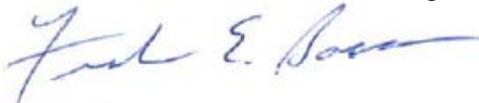




Issue Date	May 9, 2006
Audit Report Number	2006-FW-1009

TO: Justin Ormsby
Director, Office of Public Housing, 6APH

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

SUBJECT: Dallas County Housing Agency, Dallas, Texas, Overhoused Tenants

HIGHLIGHTS

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) annual audit plan, we audited the Dallas County Housing Agency's (Agency) Section 8 program to determine whether the Agency overhoused tenants, computed housing assistance payments correctly, and complied with housing quality standards.

What We Found

The Agency operated its Section 8 program in compliance with HUD requirements. It computed housing assistance payments correctly and had effective controls in place to ensure that it met housing quality standards. However, the Agency overhoused 34 tenants¹ by granting unjustified subsidy size exceptions. Since October 2003, the Agency has unnecessarily paid \$63,311 in housing assistance payments for 23 of these tenants. It may overpay housing subsidies for additional tenants if it does not correct voucher assignments. The

¹ This represented less than 1 percent of the Agency's tenant population.

Agency could avoid future losses of up to \$298,013 by improving its controls over voucher assignments.

What We Recommend

We recommend that you require the Agency to (1) repay ineligible housing assistance overpayments of \$63,311 and (2) improve its procedures to ensure it assigns the correct subsidy size for all tenants to avoid future losses of up to \$298,013.

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 Agency a draft report on April 11, 2006, and held an exit conference on April 17, 2006. Subsequent to the exit conference, we provided additional information to the Agency. We held a telephone conference on April 25, 2006 with the Agency to discuss the individual tenants and came to an agreement on most of the issues. On April 28, 2006, the Agency provided its written response. While the Agency generally agreed with the findings and had taken actions to correct the problems, it disagreed with our conclusion on eight instances involving reasonable accommodations. The complete text of the Agency'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 Dallas County Housing Agency (Agency) is part of the Dallas County Department of Health and Human Services. The Dallas County Health Department was organized in 1919. It went through various reorganizations, finally merging with Dallas County Human Services in 1996 to create the Dallas County Department of Health and Human Services.

The Dallas County Commissioners Court governs the Department of Health and Human Services. Dallas County has four commissioners and a county judge who serve on the court. The county is divided into four districts, and the voters of each district elect a commissioner to serve a four-year term. All voters of the county elect the county judge to a four-year term.

The Agency is managed by an assistant director of housing. Its mission is to provide low- and moderate-income citizens of Dallas County an opportunity to access decent, safe, and sanitary housing at an affordable cost.

The Agency operates the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program. In fiscal year 2005, it received \$23.8 million to administer more than 3,600 Section 8 housing choice vouchers. The Agency maintains its records at 2377 North Stemmons Freeway, Suite 700, Dallas, Texas.

The Agency uses its Section 8 funding to provide housing subsidies in the private market. Participants may choose any housing that meets program requirements. The Agency pays a housing subsidy directly to the landlord on behalf of the participating family; the family pays the difference between the actual rent and the subsidy amount. The Agency determines eligibility based on income and family size in accordance with its administrative plan. It verifies family income and composition annually and ensures the unit meets minimum housing quality standards.

Our audit objective was to determine whether the Agency overhoused tenants, computed housing assistance payments correctly, and complied with housing quality standards.

RESULTS OF AUDIT

Finding: The Agency Overhoused Tenants

The Agency overhoused 34 tenants² by granting unjustified subsidy size exceptions. Since October 2003, the Agency has unnecessarily paid \$63,311 in housing assistance payments for 23 of these tenants. It has the potential to overpay housing subsidies for additional tenants if it does not correct its voucher assignments. The Agency could avoid estimated future losses of up to \$298,013 by improving its controls over voucher assignments.

The Agency Established Subsidy Sizes

HUD requires housing authorities to adopt a written administrative plan that establishes local policies for administration of its Section 8 program. Housing authorities must also establish subsidy size standards that provide for the smallest number of bedrooms needed to house a family without overcrowding.³ The Agency's administrative plan provided that generally two people were expected to share each bedroom. However, it routinely granted exceptions to this standard. During the audit period, only 33 percent of the Agency's tenants were assigned vouchers that met its two-people-per-bedroom standard. As noted in its administrative plan, other than as a reasonable accommodation for someone with a disability, the largest unit size that a family could be offered would provide no more than one bedroom per family member, taking into account family size and composition.

\$63,311 in Housing Assistance Overpayments

During the audit period, the Agency made \$63,311 in ineligible housing assistance payments on behalf of 23 overhoused tenants. The overpayments occurred in the following instances:

² This represented less than 1 percent of the Agency's tenant population.

³ 24 CFR [Code of Federal Regulations] 982.402(b)(1).

Overhousing situation	Number of instances	Total overpayment
Unjustified reasonable accommodation exceptions	8	\$25,894
Overhoused during audit period, but Agency later corrected voucher	5	\$14,865
Error caught by quality control but not corrected	1	\$2,672
Vouchers not corrected when required	8	\$18,264
Payment on behalf of a deceased tenant	1	\$1,616
Totals:	23	\$63,311

Unjustified Reasonable Accommodation Exceptions Were Granted

The Agency granted unjustified exceptions to its subsidy size standard for reasonable accommodations. This included 13 exceptions based on doctors' letters provided by tenants. However, many of the ailments indicated in the letters did not justify an exception to the Agency's subsidy size standard.

Seven of the doctors' letters indicated the tenants might occasionally need someone to spend the night with them. The Agency granted exceptions for these tenants. However, in all but one instance, the caregivers were not documented in the tenant files or on the tenant leases as required.⁴ In the case in which a caregiver was listed on the lease and in the file, the tenant later certified that the caregiver no longer resided in the unit and that he lived alone. However, the Agency allowed the single tenant to remain in a two-bedroom unit. In another instance, the Agency's quality control staff noted the tenant did not have a caregiver on the lease and requested that the Agency correct the voucher. However, the Agency did not do so. The case notes in another file indicated the person that came over occasionally was a boyfriend. An extra bedroom should not be allowed for caregivers who are not on a tenant's lease or to accommodate occasional overnight stays. Further, the Agency was required to screen and approve anyone who would reside in the units. By not verifying the existence of a caregiver and approving them, the Agency risked allowing prohibited individuals to live in the units without its knowledge.

The Agency granted exceptions for four tenants because the doctors' letters indicated an extra bedroom was needed for specific medical equipment. The Agency did not require its inspectors to verify the presence of medical equipment during annual inspections. While we did not question the need for an extra bedroom for these tenants, the Agency should ensure during its annual inspections that the tenant is using the additional bedroom for its intended purposes.

⁴ 24 CFR [Code of Federal Regulations] 982.308(f)(1)(ii).

Although the Agency documented the doctors' letters, it apparently did not determine whether the letters justified granting exceptions to its subsidy size standard. A quality control official acknowledged the problem associated with accepting doctors' letters. However, he explained that dealing with reasonable accommodation requests was a delicate matter.

While HUD regulations required⁵ the Agency to approve a caregiver if needed as a reasonable accommodation, generally there was no indication in the file that a caregiver resided with or otherwise made the program accessible to the tenants. In all but one instance, the Agency did not require the tenant to provide the caregiver's name. Further, the Agency did not verify whether an additional bedroom was used for medical equipment when it granted exceptions for that purpose. These unjustified exceptions resulted in the Agency overpaying \$25,894 in ineligible housing subsidies for eight tenants. The Agency should ensure additional bedrooms are used for their intended purposes. If not, the Agency should reassess the exception and adjust the voucher as appropriate.

The Agency Corrected Some Vouchers

The Agency has quality control staff that reviews tenant files and it requires supervisory approval when granting exceptions to its subsidy size standard. In eight instances during the audit period, the Agency identified tenants that were overhoused and made the corrections effective for the next reexamination date. Although the Agency corrected these vouchers, it paid \$14,865 in overpayments during the audit period for five tenants. In six of the eight instances, the error was a longstanding issue that should have been corrected much earlier.

In one instance, the quality control staff identified an overhoused error shortly after it occurred, but did not require a change until the next reexamination date, which meant the Agency overpaid the housing subsidy for an entire year instead of immediately making the correction. The delay in correcting this error resulted in the Agency overpaying \$2,672 in housing subsidies for this tenant.

⁵ 24 CFR [*Code of Federal Regulations*] 8.28(a)(5).

The Agency Continues to Overhouse Tenants

Based on its minimum standard of one-person-per-bedroom, the Agency overhoused as many as 81 tenants during the audit period. In addition to the overpayments related to reasonable accommodation exceptions, we calculated further overpayments of \$18,264 due to the Agency not correcting housing vouchers when it was required to do so.

Of the 81 tenants, 33 are no longer in the program. However, the Agency overpaid housing subsidies for six of these tenants during the audit period. In one case, the Agency continued to make subsidy payments for four months after a tenant died. The Agency did not discontinue payment upon the tenant's death or recapture the \$1,616 overpayment from the tenant's landlord.

For seven tenants, overhousing did not result in housing subsidy overpayments. This was because the gross rents were less than the correct payment standard. Even though the overhousing did not result in overpayments in these instances, the Agency should correct the vouchers to avoid possible future overpayments.

If the Agency does not correct voucher assignments for all overhoused tenants, it could potentially overpay subsidies in the following situations:

- The tenant currently has a voucher that is too large for the family, but the gross rent is below the correct payment standard. If the rent increases, it could result in excess subsidy payments since the tenant's larger voucher allows for a greater payment standard.
- The tenant currently has a voucher that is too large due to a change in family composition. If the Agency does not change the voucher assignment at an interim or annual recertification, it could pay an excessive subsidy.
- The tenant currently has a voucher that is too large, but is in the correct unit size. If the tenant decided to move to a larger unit since they have a larger voucher, this could increase the subsidy payment to an excessive amount.

Further, if the Agency corrects the voucher assignments for its overhoused tenants, it could avoid additional overpayments of as much as \$298,013 over the next 3.7 years.⁶ This estimate is based on the difference between the actual rent (including utility allowance) the Agency paid on behalf of the overhoused tenants and the average rent paid for a correct subsidy size unit.

⁶ Current monthly overhousing costs of \$6,712 X 3.7 years (average length of time a tenant stays in a unit in a large metropolitan area). See Scope and Methodology section for further explanation.

Conclusion

The Agency generally applied its subsidy size standards in accordance with its administrative plan. However, it overhoused 34 tenants and has the potential to overpay housing subsidies for additional tenants. As a result, it paid \$63,311 in ineligible housing subsidy costs. If it does not correct the voucher assignments for its overhoused tenants, it could overpay an estimated \$298,013 in housing assistance over the next 3.7 years. The Agency could avoid these future losses by improving its controls over assigning vouchers.

Recommendations

We recommend that HUD require the Agency to

- 1A. Repay ineligible housing assistance overpayments of \$63,311.
- 1B. Improve its procedures to ensure all tenant vouchers reflect the appropriate subsidy size for the family composition in accordance with its administrative plan to avoid future losses of up to \$298,013.

SCOPE AND METHODOLOGY

The audit covered the period from October 2003 through December 2005. To accomplish our objectives, we analyzed HUD data and data provided by the Agency. We reviewed the Agency's policies and procedures, tenant files, and audited financial statements. We also reviewed federal regulations and the Agency's administrative and agency plans. We obtained an understanding of the Agency's internal controls and inspected units for compliance with housing quality standards. We performed fieldwork at the Agency's administrative offices in Dallas, Texas, from December 2005 to February 2006.

In the initial phase of our audit, we used data from HUD's Public Housing Information Center to identify potentially overhoused tenants. We validated the data in accordance with professional standards.⁷ The data contained 3,788 tenant records for the Agency during our audit period. We used computer software to compare the Agency's subsidy size standards with the family count and number of bedrooms on the voucher. From the 3,788 tenant records, we identified 81 tenants who appeared to be overhoused based on the Agency's one-person-per-bedroom subsidy size standard. We began the audit with the anticipation of reviewing all 81 files.

During the audit, we adjusted the scope of the review by applying a computer formula to identify which of the 81 tenants appeared to have associated overpayments. We identified 31 tenants who appeared to have associated overpayments. During the audit, we reviewed a total of 45 tenant files to determine whether there was an acceptable justification for issuing vouchers larger than the Agency's administrative plan allowed, and if not, we calculated the amount of subsidy overpayments.

To determine the effect of tenants who continued to be overhoused, we applied a computer formula to the 81 possibly overhoused tenants. We determined that 48 possibly overhoused tenants remained in the program. We removed from the calculations 4 tenants that we determined were not overhoused during the audit period. We continued our calculations based on 44 tenants since those no longer in the program and those with correct voucher assignments had no effect on possible future overpayments. We calculated the difference between the actual amount paid on behalf of each overhoused tenant and the average rent paid for a correct subsidy size unit. We also calculated the difference between the actual utility allowance the Agency paid for overhoused tenants and the average utility allowance it would have paid had the Agency assigned each tenant the correct voucher. Based on these calculations, the Agency has the potential to overpay as much as \$6,712 in monthly housing subsidies. This estimate could result in future cost savings of as much as \$298,013 over 3.7 years, which is the estimated average length of time a tenant stays in a unit in a large metropolitan area.

We conducted the audit in accordance with generally accepted government auditing standards.

⁷ Assessing the Reliability of Computer-Processed Data, GAO-03-273G, October 2002.

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 objective:

- Calculation of housing assistance payments,
- Assignment of voucher size, and
- Compliance with housing quality standards.

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 Weakness

Based on our review, we do not believe a significant weakness exists in the area of assigning voucher sizes. However, we do believe the issue identified was a reportable condition. The Agency could resolve this condition by improving the controls it already has in place.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Funds to be put to better use <u>2/</u>
1A	\$63,311	
1B		\$298,013
Totals	\$63,311	\$298,013

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 polices 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



DALLAS COUNTY
DEPARTMENT OF HEALTH AND HUMAN SERVICES
HOUSING DIVISION



ZACHARY S. THOMPSON
DIRECTOR

April 28, 2006

Mr. Frank E. Baca
Regional Inspector General
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

SUBJECT: Revised Response to OIG Audit Finding – Dallas County Housing Agency

Dear Mr. Baca:

Dallas County Department of Health and Human Services received and reviewed the OIG audit draft report of the Dallas County Housing Agency, overhoused tenants. Dallas County is appreciative of the time committed to this audit and the guidance and assistance provided by your staff for enhancement of our program. We are very pleased the audit found no significant weakness of internal controls and the Agency operates its Section 8 Program in compliance with HUD requirements. The County's responses to the findings stated in the draft report are stated below:

Finding: The Agency overhoused 35 tenants by granting unjustified subsidy size exceptions. Since October 2003, the Agency has unnecessarily paid \$63,454 in housing assistance payments for 24 of these tenants.

Of the 24 files cited with ineligible housing assistance overpayments, 8 instances involved "unjustified reasonable accommodation exceptions" with total overpayment of \$25,894. We reviewed each of the 8 cases in question and determined the Agency to be compliant with the regulations. We disagree with your finding for these 8 cases. In each case the client was elderly and disable or near-elderly and disable, with a physician statement requesting accommodation due to disability issues. In accordance with 24 CFR§110.204, which states:

It shall be unlawful for any person to refuse to make reasonable accommodations in rules, policies, practices, or services, when such accommodations may be necessary to afford a handicapped person equal opportunity to use and enjoy a dwelling unit.

In these cases the Agency provided a reasonable accommodation for the client based on a physician statement of need.

In the case of payment on behalf of a deceased tenant/client with overpayment in the amount of \$1,616 our review of the file revealed the over paid amount was recaptured. The client died mid December. The deceased belongings were removed from the unit in January. The February 2004

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REV C

Comment 1

Comment 2

payment was returned by owner and the March and April payments voided by the County. As all overpayments were recaptured we disagree with your finding for this case.

For the 9 cases where vouchers not corrected when required:

In review of the case where “quality control identified the issue but did not require change until next reexam,” we found the error to be misrepresentation of family composition on the 50058. The case file evidence the family to maintain a composition of 3 warranting a 3 bedroom unit, however, the family composition as stated on the 50058 was 2. In 2005 the client removed her adult son from the household and added her (youth) grandson. This change of family composition is evidenced by the case manager file note dated 4/15/05 and recertification application completed by client on 4/15/05. The adult son was removed from the 50058 but the grandson who had been added to the household was not listed on the 50058. Thus the 50058 for this family of 3 stated a family composition of 2 and a 3 bedroom payment standard. The error is the misrepresentation of family composition on the 50058. In fact, the household consisted of 3 persons warranting a 3 bedroom unit. As such, no overpayment was made and we disagree with your finding for this case. The File Review Checklist has been revised to include a specific check-off for change in family composition and appropriate family size. In addition, the supervisors and quality control unit will closely monitor this matter. These adjustments ensure elimination of this issue in the future.

Comment 3

In the case of “Terminated...Overpayment based on correct effective date” review of file indicates four payments rendered after termination date. The Agency has recouped the four overpayments. Thus no overpayments made in this case. Although we respect the finding, we request further review of this matter and release of financial liability.

Comment 2

In the case of “Wrong voucher, right payment standard”, the client entered the program from a Preservation Project, thus eligible to retain the 2 bedroom voucher. When client relocated was down graded to 1 bedroom with 1 bedroom payment standard. No lost of funds in this case. As such, we disagree with finding.

Comment 4

In the case of “Terminated...50058 does not match PIC or DCHA payment records” review of the file supports data as shown on the 50058 and PIC did not match. These data enters were in error. However, the worksheet contained the correct data which HAP payment was based and confirmed by HAP register. Thus no overpayment occurred in this case. Because no overpayment occurred we disagree with finding.

Comment 5

We accept the finding and recommendation for the other cases of vouchers not corrected when required. In the future the Agency will take corrective action on family composition changes in accordance with 24CFR§982.505(5) and the Agency’s Administrative Plan. Should a family unit size increases or decreases during the HAP contract term, the new family unit size will be used to determine the payment standard amount for the family beginning at the family’s first regular reexam following the change in family unit size. The participant may remain in the unit as long as the Total Tenant Payment does not exceed 40% of the monthly adjusted income. However, if the Total Tenant Payment exceeds 40% of the monthly adjusted income, the voucher will be down graded and the family will be required to relocate or voucher will be terminated.

Comment 6

Comment 7

In the 5 instances where the Agency's quality control unit identified and corrected the error, we request these cases be reviewed for reduction or waiver of any additional financial liability as the audit recognized that the Agency identified and corrected the error.

Again, thank you for your assistance and recommendations through the audit process.

Sincerely,

A handwritten signature in blue ink that reads "Zachary Thompson". The signature is written in a cursive style with a large initial "Z".

Zachary Thompson
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1** The doctor statements requested accommodations for occasional overnight stays or for ailments that did not justify the exception. As discussed in the finding, HUD regulations required the Agency to approve a caregiver if needed. However, the Agency did not screen and approve caregivers or verify that the additional room was used as intended.
- Comment 2** The Agency's records did not reflect a recapture of the overpaid funds. The Agency's response did not provide evidence that it recaptured these funds. The Agency should either provide evidence the funds were recaptured or repay them.
- Comment 3** HUD's public housing information center system⁸ showed only two people for this three-bedroom voucher. The Agency's files showed that the tenant requested a third person be added to the voucher. However, the Agency required the tenant to provide additional information on the person. A month later the Agency's quality control staff determined that the tenant was only entitled to a two-bedroom voucher. The Agency needs to provide evidence that it collected the required information and correct its report to HUD or repay the funds
- Comment 4** We reviewed the information the Agency provided and modified the report as necessary.
- Comment 5** We disagree. At the tenant's annual recertification, the Agency should have decreased the voucher from three-bedrooms to one-bedroom to accurately reflect the tenant's decrease in family size.
- Comment 6** We thank the Agency for its positive response and commitment to correcting the problems.
- Comment 7** We commend the Agency for identifying and correcting the errors. However, the Agency made ineligible overpayments prior to correcting the error, which is included in the finding.

⁸ As of April 26, 2006.