



Issue Date: June 19, 2006

Audit Report Number: 2006-AT-1011

TO: Michael A. Williams, Director, Office of Public Housing, 4FPH

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

SUBJECT: The Housing Authority of the City of Raleigh, North Carolina,
Generally Administered Its Housing Choice Voucher Program in Accordance
with Requirements

HIGHLIGHTS

What We Audited and Why

We reviewed the Section 8 Housing Choice Voucher program of the Housing Authority of the City of Raleigh, North Carolina (Authority), pursuant to a citizen's complaint. The complainant alleged that the Authority mismanaged its Section 8 program by incorrectly determining tenant rent and unit sizes and not leasing or inspecting units in a timely manner. Our objective was to determine whether the complainant's allegations were valid and whether the Authority effectively administered its Section 8 program.

What We Found

The Authority generally administered its Section 8 Housing Choice Voucher program in accordance with requirements; however, it did not always terminate housing assistance payments in a timely manner, paid excess housing assistance payments of more than \$7,000; did not conduct all required quality control

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reviews; and did not properly update some information in the Public and Indian Housing Information Center, a management information system used by the U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing, which resulted in inaccurate data.

What We Recommend

We recommend that the director of the Office of Public Housing, Greensboro, North Carolina, require the Authority to

- Obtain the balance remaining on the \$7,012 in housing assistance overpayments and properly account for the funds as part of its year-end settlement,
- Perform quarterly quality control reviews in accordance with HUD requirements and the Authority's policies and procedures, and
- Verify tenant data in the management information system upon each family's recertification and include spot checks of data during its quality control reviews.

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

Auditee's Response

We discussed the finding with Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials on May 18, 2006, for their comments and discussed the report with the officials at the exit conference on May 31, 2006. At the exit conference, we agreed to make revisions to the draft report based on discussions with the Authority. The Authority provided its written comments to our draft report on June 6, 2006. The Authority generally agreed with the finding based on the agreed upon changes.

The complete text of the auditee's response, along with our evaluation of the response and our revisions to the draft report, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Raleigh, North Carolina (Authority), was incorporated in 1938 pursuant to the North Carolina Housing Authorities Law. The Authority's primary objective is to provide safe, quality, affordable housing to low- and moderate-income families in the Raleigh community and promote personal responsibility and self-sufficiency of residents while maintaining the fiscal integrity of the agency. The Authority administers 3,468 housing choice vouchers.

The Authority's total 2005 housing assistance payment and administrative fee renewal funding was more than \$29 million. A seven-member board of commissioners governs the Authority.

We initiated the audit based on a citizen's complaint to our hotline. Our objectives were to determine whether the complainant's allegations were substantiated and whether the Authority effectively administered its Section 8 program.

RESULTS OF AUDIT

Finding 1: Some Areas of the Authority's Section 8 Housing Choice Voucher Program Need Improvement

The Authority generally administered its Section 8 Housing Choice Voucher program in accordance with HUD requirements; however, it did not always terminate housing assistance payments in a timely manner, conduct all required quality control reviews, or properly update certain information in the Public and Indian Housing Information Center, a management information system used by HUD's Office of Public and Indian Housing. As a result, the Authority overpaid more than \$7,000 in housing assistance payments, delayed tenants' acquisition of housing, and provided inaccurate data to HUD. These conditions occurred primarily due to the Authority's failure to implement adequate procedures and its failure to follow prescribed and suggested procedures.

The Authority Did Not Always Terminate Housing Assistance Payments in a Timely Manner

HUD requirements and the Authority's policies require that housing assistance payments be made only during the lease term and when the family is residing in the unit. The Authority's policy required owners to notify it if units were vacated before the lease expired so the Authority could discontinue housing assistance payments in a timely manner.

While the Authority's policy was adequate, the Authority did not always follow its prescribed procedures. For example, the complainant notified the Authority in August 2005 that tenants had moved out of one of her units. However, the Authority continued to pay the housing assistance payments through November 2005, resulting in overpayments of \$2,847. The Authority has requested repayment, but the complainant disputes the amount owed. The Authority should recover the \$2,847, or other agreed upon amount from the complainant.

The complainant also provided documentation to us indicating that although she advised the Authority in August 2005 that another of her units was vacated, the Authority continued to make assistance payments through November 2005, resulting in over payments of \$3,384. The Authority claimed it was not aware the unit was vacated until it received notification from HUD in November 2005, at which time it terminated the assistance payments. We were unable to find any record of the complainant's notification in the Authority's files. The Authority and complainant have executed a repayment agreement requiring the complainant to repay \$3,384 for this unit.

We reviewed a statistical sample of 18 of the 222 vouchers that were terminated from January 1 through September 1, 2005. The Authority did not terminate assistance payments in a timely manner for two of the terminated vouchers. Although the lease contract ended for these two units without renewal, in violation of its policy, the Authority continued to make housing assistance payments, resulting in overpayments of \$781. In its response to this report, the Authority claimed it had received repayment of \$245. We were not provided documentation of the repayment, thus the Authority should provide the documentation to the director of the Office of Public Housing. Projecting the results of the statistical sample indicates the Authority may not have terminated housing assistance payments in a timely manner for 24 of the 222 terminated vouchers.

The Authority Did Not Always Perform Quality Control Reviews

The Housing Choice Voucher Handbook, chapters 9 and 10, and the Authority's policies and procedures require quality control reviews of tenant files at least quarterly. The quality control reviews are a part of the Authority's management controls that are designed to provide reasonable assurance that its operations are effective and efficient and that it complies with applicable laws and regulations.

The Authority did not provide evidence that it performed quarterly quality control reviews of tenant files. It had not performed any reviews since February 2005. The Section 8 director informed us that the former director, who passed away in September 2005, had done the quality control reviews. The official stated that the Authority did not have any other staff familiar with the quality control process; therefore, it had not performed the required reviews.

Failure to perform quality control reviews increases the risk that errors, fraud, waste, and abuse could go undetected.

The Authority Did Not Always Maintain Accurate Data

Housing authorities are required by 24 CFR [*Code of Federal Regulations*] 908.101 to electronically submit information to HUD. The Public and Indian Housing Information System is a HUD management information system designed to contain complete, consistent, and accurate data that allow users to make informed decisions regarding critical business activities. HUD also uses this information to assess an authority's ability to accurately, thoroughly, and clearly determine housing assistance payments, conduct recertifications in a timely

manner, and place residents in the correct size units within the required time limits.

Notice PIH 2005-17 requires housing authorities to submit accurate records with no fatal edits (edits that cause the system to reject records to maintain the integrity of the data) for HUD to consider the records successfully submitted. It further states that it is essential that the data be current, complete, and accurate. If a family has a composition or status change after its annual recertification, housing authorities should update the family's information in its management information system on or before of the family's next annual recertification. The Authority did not always update the data in a timely manner, thus the data was not always accurate.

We reviewed the Authority's data to determine whether tenants were housed in units with the appropriate number of bedrooms. According to the data, 564 families appeared to be overhoused. Our review of a statistical sample of 15 files for the 564 families showed that either the families had changes in their family composition, were approved for larger units based on special needs, or were paying any additional rent amounts to occupy the larger units. Thus, the tenants appeared to be overhoused when they were not. Twelve of these families had changes after their last recertification; thus, the Authority was not required to update the data until the next annual recertification. However, even though the Authority had performed recertifications for the remaining three families since their changes occurred, it did not update the data. Projecting the results of the statistical sample indicates the Authority may not have updated the data for 113 of the 564 families.

We also reviewed the Authority's data to determine whether the rental rates were correct based on the number of bedrooms. The data indicated that rental rates for 469 units were above the allowed rates for the area. Our review of a statistical sample of 15 tenant files showed that 11 of the units were originally leased at or below acceptable rent rates. After the original lease expired, either the family composition or the contract rent changed. In all 11 instances, the tenants opted to pay any additional rent themselves rather than move to another unit. Thus, the housing assistance payments made by the Authority were appropriate. For the other four units, the tenants had moved when their family composition changed, and the housing assistance payments and rents were correctly based on the new units. However, the Authority had not updated its data. Thus, the rents appeared to be excessive when they were not. Projecting the results of the sample indicates that the rents in HUD's management information system may be incorrect for 125 of the 469 families.

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Recommendations

We recommend that the director of the Office of Public Housing require the Authority to

- 1A. Obtain the balance remaining on the \$7,012 in housing assistance overpayments and properly account for the funds as part of its year-end settlement on form HUD-52681 (Voucher for Payment of Annual Contributions and Operating Statement).
- 1B. Perform quarterly quality control reviews in accordance with HUD requirements and the Authority's policies and procedures, and
- 1C. Verify tenant data in the management information system upon each family's recertification and include spot checks of data during its quality control reviews.

SCOPE AND METHODOLOGY

Our objective was to determine whether the complainant's allegations were valid and whether the Authority effectively administered its Section 8 program. The Authority is currently the defendant in an ongoing class action suit in which current and former Section 8 tenants are the plaintiffs. We eliminated the plaintiffs' tenant files from our review.

To accomplish our objectives, we

- Interviewed HUD program staff and reviewed their monitoring reports,
- Interviewed Authority management and staff,
- Reviewed minutes of board meetings,
- Reviewed the Authority's controls related to the administration of its Section 8 Housing Choice Voucher program,
- Performed various random and statistical tests, and
- Conducted other interviews and reviewed other documents as necessary.

We used a statistical software program to select samples for various tests of the 3,468 units from the HUD management information system data as of February 2, 2006. For each of the statistical sample selections, we used an 80 percent confidence rate, a 14 percent expected error rate, and a 10 percent precision rate.

Our review of a statistical sample of 18 of the 222 vouchers that were terminated from January 1 through September 1, 2005, showed that the Authority did not terminate assistance payments in a timely manner for two of the terminated vouchers. Projecting the results of the statistical sample indicates the Authority may not have terminated housing assistance payments in a timely manner for 24 of the 222 terminated vouchers.

We reviewed a statistical sample of 15 files for the 564 families who appeared to be overhoused according to the HUD data. The review showed the Authority did not update information for three of the families, or 20 percent of the sample. Projecting the results of the statistical sample indicates the Authority may not have updated data for 113 of the 564 families.

We reviewed a statistical sample of 15 files for the 469 units for which the rents appeared to be above the allowed rates. The review showed the Authority did not update data for four units. Projecting the results of the sample indicates that the rents in HUD's management information system may be incorrect for 125 of the 469 families.

We conducted our fieldwork from January through March 2006 at the Authority's offices in Raleigh, North Carolina. Our audit period was from January 1, 2004, through January 31, 2006. We expanded our audit period as needed to accomplish our objectives. We conducted the audit in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary under the circumstances.

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:

- Controls over the validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we do not believe the Authority has a significant weakness. However, we believe the Authority could improve some procedures.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation</u>	<u>Ineligible 1/</u>
1A	\$ 7,012
Total	<u>\$7,012</u>


1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments


raleigh
HOUSING
authority

Steve Beam, Executive Director

June 6, 2006


Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region 4
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay,

Enclosed is our response to the Office of Inspector General audit of the Raleigh Housing Authority. A copy of this response was emailed to Gerald Kirkland and R.J. Dawson on June 6, 2006, as previously agreed.

Please feel free to contact me at (919) 508-1301 if you have questions.

Sincerely,



Steve Beam
Executive Director
Raleigh Housing Authority

Striving
to be **THE BEST** Tel 919.831.8300 Fax 831.6160 PO Box 28007 900 Haynes St. Raleigh, NC 27611

Comment 1

RHA's Response

The Housing Authority of the City of Raleigh ("RHA") appreciates this opportunity to respond to the draft audit report received by RHA on May 19, 2006. As the audit is subject to change after the deadlines for our comments are due, RHA will quote the audit as it exists in the draft made available to us. There is one finding in the audit and the finding is comprised of three comments.

Comment #1. The draft review states, "*The complainant also provided documentation to us indicating that although she advised the Authority in August 2005 that another of her units was vacated, the Authority continued to make assistance payments through November 2005, resulting in over payments of \$3,384. The Authority claimed it was not aware the unit was vacated until it received notification from HUD in November of 2005, at which time it terminated the assistance payments. We were unable to find any record of the complainant's notification in the Authority's files. The Authority and complainant have executed a repayment agreement requiring the complainant to repay \$3,384 for this unit.*"

There is no evidence that RHA received the notice to vacate on one of the units in question which accounts for \$3,384 of the \$6,744 to be reimbursed to RHA. The complainant who initiated the audit is one of 1300 landlords on RHA's 3500-unit Voucher Program, who stated to representatives from RHA, the Department of Housing & Urban Development ("HUD"), and the Office of Inspector General for Audit ("OIG") that she knew she had not earned the money yet had no intentions of returning it to RHA. Only after RHA, HUD, and OIG informed her that the regulations required repayment was the complainant landlord willing to repay that amount.

There was a perceived financial benefit accruing to the complainant landlord in her alleging that she did provide the notice. Her argument was that since she provided the notice, she did not have to repay unearned funds received after the notice. Unlike with the complainant landlord, there is no financial benefit to RHA – real or perceived – in stating it did not receive the notice.

RHA concurs that the entire amount of \$6,231 is due back from the complainant landlord. The complainant landlord has repaid \$3,384 and RHA has properly accounted for the money with HUD. However, despite being told by the same authorities (RHA, HUD, and OIG) that the remaining \$2,847 must be repaid as well, the complainant landlord offered \$21 in April of 2006 as full settlement. RHA returned the check. If the complainant landlord continues to keep funds that do not belong to her, RHA will deduct the amount from other monies due her. RHA will credit the collected funds to HUD's Undesignated Fund Balance Account for Unused HAP as required by Notice 2006-3 dated January 11, 2006 and made retroactive to January 1, 2005.

RHA also concurs that \$513 is due back from two other landlords. One for \$245 has already been repaid. The other is in the process of being collected.

Comment #2. The draft report states: "*The Authority did not always perform quality control reviews.*" RHA does not contest this comment as it appears in the draft report. However, the full response provided to the auditors during the audit is included here to supplement the text of the comment.

As required by both HUD handbooks and RHA's policies, RHA had performed quarterly quality control reviews for over twenty years with the last one being done for the quarter ended March 31, 2005. There were three quarters in 2006 for which the reviews were not performed. During these nine months:

- o The Department Director who conducted the reviews was in and out of the hospital and the office before unexpectedly dying in September of 2005.

Comment 2

- Almost 500 families were evacuated to Raleigh as a result of Hurricane Katrina. RHA put aside other work for several months at HUD's request to work with providing housing to the evacuees on an emergency basis.
- RHA was involved in a massive lease-up effort during which it housed over 800 families in nine months, reducing its waiting list of 10,000 by 60%.
- Starting in September of 2005, Legal Aid attorneys reviewed active and inactive Section 8 recipient files on site for four months in an attempt to mount a class-action suit against RHA for recapturing excess payments made to program participants who failed to report their income. RHA had to produce 700 Section 8 tenant files for litigation being encouraged and sponsored by complainant landlord.
- RHA received 15 audits/reviews in 15 months.
- HUD changed the funding year, funding rules, and the funding mechanism for the program and applied several of those changes retroactively.

This period was unique in RHA's history. All of the events listed above were beyond the control of RHA. The quality control reviews are currently being performed, and they will continue as required.

Comment 3

Comment #3. The draft report as amended states, "*The Authority did not always update the data in a timely manner, thus the data was not always accurate.*"

RHA does not contest this comment as it appears in the draft report. As the report states, RHA had the correct information in its files, all families sampled were in the proper sized units and paying the correct amounts with the correct subsidies. The data in question refers to HUD's database which is populated by housing authority electronic submissions. Housing authorities are required to submit all information to HUD electronically and to ensure that information is accepted. Due to irregularities in some of RHA's transmissions identified in HUD's electronic validation process, some individual records in the batches were rejected causing HUD's database to have out of date information. It was RHA's responsibility to research and correct any problems that caused the records to be rejected. RHA has established procedures to ensure that individual rejected records are corrected and resubmitted so that HUD has information that is complete, accurate, and up to date.

OIG Evaluation of Auditee Comments

Comment 1

We agree with the Authority that the full amount of the overpayments should be repaid to the Authority and that the Authority should properly account for the funds. As stated in the finding, the total overpayments were \$7,012.

The Authority stated that it concurs that \$513 is due back from two other landlords and that it had received repayment of \$245. Thus, the Authority is implying that a total of \$758 was overpaid to the two landlords. We found that the total was \$781. This is comprised of an overpayment of one months assistance to one landlord of \$245 and overpayment of two months assistance to another landlord totaling \$536. We were not provided evidence that \$245 was repaid. The Authority should provide evidence of all repayments, including any that it had already received, to the director of the Office of Public Housing.

Comment 2

While the Authority may have been faced with difficult challenges, it should not sacrifice control procedures that could increase its risk potential. We believe the Authority recognizes the importance of the quality control reviews and has taken actions to resume its reviews. The director of the Office of Public Housing will make the determination if the actions are adequate to resolve the recommendation.

Comment 3

The director of the Office of Public Housing will determine if the actions taken by the Authority are adequate to resolve the recommendation.