



Issue Date	March 3, 2006
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Audit Report Number	2006-KC-1006
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TO: Andrew Boeddeker, Director, Office of Public Housing, 7APH

FROM: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Housing Authority of Kansas City, Missouri, Unnecessarily Paid Housing Choice Voucher Program Funds for Overhoused Tenants

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of Kansas City, Missouri's (Authority) Housing Choice Voucher program (voucher program) to determine whether the Authority paid excess subsidies for overhoused tenants. We selected the Authority for review based on a computer analysis of U.S Department of Housing and Urban Development (HUD) data, which identified tenants whose voucher size exceeded the number of persons in the household.

What We Found

The Authority overhoused 50 tenants. Since 2002, the Authority has unnecessarily paid \$30,946 in voucher program funds for these tenants. The Authority could avoid future losses of \$73,692 by enhancing its controls, thereby allowing it to provide vouchers to additional tenants.

What We Recommend

We recommend that HUD require the Authority to immediately correct overhoused tenants' vouchers, repay the unnecessary costs incurred, and develop and implement procedures that improve controls over assigning voucher sizes.

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

Auditee's Response

The Authority disagreed with the recommendation to repay the unnecessary costs incurred. It also disagreed with one voucher error. We provided the report to the Authority on February 2, 2006, and requested a response by February 17, 2006. The Authority provided written comments on February 17, 2006.

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

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BACKGROUND AND OBJECTIVES

The Housing Authority of Kansas City, Missouri (Authority), was established by city ordinance on July 14, 1941. The mayor of Kansas City, Missouri, appoints six of a seven-member board of commissioners that oversees the Authority, and Authority residents elect the seventh member. Its stated mission is to develop, rehabilitate, and manage decent, safe, and sanitary quality affordable housing in a manner that promotes equal opportunity, fair housing, and the deconcentration of race and poverty.

The Authority operates the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher program (voucher program). The 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. The Authority received between \$42.7 million and \$47.6 million per year for its voucher program from 2002 through 2005. This allowed the Authority to lease approximately 7,500 Section 8 vouchers per month depending on available funding.

Participants in the voucher program are allowed to select any housing that meets the requirements of the program. The Authority establishes a payment standard that is the amount generally needed to rent a moderately priced housing unit in the local market. It determines the voucher size allowed for the participant and uses the payment standard amount to calculate the housing assistance (subsidy) a family will receive.

Our objective was to determine whether the Authority paid excess subsidies for overhoused tenants.

RESULTS OF AUDIT

Finding: The Authority Paid Unnecessary Subsidies by Overhousing Tenants

The Authority overhoused 50 tenants from 2002 through 2005. This occurred because the Authority's procedures were ineffective, it had not adequately trained personnel administering the voucher program, and it experienced high staff turnover. Overhousing tenants resulted in unnecessary subsidies of \$30,946 and exposes the Authority to future losses of \$73,692.

50 Overhoused Tenants

The Authority overhoused 50 tenants by issuing vouchers for larger units than family composition supported. The Authority's administrative plan states families are to be given appropriate-size units based on the Authority's unit size rules, federal regulations, and fair housing guidelines. HUD's Housing Choice Voucher Guidebook explains that housing authorities should generally assign vouchers for units with the smallest number of bedrooms needed to house a family without overcrowding. The Authority establishes its unit size rules based on the household composition, and can grant exceptions when justified.

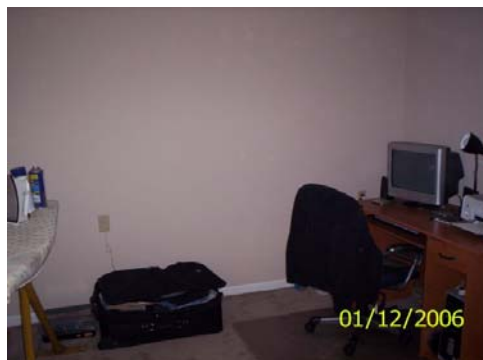
The Authority erred when issuing 47 housing vouchers that exceeded the maximum number of bedrooms allowed by its unit size rules. The errors occurred when Authority staff incorrectly identified the number of bedrooms in the subsidized unit, assigned the wrong voucher size, or used the wrong payment standard in calculating the rent subsidy.

The Authority also made three reasonable accommodation errors by inappropriately allowing an additional bedroom. Reasonable accommodations are allowed if a medical professional properly documents that the tenant requires an additional bedroom for a live-in caregiver or medical equipment. The Authority erred when it did not adequately evaluate the medical professionals' requests for an extra bedroom, or it did not ensure the tenant was using the extra space as intended.

When a tenant needs a live-in caregiver, HUD requires the tenant to identify the caregiver in the tenant's records. In one case reviewed, the Authority granted an extra bedroom for a live-in caregiver without requiring the tenant to identify the caregiver. In another case, the Authority accepted an inadequate doctor's recommendation for an extra bedroom. The disabled tenant provided a doctor's letter stating the tenant needed an extra bathroom with handicap status. However, the doctor's staff altered the letter by replacing bathroom with bedroom. The Authority accepted the letter and issued a voucher with an additional bedroom,

without confirming with the doctor that his request was intended for an extra bedroom.

In the third instance, the Authority granted an extra bedroom for exercise equipment. However, our site visit revealed that the tenant had no exercise equipment in the extra bedroom but was, instead, using it as a home office. The Authority appropriately issued the larger voucher when the medical need began, but did not verify that the extra space was being used for the approved use when the tenant recertified for another year of assistance. The following pictures show the extra bedroom granted for exercise equipment.



Ineffective Controls

The Authority has ineffective quality controls. It performs limited, periodic reviews of tenant files in which it verifies the presence of certain documents and accuracy of monetary calculations in a small sample of files. When conducting the reviews, the Authority does not evaluate data integrity or reasonableness of waivers for larger vouchers.

In addition, the Authority's voucher processing policies and procedures are inadequate to prevent overhousing. Its procedures allow staff to grant waivers for extra bedrooms without supervisory approval and without adequately evaluating the reasonableness of the requested accommodation. Further, the Authority does not have procedures for verifying that the additional space is used for the reasons granted or intended.

Authority management told us there is a high turnover of staff administering the voucher program and it does not have a formal training process for these employees. Team leaders provide on-the-job training while still performing their assigned job duties, which contributed to inadequately trained staff.

Conclusion

Overhousing 50 tenants caused the Authority to overpay subsidies of \$30,946 from 2002 through 2005. If the Authority strengthens its weak controls, it could avoid additional overpayments of \$73,692. This estimate is based on the current monthly overhousing cost of \$2,047 times 36 months (the average number of months a tenant stays in a unit).

Error type	Number of tenants	Excess subsidies	Future savings	Total
Processing	47	\$25,072	\$54,792	\$ 79,864
Reasonable accommodation	3	\$ 5,874	\$18,900	\$ 24,774
Totals	50	\$30,946	\$73,692	\$104,638

Recommendations

We recommend that the director, Office of Public Housing ensure that the Authority

- 1A. Immediately corrects overhoused tenants' vouchers.
- 1B. Repays the voucher program fund from its reserve account the \$30,946 in excess housing assistance payments.
- 1C. Develops and implements procedures to ensure that each tenant receives the proper size voucher to avoid future losses of \$73,692.
- 1D. Develops and implements procedures to ensure staff administering the voucher program receive sufficient training on HUD's voucher program.

SCOPE AND METHODOLOGY

Our review generally covered the period from October 1, 2002, through November 9, 2005. To achieve our audit objective, we interviewed HUD and Authority staff. We reviewed HUD rules, regulations, and monitoring reports; and the Authority's policies, procedures, and Section 8 administrative plan. We also analyzed HUD data and inspected housing units, and discussed our audit results with Authority management.

To determine the extent and effect of overhousing, we applied a computer formula to HUD's Public Housing Information Center data to identify potentially overhoused tenants. We identified 58 tenants with annual recertifications performed from November 1, 2004, through November 9, 2005. This allowed us to review tenants that were still in the voucher program as of November 9, 2005. We reviewed the 58 tenant files to determine whether there was acceptable justification for issuing vouchers larger than the household composition supported, and if not, we calculated the overhousing cost. For each overhoused tenant, we calculated the overpayments from the first occurrence of the error through November 9, 2005. However, we did not calculate the effect of the error before October 1, 2002.

We relied in part on computer-processed data from HUD's Public Housing Information Center database. We assessed the data's reliability and found it adequate to identify the universe of potentially overhoused tenants, and to select tenant files for review. However, based on our comparison of the system data to the hard-copy tenant files (source data), we concluded the data are not sufficiently reliable to support our audit conclusions. In reaching our conclusions, we used the HUD data only as corroborating evidence for the information obtained from the tenant files.

We performed on-site work from November 2005 through January 2006 at the Authority's office located at 301 East Armour Boulevard, Kansas City, Missouri. 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:

- Controls over assignment of voucher size.

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 a significant weakness exists in the area of assigning voucher sizes.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1B	\$30,946	
1C		\$73,692

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

Comment 1

Comment 2

Comment 2



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**Housing Authority of
Kansas City, Missouri**

February 17, 2006

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General Region 7 Office of Audit
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, KS 66102-2406

Dear Mr. Hosking:

This letter transmits the Housing Authority of Kansas City, Missouri's comments relating to the draft audit report of Unnecessarily Paid Housing Choice Voucher Program Funds for Overhoused Tenants. We disagree with the materiality of key findings and recommendations relating to repayment as noted below.

First, it is important to emphasize that the review was not based upon a random sample, but was a review of specific files identified by the OIG. Second, it is important to emphasize that the amount of over-subsidy identified in your report is approximately 0.06% of the total amount of Housing Assistance Payments paid by HAKC during a year and the projected over-subsidy over a three year period, if HAKC did not make any corrections, would be only 0.05% of the total HAP paid over the next three years. While HAKC is committed to implementing measures to ensure to the greatest extent possible that no excess subsidies are paid, the amounts identified are not materially significant and are within a reasonable margin of error. Therefore, it is not appropriate to require HAKC to repay any HAP.

In addition to errors identified relating to discrepancies between the correct voucher size and the family size, and errors relating to the use of the correct payment standard, you identified three cases relating to reasonable accommodations errors. We agree that HAKC should verify the identity caregivers when an extra bedroom is approved for such person. We also agree that HAKC should verify, to the extent possible and without violating and Fair Housing rules that extra bedrooms granted as accommodations are being used for the intended purposes. We will instruct staff to ensure these verifications occur. However, we disagree with your determination that HAKC did not appropriately handle the requests for accommodations in one of the cases.

You indicate that HAKC should have verified with a doctor his intent to request an extra bedroom instead of a bathroom. The request was notated by a medical professional, the doctor's nurse. HAKC reasonably relied upon the information and request submitted by a medical professional and therefore, the grant of the accommodation was

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appropriate. However, we will instruct our staff to verify requests with medical professionals requesting accommodations if it appears that such a request has been inappropriately altered or changed.

HAKC is committed to correcting the errors identified by your audit. Furthermore, HAKC will develop and implement procedures that strengthen its training and oversight of staff and its quality control measures to ensure that the proper amounts of Housing Assistance Payments are made on behalf of our Housing Choice Voucher Program participants.

If you have any questions or require additional information, please contact me at 816-968-4201.

Sincerely,



Edwin T. Lowndes
Executive Director

OIG Evaluation of Auditee Comments

Comment 1 We disagree that \$30,946 in overpayments is immaterial and should not be repaid. The Authority erroneously issued larger vouchers than necessary and overpaid housing assistance payments. If the Authority had not made the overpayments, these funds would have been available to assist additional families. Requiring the Authority to repay the voucher program from its reserve account allows more funding to house needy families.

Comment 2 We continue to believe that the Authority should have confirmed the intent of the requesting doctor. We are not questioning the level of medical professional altering the request, but that the Authority allowed an extra bedroom based on an altered request. The doctor clearly stated the tenant should receive a bathroom with handicap status. An additional bathroom does not increase the housing assistance payment, but an additional bedroom requires additional funding.