
AUDIT REPORT



HOUSING CHOICE VOUCHER SUBSIDY STANDARDS

HOUSING AUTHORITY OF THE
CITY OF HOUSTON

HOUSTON, TEXAS

2004-FW-1010

September 29, 2004

OFFICE OF AUDIT, REGION 6
FORT WORTH, TEXAS



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| Issue Date |
| September 29, 2004 |

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| Audit Case Number |
| 2004-FW-1010 |

TO: Dan Rodriguez
Program Center Coordinator, Office of Public Housing, 6EPH

A handwritten signature in blue ink, appearing to read 'D. Michael Beard'.

FROM: D. Michael Beard
Regional Inspector General for Audit, 6AGA

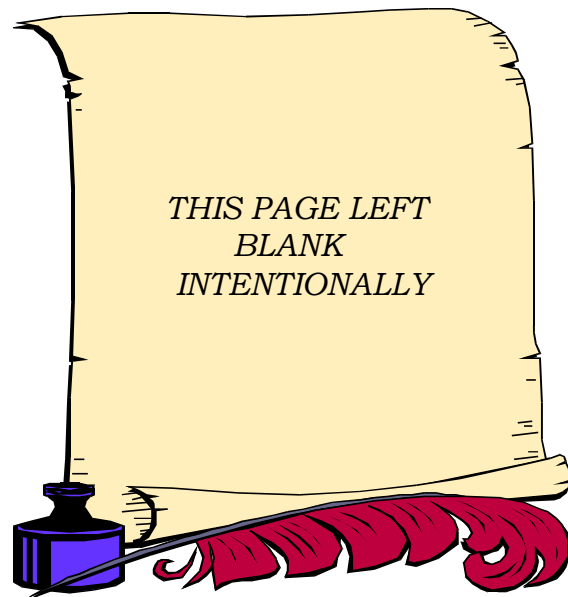
SUBJECT: Housing Choice Voucher Subsidy Standards
Housing Authority of the City of Houston
Houston, Texas

We audited the Housing Authority of the City of Houston (the Authority). This audit reviewed the administration of the Section 8 Program concerning assistance payments to families housed in larger units than the Authority's policy allowed. Additional audits concerning the Authority's Section 8 Program including: (1) housing quality standards; (2) calculation of housing assistance payments; and (3) assistance payment databases are underway or planned.

Our report contains one finding with recommendations requiring action by your office. The audit objective was to determine whether the Authority used its Section 8 funds to pay housing assistance for tenants who are housed in a larger unit than the Authority's policy allows.

In accordance with U.S. Department of Housing and Urban Development Handbook 2000.06, REV-3, within 60 days, please provide us for each recommendation without management decisions, 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 the report is issued for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Theresa Carroll, Assistant Regional Inspector General for Audit, at (817) 978-9309.



Executive Summary

As part of the Office of Inspector General's Annual Audit Plan, we audited the Housing Authority of the City of Houston (the Authority). The objective of this audit was to determine whether the Authority used its Section 8 funds to pay housing assistance for tenants who are housed in larger units than the Authority's policy allows. Additional audits of the Authority's Section 8 Program are underway.

The Authority paid excessive Section 8 assistance.

The Authority paid Section 8 Housing Choice Voucher funds for tenants to live in larger units than the Authority's policy allowed. Testing showed the Authority overpaid at least \$797,280 to improperly house at least 352 Section 8 tenants between January 2002 and May 2004. Statistical testing identified \$172,193 in actual ineligible overpayments and a minimum of \$625,087 in projected overpayments. In addition, the Authority could overpay more than \$3.2 million over the next 3.7¹ years if it does not implement controls to stop the overpayments. The Authority made the overpayments because its Contractor chose not to follow the Authority's policy to avoid increasing its already backlogged workload. The Authority's monitoring, which should have detected and prevented the improper payments, was not sufficient to do so.

Recommendations.

We recommend that the U.S. Department of Housing and Urban Development (HUD) require the Authority to comply with the unit size limitations in its Administrative Plan. We also recommend that HUD require the Authority to:

- Repay \$172,193 in identified Section 8 overpayments;
- Review other identified tenants potentially living in units larger than the Authority's policy allows and repay any ineligible Section 8 assistance, which we project to be at least \$625,087; and
- Implement controls to avoid future estimated overpayments of \$3.2 million over the next 3.7 years.

¹ According to a HUD Office of Policy Development and Research report, dated January 2003, the average Section 8 tenant in Houston resides in an assisted unit for 3.7 years.

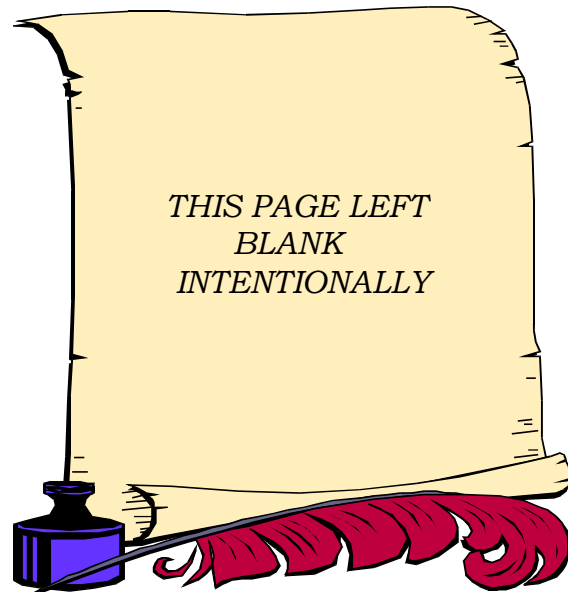


Table of Contents

| | |
|-----------------------|---|
| Management Memorandum | i |
|-----------------------|---|

| | |
|-------------------|-----|
| Executive Summary | iii |
|-------------------|-----|

| | |
|--------------|---|
| Introduction | 1 |
|--------------|---|

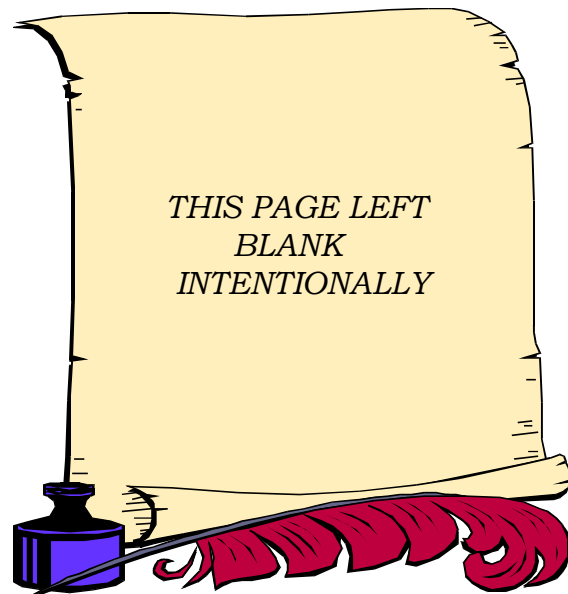
Finding

| | |
|--|---|
| The Authority Paid for Tenants to Reside in Larger Units than Allowed | 5 |
|--|---|

| | |
|-------------------|---|
| Internal Controls | 9 |
|-------------------|---|

Appendices


| | |
|--|----|
| A. Schedule of Questioned Costs and Funds to be Put to Better Use | 11 |
| B. Auditee Comments | 13 |
| C. Sample Selection, Testing Methodology, and Test Results | 19 |



Introduction

The City of Houston established the Housing Authority of the City of Houston (the Authority) in 1938. The Mayor appoints a five-member Board of Commissioners (Board) to govern the Authority. The Board hires an Executive Director to manage the Authority's day-to-day operations. The Authority keeps its records at its central office at 2640 Fountainview, Houston, Texas.

The Authority has operated its Section 8 Rental Assistance Program since 1975. HUD executed the Authority's first Section 8 contract in June 1975 to serve 1,619 families. In June 1985, HUD executed the Authority's first Housing Voucher contract to serve an additional 91 families. In 2000, HUD combined the Section 8 and Housing Voucher Programs to create the Housing Choice Voucher Program. During the period January 2002 through May 2004, the Authority administered more than 16,000 Housing Choice Vouchers, including vouchers that it terminated during the period. From 2002 to 2003, HUD paid the Authority \$185 million to fund the Housing Choice Voucher Program, including \$14.5 million for the Authority's administrative expenses related to the program.



The Authority hired a contractor to improve its performance.

During 2001, HUD designated the Authority "troubled" and gave it a very low Section 8 Management Assessment Program score. The Authority contracted with Quadel Consulting (Contractor) in December 2001 to manage and improve its Section 8 Program performance. The Contractor formed a subsidiary, Houston Housing Assistance Partnership, to perform the contract work. The Authority paid the Contractor 85 percent of the administrative fees that HUD awarded the Authority to operate the Section 8 program. The Contractor did improve the Authority's score out of the "troubled" category.

Even though the Authority hired a contractor to manage and operate its Section 8 Program, it is ultimately responsible to HUD for program operations and for any errors.

Audit Objective

Our objective was to determine whether the Authority used its Section 8 funds to pay housing assistance for tenants who were housed in larger units than the Authority's policy allowed.

Audit Scope and Methodology

To achieve the objective, we:

- Reviewed HUD's and the Authority's regulations;
- Reviewed tenant data maintained in HUD's Public and Indian Housing Information Center database;

Sample Selection and Testing Methodology

- Reviewed a statistical sample of inappropriately housed tenant files maintained by the Contractor at the Authority’s central office;
- Interviewed HUD, Authority, and Contractor staff as necessary; and
- Recalculated assistance payments to determine how much the Authority overpaid when it did not use appropriate unit size or correct payment standards.

Appendix C contains detailed information regarding our sample selection, testing methodology, and test results.

By comparing Multifamily Tenant Characteristics System (MTCS)² data to the subsidy standards in the Authority’s Administrative Plan, we determined that the Authority paid assistance for 1,824 out of 16,065 tenants to occupy larger and smaller units than the Authority’s policy allowed during the period January 2002 through May 2004. We identified the 1,824 tenants by comparing their family sizes and unit sizes to the subsidy limits in the Authority’s Administrative Plan, below:

| Voucher Size | Minimum # Persons in Household | Maximum # Persons in Household |
|---------------------|---------------------------------------|---------------------------------------|
| 0 BR | 1 | 1 |
| 1 BR | 1 | 2 |
| 2 BR | 2 | 4 |
| 3 BR | 3 | 6 |
| 4 BR | 4 | 8 |
| 5 BR | 5 | 10 |
| 6 BR | 6 | 12 |

By performing additional analyses on the data in the MTCS database for these 1,824 families, we determined that the Authority may have overpaid assistance for 501 of the tenants because:

- The tenants possessed a Section 8 Housing Choice Voucher with more bedrooms than their family size allowed and

² Multifamily Tenant Characteristics System is a HUD database containing demographic data on Section 8 tenants.

- The Authority's actual assistance payment exceeded its subsidy payment standards for the appropriately sized unit, based on the tenant's family size.

We selected a statistical sample³ of 98 of the 501 tenants to confirm the Authority was overpaying assistance for tenants housed in larger units than its policy allows. We requested and reviewed the Authority's tenant files for any evidence that these 98 tenants warranted larger units. If we found that the tenants did not warrant larger units, we recalculated the assistance payments for those tenants using the correct bedroom size and compared it with the Authority's calculations. When we conducted the testing, we accepted and did not re-verify the Authority's housing assistance calculations for income, deductions, and utility allowances. If the Authority's total rental assistance calculations exceeded our calculations, we considered the excess funds to be overpayments.

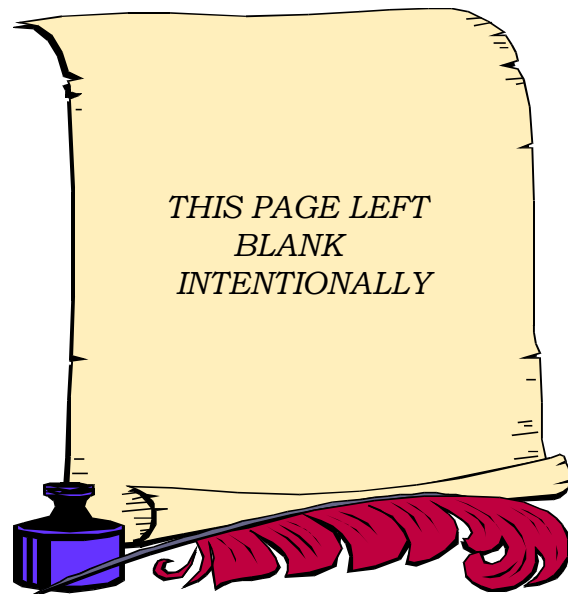
Additional instances of tenants in larger units than allowed may exist.

Additional instances of tenants in larger units than allowed by the Authority's policy may exist. Our testing may not have detected all improperly housed tenants because we only tested those family sizes that obviously fell outside the range created by the maximum and minimum size limits in the Authority's Administrative Plan. We did not attempt to test for tenants that could have fallen inside the maximum and minimum size limits based on their family composition. For example, the subsidy standards allow a two-person household to have a one- or two-bedroom unit. However, if the two-person household composition is a mother and a child under 5 years old, the Administrative Plan requires the Authority to issue a one-bedroom voucher.⁴

We performed audit work from March through July 2004 at the Authority's central office at 2640 Fountainview, Houston, Texas. The audit covered the period January 1, 2002, through May 24, 2004. We extended the review, when appropriate, to include other periods. We conducted the audit in accordance with generally accepted government auditing standards.

³ We used EZ Quant statistical sampling software to select a simple random sample with a 90 percent confidence level and a 10 percent precision range.

⁴ The Authority's Administrative Plan, January 1, 2004, revision, page 23.



The Authority Paid for Tenants to Reside in Larger Units Than Allowed

The Authority paid Section 8 Housing Choice Voucher funds for tenants to live in larger units than its policy allowed. Consequently, the Authority overpaid at least \$797,280 to house its Section 8 tenants between January 2002 and May 2004. Statistical testing identified \$172,193 in actual ineligible overpayments and a minimum of \$625,087 in projected overpayments. In addition, the Authority could overpay more than \$3.2 million over the next 3.7⁵ years if it does not implement controls to stop the overpayments. The Authority made the overpayments because its Contractor chose not to follow the Authority's policy to avoid increasing its already backlogged workload. In addition, the Authority's monitoring, which should have detected and prevented the improper payments, was not sufficient to do so.

HUD and Authority Requirements.

HUD requires the Authority to establish subsidy standards to set how much rental assistance it will pay for each unit size based on the number of bedrooms in the unit.⁶ HUD also requires the Authority to apply the subsidy standards consistently for all tenant families of like size and composition.⁷ The Authority established its subsidy standards in its Administrative Plan. The Administrative Plan requires the Authority to:

- Issue the minimum subsidy standard available to adequately serve a family⁸ and
- Upgrade or downgrade a family's voucher as appropriate.⁹

The Authority's Contractor issues vouchers to tenants.

The Authority's Contractor determines the number of persons in a tenant's family applying for a voucher. It consults the Authority's subsidy standard table in its Administrative Plan to determine the appropriate unit size. Once the Contractor makes the determination, it issues a Housing Choice Voucher to the tenant for the appropriate unit size. The voucher allows the tenant to rent any size unit. However, the Authority's subsidy standards limit

⁵ According to a HUD Office of Policy Development and Research report, dated January 2003, the average Section 8 tenant in Houston resides in an assisted unit for 3.7 years.

⁶ Section 8 Program 24 Code of Federal Regulations 982.402, paragraph (a).

⁷ Section 8 Program 24 Code of Federal Regulations 982.402, paragraph (b)(3).

⁸ Administrative Plan, January 1, 2004, revision, page 23.

⁹ Administrative Plan, January 1, 2004, revision, page 37.

rental assistance to the number of bedrooms on the voucher.

Testing showed the Authority improperly housed 76 of the 98 statistically sampled tenants in larger units than its policy allowed. Further, the Authority overpaid \$172,193 in Section 8 Housing Choice Voucher assistance for these 76 tenants. When projected to the population of 501 tenants, statistical theory shows that the Authority has overpaid at least \$625,087 on other tenants improperly housed in units that are larger than allowed. Further, if the Authority continues to pay for tenants to lease larger units than they are allowed, it could overpay more than \$3.2 million in assistance over the next 3.7 years.

The Authority overpaid because the Contractor did not downgrade vouchers.

Although the Authority initially issued the correct voucher size for most of the tenants tested, its Contractor failed to downgrade the vouchers as the tenant's family sizes changed. In some cases (22%), the Contractor justifiably issued larger units to tenants with exceptional medical circumstances. According to one of the Contractor's managers, the Contractor did not downgrade the vouchers because it chose not to follow the Authority's policy to avoid increasing its already backlogged workload. The Authority's monitoring of the Contractor's performance did not detect the Contractor's decision to violate the Authority's policy.

The Authority agreed and expects to complete corrections by October 2004.

The Authority's Director of Regulatory Compliance and Intergovernmental Affairs agreed that the Authority housed the identified tenants in units larger than policy allowed. He stated that the Authority has taken steps to correct the 76 erroneous files and anticipates completion by the end of October 2004.

Auditee Comments

The Authority agreed the problems discussed in the finding existed and are in immediate need of correction. The Authority concurred that it overpaid \$172,193 and stated it is having its Contractor review and take corrective action on the 76 participants. The Authority indicated it developed a plan to review all of its participant files to identify any that are over-housed. Further, the Authority indicated it is performing a comprehensive review of the remaining 403 files out of the 501 identified as potentially

over-housed by OIG. The Authority expects this review to be completed in 30 days. In addition, the Authority agreed to relocate or take other administrative action to ensure that housing is appropriately based on the number of persons in a household. The Authority also stated that it will take operational and administrative control of its Section 8 Programs from its Contractor, effective October 20, 2004. Finally, the Authority indicated it would not incur future estimated overpayments of \$3.2 million because it is taking corrective actions to prevent such a problem.

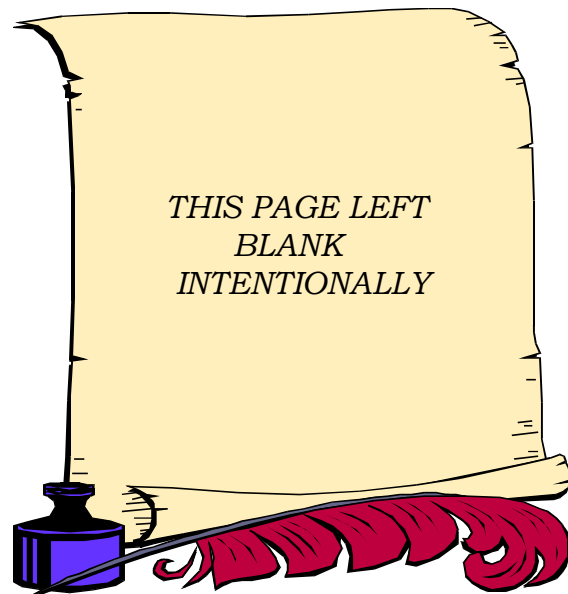
OIG Evaluation of Auditee Comments

We appreciate the Authority agrees a problem exists and has detailed actions to correct the problems. The Authority has outlined corrective actions including a comprehensive review of all potentially over-housed tenant files within the next 30 days. Then, the Authority will review all of its remaining Section 8 files. Further, the Authority indicated it would assume responsibility for the Section 8 Program from its Contractor. If followed, these steps should be sufficient to correct and prevent the Authority from paying assistance to tenants who are living in a larger unit than the Authority's policy allows.

Recommendations

We recommend HUD require the Authority to:

- 1A. Comply with the unit size limitations in the Administrative Plan.
- 1B. Repay \$172,193 in identified Section 8 overpayments.
- 1C. Review other identified tenants potentially living in units larger than the Authority's policy allows and repay any ineligible Section 8 assistance, which we project to be at least \$625,087.
- 1D. Implement controls to avoid future estimated overpayments of \$3,232,953 over the next 4 years.



Internal Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following management controls were relevant to our audit objectives:

- Management's assurance that the Contractor complies with the terms of the Administrative Plan and
- Contractor's quality control system, through which it self-assesses its performance and provides feedback via training to its employees.

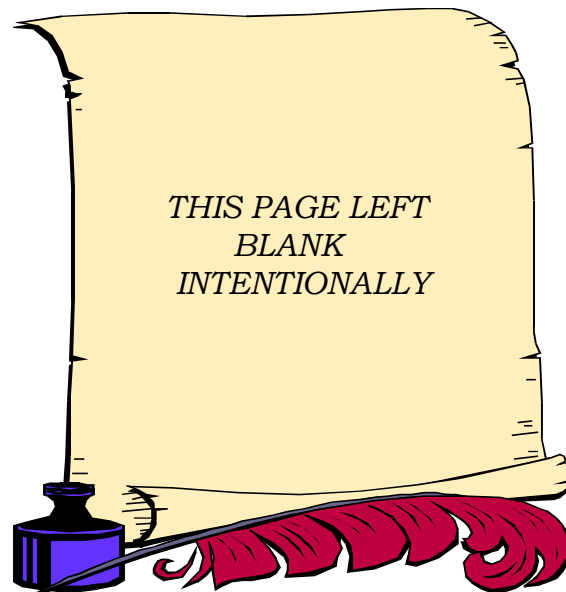
We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we identified two significant weaknesses:

1. The Authority did not monitor the Contractor sufficiently to ensure that it followed the Authority's policy.
2. The Authority's Contractor intentionally circumvented the controls established to prevent the Authority from overpaying Section 8 Housing Choice Vouchers.



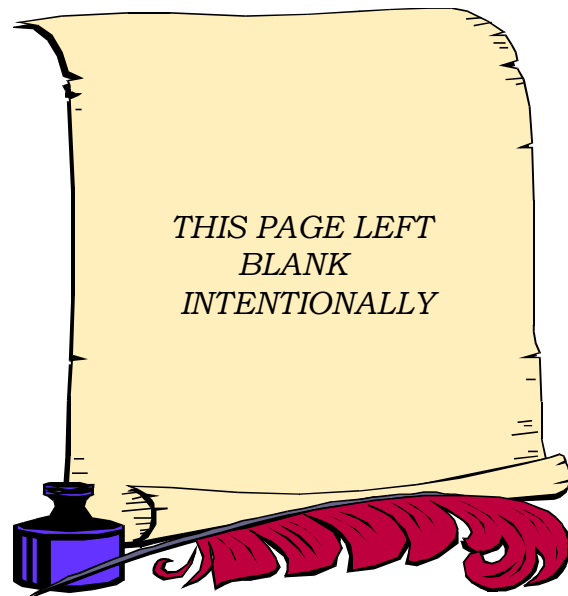
Schedule of Questioned Costs and Funds to be Put to Better Use

| Recommendation | Ineligible¹ | Unsupported² | Funds Put to Better Use³ |
|-----------------------|-------------------------------|--------------------------------|--|
| 1B | \$172,193 | | |
| 1C | | \$625,087 | |
| 1D | | | \$3,232,953 |

¹ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

² Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of 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 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.

³ "Funds put to better use" are costs that will not be expended in the future if our recommendations are implemented, including costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.



Auditee Comments

Commissioners
Laura Ramirez-Jaramillo
Chair

Andrew Tran
Judge John Kyles
Rev. Myron Cloyd
Shelia Smith

Ernie Etuk
Executive Director

HOUSING AUTHORITY OF THE CITY OF HOUSTON

P. O. Box 2971 • Houston, Texas 77252-2971 • (713) 260-0800



More Than Just A Place To Live

Office of the Executive Director

September 17, 2004

D. Michael Beard
Regional Inspector for Audit
U.S. Department of Housing
And Urban Development
Region 6, Office of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Attention: Theresa A. Carroll,
Assistant District Inspector General

**Re: Response to Draft Audit Report on
Housing Choice Voucher Subsidy Standards**

Dear Mr. Beard:

On December 1, 2001, the Housing Authority of the City of Houston contracted with Quadel Consulting Corporation, a Washington DC based firm knowledgeable in the Section 8 program, to administer and operate the Housing Authority of the City of Houston's Housing Choice Voucher program and its Section 8 Moderate Rehabilitation programs. Quadel Consulting Corporation (Contractor) has made improvements to the program; however the problem areas of the program described in this report issued by the United States Department of Housing and Urban Development-Office of Inspector General (HUD-OIG) are in need of immediate correction.

In March 2004, the HUD-OIG commenced a review of the Housing Authority of the City of Houston's Housing Choice Voucher program. The principle problem identified in the HUD-OIG report (Report) is that of over-housing. According to the Report over-housing resulted from the failure of the Contractor to follow established procedures of the Housing Authority of the City of Houston (HACH) and from ineffective monitoring of this problem by HACH.

The HUD-OIG review surveyed data from approximately 16,000 participants during the participants' two year-five month participation in the Housing Choice Voucher program (January 2002 through May 24, 2004). The HUD-OIG detected errors resulting in possible overpayment of the Housing Assistance Payments in approximately 3% of the program participants or 501

clients out of the population of approximately 16,000 clients. The HUD-OIG actually reviewed 98 tenant files selected from the 501 tenants referenced above and identified 76 clients where the participant was found to be residing in a dwelling unit containing more bedrooms than the number of persons in the household require. This over-housed condition resulted in an overpayment of housing assistance.

The HUD-OIG determined the following:

1. **The Housing Authority should comply with the unit size limitations in its Administrative Plan.**

The Housing Authority's Administrative Plan, its policies and procedures direct the appropriate housing of program participants in accordance with applicable HUD regulations. Regrettably, the Housing Authority did not detect that its Contractor was housing program participants inappropriately. As a remedy to correct this problem and to ensure that the performance of its Contractor is in full compliance with the Housing Authority of the City of Houston's Administrative Plan, Policies, Procedures and HUD requirements the Housing Authority created and staffed a Department of Regulatory Compliance in 2004. The Department of Regulatory Compliance is responsible for performing comprehensive ongoing reviews of the Contractor's performance, examining the details of work product performed by the Contractor to ensure that the work performed complies with requirements of the Housing Authority and HUD.

2. **The Housing Authority should repay the monetary value of the overpayments of 76 program participants for the 2 ½ year audit period calculated at \$172,193.**

The Housing Authority concurs with the assessment of the HUD-OIG that the amount of overpayment paid by the Contractor for the 76 program participants during the 2 ½ years is \$172,193. Upon receipt of information regarding over-payments from the HUD-OIG the Housing Authority of the City of Houston directed the Contractor to review and take corrective actions to each of the 76 program participants. The Contractor informed the Housing Authority that the corrective actions are substantially completed and the remaining corrective actions will be completed by September 18, 2004. The Housing Authority is reviewing each case to ensure that the corrections are completed and the actions taken are appropriate. This review will be completed by the end of September 2004.

3. **The Housing Authority should review other program participants that may be living in units larger than the Authority's policy allows and repay any ineligible housing assistance, which the HUD-OIG projects to be approximately \$625,087.**

Upon the receipt of information from the HUD-OIG regarding the presence of over-housed participants the Housing Authority of the City of Houston immediately developed a plan to review the records of its 15,000 participants, identify any participants that are over-housed and relocate the participant to other suitable housing or take other administrative action to ensure that all participants are residing in rental housing appropriate to the number of persons that reside in their household and the households special needs.

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Page 3 of 5
HUD-OIG Review
September 17, 2004

The Housing Authority is in the process of implementing its plan of action, identified below, that will ensure that a comprehensive review of all files is completed to detect any other program participants that may be residing in an over housed condition and take prompt action, in compliance with HUD regulations, to remedy each case.

To determine if any of the other 403 assisted households identified by the HUD-OIG as potentially over-housed are actually over-housed, specific review and research is required. Review of each case file is required because in the Housing Choice Voucher program clients are permitted to reside in units larger than their family size requires due to the medical needs of the family members or as a reasonable accommodation for persons with disabilities. For example a family may require a live-in-attendant to care for a disabled family member. Live-in-attendants are not part of the family (household) and their income is not considered in the calculation of the rental assistance however the family is authorized to select a unit that provides a bedroom for the live-in-attendant. In such instances a survey of client summary data may suggest that this household is over-housed when the household is actually properly housed in accordance with HUD regulations governing the program.

4. *“Although the Authority initially issued the correct voucher size for most of the tenants tested, its Contractor failed to downgrade the vouchers as the tenant’s family sizes changed.”*

The Housing Authority of the City of Houston has initiated a comprehensive review of all program participants to ensure that residents are properly housed in accordance with the needs of the family, giving consideration to the age, gender and special needs of the household members. The comprehensive review of the files of the 403 program participants is currently in process and is expected to be completed within 30-days. In cases where program participants are found to be over-housed the participant will be required to relocate to other housing suitable and appropriate for the size of their family. The Housing Authority is required to provide the resident with at least 60-days to find and relocate to other suitable housing. In such cases the completion of the corrective action will be completed within 60 to 90-days.

5. *The Housing Authority should implement controls to avoid future estimated overpayments of \$3.2 million over the next 3.7 years.*

The \$3.2 million is a theoretical amount projected in the event that no corrective actions are being taken for the next 3.7 years. The hypothetical projection will not be reached because corrective actions are being taken by the Housing Authority of the City of Houston to prevent any such problem.

The Housing Authority of the City of Houston is taking the following immediate actions to correct the over-housing issues by:

- Regaining direct operational and administrative control of the Housing Choice Voucher program and the Section 8 Moderate Rehabilitation programs from its Contractor, Quadel Consulting Corporation, effective October 20, 2004.

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- Completed corrective action of the 76 tenant files identified by the HUD-OIG as over-housed. Actions included requiring the family to relocate to appropriate sized rental housing or if the family refused to relocate to appropriately sized housing, acting to reduce housing assistance payments commensurate to the size unit the family requires or terminating housing assistance.
- Established and implemented a plan to prevent the re-occurrence of overpayments in the future. The Housing Authority of the City of Houston:
 - Created a new Department of Regulatory Compliance within the Authority in 2004. The Department of Regulatory Compliance is responsible to perform a comprehensive quality control review of work product to ensure that the work performed is completed accurately and in accordance with Authority Policies and HUD requirements.
 - Fully staffed the Department of Regulatory Compliance with a Director, a Regulatory Compliance Officer and Regulatory Compliance Analysts in July 2004. The Director of Regulatory Compliance reports directly to the Executive Director. This structure provides for the independence and integrity of the Regulatory Compliance activities and provides reports directly to the highest office in the Authority to ensure that the detection of irregularities will be properly addressed.
 - Established a work plan to perform a Quality Control Review of **tenant files identified as potentially over-housed**, to detect errors and correct identified errors and **complete this comprehensive review by December 31, 2004**. The Housing Authority of the City of Houston has determined it necessary to conduct and complete a comprehensive quality control review of all tenant files not limiting the review to the files identified with possible deficiencies by the HUD-OIG. This action is being taken to review and detect any households that are over-housed as well as 32 other components of program performance.
 - Hired 30 contract employees with accounting / auditing experience to staff this comprehensive quality control operation in August 2004.
 - Provided extensive training for the contract employees to equip them to perform an accurate comprehensive review. The work to determine client eligibility and the other components of program participation is highly detailed and complex. As a result it was necessary to properly train the contract employees hired to perform the quality control action to enable them to perform the work accurately to bring the client files in full compliance with Housing Authority policies and HUD regulations.
 - Provided internal training to the contract employees effective August 24, 2004.

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Page 5 of 5
HUD-OIG Review
September 17, 2004

- Provided comprehensive 5-day training the week of August 30 to September 3, 2004 by Nan McKay and Associates, a nationally recognized training expert in the Housing Choice Voucher program and a firm used by HUD to conduct training on the program.
 - Trainers from the Houston HUD office also provided training of the contract employees on September 13 and 14, 2004.
- Following the completion of the comprehensive Quality Control review of all Housing Choice Voucher program files the Housing Authority of the City of Houston plans to continue its comprehensive quality control review process on an ongoing basis to ensure continued compliance with HUD regulations. Approximately one-twelfth of the program participants are re-certified annually to determine if they are eligible for continued participation in the program. The Housing Authority intends to continue its comprehensive quality control function on an on going basis by reviewing the files of program participants that are re-certified to ensure that the program continues to operate in compliance with Housing Authority policies and HUD requirements.

The Housing Authority of the City of Houston is committed to correcting the finding and taking action to prevent the reoccurrence of over-housing through the implementation of the above plan.

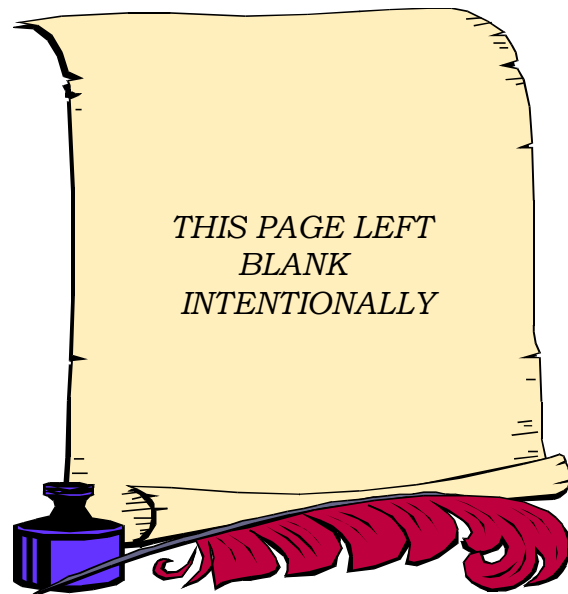
Sincerely,



Ernie Etuk
Executive Director

c: HACH Board

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Sample Selection, Testing Methodology, and Test Results

SAMPLE SELECTION:

We found records for 16,065 tenants in the MTCS database for the period January 2002 through May 2004. The records included those tenants that the Housing Authority terminated from the program during the period. We performed several sorts on the data in the records to determine which units the Authority may have over-subsidized based on tenant family sizes.

We sorted the listing by voucher size and number of persons in the household. We compared the voucher size and number of household members to the unit size limits in the Authority's Administrative Plan and found 1,824 tenants whose voucher sizes were greater than or less than the size limits.

We sorted the 1,824 tenants by number of household members and compared the number of household members to the number of bedrooms on the 1,824 tenants' vouchers. We identified 1,088 of the 1,824 tenants whose voucher sizes exceeded the number of family members.

We then compared the number of family members in each household to the actual number of bedrooms in the tenant's home and identified 891 tenants who had excessive voucher sizes and lived in larger units than their number of family members warranted.

We then compared each tenant's rent to the appropriate payment standard for the tenant's family size and determined that the rent exceeded the payment standard for 501 of the 891 tenants. These are the tenants for whom the Authority may have overpaid housing assistance because the Authority subsidized the tenants' residence in larger units than the Authority's policy allows. However, there are some allowable exceptions according to the Administrative Plan. Therefore, we selected a representative statistical sample of the 501 tenants and tested them.

We used EZ QUANT statistical software to select our sample. We defined the unit to be sampled as a tenant file in which the Authority paid to house a tenant in a unit larger than the Authority's Administrative Plan allowed. We determined that there were 501 such tenants in the universe. We desired a 90 percent confidence level that the results of the statistical testing would be within a 10 percent precision range.

Based on the size of the universe (501), a presumed error rate of 10 percent, a precision rate of 10 percent, and a desired confidence level of 90 percent, the EZ Quant software selected 98 random samples for testing.

TESTING METHODOLOGY:

We defined an error as any tenant file in which the Authority housed a tenant in a unit and paid more than the maximum payment allowed by the Authority's Administrative Plan for a correct unit size.

In order to test the samples, we reviewed the 98 tenant files to determine whether the tenant warranted a larger unit due to medical needs or some other exception listed in the Administrative Plan. If there was no documented exception in the tenant file, we recalculated the assistance payments using the correct payment standards in the Administrative Plan. For purposes of the recalculations, we accepted and did not re-verify the Authority’s housing assistance calculations for income, deductions, and utility allowances.

We used the EZ Quant software to project the test results onto the population.

TEST RESULTS:

We found that the Contractor had incorrectly calculated the assistance payments for 76 of the 98 tenants because it used incorrect payment standards. As a result, the Authority overpaid \$172,193 to over house the 76 tenants.

When we used EZ Quant to project the results to the population, we found that the Authority overhoused between 352 and 419 of the 501 tenant families, and that the Authority overpaid between \$797,280 and \$949,035 to over house them.

We determined that the Authority overpaid \$14,244 for the 98 sample tenants during May 2004. Each of the 98 tenants will be in a single assisted unit in the City of Houston for an average of 3.7 years, therefore, the Authority would overpay \$632,433 for the 98 tenants over their average stay in their current units (\$14,244 overpaid/month X 12 months/year X 3.7 years = \$632,433). That equates to \$6,453 per tenant over 3.7 years (\$632,433/98 tenants = \$6,453/tenant). Therefore, if the Authority does not correct the over housing, we project that it could overpay \$3,232,953 over the next 3.7 years (\$6,453/tenant X 501 tenants = \$3,232,953).

We included the test results of the 98 samples below:

| # | Voucher Number | Family Members in Household | Bedrooms in unit | Bedrooms on Voucher | Overpayment Start Date | Overpayment End Date | Overpaid Amount |
|----|----------------|-----------------------------|------------------|---------------------|------------------------|----------------------|-----------------|
| 1 | 13812 | 2 | 3 | 3 | Oct-02 | May-04 | \$ 5,468 |
| 2 | 19755 | 1 | 2 | 2 | May-02 | May-04 | 2,849 |
| 3 | 50271 | 1 | 2 | 2 | Mar-04 | May-04 | 168 |
| 4 | 23582 | 3 | 4 | 4 | Feb-03 | May-04 | 2,174 |
| 5 | 79735 | 1 | 2 | 3 | Apr-04 | May-04 | 344 |
| 6 | 06293 | 2 | 3 | 4 | Aug-03 | May-04 | 180 |
| 7 | 03019 | 1 | 2 | 2 | Nov-02 | May-04 | 3,046 |
| 8 | 18749 | 2 | 4 | 3 | Feb-02 | May-04 | 8,368 |
| 9 | 18913 | 2 | 3 | 3 | Aug-02 | May-04 | 3,740 |
| 10 | 19304 | 1 | 2 | 2 | | | 0 |
| 11 | 22220 | 2 | 3 | 3 | Mar-04 | May-04 | 648 |
| 12 | 79868 | 1 | 2 | 2 | Aug-03 | May-04 | 170 |

| | | | | | | | |
|----|-------|---|---|---|--------|--------|-------|
| 13 | 00542 | 2 | 3 | 3 | May-03 | May-04 | 2,156 |
| 14 | 17191 | 1 | 2 | 2 | Jun-03 | May-04 | 1,068 |
| 15 | 03941 | 1 | 3 | 3 | Oct-02 | May-04 | 4,700 |
| 16 | 45419 | 1 | 2 | 2 | | | 0 |
| 17 | 52275 | 1 | 2 | 3 | | | 0 |
| 18 | 75092 | 1 | 2 | 2 | | | 0 |
| 19 | 52546 | 2 | 4 | 3 | | | 0 |
| 20 | 16482 | 2 | 3 | 3 | | | 0 |
| 21 | 52744 | 1 | 2 | 2 | | | 0 |
| 22 | 36589 | 2 | 3 | 3 | Dec-03 | May-04 | 762 |
| 23 | 00410 | 1 | 3 | 3 | | | 0 |
| 24 | 35624 | 1 | 2 | 2 | | | 0 |
| 25 | 05970 | 2 | 4 | 3 | Dec-02 | May-04 | 4,302 |
| 26 | 53351 | 1 | 2 | 2 | Jan-04 | May-04 | 595 |
| 27 | 22170 | 2 | 3 | 3 | Aug-02 | May-04 | 3,726 |
| 28 | 54465 | 2 | 4 | 3 | Aug-03 | May-04 | 2,070 |
| 29 | 47099 | 1 | 2 | 2 | Nov-03 | May-04 | 1,204 |
| 30 | 29341 | 1 | 2 | 2 | Sep-02 | May-04 | 2,417 |
| 31 | 02202 | 1 | 3 | 3 | Jan-03 | May-04 | 6,500 |
| 32 | 14356 | 1 | 2 | 2 | | | 0 |
| 33 | 86508 | 1 | 2 | 2 | Jun-03 | Dec-03 | 1,183 |
| 34 | 56029 | 1 | 3 | 3 | Apr-03 | May-04 | 5,754 |
| 35 | 17966 | 2 | 3 | 3 | Sep-03 | May-04 | 1,179 |
| 36 | 51699 | 2 | 3 | 3 | | | 0 |
| 37 | 89112 | 2 | 3 | 3 | Nov-03 | May-04 | 567 |
| 38 | 20683 | 1 | 2 | 2 | | | 0 |
| 39 | 58869 | 2 | 3 | 3 | | | 0 |
| 40 | 08394 | 2 | 3 | 3 | Sep-02 | May-04 | 2,844 |
| 41 | 45406 | 2 | 3 | 3 | Mar-04 | May-04 | 396 |
| 42 | 37029 | 2 | 3 | 3 | Feb-04 | May-04 | 632 |
| 43 | 79919 | 1 | 2 | 3 | | | 0 |
| 44 | 18247 | 2 | 3 | 3 | Oct-03 | May-04 | 1,968 |
| 45 | 04929 | 1 | 3 | 2 | Oct-02 | May-04 | 3,014 |
| 46 | 18189 | 1 | 2 | 3 | Jan-04 | May-04 | 360 |
| 47 | 25812 | 2 | 3 | 3 | Dec-03 | May-04 | 1,394 |
| 48 | 40648 | 1 | 2 | 2 | | | 0 |
| 49 | 20521 | 1 | 2 | 2 | Feb-04 | May-04 | 680 |
| 50 | 27559 | 1 | 3 | 3 | Jun-03 | May-04 | 2,640 |
| 51 | 15122 | 1 | 3 | 2 | | | 0 |
| 52 | 00017 | 1 | 2 | 2 | Jun-03 | May-04 | 924 |
| 53 | 01308 | 1 | 3 | 3 | Jan-03 | May-04 | 2,228 |
| 54 | 04005 | 1 | 2 | 2 | Feb-03 | May-04 | 1,032 |
| 55 | 26245 | 2 | 3 | 3 | Dec-02 | May-04 | 1,992 |
| 56 | 43139 | 1 | 2 | 2 | Aug-02 | May-04 | 2,058 |
| 57 | 23585 | 2 | 4 | 3 | Dec-02 | May-04 | 4,602 |

Appendix C

| | | | | | | | |
|----|-------|---|---|---|--------|--------------------|------------------|
| 58 | 48987 | 2 | 4 | 3 | Apr-03 | May-04 | 4,140 |
| 59 | 19225 | 2 | 3 | 3 | Feb-04 | May-04 | 496 |
| 60 | 16991 | 1 | 2 | 2 | Dec-02 | May-04 | 2,224 |
| 61 | 71766 | 1 | 3 | 3 | | | 0 |
| 62 | 17395 | 1 | 2 | 2 | | | 0 |
| 63 | 32521 | 1 | 3 | 2 | Jun-02 | May-04 | 2,633 |
| 64 | 18038 | 2 | 3 | 3 | Nov-02 | Apr-03 | 1,056 |
| 65 | 56730 | 2 | 4 | 3 | Aug-02 | May-04 | 6,074 |
| 66 | 36799 | 1 | 3 | 3 | Jun-03 | May-04 | 4,470 |
| 67 | 03515 | 1 | 2 | 2 | Sep-02 | Aug-03 | 1,932 |
| 68 | 20669 | 2 | 3 | 3 | May-03 | May-04 | 2,291 |
| 69 | 37158 | 1 | 2 | 2 | Aug-03 | May-04 | 490 |
| 70 | 02067 | 2 | 3 | 3 | Sep-02 | May-04 | 3,788 |
| 71 | 40368 | 1 | 2 | 2 | Sep-02 | May-04 | 1,421 |
| 72 | 22296 | 2 | 3 | 3 | Jul-02 | Jan-04 | 3,033 |
| 73 | 00175 | 1 | 3 | 3 | Jan-04 | May-04 | 775 |
| 74 | 36862 | 1 | 2 | 2 | | | 0 |
| 75 | 04953 | 2 | 3 | 3 | Dec-02 | May-04 | 3,582 |
| 76 | 07007 | 1 | 3 | 3 | Aug-02 | May-04 | 2,048 |
| 77 | 69948 | 1 | 2 | 2 | | | 0 |
| 78 | 21999 | 1 | 3 | 3 | Dec-02 | Apr-03 | 1,250 |
| 79 | 17124 | 1 | 2 | 2 | Jul-03 | May-04 | 759 |
| 80 | 43762 | 2 | 3 | 3 | May-04 | May-04 | 243 |
| 81 | 21874 | 2 | 3 | 3 | Dec-03 | May-04 | 936 |
| 82 | 25983 | 2 | 3 | 3 | Mar-03 | May-04 | 459 |
| 83 | 06850 | 1 | 2 | 2 | Oct-02 | May-04 | 2,948 |
| 84 | 38526 | 1 | 2 | 2 | May-04 | May-04 | 159 |
| 85 | 34987 | 2 | 3 | 3 | Feb-03 | May-04 | 3,036 |
| 86 | 37509 | 1 | 2 | 2 | | | 0 |
| 87 | 75153 | 1 | 2 | 2 | Jul-03 | Jun-03 | 936 |
| 88 | 38837 | 1 | 2 | 2 | Jul-02 | May-04 | 2,632 |
| 89 | 09895 | 2 | 3 | 3 | Oct-02 | May-04 | 3,261 |
| 90 | 23882 | 2 | 3 | 3 | Aug-03 | May-04 | 2,938 |
| 91 | 68401 | 1 | 2 | 2 | Sep-03 | May-04 | 126 |
| 92 | 68655 | 1 | 4 | 4 | Nov-02 | May-04 | 7,045 |
| 93 | 17486 | 1 | 3 | 3 | Jan-03 | May-04 | 3,809 |
| 94 | 39308 | 1 | 3 | 3 | Jan-04 | May-04 | 2,305 |
| 95 | 73410 | 2 | 3 | 3 | Mar-04 | May-04 | 729 |
| 96 | 18563 | 1 | 3 | 3 | Nov-03 | May-04 | 3,059 |
| 97 | 89491 | 1 | 2 | 2 | | | 0 |
| 98 | 76212 | 1 | 2 | 2 | May-02 | Apr-04 | 3,008 |
| | | | | | | Total Overpayments | \$172,193 |