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Audit Report Number 2006-SE-1002

TO: Harlan Stewart, Director, Region X Office of Public Housing, OAPH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: Northeast Washington Housing Solutions, Spokane, Washington, Improperly Administered Housing Choice Vouchers

HIGHLIGHTS

What We Audited and Why

As part of the Office of Inspector General's annual plan, we reviewed the Northeast Washington Housing Solutions' (authority) Section 8 program to determine whether it properly verified tenant eligibility, correctly paid housing assistance, adequately maintained housing quality standards, properly managed its portability program, and accurately reported its Section 8 Management Assessment Program scores. We also assessed a complaint concerning certain expenses the authority paid with its Section 8 administrative fee.

What We Found

The authority made housing assistance payments, maintained housing quality standards, and managed tenant portability in accordance with U.S. Department of Housing and Urban Development (HUD) requirements. However, an anomaly in the authority's admittance process allowed 154 families to receive housing assistance in 2005 without the required verification that those families were eligible for the program. The authority also did not correctly report its fiscal year 2005 Section 8 Management Assessment Program score to HUD. In addition, the

authority does not have adequate documentation to support some staff salaries charged to the Section 8 administrative fee.

What We Recommend

We recommend that the director, Region X, Office of Public Housing require the authority to determine the eligibility of the 154 families and for those found to be ineligible, reimburse the Section 8 fund from nonfederal funds the amount of housing assistance paid on behalf of those families, repay at least \$14,725 in Section 8 administrative fees, and develop a process to ensure the accuracy of its Section 8 Management Assessment Program scores. We also recommend that the Office of Public Housing require the authority to develop a cost allocation plan for indirect salary allocations.

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 provided the authority a draft report on February 8, 2006, and held an exit conference on February 14, 2006. The authority provided written comments on February 23, 2006. The authority generally agreed with our report; therefore, we did not have any comments responding to its reply. The complete text of the authority's comments can be found in appendix B. We appreciate the authority's cooperation during the audit.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Properly Administer 154 Housing Choice Vouchers	5
Finding 2: The Authority Incorrectly Reported Its Fiscal Year 2005 Section 8 Management Assessment Program Score for the Determination of Adjusted Income	7
Finding 3: The Authority Did Not Have Adequate Support for Some Indirect Costs	9
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	13
B. Auditee Comments	14

BACKGROUND AND OBJECTIVES

Northeast Washington Housing Solutions

The Spokane City Council created the Spokane Housing Authority in 1971 to increase safe, affordable housing and provide opportunities to persons experiencing barriers to housing. In 2005, the Spokane Housing Authority changed its name to Northeast Washington Housing Solutions (authority). The authority provides housing assistance to more than 4,000 families in eastern Washington through a combination of tenant-based rental assistance and authority-owned units. The authority administers a Housing Choice Voucher program; operates a low-rent public housing program; and has a HOME program; a Housing Opportunities for People with Aids Program; and single-room occupancy units.

Section 8 Housing Choice Voucher Program

The Housing Choice Voucher program is the federal government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets program requirements. Public housing agencies administer the U.S. Department of Housing and Urban Development (HUD)-funded housing choice vouchers that pay a housing subsidy directly to the landlord on behalf of the participating family. Public housing agencies determine family eligibility based on income and family size and determine the amount of tenant subsidy. Annually, the agency verifies family income and composition and ensures the unit meets minimum housing quality standards.

Our objective was to determine whether the authority operates its tenant-based (Housing Choice Voucher) Section 8 program in accordance with HUD requirements. We wanted to determine whether the authority

1. Assisted only eligible families,
2. Calculated and paid tenant subsidies accurately,
3. Maintained HUD housing quality standards,
4. Managed its portability program in accordance with HUD requirements, and
5. Carried out its Section 8 Management Assessment Program in accordance with regulations.

We also assessed the validity of a complaint about how the authority spent its Section 8 administrative fee.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Properly Administer 154 Housing Choice Vouchers

The authority admitted 154 families into the Housing Choice Voucher program without verifying the applicants met HUD income eligibility requirements. This happened because the authority did not adequately implement a change in its verification of eligibility policy. As a result, the authority paid \$445,594 in housing assistance payments during 2005 without the required verification that the families were eligible for assistance, and HUD paid the authority \$58,898 in administrative fees for families who were not admitted in accordance with program requirements.

Third-Party Verifications Were Not Always Performed

HUD requires that the authority admit only eligible families to the housing choice voucher program. To be eligible, the applicant must be a family, must be income eligible, and must be a citizen. In addition, the authority must deny admission to an applicant who has been involved in certain criminal activity. To determine income eligibility and to ensure the correct amount of housing assistance payments are paid on behalf of the family, HUD requires that the authority obtain third-party verifications of tenant income. If such third-party income verifications are not performed, the authority must document why the third-party verification is not available. HUD pays the authority an administrative fee to operate the program in accordance with program regulations and may reduce or offset the administrative fee if the authority fails to perform its administrative responsibilities under the program.

In October 2004, the authority tried to remedy a condition that was preventing timely lease-up of housing choice vouchers. It reported that families with housing choice vouchers found units to rent, but the delay in receiving third-party income verifications prevented the families from moving into the units. As a result of these delays, the authority reported some landlords complained about holding the units while the authority waited for the third-party verifications, and some families said they were concerned about losing their deposits.

To get the families into the units, the authority instituted a policy whereby authority staff would make temporary income eligibility decisions based on

family self-certification while waiting for the third-party verifications. When the third-party verifications arrived, the authority would make any necessary adjustments. However, due to a misunderstanding, some authority staff and the supervisors who reviewed their work believed the policy meant that third-party verifications were not required.

The authority admitted families into the Housing Choice Voucher program without properly verifying their eligibility because it did not adequately implement its policy to facilitate lease up. Authority management did not provide specific instructions for implementing the policy and did not follow up on its execution.

As a result, the authority made housing assistance payments of \$445,594 without the required verification that the families were eligible for assistance. In admitting the 154 families to the housing choice voucher program, the authority did not meet one of the four HUD requirements for determining family eligibility and we therefore are questioning, as a minimum, \$14,725 (25 percent) of the \$58,898 that HUD paid the authority to administer these vouchers during the period when the families' eligibility was unknown.

As corrective action, the authority has started an independent review to determine which families do not meet third-party verification requirements. For families not meeting these requirements, the authority will determine whether the housing assistance payments made on behalf of those families were accurate. Also, the authority has implemented a policy requiring any change or modification to an established procedure to have prior written approval of authority management.

Recommendations

We recommend that the director, Region X, Office of Public Housing

- 1A. Require the authority to determine the eligibility of the 154 families and for those families found to be ineligible, reimburse that portion of the \$445,594 in ineligible housing assistance payments from nonfederal funds.
- 1B. Require the authority to repay a minimum of \$14,725 in administrative fees in accordance with HUD regulations. Evaluate the authority's response and determine if additional repayment is warranted.
- 1C. Review the adequacy of the authority's corrective action.

Finding 2: The Authority Incorrectly Reported Its Fiscal Year 2005 Section 8 Management Assessment Program Score for the Determination of Adjusted Income

The authority's reported 93 percent accuracy rate for determining the adjusted income of housing choice voucher families was overstated by at least 10 percent. This difference occurred because the authority did not have a formal process for calculating, reviewing, and approving its Section 8 Management Assessment Program score. As a result, HUD cannot rely on the authority's certification that it verifies and correctly determines the adjusted annual income for each assisted family. Also, the authority's management and board of commissioners do not have reliable information needed to identify and correct program weaknesses in the area of adjusted income determination.

The Section 8 Management Assessment Program Should Measure Program Performance

Under the Section 8 Management Assessment Program, HUD sets performance standards for key areas of Section 8 program management to measure whether a housing authority administers its Section 8 program properly and effectively. To measure their performance in the key areas, housing authorities must determine whether the documented work in those areas conforms to program requirements by selecting and reviewing a quality control sample.¹ Housing authorities then compare the results of their quality control sample reviews to the performance standards, assign the appropriate number of points, and certify the results to HUD. HUD uses the results to identify housing authority management capabilities and deficiencies, and housing authorities can use the Section 8 Management Assessment Program to assess and improve their own program operations.

The key area of determination of adjusted income shows whether a housing authority correctly determines the assisted family's adjusted annual income using third-party verification of reported family income or documents why the third-party verification is not available.

For the fiscal year 2005 Section 8 Management Assessment Program report, the authority selected a sample of 50 tenant files and reviewed 43 to determine whether it met HUD requirements for determining the adjusted income of assisted families. Of the 43 files reviewed, the authority reported three files with errors, for an accuracy rate of 93 percent, resulting in a score of 20 points for the area. Although HUD regulations require that the authority's methodology for selecting

¹ The minimum sample size for the determination of adjusted income area is based on the number of families assisted. The authority's minimum sample for this area is 39.

the sample leave a clear audit trail, authority records are unclear as to which 43 of the 50 files it used to determine its score.

We reviewed 11 tenant files that the authority's sample paperwork lists as not having either the correct income calculation or the third-party verification or documentation of why the verification was not available. We found five files with incorrect income calculations and one without the third-party verification or documentation of why the verification was not available. We also compared the sample of 50 files to the families discussed in finding 1 and found three additional files that had no third-party verification or documentation of why the verification was not available. To be conservative, we calculated the authority's score for this area using the entire sample of 50, giving an accuracy rate of 82 percent and resulting in 15 points for this performance standard.

Conclusion

The authority's accuracy rate for determining the adjusted income of housing choice voucher families was overstated because it did not have a formal process for calculating, reviewing, and approving Section 8 Management Assessment Program results. As a result, HUD cannot rely on the authority's certification that it verifies and correctly determines the adjusted annual income for each assisted family. Also, the authority's management and board of commissioners do not have the reliable information needed to identify and correct program weaknesses in this area (see finding 1).

The authority has now implemented a formal process for reporting its Section 8 Management Assessment Program score that, if followed, will ensure the accuracy of the results.

Recommendations

We recommend that the director, Region X, Office of Public Housing

- 2A. Perform an on-site verification of the authority's fiscal year 2006 Section 8 Management Assessment Program score to ensure its new process is effective.
- 2B. Review the adequacy of the authority's corrective action.

Finding 3: The Authority Did Not Have Adequate Support for Some Indirect Costs

The authority could not support indirect salary charges to its Section 8 administrative fee because it does not have an adequate allocation plan for its indirect costs. As a result, it could not provide reasonable assurance of how much of the more than \$512,000 in indirect salary and benefit expenses, paid from the Section 8 administrative fee, benefited the Section 8 program.

The Authority Had No Statistical Basis for Its Salary Allocation

HUD requires that the Section 8 administrative fee be spent only for activities related to the provision of Section 8 assistance, including related development activities. The authority's cost policy statement and allocation plan describes how it allocates indirect costs such as salaries and wages, fringe benefits, travel and training, and general corporate overhead. The plan lists the staff who charge some or all of their salary costs indirectly and states these indirect salary costs are charged based on the estimated average time spent on each program. Benefits are charged at the same percentage as the respective salaries. These estimated times were unsupported by statistical data.

Without documentation to substantiate its indirect salary allocation, the authority could not provide HUD reasonable assurance of how much of the more than \$512,000 in indirect salary and benefit expenses benefited the Section 8 program.

Recommendations

We recommend that the director, Region X, Office of Public Housing

- 3A. Require the authority to prepare and submit a revised cost policy statement and allocation plan that includes a reasonable basis for allocating indirect salaries and benefits. We also recommend you require the authority to update the policy as necessary.

SCOPE AND METHODOLOGY

Our review of the authority's Housing Choice Voucher program covered July 1, 2004, to June 30, 2005 (fiscal year 2005) and we determined the questioned costs through December 2005. We conducted the audit from September through December 2005 at the authority's offices in Spokane, Washington.

To accomplish our objectives, we reviewed authority records and tenant files and interviewed authority staff, HUD program staff, and housing choice voucher holders. We also performed housing quality standards inspections on authority housing choice voucher units.

We used 100 percent sampling to determine the number of months the authority made housing assistance payments on behalf of families whose eligibility was unknown. We reviewed each of these 321 tenant files to determine when the authority admitted each family into the program and when it determined the family's eligibility. We used this information as the number of months in our determination of the amount of Section 8 administrative fee we are questioning.

To determine whether the authority accurately reported its determination of adjusted income score, we reviewed tenant files that the authority noted that did not meet Section 8 Management Assessment Program requirements. We also compared the families in the quality control sample to our list of families for which the authority did not get the required third-party income verifications or did not have documentation of why the verification was not available.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources are used consistent with laws and regulations. This includes the Section 8 administrative fee that is the subject of the complaint assessment portion of the audit.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The authority did not have an internal control process for implementing a change to its normal admittance process that ensured HUD requirements were met (finding 1).
- The authority did not have an internal control process for calculating, reviewing, and approving its Section 8 Management Assessment Program scores (finding 2).
- The authority did not have an internal control process that ensured adequate documentation to support Section 8 administrative fee expenses (finding 3).

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>
1A		\$445,594
1B		\$14,725

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments



Northeast
Washington
**Housing
Solutions**

Spokane Housing Authority DBA Northeast Washington Housing Solutions

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February 22, 2006

Mr. Ross Franklin, Staff Auditor
Office of Inspector General for Audit
U.S. Department of Housing and Urban Development
909 First Avenue, Suite 125
Seattle, WA 98104-1000

Re: IG Draft Audit Report – Northeast Washington Housing Solutions' Housing Choice Voucher Program

Dear Mr. Franklin:

The Spokane Housing Authority dba Northeast Washington Housing Solutions (NEWHS) has received the draft audit report from the HUD Inspector General's Office. This report summarizes the results of the recent audit by the Office of Inspector General (IG) of NEWHS' Housing Choice Voucher Program. In the Highlights portion of the Audit Report, the IG reports that NEWHS "made its housing assistance payments, maintained housing quality standards, and managed tenant portability in accordance with U.S. Department of Housing and Urban Development (HUD) requirements." However, there were three issues that came to light in the audit about which NEWHS would like to comment.

Finding 1: The Authority Did Not Properly Administer 154 Housing Choice Vouchers

The draft audit report states that NEWHS "admitted 154 families into the Housing Choice Voucher program without verifying the applicants met HUD income eligibility requirements." This refers to the HUD requirement that an authority obtain third-party verifications of tenant income in order to determine income eligibility and to ensure the correct amount of housing assistance payments are paid on behalf of the family.

NEWHS agrees that 154 families were admitted to the Housing Choice Voucher Program without the required front-end third-party verification of their income. NEWHS was experiencing delays in receiving the third-party verifications and, in order to assist the families, management instituted a policy whereby temporary income eligibility decisions could be made by NEWHS staff based on the families' self-certification of income. These temporary eligibility decisions were to be adjusted as soon as the third-party verifications were received. However, due to management's not making the change in procedure clear to all staff, some NEWHS staff thought that the third-party income verifications were no longer required. NEWHS management admits full responsibility for not making its change of procedures more clear to all staff. The intended objectives were to serve more eligible families in a more timely fashion, while complying with clearly established HUD regulations.

As a corrective action, NEWHS management is conducting a review to determine which of the 154 families does not meet third-party verification requirements. NEWHS will determine whether the housing assistance payments made on behalf of those families were accurate. In addition, NEWHS has implemented a policy requiring any change or modification to an established procedure to have prior written approval of the authority's executive director before implementing the change.

AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments

The IG recommends that NEWHS determine the eligibility of the 154 families and reimburse their portion of housing assistance payments from nonfederal funds if found ineligible. NEWHS agrees with this recommendation and feels that all 154 families will subsequently be found income eligible for the Housing Choice Voucher Program after the above-mentioned review is completed.

The IG also recommends that \$14,725 in administrative fees be repaid. NEWHS agrees that the procedures for third-party income verification need improvement, and we accept responsibility for not making the change in procedure better understood by staff and supervisors. However, in working through the resolution of Finding 1 with the Director of Region X Office of Public Housing, we request that mitigation of this amount be considered.

Finding 2: The Authority Incorrectly Reported Its Fiscal Year 2005 Section 8 Management Assessment Program Score for the Determination of Adjusted Income

The draft audit report states that NEWHS did not have a formal process for calculating, reviewing, and approving its Section 8 Management Assessment Program (SEMAP) score. As a result, the "reported 93% accuracy rate for determining the adjusted income of housing choice voucher families was overstated by at least 10 percent." They also stated that NEWHS management and board "do not have reliable information needed to identify and correct program weaknesses in the area of adjusted income determination."

NEWHS concurs that there were errors made in the preparation of the 2005 SEMAP score. We have now implemented a formal process for calculating and reporting the SEMAP score, which will be in turn reviewed by the Board of Commissioners and approved by resolution. This should ensure the accuracy of the SEMAP results in the future.

Finding 3: The Authority Did Not Have Adequate Support for Some Indirect Costs

The draft report states that NEWHS "could not support indirect salary charges to its Section 8 administrative fee because it does not have an adequate allocation plan for its indirect costs."

NEWHS agrees that the method by which it charges its indirect salaries to the Section 8 Program needs to be supportable by documentation. As a result, NEWHS will be working with the Director of Region X Office of Public Housing (HUD) to prepare an approved cost policy statement and indirect cost allocation plan that meets the requirements of HUD.

In summary, NEWHS generally concurs with the deficiencies noted in the findings of the IG and agrees to work with the Director of Region X Office of Public Housing to alleviate those deficiencies. We appreciate all the work done by your staff and look forward to the opportunity to improve our operations as a result.

Sincerely,



Merrill Wallace
Interim Executive Director