Issue Date	July 30, 2008
Audit Report Number	2008-PH-1010

TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3BPH

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The District of Columbia Housing Authority, Washington, DC, Did Not Implement Effective Controls for Its Leased Housing under Its Moving to Work Program

HIGHLIGHTS

What We Audited and Why

We audited the District of Columbia Housing Authority's (Authority) controls over its leased housing under its Moving to Work Demonstration program based on our analysis of various risk factors relating to the housing authorities under the jurisdiction of the U.S. Department of Housing and Urban Development's (HUD) Baltimore field office. This is the third of three audit reports on the Authority's program. The audit objectives addressed in this report were to determine whether the Authority implemented adequate controls to prevent overhousing, ensured that it made assistance payments only for the time period that families resided in units, and effectively implemented a family self-sufficiency program.

What We Found

The Authority had not implemented adequate controls to prevent overhousing and prevent it from making assistance payments for vacant units and had not effectively implemented a family self-sufficiency program. The Authority paid for 194 families to live in larger housing units than its policy allowed. As a result, it made excessive housing assistance payments totaling $42,955 monthly. In addition, it made ineligible housing assistance payments totaling $322,389 for vacant units. During the audit, the Authority recovered $278,561 of the $322,389 in ineligible payments. It needs to recover the remaining $43,828 in housing assistance payments related to these units. Further, the Authority did not operate its family self-sufficiency program according to HUD requirements. As a result, it made ineligible and unsupported payments to participants' escrow accounts totaling $44,702 and did not make contributions of more than $8,900 to the escrow account for one participant.

What We Recommend

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to reimburse the applicable programs for its improper use of more than $80,000 in funds, provide documentation or reimburse the applicable program more than $51,000 for the unsupported payments cited in this audit report, and implement adequate procedures and controls to address the findings cited in this audit report to prevent the Authority from spending more than $426,000 in program funds for overhoused tenants. We also recommend that the Director of HUD's Baltimore Public Housing Program Hub verify that the Authority contributed more than $8,900 to the family self-sufficiency escrow account for one participant.

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

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on July 2, 2008. The Authority provided written comments to our draft report on July 15, 2008. The Authority agreed with the findings and recommendations. The complete text of the Authority's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The District of Columbia Housing Authority (Authority) operates the city's public housing programs. The Authority was, by court order, placed in receivership on May 19, 1995. Receivership terminated on September 30, 2000. The Authority is governed by a nine-member board of commissioners consisting of four commissioners appointed by the mayor with the advice and consent of the city council, three commissioners elected by residents of the Authority's housing properties, one commissioner representing labor and designated by the central labor council, and the deputy mayor for planning and economic development serving ex officio. The board of commissioners grants authority to the executive director to develop policies, plans, and goals and to direct the day-to-day operation of the Authority.

In 1996, Congress authorized the Moving to Work Demonstration program (Moving to Work) as a U.S. Department of Housing and Urban Development (HUD) demonstration program. The Authority was accepted into the program on July 25, 2003, when HUD's Assistant Secretary for Public and Indian Housing signed the Authority's Moving to Work agreement. The signed agreement requires the Authority to abide by the statutory requirements in Section 8 of the United States Housing Act of 1937 until such time as the Authority proposes and HUD approves an alternative leased housing program. HUD accepted the alternative leased housing program the Authority proposed under its Moving to Work agreement.

Under the Section 8 Housing Choice Voucher program, the Authority was authorized to provide leased housing assistance payments to more than 9,500 eligible households. HUD authorized the Authority the following financial assistance for housing choice vouchers:

Authority fiscal year	Annual budget authority
2005	$112,811,038
2006	$115,848,213
2007	$144,294,714
Total	**$372,953,965**

HUD has competitively awarded the Authority the following grants for its family self-sufficiency program since 2005:

Fiscal year	Grant amount
2005	$189,000
2006	$190,890
Total	**$379,890**

HUD awarded the grants to the Authority to fund a family self-sufficiency coordinator and a family self-sufficiency homeownership coordinator.

The purpose of the family self-sufficiency program is to promote the development of local strategies to coordinate the use of public housing assistance and housing assistance under the

Section 8 Housing Choice Voucher program with public and private resources to enable eligible families to achieve economic independence and self-sufficiency.

Our audit objectives were to determine whether the Authority implemented adequate controls to prevent overhousing, ensured that it made assistance payments only for the time period that families resided in units, and effectively implemented a family self-sufficiency program. This is the third of three audit reports on the Authority's leased housing program.

RESULTS OF AUDIT

Finding 1: The Authority Sometimes Paid for Larger Housing Units Than Its Policy Allowed

In most cases, the Authority applied the correct voucher size in accordance with its adopted subsidy standards. However, it allowed 194 families to live in units that were larger than its standards allowed because it lacked controls to detect and prevent overhousing. As a result, the Authority made excessive and unsupported housing assistance payments totaling at least $42,955.

The Authority Established Subsidy and Payment Standards

HUD regulations at 24 CFR [*Code of Federal Regulations*] 982.54 require the Authority to adopt a written administrative plan that establishes local policies for operation of the housing programs within the context of federal laws and regulations. Regulations at 24 CFR 982.402 require the Authority 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. The Authority's subsidy standards in effect during the audit were as follows:

	Subsidy standards	
Voucher size	Minimum number of persons	Maximum number of persons
Efficiency	1	1
1	1	2
2	2	4
3	3	6
4	4	8
5-6	6	10-12

The regulations also require the Authority to establish payment standards. The Authority established payment standards by number of bedrooms, and it used them to calculate the amount of housing assistance it would pay to a landlord on behalf of the family leasing the unit. The Authority's payment standards in effect during the audit were as follows:

Payment standards	
Number of bedrooms	**Payment standard**
Efficiency	Up to $1,095
1	Up to $1,247
2	Up to $1,415
3	Up to $1,825
4	Up to $2,388
5	Up to $2,747
6	Up to $3,104

The Authority Made Excessive and Unsupported Housing Assistance Payments for 194 Families

The Authority did not follow its administrative plan and overhoused 194 families. In January 2008, the Authority provided a spreadsheet containing housing assistance payment information for the 194 families as of December 2007. It stated that it had issued enhanced vouchers[1] to 28 families and regular vouchers to the remaining 166 families. Although enhanced vouchers differ from regular vouchers, all 194 families were overhoused regardless of the type of voucher issued. The following table provides a summary of the overhoused families identified.

Number in family	Number of bedrooms in assisted unit	Number of families
1	2	56
1	3	26
2	3	62
2	4	17
2	5	3
3	4	21
3	5	4
3	6	2
4	5	2
4	6	1
Total		**194**

Using the family data that the Authority provided, we compared the number of bedrooms and the contract rent for the 194 families to the subsidy and payment

[1] HUD's policy on Notice PIH [Public and Indian Housing] 2001-41 (HA), which was in effect during the audit, limited enhanced assistance to one year. After one year, the Authority's normal payment standard would be used to determine the housing assistance payment.

standards that were in force during the audit for the size unit appropriate for the family. Using automated data the Authority provided, we attempted to determine when the families became overhoused. For 68 families without enhanced vouchers, the data indicated that the overhoused condition began in 2006 and earlier. We could not determine when the overhoused condition started for the other families. We requested the Authority provide information to identify when the overhoused condition began, but the Authority did not provide any information. Therefore, we could not determine the total amount of excessive housing assistance payments and used the December 2007 housing assistance payment information the Authority provided to conservatively quantify questioned costs. The Authority made excessive and unsupported housing assistance payments of $42,955 for the month ($35,517 of excessive payments for the families with regular vouchers and $7,438 of unsupported payments for the families with enhanced vouchers). This condition occurred because the Authority did not have controls to detect and prevent overhousing.

The Authority Took Action Based on the Audit

The Authority acknowledged the problem and issued transfer vouchers to 38 families. Transfer vouchers give families 180 days to find an appropriately sized housing unit. The Authority stated that it sent letters to the remaining overhoused families in March 2008 to arrange meetings to discuss their housing accommodations.

Conclusion

The Authority made housing assistance payments for overhoused families because it lacked controls to detect, correct, and prevent the overhousing. As a result, it made excessive and unsupported housing assistance payments of at least $42,955. The Authority needs to determine how long the families were overhoused and reimburse its program for any excess amounts it paid. The Authority also needs to implement procedures and controls to ensure that housing assistance payments are based on the appropriate subsidy and payment standards for the family. By taking action to house families in appropriately sized units, the Authority will avoid spending an estimated $426,204[2] in excessive subsidy payments over the next year.

[2] $426,204 = $35,517 per month multiplied by 12 months to annualize.

Recommendations

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to

1A. Reimburse its program $35,517 from nonfederal funds for the excessive housing assistance payments it made for overhoused families with regular vouchers.

1B. Provide documentation to demonstrate that the one-year limit applicable to enhanced vouchers had not expired for the families with enhanced vouchers or reimburse its program $7,438 or the amount that cannot be supported from nonfederal funds.

1C. Determine when each family became overhoused, calculate the amount of excess housing assistance payments it made, and reimburse its program from nonfederal funds.

1D. Establish and implement procedures and controls to ensure that housing assistance payments are based on the appropriate subsidy and payment standards for the family, thereby ensuring that $426,204 in program funds is expended on appropriately sized units over a one-year period.

Finding 2: The Authority Made Housing Assistance Payments for Vacant Units

The Authority made ineligible housing assistance payments totaling $322,389 for units that it should have known were vacant and did not take action to recover payments after becoming aware that it paid for vacant units. This occurred because the Authority did not conduct annual reexaminations and did not comply with policy in its administrative plan to recover from owners payments to which they were not entitled. During the audit, the Authority recovered $278,561 of the $322,389 in ineligible payments. The Authority needs to recover the remaining $43,828 in housing assistance payments related to our review.

The Authority Made Ineligible Housing Assistance Payments

The Authority made $322,389 in ineligible housing assistance payments on behalf of families in which the head of household was deceased. Regulations at 24 CFR 982.311 require that housing assistance payments be paid to the owner in accordance with the terms of the housing assistance payments contract and that housing assistance payments only be paid during the lease term and while the family is residing in the unit. Chapter 22 of HUD's Housing Choice Voucher Guidebook, 7420.10G, states that public housing authorities are ultimately responsible for ensuring that the right people receive the right amount of subsidy, and they must maintain a high degree of accuracy in administering the housing choice voucher program. Authorities must have preventive measures in place so that any irregularity can be quickly detected and resolved as efficiently, professionally, and fairly as possible. Because preventive measures are the most effective way to deter widespread program irregularities, they should be an integral part of daily operations. Consideration should be given to whether the measure allows for the identification of errors before or after the housing assistance payments are made. Errors that go undetected translate into increased collection costs and losses for the public housing authority. The Authority was unaware of this condition because it did not conduct annual reexaminations and it did not take action to recover payments after becoming aware that it paid for vacant units, as required.

During the period October 2004 to September 2006, the Authority made housing assistance payments for housing units in which the head of household was deceased. The Authority provided an automated data file containing Form HUD-50058 (Family Report) information for all persons participating in its leased housing program as of October 2006. We analyzed the data in the file and determined that the Authority had identified 10,239 persons as heads of household. We screened the Social Security numbers for these persons against a database provided to us by the Social Security Administration to determine whether heads of household were deceased. We matched the deceased heads of household to the Authority's housing assistance payment register to determine whether the Authority made payments for them. The Authority made housing assistance payments for 124 housing units in which our analysis indicated that the head of household was deceased. We provided a spreadsheet with our results to the Authority.

The Authority Began Taking Action during the Audit

The Authority was proactive and initiated action to recover ineligible funds and began developing controls during the audit. Of the 124 deceased heads of household identified, the Authority agreed that in 55 cases,[3] the head of household was deceased and that it made ineligible payments totaling $305,813 for the units. In 27 of the 55 cases, the Authority was unaware the head of household was deceased because it failed to perform the annual reexaminations. In the other 28 cases, it was aware the head of household deceased and it stopped making payments, but it did not take action to recover payments until we raised the issue. The Authority processed reimbursement adjustments to either withhold overpaid amounts from future payments to owners or initiate collection actions for those owners no longer participating in the program. It provided explanations and documentation to support its actions. We considered the Authority's explanations and reviewed the related documentation. We identified an additional $16,576 in ineligible payments that the Authority had not identified. This number increased the total ineligible payments related to this issue to $322,389. The Authority recovered $278,561 of the ineligible payments during the audit. It stated that it was working toward recovering the remaining $43,828. However, the Authority will be responsible for reimbursing its program $14,420 of the $43,828 if it does not recover the funds because it made these payments more than 12 months after the date of death.

In addition, the Authority developed a set of procedures to incorporate the use of the deceased tenants report from HUD's Enterprise Income Verification system into its operations to identify deceased tenants. HUD encourages public housing authorities to use the report to verify deceased tenants and update family composition. Although the Authority's action to implement this control is not required, by being proactive, the Authority will improve the efficiency of its

[3] For the remaining 69 cases, the Authority reported that there was no effect because either there were remaining family members still residing in the units, the head of household was not deceased, the Authority had stopped making assistance payments after the month of death, the head of household was not deceased and had vacated the unit, or the Authority became aware of the death and issued a stop payment on a check.

program by identifying and resolving family composition issues that affect subsidy payments.

The Authority Did Not Comply with Applicable Requirements

The Authority made ineligible payments because it did not conduct annual reexaminations and did not comply with policy in its administrative plan to recover from owners payments to which they were not entitled. In 27 of the 55 cases, the Authority had not conducted annual reexaminations[4] as required by HUD regulations at 24 CFR 982.516. Had the Authority performed annual reexaminations in these cases, it would have determined that the tenant was deceased and could have taken action as appropriate. In the other 28 cases, although the Authority stopped making monthly assistance payments for the units after becoming aware that the head of household deceased, it did not take action to recover from the owners payments to which they were not entitled. Chapter 21 of the Authority's administrative plan states that if the Authority determines that an owner has inadvertently or unintentionally obtained housing assistance payments to which the owner is not entitled, it will either deduct the questioned amount from future payments to the owner or will pursue one or more of six collection activities delineated in the plan. The Authority needs to emphasize this policy to its responsible employees.

Conclusion

The Authority made ineligible housing assistance payments totaling $322,389 for units in which the heads of household were deceased. This occurred because the Authority did not conduct annual reexaminations and did not recover from owners payments to which they were not entitled. During the audit, the Authority took action and recovered $278,561 of the ineligible funds identified by the audit. The Authority needs to recover the remaining $43,828 in housing assistance payments or reimburse its program.

Recommendations

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to

[4] This weakness was addressed in a recommendation in our first audit report (2007-PH-1008). In February 2008, the Authority completed its corrective actions to close out the recommendation.

2A. Recover the balance remaining from the $322,389 of ineligible housing assistance payments identified and reimburse its program from nonfederal funds if it does not recover any of the payments it made more than 12 months after the tenant's date of death.

2B. Emphasize to responsible employees the need to follow the policy in its administrative plan regarding recovery of payments from owners.

Finding 3: The Authority Did Not Operate Its Family Self-Sufficiency Program According to HUD Requirements

The Authority did not accurately determine annual income on participation contracts and make contributions to the escrow account for one participant. This condition occurred because the Authority did not have adequate procedures and controls to ensure that it complied with HUD requirements and it did not assign an adequate number of staff to manage the program. As a result, the Authority made ineligible and unsupported payments to participants' escrow accounts totaling $44,702 and did not credit more than $8,900 to one participant's escrow account.

The Authority Understated Annual Income and Made Ineligible and Unsupported Payments of $44,702 to Participants' Escrow Accounts

We reviewed the files of the eight participants who completed the Authority's program and found that the Authority made unsupported payments to the escrow accounts for three of them. The Authority understated the annual family income on the family self-sufficiency program contract of participation for all three participants. The annual family income amount listed on the contract is used to determine future monthly payments to the family's escrow account. As earned income increases with employment, the escrow accounts are funded with a portion of the increases in the household's rent because of increases in earned income and are credited to the escrow account in accordance with HUD requirements. Essentially, the escrow accounts were funded with program funds since the household's portion of the rent was not adjusted when the household's income increased.

In one instance, the Authority did not properly determine annual earned income for a participant who was also an employee of the Authority. Documentation maintained in the Authority's human resources department showed that the Authority employed this person, effective December 2, 2002, at an annual starting salary of $25,077. The Authority should have used this income in the calculations for the December 1, 2002, annual reexamination but did not. The Authority used $5,640 as the annual income for the family. Regulations at 24 CFR 5.609 state that annual income means all amounts anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date.

Further, the Authority did not update the family's annual income as required before entering into the contract of participation. Section 23.4 of HUD's Housing Choice Voucher Program Guidebook, 7420.10G, states that the contract of participation must be executed no more than 120 days after the household's most recent annual or interim reexamination. If more than 120 days have passed since the last reexamination, a new reexamination must be completed. In this case, the contract of participation was effective May 1, 2003, and it showed that the family's annual earned income was $5,640, which was from the December 1, 2002, reexamination. The Authority should not have used this reexamination because it was more than 120 days old.

By not properly determining annual income, the Authority made excessive payments to the participant's escrow account. Documentation in the participant's file showed that, effective July 1, 2003, the family's annual income had increased to $25,077. As a result of the increase, the Authority began making monthly payments of $368 to the participant's escrow account. However, the contributions to the escrow account were excessive because the participant was already employed and the family's annual income had not actually increased. The Authority made unsupported escrow payments totaling $24,180 for this participant.

In another instance, the Authority understated a participant's annual income because it accepted the participant's certification of zero income although documentation in the participant's file indicated that the participant was employed at the time the Authority executed the contract of participation. Excessive contributions to the escrow account result when annual income is understated on the contract of participation. The Authority made unsupported escrow payments totaling $19,640 for this participant.

In the last instance, the Authority understated a participant's annual income by $3,039 on the contract of participation. The contract showed that the annual income for this participant was $24,097, but a third-party employment verification form in the participant's file showed that the annual income was $27,136. Excessive contributions to the escrow account result when annual income is understated on the contract of participation. The Authority informed us that it determined that it should not have made any escrow payments for this participant. Therefore, the $882 the Authority contributed for this participant was ineligible.

The Authority needs to reimburse its program $882 for the ineligible payment discussed above and recalculate the escrow payments for the other two participants and reimburse its program $43,820 or the amount determined to be ineligible as a result of the review.

The Authority Did Not Make Required Escrow Contributions for One Participant

The Authority did not make contributions to the escrow account for one participant. The contract of participation states that the Authority will make contributions to the escrow account in accordance with HUD requirements. As earned income increases with employment, the Authority should increase credits to the escrow account. Documentation in the participant's file indicated that the Authority should have been making contributions due to an increase in annual income, but it had not. We informed the Authority of this situation during the audit. The Authority reviewed its escrow calculations for 2007 and 2008, determined that it should have made a contribution to the escrow account, and informed us that it had made a contribution of $8,936 to the escrow account for the participant.

A Lack of Controls and Inadequate Staffing Caused Problems

The Authority did not have adequate procedures and controls to ensure that it complied with HUD requirements, and it lacked an adequate number of staff to properly manage the program. During the audit period, the Authority employed two program coordinators, but due to an extended leave situation concerning one of them, only one was left to manage more than 400 program participants. The ratio of program participants to coordinators severely impacted the efficient and effective management of the program. During the audit, the Authority informed us that it had increased the number of program staff. The Authority needs to develop and implement controls over its family self-sufficiency program to ensure that it follows HUD requirements. It also needs to review its staffing to ensure that it is adequate to effectively administer the program.

The Authority Took Action during the Audit

The Authority initiated actions during the audit to correct deficiencies that we identified and improve its management of the program. The Authority

- Contributed $8,936 to the escrow account for one participant,
- Increased the number of program staff,
- Sent letters to all of the program participants to discuss their progress and terminated 199 participants because they did not respond to the letters, and

- Initiated the use of Form HUD-52650 (Family Self-Sufficiency Program Individual Training and Service Plan) for all participants rather than using its own form.

Recommendations

We recommend that the Director of HUD's Baltimore Public Housing Program Hub

3A. Verify that the Authority contributed $8,936 to the escrow account for one participant.

We recommend that the Director of HUD's Baltimore Public Housing Program Hub require the Authority to

3B. Reimburse its program $882 for the ineligible escrow payment identified in the audit.

3C. Recalculate the escrow payments for the participants identified in the audit and reimburse its program $43,820 or the amount determined to be ineligible as a result of the review from nonfederal funds.

3D. Develop and implement procedures and controls to ensure that it follows HUD requirements.

3E. Review the staffing for the program and adjust it if necessary to ensure that it is adequate to effectively administer the program.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws; regulations; the Authority's administrative plan; HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 982, and 984; HUD's Public and Indian Housing Notices 2001-41 and 2008-12; HUD's Housing Choice Voucher Program Guidebook, 7420.10G; and the *United States Code*.

- The Authority's accounting records; annual audited financial statements for 2004 and 2005; check register; tenant files; family self-sufficiency participant files; computerized databases, including housing assistance payments and Form HUD-50058 (Family Report) data; board meeting minutes; organizational chart; correspondence; family self-sufficiency action plan; and Moving to Work program documents including the agreement, plans, and reports.

- HUD's monitoring reports for the Authority.

We also interviewed the Authority's employees and HUD staff.

To achieve our audit objectives, we relied in part on computer-processed data in the Authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We analyzed an automated data file that the Authority provided in December 2007 containing information for 10,416 families receiving leased housing assistance. We compared the data to the Authority's subsidy standards to determine the minimum number of persons for the bedroom size and the applicable payment standard. The analysis showed that the Authority allowed 194 families to live in units larger than its policy allowed.

We analyzed an automated data file that the Authority provided containing Form HUD-50058 (Family Report) information for all persons participating in its leased housing program as of October 2006. We determined that the Authority had identified 10,239 persons as heads of household. We screened the Social Security numbers for these persons against a database provided to us by the Social Security Administration to determine whether heads of household were deceased. We matched the deceased heads of household to the Authority's housing assistance payment register to determine whether the Authority made payments for them. The Authority made housing assistance payments for 124 housing units in which our analysis indicated that the head of household was deceased.

We reviewed all disbursements the Authority made from October 2004 to December 2007 from its family self-sufficiency escrow account and all the family self-sufficiency files for the participants who completed the program.

We statistically selected and reviewed the files for 52 active participants using the U.S. Army Audit Agency's statistical software from 212 active program participants as of December 31, 2007. The Authority did not always ensure that participants established appropriate final goals in their contracts of participation as required. We addressed this minor issue with the Authority during the audit and it reviewed and revised the goals in the contracts as appropriate.

We performed our on-site audit work between November 2007 and April 2008 at the Authority's office located at 1133 North Capital Street, NE, Washington, DC. The audit covered the period October 1, 2004, through September 30, 2007, but was expanded when necessary to include other periods.

We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal 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 audit, we believe the following items are significant weaknesses:

The Authority did not implement procedures and controls to ensure that it

- Based housing assistance payments on the appropriate subsidy and payment standards for the assisted family (see finding 1).

- Made housing assistance payments only for the time families resided in units and recovered payments after becoming aware that it paid for vacant units (see finding 2).

- Maintained the correct escrow balance in its family self-sufficiency program in accordance with HUD requirements (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$35,517		
1B		$7,438	
1D			$426,204
2A	$322,389 (1)		
3A			$8,936
3B	$882		
3C		$43,820	
Totals	**$358,788**	**$51,258**	**$435,140**

(1) The Authority recovered $278,561 of this amount. It needs to recover the remaining $43,828.

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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, if the Authority implements our recommendations, it will cease to incur program costs for overhoused tenants. Once the Authority successfully improves its controls, there will be recurring benefits. Our estimate reflects only the initial year of these benefits.

Appendix B

AUDITEE COMMENTS

District of Columbia Housing Authority
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Washington, D.C. 20002-7599
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Michael Kelly, Executive Director

July 9, 2008

John P. Buck
Regional Inspector General for Audit
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Philadelphia, PA 19107-3380

Subject: Phase III - Draft Audit of DCHA's Leased Housing Program

Dear Mr. Buck:

This letter and the enclosed attachments shall serve as our final response to the third phase of the subject draft audit report. Our comments are predicated upon a comprehensive review of your findings and recommendations. Your analysis of our Housing Choice Voucher Program has served as a baseline for improvement and implementation of positive initiatives within the agency.

We would like to extend a special thanks to your staff in providing a draft outline of your findings. It allowed us to anticipate your analysis and provided our staff another opportunity to modify and correct deficiencies contemporaneously. This process will contribute to a quick agreement and resolution of all findings. Again, the professionalism of your staff was paramount to an effective and efficient audit.

Should you have any questions regarding this matter, please feel free to contact me or Benjamin C. Miller, Director of Audit and Compliance at (202) 535-1900.

Sincerely,

Michael P. Kelly
Executive Director

Enclosures

DCHA RESPONSE TO HUD OIG DISCUSSION DRAFT REPORT
PHASE III: CONTROLS

OIG Finding:
The DCHA Did Not Implement Effective Controls Over Leased Housing under its Moving to Work Program

This constitutes the District of Columbia Housing Authority's ("DCHA") response to the draft audit report of the HUD Office of Inspector General's ("OIG") audit of the administration of the leased housing program under the Moving to Work ("MTW") program. In responding to this draft audit report, DCHA first notes the size and scale of the DCHA's operations. DCHA manages 53 publicly owned low income housing developments across Washington, D.C. Through its Housing Choice Voucher Program ("HCVP"), DCHA also works with more than 3,000 private landlords to provide affordable housing to more than 10,000 households annually. Moreover, the HCVP has had substantial growth since the DCHA was reconstituted in 2000 after emerging from receivership. The DCHA spends more than $298 million annually to provide housing for low income households residing in Washington, D.C. More than half of the $298 million represents pass-through payments to private landlords on behalf of low income participants in the HCVP.

Next, it is noted that DCHA was selected by HUD to participate in the innovative strategies under the MTW program which allows Public Housing Agencies the flexibility to revise HUD rules to better meet local community needs. Since 2003, DCHA has developed an annual MTW plan, conducted public hearings on the provisions, submitted the plan for board approval, and filed the approved plans with HUD.

DCHA operates a large conventional public housing program, administers an extensive and complex leased housing program, and also works to develop new and innovative project under its MTW program designed to better meet the needs of eligible low income households residing in Washington, D.C. DCHA's primary concern is and has always been to provide essential housing services to low income residents of the nation's capital.

In responding to this draft audit report, DCHA notes that the authority has been working with the HUD Inspector General's office on this audit since October 26, 2006, and that this is the third report issued. In that time period, we have made substantial enhancements to our Housing Choice Voucher program. We consistently investigated and addressed issues raised by OIG investigators, taking appropriate corrective action when necessary. Specific actions documented in the previous two reports include:

- DCHA has established a quality control inspection unit in its Audit and Compliance Department to strengthen its internal quality assurance system.

- DCHA has completed implementation of its MTW Plan for biennial recertifications.

DCHA has purchased and installed two state-of-the-art HCVP software systems to improve the overall integrity of the HCVP tenant files through audit trail functionality, easier management of recipient/landlord information, timely "end-of-month" processing and better security features. These systems allow DCHA to seamlessly manage its waiting list, the demographic information of both DCHA's voucher recipients and Public Housing residents, and the coordination of HUD required reports.

Below please find DCHA's responses to each of the OIG's findings and recommendations described in the draft audit report.

DCHA Response to OIG Recommendations 1A through 1D:

OIG Recommendation 1A – Reimburse its program $35,517 from nonfederal funds for the excessive housing assistance payments it made for overhoused families with regular vouchers.

DCHA Response to 1A

During the audit process DCHA staff worked closely with the HUD-OIG Auditors to identify the universe examined and review those families that were in violation of the DCHA payment standard.

DCHA agrees with the OIG findings that 194 families lived in units larger than the standards permit. However, this number requires further explanation. During the period between recertifications, family composition can change for a multitude of reasons: births, deaths, marriage, coming of age, etc. To address this situation, DCHA notified each of the families that they needed to meet with us to receive an updated voucher or they would be required to pay the difference between their voucher and the rent charged. This action will bring all families into regulatory compliance. As noted by the OIG, only 166 of the families identified as overhoused were receiving regular vouchers, and 28 families were receiving enhanced vouchers.

DCHA agrees to reimburse its program $35,517 in excessive housing `assistance payments for regular's vouchers from nonfederal funds. A copy of the check is enclosed as attachment #1.

OIG Recommendation 1B – Provide documentation to demonstrate that the one-year limit applicable to enhanced vouches had not expired for the families with enhanced vouchers or reimburse its program $7,438 or the amount that cannot be supported from nonfederal funds.

DCHA Response to 1B

During our audit vetting process DCHA acknowledged that 28 families were paid past the one (1) year statutory limit for enhanced vouchers. Accordingly, DCHA has reimbursed its program $7,438 from nonfederal funds. A copy of the check is enclosed as attachment #2.

<u>OIG Recommendation 1C</u> – Determine when each family became overhoused, calculate the amount of excess housing assistance payment it made, and reimburse its program from nonfederal funds.

<u>DCHA Response to 1C</u>

We agree that the HUD-OIG's analysis of DCHA's overhoused families is predicated upon a fundamentally sound rationale. We also accept the HUD-OIG extrapolation of $426,204 as the amount that DCHA could overspend in a one-year period due to lack of controls to prevent overhousing (see recommendation 1D).

In Phases I and II of this subject audit, DCHA committed large amounts of financial and human resources to correct adverse conditions in its HCV Program as the HUD-OIG identified deficiencies that impacted its overall functionality. These corrections were implemented in real time to demonstrate our commitment to resolve issues timely and to use this audit engagement to improve DCHA programs and procedures.

HUD has approved the corrective action that DCHA put in place during Phases 1 and 2 in terms of new controls, equipment and procedures. During the Phase III audit exit conference, DCHA proposed to reimburse its program $426,804 from nonfederal funds – the same amount which the OIG identified as potential excess payments over a one year period. DCHA is loath to spend additional human or financial resources to recalculate excess payments over previous years. These expenditures will not provide any further benefit to recipients or the public good, since DCHA has agreed to and implemented additional controls recommended by the HUD-OIG. Any additional expenditure of resources would be punitive and not corrective.

Lastly, representatives of HUD's District of Columbia field office, and members of the Inspector General's supervisory audit staff voiced consensus approval of DCHA's proposal of the $426,804 repayment at the exit conference. Accordingly DCHA has reimbursed its program the stated amount. A copy of the check for $426,804 is provided as attachment #3.

<u>OIG Recommendation 1D</u> – Establish and implement procedures and controls to ensure that housing assistance payment are based on the appropriate subsidy and payment standards for the family, thereby ensuring that $426,204 in program funds is expended on appropriately sized units over a one-year period.

<u>DCHA Response to 1D</u>

DCHA has established and implemented procedures and controls to ensure that housing assistance payments are based on the appropriate subsidy and payment standards for the family, as follows:

1. The HCVP Recertification Department has established desk procedures entitled "Annual Reexaminations Process in Wizard". Each Recertification

Specialist has been provided with a copy of these procedures and has been trained to abide by them. The desk procedures include steps that ensure the appropriate payment standards are used, including;

a. Verification of the appropriate voucher size

b. Verification of the correct payment standard

A copy of these desk procedures for Annual Recertification is included as attachment #4.

2. The HCVP Compliance Department conducts quality control reviews of Annual Recertifications, utilizing a comprehensive HCVP quality control process/file review system. This improved quality control system ensures accuracy of the files reviewed and identifies all areas of deficiency in the Recertification process. We have verified that areas tested include application of the appropriate payment standard.

   The quality control system allows the HCVP to determine areas of employee deficiency thereby creating opportunities for training and education to improve the efficiency of HCVP staff. When employee deficiencies are identified through this quality control tool, DCHA is requiring ongoing training for all HCVP recertification staff.

   Documentation on this quality control file review system is included as attachment #5.

<u>OIG Recommendation 2A</u> – Recover the balance remaining from the $322,389 of ineligible housing assistance payment identified and reimburse its program from nonfederal funds if it does not recover any of the payments it made more than 12 months after the tenant's date of death.

<u>DCHA Response to 2A</u>
During the survey phase of the audit process, OIG Auditors identified a number of families in which the head of household was deceased but subsidy payments continued. While on its face this seems problematic, a more specific analysis had to be conducted. HCVP procedures require that when a deceased head of household situation arises the family subsidy continues when there are dependent children residing in the property. Any child over 18 years of age or a responsible adult may apply to become head of household in order to continue the subsidy.

In many instances this condition existed. However, DCHA agrees that some situations were found in violation of HCVP policies. DCHA immediately implemented procedures that resulted in $278,561 being collected or abated from delinquent Landlords.

The remaining balance of $43,828 will be reimbursed to the HCV Program from nonfederal funds. A copy of the check is enclosed as attachment #6. DCHA will continue its collection efforts in the regard.

OIG Recommendation 2B – Emphasize to responsible employees the need to follow the policy in its administrative plan regarding recovery of payment from owners.

DCHA Response to 2B

DCHA has developed and implemented desk procedures to incorporate the use of the deceased tenants report from HUD's Enterprise Income Verification system to identify deceased participants in the program, as referenced.

A copy of these desk procedures is included as attachment #7.

OIG Recommendation 3A – Verify that the Authority contributed $8,936 to the escrow account for one participant.

DCHA Response to 3A

DCHA agrees with this recommendation, but had not made the contribution as we were waiting for the final audit report to be issued. DCHA will now write a check for $8,936 from the program account to the FSS escrow account. A copy of the check is enclosed as attachment #8.

OIG Recommendation 3B – Reimburse its program $882 for the ineligible escrow payment identified in the audit.

DCHA Response to 3B

DCHA agrees with this recommendation and will write a check for $882 from a non-federal funds account to reimburse the program. A copy of the check is enclosed as attachment #9.

OIG Recommendation 3C – Recalculate the escrow payments for the participants identified in the audit and reimburse its program $43,820 or the amount determined to be ineligible as a result of the review from nonfederal funds.

DCHA Response to 3C

DCHA has reconciled the associated escrow payments for the two participants identified in the audit that make up the amount questioned of $43,820. This reconciliation follows:

PARTICIPANT	TOTAL ESCROW AMOUNT QUESTIONED	REIMBURSE PROGRAM FROM ESCROW ACCOUNT	REIMBURSE PROGRAM FROM NON-FEDERAL FUNDS	*APPROPRIATE ESCROW AMOUNT
Participant #1	$ 24,180	$ 9,180	$ 14,162	$838
Participant #2	19,640	19,640	-	-
Total	$ 43,820	$ 28,820	$ 15,044	$838

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Participant #1

This participant had accumulated $24,180 in the escrow account. A $15,000 disbursement had been made to the participant, leaving $9,180 in the escrow account. However, upon recalculation of the escrow balance based on verified income, the appropriate total escrow for this participant should have been $838. DCHA will make the following reimbursements to correct the escrow for this participant.

- DCHA will write a check for $14,162 from a non-federal funds account to reimburse the program for the excess distribution to the participant.
- DCHA will write a check for $9,180 from the FSS Escrow account to reimburse the program for the escrow amount remaining.

Participant #2

This participant had accumulated $19,640 in the escrow account. However, upon recalculation of the escrow balance, based on the verification of income staff was able to obtain, DCHA determined that the participant was not entitled to receive escrow credits. No disbursements have been made to this participant from the escrow account. DCHA will make the following reimbursement to correct the escrow for this participant.

- DCHA will write a check for $19,640 from the FSS Escrow account to reimburse the program.

A copy of the check is enclosed as attachment #10.

<u>OIG Recommendation 3D</u> – Develop and implement procedures and controls to ensure that it follows HUD requirement.

<u>DCHA Response to 3D</u>
DCHA implemented revised FSS procedures on November 1, 2007 that included additional controls for compliance with HUD requirements. These procedures were not in effect during the period audited. In addition, DCHA has developed and implemented a FSS enrollment procedure that mandates an interim recertification is conducted within 30 days of the FSS contract signing. This process ensures proper baseline annual and earned income determination at the inception of the contract. Current income verification will be conducted prior to contract execution, resulting in an accurate baseline for escrow determination. Included are a copy of the revised procedures (attachment #11) and the FSS Enrollment Procedure (attachment #12) that will be formally incorporated into the procedures in fiscal year 2008.

<u>OIG Recommendation 3E</u> – Review the staffing for the program and adjust it if necessary to ensure that it is adequate to effectively administer the program.

<u>DCHA Response to 3E</u>
DCHA has increased staffing in the FSS program to include two additional positions, for a total of four that report to the Special Programs Manager. This

staffing complement affords the program the capacity to deliver service to participants in line with industry standards for caseload assignments. With the increased staffing, the ratio of staff to participants has been reduced to a ratio of 50 to 1 for improved service delivery and management. DCHA has also developed a staffing plan to ensure that additional staff is hired to absorb program growth. The current FSS organization chart is included (attachment #13) along with the staffing plan for growth of the program (attachment #14).