



Issue Date	September 29, 2005
Audit Case Number	2005-AT-1015

TO: Olga I. Saez, Director, Public and Indian Housing, San Juan Field Office, 4NPH

FROM: 
James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: The Municipality of San Juan Housing Authority, San Juan, PR,
Did Not Properly Administer Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Municipality of San Juan Housing Authority's (Authority) Section 8 Housing Choice Voucher program as part of our strategic plan goals to reduce erroneous payments in rental assistance programs. The review was initiated in response to a request from the Department of Housing and Urban Development's (HUD) San Juan Office of Public and Indian Housing. The San Juan office advised that it was not satisfied with the Authority's overall performance in administering its Section 8 program. The objective of our audit was to determine whether the Authority had adequate controls to effectively administer the Section 8 Housing Choice Voucher program.

What We Found

The Authority did not have adequate controls to ensure tenants received the proper voucher size, assistance payments were correct, files were properly documented, and participants were properly selected from the waiting list. As a

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result, the Authority made erroneous housing assistance payments totaling \$9,601 and could incur additional overpayments of \$148,827.

What We Recommend

We recommend that the director of the Office of Public and Indian Housing require the Authority to repay \$9,601, less the \$3,138 already recovered, for excessive and erroneous housing assistance payments and take measures to avoid future estimated overpayments of \$148,827. The director should also require the Authority to review tenant files with inadequate income verifications, locate missing tenant files, and determine the appropriateness and eligibility of the \$121,638 in housing assistance disbursed. Further, since the Authority failed to correct deficiencies identified by HUD in December 2002, HUD should reduce the Authority's administrative fees earned by 10 percent retroactively to July 2003 or about \$413,327. HUD should continue to monitor the Authority and withhold 10 percent of the administrative fee, about \$410,338, until the Authority complies with requirements. We also recommend that the director require the Authority to establish and implement controls to ensure it follows HUD requirements so that assistance payments are correct, files are properly documented, and participants are properly selected from the waiting list.

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

Auditee's Response

We discussed the findings with the Authority during the audit and at the exit conference on September 9, 2005. The Authority provided its written comments to our draft report on September 16, 2005. In its response, the Authority generally agreed with the findings.

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

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BACKGROUND AND OBJECTIVES

The Municipality of San Juan Housing Authority (Authority) administers about 4,000 housing choice vouchers within San Juan and its vicinity. The annual assistance payments and administrative fees approach \$24 million. The Authority's Subsidized Housing Office was assigned the responsibility of administering the Section 8 program. The Authority's books and records for the Section 8 program are maintained at 1205 Ponce de Leon Avenue, San Juan, Puerto Rico.

We audited the Authority's Section 8 Housing Choice Voucher program in response to a request from the Department of Housing and Urban Development's (HUD) San Juan, Puerto Rico, Office of Public and Indian Housing. The San Juan office advised that it was not satisfied with the Authority's overall performance in administering its Section 8 program. The San Juan office conducted several reviews during the past few years that continually identified weaknesses in the Authority's procedures.

The objective of our audit was to determine whether the Authority had adequate controls to effectively administer the Section 8 Housing Choice Voucher program. This audit is part of an ongoing review of the Authority.

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RESULTS OF AUDIT

Finding 1: The Authority Did Not Properly Administer Its Section 8 Housing Choice Voucher Program

The Authority paid \$3,348 in excess subsidies for tenants with oversize vouchers and could incur additional overpayments of \$148,827. In addition, the Authority made erroneous housing assistance payments totaling \$6,253, did not comply with record-keeping requirements, and did not select participants from the waiting list in accordance with HUD requirements. The deficiencies occurred because the Authority did not establish and implement adequate controls to ensure tenants received the proper voucher size, assistance payments were correct, files were properly documented, and participants were properly selected from the waiting list. Thus, the Authority cannot assure it only paid subsidies for eligible families or in the appropriate amounts and selected applicants in accordance with HUD requirements.

Wrong Size Vouchers

The Authority has 354 tenants with Section 8 vouchers larger than the number of people in their households (overhoused tenants). Of the 354 overhoused tenants, 10 tenants are overhoused with excessive subsidy payments, and 282 tenants have the potential to receive subsidy overpayments. This overhousing occurred because the Authority does not have adequate procedures in place to ensure that its tenants receive the proper voucher size.

HUD's Housing Choice Voucher Guidebook explains that when determining unit size, the subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding. In addition, the Authority's administrative plan provides that tenants will be assigned units based on the number of people in their households.

A sample of 13 overhoused tenants showed that the Authority issued the wrong size voucher to 10 families from the beginning of the tenants' participation in the Section 8 program. The tenants had a Section 8 voucher larger than the number of people in their households. As a result, the Authority used the incorrect payment standard and/or utility allowance to calculate the housing assistance. The housing authority calculates the maximum subsidy allowable, based on the payment standard and gross rent of the unit. We found the Authority incorrectly used a higher payment standard and/or gross rent, causing the payment of \$3,348 in excess subsidy payments from the admission date to June 2005. The Authority could incur additional overpayments of \$3,939, during the remaining contract period for the above 10 tenants, if it does not implement corrective measures.

Based on the results of our sample, we recalculated the housing assistance for the remaining 341 overhoused tenants to determine the possible effect on the Section 8 program. To recalculate the housing assistance, we used the payment standard and utility allowance that applied to tenants based on the number of people in their households. Our analysis showed that 282 of the 341 overhoused tenants had the potential to have excess subsidy payments. The Authority may have applied the incorrect payment standard and/or gross rent to calculate housing assistance. We estimate that the Authority may pay \$144,888 in excess subsidies for the tenants with oversize vouchers over the next 12 months.

Housing Assistance Was Improperly Paid

Our examination of 29 files disclosed the Authority did not properly determine or verify housing assistance payments. As a result, the Authority made erroneous assistance payments totaling \$6,253. It made duplicate subsidy payments of \$4,813 and made errors causing the overpayment of \$1,440 in housing assistance. The Authority recovered \$3,138 during the audit, leaving \$3,115 to be repaid. We also found the Authority did not follow HUD requirements and its own policies when verifying a family’s income.

- Duplicate subsidy.** The Authority did not disburse housing assistance subsidies for only eligible purposes. Two tenants moved to new units, but the Authority continued to make rental payments to former landlords and paid utility allowance reimbursement to tenants. When tenants moved to new units, the Authority issued a new voucher without canceling the original. Therefore, the same tenant was in the Authority’s housing assistance payment register with two active vouchers. This resulted in duplicate subsidy payments of \$4,813. During the audit, the Authority initiated corrective measures and recovered \$3,138 of the duplicate subsidies, leaving an uncollected balance of \$1,675.

	File number	Duplicate subsidy	Recovered <small>(as of June 2005)</small>	Balance
Tenant A	PI-050, 7076	\$3,252	\$3,138	\$ 114
Tenant B	1085, 7317	\$1,561	0	\$1,561
	Total	\$4,813	\$3,138	\$1,675

- Subsidy errors.** The Authority did not correctly calculate the housing assistance payment in three tenant files because it did not properly determine tenants’ annual income or used the incorrect fair market rent when calculating assistance payments. Errors in three files resulted in the Authority making net overpayments of \$1,440. The tenant’s annual

income was understated in two files, and the fair market rent was overstated in another.

File number	Overpayment
2299	\$864
9677	552
9123	24
Total	\$1,440

- **Inadequate verification of income.** In 21 tenant files, the Authority did not consistently follow HUD requirements and its own policies and procedures when verifying a family’s income.¹ As a result, the Authority cannot ensure the propriety and eligibility of \$80,199 in housing assistance paid from the last certification to June 2005.

For example, the Authority did not obtain employment information directly from the source and allowed four tenants to handle verification forms. The written verification documents must be supplied directly to the independent source by the housing authority and be returned directly to the housing authority from the independent source. The tenant shall not hand carry documents to or from the independent source. Authority officials informed us the employment verification was provided to tenants to help accelerate the certification process. This was not an acceptable explanation for not performing an integral component of its Section 8 Housing Choice Voucher program responsibilities.

We also found that notarized statements and/or copies of tax returns were not obtained to verify the income of two self-employed tenants. When third-party verification is not available, the housing authority should always request a notarized tenant declaration that includes a perjury statement. The files only included general statements of the tenant’s annual earnings without the Authority documenting the efforts made to obtain a higher level of verification. In two other files, there was information indicating tenants could be underreporting income, but the Authority did not respond appropriately to clarify or resolve the issue. The Authority is required to verify the accuracy of income information received.

Files Were Not Properly Documented

The Authority did not comply with HUD record-keeping requirements that permit a speedy and effective audit. During our examination, the Authority could not

¹ Appendix D provides a chart summarizing the deficiencies found.

locate tenant files, housing assistance payment contracts, and consent forms signed by tenants.

- **Missing files.** The Authority could not locate nine Section 8 tenant files for our review. As a result, it cannot ensure the propriety and eligibility of \$41,439 in housing assistance paid from the last certification to June 2005. The missing files were as follows:

File number	Housing assistance payments
MB-081	\$1,344
MB-084	7,752
6033*	2,964
PI-029	2,975
9055	6,250
6033*	7,755
4016	8,588
4104	2,060
0709	1,751
Total	\$41,439

* Duplicate case file number.

- **Missing contracts.** In 10 tenant files, the Authority did not provide a properly executed housing assistance payment contract. The housing assistance payment contract is the written agreement between the Authority and the owner of the unit occupied by the Housing Choice Voucher program participant. Housing authorities may not pay any housing assistance payment to the owner until the contract has been executed. The housing assistance payment contract must be executed no later than 60 calendar days from the beginning of the lease term. Without a properly executed contract, the Authority would not be able to enforce landlord obligations under the Section 8 Housing Choice Voucher program. The Authority could not explain why the contracts were missing.
- **Consent forms not signed.** In three tenant files, the Authority did not ensure that tenants signed HUD Form 9886, Authorization for the Release of Information. HUD Form 9886 allows the Authority and HUD to obtain income information about applicants and participants. All heads of households and any other member who is 18 years of age or older are required to sign the consent form. The Authority's failure to ensure that all participants sign the consent form increases HUD's risk to the Section 8 Housing Choice Voucher program. Without the consent forms properly signed, the Authority cannot independently verify the family's income and assure the eligibility of participants.

Tenants Not Properly Selected from Waiting List

The Authority did not select participants from the waiting list in accordance with HUD requirements and in compliance with admission policies in the Authority's administrative plan. As a result, the Authority may have denied other eligible applicants an opportunity to receive housing assistance. During the review, we identified four families that were recently admitted to the program but were not on the Authority's housing choice voucher waiting list.

File number	Admission date
9677	July 16, 2004
2005	Nov. 1, 2004
0706	Dec. 5, 2004
1928	Jan. 6, 2005

We also found 16 families selected for admission to the program in an order different from the order on the waiting list. When admitting these families to the program, the Authority did not consider or ignored other applicants with similar needs that were on the waiting list for a longer period. The Authority did not provide documentation showing the method of selecting the applicants and that it was done in accordance with HUD requirements and the administrative plan.

Conclusion

Our examination of tenant files showed the Authority did not have proper controls in place to assure it administered the Section 8 Housing Choice Voucher program in an effective manner and in compliance with HUD requirements. The lack of adequate controls allowed the Authority to issue the wrong size voucher, make incorrect housing assistance payments, improperly document tenant files, and improperly select tenants from the waiting list. The deficiencies were similar to those identified in three HUD reviews.² Despite the fact that HUD has provided technical assistance, the Authority has not made significant progress to improve its performance. Therefore, we recommend that HUD reduce the Authority's administrative fees by 10 percent retroactively to July 2003, about \$413,327. Further, we recommend that HUD continue to withhold 10 percent of future administrative fees, about \$410,338, until the Authority complies with program requirements.

² In December 2002, HUD performed a rental integrity monitoring review and followup reviews in November 2003 and 2004.

Recommendations

We recommend that the director, Office of Public and Indian Housing,

- 1A Require the Authority to reimburse the Section 8 Housing Choice Voucher program from nonfederal funds \$3,348 in excess subsidies and \$6,253, less the \$3,138 recovered during the audit, for the erroneous housing assistance payments.
- 1B Require the Authority to review the identified overhoused tenants and prevent future estimated overpayments of \$148,827.
- 1C Require the Authority to review identified tenants with inadequate income verifications, determine the appropriateness and eligibility of \$80,199 disbursed in housing assistance, and repay the Section 8 Housing Choice Voucher program from nonfederal funds any amounts determined ineligible.
- 1D Require the Authority to locate the missing tenant files and determine the appropriateness and eligibility of the \$41,439 disbursed in housing assistance and repay the Section 8 Housing Choice Voucher program from nonfederal funds any amounts determined ineligible.
- 1E Reduce the Authority's administrative fees by 10 percent retroactively to July 2003, about \$413,327.
- 1F Continue to monitor the Authority and withhold 10 percent of administrative fees, about \$410,338, until the Authority complies with requirements of the Section 8 Housing Choice Voucher program.
- 1G Require the authority to establish and implement controls to ensure it follows HUD requirements so that assistance payments are correct, files are properly documented, and participants are properly selected from the waiting list.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the Authority had adequate controls to effectively administer the Section 8 Housing Choice Voucher program. To accomplish our objective, we

- Obtained and reviewed relevant HUD regulations and Authority guidelines.
- Interviewed HUD program staff and reviewed their monitoring reports.
- Interviewed Authority staff.
- Obtained and reviewed the Authority's latest independent public accountant report.
- Reviewed a sample of Section 8 tenant files.
- Reviewed the Authority's controls related to the administration of its Section 8 program.

We obtained a download of the Authority's current units from the housing assistance payment register. There were 4,131 units as of April 1, 2005. We selected and performed a detailed review of a sample of 25 tenant files to verify that the Authority properly determined eligibility, subsidy payments and to test waiting list selection.³ We verified that each file contained adequate support for tenant income, utility allowances, deductions, payment standards, and contract rent. Using this information, we recomputed the tenant's assistance payments and compared them to the Authority's assistance payment calculations to determine any variances. We also reviewed four tenants with possible duplicate housing assistance payments.

During the initial phase of the audit, we identified three tenants who had vouchers larger than the number of people in their households (overhoused tenant). As a result, we decided to expand the scope of our review to determine the number and effect of overhoused tenants. We applied a computer formula to the Authority's data and identified 354 cases of families who possessed a Section 8 housing choice voucher with more bedrooms than their family size. Of the 354 overhoused tenants, we selected 13 tenants to verify that the Authority issued proper voucher sizes to tenants. We also recalculated the housing assistance for the remaining 341 overhoused tenants to determine the possible effect on the Section 8 program. To recalculate the housing assistance, we used the payment standard that applied to tenants based on the number of people in their households. We accepted and did not reverify the Authority's calculation for income and deductions for the overhoused tenants.

The audit generally covered the period of July 2003 through March 2005, and we extended the period as needed to accomplish our objectives. We conducted our fieldwork from March through June 2005 at the Authority's offices in San Juan, Puerto Rico.

³ We selected 23 tenants who were admitted to the Section 8 program between October 2003 and March 2005 and two admitted in June and August 2002.

To achieve our audit objectives, we relied in part on computer-processed data contained in the Authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing of these data and found them to be adequate for our purposes. The results of the audit apply only to the items selected and cannot be projected to the universe or population.

We conducted the audit 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:

- Compliance with laws, regulations, policies, and procedures that management has implemented to reasonably assure that resource use is consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably assure that resources are safeguarded against waste, loss, and misuse.

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 item is a significant weakness:

- The Authority did not establish and implement adequate controls to ensure tenants received the proper voucher size, housing assistance payments were correct, files were properly documented, and tenants were properly selected from the waiting list (see finding 1).

FOLLOWUP ON PRIOR AUDITS

Prior Independent Public Accountant Report Findings

The most recent audit of the Authority's financial statements ending June 30, 2004, contained findings that the Authority's Section 8 tenant files were missing, incomplete, and did not show rationale used to admit applicants to the Section 8 program. Our audit determined that these conditions had not been corrected.

APPENDIXES

Appendix A

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

<u>Recommendation</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Funds to be put to better use 3/</u>
1A	\$ 9,601		
1B			\$ 148,827
1C		\$ 80,199	
1D		41,439	
1E	413,327		
1F			410,338
Total	<u>\$ 422,928</u>	<u>\$ 121,638</u>	<u>\$ 559,165</u>

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 those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. 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 to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (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



September 16, 2005

Mr. James D. McKay
Regional Inspector General for Audit, 4AGA
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region 4
Richard B. Russell Federal Building
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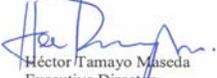
**Ref.: DRAFT OIG AUDIT REPORT – SECTION 8 HCV PROGRAM
MUNICIPALITY OF SAN JUAN HOUSING AUTHORITY**

Dear Mr. McKay:

Enclosed find for your review, our response to the above referenced Report, submitted to you on September 16, 2005 via Internet.

Should you have further questions concerning the enclosed document please contact the undersigned at (787) 347-4000, or at (787) 722-8088, extension 2323.

Cordially,



Héctor Tamayo Maseda
Executive Director
Department of Housing
and Community Development

c: Mr. Michael Rivera
Mr. William Dávila

Enclosures

HT/as

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RESPONSE TO DRAFT OIG REPORT
SECTION 8 PROGRAM
SEPT. 16, 2005

Introduction

In order for the City to continue with the implementation of corrective actions more resources are needed. The City understands that it lacks the in-house expertise to fully implement all the required corrective actions and that further external technical assistance is needed. As such, the Housing Authority of the City of San Juan has determined it is 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. The City is still implementing a corrective action plan with the supervision from HUD. The corrective action plan requires the implementation of multiple measures and training of the employees.

As a matter of fact, the first OIG intervention was prompted by the Mayor's own March 2004 request to the U.S. Attorney General's office to conduct an investigation into allegations of fraud and possible misuse of the program. Subsequently, our request was forwarded to the OIG's Investigative Unit. Since then, and throughout our meetings with the HUD Field Office, we stressed the need for further in-depth evaluation into the issue, resulting in an additional administrative assessment by HUD's first consulting team. In the end, after a period of approximately one year, was HUD in a position to procure the services of a consultant to address and help the Housing Authority to discover and correct the underlying weaknesses that were causing the deficiencies that had been mentioned by all prior consulting firms.

Finally, and because the deficiencies found have compelled us to perform such an extensive overhaul of the Program's entire operational structure we now face a significant backlog in our daily workload, this too will require extensive man-hours and the proper know-how. Due to budget shortages and limited administrative funds the City cannot procure such services without accessing the existing vouchers administrative reserve. The regulations at 24 CFR Section 982.155 b(3) states:

"If the PHA has not adequately administered any Section 8 program, HUD may prohibit use of funds in the administrative fee reserve, and may direct the PHA to use funds in the reserve to improve administration of the program or to reimburse ineligible expenses."

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Based on the referenced section we are requesting HUD's authorization to use the Administrative Fee Reserve to undertake and complete the implementation of the Corrective Action Plan, as outlined by HUD's current consulting firm, to improve the administration of the Section 8 program. The funds will be used to cover the costs of contracting additional technical resources, covering the additional costs of implementing the corrective action plan and for other eligible uses. The proposed use of funds is permitted by State and local law.

Wrong Size Voucher

The City of San Juan's Section 8 Program 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 282 program participants is currently in process and is expected to be completed within 60-days. To determine if any of the other 282 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 instance, 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.

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, provided these are available. The Section 8 program is required to provide the resident with at least 60-days to find and relocate to other suitable housing.

In addition, upon the receipt of information from the HUD-OIG regarding the presence of over-housed participants the Section 8 Program of the City of San Juan immediately developed a plan to review the records of its 4,000 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.

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.

The \$148,827. is a theoretical amount projected in the event that no corrective actions are being taken and that all of the cases are over housed. The hypothetical projection will not be reached because corrective actions are already being taken by the City of San Juan's Section 8 program to prevent any such problem.

Likewise, the Section 8 Program of the City of San Juan is taking the following immediate actions to correct the over-housing issues:

- Completed corrective action of the 282 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.
- Establish and implement a plan to prevent the re-occurrence of overpayments in the future. The Section 8 Program of San Juan:
 - Created a new Quality Control Unit within the Authority. This Unit is responsible for performing a comprehensive quality control review of the Section 8 processes to ensure that the work performed is completed accurately and in accordance with the Authority's policies and HUD requirements.
 - 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 November 30, 2005. The Section 8 Program 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 other components of program performance.

Following the completion of the comprehensive Quality Control review of all Housing Choice Voucher Program files the Section 8 Program of the City of San Juan plans to continue its comprehensive quality control review process on an ongoing basis to ensure continued compliance with HUD regulations.

The Section 8 Program of the City of San Juan is committed to correcting the finding and taking action to prevent the reoccurrence of over-housing through the implementation of the above plan.

Comment 1

Duplicate Subsidy

This situation was caused by errors in the computer system that does not verify duplicate Social Security numbers. Upon the receipt of information from the HUD-OIG regarding the presence of duplicate subsidy, the Municipality immediately developed a plan to review the records of its program participants to identify duplicate Social Security numbers (active tenants and waiting list). For the second tenant that the OIG identified as having two vouchers and receiving duplicate subsidy, the Municipality reviewed the case and took the following corrective action:

- Verified the record file
- Requested the landlord to return the subsidy

To correct the recurrence of the situation the City will request the computer vendor to develop changes to the existing Section 8 Software (Living) to identify the duplicate social security numbers in the system. We expect that the revised system will be operational by November 15, 2005. During this period of time the Municipality will verify manually that no duplicate payments are made.

Subsidy Errors and Inadequate Verification of Income

This situation was caused by the irregular implementation of income verification techniques undertaken by the PHA employees. Upon the receipt of information from the HUD-OIG regarding the presence of inadequate verification of income and the incorrect calculation of assistance, the Municipality immediately developed a plan to review the records of its program participants to identify the source of the errors and the possible corrective actions. To correct the situation the City will undertake the following corrective actions:

- For overstated income- City staff will go back to the latest reexamination and will calculate the correct subsidy. The City will reimburse the families in accordance with the policy established by the new administrative plan. Additionally, the Section 8 staff will correct the tenant records and ensure accurate rent payment, prospectively.
- For understated income- City staff will go back to the latest reexamination and calculate disallowed costs from that date. The City will reimburse HUD for 50 percent of these costs in excess of \$2,500. Additionally, the Section 8 staff will correct the tenant records and ensure accurate rent payment, prospectively.

It is necessary to point out that the City is still implementing a corrective action plan with the supervision from HUD. The corrective action plan requires the implementation of multiple measures that include training of the employees. Income verification is one of the subjects to be included in the training.

The Quality Control Unit will be 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.

Missing Files

All of the missing files have been located and are available for review. To understand why the situation occurred it is necessary to point out that while the OIG was in the process of performing its audit, the program was undergoing the following reviews:

- Concurrent investigation by the OIG Special Agents Division
- Concurrent review by Internal Auditors
- Concurrent review by External Auditors

An example of this situation is that one of the files identified in the list as missing was in the possession of the OIG office.

In addition the Municipality recently moved to the existing building after being located in another building for more than 20 years. During this process some of the files were misplaced or unaccounted for.

To correct the situation and prevent future recurrence the following actions have been taken:

- Physical access to the files room is controlled and access to the records is limited to authorized personnel
- A log system has been put in effect to identify users and location of the files.

Missing Contracts

This situation was caused by the need to comply with State Law that all public contract executed by entities of the government of Puerto Rico are to be registered at the State Comptroller's Office. Due to this requirement HAP contracts are to be executed by the Legal Division of the City and then forwarded to the Office of the Comptroller of Puerto Rico. Once the Legal division of the Municipality registers the contracts the originals are returned to the Housing Department to be included on the tenant files. Due to the volume of documents handled by the City this process can take up to four months. To expedite this process the Director of Housing requested authorization from the legal division to execute the contracts at

the local level internally. The request was authorized by the Director of the legal division and the contracts are now executed by the Housing Department. A copy of the HAP contract will be placed in the file before sending the contract to be registered in the Comptroller's Office in order to assure that the contracts are in the file.

Upon the receipt of information from the HUD-OIG regarding the missing contracts the Municipality proceeded to locate the missing files. The location of the HAP contracts is currently in process and is expected to be completed within 60-days. When found the contracts will be included to the participant's files.

In addition the Quality Control Unit will be responsible to perform a comprehensive quality control review of work product to ensure that the work performed is completed accurately and in accordance with the Authority's policies and HUD requirements and that all the files contain the executed HAP contracts.

Consent Forms not signed

The Municipality concurs with the finding. Upon the receipt of information from the HUD-OIG regarding the missing consent form the Municipality proceeded to contact the families to obtain their signature and to execute HUD form 9886.

The City will undertake the following actions to prevent the recurrence of the situation:

- A memo will be sent to all program staff indicating the importance of requesting the required form to comply with HUD's established regulations.

The Quality Control Unit will be responsible for performing a comprehensive quality control review of work produced to ensure that the processes conducted are completed accurately and in accordance with the Authority's policies and HUD requirements and that all the files contains HUD Form 9886.

Tenants Not Properly Selected from Waiting List

We concur with the OIG finding. To correct the situation and prevent future recurrence the City is adopting new Waiting List procedure. The new waiting procedure has eliminated all but one (involuntary displaced households) of the existing preferences. The date and time of application will be utilized to determine the sequence within the above-prescribed preference. Only the Director of HA and the Section 8 Manager may approve the use of the displaced household preference. This basic change will prevent the recurrence of the findings.

Comment 2

The Quality Control Unit will be responsible to perform a comprehensive quality control review of the processes conducted to ensure that the participants are selected in accordance with the Authority's policies and HUD requirements.

Conclusion

In conclusion, the compliance of the proposed corrective actions is contingent upon the following actions:

- Approval from HUD to use the administrative reserve to be used for the implementation of the corrective action plan.
- The contracting of additional resources that will facilitate the execution of the corrective actions.
- The continuation of technical assistance from HUD
- Fully staff the Quality Control Unit with a Coordinator, a Quality Control Officer and a Quality Control Analyst. The Director of the Quality Control Unit will report directly to the Executive Director of Housing. This structure will provide for the independence and integrity of the Quality Control activities and provides reports directly to the highest office in the City to ensure that the detection of irregularities will be properly addressed.
- Establishment of a work plan to perform a Quality Control Review of tenant files identified:
 - As potentially over-housed
 - Duplicate Subsidy
 - With subsidy errors and inadequate verification of income
 - Missing files
 - Missing contracts
 - Consent forms not signed
- The completion of a comprehensive quality control review of all tenant files not limiting the review to the files identified with possible deficiencies by the HUD-OIG.
- The provision of extensive training for the Housing Authority employees to equip them to perform an accurate comprehensive review.

Following the completion of the comprehensive Quality Control review of all Housing Choice Voucher Program files the Housing Authority of the City of San Juan plans to continue its comprehensive quality control review process on an ongoing basis to ensure continued compliance with HUD regulations. 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.

To undertake the proposed Corrective Action Plan we suggest the following implementation time table chart:

Task	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8
Comprehensive review of files evaluated by the OIG to ensure compliance with regulations	■	■						
Preparation of Implementation Plan	■	■						
Staff Training			■					
Implement Corrective Action Plan				■	■	■	■	
Undertake Quality Control of 100% recrods				■	■	■	■	
HUD Field Office Review								
Undertake Quality Control of 10% recrods								■

OIG Evaluation of Auditee Comments

Comment 1

We agree with the Authority that changes in the computer system might improve the chances of detecting duplicate subsidy payments. However, the Authority must also ensure it has appropriate procedures for canceling vouchers when new vouchers are issued.

Comment 2

The implementation of corrective measures should not be conditioned to the approval of additional HUD funding as proposed by the Authority. HUD already paid the Authority about \$4 million in administrative fees during the last two years to administer the Authority's Section 8 Housing Choice Voucher program. We are currently recommending a reduction in administrative fees until the Authority can establish it has the ability to carry out the housing choice voucher program in accordance with HUD regulations. HUD will make the determination on how to best approach the corrective action needed to get the Authority operating appropriately.

Appendix C

CRITERIA

24 CFR [Code of Federal Regulations] 5.240(c)

The responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment as appropriate, based on such information.

24 CFR [Code of Federal Regulations] 982.152(d)

HUD may reduce or offset any administrative fee to the public housing authority, in the amount determined by HUD, if the public housing authority fails to perform its administrative responsibilities correctly or adequately under the program.

24 CFR [Code of Federal Regulations] 982.158(a)

The public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit.

24 CFR [Code of Federal Regulations] 982.204(a)

The public housing authority must select participants from its waiting list, except for special admissions.

24 CFR [Code of Federal Regulations] 982.516(a)

The authority must conduct a reexamination of family income and composition at least annually and document in the tenant file third-party verification or why third-party verification was not available.

Notice PIH [Public and Indian Housing] 2004-01 (HA), Verification Guidance

The notice provides instructions on HUD-established verification guidance and requires public housing authorities to implement procedures to ensure compliance with the verification policies. It also outlines the verification procedures a public housing authority must use when verifying income and deductions to calculate rent.

Notice PIH [Public and Indian Housing] 2005-7 (HA), Rental Integrity Monitoring Disallowed Costs and Sanctions under the Rental Housing Integrity Improvement Project Initiative

The notice highlights the importance of timely and accurate income and rent determinations by public housing authorities and the consequences for failure to identify and correct income and rent determination deficiencies. Public housing authorities must identify and implement corrective actions or rectify errors in meeting program requirements uncovered during rental integrity monitoring reviews. In the event that a public housing authority fails to comply with the requirements of the rental integrity monitoring review or other reviews, HUD will impose sanctions on the public housing authority pursuant to section 6(j)(4)(A)(v) of the U.S. Housing Act of 1937 and 24 CFR [*Code of Federal Regulations*] 982.152(d) regarding voucher programs.

If, as a result of a rental integrity monitoring review, a public housing authority does not implement its corrective actions within the timeframes approved by the field office, 10 percent of its monthly scheduled administrative fee advance will be withheld, beginning the month the field office makes the sanction effective and lasting until the public housing authority has complied with the program requirements.

Authority's Administrative Plan

The Authority's administrative plan establishes local policies for items not specifically covered by federal regulations and acknowledges the Authority's responsibility for complying with HUD regulations.

Appendix D

SUMMARY OF FILE DEFICIENCIES

File number	Inadequate earnings verification	Inadequate waiting list selection	Missing housing assistance contract	Housing assistance calculation error	HUD Form 9886 not signed by tenant
1449	X	X			
2005	X	X			X
1928	X	X		X	
9123	X		X	X	
6935	X	X	X		
9376	X				
PI-084			X		
6253	X	X	X		
0848	X	X	X		
6320	X	X			
9529	X	X	X		
6728	X				
9231	X	X	X		X
1551	X	X	X		X
0258	X				
0344	X	X		X	
0392	X	X			
0525	X	X			
1704	X	X			
2299	X	X		X	
9503	X	X		X	
0706		X			
9467		X			
9677		X	X	X	
0903	X	X	X		
Total	21	20	10	6	3