



U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Suite 13A09
Fritz G. Lanham Federal Building
Fort Worth, Texas 76102
(817)978-9309 FAX (817)978-9316
<http://www.hud.gov/oig/oigindex.html>

April 27, 2001

2001-FW-1805

MEMORANDUM FOR: Katie Worsham
Director
Office of Community Planning and Development, 6AD

/Signed/
FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Harris County
Supportive Housing Grant – TX21B971306
Houston, Texas

As part of a nationwide audit of HUD's Continuum of Care Program, we audited the 1997 Supportive Housing Grant awarded to Harris County (County). The County implemented its grant activities through its subgrantee, the University of Texas – Houston Recovery Campus (Campus). Our objectives were to determine whether the County: (1) maintained adequate management controls; (2) implemented its grant in accordance with its application; (3) expended funds for eligible activities under federal regulations and applicable cost principles; (4) maintained evidence of measurable results; (5) leveraged HUD funds adequately; (6) expended funds timely; (7) expended funds for leasing in compliance with federal regulations; (8) met the federal requirements for supportive service costs; and (9) met the federal requirements for operating costs.

To accomplish our objectives, we reviewed applicable criteria, including Office of Management and Budget Circular A-122, "Cost Principles for Non-Profit Organizations" (Circular A-122); interviewed HUD, County and Campus officials; reviewed Campus policies and procedures guides; reviewed the grant application, grant agreement, technical submission, and annual progress reports; analyzed financial and participant records; and visited the transitional housing location.

Our audit concluded the County's activities were eligible and consistent with its application. The County adequately leveraged HUD funds and met the federal requirements for supportive services and operating costs. However, the County's subgrantee, the Campus, could not support information contained in its annual progress report. For example, the Campus reported a 79 percent successful graduation rate even though its files indicated a 26 percent rate. Further, the Campus did not capture necessary housing data. We also found that the Campus did not provide its participants with decent,

safe, and sanitary housing. Additionally, the Campus charged HUD unreasonable rents. A HUD contractor expressed concerns about rent reasonableness and the County responded with unrealistic comparable units. The Campus also charged participants a flat rental rate of \$85 per month without regard to the participant's monthly income. Further, the County did not drawdown its funds timely due to reconciliation and documentation problems.

We recommend that HUD require the County to only count as successful graduates those participants that complete the Program; require the County to ensure that the Campus capture required data when participants leave the Program, and in follow-up contact with previous participants; require the County to bring the units into compliance with its habitability standards; determine rents that are reasonable and adjust its lease payments accordingly; require the County to monitor the Campus to ensure proper administration of its Program; require the County to follow rent income guidelines for participant rent payments; and require the County to timely reimburse the Campus for eligible expenditures. HUD should also deobligate any grant funds not expended as of September 30, 2001.

We sent a draft of this audit memorandum to Harris County on April 13, 2001. The County provided oral comments on April 20, 2001, and written comments on April 25, 2001. The County believed that it did provide some monitoring of the Campus; however, "a comprehensive monitoring procedure should have been utilized. ..." In its response, the County cites new monitoring guidelines and is requesting the Campus to provide additional information regarding rent reasonableness. We considered its comments in preparing our final report.

Within 60 days please give us, for each recommendation made in this memorandum report a status report on: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directive issued because of this review.

If you have any questions, please contact William W. Nixon, Assistant District Inspector General for Audit, at 817-978-9309.

Attachment

Background.

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program. HUD designed the program to promote the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible. Eligible activities include:

- Transitional housing;
- Permanent housing for homeless persons with disabilities;
- Innovative housing that meets the immediate and long-term needs of homeless persons;
- Supportive services for homeless persons not provided in conjunction with supportive housing; and
- Administration of the grants.

On September 9, 1998, HUD entered into a grant agreement with Harris County (County) to provide transitional housing for women.¹ Under the 3-year grant, HUD would provide the County \$1,096,530. The County subcontracted with the University of Texas – Houston Recovery Campus (Campus) to administer its Program.² The Campus created the Women’s Discover Program to implement this grant.³ The primary focus of the Program was to assist chemically dependent adult females to achieve independent and productive living. Under the grant, the Campus would provide 10 transitional housing units⁴ to accommodate 20⁵ women exiting residential drug and/or alcohol treatment or residence in an emergency shelter. Further, the Campus agreed to provide up to 6 months of aftercare services and a total of 2 years of case management.

The County’s Community Development Department, located at 8410 Lantern Point in Houston, Texas, was responsible for the grant’s administration and oversight of Campus activities. The Campus’ housing units, located at 5600 Lavender in the Fifth Ward section of Houston, Texas, fell under the umbrella system of the Campus located at 4514 Lyons in Houston, Texas.

In November 1999, HUD contracted with ABT Associates Inc. (ABT) to provide on-site assessment of the operations and technical assistance needs of its homeless assistance projects. As part of this review, ABT visited the Campus on April 18 and 19, 2000. In its review, ABT touted the Campus’ success in accomplishing six of its seven performance goals. For example, ABT reported that 79 percent of the participants successfully completed the Program and secured permanent housing in less than 6 months. It also reported that 95 percent of Program graduates remained in permanent housing for at least 1 year after graduation. However, ABT based its conclusions on data from the Campus’

¹ Grant number TX21B971306.

² Originally funded by the U.S. Department of Health and Human Services in 1992, the Campus, since 1995, operated under the University of Texas Health Science Center at Houston (UT).

³ The Campus modeled the program after its Men’s Discover Program funded by another HUD grant.

⁴ Each unit contained two bedrooms.

⁵ 60 women per year.

annual progress report and staff interviews. ABT did not substantiate the veracity of the annual progress report or interviews by alternative means. ABT identified weaknesses in participant rent charges, fair market rents, and lack of documentation for discharge plans and follow-up. Yet, ABT only recommended technical assistance in the area of determining appropriate rents and rent contributions. Therefore, ABT's assessment that the Program exceeded its performance goals differs from our audit findings.

Audit Objectives, Scope, and Methodology.

Our audit objectives were to determine whether the County: (1) maintained adequate management controls; (2) implemented its grant in accordance with its application; (3) expended funds for eligible activities under federal regulations and applicable cost principles; (4) maintained evidence of measurable results; (5) leveraged HUD funds adequately; (6) expended funds timely; (7) expended funds for leasing in compliance with federal regulations; (8) met the federal requirements for supportive service costs; and (9) met the federal requirements for operating costs.

To accomplish our objectives, we:

- Reviewed applicable criteria including OMB Circulars, HUD regulations, grant agreement and application;
- Interviewed HUD, County, and Campus officials;
- Reviewed the Campus' policies and procedures guides;
- Compared Annual Progress Reports to supporting documentation;
- Analyzed financial and all 47 participant records; and
- Visited the units to determine if they met habitability standards.

The audit generally covered the period October 1998 through May 2000. We performed our fieldwork between May 19, 2000, and August 31, 2000, with additional audit work in March 2001. Throughout the audit we obtained computer-generated data from HUD, the County, and the Campus. However, we did not perform any tests on the validity or reliability of such data except as noted in the finding. We conducted our audit in accordance with generally accepted government auditing standards.

The Campus could not support the information in its annual progress report.

Through its annual progress report, the Campus provided HUD with unsupported and incorrect information on its program results. HUD awarded the supportive housing grant in part based on the Campus' stated ability to provide measurable results. HUD required annual progress reports detailing the Campus' progress in achieving its performance measures. As subrecipient, the Campus prepared the grant application and the annual progress reports. The Campus listed the following as its performance measures⁶ for the residential stability objective:

⁶ Contained in its grant application.

- 50 percent of program participants will successfully graduate from transitional housing.⁷
- 50 percent of program graduates will remain in permanent housing for at least 1 year after leaving transitional housing and drug treatment.

In its first annual progress report,⁸ the Campus reported the following progress:

- 79 percent of program participants successfully graduated from transitional housing.
- 95 percent of program graduates remained in permanent housing for at least 1 year after leaving transitional housing and drug treatment.

The Campus inflated and could not support its reported progress for residential stability. Review of participant files confirmed only 26 percent of program participants completed the Program and successfully graduated from transitional housing. Further, the Campus did not adequately track program graduates; therefore, the Campus could not reliably report on the percentage of graduates that remained in permanent housing after leaving the Program.

Only 26 percent of participants successfully graduated.

Contrary to the 79 percent graduation rate, the Campus' files indicated only 26 percent or 12 of the 47 participants successfully graduated the Program. A Campus official explained the Campus considered a participant successful as long as she did not test positive for drugs. However, according to the case file, a participant stated she had relapsed and a caseworker believed another had relapsed, but the Campus still categorized them as successfully graduating the Program.

According to the files, the Campus discharged 74 percent (35 of 47) of participants in its first year of operation for reasons such as relapses, failure to comply with program rules, absent without leave, family reasons, and self-discharge. These 35 participants did not complete the Program, nor did they achieve the goals and objectives set for them. Yet, the Campus considered 25 of these participants to be successful graduates. Clearly, the Campus is using flawed criteria in categorizing successful participants. The County must establish clear criteria for classification as a successful graduate. Campus officials must consistently use the established criteria for reports to the County and HUD. The County should properly monitor the Campus to ensure it only counts as successful graduates those participants that complete the Program.

The Campus did not capture necessary housing data.

Campus officials did not capture housing-related data for its participants. The Campus' second goal under the residential stability objective was for 50 percent of the graduates to remain in permanent housing for at least 1 year after leaving the Program. The Campus used "Discharge Follow-Up Forms"

⁷ The grant application did not specifically define the term "graduate from transitional housing." From reading the application, it appeared that "graduate from transitional housing" meant leaving transitional housing for permanent housing.

⁸ Covered the period October 1, 1998, through September 30, 1999.

to document the participant's discharge location and 30-day, 60-day, 90-day, 6-month, and 1-year progress. However, the information captured on the forms mostly pertained to drug rehabilitation issues.

As the following table illustrates, the Campus' records did not support the Campus' claim that 95 percent of its participants went on to permanent housing:

Annual Progress Report	Review of Discharge Forms ⁹ in Participant Files Found ¹⁰	
	Discharge Location	Follow-up Notes
95 percent of participants remained in permanent housing for 1 year after leaving its Program.	32 no discharge location 5 own place ¹¹ 5 relatives 2 another program 1 jail <hr/> 45 Total	31 had no housing information 7 went to other programs 3 moved in with relatives 2 went to jail 1 moved for work <u>1 was seen at a house</u> 45 Total

Campus officials did not consistently capture discharge information, nor did they inquire about housing issues in follow-up contact with previous participants.

In addition, the participants were not out of the program for a full year when the Campus submitted its annual progress report. The Campus attempted to submit reports that reflected expected outcomes. To its credit, HUD rejected the reports.

Without consistency, the Campus had no baseline or follow-up information to reliably track and report what percentages of the participants were in permanent housing after leaving its Program. The Campus must ensure that its employees capture required data when participants leave the program and in follow-up contact with previous participants.

The Campus' primary focus was drug rehabilitation, with limited focus on homelessness issues. The reviewed participant files mostly made reference to the participants becoming clean and sober. In effect, the Campus ignored the independent living aspect of its Program. While addressing the social service portion of the Program had relevance, it was not the sole objective of the Program. The Campus should have made helping its participants transition from homelessness a higher priority.

⁹ Two participants did not have discharge forms in their files.

¹⁰ Staff did not use systems the Campus had in place to capture relevant tracking data (i.e., discharge location or follow up).

¹¹ Only three forms had physical addresses.

The Campus did not provide its participants with decent, safe, and sanitary housing.

Three dwelling units inspected failed to meet safe, decent, and sanitary standards.¹² The Campus subjected its participants to housing with broken smoke detectors, heaters, and toilets; electrical hazards; holes and cracks in walls; broken door and window locks; and other problems. HUD required the Campus to meet certain habitability standards for resident safety. The following table and pictures show why Campus units failed to meet the minimum standards set by HUD:

Habitability Standards¹³	Basic Requirements	Findings
Structure and materials	Structurally sound units.	Houses supported by concrete blocks; cracked, peeling, deteriorated paint; severely chipped tile.
Access	Accessible with alternate means of egress.	Difficult access to ramps; no railing on outside stairs.
Space and Security	Adequate space and security for themselves and belongings.	Inoperable windows; window locks; doors.
Sanitary facilities	Access to sufficient sanitary facilities in proper operating condition.	Broken toilets; inadequate hot water; missing waterspout and handle; smelly water.
Thermal environment	Adequate heating and/or cooling facilities in proper operating condition.	Broken or missing heaters; residents used space heaters.
Illumination and electricity	Sufficient electrical sources while assuring safety from fire.	Electrical hazards above sinks; outlets painted shut.
Fire safety	At least one smoke detector in proper working condition.	Inoperable or missing smoke detectors.

¹² The Campus had ten dwelling units.

¹³ Not all standards are presented here. One failed item means the unit failed the minimum housing quality standards.



Figure 1: Unit 5704 – Chipped kitchen counter presented a safety hazard



Figure 2: Unit 5712 - Missing handle and spout not sanitary



Figure 3: Outside Units - Cracked, peeling, deteriorated paint not decent or safe



Figure 4: Unit 5712 - Missing smoke detector caused safety hazard



Figure 5: Office - Rocks and boards hindered access to handicapped ramps

The outside grounds also had severe problems including large holes in the concrete sidewalks and driveway. There were two visits to the Campus site. On the second visit, it appeared repairs to the

grounds were being made. However, a mound of sand blocked access to one of the entrances in the U-shaped drive creating a potential hazard. Further, pavements and walkways were uneven and made usable with haphazardly placed wooden boards.

The overall condition of the units and grounds was substandard. The Campus subjected residents to unacceptable and hazardous living conditions. HUD should require the County and the Campus to bring the units into compliance with its minimum habitability standards.

The Campus charged HUD unreasonable rents.

The Campus charged HUD unreasonable rents for its units. HUD stipulated in its grant agreement with the County that rents paid must be reasonable in relation to rents being charged for comparable units. HUD required the County to take into account the location, size, type, quality, amenities, facilities, and management services. Rents for comparable units in relative proximity to the Campus units were significantly lower than the rents paid by HUD for the Campus units.



Figure 6: The Campus' lease agreement was for \$82,224 per year.

ABT expressed concern about fair market rents and rent comparables.

In April 2000, ABT visited the Campus and reported to the County its concern that the Campus had no documentation available regarding fair market rents and rent comparisons in the neighborhood. On May 19, 2000, the County requested a rent reasonableness report from its Community Programs Department.

The County responded with unrealistic comparables.

In its response, the County did not use equivalent comparables. On June 29, 2000, the County completed its comparables. Houses used by the County were not comparable when taking into account location, type, and quality. For example, County officials used two single-family houses as comparables. One house was brick while the other had a fenced-in yard. Both houses had decks. The Campus had wood-framed dilapidated houses on cinder blocks, all situated in a U-shaped design. Additionally, the houses the County used as comparables were 2.5 and 1.8 miles away from the Campus units and rented for \$500 and \$480.



Figure 7: The County used this unit as a comparable for the Campus units to address rent reasonableness. When taking into account location, type and quality, this house was not comparable.

The County did not need to go far to determine the reasonableness of rents for the Campus units. Apartment complexes directly across the street and one street over had similar U-shaped designs. Actually, both brick complexes appeared to be in much better shape than the Campus complex, with one complex offering amenities such as central air and heat. In July 2000, two-bedroom, one-bath units listed for \$475 and \$350 per month, respectively.



Figure 8: These units located directly across the street from the Campus units were \$475 per month. The brick units offered amenities such as central air and heat.

The comparables completed by the County as well as the units closer in proximity all charged lower rents than the rent the Campus charged HUD for its units. A Campus official presented as rent reasonableness documentation, a rent scale from the Harris County Homeless Coalition's Consolidated Plan. However, the Campus did not take into consideration the condition of the units it rented nor rents charged in the area for comparable space. Due to the County's inability to provide adequate comparables to support the reasonableness of rent, HUD should determine the reasonableness of the rents. Further, the County should reimburse the grant for any excess rent.

The Campus did not enforce its admissions criteria.

The Campus did not enforce its admissions criteria. For example, the Campus stated in its application that as a part of its admission criteria it would require residents to pay 10 percent of their monthly income toward rent. The Campus instead charged all participants a flat rental rate of \$85 per month irrespective of the participant's monthly income. Further, the Campus also stated that as a condition of admission, participants would establish savings accounts. However, documentation in the Campus' files only verified savings for 2 of the 47 participants.

Also, the County did not provide sufficient monitoring of the Campus' administration of its Program. The County and the Campus should follow rent income guidelines for participant rent payments.

The County did not draw down its funds timely.

The County did not draw down its funds timely. As of March 29, 2001, the County had completed 83 percent of its Program, yet it had only drawn down 37 percent (\$406,796 of \$1,096,530) of its grant funds from HUD. It had not drawn down any funds since February 10, 2000. Of the \$545,382 paid to the Campus, the County used \$138,586 from its general fund.

As of April 2, 2001, the County had not reimbursed the Campus for January 2000 and July 2000 through January 2001 even though the Campus submitted timely reimbursement requests. Further, the County had not requested payment from HUD for an entire year, January 2000 through January 2001.

The County had reconciliation and documentation problems.

There appeared to be two reasons for the lack of timely drawdowns: the County's reconciliation troubles with HUD and discrepancies over what documentation the County required from the Campus. Harris County had financial management problems concerning its CDBG programs. HUD sent a letter to a Harris County Judge recommending an independent accountant reconcile Harris County's 1994 to 2000 grants.¹⁴ As a result of HUD's recommendation, Harris County's priority had been CDBG programs.

Further, in the County's 1999 Single Audit Report, auditors reported that the County failed to fully support all expenditures. On December 2, 1999, HUD required the County to ensure full support of all expenditures. Effective January 1, 2000, the County required that all subrecipients attach supporting documents to each expense reimbursement request. The County and the Campus disagreed about what documentation the County needed before it would release funds.

The County's failure to draw down grant funds exacerbates the County's reconciliation problems with HUD. HUD should require that the County timely reimburse the Campus for eligible expenditures. HUD should also deobligate any grant funds not expended as of September 30, 2001.

The County did not properly monitor the Campus.

The County did not properly monitor the Campus' Women's Discover Program and the Campus' progress in achieving the goals it set for itself. In agreements with HUD and the Campus, the County acknowledged that it was responsible for ensuring that the Campus properly administered its Program. As a result of inadequate monitoring, the County did not detect that the Campus reported misleading and unsupported information to HUD or that the units did not meet housing quality standards.

County officials admitted that in the past, due to staffing shortfalls, it did not monitor the Campus as it should have. County officials, acknowledging a disconnect between those that write the grant proposal and those that administer the programs, recognized that the individuals on the front lines actually

¹⁴ There were several news reports regarding the matter.

administering the programs must be aware of grant requirements. The County hired a new program monitor for the Campus. By March 2001, it appeared the new program monitor was providing improved technical assistance and monitoring of the Campus. According to the County's response, it has included additional policies in its monitoring guidelines and in service training material. The County should continue its efforts to provide technical assistance and monitoring to the Campus.

Recommendations:

We recommend that HUD:

- 1A. Require the County to only count as successful graduates those participants that complete the Program.
- 1B. Require the County to ensure that employees capture required data when participants leave the Program and in follow-up contact with previous participants.
- 1C. Require the County and the Campus to bring the units into compliance with its habitability standards.
- 1D. Determine rents that are reasonable and require the County to reimburse the grant for any excess rent paid.
- 1E. Require the County to monitor the Campus to ensure proper administration of its Program.
- 1F. Require the County to follow rent income guidelines for participant rent payments.
- 1G. Require that the County timely reimburse the Campus for eligible expenditures. HUD should also deobligate any grant funds not expended as of September 30, 2001.

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