



Issue Date	March 25, 2005
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Audit Case Number	2005-FW-1006
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TO: Dan Rodriguez
Program Center Coordinator, Office of Public Housing, 6EPH
James D. McKay

FROM: James D. McKay
Acting Regional Inspector General for Audit, 6AGA

SUBJECT: The Housing Authority of the City of Houston's Contractor, Houston, TX, Did Not Correctly Calculate or Support Its Section 8 Housing Assistance Payments

HIGHLIGHTS

What We Audited and Why

As part of our Strategic Audit Plan, we audited the Section 8 Housing Choice Voucher Program, administered by the Housing Authority of the City of Houston (Authority). We designed the audit to determine whether the Authority's Contractor correctly calculated housing assistance payments and to determine the effect if the Contractor calculated the payments incorrectly.

What We Found

The Authority's Contractor did not correctly calculate or support its calculations of Section 8 housing assistance payments. Our projection of the results of a statistical sample showed the Authority's Contractor made errors in at least 7,168 of its 13,732 Housing Choice Voucher files over a 13-month period. Due to the Contractor's errors, the Authority overpaid at least \$1.1 million and underpaid at least \$115,000 in Section 8 assistance. The Authority did not detect or prevent the errors because it did not properly monitor its Contractor and relied on the Contractor to police itself. The Authority terminated its contract with the Contractor in October 2004. However, if the Authority does not implement

controls and procedures to prevent similar errors, it will overpay and underpay at least an additional \$1 million in incorrectly calculated housing assistance payments over the next 12 months.

What We Recommend

We recommend that the U.S. Department of Housing and Urban Development (HUD) require the Authority to review all of its Section 8 Housing Choice Voucher files and correct any errors that have occurred. HUD should require the Authority to repay the \$13,227 that we identified as ineligible payments and pay the tenants the \$1,680 that we identified as underpaid assistance based on our sample file reviews. Also, HUD should require the Authority, based on its file reviews, to either support the projected \$1,140,915 that we identified as unsupported payments or repay those Section 8 funds to HUD and support the projected \$113,680 that we identified as assistance underpayments or pay those Section 8 funds to the tenants. Finally, HUD should require the Authority to implement controls to prevent future housing assistance payment errors, which we project to be at least \$1 million per year.

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

In general, the Housing Authority agreed with the audit report and indicated that it was taking action to correct the problems. The complete text of the auditee'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 City of Houston established the Housing Authority of the City of Houston (Authority) in 1938. The Mayor appoints a five-member Board of Commissioners (Board) to govern the Authority. The Board hires an Executive Director to manage the Authority's day-to-day operations. The Authority keeps its records at its central office at 2640 Fountainview, Houston, Texas.

The Authority has operated its Section 8 Rental Assistance Program since 1975. During our audit period of October 1, 2003, through October 7, 2004, the Authority administered more than 13,000 Housing Choice Vouchers. Further, for fiscal years 2003 and 2004, the U.S. Department of Housing and Urban Development (HUD) paid the Authority \$202 million to fund its Housing Choice Voucher Program, including \$14.9 million for administrative expenses.

During 2001, HUD designated the Authority "troubled" and gave it a low Section 8 Management Assessment Program score. The Authority contracted with Quadel Consulting (Contractor) in November 2001 to manage and improve its Section 8 program performance. The Contractor formed a subsidiary, Houston Housing Assistance Partnership, to perform the contract work. The Contractor improved the Authority's score, taking it out of the "troubled" category. The contract called for the Authority to pay the Contractor 85 percent of its administration fee or \$12.6 million to administer the Section 8 program during 2003 and 2004.

This audit is part of an ongoing review of the Authority. This audit reviewed whether the Authority's Contractor correctly calculated housing assistance payments. The Authority terminated the Contractor's contract in October 2004 based, in part, on our earlier audit of overhoused tenants, Report Number 2004-FW-1010, Housing Choice Voucher Subsidy Standards, Housing Authority of the City of Houston.

RESULTS OF AUDIT

Finding: The Authority's Contractor Did Not Correctly Calculate or Support Its Section 8 Housing Assistance Payments.

In 71 out of 118 files reviewed, the Authority's Contractor made errors in violation of HUD's and the Authority's policies. Our projection of the results of this statistical sample showed the Authority's Contractor made errors in at least 7,168 of its 13,732 Housing Choice Voucher files over a 13-month period. The Authority did not detect or prevent these errors because it did not properly monitor its Contractor and relied on the Contractor to police itself. As a result, the Contractor's errors caused the Authority to both overpay at least \$1.1 million and underpay at least \$115,000 in Section 8 housing assistance payments. The Authority terminated its contract with the Contractor in October 2004. However, if the Authority does not implement controls and procedures to prevent similar errors, it will overpay and underpay at least an additional \$1 million because of incorrectly calculated housing assistance payments over the next 12 months.

Contractor Made a Variety of Errors

As the following table shows, the Contractor made a variety of errors in 71 out of 118 statistically selected files (more than 60 percent). Many of the files contained more than one type of error.

Type of Error	Number of Files with Type of Error
Unable to locate file	2
Failed to perform 3 rd party verification of income	8
Incorrect utility allowance	33
Incorrect income calculation or deduction	34
Incorrectly completed or missing documents	15
Failed to perform annual recertification in a timely manner	8

Although all of these errors could affect the Contractor's ability to correctly calculate and support the housing assistance payments, only 43 of the files resulted in an underpayment or overpayment. Errors in 31 of the 43 files resulted in the Authority making net overpayments of \$13,227. Errors in the remaining 12 resulted in the Authority making net underpayments of \$1,680. In most cases, the remaining 28 files either lacked sufficient information to allow a determination as to whether an improper payment occurred, or the tenant was already receiving the maximum assistance, and the error did not affect that amount.

Authority Agreed the Errors Existed

We reviewed the results of each of our file reviews with the Authority's representatives in January 2005, and the representatives agreed that the errors existed. The Authority gave us additional information and insight into why the errors occurred.

Contractor Made the Errors for a Variety of Reasons

The Contractor did not correctly calculate or support its Section 8 housing assistance payments for a variety of reasons. For example, the Contractor made many of the utility allowance-related errors because it entered information regarding utilities and utility fuels (gas or electric heating, cooking or water heating) into its automatic utility allowance calculations that conflicted with other source documents in the file. In addition, the Contractor made many of the income- and deduction-related errors because some of its housing specialists did not fully understand how to annualize income or properly calculate tenant deductions. To complicate matters, some of the Contractor's supervisors gave the housing specialists conflicting instructions concerning how to calculate annual income.

Additionally, the Contractor used two teams to recertify tenants. The teams often recertified the same tenant simultaneously using different and sometimes conflicting sources of information. The teams did not communicate with each other. Therefore, they did not know that there were data discrepancies. Each team believed that its calculations were correct, but neither team considered all of the tenant's recertification data because neither had access to all of the tenant's data. As a result, a tenant's assistance payment was sometimes based on information provided by whichever team submitted its recertification last, and the last recertifications may have been based on outdated information.

Authority Did Not Detect the Errors

The Authority did not detect or prevent these housing assistance payment errors because it did not properly monitor its Contractor. Instead, the Authority relied on the Contractor to police itself. The Contractor had a quality control process in place to review a sample of the housing assistance payments actions that its employees processed. The Contractor used the review results to provide feedback to its employees and reported the errors in a monthly report to the Authority.

However, the Authority could not show that it took steps to correct the significant error rates in the reports. Even though the Authority hired the Contractor to manage and operate its Section 8 program, it was and is responsible to HUD for its program operations and for any errors.

Section 8 Housing Assistance was Both Overpaid and Underpaid

When statistically projected to the 13,732 housing choice voucher population, the audit results show that the Authority overpaid at least \$1,154,142 to house at least 2,705 tenant families and underpaid at least \$115,360 to house at least 824 tenant families. Since it overpaid housing assistance for some tenants, the Authority was unable to assist the maximum number of tenants that its funds would allow. According to the Authority's policies, these funds are not generally recoverable from the tenants unless tenant fraud was involved. The audit did not reveal any instances of tenant fraud; therefore, the overpayments are not recoverable from the tenants. As a result of underpaying housing for other tenants, the Authority may have caused those tenants to spend more than the maximum established by federal regulations for low-income, federally assisted tenants. According to the Authority's policies, these funds are refundable to the tenants.

Authority Has Taken Steps to Correct the Problems

The Authority terminated its contract with the Contractor in October 2004. Further, the Authority has begun to review all of its Section 8 Housing Choice Voucher files. It has also initiated other changes, like stopping the practice of having two teams recertify tenants. However, the Authority retained most of the Contractor's staff. If the Authority does not implement controls and procedures to prevent the types of errors identified in this report, it will overpay and underpay at least an additional \$1 million in incorrectly calculated housing assistance payments over the next 12 months.

Recommendations

We recommend that HUD require the Authority to:

- 1A. Reimburse HUD \$13,227 for the ineligible expenses identified as assistance overpayments during the audit.

- 1B. Reimburse the tenants the \$1,680 that it underpaid for the housing assistance identified during the audit.
- 1C. Review 100 percent of the tenant files and identify and repay HUD any ineligible Section 8 housing assistance, which we project to be at least \$1,140,915.
- 1D. Identify and reimburse tenants for any underpaid housing assistance, which we project to be at least \$113,680.
- 1E. Implement controls to prevent future housing assistance payment errors, which we project to be at least \$1 million per year.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the Authority's Contractor correctly calculated housing assistance payments and to determine the effect if the Contractor calculated the payments incorrectly. To accomplish the objective, we:

- Obtained and reviewed relevant HUD regulations and Authority guidelines in the Authority's Administrative Plan (see Appendix C).
- Selected a statistical sample of Housing Choice Voucher tenant families from HUD's Multifamily Tenant Characteristic System (see statistical sample selection and methodology below).
- Obtained and reviewed the tenant files for the 118 tenant families. We verified that each file contained 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 Contractor's assistance payment calculations to determine any variances.
- Discussed the files with variances with the Authority's representatives to validate the variances and obtain explanations.

Statistical Sample Selection and Methodology

We obtained a download of all of the Authority's tenants from the Multifamily Tenant Characteristic System on October 7, 2004. We deleted those tenants identified as no longer participating in the program. We also excluded those tenants reviewed in our previous Subsidy Standards audit, which found overhousing, and tenants whose units we selected for testing in our ongoing Housing Quality Standards audit. The universe size is 13,732 tenant families. We used EZ Quant software to select a simple random statistical sample from the 13,732 tenant families. Based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 10 percent, the EZ Quant software returned a statistical sample of 118 tenant families with a random selection start.

We conducted our fieldwork between October 2004 and January 2005 at the Authority's offices in Houston, Texas. Our audit period was October 1, 2003, through October 7, 2004. We expanded our audit testing to prior periods if the housing payment assistance paid by the Authority during our audit period was based on a calculation performed and/or supported by information obtained in a prior period.

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:

Policies and procedures that the Authority put into place to reasonably ensure that valid and reliable data are obtained and used to determine tenant income, utility allowances, and deductions.

Policies and procedures that the Authority put into place to reasonably ensure that assistance payments are consistent with laws and regulations.

Significant Weaknesses

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

- The Authority did not implement adequate controls over its Contractor to ensure that Housing Choice Voucher assistance payments were accurate.
- The Authority's Contractor did not establish effective internal controls to ensure that its housing specialists correctly calculated assistance payments.

APPENDIXES

Appendix A

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

Recommendation Number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds To Be Put to Better Use <u>3/</u>
1A	\$13,227		
1B			\$1,680
1C		\$1,140,915	
1D			\$113,680
1E			\$1,065,360
Totals	\$13,227	\$1,140,915	\$1,180,720

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

<p>Commissioners Laura R. Jaramillo Chair Rev. Myron Cloyd Vice Chair Andrew Tran Judge John Kyles Shelia Smith Ernie Etuk Executive Director</p>	<p>HOUSING AUTHORITY OF THE CITY OF HOUSTON P. O. Box 2971 • Houston, Texas 77252-2971 (713) 260-0800 (713) 260-0569 TDD/TTY</p>	
		<p>More Than Just A Place To Live</p>
		<p>Office of the Executive Director</p>
<p>March 21, 2005</p>		
<p>James McKay Acting Regional Inspector General for Audit U.S. Department of Housing And Urban Development Region 6, Office of Inspector General 819 Taylor Street, Room 13A09 Fort Worth, TX 76102</p>		
<p>Attention: Theresa A. Carroll, Assistant District Inspector General</p>		
<p>Re: Response to Draft Audit Report on Housing Choice Voucher Program Housing Assistance Payments</p>		
<p>Dear Mr. McKay:</p>		
<p>On December 1, 2001, the Authority of the City of Houston ("the Authority") contracted with Quadel Consulting Corporation, a Washington DC based firm knowledgeable in the Section 8 Program, to administer and operate the Housing Choice Voucher and related programs. As noted in your report, the contract with the Quadel Consulting Corporation ("Contractor") was terminated effective October 20, 2004. The Contractor made improvements to the program during their administration; however, certain areas of the program described in this report issued by the HUD-OIG are in need of immediate attention.</p>		
<p>In March 2004, the United States Department of Housing and Urban Development-Office of the Inspector General (HUD-OIG) commenced an audit of the Authority of the City of Houston's Housing Choice Voucher Program. The primary objective of the audit was to determine whether the Authority's Contractor was correctly calculating housing assistance payments and to determine the effect if the payments were incorrectly calculated as required by the U.S. Department of Housing and Urban Development (HUD) and the Authority's policies.</p>		
<p>The HUD-OIG audit surveyed included review of 118 tenant files and found calculation errors in 43 files. This represents an error rate of thirty-six percent (36%). Another twenty-six (26) files or twenty-two percent (22%) contained defects that did not result in an error in calculation. The</p>		
<p>A Fair Housing & Equal Employment Opportunity Agency</p>		

Comment 1

Authority's Administrative Plan, its policies and procedures direct the appropriate housing assistance payments in accordance with applicable HUD regulations. The HUD-OIG determined that the Authority's Contractor did not correctly calculate or support its Section 8 Housing Assistance Payments. The report includes five statements, and the Authority's response to these statements is set forth below:

1. The Contractor made a variety of errors

The Authority agrees that the files contain a variety of errors related to income calculation, utility allowance, deductions allowed etc. Since resuming the management of operations of Section 8 program in October 2004, the Authority has implemented quality control reviews to prevent such errors from continuing. Additionally, the Authority has provided in depth training on file maintenance, appropriate methodology for calculation.

2. Contractor Made the Errors for a Variety of Reasons

The Authority agrees that there are many reasons that contribute to the errors found in the files. Since the transition, the Authority has discontinued the practice of having multiple teams provide services to the same client. The Authority has implemented Standard Operating Procedure (#05-02-02) for the determination of income and usage of the Up-front Income Verification (UIV) system and other related areas of housing assistance calculation. This policy was implemented in February 2005.

3. Authority Did Not Detect the Errors

The Authority, with the recommendation of HUD from the Rental Integrity Monitoring 2002 Report, dated February 2003, required the Contractor to implement additional Quality Control Reviews. The Quality Control instrument was implemented in March 2003 and later revised in July 2003. The Quality Control Log for the period July 2003 through October 2003 was transmitted to the HUD Program Center in November 2003 in conjunction with the Corrective Action Plan in effect at that time. The Contractor implemented supplemental staff training beginning in January 2004 due to the lack of improvement in the error rates on the Quality Control Logs. The Authority had determined there was not sufficient and adequate quality control reviews of files, which became one of the points of disagreement between the Authority and the Contractor.

The Authority understood the importance of the identified areas of weakness and has been working with the Houston HUD Program Center to address the issues raised in the HUD-OIG report.

4. Section 8 Housing Assistance was both Overpaid and Underpaid

The Authority agrees that errors identified in the files can cause both overpayment and underpayment of housing assistance.

5. The Authority has taken steps to correct the problems

We appreciate your recognition of the prompt actions taken by the Authority to correct the underlying cause of the poor quality of the housing assistance payment calculations. The Authority has taken the following actions to address the incorrect housing assistance payments issues:

- Is reviewing the entire population tenant files as part of the current Corrective Action Plan with the Houston HUD Program Center,
- Replaced the multiple team system with a true case management system where a single Account Services Specialist will provide services to the tenant for an entire year or more;
- Transferred the quality control function to the Department of Regulatory Compliance and outside of program management;
- Reviewed, revised and adopted standard operating procedure to ensure accurate calculation of assistance to be provided. A copy of the SOP # 05-02-02 is attached herewith (Attachment 1); and
- Provided training to the management and staff responsible for the determination of rent and income and has adopted RIM review process for maintaining internal file structure and assessment.

RECOMMENDATIONS:

In conclusion, the Authority agrees with the recommendations provided by the HUD-OIG to implement the improvements to the program operations. The Authority is actively working to decrease the number of errors in the tenant rent calculations. The Authority and Houston HUD office has entered into a Corrective Action Plan to complete 100% file review, improve staffing where deemed necessary, revise employee performance evaluations to ensure qualitative performance, and quality control reviews, along with other program areas.

Comment 2

Your letter encourages the Authority to offer alternative recommendations; therefore, the Authority presents the following alternatives for your consideration:

1A) Reimburse HUD \$13,227 for the ineligible expenses identifies as assistance overpayments during the audit period.

The Authority requests that the amount of ineligible expenses be offset with the expenses incurred for the implementation of the corrective action plan.

1B) Reimburse the tenants the \$1,680 that it underpaid for the housing assistance identified during the audit period.

The Authority agrees to repay the tenants identified in your report; these payments will be processed by March 31, 2005.

1C) Review 100 percent of the tenant files and identify and repay HUD any ineligible Section 8 housing assistance, projected to be at least \$1,140,915.

The Authority is currently reviewing and updating all tenant files under a Corrective Action Plan. We request that the review period for the housing assistance errors coincide with the review currently being under taken. The Authority is investing extraordinary resources to fully meet HUD requirements. As a result, the Authority has limited resources and funding to pay HUD. We continue to believe that it will be in the best interest of the program to retain such funds (if any) for use towards the implementation of the corrective action plan.

1D) Identify and reimburse tenants for any underpaid housing assistance, projected to be at least \$113,680.

The Authority agrees that the low-income tenant should not pay amounts higher than required. If any tenants are identified as over-paying their portion of rent, The Authority will reimburse these tenants accordingly. A list of tenants reimbursed will be maintained in conjunction with the corrective action plan.

1E) Implement controls to prevent future housing assistance payment errors.

The Authority has provided training to the management and staff responsible for the determination of rent and income and has adopted RIM review process for maintaining internal file structure and assessment. A list of staff members trained is attached herewith (Attachment 2). Training has been provided in the following

areas: Rental Integrity Monitoring (RIM), Rent Calculations, Income Calculations, Occupancy Standards, and the Rental Housing Integrity Improvement Program (RHIP). RIM involves the methods and procedures used to identify errors in files and are the same standards used by HUD-OIG. The Rent and Income Calculation training includes the methods of proper third party verification techniques, income determination, household allowances, among other items which make up the tenant's rental portion. The Authority is currently working under a Corrective Action Plan which includes quality control file reviews to maintain consistent file documentation and proper file protocol in the future.

The Authority is working diligently to correct the errors identified under this report and prevent future reoccurrence. Our ultimate goal is to position the Authority's Section 8 Housing Choice Voucher Program to receive a high performing designation. While we are currently challenged in certain programmatic areas, we strongly believe we can achieve this designation.

Thank you for providing the Housing Authority of the City of Houston the opportunity to comment on this report.

Sincerely,



Ernie Etuk
Executive Director

Encl:

cc: Board of Commissioners, Housing Authority of the City of Houston

OIG Evaluation of Auditee Comments

In general, the Housing Authority agreed with the audit report and indicated that it was taking action to correct the problems. The Authority's response contained two attachments that we did not include in the report.

- Comment 1** In its response, the Authority understated the severity of the file errors. It emphasized the 43 files that resulted in known payment errors and de-emphasized the 28 other files that also contained errors. We believe that some of the 28 files contain additional erroneous payments, since some of them lacked sufficient information for us determine the accuracy of the payments. Further, the Authority could not locate two files and some of the files contained errors that could result in future overpayments and underpayments.
- Comment 2** The Authority submitted alternative recommendations that would allow it to use the amount of ineligible and unsupported expenses for implementation of its corrective action plan. We have identified those costs that are ineligible and unsupported per HUD's requirements in this report. However, the Office of Public and Indian Housing has the authority to implement alternative resolutions and we encourage the Authority to work with them.

Appendix C

CRITERIA

HUD's rules for determining income and the Housing Choice Voucher Program are contained in the Code of Federal Regulations. The Code of Federal Regulations (24 CFR 5.611(a)) requires that the Authority determine adjusted income by making deductions for dependents, unreimbursed medical expenses greater than 3 percent of annual income, and necessary child care expenses when the child care enables a family member to be employed.

The Code of Federal Regulations (24 CFR Part 982) governs the Housing Choice Voucher Program. Part 982.54 requires the Authority to administer the program in accordance with its Administrative Plan. Part 982.158 requires the Authority to maintain complete and accurate accounts and other records. Part 982.451 requires the Authority to determine the housing assistance payments in accordance with HUD requirements. Part 982.516 requires the Authority to conduct income reexaminations at least annually and to make appropriate adjustments to the assistance payments based on the examinations or reexaminations. Part 982.517 requires the Authority to maintain a utility allowance schedule for all tenant-paid utilities and housing services and to give the tenant an allowance that includes those utilities and services necessary to provide housing that complies with Housing Quality Standards.

The Authority's Administrative Plan (January 1, 2004 version) establishes local policies for items not specifically covered by federal regulations and acknowledges the Authority's responsibility for complying with HUD regulations.