
AUDIT REPORT



HOUSING SUBSIDY PAYMENTS

OFFICE OF HOUSING

00-KC-103-0002

SEPTEMBER 29, 2000

OFFICE OF AUDIT, GREAT PLAINS
KANSAS CITY, KANSAS



Issue Date	September 29, 2000
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Audit Case Number	00-KC-103-0002
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TO: William Apgar, Assistant Secretary, for Housing, Federal Housing Commissioner

Roger E. Niesen

FROM: Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Office of Housing Controls over Section 8 Subsidy Payments

We completed an audit of the Office of Housing's controls over housing subsidy payments. The review was conducted in accordance with the Office of Inspector General's general audit plan.

Our report contains two findings with recommendations requiring action by your office. The two findings address the need for the Office of Housing to (1) determine the need for the Tenant Rental Assistance Certification System (TRACS) given that it does not provide any control over subsidy payments and is not used as planned, and (2) improve the procedures used to process special claims payments made to project owners.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or you staff have any questions, please contact me at (913) 551-5871.

Executive Summary

We have completed an audit of the Office of Housing's controls over housing subsidy payments. Specific audit objectives were to identify and evaluate controls in place to ensure the accuracy of:

- project owner/agent entered tenant data in the Tenant Rental Assistance Certification System (TRACS) database; and
- Section 8 special claims.

During our review, we identified areas where controls needed improvement to assure that housing subsidy payments are accurate and appropriate. These areas are summarized below and detailed in the findings section of the report. In addition, previous Office of Inspector General audits reported that the management controls relevant to verification of applicant and tenant income do not adequately prevent or detect cases of unreported income. HUD has reported this control as a material weakness in its annual Federal Manager's Financial Integrity Act report since fiscal year 1996. HUD needs to continue reporting this control as a material weakness.

The Tenant Rental Assistance Certification System (TRACS) Was Not Implemented As Planned

HUD did not fully implement its Tenant Rental Assistance Certification System (TRACS) as planned. As a result, TRACS provides no assurances about controls over assistance payments or data accuracy. The Department abandoned its TRACS development in favor of HUD 2020 Reform objectives. HUD acknowledges there are data inaccuracies within the TRACS database, but does not recognize the negative impact on and lack of positive contribution in other areas using the owner-generated database. New plans for TRACS extend its use to Contract Administrators in much the same manner as the Department currently uses it.

Controls Over Section 8 Special Claims Payments Need Improvement

HUD needs to improve internal controls over Section 8 special claims payments to ensure that inappropriate payments are not made to project owners/agents. Section 8 special claims are not uniformly reviewed and approved by HUD field offices. Individual field offices use their own rules and procedures for processing Section 8 special claims because HUD lacks an overall special claims processing policy or regulation. As a result, HUD lacks assurance over the accuracy of claims, project owners/agents may not be equitably treated, and the potential exists for project owners/agents to submit and be paid for fraudulent claims, undocumented claims, ineligible claims, and duplicate claims.

Recommendations

We recommend that the Office of Housing either implements TRACS as originally planned and with effective controls over data accuracy, or discards the system. Further, the Office of Housing should reevaluate its special claims program, weighing the options of implementing uniform policies and procedures that will be effective versus eliminating the program as a form of payment.

We provided our draft findings to the Office of Housing for comment on September 1, 2000. The Office of Housing provided written comments to our draft findings on September 29, 2000. We included excerpts of the comments with each finding. The complete text of the comments are included in Appendix A. The Office of Housing declined an exit conference.

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Introduction

The Section 8 Program was authorized by Congress in 1974 and developed by HUD to provide rental subsidies for eligible tenant families (including single persons) residing in newly constructed, rehabilitated and existing rental and cooperative apartment projects. HUD administers Section 8 subsidies under various program types including tenant-based and project-based vouchers. The low-income tenants pay 30 percent of their income toward the contract rent and HUD's Section 8 program pays the difference in the form of a Housing Assistance Payment. HUD distributed in excess of \$19 billion during FY 1996 to provide project-based housing assistance to approximately 4.3 million households through public housing authorities and project owners/agents. For both Public and Indian Housing and Housing programs, prospective tenants must disclose and certify their household income when they apply for rental assistance.

In prior reports, the Office of Inspector General reported on long standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process was hampered by the need for improved information systems to eliminate manually intensive review procedures the Department was not able to adequately perform. To address this problem, in 1991, the Office of Housing developed the Tenant Rental Assistance Certification System (TRACS). Project owners input tenant information into TRACS and the system calculates the Housing Assistance Payment for each tenant.

Section 8 Special Claims consist of requests: (1) for unpaid rent/damages after an owner has made a reasonable attempt to collect from the tenant; (2) requests for reimbursement during the period when a unit has been readied for occupancy, but another tenant has not reoccupied the unit (limited to 60 days at 80 percent of the contract rent); and requests for reimbursement for debt service when a unit has been vacant for more than 60 days and is not receiving any other reimbursement (limited to 12 months and may not exceed the amortized principal and interest payments due for the unit on the first mortgage). Each special claim must be supported by appropriate documentation that meets the criteria for that type of special claim.

Audit Objectives

The overall audit objective was to review the Office of Housing's controls over subsidy payments. Specific audit objectives were to identify and evaluate controls in place to ensure the accuracy of:

- project owner/agent entered tenant data in the TRACS database; and
- payments of Section 8 special claims.

Audit Scope and Methodology

We analyzed a data file containing approximately 1.1 million tenant household records from TRACS to assess the use and accuracy of the tenant data entered by the project owners/agents.

We conducted interviews with the appropriate Office of Housing, Real Estate Assessment Center, Financial Management Center headquarters and field office staff; and reviewed HUD's policies and regulations to evaluate current procedures regarding Section 8 housing subsidy and special claims payments.

The results of related audit work performed by the Office of Inspector General in conjunction with the Fiscal Years 1998 and 1999 HUD Financial Statement Audits were reviewed to gather background information and evaluate HUD's income verification procedures.

We performed audit work from June 1999 through August 2000. The audit covered the period January 1, 1997 through May 31, 2000. We extended the review, where appropriate, to include other periods. The Audit was conducted in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Assistant Secretary for Housing/Federal Housing Commissioner.

The Tenant Rental Assistance Certification System (TRACS) Was Not Implemented As Planned

HUD did not fully implement its Tenant Rental Assistance Certification System (TRACS) as planned. As a result, TRACS provides no assurances regarding controls over assistance payments or data accuracy. The Department abandoned its TRACS development in favor of HUD 2020 Reform objectives. HUD acknowledges there are data inaccuracies within the TRACS database, but does not recognize the negative impact and lack of positive contribution in other areas using the owner-generated database. New plans for TRACS extend its use to Contract Administrators in much the same manner it is currently used by the Department.

HUD's Original TRACS Plan

In prior reports, the OIG reported on long standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process was hampered by the need for improved information systems to eliminate manually intensive review procedures the Department was not able to adequately perform. To address this problem, in 1991, the Office of Housing developed the Tenant Rental Assistance Certification System (TRACS). Owners input tenant information into TRACS and the system calculates the Housing Assistance Payment for each tenant.

The Office of Housing then compares the Housing Assistant Payment vouchers submitted by owners for payment to the information entered into TRACS. The comparisons, done on a sample basis, are known as post payment reviews because they occur after the vouchers are paid.

The Office of Housing field offices were responsible for doing post payment reviews on the 21,000 assistance contracts with multifamily project owners. Because these reviews were not consistently accomplished, the Office of Housing established the Section 8 Voucher Processing HUB in Kansas City in FY 1996. The field office workload was transferred to the HUB by January 1998. The HUB was to perform post-payment reviews on 15-20 percent of the

Housing Assistance Payment vouchers. The review was to include verifying the Housing Assistance Payment voucher amounts to actual payments made through the Line of Credit and Control System.

TRACS Development Plan

The TRACS Payment Module was to be developed to calculate and process payments to project owners based on tenant information in TRACS. If the system development continued as planned, it would have eliminated the need for post-payment reviews and Line of Credit Control System reconciliations. Department staff would then have been shifted to testing the accuracy of the information that the owners input to TRACS. Tests would have included confirmations with tenants, on-site reviews, and income verifications.

HUD 2020 Plan Abandons TRACS

HUD abandoned development of the TRACS module when the HUD 2020 initiative transferred the monitoring responsibilities for Section 8 Housing projects to contract administrators. Contract administrators were planned to be in place by September 1998. As a result, the HUD staff was cut from 25 to 10 and transferred to the Voucher Processing Division of the Financial Management Center. However, the Office of Management and Budget delayed the procurement action and all contract administrators were not in place as of June 2000. Because of the staff cuts imposed by HUD 2020 and other responsibilities, the Financial Management Center terminated post payment reviews in the first quarter of FY 1998 and the Line of Credit Control System reconciliations in the second quarter of FY 1998.

Subsequently, the Voucher Processing Division started doing pre-payment reviews on about 2 percent of payment requests that exceeded a certain percentage of their average monthly payments from the previous year. In February 1999, Financial Management Center staff in Chicago and Washington DC began doing limited post-payment reviews again. While this was a step in the right direction, there is no tracking system in place to document the extent or the results of the reviews.

TRACS Contains Data Inaccuracies

Our analyses of TRACS data revealed substantial inaccuracies that hinder its functionality as a basis for evaluating accurate owner submissions and tenant

certifications. For example, project identification and contract number data was absent in approximately 20 percent of records. A data field that TRACS documentation indicates is needed to prevent multiple assistance payments to individual units contains data of no use for that purpose. We found multiple Social Security numbers for the same tenant name and erroneous Social Security numbers. This indicates the edit checks built into TRACS are not functioning as intended. As previously mentioned HUD is only accomplishing very limited reviews over the accuracy of TRACS.

The TRACS database is the major source for Office of Housing tenant information used in the income matching and verification projects conducted by the Department's program staff. The data inaccuracies that exist within the TRACS database decrease the effectiveness of the Department's income verification efforts.

TRACS Provides No Benefit To The Special Claims Process

Special Claims payments are also entered into TRACS. The amounts, submitted by the project owners, occupy a line item for the total monthly voucher payment. However, the payments requested by owners are not evaluated or tested for accuracy by TRACS controls and are paid without TRACS review. Although inaccurate unit data contributes to the difficulty to use TRACS to evaluate the accuracy of Special Claims, the Department is not attempting to use the system for this purpose.

HUD's New TRACS Plan

The award of the Housing Assistance Payment contract administration to Contract Administrator housing agencies shifts the monitoring responsibility for each project from the Office of Housing to the new Contract Administrators. With this shift in responsibility comes a new plan for TRACS. Section 3.5, "Monthly Vouchers," of the Request for Proposal for the Contract Administrators requires use of TRACS to verify the monthly Housing Assistance Payment vouchers and tenant data. The TRACS Development Team issued guidance for the Contract Administrators to use TRACS to meet the terms of the Request for Proposal. The "TRACS Release 201B Preliminary Industry Specifications" guide, dated May 12, 2000, outlines the Internet facility proposed for use by Contract Administrators to access TRACS and 'Implementation Milestones.' The first step is to create a baseline of tenant

data in their own (Contract Administrators') databases and then submit the new starting point (baseline) to HUD (TRACS). The guide acknowledges the data problems contained in the TRACS database and the need for accurate data to promote accurate certifications. This is an effort by the Department to employ Contract Administrators to purge the TRACS database; however, without confirmations with tenants, on-site reviews, and income verifications, HUD will still lack assurance over the accuracy of the system.

TRACS Costs Versus Benefit

The Department is expending scarce program funds to maintain a system that provides little benefit to HUD regarding validity or accuracy of Section 8 payments. The cost of continued maintenance of the TRACS system to benefit the new Contract Administrators may not be in the Department's best interest. By its own admission the Department foresees the maintenance of separate tenant databases by each Contract Administrator. The requirement to use TRACS may result in duplicate tenant database systems while providing no assurances as to the accuracy of data without further testing by the Department. TRACS will provide the same information to the Contract Administrators as it now does to the Department. Reconciling owner input TRACS data to the owner prepared Housing Assistance Payment (which is what the current post-payment review consists of) only ensures that the two sets of data agree, it does not show that the data is accurate. As long as an owner/agent is consistent between what he enters in TRACS and on his Housing Assistance Payment request, the system will not question the payment. The only way for the Department to assure itself that payments are accurate is to test source documentation through confirmations, on-site reviews or other procedures.

Auditee Comments

Excerpts from the Office of Housing's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Housing is working to utilize the best features of systems at our disposal to meet many different needs and in a manner that results in greater data management and processing efficiency than could be obtained by any one system.

Housing is currently focusing on problems and inefficiencies identified in the area of subsidy payments. A number of short-term improvements have already been made and others are in process. More important, Housing has developed an action plan to address deficiencies in this regard. Under this Action item, the following are either underway or planned:

- The Financial Management Center (FMC) is developing an automated system to compare current tenant information in TRACS to the amount shown on the voucher.
- The FMC is identifying missing certifications in TRACS and instituting a series of notices to owners to supply the incomplete data.
- A contract procurement for a comprehensive study of the Section 8 payment process, with a focus on identified problems, and to develop proposed solutions for needed improvements and changes in the areas of procedures, systems (including TRACS, HUDCAPS, PAS LOCCS), and organization is underway. The study is expected to be completed by March 2001, with full implementation of solutions to be implemented by December 2001.
- In addition to the actions described above, the Section 8 payment process will be informed and improved as a result of a Computerized Income Matching Verification effort the Real Estate Assessment Center has undertaken.

OIG Evaluation of
Auditee Comments

The actions the Office of Housing has taken and planned should correct the problems identified in this finding if the actions are carried through to completion. In taking its actions Housing needs to ensure TRACS not only provides useful and accurate data, but is also cost efficient and effective.

Recommendations

We recommend the Office of Housing

- 1A. Ensures its planned actions to upgrade TRACS are followed through to completion and that TRACS data is useful and cost efficient. If this not possible, the tenant data currently on TRACS should be transferred to another source and TRACS discarded.

Controls Over Section 8 Special Claims Payments Need to Improve

HUD needs to improve internal controls over Section 8 special claims payments to ensure that inappropriate payments are not made to project owners/agents. Section 8 special claims are not uniformly reviewed and approved by HUD field offices and there is no method to verify the amount of the claim before payment. Individual field offices use their own rules and procedures for processing Section 8 special claims because HUD lacks an overall special claims processing policy or regulation. As a result, HUD lacks assurance over the accuracy of claims, project owners/agents may not be equitably treated, and the potential exists for project owners/agents to submit and be paid for fraudulent claims, undocumented claims, ineligible claims, and duplicate claims.

HUD Requirements For Submission And Payment Of Special Claims

HUD requirements related to Section 8 special claims are contained in HUD Handbook 4350.3. Chapter 6, Section 3 of the handbook is entitled “Section 8 Special Claims for Unpaid Rent, Tenant Damages, and other Charges” and provides guidance on the eligibility for filing a special claim by owners as well as the review and retention requirements for special claims. This guidance requires that every special claim be sent to a HUD Field Office or a contract administrator for review and approval prior to payment. The project owner/agent must maintain copies of all special claims and the related supporting documentation for at least three years.

These guidelines are general in nature. The field offices are responsible to formulate specific procedures for processing and approving claims as well as tracking the claims through the payment stage. There are no standardized procedures.

Special Claims Categories

Special claims consist of claims for unpaid rent/damages after the owner has made a reasonable attempt to collect the amounts due, claims for vacant units during the period when a unit has been readied for occupancy but another tenant has yet to move in (amount limited to 60 days at 80 percent of contract rent), and debt service claims for vacant units. The debt service claim is only valid if the unit is vacant for greater than 60 days and the unit is not receiving a payment as a vacant unit that has been readied for occupancy. The debt service claim for a unit may not exceed 12 months and generally may not exceed the amortized principal and interest

payments due for the unit on the first mortgage of the project. Each special claim must be supported by appropriate documentation that meets the criteria for that type of special claim.

Special Claims Processing
Procedures Are Not
Consistent

When project owners meet the criteria for a special claim they send their request for special claims to the appropriate HUD field office or contract administrator. We judgmentally selected four of 81 field offices to determine if special claims processing procedures were adequate and consistent. We selected two offices that we believed were reviewing special claims thoroughly and two that were not.

We found the following weaknesses in and/or inconsistencies with HUD's processing of special claims:

- One office allowed project managers to process their own claims, while three offices required all special claims to be submitted to HUD's Housing staff designated to process such claims.
- Two offices did not make any site visits to ensure that the project owners/agents were retaining the special claims vouchers and the related supporting documentation required by HUD Handbook 4350.3. Field office site visits are needed to provide assurance that required documentation is being created and retained.
- Three field offices did not enter the approved amount or the authorization number into the Tenant Rental Assistance Certification System (TRACS). TRACS is the automated system the Department uses to compute Housing Assistance and special claims payments. Instead the field offices entered the special claims data into an excel spreadsheet that was used to track their special claims workload. However, the excel spreadsheet only tracks workload and does not tie into TRACS. Instead, the project owners/agents entered the data into TRACS after they received approval from the designated HUD special claims reviewer. The payments entered by the owners were not evaluated or tested for accuracy by TRACS controls and were paid without TRACS review (See Finding 1).

- One field office did not retain copies of the special claims requests after they were approved and returned to the owners. In addition, the field office did not have access to previously approved subsidy payment vouchers because they had been sent to the Financial Management Center. As a result, the field office had no ability to review previous vouchers to ensure they did not represent duplicate claims.
- The field offices did not forward to the Financial Management Center a listing of approved special claims for verification prior to payment. Therefore, there was no way for the Financial Management Center to perform a reconciliation of the amounts entered in TRACS by owners.

In addition, there was generally a lack of documentation at the field offices. Voucher copies were not retained and there was no system to track amounts claimed, disallowed or paid. As a result, we were unable to review prior approved claims at the field offices and could not determine the amount of excessive or inappropriate special claims that may have been paid.

Special Claims Process
Has Changed

Before 1996, when the Voucher Processing Division was created under the Office of Housing, Section 8 Subsidy Payments were the responsibility of each Field Accounting Division. The Field Accounting Divisions, which were a part of the Office of Housing, performed a post-payment review of 10 percent of the Housing Assistance Payment vouchers. The Divisions reviewed the entire tenant file for each file selected to ensure the information the Housing Assistance Payment was based on was accurate.

In 1996, the Voucher Processing Division was created under the Office of Housing. The Voucher Processing Division centralized the Section 8 subsidy payment review function in Kansas City. The Voucher Division was to continue the review function previously performed by the Field Accounting Divisions.

In 1998, when the HUD 2020 Reform Initiative was implemented, the entire Voucher Processing Division

function was transferred to the Financial Management Center, also located in Kansas City. Since the HUD 2020 Reform was to transfer monitoring of the Housing Assistance Payment contracts to outside Contract Administrators by September 1998, the staff was cut from 25 to 10. However, as previously mentioned, the procurement action was delayed and all contract administrators were not in place as of June 2000. Because of the staff cuts and other responsibilities, the Financial Management Center did not continue post-payment review of special claims.

Overall, we found that HUD has no assurance that field offices perform adequate reviews of special claims, that special claims are reviewed consistently at different offices, or that the amounts paid for special claims are appropriate. A prior Office of Inspector General audit of Special Claims payments (87-TS-103-0006) dated July 30, 1987 identified erroneous, improper, and questionable claims. The audit recommended that HUD issue procedures for Field Offices to use in reviewing Special Claims. HUD implemented the recommendation by issuing new Handbook 4350.3 sections and developing TRACS (see Finding 1.) Our audit work indicates the policies and procedures implemented as a result of the prior audit need reevaluation regarding their effectiveness as a control over Special Claims payments.



Auditee Comments

Excerpts from the Office of Housing's comments on our draft finding follow. Appendix B contains the complete text of the comments.

In general, we agree with the first part of this recommendation. Having recognized the need for consistent and accurate processing of special claims, we have already engaged a contractor to assist in developing guidance to the field which standardizes the special claims process for HUD staff and contract administrators. In addition, we have begun the development of an inter/intranet tracking system for all special claims. You will be pleased to know that this tracking system will be a part of the TRACS system.

Finally, we are currently working on our Section 8 contract renewal guidance for Fiscal Year 2001. Pursuant to your recommendation, we will investigate the possibility of eliminating the special claims provision during this process. As you know, our investigation will have to include a review of the relevant statutes and regulations in addition to evaluating the programmatic impact and overall feasibility of any alternative to the current special claims process.

OIG Evaluation of
Auditee Comments

The actions the Office of Housing has taken and planned should correct the problems identified in this finding, if the actions are followed through to completion.

Recommendations

We recommend the Office of Housing:

- 2A. Revises the current special claims procedures so that they ensure payments are properly authorized and accurate. Additionally, for new contracts, consider alternatives that may be more efficient in lieu of the current special claims payment procedures; such as, making a flat rate payment and eliminating the special claims provisions from the contract.

Management Controls

In planning and performing our audit, we considered the management controls in the Office of Housing to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. Previous Office of Inspector General audits report the management control relevant to verification of applicant and tenant income does not adequately prevent or detect cases of unreported income. HUD has reported this control as a material weakness in its annual Federal Manager's Financial Integrity Act report since fiscal year 1996. HUD needs to continue reporting this control as a material weakness.

Relevant Management Controls

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

Policies and procedures that the Office of Housing has implemented:

- To ensure project-based subsidy payments are accurate; and
- To ensure Section 8 special claims payments are appropriately authorized and accurate.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Tenant Rental Assistance Certification System (TRACS) was not implemented as planned and has limited value as currently implemented (See Finding 1); and
- Procedures for processing Section 8 special claims are not adequate (See Finding 2).

Follow Up On Prior Audits

This is the first OIG audit focusing on the HUD 2020 Reform Initiative's controls over housing subsidy payments. Office of Inspector General audit report 87-TS-103-0006, Review of Special Claims in the Section 8 Program, dated July 30, 1987 concluded Section 8 special claims were either not performed or were not sufficiently comprehensive to determine the propriety and eligibility of the claims. The audit recommended the Assistant Secretary for Housing-Federal Housing Commissioner develop procedures to correct that situation. The current audit also determined that procedures are not adequate to ensure special claims are uniformly reviewed, approved, and verified before payment and again recommends uniform policies and procedures be developed and implemented (See Finding 2).

Auditee Comments

SEP 29, 2000

MEMORANDUM FOR: Roger E. Niesen, District Inspector General for Audit, 7AGA

signed

FROM: William C. Apgar, Assistant Secretary for Housing-Federal Housing Commissioner, H

SUBJECT: Review of Office of Housing Controls over Section 8 Subsidy Payments
Draft Report Comments

This is in reference to Draft Audit findings and recommendations concerning Tenant Rental Assistance Certification System (TRACS) implementation (Recommendation 1A) and Controls over Section 8 Special Claims Payments (Recommendation 2A) contained in the subject Draft audit report.

Finding 1

Tenant Rental Assistance Certification System (TRACS) Was Not Implemented As Planned.

Recommendation 1A:

Either implement TRACS as originally planned and with effective controls over data accuracy, or transfer the tenant data that is currently in TRACS to another source or discard the system.

Response:

The recommendation to implement TRACS as originally planned, a system begun many years ago, is neither practicable nor prudent. Several systems developments have been undertaken in the intervening years - notably HUDCAPS and the Real Estate Management System (REMS) - which diverted limited systems budget resources to meet emerging needs and changing circumstances. The task before us is not to continue to develop a system that, as designed, does not meet today's data requirements and or fit squarely within recent organizational refinements; particularly those implemented under HUD 2020 management reforms. Nor would it be prudent to discard a system that provides useful data and processing capabilities. Rather, Housing is working to utilize the best features of systems at our disposal to meet many different needs and in a manner that results in greater data management and processing efficiency than could be obtained by any one system.

Housing is currently focusing on problems and inefficiencies identified in the area of subsidy payments. A number of short-term improvements have already been made and others are in process. More important, Housing has developed an action plan to address deficiencies in this regard. Under this Action item, the following are either underway or planned:

- The Financial Management Center (FMC) is developing an automated system to compare current tenant information in TRACS to the amount shown on the voucher.
- The FMC is identifying missing certifications in TRACS and instituting a series of notices to owners to supply the incomplete data.
- A contract procurement for a comprehensive study of the Section 8 payment process, with a focus on identified problems, and to develop proposed solutions for needed improvements and changes in the areas of procedures, systems (including TRACS, HUDCAPS, PAS LOCCS), and organization is underway. The study is expected to be completed by March 2001, with full implementation of solutions to be implemented by December 2001.
- In addition to the actions described above, the Section 8 payment process will be informed and improved as a result of a Computerized Income Matching Verification effort the Real Estate Assessment Center has undertaken.

FINDING 2

Controls Over Section 8 special Claims Payments Need to Improve

Recommendation 2A:

Revise the current special claims procedures so that they ensure payments are properly authorized and accurate. Additional, for new contracts, consider alternatives that may be more efficient in lieu of the current special claims payment procedures: such as making a flat rate payment and eliminating the special claims provisions from the contract.

Response:

In general, we agree with the first part of this recommendation. Having recognized the need for consistent and accurate processing of special claims, we have already engaged a contractor to assist in developing guidance to the field which standardizes the special claims process for HUD staff and contract administrators. In addition, we have begun the development of an inter/intranet tracking system for all special claims. You will be pleased to know that this tracking system will be a part of the TRACS system.

Finally, we are currently working on our Section 8 contract renewal guidance for Fiscal Year 2001. Pursuant to your recommendation, we will investigate the possibility of eliminating the special claims provision during this process. As you know, our investigation will have to include a review of the relevant statutes and regulations in addition to evaluating the programmatic impact and overall feasibility of any alternative to the current special claims process.

If you have any questions, please call Willie Spearmon, Director, Office of Housing Assistance Grants Administration on 202.708.0614, Ext. 2632 (Section 8 Special Claims) or Lanier Hylton, in the Office of Program Systems Management on 202.708.0614, Ext. 2510.

Distribution Outside of HUD

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