure. We are committed to strengthening and restoring confidence in the Section 8 Program.

Please feel free to contact Lourdes Castro-Ramirez, Acting Section 8 Director, at (213) 252-2570; John Garcia, Acting Division Director of Housing Programs, at (213) 252-5424; or me at (213) 252-1810.

Sincerely,


Rudolf Montiel
Executive Director

RM: lcr:tn

OIG Evaluation of Auditee Comments

An OIG evaluation was not necessary since the auditee fully agreed with all findings and recommendations.