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Audit Report Number 2006-FW-1013

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

FROM: 

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

SUBJECT: The Housing Authority of the City of Denton, Texas, Made Subsidy Calculation Errors and Overhoused Tenants

HIGHLIGHTS

What We Audited and Why

As part of the inspector general's annual audit plan, we audited the Section 8 program administered by the Housing Authority of the City of Denton (Authority). We wanted to determine whether the Authority followed U.S. Department of Housing and Urban Development (HUD) regulations when calculating subsidy amounts and the extent to which the Authority overhoused tenants and made ineligible subsidy overpayments.

What We Found

The Authority did not follow HUD regulations when calculating subsidy amounts because it applied its decreased payment standards without granting the required grace period. Further, the Authority did not grant disability allowances for six eligible tenants in determining adjusted income. As a result of these subsidy

calculation errors, the Authority underpaid an estimated \$126,180 in subsidy for 447 tenants.

The Authority did not overhouse the majority of its tenants. However, 29 tenants were overhoused because the Authority assigned a voucher size that exceeded its subsidy size standards with either no explanation or questionable justification. The Authority paid \$50,917 in ineligible or unsupported subsidy payments for these tenants.

What We Recommend

We recommend that you require the Authority to (1) repay tenants for subsidy underpayments caused by decreasing payment standards too early and not granting disability allowances, (2) repay its Section 8 account for overpayments from overhousing tenants, (3) strengthen its quality control process, and (4) develop and implement controls to ensure the procedural errors identified during the audit are corrected and avoided in the future.

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 audit results with the Authority during the audit. We provided a copy of the draft report to Authority officials on June 27, 2006, for their comments and discussed the report with them at the exit conference on July 6, 2006. The Authority provided written comments on July 19, 2006. The Authority agreed with the report findings and recommendations and indicated it has already initiated corrective action. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B to this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Denton (Authority) operates the U.S. Department of Housing and Urban Development's (HUD's) Section 8 Housing Choice Voucher program. The Authority's projected 2006 funding was more than \$10 million for housing assistance payments and \$814,756 for fees to administer 1,358 Section 8 housing choice vouchers. The Authority maintains its records at its administrative offices located at 1225 Wilson Street, Denton, Texas.

The Authority uses its Section 8 funding to provide housing subsidies in the private market. Participants may choose any housing that meets program requirements. The Authority 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 Authority 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. A five-member board of commissioners appointed by the mayor and one client of the Section 8 program oversee the Authority.

Our audit objectives were to determine the extent to which the Authority overhoused tenants and made ineligible subsidy overpayments and whether the Authority followed HUD regulations when calculating subsidy amounts.

RESULTS OF AUDIT

Finding 1: The Authority Made Subsidy Calculation Errors

The Authority did not follow HUD regulations in calculating rental subsidy for all tenants. It prematurely decreased the payment standards used to calculate the subsidy amount for all tenants because it misinterpreted HUD's controlling regulations. It also neglected to grant disability allowances for some tenants when it made errors in classifying disabled tenants. As a result, the Authority underpaid an estimated \$126,180 in subsidy because of the decreased payment standards and \$1,280 from not granting disability allowances.

Decreased Payment Standards Led to Underpayments

The Authority did not follow HUD regulations when it applied its decreased payment standards without granting the required one-year grace period.¹ This occurred because the Authority misinterpreted HUD's controlling regulations. The Authority decreased its payment standards for some bedroom sizes in fiscal year 2005 and for all bedroom sizes in fiscal year 2006 in response to changes in the HUD-published fair market rents for the area. HUD regulations provided that a decrease in the payment standard amount generally would not become effective for existing tenants until the second annual reexamination following the effective date of the change, which normally results in at least a one-year grace period for existing tenants. The following table shows how the Authority's payment standards decreased from 2004 through 2006.

2004 – 2006 Payment Standards

Bedrooms	Fiscal year 2004	Fiscal year 2005	Increase (Decrease)	Fiscal year 2006	Increase (Decrease)
0	\$589	\$633	\$44	\$575	(\$58)
1	678	713	35	640	(73)
2	871	868	(3)	777	(91)
3	1,205	1,147	(58)	1,031	(116)
4	1,425	1,412	(13)	1,249	(163)

Because the Authority applied the decreased payment standards for existing tenants without granting the one-year grace period, it underpaid an estimated \$126,180 in subsidy from October 2004 through March 2006 for 447 tenants. Of this amount, \$78,297 is associated with the 2005 payment standards and \$47,883

¹ 24 CFR [Code of Federal Regulations] 982.505(c)(3).

is associated with the 2006 payment standards. If the Authority continues to apply the decreased payment standards without granting the grace period, it will underpay an estimated \$637,236 over 12 months for 647 tenants not yet reexamined since the 2006 payment standards became effective. For tenants already affected, if the Authority corrects the payment standards and subsidy calculations, it will avoid accumulation of an estimated \$166,514 in subsidy underpayments for 318 tenants.² If the Authority does not correct the errors, it will continue to accrue liability on a monthly basis for amounts due tenants resulting from the underpayments.

The Authority Did Not Grant Disability Allowances

In 11 of the 64 tenant files reviewed, the Authority did not classify tenants as disabled when the file contained documentation and certifications that the tenant was disabled. Elderly or disabled families receive a \$400 income deduction and are eligible for a medical expense allowance in determining their adjusted income.³ Five tenants received the deductions because they were also elderly; however, the error caused subsidy underpayment of \$1,280 for six tenants during the audit period. If the Authority does not classify a tenant as disabled, it denies the tenant the opportunity to report medical expenses which could further reduce the total tenant payment. The Authority should verify tenants' disability status and correct the disability indicators and adjusted income, as necessary, for these tenants.

The Authority should repay tenants for the errors and review each tenant's history at reexamination to determine whether eligible families received the disability allowance. For affected tenants, the Authority should calculate and repay tenants amounts in error for the entire assisted period the family was eligible to receive the allowance but did not. The tenant files reviewed were selected based on analysis designed to identify overhoused tenants. Therefore, the error rate for disabled tenants in the files reviewed is not necessarily representative of the overall tenant population. Nevertheless, the Authority should implement controls to ensure it properly classifies disabled tenants and grants eligible participants the required disability allowance and medical expense deductions.

² The number of tenants with projected underpayments (318) is less than the number affected (447) because of turnover in the program. In addition, some tenants were not affected because their gross rent was already less than the decreased payment standard.

³ 24 CFR [*Code of Federal Regulations*] 5.611(a)(2) and (3).

Conclusion

The Authority did not follow HUD regulations when it prematurely decreased the payment standards used to calculate the subsidy amount and neglected to grant disability allowances. As a result, it underpaid an estimated \$126,180 in subsidy because of the decreased payment standards and \$1,280 from not granting disability allowances. If the Authority immediately corrects the payment standards for affected tenants, it could avoid \$166,514 in subsidy underpayments which could otherwise become a liability. For tenants not yet affected by the 2006 payment standards, the Authority could avoid \$637,236 in underpayments over 12 months if it ensures it phases in the payment standards in accordance with the regulations.

The Authority Implemented Corrective Actions

The Authority has taken steps to ensure it uses the correct payment standards for all tenants with annual reexaminations effective April 2006 and later. It is in the process of correcting payment standards and subsidy calculations for tenants with annual reexaminations effective October 2005 through March 2006. The Authority has agreed to reimburse tenants for subsidy underpayments associated with this finding. It has also taken steps to ensure case specialists classify disabled tenants appropriately and grant the \$400 disability allowance in determining adjusted income.

Recommendations

We recommend that HUD require the Authority to

- 1A. Reimburse tenants for an estimated \$126,180 in subsidy underpayments caused by decreasing payment standards too early.
- 1B. Reimburse tenants \$1,280 for subsidy underpayments caused by not granting disability allowances in determining adjusted income.
- 1C. Correct payment standards and subsidy calculations for tenants prematurely affected by the decreased payment standards to avoid potential liabilities of \$166,514.
- 1D. Adopt and implement controls to ensure it applies payment standards in accordance with HUD regulations to avoid potential liabilities of \$637,236.

- 1E. At reexamination for each tenant, review tenant disability status and correct the disability indicator and adjusted income calculation, as necessary. For disabled tenants who qualified for but did not receive the disability allowance in the past, calculate and repay amounts owed to the tenant for the duration the tenant qualified for the deduction.

Finding 2: The Authority Paid Excess Subsidy for 29 Overhoused Tenants

Generally, the Authority did not overhouse tenants. However, it overhoused as many as 29 tenants because staff made procedural errors or granted questionable exceptions to the Authority's subsidy size standards. As a result, the Authority paid as much as \$50,917 in excess subsidy between October 2003 and March 2006.

The Authority Generally Housed Tenants Appropriately

During the audit period, the Authority assisted 1,871 tenants, of which 64 appeared overhoused based on data analysis that compared voucher size and family composition to the Authority's subsidy size standards in its administrative plan.⁴ In 35 cases, further testing showed the Authority had adequate documentation in the tenant file to justify the assignment of additional space for the family.

Twenty-Nine Tenants May Have Been Overhoused

In 29 of the 64 cases,⁵ the Authority had no explanation or questionable justification for the exception to its subsidy size standards. In 18 cases, the tenant was clearly overhoused, resulting in \$24,813 in ineligible overpayments. In 11 cases, there was questionable justification for allowing tenants to have an additional bedroom, resulting in \$26,104 in unsupported payments. If the Authority immediately corrects the subsidy sizes and calculations for all 29 tenants, it can avoid an estimated \$18,024 in future subsidy overpayments over 12 months associated with these errors.⁶

The Authority clearly overhoused 18 of the 29 tenants. In nine cases, the family size decreased to a number that required the Authority to decrease the voucher size, but the Authority neglected to do so. One elderly tenant had a doctor's note at admission in 1999 stating the tenant requested a two-bedroom apartment because she was concerned she might need medical assistance in the future. The Authority granted the additional bedroom but the tenant continues to live independently seven years later. Two other tenants had notes that said they

⁴ 24 CFR [*Code of Federal Regulations*] 982.153 requires the Authority to administer its program in accordance with its administrative plan.

⁵ This represents 1.5 percent of tenants assisted during the audit period.

⁶ Refer to Scope and Methodology section for a description of how we calculated funds to be put to better use.

required a private bedroom for medical reasons, but the tenants lived alone. In six cases, there was no justification for the larger voucher in the tenant file. Ineligible overpayments for these 18 tenants totaled \$24,813.

The Authority's files for the remaining 11 tenants contained documents that provided questionable justification for an additional bedroom. Five cases involved people not residing in the unit full time, three cases involved inadequate documentation, and three cases involved unapproved live-in aides. The Authority made unsupported payments totaling \$26,104 for these tenants.

Five tenants with questionable justifications had letters from doctors or nurses indicating the tenant would need assistance occasionally or requesting additional bedrooms to accommodate frequent caregivers. The assignment of a larger voucher to accommodate persons not residing in the unit full time is a questionable use of limited rental assistance funds. However, the Authority assigned larger vouchers for these tenants based on the letters. The Authority should take steps to ensure requests for additional bedrooms are reasonable and necessary to make the program accessible to individuals with disabilities in compliance with federal nondiscrimination and fair housing laws.⁷

In three cases, the only documents addressing the need for additional space were medical verification forms the Authority mailed to doctors requesting information about the tenant's anticipated medical expenses in the coming 12 months. The forms contained a question about whether the tenant required an additional bedroom for medical reasons. The doctors checked yes in response to this question on the form. This provided inadequate information for the Authority to make a determination about whether the space was needed as a reasonable accommodation. We discussed this situation with HUD staff who agreed that this was inadequate documentation and commented that the Authority should remove this question from its medical verification forms. The Authority's procedures should allow the tenant to request additional space, but the Authority should not initiate the process itself.

There was no indication in three files that a live-in aide resided with or otherwise made the program accessible to the tenant. In these instances, the tenant was the only person on the lease. HUD regulations required the Authority to approve a live-in aide if needed as a reasonable accommodation to make the program accessible to a person with a disability,⁸ HUD regulations also required live-in aides to be listed on the lease and housing assistance payment contract⁹ and required the Authority to perform a criminal history background check.¹⁰ The Authority should implement procedures to ensure that a live-in aide resides in the

⁷ Refer to 24 CFR [*Code of Federal Regulations*] Part 8, Nondiscrimination Based on Handicap in Federally Assisted Programs and Activities of the Department of Housing and Urban Development.

⁸ 24 CFR [*Code of Federal Regulations*] 982.316.

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

¹⁰ 24 CFR [*Code of Federal Regulations*] 982.553(2)(i).

unit and is on the lease before assigning a larger voucher to accommodate that individual. One additional tenant file contained evidence there was a live-in aide residing with the tenant, but the aide was not listed on the family report, lease, or housing assistance payment contract, and there was nothing to show the Authority approved the individual as a member of the assisted household. The Authority should strengthen its procedures for approving and reporting live-in aides.

Quality Control Reviews Did Not Identify Errors

The Authority had performed quality control reviews for three tenant files that contained errors; however, this process did not identify errors in voucher size or disability status and allowances¹¹ in two of the files. It did identify an error in one file and the Authority took corrective action. The Authority should improve its quality control process to include a more in-depth review of tenant eligibility, income, deductions, and rent calculations.

Conclusion

The Authority overhoused as many as 29 tenants and overpaid as much as \$50,917 in assistance as a result. If the Authority immediately corrects the subsidy sizes and calculations for all 29 tenants, it can avoid an estimated \$18,024 in future subsidy overpayments associated with these errors. The Authority should take steps to ensure these conditions do not occur in the future.

Recommendations

We recommend that HUD require the Authority to

- 2A. Reimburse its Section 8 housing assistance payments account for \$24,813 in ineligible overpayments caused by overhousing 18 tenants.
- 2B. Support questioned payments of \$26,104 for 11 possibly overhoused tenants or reimburse its Section 8 housing assistance payments account for the overpayments.
- 2C. Correct voucher sizes and subsidy calculations for all overhoused tenants, which would allow it to avoid \$18,024 in subsidy overpayments.

¹¹ Refer to finding 1 for more information on errors involving disability status and allowances. We also identified occasional errors in calculating income or deduction amounts, which we did not report separately but considered when calculating subsidy overpayments, as discussed in the Scope and Methodology section.

- 2D. Implement controls to ensure it applies its subsidy size standards as defined in its administrative plan and fully documents any exceptions granted in accordance with its written policy.
- 2E. Implement procedures to review requests for additional bedrooms to ensure the request is reasonable and necessary to make the program accessible to individuals with disabilities in compliance with federal fair housing laws.
- 2F. Improve its quality control process to include a more in-depth review of tenant eligibility and calculations of income, deductions, and rental subsidy.
- 2G. Strengthen procedures for approving and reporting live-in aides.

SCOPE AND METHODOLOGY

The audit covered the period from October 2003 through March 2006. To meet our audit objectives, we reviewed federal regulations, the Authority's administrative plans, and its audited financial statements. We reviewed tenant files and interviewed Authority and HUD program staff. We performed field work at the Authority's administrative offices in Denton, Texas, from March to April 2006.

We obtained current¹² data from HUD's PIH Information Center (PIC) that contained housing assistance and related data for all tenants during the audit period. We validated the data for reliability in accordance with professional standards.¹³ We analyzed the data to identify tenants whose vouchers were larger than allowed based on family composition and the Authority's subsidy size standards in its administrative plan. This resulted in the identification of 64 tenants whose vouchers were possibly too large during the audit period.

We reviewed all 64 tenant files to determine whether there was a reasonable justification in the file for the assignment of the larger subsidy size. We considered a portion of the subsidy amount ineligible if there was no justification in the file for an extra bedroom. We considered a portion of the subsidy amount unsupported if the file contained documentation that provided questionable justification for the additional bedroom. To determine the portion of the subsidy questioned, we calculated the amount of subsidy the Authority would have paid if it had issued the correct subsidy size and compared it with the amount the Authority paid. If we identified errors in income or deduction calculations, we used the corrected figures in our comparative calculation. We estimated the amount of subsidy that would have been improperly paid over the next 12 months by multiplying the estimated current monthly overpayment by 12.

We analyzed historical PIC data to estimate amounts due tenants because the Authority applied its decreased payment standards too soon, causing subsidy underpayments. We used computer formulas to recalculate the subsidy amount using the correct payment standards. For each tenant who had already been subjected to the decreased payment standards in error, we multiplied the monthly subsidy underpayment by the number of months that improper calculation was effective. We then totaled the amount underpaid for each tenant. Because of the limitations of the data, this is only an estimate of the amount due each tenant. The Authority will need to determine the actual amount based on the individual history for each affected tenant. To estimate amounts the Authority will underpay if it does not correct the payment standards and subsidy calculations for tenants already affected, we determined the number of months remaining in each tenant's annual reexamination cycle and multiplied the result by the current monthly underpayment.

We estimated the amount of subsidy underpayment over the next 12 months by calculating the potential monthly underpayment for tenants not yet reexamined under the 2006 payment

¹² Data were current as of January 24, 2006.

¹³ Government Accountability Office, "Assessing the Reliability of Computer-Processed Data," GAO-03-273G, October 2002.

standards but whose subsidy will be incorrect if the Authority continues to apply the payment standards in a manner contradictory to HUD regulations. We then multiplied the estimated monthly underpayment per tenant by 12 months to determine the potential impact of not granting the one-year grace period. The Authority will avoid underpayments for these tenants by ensuring it grants the one-year grace period required by regulation.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Effectiveness and efficiency of program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure resources are used consistent with laws and regulations.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure valid and reliable data are obtained.

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 believe the following items (as reported in the findings) are significant weaknesses:

The Authority does not have adequate internal control procedures to

- Ensure the accuracy of income and subsidy calculations in compliance with HUD regulations (finding 1);
- Ensure quality control reviews identify errors in determining tenant eligibility and calculations of income, deductions, and rental subsidy (findings 1 and 2);
- Ensure staff assigns subsidy size in accordance with its policies and documents the reasons for any exceptions (finding 2); and
- Approve individual live-in aides and include them as members of assisted households (finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported^{2/}	Funds to be put to better use ^{3/}
1A			\$126,180
1B			\$1,280
1C			\$166,514
1D			\$637,236
2A	\$24,813		
2B		\$26,104	
2C			\$18,024
Totals	\$24,813	\$26,104	\$949,234

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. In this situation, funds to be put to better use also includes repayment to program participants for underpayments caused by noncompliance with regulations and avoidance of continued underpayments the Agency will realize by correcting the noncompliance issue.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Denton Housing Authority

July 19, 2006

Frank Baca
Office of Inspector General, Region VI
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Ft. Worth, TX 76103

Mr. Baca;

I am responding to the draft of the audit review of Denton Housing Authority Section 8 program.

Comment 1

DHA recognizes the misinterpretation and miscalculation of subsidies due to a decreased payment standard beginning in October 2005. The one year grace period was not given. We immediately stopped the miscalculation effective April 2006 and have continued to calculate using the correct payment standard amount. We are correcting files and will reimburse tenants with HAP funding. The amount stated to repay is \$126,180.00 and may be revised. We are acting promptly so as to not accumulate higher repay amounts.

Comment 2

Disability classification was not noted on the 50058 form for six (6) tenants. These files have been reviewed and corrected. Case Specialists are verifying the disability classifications are accurate. The medical deduction and any underpayment for the tenants will be given from beginning of miscalculation to present. The amount stated to repay is \$1,280.00 and may be revised.

Comment 2

Over housing of tenants for medical reasons revealed questionable verifications. The Housing Authority policy states a doctor's order must validate the request for an extra bedroom. The questionable files have been reviewed and fair housing laws must be considered before DHA decreases the unit size. The amount stated to repay is \$25,089.00 and may be revised.

Comment 2

The families that are over housed because of a family size decrease have been notified to relocate to a smaller unit. DHA will repay the Section 8 HAP program funds for over housing families. The amount stated to repay is \$26,104.00 and may be adjusted.

Comment 2

DHA took corrective action when inaccuracies were shown. We have continued to correct files that show the oversight of the grace period for the decreased payment standard, disability deductions and over housing. Our anticipated recalculations and repayments will be completed by September 30, 2006.

The assistance and consideration of your office staff is appreciated.

Sincerely,



Shirley Hensley
Chief Executive Officer

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OIG Evaluation of Auditee Comments

- Comment 1** The Authority acknowledged miscalculation of subsidies resulting from decreased payment standards beginning in October 2005. The audit showed the underpayments began when the Authority decreased its payment standards effective October 2004. The Authority should ensure it reimburses affected tenants for subsidy underpayments beginning in October 2004.
- Comment 2** The Authority agreed with the findings and recommendations in the report and noted that amounts may be revised. The Authority indicated it has initiated corrective action in response to the findings. We acknowledge that amounts reported are estimates based on the data and documentation available and are subject to revision based on actual tenant history. We commend the Authority for its prompt action to correct the errors noted during the audit.