



Issue Date	July 17, 2003
Audit Case Number	2003-BO-1004

TO: Donna J. Ayala, Director, Office of Public Housing, 1APH

FROM: Barry L. Savill, Regional Inspector General for Audit, 1AGA

SUBJECT: Review of the Portability Features of the
Section 8 Housing Choice Voucher Program
Brockton Housing Authority, Brockton, Massachusetts

INTRODUCTION

As part of our audit on Public Housing Authorities (PHAs) in Massachusetts and their administration of the mobility/portability features of Housing Choice Vouchers, we performed a limited review of the Brockton Housing Authority. Our objectives were to determine whether the Brockton Housing Authority was administering the mobility/portability features of these vouchers effectively and efficiently, and to ensure that: (1) HUD is not reimbursing both the initial and receiving PHAs for the same family; (2) The initial and receiving PHA are not using separate Section 8 vouchers for the same family, thereby unnecessarily reducing the number of vouchers available to other needy families; and (3) Families terminated from the receiving PHA's Section 8 program are removed from the reimbursement rolls of the initial PHA.

In accordance with HUD Handbook 2000.06 REV-3, please provide us, within 60 days for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact our office at (617) 994-8380.

SUMMARY

Our review disclosed that the Brockton Housing Authority was generally administering the mobility/portability features of its Housing Choice Vouchers in an effective and efficient manner, and in accordance with program requirements. However, our review disclosed that families terminated from the Brockton Housing Authority's Section 8 program were not removed from the reimbursement rolls of the initial PHA in all cases.

We determined that the primary reason why terminated vouchers were not removed from the reimbursement rolls of the initial PHAs was due to the Brockton Housing Authority's failure to reconcile their Section 8 Portability-In Accounts Receivable Accounts. The Brockton Housing Authority's General Ledger and Subsidiary accounts for Portability-In Accounts Receivable were out of balance by \$416,740 at October 31, 2002.

BACKGROUND

A five-member Board of Commissioners governs the Brockton Housing Authority located at 45 Goddard Road, Brockton, Massachusetts. The Executive Director is responsible for the administration of daily operations. The Chief Operating Officer and the Section 8 Administrator were the main contact points for our review. Among other HUD funded programs, Brockton Housing Authority administers 823 Housing Choice Vouchers and 1,137 Portability-In Housing Choice Vouchers. Of the 1,137 Portability-In Housing Choice Vouchers, 557 were from the Boston Housing Authority.

The Housing and Community Development Act of 1974 authorized the Section 8 certificate program, and the Housing and Community Development Act of 1987 authorized the Section 8 rental voucher program. In October 1998, Congress passed housing reform legislation, including a full merger of the certificate and voucher programs. This legislation eliminated all differences between the two programs, and it required that the subsidy types merge into one program entitled the Housing Choice Voucher Program. In May 1999, HUD published an interim rule, effective October 1, 1999, that provided for the complete merger of the certificate and voucher programs into the Housing Choice Voucher Program.

HUD pays administrative fees to public housing authorities (PHA) that administer housing assistance programs under Section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f) in accordance with the annual contributions contract between HUD and the PHA. A PHA is paid an on-going administrative fee for each unit month for which a dwelling unit is covered by a housing assistance payments contract. In each case, the on-going administrative fee is a specified percentage of a defined base amount. In Federal Fiscal Year 2003, the administrative fee under the Housing Choice Voucher Program is 7.5 percent of the base amount for the first 600 units, 7.0 percent of the base amount for each additional voucher above 600 units, and 3.0 percent of the base amount for a PHA owned unit. HUD adjusts the base amount annually.

Under the Housing Choice Voucher Program, an eligible family that has been issued a voucher may use it to lease a unit anywhere in the United States where there is a housing agency participating in the Program. This feature of the Program is referred to as portability.

When a Program participant moves outside the PHA's jurisdiction:

- The current (or initial) PHA assists the family in locating the next (or receiving) PHA. The initial PHA forwards the HUD Form 50058 *Family Report*, HUD Form 52665 *Family Portability Information*, and other documents to the receiving PHA.
- The receiving PHA must issue a voucher to the family and assist them in locating housing in the local area.
- If the Program participant locates approved housing and a Housing Assistance Payment contract is signed with the landlord before the voucher expires, the receiving PHA uses a HUD Form 52665 *Family Portability Information* to notify the initial PHA that either (a) the receiving PHA will not absorb the family and the initial PHA will be billed monthly for the Housing Assistance Payment and the applicable administrative fee, or (b) the receiving PHA will absorb the family, and the voucher will be funded from the receiving PHA's Annual Contributions Contract.
- If the program participant cannot locate approved housing before the voucher expires, the receiving PHA notifies the initial PHA that the voucher expired before a Housing Assistance Payment contract was signed.

The portability process is different in Massachusetts because of a Federal District Court decision (Williams, et al. v. Hanover Housing Authority, et al., 871 F. Supp. 527 D. Mass. 1994). In Massachusetts, the initial PHA has the option of retaining the family in its program, and in so doing; it would require the receiving PHA to administer the voucher as a portable voucher. In no instance can the initial PHA compel the receiving PHA to absorb a family into its own voucher program.

Audit Scope and Objectives

The objectives of our review were to determine whether the Brockton Housing Authority was administering the portability features of Housing Choice Vouchers effectively and efficiently, and to ensure that: (a) HUD was not reimbursing both the initial and receiving PHAs for the same family, (b) initial and receiving PHAs are not using separate Section 8 vouchers for the same family, and (c) families terminated from the receiving PHA's Section 8 program were removed from the reimbursement rolls of the initial PHA.

To accomplish the audit objectives, we:

- Reviewed the Brockton Housing Authority's written procedures for Portability-In and Portability-Out vouchers.
- Interviewed Brockton Housing Authority staff for their operating and accounting procedures used in handling Portability-In and Portability-Out vouchers and Portability Accounts Receivables.
- Determined the universe of Portability-In vouchers at the Brockton Housing Authority in total, as well as the number of Portability-In vouchers from the Boston Housing Authority. The number of Portability-In and Portability-Out vouchers changes each month as some eligible families join while other families leave the Section 8 program. At October 31, 2002, Brockton had 1,137 Portability In vouchers.
- Selected a random sample of 60 Portability-In vouchers from the Boston Housing Authority to Brockton Housing Authority for audit testing. We selected Boston Portability-In vouchers for review since they represented almost half of all Portability-In vouchers (557 out of 1,137 vouchers).
- Reviewed the 60 randomly selected vouchers to assure that the information relating to the Head of Household, Social Security Number, number of bedrooms on voucher, Housing Assistance Payments, and timing of payments were in agreement between the Brockton Housing Authority and Boston Housing Authority.
- Interviewed Brockton Housing Authority staff to obtain their operating procedures relating to year-end settlements.
- Reviewed the Brockton Housing Authority's year-end settlement for December 31, 2001 to assure that Portability-In vouchers and the corresponding Administrative Fees were not claimed.

We conducted the audit between December 2002 and April 2003 and covered the period of January 2001 to September 2002. We conducted our audit in accordance with generally accepted government auditing standards.

FINDING

INEFFECTIVE ACCOUNTING CONTROLS OVER PORTABLE VOUCHERS

The Brockton Housing Authority has not reconciled its Section 8 Portability Accounts since November 1999. As of October 31, 2002, Brockton Housing Authority had a credit balance of \$356,170 in Section 8 Portability-In Accounts Receivable, representing

\$356,170 in unidentified overpayments from other housing authorities. At the same time, Brockton Housing Authority's subsidiary accounts receivable records show a debit balance of \$60,570, or a total difference of \$416,740 (\$356,170 + \$60,570). As a result of not reconciling its Section 8 Portability Accounts, Brockton Housing Authority could not assure HUD that its Portability Accounts accurately reflect the portability-in activity to Brockton from other housing authorities. In addition, some or all of the \$356,170 credit balance may represent funding that should be returned to other housing authorities to support additional participants in the Section 8.

Section 8 Voucher Program

Each applicant for assistance under the Section 8 Housing Choice Voucher Program must meet the definition of a family under HUD guidelines. HUD establishes income limits by family size for the area in which the public housing authorities (PHAs) are located, and all families must meet this income requirement before eligibility can be determined. A family's income must be within the limits of the initial PHA's area at the time the family receives the voucher. Once the PHA determines that the applicant is eligible to receive a Section 8 Voucher, the PHA calculates the family's Housing Assistance Payment based on the family's adjusted income and Federal allowances. HUD regulations allow a family with a Section 8 Housing Choice Voucher to lease a unit outside of the jurisdiction of an initial PHA using certain procedures referred to as portability.

HUD Requirements for Accountability and Compliance with Deadlines

HUD regulations on portability billing provide the following:

The PHA may bill the initial PHA for Housing Assistance Payments and administrative fees [24 CFR 982.355(e)(1)].

The receiving PHA must comply with financial procedures required by HUD, including the use of HUD-required billing forms. The initial and receiving PHA must comply with billing and payment deadlines under the financial procedures [24 CFR 982.355 (e)(5)].

Reconciliations Not Performed

Brockton Housing Authority had no supporting documentation to show that its Section 8 Portability Accounts had been reconciled since November 1999, when the Brockton Housing Authority began using its previous software for the Section 8 Program. As of October 31, 2002, Brockton Housing Authority's Portability-In Accounts Receivable had a credit balance of \$356,170, representing the amounts owed to other PHAs for overpayments made to Brockton. At the same time, Brockton Housing Authority's subsidiary records showed a debit balance of \$60,570, which represented the amount owed by other PHAs for Portability-In vouchers accepted by Brockton Housing Authority. Brockton Housing Authority management acknowledged that there was a

substantial difference (\$416,740) between the balance recorded in the General Ledger and the balance in its subsidiary records for Portability-In vouchers.

Brockton Housing Authority management stated that the primary reason for not reconciling the accounts was a flaw in the customized software that was previously used by the housing authority for their Section 8 program. Effective June 1, 2003, the Brockton Housing Authority converted to a new software package that provides the housing authority with the ability to reconcile account receivables and portability-in payments. The outstanding, un-reconciled Portability Accounts Receivable balances (as previously recorded) was not entered into the new system, and the housing authority may hire a consultant and/or temporary help to assist them in the reconciling of the account balances.

Payments Not Properly Identified and Corrected

In our review, we identified numerous instances where Brockton Housing Authority received incorrect Housing Assistance Payments from Boston and other housing authorities for Housing Choice Vouchers recorded in the Brockton Housing Authority Portability-In Accounts Receivable. We also noted that Brockton Housing Authority was underpaid for some vouchers recorded in its Portability-In Accounts Receivable, overpaid for others (including vouchers that had been previously terminated), and not paid at all for some vouchers. Furthermore, we found that Brockton Housing Authority created separate holding accounts to record overpayments received from other housing authorities that could not be reconciled to particular tenant vouchers.

We identified one example where Boston incorrectly paid Brockton Housing Authority for the tenant's share of the rent rather than the entire Housing Assistance Payment amount. Boston paid this lower amount from February 2002 through January 2003, for a total underpayment of \$4,584. An additional example relates to a June 2002 Brockton Housing Authority agreement to administer 30 vouchers for the Boston Housing Authority (Boston). As part of this agreement, Boston agreed to reimburse Brockton Housing Authority for the monthly Housing Assistance Payment and 80% of the applicable Administrative Fee. Boston properly reimbursed Brockton Housing Authority for 23 of the 30 vouchers; however, no payments were made for the remaining seven vouchers. For the period of June 2002 to January 2003, the underpayment for these seven vouchers totaled \$43,062. Brockton Housing Authority used its own funds for the Housing Assistance Payments on these vouchers. Brockton Housing Authority management was unaware that they were not receiving payment for all 30 vouchers transferred from Boston.

We noted that Brockton Housing Authority received overpayments totaling \$14,377 from Boston for five Housing Choice Vouchers that had been terminated. The overpayments ranged in duration from one month up to eleven months. For one of these vouchers, Brockton Housing Authority received payments from Boston for the Housing Assistance Payment and the Administrative Fees in January 2003 for a voucher that Brockton Housing Authority terminated in July 2002. Brockton Housing Authority's tenant voucher files did

not contain any documents indicating that Boston had been notified that this voucher had been terminated. When Boston stopped overpayments for these five vouchers, Brockton Housing Authority did not adjust its records to reflect the correct voucher termination date and return the overpaid funds to Boston. As a result, Brockton Housing Authority received \$14,377 of funding that could have been used to support additional Boston program participants.

In addition, the Brockton Housing Authority established holding accounts, between October 1999 and August 2000, using the names of prominent individuals (i.e. Marilyn Monroe) or fictitious characters (i.e. Mickey Mouse) for account identification. These accounts were established to record overpayments made to Brockton Housing Authority by the Boston, Cambridge, North Attleboro, and New York City Housing Authorities that were not readily identifiable to particular tenant vouchers. The amounts recorded in these accounts were to be set aside until the accounts were reconciled at a later time. The Brockton Housing Authority has yet to reconcile these accounts.

As a result of not reconciling its Portability-In Accounts Receivable, Brockton Housing Authority management was unaware of the extent of the underpayments and overpayments applicable to the mobility/portability vouchers it managed for other housing authorities. These underpayments and overpayments should have been identified and corrected in a timely manner.

AUDITEE COMMENTS

On June 18, 2003, we received the Brockton Housing Authority's response to the Draft Report, which we issued on May 28, 2003. Subsequent to the issuance of the Draft Audit Report, we received information from Public Law 108-07 *Consolidated Appropriations Act of 2003* and other sources that affected our recommendations. Accordingly, we provided the housing authority with the revised recommendations on June 25, 2003.

In its June 18, 2003 response, the housing authority stated:

We believe that we have identified an accurate method for reconciling HAP payments made on behalf of other Authorities and cash received from them. Although this method does not identify the individual participants, it does tie out to actual cash payments made on their behalf.

The Brockton Housing Authority's response to our revised recommendations is dated July 3, 2003, and it stated that they agreed with the substance of the audit report. However, the Brockton Housing Authority wished to discuss several of the recommendations with the New England Office of Public and Indian Housing.

The narrative portion of the Brockton Housing Authority's June 18, 2003 response is included as Attachment A to this report. We did not include the computer-generated reports that were attached to authority's narrative response. These reports deal with

current and future transactions. The reports are not relevant to the reconciliation of the accounts from November 1999 through May 2003. In addition, we included the July 3, 2003 response as Attachment B to this report.

OIG EVALUATION OF AUDITEE COMMENTS

On May 21, 2003, the HUD OIG Office of Audit staff met with representatives of the Brockton Housing Authority to discuss the Draft Audit Report. During that meeting, we indicated that the most accurate method for performing the account reconciliation would be by program participant. We acknowledged the administrative burden and cost that such a detailed method would impose on the housing authority. However, we emphasized that the reconciliation objective was to determine an accurate amount that should be refunded to or collected from the housing authorities for which Brockton administered portability-in vouchers. Regardless of the method selected by the housing authority, the reconciliation procedure should generate accurate amounts, provide an audit trail, and meet HUD's approval. Finally, we stated that the Brockton Housing Authority's response must provide sufficient details so that HUD could determine if the reconciliation method would produce accurate amounts by housing authority.

The Brockton Housing Authority's responses are inadequate. The responses do not provide sufficient details for this office to determine if the proposed method will result in accurate amounts by housing authority. Nor does either response provide a timeline for the completion of the reconciliation and the return or collections of funds.

RECOMMENDATIONS

We recommend that your office require the Brockton Housing Authority to:

- 1A. Provide an adequate description of the method that they will use to determine the over/under payment amount by housing authority and fiscal year.
- 1B. Explain why its method will produce substantially the same results by housing authority and fiscal year as reconciling by tenant would provide.
- 1C. Explain how the unreconciled balance of \$416,740 will be refunded or collected (i.e. offset or separate check).
- 1D. Explain how the Brockton Housing Authority will obtain and document informed consent from the receiving/paying housing authority to ensure that these monies are a final settlement for prior over or underpayments. The amounts must be agreed upon prior to Brockton collecting or disbursing the funds.
- 1E. Explain how the Brockton Housing Authority will handle disputes from the other housing authorities.

- 1F. Assure HUD that the repayments or collections will not be reflected in any current, future, or prior year-end settlement with HUD.
- 1G. Assure HUD that the handling of repayments or collections will not conflict with the changes in Administrative Fee Reserves included in the FY 2003 Appropriation Act.
- 1H. Provide HUD a complete list of refunds and collections, by fiscal year, and housing authority.
- 1I. Establish a reasonable timetable to reconcile the accounts and refund/collect the over or under payments.
- 1J. Return the applicable Administrative Fee if the Brockton Housing Authority is unable to reconcile its Portability-In Accounts Receivable from November 1999 through May 2003 and refund or bill the amounts timely.

AUDITEE COMMENTS



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Paul J. Burns, *Chairman*
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Timothy J. Sullivan, *Treasurer*
Timothy J. Cruise, *Assistant Treasurer*
Anthony DeVeiga, *Member*

Richard J. Sergi, *Executive Director*

June 17, 2003

Mr. Barry L. Squill, Regional Inspector General for Audit 1AGA
U.S. Department of Housing & Urban Development
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Squill:

On December 18, 2002, an Entrance Conference was conducted at the Brockton Housing Authority. Your staff, headed by Ms. Christine O'Rourke, Assistant Regional Inspector for Audit, clearly outlined the purpose, scope and time line for the audit. At that conference, the Brockton Housing Authority provided previously requested information and a description of a problem we were experiencing with our portability software (Peak Performance). Although the software had the appropriate reports to reconcile the accounts, the data produced on the reports did not balance with supporting documents. This problem had been identified and was being addressed by the programmer who created the software. Unfortunately, the response was slow, a contract dispute ensued and the Authority made a decision that it would be in its best interest to seek the services of another software provider. The Authority is now using Computer Housing Authority System (CHAS) software. Many Authorities in the area use CHAS software and we believe the system is reliable and accurate. No previous balances were carried forward to the new system. As attachments I have included a CHAS Mobility Housing Trial balance report and Housing Authority balance report. These reports show balances by the Authority as of June 11, 2003. The Authority went live with this program on June 1, 2003.

I have highlighted five (5) authorities, Adams, Danvers, Deland, Medford and Somerville. These Authorities demonstrate accounts that we have received correct payment for, a slight overpayment, a slight underpayment and one account for which we had received no payment at the time the report was generated. I have also attached a detailed Housing Authority Transaction History, which supports the Housing Authority balances report. The accounts that are over or underpaid are being reconciled on a daily basis as the Authority's Full Charge Bookkeeper receives payments. The Authority is in the process of bringing on an accounts receivable clerk who will have sole responsibility for reconciliation of the portability accounts. This system started on June 1, 2003 and

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AUDITEE COMMENTS

will continue forward. We are confident that this detailed reconciliation process will satisfy the regulatory and financial requirements of the program.

The reconciliation of the portability accounts from November 1999 to May 2003 is more problematic. We are currently reviewing the participants' files versus Peak Performance reports to identify the most accurate, efficient, and cost effective method for reconciliation. While we agree with the Inspector General's assertion that accounts should be reconciled by participant and, as demonstrated by the attached reports, we are able to do now, the ability and cost effectiveness of doing this back to November of 1999 may not be the best solution to the audit's finding. We believe we have identified an accurate method for reconciling HAP payments made on behalf of other Authorities and cash received from them. Although this method does not identify the individual participants it does tie out to actual cash payments made on their behalf. We believe this method would resolve the Inspector General's Audit finding. We would request an opportunity to meet with HUD Boston Field Representatives to demonstrate this method and determine if this is an acceptable reconciliation method. The final determination will govern the amount of time and expense needed to complete the reconciliation process.

We appreciate the professionalism of your staff and we stand ready to answer any questions you may have

Sincerely,



Thomas G. Thibeault
Chief Operating Officer

Cc: Richard Sergi Executive Director
Kevin Harriman Director of Rental Assistance and Economic Development

AUDITEE COMMENTS



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Paul J. Burns, *Chairman*
Ernest Pettiford, *Vice Chairman*
Timothy J. Sullivan, *Treasurer*
Timothy J. Cruise, *Assistant Treasurer*
Anthony DeVeiga, *Member*

Richard J. Sergi, *Executive Director*

July 3, 2003

Mr. Barry L. Savill, Regional Inspector General
Office of Audit
U.S. Department of Housing & Urban Development
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

RE: Draft Audit Report of Portability Features
Of the Section 8 Housing Choice Voucher Program

Dear Mr. Savill:

On June 17, 2003, the Brockton Housing Authority responded to a draft Audit Report provided by your office, reviewing the features of the Housing Choice Voucher Program. Subsequent to the issuance of the draft report for comments additional information was received by your office that caused amendments to the original draft. As part of the Authority's response, I would request our original response and attachments be included in the final report.

The Brockton Housing Authority agrees with the substance of the Audit Report. The reconciliation of the portability accounts must take place and credits must be paid to the authority to which they are owed while debits must be collected. In your recommendation, there are a number of items that the Authority would like to discuss directly with the Office of Public Housing. It is my understanding that the findings of the Inspector General's Office will be reviewed by the Office of Public Housing and the Authority must satisfy the concerns of the Office of Public Housing to close the finding. I believe that the Authority will be able to address each of the recommendations and close out the finding in a timely fashion.

If you have any questions, please contact Mr. Thomas Thibeault, Chief Operating Officer, at (508) 427-9130.

Sincerely,


Richard J. Sergi
Executive Director

CC: Thomas G. Thibeault, Chief Operating Officer
Kevin C. Harriman, Dir. of Rental Assistance & Affordable Housing
Hugh F. Perrault, MIS Director