



Issue Date	July 20, 2005
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Audit Case Number	2005-FW-1012
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TO: Dan Rodriguez
Program Center Coordinator, Office of Public and Indian Housing, 6EPH

FROM: Frank E. Baca
Regional Inspector General for Audit, 6AGA

SUBJECT: The Housing Authority of the City of Houston Did Not Follow Its Section 8 Abatement and Termination Policies and Procedures

HIGHLIGHTS

What We Audited and Why

Because the results of our housing quality standards (HQS) audit¹ of the Housing Authority of the City of Houston (Authority) indicated the Authority's Contractor may not have been following its abatement and termination policy, we initiated an additional audit. Our objective was to determine whether the Authority enforced its policy to deduct (abate) rental payments to owners and/or terminate tenants whose Section 8-assisted units repeatedly failed HQS inspections. Specifically, we reviewed the Authority's and its Contractor's policies and procedures and tested to determine if the Authority's Contractor followed them.

What We Found

Neither the Authority nor its Contractor ensured that staff followed its abatement and termination policies and procedures in eight of the ten cases reviewed. Although the Authority terminated the Contractor in October 2004, similar problems could continue to occur since the Contractor's staff are now employees of the Authority. If the Authority does not improve its abatement and termination

¹ Office of Inspector General (OIG) Audit Report number 2005-FW-1007, issued on March 29, 2005, Section 8 Housing Quality Standards at the Housing Authority of the City of Houston, Texas.

policies, procedures and practices, we estimate it will expend \$1 million to \$6.9 million in inappropriate Section 8 assistance. In addition, the Authority needs to revise some of its abatement and termination policies and procedures to address ambiguous and contradictory provisions, or a lack of policies and procedures.

What We Recommend

We recommend that the program center coordinator of the Houston Office of Public and Indian Housing require the Authority to ensure that its employees follow its abatement and termination policies and procedures and impose penalties on employees if they do not. In addition, the Authority should be required to revise its abatement policies and procedures to address deficiencies. These corrective measures would result in more than \$1 million in Section 8 funds being put to better use by ensuring only eligible units and tenants are allowed to participate in the program.

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

The Authority generally agreed with the audit and indicated it would revise its abatement and termination policies, procedures and practices with due speed. 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 Housing Authority of the City of Houston (Authority) has operated its Section 8 rental assistance program since 1975. The U.S. Department of Housing and Urban Development (HUD) designated the Authority “troubled” in 2001. The Authority contracted with Quadel Consulting (Contractor) in December 2001 to manage and improve its Section 8 program performance. The Contractor formed a subsidiary, Houston Housing Assistance Partnership, to perform the contract work and improved the Authority’s score, taking it out of the “troubled” category. Even though the Authority hired the Contractor to manage and operate its Section 8 program, it is ultimately responsible to HUD for program operations.

For fiscal years 2003 and 2004, HUD paid the Authority \$202 million to fund its Housing Choice Voucher Program, including \$14.9 million for administrative expenses. The Authority’s contract stated it would pay the Contractor 85 percent of its administration fee, and during 2003-2004, the Authority paid its Contractor more than \$12.6 million. In June 2004, the Authority paid for 13,524 Section 8 units in the Housing Choice Voucher Program.

This audit is part of an ongoing comprehensive review of the Authority. An additional audit is still underway. The Authority terminated the Contractor in October 2004 based, in part, on our audit of overhoused tenants.² Previously, we audited to determine whether the Authority’s Contractor was performing inspections to ensure that Section 8-assisted units were decent, safe, and sanitary. While performing that audit, we noted that ten of the 118 units we inspected had previously failed the Contractor’s inspection process two or more times. We began this audit to determine whether the Authority enforced its policy to abate rental payments to owners and/or terminate tenants whose Section 8-assisted units repeatedly failed HQS inspections. Specifically, we reviewed the Authority’s and its Contractor’s policies and procedures and tested to determine if the Authority’s Contractor followed them since the Contractor operated the Authority’s Section 8 Housing Choice Voucher Program during most of our audit period. We also reviewed the Authority’s current policies and procedures since the Authority assumed operations in October 2004. We did not review the Authority’s controls over the Contractor as that is being reviewed as part of another audit.

² Office of Inspector General (OIG) Audit Report number 2004-FW-1010, issued September 29, 2004, Housing Choice Voucher Subsidy Standards at the Housing Authority of the City of Houston, Texas.

RESULTS OF AUDIT

Finding: The Authority Did Not Follow Its Termination and Abatement Policies and Procedures

Neither the Authority nor its Contractor ensured that staff followed its existing abatement and termination policies and procedures in eight of ten cases reviewed. Although the Authority terminated the Contractor in October 2004, similar problems could continue to occur since the Contractor's staff are now employees of the Authority. As a result, a unit that should not have been admitted to the Section 8 program was admitted. Also, tenants were not relocated in a timely manner from units that were not decent, safe, or sanitary or promptly notified and/or terminated from the program. If the Authority does not correct its abatement and termination policies, procedures and practices, we estimate it will expend \$1 million to \$6.9 million in inappropriate Section 8 assistance. In addition, the Authority needs to revise its abatement policies and procedures to address ambiguous and contradictory provisions or a lack of policies and procedures.

Authority and Its Contractor Did Not Follow Policies and Procedures

Although the Authority did abate rental payments to owners for failure to meet HQS for six out of ten tenant files we reviewed, for eight of the ten files the Authority and its Contractor did not follow its existing abatement and termination policies and procedures. Some examples include³:

- For two tenants, the Contractor performed more inspections than its or the Authority's policy allowed in an effort to be tenant friendly and allow the tenant to occupy or stay in a unit. This practice resulted in a unit being admitted to the Section 8 program that should not have been and allowed the tenant to live in an indecent, unsafe, and unsanitary unit. Further, the practice was not necessarily tenant friendly, as one tenant relocated due to repeated HQS inspection failures less than seven months after moving in.
- For one tenant, the Contractor performed five inspections after the owner indicated repairs would not be made. The five inspections were contrary to its policy of relocating the tenant if the owner declined to make repairs and allowed the tenant to continue to live in a substandard unit.
- For one tenant, the Contractor relocated the tenant to a new unit although the tenant had outstanding HQS failed items and should have been terminated

³ Some tenants had more than one of the violations listed.

from the program according to the Contractor's and Authority's policies and procedures. Consequently, the Authority continued to pay assistance for a tenant who should have been terminated.

- For one tenant, although the Contractor correctly abated the previous owner's rent due to HQS failures, it retroactively paid assistance to the new owner of the same unit for the months the unit was in abatement. In addition, in one instance the Contractor paid both owners for the same month's rent. These practices resulted in the Authority making \$1,960 in assistance overpayments.
- For two tenants, the Contractor did not issue termination letters in accordance with its policy of issuing a termination notice when the unit failed inspection because the tenant did not allow entry after a previous failed inspection. The Authority staff stated they ignored this policy when only the owner had violations, because they felt the policy unfairly penalized the tenant. However, by not taking action against the tenant, the Authority is not taking proactive steps to ensure that indecent, unsafe, and unsanitary conditions are promptly corrected.

The Authority's Policies and Procedures Need Improvement

Although the Authority and Contractor generally had abatement and termination policies and procedures, we found instances where the policies and procedures were ambiguous and contradictory, or where there was a lack of policies and procedures.

For example, regarding termination of a tenant's assistance, the Authority's and the Contractor's policies, procedures, and practices contradicted each other. The Authority's Administrative Plan called for tenants to receive a thirty day written termination notice. However, the Contractor's termination procedure did not include a specific date period but provided the following confusing example, which implies that termination should have been completed in fourteen days:

“Termination dates differ from abatement dates. Note the following:
Unit failed the 2nd inspection or no entry was allowed on March 14.
The date of termination will be March 28. The date of scheduled 3rd inspection would be March 28.”

Five of the ten tenants we reviewed had effective termination dates that averaged fifty days after the second failed inspection. The Authority stated this was in line with their actual practice of issuing a termination letter after the second fail with a termination date of the last day of the month following the month of inspection. Thus, a tenant whose unit failed on March 14 would receive a termination notice effective April 30. Yet, this practice was not consistently applied to all five of the tenants.

Other examples of ambiguous and contradictory policies or lack of policy include:

- The Contractor's procedure states that if a unit fails the second re-inspection, a final fail letter is generated. The policy states the tenant will be issued a voucher provided no tenant violations are outstanding but does not state what the Authority or Contractor will do if there are tenant violations outstanding.
- The Contractor's termination procedure does not state (is silent) that it will terminate a tenant's assistance for two failed HQS inspections where the violations are the fault of the tenant.
- The Authority's policy states that if a unit fails twice, rent will be abated. The Contractor's procedure stated that the owner's contract would be terminated after a second re-inspection (third fail). The Authority, though, says its policy allows it to perform more than three inspections since the owner has ninety days to bring the unit into compliance while the rent is abated.
- The Contractor's procedure states that rent will be abated if the unit fails the second inspection and a combination of the owner and tenant is responsible to correct the violation. However, the Authority has stated its practice is not to count a no entry fail (not allowing the inspector entry into the unit) as a first fail even though it is recorded in the inspection system as a fail. Thus, for abatement to occur, two fail inspections have to occur after a no entry fail.
- The Contractor's procedure states that a tenant's assistance would be terminated for a no entry fail following a failed first inspection, including tenant fails and failure to allow entry for owner fails. However, the Authority's and the Contractor's actual practice was not to issue termination notices for owner-only fail items.

Authority Acknowledged Procedures Were Not Always Followed

We discussed the various violations with Authority staff, including the Contractor's previous inspection manager. Although the inspection manager and other Authority staff admitted a few errors had occurred, they disagreed that other violations were errors. Instead, they stated they ignored the Authority's and Contractor's policies and procedures because they: (1) wanted to be tenant friendly in some cases and perform additional inspections beyond what their policies allowed; (2) believed the policies and procedures were contradictory; or (3) believed the policy should not be followed. In our opinion, the Authority needs to ensure its policies are clear and consistent, and that staff adheres to the policies. The Authority also indicated it had implemented a new abatement standard operating procedure but was still following the Contractor's termination procedure. However, the Authority's revised standard operating procedure

contains ambiguities similar to those in the Contractor's abatement procedure and it does not cover the tenant termination process.

Conclusion

Although the Authority terminated the Contractor in October 2004 and assumed full responsibility for its Section 8 Housing Choice Voucher Program, similar problems could occur in the Authority's abatement and termination of assistance since it retained a majority of the Contractor's employees. In order to ensure that abatements and terminations of assistance are handled consistently and equitably, the Authority needs to make sure that its policies and procedures are clear, consistent, and adequate and that staff adheres to its policies and procedures.

Four of the ten tenant files we reviewed contained assistance payments that could have been avoided and paid to other eligible owners or participants if good termination and abatement policies and procedures were followed. Based on a statistical sample, we estimate that problems found in the four worst cases exist in at least 162, and as many as 1,027, of the Authority's 13,524 Section 8-assisted units as of June 2004. If the Authority corrects deficiencies in its abatement and termination policies and procedures, we estimate it will annually avoid spending \$1 million to \$6.9 million in inappropriate Section 8 assistance.

Recommendations

We recommend that the program center coordinator of the Houston Office of Public and Indian Housing require the Authority to:

- 1A. Revise its Administrative Plan and operating procedures to include clear, consistent, and adequate abatement and termination policies for failure to comply with HQS by owners and tenants, which would put more than \$1 million in Section 8 funds to better use by ensuring only eligible units and tenants are allowed to participate in the program.
- 1B. Implement policies and procedures to ensure that its employees follow its abatement and termination policies.
- 1C. Recover the \$1,960 improperly paid when a unit that had repeated failures transferred to a new owner.

SCOPE AND METHODOLOGY

We conducted the audit at the Authority's offices in Houston, Texas, and the local U.S. Department of Housing and Urban Development Houston office from January through May 2005. We performed the following steps:

- Obtained and reviewed criteria that control the Authority's Section 8 Housing Choice Voucher Program and its abatement and termination processes. The criteria included HUD's regulations in the *Code of Federal Regulations*; the Authority's Administrative Plan, revised in January 2004; the Contractor's written termination and abatement policies and procedures; the "Housing Choice Voucher Section 8 Guidebook"; and the Authority's new standard operating procedure for abatements, issued in January 2005.
- Interviewed HUD Office of Public and Indian Housing staff in the Houston field office and headquarters to obtain clarification on abatement and termination procedures and processes.
- Reviewed the Authority's tenant files for ten tenants previously identified by our HQS audit (see below) as having two or more failed inspections, and obtained screen prints from the Authority's computer system showing its inspection results to determine whether the Contractor followed its and the Authority's policies and procedures.
- Interviewed Authority staff members, including those formerly employed by the Contractor, to determine their actual practices versus their policies and to determine why specific errors occurred.

Our original audit period was from June 2003 to June 2004. However, we expanded our scope to April 2005 to cover failed inspections that were not resolved until after June 2004 and to allow us to compute funds to be put to better use for four tenants who should either have been placed in another unit or should not have been receiving assistance.

Statistical Sample Selection and Methodology

We based our testing on the statistical sample that was part of our HQS audit. During that audit, we obtained a download of all of the Authority's current Section 8-assisted units from the Housing Assistance Payment Register for the month of June 2004. The universe size showed there were 13,524 current tenants' units as of June 2004. We used the Defense Contract Audit Agency's EZ-Quant software to select a simple random statistical sample from the 13,524 current tenants' units. 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 current tenants' units with a random selection start of 33665481. We used EZ-Quant to generate eighty-two additional samples for replacements in case we did not have access to the units or the tenants moved out. We inspected eleven of the replacement samples because we found that eleven tenants out of the original 118 had moved out of their units.

A review of the Authority's records showed that ten out of the 118 units inspected had two or more failed inspections performed by the Contractor. During this audit, we reviewed the tenant files to determine whether the Contractor appropriately followed its and the Authority's policies and practices. We then used EZ-Quant to project our error rates to the population.

We conducted our 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 Control

We determined the following internal control was relevant to our audit objectives:

- Policies and procedures that the Contractor and the Authority put into place to reasonably ensure that Section 8-assisted units that fail two consecutive HQS inspections are being abated and tenant assistance is being terminated.

We assessed the relevant control 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 and its Contractor did not follow its or the Contractor's abatement and termination policies and procedures in a majority of the cases reviewed.
- The Authority's and the Contractor's policies and procedures are contradictory, ambiguous, and do not reflect actual practices.

APPENDIXES

Appendix A

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

Recommendation Number	Ineligible <u>1/</u>	Funds to be Put to Better Use <u>2/</u>
1A		\$1,102,162
1C	\$1,960	

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/ “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 Enuk 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>
<hr/> Office of the Executive Director <hr/>		
<p>July 18, 2005</p> <p>BY TELECOPY (817) 978-9316</p>		
<p>Mr. Frank E. Baca Regional Inspector General for Audit Office of Inspector General, Region VI U. S. Department of Housing and Urban Development 819 Taylor Street, Room 13A09 Fort Worth, Texas 76102</p> <p>Attn: Theresa Carroll, Assistant Regional Inspector General for Audit</p> <p>RE: DRAFT ABATEMENT REPORT, AUDIT CASE NO. 2005-FW-100X</p> <p>Dear Mr. Baca and Ms. Carroll:</p> <p>Thank you for giving the Housing Authority of the City of Houston ("HACH") this opportunity to respond to the statements, observations and findings in your draft Audit Report. HACH agrees with OIG's recommendation to harmonize its abatement and termination policies, procedures and practices. We understand that this is the chief concern of your office, and HACH will accomplish this with all due speed. HACH wishes to report on the substantial improvements in abatement and termination practices that occurred since the audit and requests that the Report reflect that. These written comments are submitted in response to your request therefor.</p> <p>1. The Section 8 housing choice voucher program was operated by the Contractor for substantially all of the period under audit.</p> <p>As the Audit Report acknowledges, HACH's Section 8 housing choice voucher program was operated by Quadel Consulting Corporation (the "Contractor") for substantially all of the period under audit. Under the terms of the Contract Termination Agreement dated as of August 20, 2004, HACH and the Contractor terminated their original contract by mutual agreement on October 19, 2004 (the "Termination Date"). During the period (the "Transition Period")</p>		

Comment 1

Comment 1

beginning on August 20, 2004 and ending on the Termination Date, the Contractor assisted HACH in preparing to resume management of the Section 8 program while maintaining control over day-to-day operations of the program. Of the eight cases cited in the Audit Report where HACH and the Contractor did not follow abatement and termination policies and procedures, two occurred during the Transition Period and the other six occurred prior thereto.

Comment 2

2. The Audit Report overstates the potential downside to retaining some of the Contractor's personnel.

The Report states that "similar problems could occur since the Contractor's staff are now employees of the Authority." This statement overlooks the sweeping changes that HACH has implemented since HACH resumed administration of the Section 8 program in October 2004. First of all, HACH did not indiscriminately retain staff of the Contractor. HACH conducted a selection process in which the Contractor's staff were rated and ranked for performance; HACH then offered employment only to the Contractor's better performers. HACH has made other changes that decrease the likelihood that retained staff will simply repeat entrenched behaviors that may have been learned under the Contractor. HACH has retained a new Director of Section 8. In February 2005, HACH adopted new standard operating procedures for HQS inspections. As previously reported, HACH has stressed quality HQS inspections and has provided third party training for its inspection staff as part of HACH's ongoing efforts to accomplish that. HACH has stressed employee accountability since it took over the Section 8 program, and employees have been terminated for reasons of insufficient and/or poor performance. All of these changes should ensure that retained staff meets expectations.

Comment 3

3. The Audit Report should be revised to note that, even though abatement and termination practices deviated from written policies and procedures, the practices were, in most cases, appropriate under the circumstances.

Comment 3

The Report finds that HACH or the Contractor failed to follow abatement and termination policies in eight of the ten cases reviewed. Consistent with our recent discussions at the exit conference, it was understood that with one exception noted below, the abatement and termination practices were not inappropriate; rather, the practices were inconsistent with either the Contractor's policies and procedures or HACH's policies and procedures. The deviations from policy reflect that HACH is sensitive to the needs of its clients. It is HACH's intent to rewrite its abatement and termination policies and procedures to conform to actual practice.

We also submit that HACH must be allowed to exercise professional judgment consistent with sound business practice and HUD regulations in administering the voucher program. As you are well aware, we are dealing with circumstances that are complex and sometimes unpredictable. HACH intends to address the proper limits of administrative discretion in its revised operating procedures. Deviations from policy may occur in the future, but they will be limited and appropriate to the circumstances.¹

¹ As an example: it may be appropriate to retain a family in a unit if the only inspection violation is a cracked face plate.

HACH accepts the responsibility that it was inappropriate to retroactively pay \$1,960 when a unit with repeated failures transferred to a new owner.

Comment 4

4. HACH acknowledges that the Contractor and HACH had conflicting or ambiguous policies and procedures.

The Report (second bullet point, page 7) states: "The Contractor's termination policy does not state (is silent) that it will terminate a tenant's assistance for two failed housing quality standards inspections where the violations are the fault of the tenant." The Contractor's policy was inconsistent with HACH's policy. HACH's Administrative Plan provides: "If the tenant fails to comply with corrective action orders, HACH will terminate assistance." See Administrative Plan, page 36. HACH agrees that HACH policies should be consistent with HACH procedures and vice versa, and steps are being taken to accomplish this.

Comment 4

The Report (third bullet point, page 7) states: "The Authority's policy states that if a unit fails twice, rent will be abated. The Contractor's policy stated that the owner's contract would be terminated after a second re-inspection (third fail). The Authority, though, says that their policy allows it to perform more than three inspections since the owner has ninety days to bring the unit into compliance while the rent is abated." The reference to 90 days comes from the HACH Administrative Plan, which provides: "The unit will stay in an abatement status for a maximum of 90 days. If the unit has not passed HQS in that time period, the unit will be cancelled from the program and the tenant will be issued a voucher to move to another unit." The provision that a unit may pass during the abatement period implies that multiple inspections may occur. While HACH believes that the practice is consistent with the policy, HACH will revise its written procedures to make this clear cut.

The Report (fourth bullet point, page 7) states: "The Authority's policy states that rent will be abated if the unit fails the second inspection and a combination of the owner and tenant is responsible to correct the violation. However, the Authority has stated its practice is not to count a no entry as a first fail even though it is recorded in the inspection system as a fail. Thus, for abatement to occur, two fail inspections have to occur after a no fail entry." HUD regulations provide that, for a housing authority to abate rent, the owner must have knowledge of the deficiencies and be afforded appropriate time to correct the deficiencies. See 24 CFR 982.405(b) and 982.404(3). A housing authority cannot inform an owner of deficiencies unless the authority is able to gain entry. While HACH can make this clearer in its revised procedures, the previous practice not to count an initial no entry as a fail (unless it is followed by a second no entry) was appropriate under the regulations.

Comment 4

HACH is already re-writing the standard operating procedures in an effort to further improve clarity and certainty, including the specific items cited in the Audit Report. As noted above, one of the changes HACH intends to make is to articulate when circumstances justify the exercise of discretion so that staff clearly understand the limits of discretion and apply policies and procedures uniformly.

Comment 5

5. HACH has already improved abatements and terminations.

In January 2005, HACH added a full-time account services specialist within the Inspections Department for the specific purpose of following-up on failed inspections. The Department of Regulatory Compliance has begun testing files to determine if this assignment is yielding improved abatement and termination results.

In response to the OIG's audit of HQS inspections, HACH rewrote its standard operating procedures for HQS inspections. HACH has already provided substantial third party training for its HQS inspection staff in 2005.

The improvements in management of the housing choice voucher program may be seen in the statistics on abatements, cancellations and terminations since HACH regained control of the program. Since January 2005, HACH has abated more than \$105,000 in housing assistance payments; has cancelled 448 contracts with landlords; and has terminated assistance to 106 tenants. We have prepared a summary of these statistics which is attached hereto as Exhibit A and made part hereof.

Comment 6

6. HACH disagrees with the assertion that deficiencies in abatement and termination may cause as much as \$1 million to \$6.8 million as projected in inappropriate housing assistance payments to be made.

HACH agrees that preventing inappropriate use of housing assistance funds is a priority for this institution; however, the draft Audit Report as presented convey the wrong impression. The dollar computations are projections.

Comment 6

Conclusion

The Housing Choice Voucher program administered by HACH is one of the largest in the country and serves approximately 15,000 households. HACH as custodian of the taxpayers' funds is very diligent in prosecuting its charge of serving eligible clients daily. In certain cases, HACH must exercise appropriate judgment in making immediate decisions that are ultimately in the best interests of the program, the clients and the taxpayers. While HACH will in no measure intentionally violate regulatory requirements, we must however exercise good business judgment and reasonable compassion for the clients served. It is important to note that HACH is continuing to deal with changes in regulations, the ever-increasing population, and socio-economic status of our existing clients and those waiting to be housed.

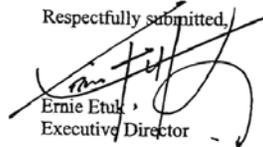
HACH relied to a reasonable extent on the Contractor to perform its contractual duties consistent with the performance standards established in the contract. HACH could not micro-manage the Contractor nor interfere in day-to-day activities. As in most professional arrangements of similar nature, we exercise due diligence, monitoring, and guidance on a consistent basis.

For the foregoing reasons, HACH respectfully requests that the final Audit Report be revised to reflect improvements made to the program and with the comments presented herein.

Regional Inspector General for Audit
July 18, 2005
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Please feel free to contact me at (713) 260-0522 if you have any questions or require any additional information. Thank you again for providing us with this opportunity to comment prior to preparation of the final Audit Report.

Respectfully submitted,



Ernie Etuk
Executive Director

cc: HACH Board of Commissioners

Attachments

Schedule A – Abatements, cancellations and terminations since January 15, 2005

A Fair Housing & Equal Employment Opportunity Agency

EXHIBIT A

Abatements, cancellations and terminations since January 15, 2005

The following statistics (through July 15, 2005) refer to work completed by the HACH Section 8 Department related to the abatement of rent to owners and termination of assistance to clients for failure to maintain units within the prescribed Housing Quality Standards as established by HUD:

Units that have failed HOS a total of 3 times:	702
Owner Fails	446
Tenant Fails	43
Fail Both	64
Fail/No Entry	149
Total dollars abated from HAP:	\$105,120.00
Cancelled Contracts – Owners	448
Termination of Assistance/Clients	106

OIG Evaluation of Auditee Comments

- Comment 1** Although the Authority is correct in asserting their Section 8 Housing Choice Voucher Program was operated by the Contractor for most of the period under audit, the Authority was and is ultimately responsible to HUD for proper operation of its program. The Authority admits two of the eight cases occurred while it was assuming management of its program. Thus, if the Authority does not correct its policies, procedures and practices, the Authority will continue to have cases where it is not complying with its abatement and termination policies and procedures.
- Comment 2** We disagree that the report overstated the potential downside to retaining some of the Contractor's personnel. The report merely stated that similar problems could continue to occur since the Contractor's staff are now employees of the Authority. If the Authority does not take action, its staff, who used to be Contractor staff, will continue to operate as they have in the past, including ignoring existing policies and procedures.
- Comment 3** We appreciate that the Authority agrees they deviated from their practices, but we disagree that only one case was an exception and we do not agree that the problems identified were merely procedural. At the exit conference, we informed the Authority that for four of the ten tenants, its policies and procedures required that the tenant either be terminated or relocated or the unit should not have been admitted to the program. Further, our report indicates in one case being sensitive to the needs of the tenant did not in fact help the tenant as the tenant had to relocate from a substandard unit that should not have been admitted to the program.
- Comment 4** We appreciate that the Authority will clarify its written procedures. We also agree that the Authority can allow itself discretion in dealing with abatement and termination issues. However, its policies should clearly define when and how such discretion can be used and such cases should be clearly documented. We should point out that the Authority's response to the third bullet omits that the Authority's Administrative Plan currently states, "Units will be re-inspected once." Thus, if the Authority wishes to perform more inspections, it will need to delete this statement from its Administrative Plan.
- Comment 5** We commend the Authority for taking steps to improve its abatements and terminations.
- Comment 6** We disagree that the report conveys the wrong impression concerning the \$1 million to \$6.9 million in projected inappropriate housing assistance payments. The report clearly identifies the funds as future amounts because they are a statistical projection of what the Authority will expend in inappropriate Section 8 assistance if it does not improve its abatement and termination policies and procedures.