



Issue Date December 21, 2004
---------------------------------

Audit Report Number 2005-PH-1004
-------------------------------------

TO: William D. Tamburrino, Director, Office of Public Housing, Baltimore HUB,  
3BPH

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region,  
3AGA

SUBJECT: Corrective Action Verification Review of the Housing Authority of Baltimore  
City, Baltimore, MD, Section 8 Certificate and Voucher Programs,<sup>1</sup> Audit  
Report Number 2001-PH-1003

## **HIGHLIGHTS**

### **What We Audited and Why**

In accordance with HUD Handbook 2000-06, REV- 3, we performed a Corrective Action Verification review of the actions the Housing Authority of Baltimore City (Authority) had taken to implement key recommendations<sup>2</sup> cited in Audit Report 2001-PH-1003, issued March 28, 2001. The U.S. Department of Housing and Urban Development (HUD) Handbook places the responsibility on HUD's Office of Inspector General (OIG) to perform selected corrective action verifications of significant audit recommendations when final actions are completed. The original audit report contained 11 recommendations, 5 of which we determined were significant for our review. As of September 22, 2003, final actions on all of our prior recommendations were determined by HUD to be fully implemented.

---

<sup>1</sup> Effective October 1, 2001, the Section 8 Certificate and Voucher Program was changed to the Housing Choice Voucher Program.

<sup>2</sup> The recommendations reviewed during our audit were 1A, 1D, 2A, 3C, and 4A.

Our overall objective was to determine whether the Authority implemented our key audit recommendations and corrected the deficiencies we identified in our previous audit report. Based on the Authority's progress in implementing these recommendations, we also determined whether it is appropriate to reopen recommendation 1A. In this recommendation, we recommended that HUD take appropriate administrative actions against the Authority for not performing according to the terms of its Consolidated Annual Contributions Contract.

## What We Found

The Authority had not yet fully implemented all key OIG recommendations. This in part resulted because the severity of the problems in the Section 8 Program required more time to correct than the Authority had originally anticipated. The Authority was not able to make significant progress until early 2003, after it implemented its Section 8 management information system. This was more than 2 years from the date we issued our report. However, once the Authority was able to get its management information system operational, it satisfactorily completed a number of key recommendations<sup>3</sup> and substantially improved its program administration. These recommendations included developing and implementing a new management information system; maintaining an accurate up-to-date Housing Assistance Program register; increasing the level of supervision to provide better quality control oversight; and maintaining Section 8 rosters, employee training records, and staff assignments. We no longer believe administrative sanctions need to be imposed on the Authority.

However, the delays the Authority experienced in implementing its management information system adversely affected its ability to fully implement the other key recommendations.<sup>4</sup> We found the Authority had not yet fully developed and implemented all the financial system controls necessary to ensure its books and records were maintained in accordance with HUD requirements, adequate procedures to improve its administration of its Section 8 Program, and procedures to fully budget and use its available Section 8 resources. Although HUD had closed these recommendations, we found the Authority was still developing and implementing appropriate processes to address and resolve these remaining issues.

Because of the Authority's delay in fully implementing our recommendations, it was not able to effectively and efficiently manage its Section 8 Program to ensure it fully used its available Section 8 funding from HUD from 2001 through 2004. For example, for the 3-year period beginning in fiscal year 2001 and ending in fiscal year 2003, the Authority's average annual budget utilization rate was only at the 80 percent level. Further, in fiscal year 2002, HUD recaptured \$42 million

---

<sup>3</sup> Recommendations 2A, parts 1, 3, and 4, and 4A have been fully implemented.

<sup>4</sup> Recommendations 1D; 2A, parts 2, 5, and 6; and 3C have not been fully implemented.

of unused Section 8 funds, and since then, another \$38 million of unused Section 8 funds has accrued in the Authority's program reserve account. At the same time, the Authority had more than 15,000 individuals on its Section 8 waiting list. HUD expects a housing authority to use at least 95 percent of its available funding. We also found the Authority incurred \$70,430 of ineligible costs.

### **What We Recommend**

Based on the cited deficiencies, we will reopen the recommendations<sup>5</sup> that required corrections in the areas of financial system controls, administration of the Section 8 Program, and budget administration of its Section 8 resources. We also recommend that HUD immediately recapture \$25.1 million of the \$38 million in the Authority's reserve account and require the Authority to repay or reimburse the program for the \$70,430 of ineligible expenses we identified from our audit. Further, if the Authority fully implements the recommendations, we estimate it could put more than \$5.5 million to better use each year by providing eligible families with housing opportunities.

Also, based on the progress that the Authority has made since April 2003, we concur that it was appropriate to close out recommendation 1A and not impose administrative sanctions on the Authority. However, to ensure the Authority continues to make progress in improving the administration of its Section 8 Program by implementing the remaining recommendations, we recommend that HUD routinely monitor the Authority's program operations.

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

### **Auditee's Response**

The complete text of the auditee's response, along with our evaluation of that response, can be found in Appendix B of this report.

---

<sup>5</sup> We are recommending that recommendations 1D; 2A, parts 2, 5, and 6; and 3C be reopened.

# TABLE OF CONTENTS

---

Background and Objectives	5
Results of Audit	
Finding 1: Delays in Fully Implementing the Recommendations Impaired the Authority's Ability to Effectively and Efficiently Manage Its Section 8 Program	7
- The Authority Has Not Yet Fully Implemented All the Financial Controls and Procedures Needed To Ensure It Accurately Accounts for Its Section 8 Funding	7
- The Authority Needs To Further Develop Procedures To Improve Its Operation of the Section 8 Program	11
- Weaknesses in the Authority's Program Administration Continue To Impact Its Ability To Assist Eligible Families	14
Scope and Methodology	19
Internal Controls	21
Follow up on Prior Audits	23
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	24
B. Auditee Comments and OIG's Evaluation	25

## BACKGROUND AND OBJECTIVES

---

On March 28, 2001, we issued Audit Report 2001-PH-1003 as a result of our audit of the Housing Authority of Baltimore City's (Authority) Section 8 Program. Our audit noted four significant findings in the areas of financial management, program operations, use of program resources, and management information system. Because of the serious nature of the four findings, we recommended that HUD take appropriate administrative actions against the Authority as prescribed in section 15 of the Annual Contribution Contract. We also made additional recommendations designed to improve management controls and correct deficiencies in the four areas of financial management, program operations, use of program resources, and management information system. These recommendations are as follows:

- **Recommendation 1A** - Take appropriate administrative actions as detailed in section 15 of the Annual Contributions Contract for the Section 8 Rental Certificate and Rental Voucher Program.
- **Recommendation 1D** - Implement financial system controls and procedures to ensure books and records are maintained according to HUD requirements and year-end reports are complete and accurate. At a minimum, these procedures should provide for (1) reconciliation of monthly housing assistance payments to owners and tenants to a master housing assistance register, (2) accurate calculation of administrative fee revenue, and (3) supervision to ensure quality control oversight.
- **Recommendation 2A** - Ensure the Authority develops and implements procedures to improve its operation of the Section 8 Program. The Authority needs to
  - (1) Maintain a complete and accurate updated housing assistance payments register and ensure this critical information is entered into HUD's Multifamily Tenants Characteristics System.
  - (2) Maintain tenant files for every unit in its Section 8 Program. A tenant file maintenance system should be developed, and files should be controlled to ensure they are not lost or misplaced. Additionally, files should provide supporting documentation that clearly documents that tenants were recertified according to HUD requirements.
  - (3) Maintain Section 8 rosters and staff assignments. This critical information should facilitate management oversight of the Section 8 Program.
  - (4) Maintain employee training records and ensure staff is adequately trained in program requirements and the operation of its management information system when implemented.

- (5) Ensure housing quality standards inspections are performed according to HUD requirements and units failing inspections are reinspected to ensure cited deficiencies have been corrected.
- (6) Administer its waiting list according to HUD requirements and ensure it bills for Section 8 portable units appropriately and in a timely manner. Additionally, the Authority should follow up and collect disputed receivables as appropriate.
- **Recommendation 3C** - Ensure the Authority implements procedures to fully budget Section 8 resources provided by HUD and assists as many families as possible. These procedures should provide for a thorough analysis of the cost of its units under lease and the need to issue additional vouchers to compensate for anticipated turnover.
  - **Recommendation 4A** - Closely monitor the Authority's implementation of its management information system to ensure the Authority (1) meets revised timelines for system implementation and (2) begins to reconstruct program data to ensure complete and accurate data entry. If the Authority is unable to meet its revised goals and demonstrate tangible progress toward the implementation of a functional management information system, take appropriate administrative action.

As of September 22, 2003, final actions for all the recommendations cited in our report were determined by HUD to be fully implemented. Once final action has been completed, HUD Handbook 2000-06, REV- 3, places the responsibility on HUD-OIG to perform selected corrective action verifications of significant audit recommendations to determine whether the corrective actions are completed and satisfactorily implemented. Based on this requirement, we selected the recommendations noted above for review.

Our overall objective was to determine whether the Authority implemented the audit recommendations and corrected the deficiencies we identified in our previous audit report. Based on the Authority's progress in implementing these recommendations, we also determined whether HUD should reopen recommendation 1A. In this recommendation, we recommended that HUD take appropriate administrative actions against the Authority for not performing according to the terms of its Consolidated Annual Contributions Contract with HUD.

## RESULTS OF AUDIT

---

### Finding 1: Delays in Fully Implementing the Recommendations Impaired the Authority's Ability to Effectively and Efficiently Manage Its Section 8 Program

Due to the poor condition of the Section 8 Program, it took the Authority longer than it had anticipated to implement the OIG audit recommendations. In fact, the Authority did not make significant progress in implementing our recommendations until early 2003, after it implemented its Section 8 management information system. This was more than 2 years from the date we issued our report. Once the Authority was able to get its management information system operational, it was able to satisfactorily complete a number of key recommendations and substantially improve its program administration. Therefore, we no longer believe administrative sanctions need to be imposed on the Authority.

However, the delays adversely affected the Authority's ability to implement the other recommendations. We found the Authority had not yet developed and implemented adequate financial controls to ensure its books and records were maintained in accordance with HUD requirements; adequate procedures to effectively administer its Section 8 tenant recertifications, housing quality standards inspections, and waiting list; and fully budgeted its Section 8 resources. Although HUD had closed these recommendations, we found the Authority was still developing and implementing appropriate processes to address and resolve these remaining issues.

Because of the delays in fully implementing the recommendations, the Authority was not able to effectively and efficiently manage its Section 8 Program to ensure it fully used its available Section 8 funding from HUD from 2001 through 2004. For example, for the 3-year period beginning in fiscal year 2001 and ending in fiscal year 2003, the Authority's average annual budget utilization rate was only at the 80 percent level. Further, in fiscal year 2002, HUD recaptured \$42 million of unused Section 8 funds, and since then, another \$38 million of unused Section 8 funds has accrued in the Authority's program reserve account. At the same time, the Authority had more than 15,000 individuals on its Section 8 waiting list. HUD expects a housing authority to use at least 95 percent of its available funding. We also found the Authority incurred \$70,430 of ineligible costs.

---

### **The Authority Has Not Yet Fully Implemented All the Financial Controls and Procedures Needed To Ensure It Accurately Accounts for Its Section 8 Funding**

In our prior audit, we identified fundamental weaknesses in the Authority's overall financial management of its Section 8 Program<sup>6</sup>. These included weaknesses in gathering, recording, and reporting accurate data to HUD; disbursing housing assistance payments to owners accurately and in a timely manner; and accounting for program receipts and disbursements. To correct these deficiencies, we recommended the Authority implement a financial system of controls and procedures to ensure the books and records are maintained according to HUD requirements and year-end reports submitted to HUD are complete and accurate.

Although we noted the Authority made progress in developing and implementing procedures for better managing financial aspects of its Section 8 Program, we identified several deficiencies that still need to be corrected. Administrative revenue is not being calculated correctly because of inaccurate unit counts, and proper support documentation is not being maintained to ensure year-end reports submitted to HUD are accurate. In addition, the Authority made a number of payments that were contrary to HUD requirements and the Authority's own policy. As a result, the Authority incurred \$70,430 in ineligible expenses. The majority of these deficiencies occurred because the Authority failed to fully address the prior financial management system issues discussed in our 2001 report.

### **Administrative Revenue Was Not Calculated Correctly**

During our review, we noted the Authority had developed and implemented procedures for calculating administrative revenues. However, it lacks procedures to ensure that the administrative revenue is adjusted when a tenant moves out of the program.

In reviewing the March 1, 2004, housing assistance payment register, we selected the 15 largest deductions made to owners, totaling \$55,258, to determine whether the Authority has implemented procedures for adjusting subsidy payments and unit count for tenants once they move out. Our review showed that the Authority appropriately made deductions to recapture the rent overpayments to owners once it was notified that the tenants had moved out. However, the Authority did not make adjustments for the total unit count in proportion to the number of months the owner was overpaid due to the tenants moving out. Thus, the administration revenue received from HUD for the management of these units was inaccurate. For 13 of the 15 deductions reviewed, we found these deductions were made anywhere from 4 to 23 months after the tenant moved out. Overall, we estimate for these 13 payments, the Authority received \$5,630 in excess administrative revenue.

---

<sup>6</sup> Recommendation 1D from Audit Report 2001-PH-1003



### **Adequate Documentation Did Not Always Support Housing Payments to Owners**

During our review of the March 1, 2004, housing assistant payment adjustments and deductions, we noted the Authority did not maintain documentation supporting the calculation of the adjustments and deductions made to the owner as required by HUD. Section 14(a) of the Annual Contributions Contract requires a housing authority to maintain complete and accurate books of accounts and records for its program in accordance with HUD requirements to permit a speedy audit. However, Authority officials stated that they do not keep copies of the adjustments and deductions worksheet. Instead, the new management information system has a built-in calculation worksheet to complete the month-end closing process. However, after the month-end closing procedures are completed, the prior month calculation worksheet is replaced by a current month worksheet. The only record available as a backup is the housing assistance payment and utility allowance payment adjustment file. As a result, we were not able to verify which housing assistance payment schedule or adjustment rate was used in calculating the adjustments and deductions. The Authority needs to maintain a copy of the adjustment and deduction worksheet and keep it in the tenant files to support its calculation.

### **Payments Made Contrary to HUD Requirements and Authority Policy**

Our review showed the Authority made a number of payments contrary to HUD requirements and its own policy. We found the Authority did not make prompt housing assistance payments to owners as required, retroactively paid owners for the period of time the rent was abated due to housing quality standards violations, retroactively paid owners while tenants were terminated, and overpaid owners after the tenants moved out.

#### **The Authority Did Not Make Prompt Housing Assistance Payments to Owners When Due**

In our prior review, we noted the Authority did not make timely housing assistance payments to the owners. During our current review, we noted that this condition still exists. We reviewed the 25 largest housing assistance payment adjustments the Authority made to owners during March 1, 2004, totaling \$111,881, to determine if the Authority made timely and accurate housing assistance payments to owners when due. Of the 25 adjustments reviewed, we found 10 (40 percent) totaling \$38,108 were one-time retroactive adjustments for

housing assistance payments to owners. These payments were made as late as 4 to 31 months after they were due. By making these untimely payments, the Authority continues to violate HUD requirements.

### **The Authority Retroactively Paid Owners for the Abated Period and While Tenants Were Terminated**

During our review of the adjustments made to the March 1, 2004, housing assistance payment register, we found the Authority was retroactively paying owners for the period rent should have been abated. We reviewed 25 adjustments totaling \$111,881. We found nine adjustments (36 percent) totaling \$42,657 were retroactively paid to owners for the period when a unit did not comply with housing quality standards. The Authority's policy calls for owners to not receive payment when the units they own do not meet housing quality standards. The policy prohibits retroactive payments to owners for the period even after the unit is brought up to meet housing quality standards.

We also noted five adjustments (20 percent) totaling \$22,143 were retroactively paid to owners for the period the tenant was terminated from the program to the time the tenant was subsequently reinstated. These payments are against the housing assistance payment contract, which only allows housing assistance payments to the owner while the tenant is residing in a contracted unit. Since these adjustments appear to be violations of the Authority's policy and/or the housing assistance payment contract, we question the entire \$64,800 as ineligible.

### **The Authority Overpaid Owners After the Tenants Moved Out**

As in our previous audit, we found the Authority overpaid a number of owners for tenants that had moved out of their units. We reviewed the 15 largest deductions the Authority made on the March 1, 2004, housing assistance payment register that totaled \$55,258. We found 13 (87 percent) totaling \$43,745 were for a one-time deduction made to recapture an overpayment made to the owners. This recapture took place anywhere from 4 to 23 months after the tenant moved out.

The overpayment to owners occurred in part because the Authority was not performing timely recertification of tenants and conducting unit inspections when due. If these two actions had been completed in a timely manner, the Authority likely would have identified the problem much sooner and prevented making the overpayments. We discuss our concerns with the recertification and inspection processes in greater detail below.

## **The Authority Needs To Further Develop Procedures To Improve Its Operation of the Section 8 Program**

The Authority failed to satisfactorily implement parts of the recommendation covering the operation of the Section 8 Program<sup>7</sup>. We found the Authority did not (1) maintain complete documentation for every tenant that clearly supports tenants were recertified, (2) ensure units administered under the program were inspected for housing quality standards in a timely manner, and (3) administer its waiting list in compliance with HUD requirements. However, the Authority did satisfactorily complete and implement parts of the recommendation. We found the Authority is now maintaining (1) a housing assistance payment register and has a Multifamily Tenants Characteristics System reporting rate of 92 percent, which exceeds the minimum 85 percent required by HUD; (2) Section 8 rosters and assignment reports designed to facilitate management oversight of the Section 8 Program; and (3) employee training records supporting staff training in program requirements and the operations of its new management information system. The Authority also adopted a policy of absorbing port-in tenants, which eliminates the process of billing, following up, and setting up account receivables for the originating authority.

### **Documentation Supporting Tenant Recertifications Was Not Maintained**

In our prior audit, we recommended the Authority develop and implement procedures to ensure it maintained tenant files for every unit in its Section 8 Program. At a minimum, the files should provide supporting documentation that clearly documents tenants were recertified according to HUD requirements. HUD requires that at least on an annual basis, the Authority conduct a reexamination of family income and composition, and document in the tenant file third-party verification of the reported family annual income. However, we found the Authority did not satisfactorily complete and implement this recommendation.

We randomly selected 119 tenants from the March 1, 2004, housing assistance payment register and reviewed the tenant files to determine whether there was a tenant file for every unit and the files contained proper documentation to show that the tenants were properly recertified. Although the Authority is now maintaining files for almost every tenant assisted under the Section 8 Program, we found the files did not contain adequate documentation to support the annual recertification was completed. The Authority was able to provide us tenant files for 118 of the 119 we selected for review. However, for these 118 files, 13 files (11 percent) did not contain current tenant recertifications, and 69 files (58 percent) did not have initial income or background verifications. As a result, for the 69 files reviewed, the Authority cannot provide assurance that tenants

---

<sup>7</sup> Recommendation 2A, parts 2, 5, and 6 from Audit Report 2001-PH-1003

currently assisted under the program continued to be eligible for assistance under the Section 8 Program.

At our exit conference in November 2004, the Acting Program Director stated it was the Authority's policy to archive the income and background information after a tenant had been in the program for more than 3 years. However, during the audit, the Authority's staff never informed us of this procedure. Further, since we provided the Authority our sample in March 2004, it had more than 8 months to obtain the requested information.

### **HQS Inspections Were Not Performed According to HUD Requirements**

In our prior audit, we recommended that the Authority develop and implement procedures to ensure housing quality standards inspections are properly performed. In addition, for units failing housing quality standards inspections, the Authority should ensure they are reinspected to verify cited deficiencies have been corrected. HUD requires authorities to inspect each unit before the initial term of the lease, at least annually during the assisted occupancy, and at other times as needed to determine whether the unit meets the housing quality standards. However, we found the Authority did not satisfactorily complete and implement this recommendation.

We randomly selected 119 tenants and reviewed initial and annual inspection reports for their units to determine whether the Authority ensured the units were inspected to meet housing quality standards. Of the 119 selected, we found 6 units (5 percent) did not have an initial housing quality standards inspection completed. Also, we found 53 units (45 percent) had housing quality standards inspections performed annually; 24 units (20 percent) had current inspections; however, the inspections were not performed annually; and 42 units (35 percent) either had overdue inspections or had failed inspections without a proper current reinspection. During our review, the Authority updated its inspections for 27 of the 42 units with overdue or failed annual inspections. However, we question the timeliness of the inspections, which range from 4 to 36 months late. As a result, there was no assurance that all units assisted and administered under the program met the housing quality standards required by HUD.

At the exit conference, Authority officials explained that they had implemented a new system to assist them in monitoring the housing quality standards inspection process. We found this new system is part of the management information system that was implemented in April 2003. However, staff at the Authority did not learn

how to use the module until October 2004. We did not test this component within the management information system because our fieldwork had already ended.

### **Waiting List Was Not Administered According to HUD Requirements**

In our prior audit, we recommended that the Authority develop and implement procedures to ensure the administration of its waiting list according to HUD and Authority requirements. HUD requires a housing authority to maintain information that permits the authority to select participants from the waiting list in accordance with admission policies. The Authority's admission policy is to use a single waiting list for admission to its Section 8 Tenant-Based Assistance Program. The Authority's policy also states it will maintain information for each applicant, such as applicant name, family size, and date and time of application, that permits proper selection from the waiting list. However, we found HUD requirements and the Authority's own policy has not been followed.

To determine whether the Authority maintained applications and ranking sheets to support tenant selection from the waiting list, we reviewed 118 files the Authority was able to provide us from 119 tenants we randomly selected. We found the Authority did not maintain adequate documentation to support its tenant selection and did not organize the waiting list according to HUD requirements or its own policy. Thirty-eight files (32 percent) had no application on file, 25 files (21 percent) had applications that were not stamped and dated when received, and 74 files (63 percent) did not have a ranking sheet supporting the tenant selection. The Acting Program Director explained that many of these items were missing because the Authority's policy is to maintain only 3 years of data in a file, while the rest of the information is archived.

However, when we randomly selected 64 applicants from the March 1, 2004, waiting list to review, we found the Authority could not provide Section 8 applications for 10 (16 percent) of the applicants. Of the 54 applicant files that were provided, we found 18 (33 percent) where either not stamped and dated when received or the date that was stamped on the application was not consistent with the date listed in the waiting list. Since the Authority could not provide accurate data for the current waiting list, it continues to demonstrate that it has problems in administering its waiting list.

## **Weaknesses in the Authority's Program Administration Continue To Impact Its Ability To Assist Eligible Families**

In our prior audit, we found the Authority was not effectively administering its Section 8 Program to ensure that the program funds were fully used<sup>8</sup>. Thus, we recommended that the Authority implement procedures to ensure the Section 8 Program resources are fully budgeted and used to assist as many families as possible. We also recommended that the Authority implement procedures to ensure costs of its units under lease are thoroughly analyzed. During our current review, we found the Authority had not implemented our recommendations fully or in a timely manner. This impeded the Authority's ability to fully use its available program funding. In fiscal year 2002, HUD recaptured \$42 million of unused Section 8 funds, and since then, another \$38 million<sup>9</sup> of unused Section 8 funds has accrued in the Authority's program reserve account. As of June 2004, the Authority had 4,236 vouchers available for use and a waiting list of more than 15,000 applicants for Section 8 housing.

### **Program Resources Are Still Underutilized**

To determine whether the Authority had fully used its available Section 8 resources, we reviewed its year-end settlement statements submitted to HUD for fiscal years 2001 to 2003 and the draft fiscal year 2004 statement. As of June 2004, the Authority had approximately 14,609 total authorized vouchers, with an average of 10,373 of the vouchers being used, leaving 4,236 available vouchers. Using these base line units, the Authority is achieving approximately a 71-percent unit utilization rate.<sup>10</sup> To be a standard performer, HUD expects an authority to achieve a utilization rate of 95 percent.

By not fully using its available vouchers, the Authority has accumulated an excessive amount of reserved funds. As a result, in fiscal year 2002 HUD recaptured approximately \$42 million from the Authority's reserve account. Further, the Authority's reserve has continued to increase, and as of June 2004, it is more than \$38 million.<sup>11</sup> Having a poor leasing rate and excessive funds available in the reserve account demonstrates that the Authority needs to better manage its Section 8 Program.

---

<sup>8</sup> Recommendation 3C from Audit Report 2001-PH-1003

<sup>9</sup> As of June 30, 2004

<sup>10</sup> There are two ways utilization rate can be calculated; use of budgeted funds or use of available units. For this audit's purposes, we are calculating the utilization rate using the available units method.

<sup>11</sup> Of this \$38 million, \$7.4 million has been set aside to pay for court-related decrees, and \$5.5 million represents 1 month of housing assistance payment allowable reserve. Thus, \$25.1 million remains as available reserves.

### **The Authority Was Late in Developing a Section 8 Leasing Strategy**

When we started our review in early March 2004, we asked the Authority for the plan that had been implemented to improve its Section 8 utilization. While the Authority continually stated that there was a plan, it was unable to produce one until a month after we started our review. When we obtained a copy of the document in April 2004, it was not dated and appeared to show a more aggressive strategy starting with fiscal year 2005 and forward. In further review, we found the leasing schedule showed no attempt at an aggressive voucher issuance until February 2004, when the Authority planned to issue 200 vouchers. As of June 2004, the Authority had only issued 393 vouchers for its entire fiscal year.

In total, the Authority managed to issue approximately 3,321 additional vouchers between 2001 and 2004. However, the majority of these vouchers were issued as the result of the need to provide vouchers to tenants who were in units where a landlord had opted out of a housing authority program (including HOPE VI development). For the HOPE VI developments, the Authority was required to provide housing for the tenants who were displaced, and issuing Section 8 vouchers was one of the options used to assist in completing this task. In addition, the Authority's implementation of the audit recommendations helped in increasing the number of vouchers used.

### **Authority's Justification for Poor Utilization**

The Authority claimed it was not able to fully use its available vouchers because of the lack of quality housing in the City of Baltimore. The Executive Director admitted that he could easily lease the units; however, he has adopted a strategy of issuing additional vouchers only for units that will meet the housing quality standards. This theory is contrary to how the program was intended to work. Typically, a voucher is issued, and then the tenant attempts to look for a suitable unit. In addition, according to the 2000 Census data, there are 42,481 vacant housing units available in the City of Baltimore, a majority of which represents rental vacant housing units.

The Authority also said it had hoped to solve its utilization problem by entering into HUD's Moving to Work Program. Under this program, the Authority would be able to keep the funding associated with its unused Section 8 vouchers and use them to fund other alternative activities. The Authority submitted a proposal to HUD to enter into the program; however, HUD rejected the proposal due to incomplete documentation.



## **Two Court Consent Decrees Will Impact the Authority's Section 8 Program**

As explained above, as of June 2004, the Authority's base line number of vouchers is 14,609. However, there are two separate court consent decrees, Thompson and Bailey that require the Authority to designate a certain portion of the vouchers for two separate purposes. Under the Thompson Consent Decree, 1,988 vouchers have been set aside to assist households in impacted areas. Under the Bailey Consent Decree,<sup>12</sup> 1,350 vouchers will be set aside for nonelderly disabled households. According to HUD's rules, since these 3,338 units have been set aside by specific court orders, they cannot be used to affect the utilization of the Authority. Thus, taking these units into account, the Authority has to use 11,271 of its vouchers to be fully utilized. As of June 2004, the Authority has issued an average of 10,373 vouchers. However, even if we take these units into account, the Authority has only reached 92 percent utilization, falling short of HUD's requirement of 95 percent. Using this data, we estimate that if the Authority does not fully implement proper management over its Section 8 resources, there will be \$5.5 million in funds that could be put to better use.

## **Other Issues**

In our prior review, we also determined the Authority was not properly accounting for the costs of the units under lease. For the 119 tenants randomly selected, we reviewed the 118 files the Authority provided for rent comparability assessments to determine whether the Authority maintained documentation that clearly supports the cost of the unit was thoroughly analyzed. Our review showed the Authority did not always analyze the cost of units under lease. Sixty-two files (53 percent) did not contain a rent comparability assessment. As a result, there was no assurance that rent paid to owners on behalf of the tenant was reasonable.

Overall, our review of the Authority's utilization plan and the steps taken from the time of the 2001 report showed that the Authority has failed to satisfactorily complete and implement our recommendations. By failing to implement the recommendations, the Authority lost an opportunity to assist some of the 15,209 families on its waiting list.

---

<sup>12</sup> The Bailey Consent Decree has not taken effect as of September 30, 2004; however, we are including these units as part of our calculation because they will be used in the future.



## Recommendations

Based on the results of our review, we reopened the following recommendations from our previous audit report 2001-PH-1003:

Recommendation 1D. Implement financial system controls and procedures to ensure books and records are maintained according to HUD requirements and year-end reports are complete and accurate.

Recommendation 2A. Develop and implement procedures to improve its operation of the Section 8 Program. The Authority needs to

- Ensure tenant recertifications are performed according to HUD requirements,
- Ensure housing quality standards inspections are performed according to HUD requirements, and
- Administer its waiting list according to HUD requirements.

Recommendation 3C. Ensure the Authority implements procedures to fully budget Section 8 resources provided by HUD to assist as many families as possible.

In addition, under this report we recommend the Baltimore Office of Public and Indian Housing require the Authority to

- 1A. Develop and implement procedures to ensure unit counts are adjusted according to the number of months that have passed after the tenant has moved out and ensure the calculation of the administrative fee is adjusted accordingly.
- 1B. Repay or reimburse the Department \$5,630 for ineligible administrative revenue received.
- 1C. Develop and implement procedures to ensure documentation is maintained supporting adjustments and deductions.
- 1D. Implement procedures to ensure timely payment of housing assistance payments to owners and/or receiving housing authorities.
- 1E. Repay or reimburse the program a total of \$64,800 for ineligible payments to owners for the period rent should have been abated due to housing quality standards violations and for the period after tenants were terminated.

- 1F. Follow its own policy, or HUD requirements, prohibiting retroactive payments for the period rent was abated due to housing quality standards violations and after tenants no longer live in the contracted unit.

We recommend the Baltimore Office of Public and Indian Housing:

- 1G. Recapture \$25.1 million of the \$38 million of unused Section 8 funding from the Authority's program reserve account.
- 1H. Routinely monitor the Authority to ensure that it implements a new Section 8 leasing plan to ensure it fully uses its available vouchers by its target date of fiscal year 2005. By ensuring the Authority implements and continuously monitors its aggressive leasing plan, we estimated the Authority could put to better use \$5.5 million of Section 8 funding it would receive from HUD in the next fiscal year.

## SCOPE AND METHODOLOGY

---

To achieve our review objectives we reviewed

- Applicable laws, regulations, and other HUD program requirements;
- HUD-OIG audit follow-up files;
- HUD management files, including the Multifamily Tenants Characteristics System report and Section 8 Management Assessment Program certification;
- Authority policies and procedures;
- Authority's program files, including fiscal years 2001, 2002, 2003, and 2004 Year-End Settlement Statements, and Strategic Leasing Plan;
- Authority's March 1, 2004, waiting list; and
- Authority's March 1, 2004, housing assistance payment register, including housing assistance payment adjustments.

We randomly selected 119 tenants from the Authority's March 1, 2004, housing assistance payment register and reviewed the application and ranking sheets, initial income and background verifications, recertifications, cost comparability assessments, and unit inspection reports to determine whether the Authority implemented effective procedures to ensure improvement in the operations of its Section 8 Program.

We also randomly selected 64 applicants from the Authority's March 1, 2004, waiting list and reviewed applicants' files to determine whether the Authority administered the waiting list according to HUD requirements.

Using the Authority's fiscal year 2003 Year-End Settlement Statement to HUD, we traced program receipts and operating expenditures reported to the Authority's book of accounts and related records to determine whether they were maintained according to HUD requirements and whether program receipts and operating expenditures were supported and accurately reported. We used the Authority's Year-End Settlement Statement for fiscal year 2003 because the Authority had not yet submitted a Year-End Settlement Statement to HUD for fiscal year 2004. When appropriate, we interviewed HUD and Authority officials.

We performed our fieldwork between March and September 2004. The majority of our work was conducted at the Authority offices located at 417 Fayette Street and 300 Cathedral Street, both in Baltimore, MD. Our review covered corrective actions taken after we issued our audit report on March 28, 2001, to June 30, 2004, but was expanded when necessary to include other

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

# INTERNAL CONTROLS

---

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

---

## Relevant Internal Controls

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

- Procedures over financial management and reporting
- Procedures for improving program administration
- Procedures over use of program resources
- Procedures over validity and reliability of data

We assessed the relevant controls identified above.

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

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority did not have a system in place to ensure books of account and related records were complete and accurate and in compliance with HUD requirements (see discussion for re-opening recommendation 1D).

- The Authority did not have an effective system in place to ensure (1) current participants continued to be eligible for assistance under the program; (2) units occupied by active tenants met decent, safe, and sanitary standards required by HUD; and (3) tenants were selected from its waiting list according to HUD requirements (see discussion for re-opening recommendation 2A, parts 2, 5, and 6).
- The Authority did not have an effective system in place to ensure program resources were used to assist as many families as possible (see discussion for re-opening recommendation 3C).

## FOLLOW UP ON PRIOR AUDITS

---

### Prior Report Title and Number

This audit is a follow up on a review completed by the Office of Inspector General of the Housing Authority of Baltimore City Section 8 Certificate and Voucher Programs, issued on March 28, 2001 (Audit Report 2001-PH-1003).

## APPENDIXES

### Appendix A

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

Recommendation Number	Ineligible 1/	Funds To Be Put to Better Use 2/
1B	\$ 5,630	
1E	\$ 64,800	
1G		\$25,110,263
1H		\$ 5,500,000
<b>TOTAL</b>	<b>\$ 70, 430</b>	<b>\$30,610,263</b>

- 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 polices or regulations.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.



## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

---

### Ref to OIG Evaluation

### Auditee Comments



**BALTIMORE  
HOUSING**

MARTIN O'MALLEY  
Mayor

PAUL T. GRAZIANO  
Executive Director, HABC  
Commissioner, HCD

December 8, 2004

Mr. Daniel G. Temme  
Regional Inspector General for Audit  
US Department of Housing and Urban Development  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, PA 19107

Re: Comments on OIG Review

Dear Mr. Temme:

This letter is in response to the Office of Inspector General's (OIG) review of the Housing Authority of Baltimore City (HABC) Section 8 Voucher program, which was received by my office on November 26, 2004 (the Report). Overall, many of the OIG's conclusions in the Report are derived from dated information related to activity collected prior to HABC completing a number of program improvements that have already proven successful. As a result, the Report distorts the facts and does not accurately portray the current condition of HABC's management of the Section 8/Housing Choice Voucher program (the Voucher program).

Prior to receipt of this report, the OIG forwarded a draft for HABC review. HABC submitted comments on the draft report in a letter to you dated November 2, 2004 and at an all day session on November 9 with OIG staff. While some revisions were made, many of the issues were not addressed in the November 26 final version despite the OIG's assurance that it would consider additional information provided by HABC. Therefore, this letter and attachments will respond fully to the Report including restating relevant information previously forwarded to your office and identifying errors, distortions and omissions in the Report.

Before we present our detailed response, let me summarize the fundamental facts:

- Although we continue to strive for perfection, we have in fact turned the Voucher program around from that which we inherited.
- Federal policies do not give HABC the flexibility it needs to address challenges in the Baltimore Metropolitan housing market.



417 East Fayette Street • Baltimore, MD 21202 • MD Relay 711 • TTY 410-547-9247 • [baltimorehousing.org](http://baltimorehousing.org)  
Baltimore Housing reflects the combined offices of the Housing Authority of Baltimore City and the Baltimore City Department of Housing and Community Development.

## Ref to OIG Evaluation

## Auditee Comments

OIG Report Response  
December 8, 2004  
Page 2 of 5

- HABC is working with the Department of Housing and Urban Development (HUD) to obtain such flexibility. This is essential if HABC is to take the necessary steps to completely reverse the problems with the use of the program funds.

We encourage the OIG to recommend the necessary policy changes to the Secretary.

### HUD Agrees that HABC Is Currently Successfully Managing the Section 8 Voucher Program

Shortly after I arrived at HABC, I received your office's March 2001 Audit of the Voucher program. The 2001 Audit was a scathing review of historical mismanagement at the agency dating back at least a decade prior to the audit. I endorsed the findings and recommendations of the audit, and immediately implemented corrective action strategies. These strategies have worked as evidenced by the following:

- **The HUD Field Office previously closed out all of the findings.** In recognition of the dramatic and substantial progress made by HABC, the HUD Maryland State Office, in a letter dated November 6, 2003, stated: "This informs you that this Office and HUD's Office of Audit Coordination have closed Audit Report No. 2001-PH-1003, issued March 28, 2001, regarding administration of the Section 8 Housing Choice Voucher Program, based upon HABC performance and successful accomplishment of the stated recommendations. I am pleased with the progress you and your office have made to reach this milestone."
- **The new OIG report explicitly acknowledges that HABC has made substantial progress in improving the Voucher program operations.** While I am pleased to note that the OIG report recognizes the substantial progress made by HABC, the Report does not go far enough in acknowledging all of the improvements. In the Report's most important conclusion, the OIG has closed out an earlier finding which would have effectively taken control of the Housing Choice Voucher Program away from HABC.
- **The evidence of HABC's turnaround of the Voucher program is indisputable.** Since 2001, HABC has:
  - Installed a new computer system that automates all program functions including payments, inspections and waiting list management. As you will recall, when I arrived at HABC there was no functioning computer system.

## Comment 1

## Ref to OIG Evaluation

## Auditee Comments

OIG Report Response  
December 8, 2004  
Page 3 of 5

- Provided extensive training to staff in the Voucher program regulations and procedures;
- Improved performance in virtually every aspect of program operations. As evidence of this improvement, HABC's score under the Section Eight Management Assessment Program (SEMAP) protocol rose from 4% in 2001 to a passing score of 64 for Fiscal Year 2004. Further, for the past 10 months HABC has bettered this score and, for the past 5 months, has been reporting monthly SEMAP scores of 86% to HUD.
- Achieved a net increase of more than 3,100 units under lease in the Voucher program. During this same period, HABC actually leased up over 5,000 new units including residents who chose to move from substandard units.

### HABC still faces difficulty in fully utilizing its voucher resources due to Local Market conditions

HABC's progress in improving utilization has been accomplished in the face of extremely difficult market conditions. This situation is beyond the control of HABC. However, the OIG report paints a distorted view of the Baltimore housing market. The Report states that, according to the 2000 Census, there are 42,482 vacant housing units available in Baltimore. In fact, the Census indicates that only 10,742 are units that were for rent. The census reflects the **total** rental market including those units with rents exceeding FMR levels, with owners who refuse to participate in the Voucher program, and for which market rate renters are competing with voucher holders. In fact, more than 90% of persons in the rental market are not voucher holders. The voucher share of the total market rose from 5.6% in 2000 to 8.3% in 2004 due to significant lease up activity in the Voucher program.

The Report criticizes HABC for "...issuing additional vouchers only for units that will meet housing quality standards". The Report further states "This theory is contrary to how the program is intended to work". I strongly disagree with this assertion which implies that HABC should issue vouchers for units that are not decent, safe and sanitary. In fact, federal regulation governing the Section 8 program require that voucher assistance only be used for units that meet HUD's housing quality standards. It would appear that the OIG is advocating that HABC violate HUD regulations by doing business with slumlords.

**Reducing bureaucratic requirements and improving funding flexibility is essential to the future of the Voucher program in Baltimore.** We will continue to negotiate with HUD Headquarters and the Field Office to expand HABC's authority similar to that allowed by other PHAs currently participating in

## Comment 2

Ref to OIG Evaluation

Auditee Comments

Comment 3

OIG Report Response  
December 8, 2004  
Page 4 of 5

the Moving To Work (MTW) demonstration program. An essential element of this flexibility involves using available Voucher program resources (including the \$26.4 million discussed below) more cost effectively to address the unique market conditions in Baltimore and the consent decree requirements.

**HABC strongly disputes the OIG's assertion that program reserves should be recaptured.** References in the Report to unutilized budget resources and "recaptures" present an inaccurate view of the regulations, HABC's current fiscal situation and HABC's future liabilities. For example, the OIG implies that its previous report resulted in a punitive recapture of \$42 million in Voucher program funds. Recapture of such funds was part of a nationwide, Congressionally mandated effort to reduce agency reserves, not linked to HABC's administration of the program.

Comment 4

The OIG's recommendation for HUD to recapture an additional \$26.4 million in current program reserves completely ignores the agency's (and HUD's) current and pending liabilities. Two specific current liabilities which will be funded from the \$26.4 million are \$5 million to cover additional leasing activity that has already occurred in the current fiscal year and an additional \$1.364 million for HUD approved Thompson consent decree activities (see attachments B and C). Recapture of the remaining \$20 million balance would have a serious detrimental impact on HABC's ability to address consent decree and other related program services.

Comment 5

Context of the OIG Report

The OIG report's failure to explain the context of this review or to address the confusion surrounding the roles of the OIG and the HUD Field Office in closing out audit findings. The OIG Report focuses on a review of actions taken to address the previous OIG Audit Report No. 2001-PH-1003. It is HABC's understanding that the recommendations contained in that Audit were addressed to the HUD Field Office, and that it was incumbent upon HUD to work with HABC to resolve the audit findings to HUD's satisfaction. As noted above, the HUD Field Office has already closed out these findings. The new OIG report virtually ignores the entire history of HABC's work with the HUD Field Office subsequent to March 2001.

Comment 6

In its entirety, there is exactly one sentence in the draft report referencing HABC's three years of effort working with and reporting to the HUD Field Office. No mention is made of the fact that HABC has been acting in good faith under a HUD approved Corrective Action Plan prior to and following completion of the OIG 2004 review. There is no discussion of the process by which HUD closed out the 2001 OIG Audit findings nor is there any reference to the content of the Corrective Action Plans or the SEMAP monthly reports. There is no indication that the OIG staff conducted discussions with staff from either HUD's Field Office

Ref to OIG Evaluation

Auditee Comments

**Comment 7**

OIG Report Response  
December 8, 2004  
Page 5 of 5

or HUD's Office of Audit Coordination to ascertain their rationale for closing out the 2001 OIG findings.

Further, the issues raised in the OIG's most recent report have their basis in historical program deficiencies inherited from the prior administration. The Report's focus on old data and program transactions does not accurately reflect HABC's current progress. In fact, of the 119 files reviewed during the OIG review process, 79 were for tenants enrolled in the Section 8 program prior to the OIG's 2001 audit.

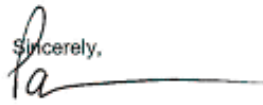
Section-by-Section Response

The attached appendix provides section-by-section responses to the OIG's report. In many instances, HABC has identified factual errors relating to the file review. Where HABC agrees with the finding, proposed corrective action strategies are discussed. All of the source documents referenced in this report are on file at HABC's offices and were available to the OIG.

In conclusion, HABC has made substantial progress despite funding cutbacks, as well as constantly shifting and increasingly cumbersome programmatic requirements from HUD. Funding to administer the program has been reduced by \$600,000 since January 2004, while new program requirements have made the Voucher program more expensive and complicated to administer.

As is consistent with the HUD OIG Handbook and Government Auditing Standards, HABC anticipates that its entire response to this audit, including all appendices, will be included in the final audit report.

HABC staff and I will be available to discuss these issues with you and/or the HUD Field Office staff as needed. In closing, let me reaffirm my commitment to working with HUD and the OIG to achieve excellence in the administration of HABC's Section 8/Housing Choice Voucher program operations.

Sincerely,  
  
Paul T. Graziano  
Executive Director

*Attachments*



**Ref to OIG Evaluation**

**Auditee Comments**

**Attachment A**

**Housing Authority of Baltimore City  
Technical Response to Office of Inspector General Review of the Section 8 Program  
December 8, 2004**

The US Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG) performed a review of the Housing Authority of Baltimore City (HABC) Section 8 Voucher program, which was received by HABC on November 26, 2004. The following is a technical response to the review prepared by HABC:

**Comment 5**

Section/Page Reference	OIG Comment	HABC Response
Highlights, p.2	"The Authority has not yet fully implemented all key OIG recommendations" (for OIG 2001-PH-1003 Audit Report)	HABC is in receipt of a letter from the HUD Field Office dated November 6, 2003 which states, "This informs you that this Office and HUD's Office of Audit Coordination have closed Audit Report No. 2001-PH-1003 issued March 28, 2001, regarding administration of the Section 8 Housing Voucher Program, based upon HABC performance and successful accomplishment of the stated recommendations." HABC concurs with this field office assessment.
Highlights, p.2	"We no longer believe administrative sanctions need to be imposed on the Authority."	HABC concurs in this assessment.
Highlights, p. 2-3 and Results, p.7	"...for the 3-year period beginning in fiscal year 2001 and ending in fiscal year 2003, the Authority's average annual budget utilization rate was only at the 80 percent level. Further, in Fiscal Year 2002, HUD recaptured \$42 million of unused Section 8 funds..."	HABC calls attention to the fact that it is an entirely normal administrative practice and is a part of a nationwide, Congressionally mandated effort to reduce agency reserves. Virtually every large Housing Authority in the country has had funds recaptured through this process.
Highlights, p.3	"...since then (Fiscal Year 2002), another \$38 million of unused Section 8 funds has accrued to the Authority's program reserve account."	\$18 million of the \$38 million must be setaside for the following HUD approved expenses: <ul style="list-style-type: none"> <li>• \$6.1 million - Quadel to administer Thompson consent decree vouchers</li> <li>• \$1.4 million - other Thompson consent decree activities</li> <li>• \$5.5 million - one month of HAP reserves consistent with program regulations</li> </ul>

**Comment 3**

**Comment 4**

1

**Attachment A**

**Comment 4**

**Comment 8**

**Comment 9**

		<ul style="list-style-type: none"> <li>• \$5 million – amendment to HABC's FY05 Section 8 budget for increased leasing</li> </ul> <p>The balance of \$20 million must be reserved for liabilities related to the consent decrees and other program needs.</p>
Highlights, p.3 and Recommendation, p. 19	"We also recommend that HUD immediately recapture \$26.4 million of the \$38 million in the Authority's reserve account..."	HABC strongly disagrees with this recommendation. HABC believes that its current reserve incorporates contingent liabilities that are allowable under OMB Circular A-87 and HUD regulations. Further, HUD's inclusion of these funds in its financial statements is consistent with generally accepted accounting principles which "...requires the loss (probable contingent liability) to be accrued and indicated in the body of the financial statements..." The \$26.4 million in question should be reduced to \$20 million (as discussed above) and this amount is only a small portion of the liabilities associated with Bailey and Thompson consent decrees.
Highlights, p.3 and Recommendations, p.18	"We also found the Authority incurred \$70,364 of ineligible costs...(We also recommend that HUD).....require the Authority to repay or reimburse the program for the \$70,364 of ineligible expenses we identified from the audit."	HABC disagrees with both the finding and the recommendation. HABC has researched all of the payments cited by the OIG and determined that: 1) \$64,734 of the total is allowable under existing regulations and, 2) these payments are consistent with sound administrative practices. See discussion below related to page 10 of the Report.
Highlights, p. 3 and Recommendations, p.19	"Further, if the Authority fully implements the recommendations, we estimate it could put more than \$5.5 million to better use each year by providing eligible families with housing opportunities."	HABC disputes this statement. The Report provides absolutely no basis in fact for this assertion. Further, HABC notes that it has steadily increased the number of households served by the program. During the period in question, more than 3,100 net additional low-income households were served by the Voucher program.
Highlights, p.3 and Recommendations, p.19	"...to ensure the Authority continues to make progress in improving the administration of its Section program by implementing the remaining	HABC notes that the HUD Field Office has provided intensive review and monitoring of HABC's Voucher program operations for the past three years. While program administrative fees have been cut by \$600,000 since January

2

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 10**

Attachment A		
	recommendations, we recommend that HUD routinely monitor the Authority's program operations."	2004, HABC has been the object of numerous intensive program reviews including SEMAP confirmatory reviews, Rental Integrity Monitoring reviews, IPA Audits and this OIG review. All of these reviews require an enormous amount of staff resources to prepare for and respond to in a thorough manner. Finally, HABC notes that its staff is in constant contact with the HUD Field Office. This includes submission of monthly SEMAP and Corrective Action Plan reports.
Results, p.8	"Administrative Revenue Was Not Calculated Correctly - During our review, we noted the Authority has developed and implemented procedures for calculating administrative revenues. However, it lacks procedures to ensure that administrative revenue is adjusted when a tenant moves out of the program."	HABC notes that the amount in question (\$5,630) represents less than one tenth of one percent of the Authority's total annual administrative budget. HABC has established a year end reconciliation procedure to validate that all administrative revenues are appropriate including ensuring that administrative revenues are not billed for tenants who have left the program.
Results, p.9	"Payments Made Contrary to HUD Requirements and Authority Policy" "The Authority Did Not Make Prompt Housing Assistance Payment to Owners When Due" "...Of the 25 adjustments reviewed, we found 10 (40 percent) were one-time retroactive adjustments for housing assistance payments to owners. These payments were made as late as 4 to 31 months after they were due."	HABC disagrees with these statements as they are not supported by the facts. HABC has made enormous strides in ensuring timely payments to owners and in fact nearly all are now paid timely. The HAP payment period in question (March 2004) totaled over \$5 million in payments to 3,014 owners and more than 10,000 units. Only 2 of the files reviewed were for retroactive initial payments for units new to the program. The other payments represent retroactive rent increases and other adjustments. The OIG reference to payments "as late as 4 to 31 months" refers to exactly 1 retroactive payment made for a 31-month period. HABC agrees that this is an excessive period of time for an owner to wait for a rent increase. However, it does not contradict any regulation. It is a normal and standard practice for agencies to reconcile and make adjustments to owner accounts as needed.  HABC believes that this is an invalid analysis: <ul style="list-style-type: none"> <li>• Auditor uses a non-random sample: the 25 largest</li> </ul>

3

**Comment 11**

Attachment A		
		adjustments. Based on this sample, one cannot make a statistically valid assumption on the level of "non-prompt payments." <ul style="list-style-type: none"> <li>• The auditor inconsistently moves back and forth between money paid and number of adjustments.</li> <li>• Even if one uses the auditor's flawed methodology, over 98% of all HAP payments for March 1, 2004 were made in a manner which would appear to be acceptable.</li> </ul>
Results, p.10	"The Authority Retroactively Paid owners for the Abated Period and While Tenants were Terminated -... We found nine adjustments totaling \$42,591 were retroactively paid to owners for the period when a unit did not comply with housing quality standards... We also noted five adjustments totaling \$22,143 were retroactively paid to owners for the period the tenant was terminated from the program to the time was subsequently reinstated."	HABC disagrees with this finding and recommendation. <ul style="list-style-type: none"> <li>• HABC's review of the nine files related to retroactive adjustments for units that had previously failed HQS indicate that the Associate Deputy Director determined the effective abatement end dates based on reviews of individual cases. Appropriate adjustments were made consistent with these determinations. HABC will amend its administrative plan to indicate: "Notwithstanding the above, on a case-by-case basis, and when in the interest of the Authority, the Associate Deputy Director for Section 8, or designee, has discretionary authority to determine and implement the effective abatement end date. Documents delineating and supporting the rationale for such action shall be maintained."</li> <li>• In the case of the five reinstatements, all of these cases involve reversals of terminations based on a review of evidence of continued occupancy. Therefore, HAP payments made by HABC were appropriate and consistent with HUD regulations and agency policy.</li> </ul>
Results, p. 11	"Documentation Supporting Tenant Recertifications Was Not Maintained - ...for these 118 files, 13 files did not contain tenant recertifications, and 73 files did not have initial income or background verifications. As a result, for 73 percent of	HABC acknowledges problems associated with files predating the original 2001 OIG audit. The OIG report did not specify which specific files had problems; however, it should be noted that 79 of the 119 files sampled originated prior to the 2001 OIG audit. HABC sees no useful purpose in trying to obtain recertifications or income verification for past periods.

4

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 7**

**Comment 12**

**Comment 13**

**Comment 14**

**Comment 15**

**Comment 16**

--



**Ref to OIG Evaluation**

**Auditee Comments**

**Attachment B**

**HABC - Section 8 Voucher  
Program Reserve Utilization  
For Fiscal Year Ending 6/30/05**

Based on May-July 2003 data	
HUD funding units - average	10,240 units
Annual HUD funding units	122,876 units
HABC Projected lease-up - average	10,956 units
HABC Projected lease-up - annual	131,475 units
Difference - Units to be funded by Program Reserves	8,599 units
HUD's Adjusted Average HAP @ \$535.15	\$4,601,755
HUD's Administrative Fee @ \$46.95	<u>\$403,723</u>
Additional costs to be funded by Program Reserves	<u><u>\$5,005,478</u></u>

Attachment C



U.S. Department of Housing and Urban Development

Baltimore Office  
City Crescent Building  
10 South Howard Street, 5th Floor  
Baltimore, MD 21201-2528

cc: A Wilkinson

October 30, 2002

RECEIVED

NOV 14

COMMISSIONER'S OFFICE

Mr. Paul T. Graziano  
Executive Director  
Housing Authority of Baltimore City  
417 East Fayette Street  
Baltimore, MD 21201

Dear Mr. Graziano:

Subject: Conversion of Unused Voucher Funds for Other Purposes in Connection with the Thompson v. HUD Partial Consent Decree

This letter serves to inform you that HUD is authorizing the use of \$1,364,000 for other purposes related to the Thompson v. HUD Partial Consent Decree (Thompson). In a letter dated October 4, 2002, HUD made available, through HABC's annual contributions contract program reserves, up to \$6,172,380 to fund the performance-based contract between HABC and Quadel. The additional authorization of \$1,364,000 will assist HABC in the provision of post-placement and other related services to families. In previous discussions with HABC, other proposed uses for these funds were noted, e.g. transportation assistance, homebuyer down payment assistance, job linkage, and community relations. To ensure that the proposed uses are eligible Section 8 costs, HABC is required to submit a budget with proposed work items within 30 days of the date of this letter.

It is hoped that this additional provision of funds in support of the Thompson litigation will assist the authority in meeting the requirements of the Decree. Should there be any questions concerning this matter, please feel free to contact me at (410) 962-2520, ext. 3012.

Sincerely,

Bill Tamburrino  
Director  
Baltimore Public Housing Program Hub

cc:  
Lyle Schumann

<http://www.hud.gov/local/bal/index.html>

## **OIG Evaluation of Auditee Comments**

### **Comment 1**

As of September 2003, the HUD Field Office did indeed close out all of the OIG recommendations related to the findings from our previous audit report that was issued in March 2001. However, the purpose in completing a Corrective Action Verification on significant audit recommendations is to verify whether the action taken by the Department and the Authority actually corrected the deficiencies to justify closing the findings. This is done in accordance with HUD Handbook 2000.06, REV-3.

### **Comment 2**

The Authority is misconstruing the issue. The OIG simply stated that under the program, vouchers are issued to eligible households who then try to locate suitable units that meet HUD's housing quality standards. Further, the Authority's statement that the OIG is advocating the Authority violate HUD regulations by doing business with slumlords is entirely inappropriate and is made only to sidetrack the real issue related to why the Authority has not been more aggressive in leasing-up its remaining vouchers. In one meeting with the OIG, the Executive Director of the Authority specifically stated that the Authority could easily lease-up all remaining units if they wanted to; however, they deliberately chose not to issue the remaining vouchers because they had made an application to HUD to participate in a number of alternative programs, such as the Moving to Work Demonstration Program. Under this program, the Authority would be allowed retain any unused Section 8 funds to fund alternative activities.

### **Comment 3**

Congress has agreed to recapture any unused funds. However, if the Authority had properly administered the program then these funds would not have been available for recapture.

### **Comment 4**

Upon review of the additional documentation, we adjusted the report to take into account the additional \$1.36 million. As for the \$5 million discussed in the Authority's response, this appears to be a projection of what funds would be needed if all units are leased during fiscal year 2005. However, the Authority is now required to manage the Housing Choice Voucher Program under the new HUD guidelines enacted in 2004. Under these new guidelines, the Authority receives funding for actual units currently under lease; for any additional leases issued during the year, the Authority would need to request these funds from HUD. Thus, under these new requirements the maximum amount of funds allowed to be maintained in the Authority's reserve account is what would be needed for one month's housing assistance payment costs.

### **Comment 5**

As explained in Comment #1, the OIG conducted a Corrective Action Verification to determine if the Authority had actually taken appropriate action to support the HUD Field Office's decision to close out the recommendations we made in the previous report.

### **Comment 6**

Throughout the report, we acknowledge the Authority has, and continues to make progress in improving the administration of the Housing Choice Voucher Program and thus, we did not recommend administrative sanctions be imposed on the Authority. However, as we point out in this report, it has taken the Authority more than 3 years to implement many of the improvements it had made thus far, and the Authority still has a number of remaining issues to address.

### **Comment 7**

Although we acknowledge that many of the files we reviewed related to tenants who were enrolled in the program prior to 2001, we contend that as long as the tenant remains enrolled under the program, the Authority has the responsibility to perform an annual re-examination of the tenant's continuing eligibility and to perform annual housing quality standard inspections of the units occupied by the tenant. Documents supporting that these responsibilities are completed must be included in the tenant's files. However, our review of the tenant files showed they were not always properly updated.

### **Comment 8**

We disagree with the Authority's position. Our review of the established criteria clearly shows that the questioned expenditures were ineligible. As stated in the report, the questioned costs relate to paying landlords for homes that do not meet housing quality standards. This is clearly a violation of the Authority's own policy and HUD requirements.

### **Comment 9**

As stated in the report, if the Authority properly administers the Housing Choice Program, then approximately \$5.5 million in funds would be available for eligible families.

### **Comment 10**

Our intention in selecting the 25 adjustments was not to conduct a statistical sample that could be projected. Instead, we wanted to determine if deficiencies noted under the previous audit are still taking place. The information as presented in the report is accurate as to what was found for the 25 items selected.

**Comment 11**

The Authority's policy in place at the time of our review was not to retroactively pay landlords when the units failed inspections. In addition, the Authority's files did not contain any documentation to support the justification for these adjustments. The Authority has the right to adjust its administrative policies, however, HUD must approve these policies prior to implementing these changes.

**Comment 12**

In addition to testing the older data under the 119 files, we also tested 64 current applicants awaiting entry into the Housing Choice Voucher Program. Our review of the current applicants showed that the problems within the management of the Authority's waiting list still exist.

**Comment 13**

Our calculation of 393 vouchers was based upon the Authority's records submitted to HUD. We do not know how the Authority came up with their estimate.

**Comment 14**

We acknowledge the Authority's statement that the utilization rate is not a regulatory requirement, and as such deleted the word "requirements" from the report.

**Comment 15**

Although the Authority has several reasons as to why the utilization rate has not increased over time, we question whether any attempt was made to aggressively lease-up the units. The leasing schedule we reviewed during our review demonstrates that the Authority did not develop a plan until April 2004. In fact, if it not for the Court Consent Decrees the Authority would not even be at a 90 percent utilization rate.

**Comment 16**

In the report, we acknowledge the Authority has issued over 3,321 vouchers from 2001 to 2004. However, it should be noted a significant number of these vouchers were issued to accommodate public housing tenants who were displaced when the Authority imploded a number of projects under its HOPE VI Program.