



Issue Date September 5, 2007

Audit Report Number 2007-SE-1003

TO: Harlan Stewart, Director, Region X Office of Public Housing, OAPH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: The Vancouver Housing Authority, Vancouver, Washington, Lacks Quality Control Processes in Its Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

At the request of the Region X Office of Public Housing, we audited the Vancouver Housing Authority to determine whether it procured goods and services in accordance with U.S. Department of Housing and Urban Development (HUD) requirements and whether it had pledged HUD assets as security. We also audited the Authority's Housing Choice Voucher program (program) to determine whether it operated in accordance with HUD requirements.

What We Found

The Authority generally procured goods and services in accordance with HUD regulations and had not pledged HUD assets as security for its recent development projects.

Further, the Authority generally operated its program in accordance with HUD requirements and we noted significant improvement in its program tenant files since its last HUD rental integrity monitoring review. However, the Authority did not perform quality control inspections of its housing quality standards inspections to ensure the assisted units met housing quality standards as directed by HUD. In addition, the Authority did not perform promised tenant file reviews to ensure the files were complete and the housing assistance payments were correctly calculated.

What We Recommend

We recommend that six months after the issuance of this report, the director of the Region X Office of Public Housing review the Authority's housing quality standards quality control inspection program and tenant file review program to confirm that these programs meet HUD requirements.

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

Auditee's Response

We provided our discussion draft audit report to the Authority on August 24, 2007 and held the exit conference on September 4, 2007. The Authority provided written comments on September 4, 2007 and agreed with our report findings. The complete text of the auditee's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

Vancouver Housing Authority

The Vancouver Housing Authority (Authority) is a public municipal corporation governed by a six-member board of commissioners. The Authority's mission is to provide opportunities to people who experience barriers to housing because of income, disability, or special needs in an environment which preserves personal dignity and in a manner which maintains the public trust.

The Authority is a Moving to Work Demonstration (Moving to Work) housing authority, owning or managing almost 1,000 units and administering about 2,100 housing choice vouchers, all of which are in the Moving to Work Demonstration. In fiscal year 2006, the U.S. Department of Housing and Urban Development (HUD) paid the Authority more than \$11.2 million for its Housing Choice Voucher program, a \$753,000 subsidy for the 515 units in its low-rent program, and \$829,000 in public housing comprehensive grant funds.

Section 8 Housing Choice Voucher Program

The program is the federal government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets program requirements. Public housing agencies administer the HUD-funded housing choice vouchers, which pay a housing subsidy directly to the landlord on behalf of the participating family. Public housing agencies determine family eligibility based on income and family size and determine the amount of tenant subsidy. Annually, the agencies verify family income and composition and ensure that the unit meets minimum housing quality standards.

Our objective was to determine whether the Authority procured goods and services in accordance with HUD requirements and whether it had pledged HUD assets as security. We also audited the Authority's Housing Choice Voucher program to determine whether it operated in accordance with HUD requirements.

RESULTS OF AUDIT

Finding 1: The Authority Lacks Quality Control Processes in Its Housing Choice Voucher Program

The Authority did not perform quality control inspections of its housing quality standards inspections as directed or perform tenant file reviews as promised. These conditions occurred because Authority management failed to ensure that HUD's directives were followed. As a result, the Authority could not provide reasonable assurance that its program housing quality standards inspections were properly performed or that its program tenant files were complete and the housing assistance payments were correct.

The Authority Disregarded HUD's Direction to Perform Quality Control Inspections

Regulations at 24 CFR [*Code of Federal Regulations*] 982.405(b) require housing authorities to perform supervisory quality control inspections. These inspections should include reinspecting a sample of rental units to ensure that program housing quality standards are met. Under the Moving to Work program, which includes all the Authority's program units, the Authority is required to submit annual plans and reports to HUD containing elements listed in the Moving to Work agreement. One of these elements requires the Authority to describe its housing quality standards quality control inspection strategy in its annual plan and describe the results of that strategy in its annual report. These plans and reports must be approved by the Authority's board of commissioners.

In its 2002 Moving to Work plan, the Authority stated that its "quality control inspections have been eliminated for the duration of the MTW [Moving to Work] program." In a letter to the Authority's executive director, HUD responded that "the MTW Agreement does not include an exemption from quality control inspections" and that "Unless the MTW Agreement is amended, the VHA [Authority] must revise its policy to include quality control inspections." HUD also stated that this change should be reflected in the Authority's next annual plan.

Beginning in 2002, the Authority's Moving to Work reports did not disclose any information regarding the required quality control inspections. Our interviews with Authority staff found that the Authority had not performed quality control inspections for several years. Further, the Authority's Moving to Work agreement was not amended to exclude quality control inspections, nor were the inspections mentioned in the 2003 Moving to Work plan. We brought this issue to the attention of the Authority's management, and as

a result, the Authority implemented a process for housing quality standards quality control inspections in June 2007.

The Authority Did Not Complete Promised Corrective Actions

In April, 2006, HUD performed a rental integrity monitoring review of program tenant files to determine whether the Authority had corrected the discrepancies found during a similar 2004 review, which identified deficiencies in all 35 tenant files selected for review. HUD found that the Authority had not corrected all of the original discrepancies in the tenant files and that the authority

- Was not consistent in including supporting documentation in the tenant files, which could make it impossible to determine whether the Authority followed HUD requirements for tenant admission and recertification, and
- Did not identify and resolve inconsistencies and inaccuracies in income and deductions, which could result in incorrect housing assistance payments on behalf of the tenants.

In August 2006, the Authority submitted a corrective action plan to HUD addressing a quality control finding identified in the 2006 review. Among the actions in its corrective action plan, the Authority stated that its federal program policy manager would conduct file audits on 10 percent of the monthly program transactions completed by the staff beginning September 1, 2006.

In an October 2006 letter to the executive director, HUD accepted the Authority's proposed corrective action plan and closed the finding on the condition that the Authority meet all of the requirements of the corrective action plan. However, at the time we began our review in April 2007, the Authority had not performed any file audits on program transactions and had not notified HUD that it was not following the agreed-upon plan.

The corrective action plan also created the position of compliance specialist. The compliance specialist was to be responsible for individual file audits and compilation and analysis of errors. Since the compliance specialist did not start reviewing tenant files until May 2007, we were not able to determine the adequacy of the Authority's tenant file review program.

Conclusion

The Authority's management did not take sufficient action to ensure compliance with its agreements with HUD and HUD's directives. As a result, it could not provide reasonable assurance that its program housing quality standards inspections were conducted properly or that its program tenant files were complete and the housing assistance payments were calculated correctly.

Recommendations

We recommend that the director of the Region X Office of Public Housing

1A. Review the adequacy of the Authority's housing quality standards quality control inspection program six months after issuance of this report.

1B. Review the adequacy of the Authority's tenant file review program six months after issuance of this report.

SCOPE AND METHODOLOGY

Our review covered the period January 2006 through April 2007. We performed the fieldwork from April through July 2007 at the Authority's offices in Vancouver, Washington, and at selected program units.

To accomplish our objective, we interviewed Region X HUD Office of Public Housing staff and Authority staff, reviewed the Authority's program tenant files and financial records, and inspected selected program units administered by the Authority.

We reviewed 10 program new admissions tenant files out of 220 and 45 recertification tenant files out of 1,051, and inspected 12 out of 51 program units that failed housing quality standards inspection in May 2007. We assessed the Authority's performance using its Moving to Work agreement and administrative plan.

We used representative non-statistical sampling to select the new admission tenant files, recertification tenant files, and program units. We made the selections without conscious bias and therefore the selections are representative of the sample universes. While we did not project the results of the samples, we did use the results to make judgments about the universes.

We performed our review 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.

Organizations must also have policies and procedures that will reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to ensure that the Authority makes the correct housing assistance payments to eligible families to live in decent, safe, and sanitary units.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to ensure that HUD assisted assets and funding are safeguarded.

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 found no significant weakness.

APPENDIXES

Appendix A

AUDITEE COMMENTS



VANCOUVER
HOUSING AUTHORITY

September 4, 2007

Joan Hobbs, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region X
Federal Office Building
909 First Avenue, Suite 126
Seattle, WA 98104-1000

Subject: IG Draft Audit Report
Vancouver Housing Authority Housing Choice Voucher Program

Dear Ms. Hobbs,

We want to thank the U.S Department of Housing and Urban Development Office of Inspector General (IG) and their staff for conducting an audit of Vancouver Housing Authority's (VHA) Housing Choice Voucher Program.

We found the experience to be positive, educational, and useful. We agree with the finding contained in the report and are happy to convey that we have already addressed both elements of the finding as described below.

Finding: The Authority Lacks Quality Control Processes in Its Housing Choice Voucher Program

"The Authority Disregarded HUD's Direction to Perform Quality Control Inspections"

We agree with the IG's determination. As noted in your narrative, the VHA is a Moving to Work agency and in that capacity tried unsuccessfully to exempt ourselves from the requirement of supervisory quality control inspections in 2002. We thank the IG for bringing this matter to our attention. We believe quality control inspections to be important and part of an effective management system. We started a program of supervisory inspections in June 2007 and will continue quality control inspections by management of at least 1% of all HQS inspections.

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"The Authority Did Not Complete Promised Corrective Actions"

We agree that the Authority proposed, as part of a 2006 RIM review and subsequent corrective action plan, to start auditing 10% of files in September 2006, but had not performed any reviews until May 2007. We are happy to report that we have begun a program to audit files and a monthly report has been sent to our local HUD office each month since then to show the sincere effort of VHA to comply with the above mentioned corrective action plan.

As suggested, we look forward to meeting with Region X Office of Public Housing in six months to show that our housing quality control inspection and tenant file review programs are continuing and meet HUD requirements.

Sincerely,



Saeed Hajarizadeh
Co-Interim Executive Director



LaVon C. Holden
Co-Interim Executive Director