



U.S. Department of Housing and Urban Development  
Office of the Inspector General for Audit, Region 4  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388  
(404) 331-3369

September 7, 2005

**MEMORANDUM NO:**  
**2005-AT-1803**

**MEMORANDUM FOR:** R. Edmond Sprayberry, Director, Public Housing Division, 4CPH

*James D. McKay*

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

**SUBJECT:** Section 8 Housing Choice Voucher Program  
Montgomery Housing Authority  
Montgomery, Alabama

### INTRODUCTION

We completed a review of the Montgomery Housing Authority's (Authority) Section 8 Housing Choice Voucher program. The review was conducted as part of our strategic plan goal to assist the U.S. Department of Housing and Urban Development (HUD) in reducing erroneous rental assistance payments. We selected the Authority for review because it ranked tenth in the Section 8 risk assessment conducted by our region. The primary objectives of our review were to determine whether the Authority made Section 8 subsidy payments only for eligible housing and tenants and whether additional audit work was warranted.

The review results show that the areas reviewed do not warrant additional audit coverage. However, the review identified that the Authority's controls over processing Section 8 tenant files need improvement. We have discussed our review results with HUD and the Authority, and they generally agreed with the finding.

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

## **METHODOLOGY AND SCOPE**

To achieve our objectives, we reviewed

- Applicable laws, regulations, and other HUD program requirements;
- Procedures and controls used by the Authority related to the administration of its Section 8 Housing Choice Voucher program; and
- Files and documents obtained from HUD and the Authority.

We reviewed a sample of 14 tenant files from a universe of 1,425, which included three portables and four tenants identified on the HUD income discrepancy report, dated February 5, 2005. We inspected a sample of 10 units the Authority recently inspected from March 16 through May 16, 2005.

We examined and reviewed the tenant files to determine whether the Authority (1) performed recertifications (annual or interim) in accordance with HUD requirements; (2) adequately supported the eligibility requirements of each family; and (3) accurately calculated the participant's annual income and expenses, deductions, unit utility allowances, housing assistance payments, and total tenant payments.

In addition, we interviewed appropriate officials and staff from the HUD Public and Indian Housing Birmingham office and the Authority.

The review generally covered the period October 1, 2002, through March 31, 2005, and we extended the period as necessary. We performed our onsite work at the Authority's Section 8 office and the HUD Birmingham field office. Our onsite review was conducted between May and June 2005.

## **BACKGROUND**

Under the United States Housing Act of 1937, the State of Alabama granted a charter to the Authority on June 9, 1939, to help fill the need for decent, safe, sanitary, and affordable housing. The Authority is a separate public corporation pursuant to the laws of the state of Alabama, and was organized to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by HUD and other federal agencies. A nine-member board of commissioners governs the Authority. The Authority administers 1,825 housing choice vouchers with a value of about \$8.2 million, including \$646,094 in administrative fees.

A rental integrity monitoring review conducted by HUD in July 2003 disclosed that the Authority did not (1) adequately and consistently obtain third party verifications related to family composition, income (including assets), and deductions, or document the use of other methods when third party verifications were not available; (2) provide allowances for all tenant-paid utilities as required; (3) perform reexaminations within the 12-month reexamination period; and (4) document the formal request from the owner or properly notify tenants by offering a new lease for rent increases.

HUD conducted a rental integrity monitoring re-review in July 2004 and found that although the Authority had made improvement, it had not fully implemented intended corrective actions from the prior findings. The rental integrity monitoring re-review disclosed an additional finding that the Authority did not accurately and consistently report data to the Multifamily Tenant Characteristics System on the HUD 50058 family report. HUD cleared all of the findings on June 22, 2005.

As a result, HUD approved technical assistance contractors to assist the Authority with performing assessments of its Section 8 program, implementing its corrective action plan, and providing other technical assistance needed to improve the overall performance of the Authority's Housing Choice Voucher program and Section 8 Management Assessment Program score. The initial contractor defaulted on the contract and had to be replaced.

The new technical assistance contractors began their assessment of the Authority on May 24, 2005. HUD designated the Authority as a troubled Section 8 public housing authority in fiscal year 2003. Although the Authority's Section 8 Management Assessment Program score increased to "standard performer" in fiscal year 2004, the Authority's troubled status will remain until the technical assistance contractor has completed its assessment.

The Authority's independent public accountant report for fiscal year 2004 contained one Section 8 finding. The report disclosed that the Authority did not comply with requirements regarding certain documentation, income verification, dependent eligibility verification, and rent calculation requirements related to its Section 8 Housing Choice Voucher program.

## **RESULTS OF REVIEW**

Our review identified that the Authority is generally administering its Section 8 program in accordance with the program's requirements. However, the review disclosed weaknesses over the controls relating to the Authority's procedures for processing Section 8 tenant files. We identified minor errors with the tenant files regarding subsidy calculations, missing documents, recertifications, and third party verifications.

### **The Authority's Internal Controls over Processing Section 8 Tenant Files Are Inadequate**

The Authority has made improvements; however, its internal controls over processing Section 8 tenant files are inadequate. We identified problems with the tenant files regarding overpaid housing assistance payments, missing documents (i.e., expired housing assistance payment contracts), late recertification, and no third party verification of employment. These problems occurred because the Authority's housing specialists were not adequately trained. Further, the Authority did not establish adequate controls regarding Section 8 tenant file processing. As a result, the Authority overpaid \$3,348 in housing assistance payments and paid \$572 in erroneous housing assistance payments.

## Section 8 Tenant Files Contained Errors

Based on our review of 14 files, 7 files contained the following errors:

- Three (21 percent) had missing documents (two had expired housing assistance payment contracts; one was missing a current HUD 50058 family report);
- Two (14 percent) had overpayments (totaling \$3,348) of housing assistance payments;
- One (7 percent) had incorrect information on the HUD 50058 family report (it did not affect the housing assistance payment subsidy calculation);
- One (7 percent) had late recertifications;
- One (7 percent) had no recertification;
- One (7 percent) had an underpayment of the housing assistance payment;
- One (7 percent) had no third party verification of employment; and
- One (7 percent) had an unsigned lease.

The *Code of Federal Regulations* at 24 CFR 5.240(c) requires the responsible entity to 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. In addition, 24 CFR 982.516(a) requires the Authority to 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.

We also identified one instance in which the Authority paid a housing assistance payment of \$572 in June 2005 for a tenant who had moved out of the unit as of May 31, 2005. The tenant notified the Authority of her intent to move from the unit by May 31, 2005. However, when we inquired with the housing specialist, she could not provide the status of the unit occupancy. We visited the unit on June 22, 2005, and determined that the tenant had moved from the unit as of May 31, 2005. We notified the Section 8 director, who stated that she would request a refund from the landlord immediately.

### **RECOMMENDATIONS**

We recommend that the director of the Office of Public Housing

- 1A. Require the Authority to repay HUD \$3,920 from nonfederal funds for ineligible housing assistance payments.
- 1B. Establish and implement an internal control plan to ensure the cited deficiencies are corrected and all Section 8 tenant files are adequately processed.

Should you or your staff have any questions, please contact Sonya D. Lucas, assistant regional inspector general for audit, at (404) 331-3369.



C. MICHAEL McINNISH  
EXECUTIVE DIRECTOR

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DAVID S. BARLEY, II  
CHAIRMAN

August 24, 2005

Mr. James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
District Office of the Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3369

RE: Written comments/response to Recommended Corrective Actions from the  
Office of the Inspector General (OIG)

Dear Mr. McKay,

We acknowledge receipt of your letter of August 10, 2005 enclosing a copy of the  
draft memorandum for our review and comments. The following is our response  
to the recommendations made:

**RECOMMENDATIONS:**

We recommend that the director of the Office of Public Housing:

- 1A. Require the Authority to repay HUD \$3,920 for nonfederal funds for  
ineligible housing assistance payments.

In response to item 1A:

- The Montgomery Housing Authority (MHA) concurs with the  
amount stated above and will repay HUD from nonfederal funds.

- 1B. Establish and implement an internal control plan to ensure the cited  
deficiencies are corrected and all Section 8 tenant files are adequately  
processed.

In response to item 1B:

- The MHA is in process of writing a comprehensive Corrective  
Action Plan with HUD consultants Woodard and Associates. A  
copy of this plan can be forwarded to your office for your review.

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RICHARD N. BOLLINGER, Vice-Chair  
ANNE B. UPCHURCH

THOMAS TAYLOR  
BETTIE BARNETT

LUAN LONG  
RON DRINKARD

JOHN F. KNIGHT, Jr.

In response to item 1B: (Continued)

- MHA will require employees to meet the minimum requirements of their job descriptions.
- MHA will require all housing specialist to obtain certification within a certain timeframe to ensure trained professionals in the HCV program. Training should reduce problems with tenant files such as overpaid housing assistance payments, missing documents, and late re-certifications.
- MHA will set up on-line interactive training with software supplier Visual Homes for all incoming employees and continual training for current employees.
- The Section 8 Department has designed a complaint form to follow-up on employee complaints and a procedure of actions for such complaints. (attached is a copy of complaint form).

The Montgomery Housing Authority's Section 8 HVC program management and staff are committed to implementing all the recommendations made and strengthening internal controls to bring the program out of its troubled status and are looking forward to becoming a high performer.

As required, we are emailing our response. The original will be mailed out to you today.

If you should need to contact me you may do so at [leboggs@mhatoday.org](mailto:leboggs@mhatoday.org) or you may call me at 334 206-7227. Our Section 8 Director, Cathy Harris may also be reached at [charris@mhatoday.org](mailto:charris@mhatoday.org) or at 334 206-7170.

Sincerely,



Lemuel E. Boggs, Jr.  
Interim Executive Director

ATTACHMENTS: copy of complaint form

cc: Mr. R. Edmond Sprayberry  
Director of Public Housing  
HUD-Birmingham

cc: Ms. Cathy Harris, Sec. 8 Director  
cc: Ms. Beverly Toodle, Assistant Sec. 8 Director