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Audit Report Number	2007-FW-0001
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TO: Milan M. Ozdinec  
Deputy Assistant Secretary  
Office of Public Housing and Voucher Programs, PE

Deborah A. Hernandez  
Deputy Assistant Secretary  
Office of Field Operations, PQ

FROM: *Gerald R. Kirkland*

Gerald R. Kirkland  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Overpayments in the Housing Choice Voucher Program Occurred When Public Housing Agencies Subsidized Rental Units with More Bedrooms Than Authorized

## **HIGHLIGHTS**

### **What We Audited and Why**

As part of our strategic plan objective to assist the U. S. Department of Housing and Urban Development's (HUD) efforts to reduce rental assistance overpayments, we conducted a nationwide audit of the Housing Choice Voucher program. We wanted to determine the extent to which public housing agencies paid excessive subsidies for families that were housed in rental units with more bedrooms than authorized. For purposes of this report, we have defined this condition as "overhousing." We also wanted to identify the causes of such overhousing and to evaluate HUD's approach to reducing the frequency and extent of overpayments that can result.

## What We Found

Nationwide, public housing agencies paid excess subsidies totaling an estimated \$20 million for more than 16,500 families to reside in assisted units with more bedrooms than people in the family. This occurred because public housing agencies made errors in processing eligibility reexaminations and entering data. In addition, some public housing agencies and HUD staff misunderstood fair housing requirements, resulting in granting unreasonable accommodations.

## What We Recommend

We recommend that you issue additional guidance to address evaluating reasonable accommodations requests and submitting accurate data to HUD. We also recommend incorporating data analysis designed to identify and correct overhousing and related data errors into HUD's risk assessment and monitoring methodologies. By implementing the recommendations, HUD could minimize overhousing in the voucher program and reduce unnecessary program costs by an estimated \$20 million annually.

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 held an exit conference with the Deputy Assistant Secretary for Public Housing and Voucher Programs on September 7, 2007. We received the Deputy Assistant Secretary's written comments on September 26, 2007. HUD agreed to issue additional guidance and to incorporate the recommended data analysis into its risk assessment and monitoring activities. The complete text of HUD'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

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Under the Housing Choice Voucher program (voucher program), the U.S. Department of Housing and Urban Development (HUD) pays rental subsidies so eligible families can afford decent, safe, and sanitary housing. HUD provides housing assistance and administrative funds to public housing agencies to administer the program. If the public housing agency approves a family's unit and tenancy, it contracts with the owner to make rent subsidy payments on behalf of the family. The family pays the difference between the gross rent of the unit and the subsidy amount. In 2006, Congress appropriated more than \$15 billion for the voucher program.

Public housing agencies are required to establish subsidy standards that determine the number of bedrooms needed for families of different sizes and compositions. The subsidy standards must provide for the smallest number of bedrooms needed to house a family without overcrowding. Unless a live-in aide resides with the family, the family unit size for any family consisting of a single person must be either zero or one bedroom. In determining the family unit size for a particular family, the public housing agency may grant an exception to its established subsidy standards if it determines that the exception is justified by the age, sex, health, handicap, or relationship of family members or other personal circumstances.

Public housing agencies establish payment standards that limit the amount of subsidy based on the family unit size. Families may select a unit with more or fewer bedrooms than the family unit size assigned by the public housing agency; the subsidy amount is calculated using the payment standard for the lower of the family unit size or the size of the unit occupied by the family.<sup>1</sup>

For the purposes of this report, a family was considered overhoused<sup>2</sup> when (1) the public housing agency assigned a family unit size with more bedrooms than the number of people in the household, (2) there was insufficient justification for providing the additional space, (3) the family selected a unit that exceeded the number of people in the household, and (4) the public housing agency calculated subsidy using the payment standard for the unjustified larger family unit size. If the amount of housing assistance the public housing agency paid for the overhoused family exceeded what it would have paid for the correct level of assistance, the family was oversubsidized.<sup>3</sup>

HUD requires public housing agencies to electronically submit timely and accurate tenant information<sup>4</sup> to its Public and Indian Housing Information Center (PIC) system. PIC is HUD's official system to track and account for the family report information that includes family characteristics, income, rent, unit, and other occupancy factors.

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<sup>1</sup> 24 CFR 982.402.

<sup>2</sup> Refer to appendix B for HUD's comments on the term overhousing.

<sup>3</sup> This definition provides the most conservative estimate of overhousing in the voucher program. As discussed in the finding, families would also be considered overhoused if a public housing agency assigned and provided subsidy for a family unit size that exceeded its own subsidy standards.

<sup>4</sup> Form HUD-50058 titled "Family Report."

In recent years, HUD has invested considerable effort to reduce rental assistance overpayments. This effort included increased monitoring and enforcement as well as the implementation of an income-matching system designed to combat underreporting of income by assisted families. As a result, HUD reported that it exceeded its President's Management Agenda goal to cut rental assistance overpayments in half by the end of fiscal year 2005.

HUD's successful efforts led to the Government Accountability Office removing HUD's rental assistance programs from its high-risk list in 2007. The Office of Inspector General (OIG) audits of HUD's financial statements have also recognized improvements in its verification of subsidy payments and improved monitoring of the housing assistance programs. Both organizations cautioned that HUD must continue to place a high priority on managing its rental assistance programs and reducing erroneous payments. For fiscal year 2005, HUD reported an estimated \$309 million in rental assistance overpayments associated with public housing agency-administered voucher programs. In discussing our audit with HUD, the director of the office of housing voucher programs expressed interest in the audit objective; however, HUD was focusing on other priorities to further reduce the \$309 million in rental assistance overpayments.

In fiscal years 2005 and 2006, Congress directed OIG to increase its audits and investigative efforts related to public housing agencies. In response, OIG conducted several audits that identified overhousing conditions at public housing agencies throughout the nation. The audit objectives for this report were based on the previous audit results and were to determine the extent and causes of overhousing and to evaluate HUD's approach to correcting overhousing in the voucher program.

## RESULTS OF AUDIT

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### Finding: Overpayments in the Housing Choice Voucher Program Occurred When Public Housing Agencies Subsidized Rental Units with More Bedrooms Than Authorized

Public housing agencies nationwide overpaid an estimated \$20 million annually in rental assistance for more than 16,500 overhoused families. Public housing agencies oversubsidized families for a number of reasons, including failure to decrease the voucher size after changes in family composition, staff and data entry errors, and insufficient knowledge of reasonable accommodation procedures. In addition, HUD's risk assessment and monitoring activities did not address whether public housing agencies assigned the correct voucher size for all households. HUD did not use existing data to identify and correct potential cases of overhousing and data quality errors related to subsidy size.

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#### Sampling Identified the Extent and Causes of Overhousing

According to information public housing agencies submitted to PIC, approximately 65,000 of the 2.2 million assisted families appeared to be overhoused because the number of bedrooms on the voucher exceeded the number of people in the household. Our evaluation of a statistical sample of these 65,000 vouchers concluded that public housing agencies oversubsidized approximately 16,500 vouchers, resulting in estimated overpayments of \$20 million annually.<sup>5</sup>

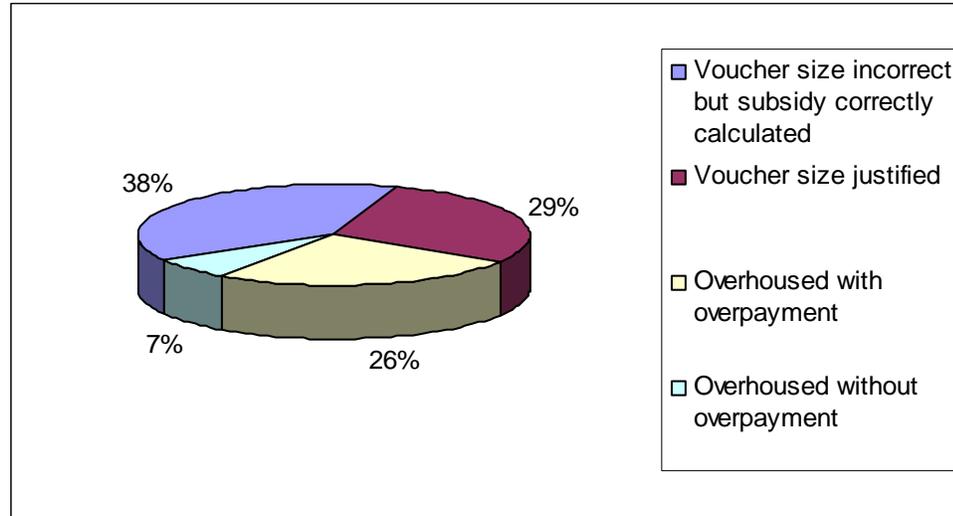
As shown in figure 1, of the 205 vouchers sampled, public housing agencies supplied documentation showing that the voucher size

- Was incorrect, but the public housing agency correctly calculated subsidy (38 percent);
- Was justified by the circumstances (29 percent);
- Was not justified, and the public housing agency oversubsidized the family (26 percent); or
- Was not justified, but the public housing agency did not oversubsidize the family because the rent did not exceed the correct payment standard (7 percent).

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<sup>5</sup> Refer to the Scope and Methodology section for further details about the statistical sample.

Figure 1: Results of sample testing



For 79 sample vouchers (38 percent), the public housing agency assigned a voucher that was larger than the number of people in the family but correctly calculated the subsidy. In these instances, public housing agencies administered the funds appropriately. However, they inaccurately recorded the voucher size in HUD's PIC system, resulting in data quality problems and false indications of overhousing. These errors represent data quality issues related to the assignment of subsidy size. HUD and public housing agencies should periodically analyze tenant data in PIC to identify and correct these errors.

For 59 sample vouchers (29 percent), public housing agencies provided documentation showing that the voucher size was justified based on the family's individual circumstances. However, the data in PIC was either inaccurate or insufficient to make this determination. Data was inaccurate for 28 of the 59 vouchers because public housing agencies

- Omitted household members for 20 vouchers.
- Made data entry errors or had problems with software or submitting data to PIC for eight vouchers.

Data was insufficient for 31 of the 59 vouchers because it did not reflect

- Medical equipment requiring additional space for 13 families.
- Care provided around-the-clock in shifts by professional home health providers for six families.
- Several people providing constant care on a rotating basis instead of an individual live-in aide for four families.
- Inability to move for medical reasons for three families.
- The family was in the process of searching for a new live-in aide for two families.

- The voucher size assigned was otherwise allowed by the public housing agency's policy for three families.

HUD's family report form did not allow the collection of information to explain these reasonable accommodations. HUD could reduce false indications of overhousing and obtain additional statistical information about the families assisted under the program if it developed a means for public housing agencies to report when a family has an additional bedroom as a reasonable accommodation.

For 67 sample vouchers (33 percent), public housing agencies oversubsidized families who resided in units with more bedrooms than the number of people in the household. Consequently, public housing agencies overpaid more than \$82,000 in subsidy for 53 of these families (26 percent).<sup>6</sup> For the other 14 families (7 percent), public housing agencies calculated subsidy incorrectly but did not pay excess subsidy because the gross rent of the unit did not exceed the subsidy for the correct voucher size. Public housing agencies overhoused these families because they<sup>7</sup>

- Failed to reduce the voucher size after a change in family composition for 26 families, resulting in subsidy overpayments for 23 families.
- Made processing errors during eligibility examinations for 17 families.
- Approved additional bedrooms for occasional caregivers for 12 families.
- Approved additional space for live-in aides or necessary medical equipment but did not require or verify that the additional space was used for the approved purpose for 13 families.
- Made data entry errors or had problems with software or submitting data to PIC for ten families.
- Granted additional bedrooms based on requests that were unreasonable or unsupported for seven families.
- Made unspecified errors for two families.

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<sup>6</sup> The audit identified more than \$82,000 in questioned costs associated with overhousing 53 families during the audit period. Many of these overpayments were ongoing during the audit. We will provide the necessary information to HUD for followup under separate cover.

<sup>7</sup> There may be more than one cause associated with each family.

### **More Than One-Third of the Sample Involved a Change in Family Composition**

Public housing agencies were required to reexamine family income and composition annually and make necessary adjustments to the subsidy for the family. For our sample, the family composition changed for more than one-third of the families. In 70 cases, the change in family composition required the public housing agency to decrease the voucher size. However, it neglected to do so, resulting in subsidy overpayments for 23 families.

### **Software or Data Entry Problems Caused Errors**

In 29 percent of the sample, staff made data errors that resulted in subsidy overpayment for five families. Some errors involved simple data entry, while others involved more complex software issues or difficulty in transmitting to PIC. Software errors identified included the inability to report live-in aides, transposing data elements, complicated user interfaces, and unclear fields. For example, several public housing agencies commented that a commonly used software program stored the voucher size data field in a separate screen that staff seldom accessed during reexaminations. Another public housing agency reported that its software system did not allow it to enter a live-in aide as a household member.

Accurate and timely information about the households participating in HUD's housing programs is necessary to allow HUD to monitor the effectiveness of the programs, assess agency compliance with regulations, and analyze the impact of proposed program changes. PIC provides the primary source of data on participation in the program, and field staff uses the data to monitor public housing agencies. For these reasons, it is imperative that public housing agencies transmit accurate and reliable data to PIC.

### **Misapplication of Reasonable Accommodations Resulted in Overpayments**

Seventeen percent of the sample involved errors related to reasonable accommodation. For 21 vouchers, an unsupported reasonable accommodation request resulted in oversubsidy by the public housing agency. This included families not having the requested live-in aide or approved medical equipment, accommodation of occasional caregivers, and otherwise unreasonable or

unsupported accommodation requests. Under fair housing requirements, public housing agencies are required to make exceptions to existing policy when necessary to make the housing accessible to persons with disabilities. HUD permits a family to have an additional bedroom when the family can show that it needs the room for a live-in aide<sup>8</sup> or other reason related to the disability. In contrast to these requirements, public housing agencies

- Granted requests<sup>9</sup> for additional bedrooms for occasional caregivers. Public housing agencies incorrectly applied HUD's live-in aide provisions in approving additional bedrooms for families who occasionally or potentially needed someone to stay with them. HUD's guidance did not address occasional caregivers or the payment of additional subsidy for this purpose. By allowing occasional caregivers, public housing agencies bypassed the tenant screening and reporting process, unreasonably allowed for occasional or contingent use of the unit, possibly violated lease requirements, and exposed the program to abuse.
- Granted requests for an additional bedroom for a live-in aide or necessary medical equipment but did not require or verify that the additional space was used for the necessary accommodation; for instance, the family did not hire a live-in aide or obtain the medical equipment.
- Granted requests for an additional bedroom based upon vague evidence or opinions that a person might benefit from the space. The request must demonstrate that the additional space is necessary to accommodate the family member's disability.

In some instances, HUD staff misunderstood reasonable accommodations requirements. Some HUD staff admitted to directing public housing agencies not to question doctors' notes or dismissed the idea that an elderly or disabled family could be overhoused. In one instance, a public housing staff member incorrectly told a public housing agency that its action to reduce the voucher size in accordance with its policy would result in a valid fair housing claim. Several public housing agencies expressed concerns over being sued if they denied requests for additional bedrooms.

HUD should issue additional guidance to staff and to public housing agencies addressing requirements for granting requests for reasonable accommodations. Further, HUD should clarify its policies on live-in aides and occasional caregivers. This information should provide public housing agencies the ability to evaluate the reasonableness and necessity of requests before approval.

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<sup>8</sup> HUD defined a "live-in aide" as someone who is essential to the care of the family member, not obligated for the support of the person, and would not otherwise be living in the unit.

<sup>9</sup> Most of the requests were supported by doctors' notes that the family occasionally or potentially needed assistance.

## **HUD's Risk Assessment and Monitoring Did Not Emphasize Overhousing**

HUD's central risk assessment and monitoring strategies did not emphasize ensuring that public housing agencies assigned the correct voucher size for all households. Since 2006, HUD has focused monitoring efforts primarily on reviewing the 494 public housing agencies administering 80 percent of rental assistance funding, which make up the national high risk list. Specifically, HUD's 2006 goal was to review 100 of these public housing agencies and 175 additional public housing agencies not on the national high risk list. For 2007, HUD committed to reviewing 90 public housing agencies on the national high risk list but made reviewing additional public housing agencies optional. Only those field office locations that made addressing overhousing a local initiative included it in risk assessment and monitoring activities.

HUD used the PIH risk assessment module, a submodule of PIC, to automatically calculate numeric risk scores for public housing agencies not on the national high risk list. It assigned risk scores with the following weights:

- 50 percent for performance, based on public housing agencies' self-assessments;
- 30 percent for financial, including budget authority; and
- 20 percent for compliance, based on audit findings, fair housing complaints, and related data.

Field office staff then performed a qualitative assessment analysis and entered the information into the risk assessment module to identify the final risk rankings and develop a monitoring strategy for public housing agencies not on the national high risk list. HUD could incorporate data analysis designed to detect and correct potential overhousing and related data quality errors into the qualitative portion of the risk assessment.

## **Smaller Public Housing Agencies Were More Likely to Overhouse Families**

Nationwide tenant data showed that there was a higher rate of potential overhousing among public housing agencies administering fewer than 500 vouchers. The smaller the public housing agency, the more likely it was to have a larger percentage of potentially overhoused families as demonstrated in table 1.

**Table 1: Percentage of vouchers too large by individual public housing agency, grouped by size category**

Public housing agency size <sup>10</sup>	Percentage of public housing agencies with 5% or more vouchers larger than family size	Percentage of public housing agencies with 10% or more vouchers larger than family size
Extra large	11.5	0
Large	20.4	3
Med-hi	23.1	4
Med-low	25.4	7.5
Small	35.9	12.3
Very small	37.5	19.8

Because HUD’s monitoring impetus was primarily on funding, it was less likely to focus monitoring attention on smaller public housing agencies, where possible overhousing was more prevalent. Incorporating data analysis into field office remote monitoring activities for smaller public housing agencies could be a cost-effective way to prevent and detect subsidy overpayments caused by overhousing as well as ensuring data quality.

### **HUD Could Use Existing Data to Identify Overhousing**

HUD could make more effective use of existing data to identify and correct potential cases of overhousing and data quality errors related to subsidy size. PIC contains a key management indicators report that identifies the number of units for which the number of bedrooms exceeds the number of family members. However, the report has limited usefulness because it compares the number of people in the household to the number of bedrooms in the assisted unit. It does not take into consideration additional factors necessary to identify possibly oversubsidized units.

Many of the errors identified during our audit could be effectively and efficiently identified by HUD through data analysis as part of qualitative risk assessment and remote monitoring activities. By incorporating tenant-level data analysis into these procedures, HUD staff could identify potential overhousing and follow up with the public housing agency remotely, resulting in the identification of actual overhousing conditions, data quality issues, and questionable reasonable accommodations. This information could assist public housing agencies in identifying areas of concern and initiating corrective action.

By analyzing PIC data in the context of public housing agencies’ local policies, HUD could identify additional oversubsidized families. While the audit focused

<sup>10</sup> HUD’s public housing agency size categories are very small (1-49 vouchers), small (50-249 vouchers), med-low (250-499 vouchers), med-hi (500-1,249 vouchers), large (1,250-9,999 vouchers), and extra large (10,000 or more vouchers).

on a one-bedroom-per-person policy, local policies can be more stringent. To save program costs, HUD has encouraged public housing agencies to revise subsidy standards to two persons per bedroom.<sup>11</sup> By comparing the voucher size assignment with local subsidy standards, HUD could assist public housing agencies in further reducing subsidy overpayment associated with overhousing.

## Conclusion

Based on a statistical sample, public housing agencies paid excess subsidy totaling an estimated \$20 million per year<sup>12</sup> for more than 16,500 families to reside in assisted units with more bedrooms than people in the family. This overhousing occurred because public housing agencies made errors in processing eligibility reexaminations and entering data. In addition, some public housing agencies and HUD staff misunderstood fair housing requirements, resulting in granting unreasonable accommodations.

HUD should implement both preventive and detective controls designed to reduce overhousing in the voucher program.<sup>13</sup> As a preventative measure, HUD should issue guidance that clarifies requirements for granting reasonable accommodations and requires submitting accurate data to PIC. HUD's guidance should confirm that public housing agencies should pay subsidy to house members of the assisted household only. As a detective and corrective measure, HUD should incorporate data analysis into its risk assessment and monitoring programs to ensure that public housing agencies assign the correct voucher size to all families, including those with eligible reasonable accommodations, and to mitigate data errors. These preventive and detective measures combined will help HUD minimize overhousing in the voucher program and reduce unnecessary program costs by an estimated \$20 million annually.

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<sup>11</sup> Notice PIH [Public and Indian Housing] 2005-9, reinstated by Notice PIH 2006-32.

<sup>12</sup> This represents approximately .13 percent of fiscal year 2006 appropriations for the voucher program.

<sup>13</sup> As discussed in the background, HUD has been successful in reducing rental assistance overpayments in other areas.

## Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing and Voucher Programs

- 1A. Issue guidance that clarifies requirements for granting reasonable accommodations and submitting accurate data to PIC, which will minimize overhousing in the voucher program and reduce unnecessary program costs by a statistical estimation of \$20,076,492 annually.

We recommend that the Deputy Assistant Secretary for Field Operations

- 1B. Incorporate data analysis into risk assessment and monitoring programs to ensure that public housing agencies assign the correct voucher size to all families, including those with eligible reasonable accommodations, and to mitigate data errors.

## SCOPE AND METHODOLOGY

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Our audit objectives were to determine the extent and causes of overhousing and to evaluate HUD's approach to correcting overhousing in the voucher program. To accomplish our objectives, we

- Reviewed applicable laws, regulations, and other HUD requirements.
- Interviewed HUD management and staff in the Offices of Public and Indian Housing and Fair Housing and Equal Opportunity to evaluate HUD's approach to correcting overhousing in the program.
- Analyzed data from HUD's Public and Indian Housing Information Center (PIC) from January 1, 2005, through August 21, 2006.<sup>14</sup>
- Evaluated the results of a statistical sample of 205 vouchers administered by 165 public housing agencies.
- Interviewed public housing agency staff.
- Reviewed and evaluated documentation of HUD's risk assessment and monitoring activities to determine whether they addressed overhousing in the voucher program.

To assess the reliability of PIC data, we reviewed prior OIG audits and assessments of PIC data, performed analytical procedures to verify that data fields contained expected values, and traced information to source documentation for sampled items, noting any differences. This process identified a few differences that were immaterial to the audit results. We determined that the data were sufficiently reliable for meeting the audit objectives because the data were corroborated by documentary evidence supplied by public housing agencies.

Using auditing software, we identified records in HUD's PIC system for 2.2 million voucher holders nationwide for the audit period. To identify the records, we isolated the most recent annual reexamination for each voucher holder. We used an interim reexamination only if no other record existed. Of the 2.2 million vouchers, we identified 64,797 vouchers nationwide<sup>15</sup> where the number of bedrooms on the voucher exceeded the number of people in the household.

We used EZ-Quant<sup>16</sup> to develop a variable statistical sampling plan, estimate the sample size, and generate a set of random numbers to identify sample items. We used a confidence level of 95 percent and a precision of plus or minus 3 percent of the sampled dollars.<sup>17</sup> The sampling plan resulted in a sample size of 205 vouchers administered by 165 public housing agencies.

For each of the 205 vouchers sampled, we contacted the public housing agency for information and documentation to determine whether the voucher size issued for the household was justified. If the voucher size was not justified, we identified the reason for the error, when known, and calculated the monthly amount of overpaid subsidy by subtracting the amount the public housing

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<sup>14</sup> We retrieved the information on this date.

<sup>15</sup> The monthly subsidy on the 64,797 vouchers totaled \$31,540,126.

<sup>16</sup> Statistical sampling software developed by the Defense Contract Audit Agency.

<sup>17</sup> HUD uses the same sampling methodology.

agency should have paid based on the correct voucher size for the family from the amount it paid for the larger voucher size.

After evaluating all sample items, we used EZ-Quant to project the questioned costs of \$6,917<sup>18</sup> to the sampling universe of 64,797 vouchers, resulting in a statistical estimate of \$1,673,041 in subsidy overpayments per month, or \$20,076,492 annually.<sup>19</sup> Table 2 shows the key information related to the statistical sample.

**Table 2: Sampling methodology and results using EZ-Quant**

Universe quantity	64,797
Universe absolute value	\$31,540,126
Desired precision <sup>20</sup>	\$946,294
Desired confidence	95%
Presumed error rate	4.8%
Sample size	205
Reviewed items	205
Reviewed amount	\$101,279
Questioned amount	\$6,917
Questioned ratio	0.06830
Achieved confidence	95%
Achieved precision <sup>21</sup>	\$513,304
Point estimate	\$2,186,346
Lower limit (point estimate minus precision) <sup>22</sup>	\$1,673,041
Method of Projection	Difference estimation

We conducted this performance audit in accordance with generally accepted government auditing standards. The audit covered PIC information and related supporting documentation from January 1, 2005, through August 21, 2006. We expanded the scope of the testing to include subsidy overpayments through February 2007 when applicable. We conducted the audit from our offices in Fort Worth, Texas, from September 2006 through July 2007.

<sup>18</sup> The \$6,917 includes only the amount of assistance overpaid for the sample on the effective date of the reexamination in question. The total overpaid for the sample during our review period was \$82,000.

<sup>19</sup> We multiplied the statistical lower limit by 12 months to estimate the annual amount of subsidy overpayments associated with overhousing (\$1,673,041 x 12 months = \$20,076,492 annually). We used the lower limit to achieve the most conservative estimate of the impact of overhousing on the voucher program. The resulting monthly overpayment amount is a statistically valid projection to the sampling universe, while the annual amount is an estimate based on the statistical projection.

<sup>20</sup> Desired precision amount equals three percent of the universe absolute value.

<sup>21</sup> Achieved precision amount equals 1.6 percent of the universe absolute value.

<sup>22</sup> May include rounding error.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Control

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

- Activities designed to ensure public housing agencies provided the correct level of subsidy to each family assisted under the voucher program.
- Activities designed to ensure public housing agencies submitted accurate tenant data to HUD's PIC system.

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

We did not identify any significant weaknesses during the audit.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use <u>1/</u>
1A	\$20,076,492

1/ Recommendations that funds to be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, the funds represent subsidy payments that would not be paid on units that are larger than necessary if HUD implements the recommendations.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Comment 2

Comment 3

	<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> WASHINGTON, DC 20410-5000
OFFICE OF PUBLIC AND INDIAN HOUSING	<b>SEP 26 2007</b>
MEMORANDUM FOR:	Gerald R. Kirkland, Regional Inspector General for Audit, 6AGA
FROM:	<i>M. Ozdinec</i> Milan M. Ozdinec, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE
SUBJECT:	Draft Audit Report of Overhousing in the Housing Choice Voucher Program
<p>On August 24, 2007, you issued the subject report for my comments. Recorded below are my comments to each recommendation:</p>	
<p><b>Recommendation 1A:</b> Issue guidance that clarifies requirements for granting reasonable accommodations and submitting accurate data to PIC which will minimize overhousing in the voucher program and reduce unnecessary program costs by a statistical estimation of \$20,076,492 annually.</p>	
<p><b>Comments:</b> I agree with this recommendation and will issue applicable guidance. However, I disagree with the use of the term "overhousing" as used in this report. On page 4 of your report under Background and Objectives, the third paragraph notes that families may select a unit with more or fewer bedrooms than the family unit assigned by the public housing agency (PHA); the subsidy amount is calculated using the payment standard for the lower of the family unit size or the size of the unit occupied by the family. Therefore, overhousing is not applicable to the Housing Choice Voucher (HCV) program. I recommend that the term, "oversubsidizing," be used throughout the report instead.</p>	
<p><b>Recommendation 1B.</b> Incorporate data analysis into risk assessment and monitoring programs to ensure that PHAs assign the correct voucher size to all families, including those with eligible reasonable accommodations, and to mitigate data errors.</p>	
<p><b>Comments:</b> I agree with this recommendation. At the time HUD field offices determine which PHAs will be reviewed through risk assessment, Headquarters will determine those PHAs that have a significant percentage (to be determined) of families where the number of bedrooms on the voucher on line 12a of the Family Report (form HUD-50058) exceeds the number of household members on line 3t. However, it is expected that guidance issued on this matter should mitigate the problems of over subsidization due to misunderstandings regarding reasonable accommodations and changes in household composition.</p>	
<p><b>Recommendation 1C.</b> Revise the form HUD-50058 to allow PHAs to report additional information concerning reasonable accommodations.</p>	
2	
<a href="http://www.hud.gov">www.hud.gov</a> <a href="http://espanol.hud.gov">espanol.hud.gov</a>	

Comment 3

difficult to implement quickly. In addition, the Department is more interested in decreasing the amount of information collected through the Family Report, rather than adding information. As noted above, it is anticipated that the requisite guidance should mitigate the issue of over subsidization and the need for additional information on this form.

Should you wish to discuss these comments, please contact Phyllis Smelkinson at extension 4138.

### **OIG Evaluation of Auditee Comments**

1. We appreciate HUD's commitment to issuing additional guidance to help correct errors associated with overhousing in the voucher program. To address HUD's disagreement with the term overhousing, we revised the subject line of the report and the title of the finding. We added additional language to the highlights and background and objectives sections to define overhousing in the context of this report. A family can be overhoused without being oversubsidized and can be oversubsidized for reasons other than overhousing. For this reason, we used both terms as appropriate in the finding.
2. The combination of additional guidance and monitoring focus will help achieve the desired decrease in overhousing and the resulting oversubsidizing in the voucher program.
3. We removed the recommendation from the report. This information would be useful to monitoring staff in reviewing possible cases of overhousing and would provide HUD additional statistical information about its assistance to persons with disabilities. However, we understand HUD's efforts to obtain quality data from public housing agencies and do not wish to complicate the data submission process. Given the increased national focus on transitioning persons with disabilities from institutions to independent living, HUD should take this under consideration if it revises the form HUD-50058 in the future.